

## **NGEU Funds: proposals for its configuration as a finalist fiscal policy mechanism in favour of SMEs carrying out non-essential activities**

**January 13, 2021** - The blockade by Hungary, Slovenia and Poland delayed the European Parliament's approval of the Next Generation EU (NGEU) until 17 December. At present, of the five major EU countries - Germany, France, Italy, Spain and Poland - only the economic expectations of Germany and Poland, although declining in 2020, reduce the average fall in EU GDP, placing Poland within the group of solvent countries. The first issue of EU public debt to meet the funds launched through the NGEU will require the support of the most solvent EU countries.

The projected falls in GDP in France, Italy and Spain, the latter being the most pronounced of all, are hampering the EU's ability to issue government debt at reasonable costs.

In addition, the lockdown+shutdown+stay at home order that European countries applied in December 2020 and which is expected to continue during the first quarter of 2021 as a result of the arrival of winter, the new variants of concern of the virus, one of them sequenced in the United Kingdom - with greater transmissibility - the need to carry out a safe mRNA vaccination process - with strong NPI measures (Non Pharmaceutical Interventions, in the sense of the European Ecdc) to protect it - and the verification, outside clinical trials, of the true efficacy of the approved mRNA vaccines, will once again affect the economic situation. In this regard, the forecasts of international institutions (IMF, OECD, World Bank) conclude that the expected growth of the EU's GDP (in which Spain will have the greatest net fall) will not recover in 2021 the decline experienced in 2020, unlike what will happen in the United States or China.

For its part, the probably declaration in the United States -under the new president- of a federal lockdown+shutdown+stay at home more intense than that currently in force in Democratic states such as California and New York will also affect the growth of the United States economy and, by extension, the advanced economies and as result of this to hold back the effects of the current expansive of the monetary policy by the National's Central Banks (NCB).

The new events were not considered in the initial configuration of the NGEU fund or in the preparation of the Spanish General State Budget 2021. The NGEU fund should be a finalist, lively and open fiscal policy instrument, as is the case in the US with the Covid relief tax packages.

Without a solution to the public health problem or reduction of the public health hazards caused by Covid-19 there will be no economic recovery.

Therefore, the Plataforma Pymes supports the adoption of NPI (Non Pharmaceutical Interventions), as a strategy not only focussed on vaccination, on non-essential activities but advocates fair burden-sharing between essential and non-essential activities.

### **NGEU financing**

The EU debt issuance to support the NGEU is based on the approval by the European Parliament of new taxes to be transposed in each Member State. The net amount of the fund corresponding to Spain must be calculated by subtracting, in addition to the contributions made to the EU as an annual fee, the amount of the new taxes. It can be expected that the net amount of loans and grants received by Spain will be significantly lower than that currently under consideration.

Previous experiences, both European and national, show how little use SMEs have made of large financing projects: the European Strategy Fund For Investment (ESFI) from European Commission's chaired by Juncker, the financing lines of the European Investment Bank, which traditionally grants only a small percentage of funds to SMEs, or the ECB's balance sheet expansionary monetary policy instruments, from which SMEs are excluded. In Spain, the announcement made by the CNMC last December on the launch of the investigation into the conditions of the guarantees for the ICO Covid loans, which would include the obligation to use these loans as a mechanism for restructuring pre-existing financial products, is another example.

### **Support for SMEs**

The fiscal policy deployed in the EU to support labour income through the creation of short-time working allowance-type schemes in Spain and in the rest of the EU, has basically served to compensate labour income from the suspension of non-essential activities due to NPI measures for public health reasons as well as self-employed activities but in lesser extent. The first are personnel hired for laboral.

It is reasonable that public resources have been allocated mainly to employees and self-employed, benefiting also, indirectly, SMEs, which have been able to maintain their workforces without assuming the cost during periods of compulsory suspension of non-essential activity.

The majority of SMEs have ceased their activity throughout 2020 as their activities are classified as non-essential, while the oligopolies with excessive rents have remained as essential services, without any suspension of activity.

Therefore, it is necessary to have an expansive fiscal policy with conditionality in favour of solvent and viable SMEs that develop non-essential productive activities. Economic recovery requires solving the public health problem by adopting the necessary measures to mitigate the virus, and it is also essential that the economic burdens of health measures are equitably distributed between essential and non-essential activities.

### **Purpose of the NGEU funds**

The debate on the NGEU fund should revolve around its conception:

- As a purely instrumental fiscal policy acting as a backstop to monetary policy, it is a further variant of the expansionary monetary policy practised by the ECB, to which only oligopolies have access.
- As a finalist tax policy: an instrument through which SMEs could access capital (equity).

The current design of the NGEU fund will strengthen the financing of oligopolistic zombie companies.

In the US there has been a debate on the shape of the two relief fiscal policy packages approved to date. During the discussion of the second package, both pro-Trump Republican and Democratic senators led by Senator Sanders and Congresswoman AOC, from the more progressive wing of the Democratic Party - in a surprising coalition - have argued that fiscal policy should not be conceived as a backstop to an expansive monetary policy, which will only achieve an increase in the mass of money in circulation and not in the speed of money circulation. The consequence is that financing does not reach the base of the pyramid, where SMEs are located. Therefore, Republican and Democratic sectors have defended the granting of direct aid, subsidies or equity to SMEs and



individuals, eliminating the subterfuge of monetary policy backed by the fiscal backstop.

These same sectors - Republicans and Democrats - advocate a tax compensation mechanism in favour of non-essential activities suspended by the application of NPIs for the benefit of public health, and which are overwhelmingly developed by SMEs. The oligopolies have not been burdened with the suspension of their activity, which is considered essential, as opposed to SMEs with activity qualified as non-essential. It would be a matter of arbitrate a tax policy of increasing taxes on essential activities that have not been suspended, in order to implement an expansive tax policy in favour of companies whose activity had been suspended because of its non-essential nature.

Unfortunately, no similar debate has taken place within the EU.

### **Plataforma Pymes Proposals**

- Defend the conception of the NGEU fund as a finalist and not an instrumental fiscal policy instrument, aimed at viable and solvent SMEs and subject to conditionality. The maintenance of zombie SMEs should not be encouraged as is the case with many oligopolies.
- The new taxes to be implemented in the US on essential activities that have not been interrupted should be taken as an example by the European institutions when designing the taxes that will support the issue of public debt linked to the NGEU, as well as to generate funds with which to provide subsidies to viable and solvent SMEs.
- In the case of Spain, the implementation of the NGEU without the requirement for structural reforms of the economy that would condition its disbursement would be ineffective. The Spanish National Recovery Plan lacks those structural reforms that would lead to the implementation of a progressive inclusive capitalism in Spain.
- As the MEDE and ESM have veiled, the Plataforma Pymes considers that the Kingdom of Spain should request the 20,000 million euro loan that would correspond to it for spending and investment in public health. Without public health there is no economic recovery. The Plataforma Pymes asks the EU to recommend that Spain apply for this loan before 30 March 2021, especially in view of the foreseeable need to apply a second lockdown+shutdown+stay at home order, as is already the case in other European countries.
- The proposal of the traditional and orthodox Spanish and European business organisations - which do not include the Plataforma Pymes - tries to impose "macro-tractor" projects in favour of oligopolies in which the SMEs, in the best of cases, would be subcontractors. For this reason, the participation of business organisations in the management of the NGE funds must, in any case, ensure that this situation does not occur.
- The concentration of the financial system after the latest bank mergers will make it even more difficult to provide effective financing to SMEs and the self-employed. For this reason, the Plataforma Pymes considers it necessary that the NGEU grant projects concentrate on viable and solvent SMEs, in the form of equity or subsidies. Debt is not the solution to the current economic depression. In any case, loans should be reserved for oligopolies.
- The Plataforma Pymes continues to advocate the need for Spain to request to the ESM, IMF and ECB, a bailout with conditionality (OMT) with which to implement the bases of inclusive capitalism. The objective is to obtain economic margin that allows the application of NPI measures that could lead to the suspension of non-essential productive activities, but with economic compensation for the affected companies.
- In this sense, one possibility for alternating the suspension of productive activities would be the

compulsory imposition of teleworking in essential activities, exempting non-essential ones from this obligation. So far, most of the NPI measures have fallen on non-core activities.

### **A concrete example for the use of the NGEU**

An example of a specific programme that combines the investment objectives set by the NGEU with the Spanish SME structure would be the energy efficiency renovation of private residential building (renovation wave, supported by the EU president). This area, although not an essential activity, has not been particularly subject to the compulsory suspension of activity and does not seem likely to be so in a continued pandemic scenario. The fiscal policy aid earmarked for this activity would generate a GDP multiplier effect, which would not be affected by future outbreaks of the virus and whose effect would reach a significant number of SMEs.

In Spain there is a housing stock of 25 million homes with an average community expenditure of 1,000 euros per year. Therefore community administrators manage some 25,000 million euros per year. Default due to economic depression and the narrowing of family income can reach 10% at best. The drop in income from community fees would be about 2.5 billion euros/year, preventing investment in energy rehabilitation.

This would involve grants to Communities of Owners to undertake energy efficiency renovation projects (building envelope, roofs, heating, electricity consumption) covering, in addition to 100% of the investment, remuneration for the administrators of communities that control them, encouraging them to participate in the projects that would be carried out by SMEs. The projects should reduce emissions from CO<sub>2</sub> (residential buildings are the largest generators) and generate emission rights that the communities would give up free of charge to the EU to compensate for part of the grants.