LIGA EUROPEA DE COOPERACIÓN ECONÓMICA

SPANISH COMMITTEE

DECLARATION FROM THE SPANISH COMMITTEE OF THE EUROPEAN LEAGUE FOR ECONOMIC COOPERATION – LECE – ABOUT THE CURRENT MOMENT OF THE SOCIAL AND ECONOMIC RECONSTRUCTION IN EUROPE.

INTRODUCTION

After de first Declaration of the ELEC a result of the consequences of the COVID19 in Europe according all the committees of the ELEC International , the Spanish Committee of the ELEC, has accorded this second Declaration addressed to Spain's government officials and the institutions of the European Union, with the aim of providing the criteria of this pro-European association, funded in 1956 about the current moment of the social and economic reconstruction in Europe, after the crisis of the COVID19. Nevertheless, we want to express that the priority continues to be healthcare and research into a vaccine, and the improvement of treatments for infected citizens.

May 2020

DECLARATION

EUROPE'S CURRENT CROSSROADS

Europe is facing huge social and economic upheaval due to the spread of the novel coronavirus throughout its territory. The President of the European Central Bank (ECB), Christine Lagarde, recently told European leaders that the pandemic may leadto a 15% drop in GDP.

Without doubt, Europe finds itself facing significant social and economic challenges. To overcome this crisis and initiate the economic recovery period, the Multiannual Financial Framework 2021-2027 will be particularly important.In it, large investment efforts must be made to underscore the necessity of economic recovery, and cover social costs caused by the Covid19 pandemic.

This crossroads lies, amongst other matters, at the junction of how to finance the debt involved in this large economic effort. Should the debt, which must be issued, be covered with guarantees in a mutualized way or with individual guarantees from each one of the Member States? Or with a combination of both criteria? In this case, what would be the level of involvement of each one?

At the meeting of the European Council on 23rd April, an important economic decision was made for the future of the European Union. An avenue that integrates both paths to a certain extent was adopted. Although its content is yet to be specified, it assumes the way of the European Budget.

European leaders have decided to constitute a European social and economic Recovery Fund. This Recovery Fund will be financed within the European Union's budget.

Therefore, European Recovery macro plan funding will be covered by the European Union's budgets for the period 2021-2027 and, as a result, it must have the joint guarantee of all 27 Member States. We are not aware of the details and characteristics of access to these funds. We are also not aware of the responsibility, and therefore the stigma, that States may take on when accessing these resources to act in their respective territories. The debate is open, the specification must be established at the next European Council meeting in the month of June 2020.

These will not be Eurobonds. It will be a Fund at the expense of the European Budget, which is an instrument that can be provisioned and structured with a certain amount of flexibility. It can also be provisioned with the debt burden of European institutions themselves and, thus, with co-guarantees. Furthermore, if it is within the Budget it must have a guarantee mechanism in a certain mutualized form.

In contrast to the previous Eurogroup meeting, which lasted more than sixteen hours, the Council's meeting on 23rd April was very short. The Heads of State and Government were aware that the European Union must approach a firm decision with determination when dealing with the situation generated by the coronavirus pandemic. To a certain extent, European prestige as seen from the outside was at risk, as was the credibility of the Union before the majority of its citizens, primarily in Southern Europe.

The leaders of the 27 countries of the EU agreed upon plans for an 'unprecedented' stimulus against the pandemic. The Council had already prepared its resolution and they agreed to reach an agreement at the next Council in June, regarding a proposal that should be produced by the European Commission. It should take into account the collapse of the economy and the drop in the European Union's GDP, and that of its Member States. And it must establish the mechanism to provide 1.5-3 trillion uros, on the basis of a recovery fund integrated into the European Union's Budget, which will be managed by the institutions of the European Union itself.

Without doubt, an important political decision that must be very positively valued due to its unitary nature, the immediacy of the decision and, of course, its economic volume. Italy, Spain and France, amongst other States, have become actively involved in this agreement, and in working to construct this avenue of joint funding for social and economic recovery. Germany, Austria, the Netherlands and Finland, amongst others, dissenting from the issuance of Eurobonds, should finally accept this mechanism, although they were not fully in agreement with the final content and how it is managed.

Upon leaving the Council, Angela Merkel said, “*I want to say very clearly that such a joint solution is in Germany’s interests, because things can only go well for Germany if they go well for Europe.”* A message of “Europe First...” Thismust be assessed.

A period of a few weeks has been opened to configure the criteria by which this fund will be provisioned and accessed. The question is whether it will be similar to the current funds included in the Union's budget (grants), or whether the recipients will have the resources in the form of appropriations with restrictive conditions depending on their particular situations, or a combination of both. Other proposals will also be considered: one-time Eurobonds, ECB´s overall programs, EIB´s financial equity underpinning, an expansion of ESM´s programs or SURE**.**

Today, the European budget is configured based on the corresponding contributions made by the Member States, but the resources are distributed according to different criteria that allow access in a different way. Agricultural funds, social funds, regional funds and research programs are good examples, and mean that there are States that are net recipients, like those in Southern and Eastern Europe (Spain was until recently: in 2019it was, for the first time, a net contributor of 1.176 billion €) and States whose contributions exceed what they receive from the budget, such as Germany and France, amongst others.

The decision to establish this fund and increase the European budget will require greater economic contributions from States and, at the same time, the adoption of measures allowing more tax revenue to be obtained. Based on this, the budget may issue a greater volume of resources and may face a greater amount of debt, in order to provision the Recovery Fund with the announced economic resources.

The discussion is now about whether these should be grants or loans. If they are grants, what conditions will there be? If it is the latter it is important to know under what criteria these loans will be granted. Alternatively, it may be a combination of both options, and then it must be decided in what proportion. The budget allows both avenues to be combined. It should not be forgotten that the direct route of public investment or joint public/private investment may be very decisive in this necessary recovery of the economy.

For now, the content and the respective alternatives must be formulated by the European Commission, so that the European Council and Parliament decide on the final agreement in the context of the Multiannual Financial Framework 2021-2027, scheduled for the month of June.

The European Council has asked the Commission to make proposals, evaluate economic sectors, individuals and States, calculating how much damage they will “suffer”, with emphasis on the tourism and automobile sectors. Defending priorities, lines of action and management and social collective procedures. On this point, strategic sectors (the agri-food chain, financial or energy services, amongst others) which have extraordinarily sustained economic activity during lockdown, and which will continue to have a leading role in the recovery phase of Europe’s economy, deserve to be highlighted, as well as those sectors that form part of the European Green Deal.

We do not know what the Commission’s proposal to the Council will be. Nevertheless, it should consider all of the options identified today, including those that have already been used: loans, guarantees and grants, combining them and expanding even more than they have been until now: ESM loans and guarantees (€240 billion), EIB loans

(€200 billion) and help from the SURE Fund (€100 billion). It should also consider them with the new European Restructuring Fund and direct investment in the public sphere.

In parallel, the ECB, as announced by its President Christine Lagarde, will continue approving asset purchase operations (public and private) to ensure the liquidity of public institutions and the financial system, and through them guarantee the flow of liquidity to businesses within the European economy. At this time, the ECB is maintaining its program asset purchases against the pandemic (PEPP) at 750 billion euros. It has not ruled out doubling this amount in the near future in order to continue acquiring assets, more specifically sovereign bonds, to cover the public deficits that will emerge in the European States' public accounts this year and next. Reductions in the programs' conditions and a new type of emergency loan at negative ECB interest rates have been announced. This is all aimed at ensuring the necessary transmission of liquidity that the system needs right now, without the market overheating the risk premiums of the Member States in the Eurozone, and at being able to deal with the essential Macro-Plan for social and economic recovery that Europe needs.

The establishment of this specific Financial and Budgetary Fund, which will cover the next seven-year period, constitutes the European Union's most prominent response to the crisis caused by Covid19.

Together, this makes up the voluminous response announced by European leaders to address the social and economic impacts of the Covid19 pandemic.

This future agreement from the European Council must be examined (and debated) during the month of May, and be ready by 1st June. Angela Merkel recognized the differences between States, but said that there was a good atmosphere during discussions. It is a good starting point.

That said, facing an EU budget with a recovery fund of the volume that is under discussion opens up an excellent opportunity to move forward with some commitments that allow deepening of the European construction. In fact, it is a significant step towards a Fiscal Union.

This will mean that the 27 EU Member States will not be able to act in an isolated way in terms of income and expenses, as they have done up until now, and that it is perhaps the moment to adopt some fiscal decisions that have so far not been possible.

Therefore, it would be an opportunity to harmonise some issues on fiscal matters that so far have not been agreed upon. One consideration may be discussing a minimum tax level in the whole EU territory to prevent fiscal dumping.

Without doubt, in Europe the response is to the urgent social and economic recovery that Covid19 has necessitated, one that European States are asking for, and their citizens demanding. European leaders must get this response right. But this need and the current moment open up an opportunity to take another step towards European cooperation, and to therefore strengthen Europe's capacity to give this response. Ultimately, it is also the appropriate time to move forward with the political construction of the European project.

If the Member States decide that Europe should mutualize part of the funds provided for the economic protection they need to tackle their difficulties, they must commit themselves to further strengthening decision-making mechanisms in Europe. The way forward may be to provide themselves with a larger European budget.

Instead of mutualizing this aid single-handedly with the European project, which was proposed by the last European Council, the response should be to mutualize it within a commitment to greater European budget capacity.

The European League for Economic Cooperation (ELEC), an association with a long pro-European tradition, and with broad implementation in European States, urges the

European Commission and the leaders of the European Union Member States and the European Parliament to take into account the following:

CONSIDERATIONS AND PROPOSALS

1. That the European Recovery Plan, as a response to the social and economic crisis generated by Covid19 in Europe, should be economically powerful enough (€2.5-3 trillion) to ensure thatthe social problems caused are overcome, and to effectively reactivate the European economy under renewed criteria, which willlay the foundations for the recovery of the European economy in coming decades.

2. That this political decision, which must be adopted, should be carried out resolutely and without delay at the next European Council meeting of EU member countries' Heads of State and Government in June. European citizens need this decision to be made without delay.

3. That this European Recovery Plan should be adopted unanimously by all countries, and that it should convey to the world that the values and ultimately the model of European cooperation is effective in responding to the current challenge caused by the pandemic. The 27 European States must reach an agreement in these serious times.

4. That this Recovery Plan for European society and economy should contain:

- **a)** Diversity in its content, through grants, loans, guarantees and public investment.
- **b)** Flexibility in its application throughout European territory, and symmetry when weighing up action proportional to the damage caused by the pandemic in each Member State.

c) An effect on the social sectors at greatest risk, and should be accessible to the self-employed and SMEs, so as not to leave anybody behind.

d) Optimization and Combination of criteria of joint and several guarantee of the Member States, at the same time with criteria of individual guarantee from the States for the risks that are needed.

e) Reinforcement of the European Union's current economic instruments, in order to better quantify them and make them more effective in Europe's recovery.

f) Consideration of the objectives of the fight against climate change that have already been put forward by the Commission as a differential growth lever.

5. That this European Recovery Plan should be clearly social and competitive, with impact on the priority of contributing to the preservation of employment, and Europe's business and productive structure:

a) Stimulate the creation of new jobs in productive sectors.

b) Guarantee access to liquidity for businesses and the self-employed.

c) Stimulate the necessary reconversion of certain sectors in crisis and essential sectors to prevent asymmetrical external dependencies.

d) Boost reforms in the agricultural market and rural development, which will strengthen competitiveness and food security, and will encourage the population to stay in the area.

e) Encourage digital transformation in our social and economic system and the implementation of new technologies.

f) Lay the foundations for a more inclusive and environmentally respectful economy, in line with the European Green Deal.

6. That this Recovery Plan should allow the European Union Budget instrument to be strengthened, configured by the contributions of the 27 Member States.

7. That the ECB should continue its current policy of buying public and private assets, both this year and next year, with the aim of continuing to guarantee the necessary liquidity of the system, and through it public institutions, financial institutions, companies and the self-employed, under favorable conditions and in accordance with the times of crisis in which Europe finds itself. As a consequence, doubling the current estimates of funds for this purpose should be considered (+ €750 billion.)

8. We value highly the initiative, still in preparation, of the European Union, in order to drive for a European Equity Fund, to invest directly in capital in systemic European companies. This would be particularly important to drive to the companies in European states with reduced fiscal space, and therefore, reinforcing the project of the construction of the European Union.

This found of additional liquidity would be part of the potential that the Multiannual Finance Framework (MFF) can provide. Permitting to speed up the economic reactivation quickly after the pandemic subsides excluding asymmetries in the European Union.

9. The project of constructing the European Union should be reinforced. If the Member States of the European Union ask to mutualize Europe’s economic aid they should, in turn, adopt appropriate decisions to better enable Europe to respond and to be able to more effectively face the challenges being faced by the world right now. Therefore the necessary structural reforms should be addressed accordingly. The current moment is an opportunity to move forward with the construction of the European Union by encouraging the Fiscal Union.

The majority of European citizens want a joint response to the effects of the crisis to be pushed through. European governments must know how to construct this response. There is no doubt, Europe finds itself at a crossroads. Jean Monnet said that a united Europe would move forward based on a crisis. This one should serve to achieve a greater degree of economic, social and political integration.

European League for Economic Cooperation (ELEC)
Spanish Committee

May 2020