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The French Recovery Strategy

Setting the course for a climate-neutral
and digital future?

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About this publication

In response to the Covid crisis and the unprecedented economic crisis that has ensued, the French government launched a Recovery Plan and an Emergency Plan that intended to absorb the income shock from the crisis felt by economic agents, even if it increases the public deficit. In this regard the French government draw on the lessons learned from the 2008 and 2011–12 crises. Nevertheless, the strategy of supporting the economic agents hardest hit by the initial effects of the crisis to encourage a rapid rebound is not taken far enough. On the other hand, the French Recovery Plan was presented as forward-looking and focused on the long term. Some of the amounts committed are in fact intended to support investments that could alter the structure of the French economy in the medium or long term. So, the French government is taking advantage of the easing of fiscal criteria to finance a significant cut in production taxes and to fully commit to its environmental transition policies. Funding for the environmental transition and competitiveness thus accounts for nearly 40 per cent of the amounts committed in the Recovery Plan. But it is difficult to assess at this stage whether the Recovery Plan is used to finance measures that have already been decided on or whether it helps to accelerate the environmental transition.

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The French Recovery Strategy

Setting the course for a climate-neutral and digital future?

In this article[1], we analyse the Recovery Plan and the Emergency Plan that constitute the French government's response to the Covid crisis and the unprecedented economic crisis that has ensued. These plans draw, at least in part, on the lessons learned from the 2008 and 2011–12 crises. A severe and deep recession requires a rapid and clear economic policy response that will absorb the income shock from the crisis felt by economic agents, even if it increases the public deficit.

Rushing to announce measures to turn the public accounts around would have been counterproductive and could have caused a double-dip recession, as it did in 2012. Refusing to delay consolidation of the public deficit, however, could significantly increase the length of the recession and its cost. Ten years after the 2008 recession, France's public debt had increased by nearly 40 percentage points of GDP, and the duration of this increase was not limited to the initial years of the recession. Countries need to exit recessions quickly to limit their fiscal impact.

The European authorities have also learned this lesson. Instead of promoting fiscal discipline as an absolute requirement for European integration, as it did in 2012, the Council provided all the impetus needed for a synchronized fiscal stimulus in Europe by relaxing the Stability Pact rules and guaranteeing European unemployment insurance, as well as providing a stimulus guarantee. Europe is thus, for the first time, participating collectively in fiscal efforts by financing a portion of the stimulus plans. Although this is not »magic money« and new resources will be needed one day to offset this European spending, the lessons of 2012 have been learned. The European Union's stability not only derives from lowering the debt of each Member State, but also requires that European solidarity come into play and, in particular, that each state be able to benefit from as low a sovereign rate as possible to buy the time it needs in a recession. In this way, the benefits of the Union are clear to all as it provides added strength during a multifaceted storm.

While we should be pleased that lessons have been learned and the economic policy response has been both swift and massive, our review of the French plan and how it compares with the plans of other major European countries reveals a flaw. Unlike the strategy adopted in the United States of America, Europe has generally opted for *ex ante* absorption of the impacts of the crisis on private agents to protect their contractual relationships, while the USA generally takes an *ex post* approach through significant transfers to households exposed to a rapid rise in unemployment.

This strategy is reflected in the use of various short-time working schemes, which go by different names in different countries. These mechanisms aim to maintain employees' incomes and reduce companies' payrolls by limiting layoffs and thus preserving the capacity for an economic rebound. France's emergency plan was very quick to implement this scheme, which has accounted for more than 50 per cent of the 2020 fiscal effort and, when supplemented by other support mechanisms for households not affected by short-time working, will represent more than one-third of the plan for 2021 (Recovery Plan). But companies are contending with more than just payroll costs. The French plan contains very few measures that specifically cover capital costs, commonly known as fixed costs. France differs from Germany, which is expected to earmark 25 billion euros[2] to cover »fixed« costs for small and medium-sized enterprises, while France is earmarking only 3 billion euros to shore up equity capital (see below). The French Recovery Plan could fail to protect the manufacturing base if the measures are not appropriately targeted and in particular if they are too small to address the shock expected to hit the French economy.

We describe below the main measures in France's Emergency Plan, worth a total of 60 billion euros in 2020, and its Recovery Plan, totalling 100 billion euros over several years. The Emergency Plan and the Recovery Plan are supplemented by cash measures, such as the deferral of social security and tax payments and government-backed loans. To date, these cash measures total more than 150 billion euros in

1 This article is based on the analysis of economic conditions carried out by the OFCE's Analysis and Forecasting Department in autumn 2020. These forecasts, under the supervision of Eric Heyer, were developed by an international team headed by Christophe Blot, consisting of Céline Antonin, Magali Dauvin, Amel Falah, Sabine Le Bayon, Catherine Mathieu and Christine Rifflart, and the French team headed by Mathieu Plane, consisting of Bruno Ducoudré, Pierre Madec, Hervé Péléraux and Raul Sampognaro. This forecast incorporates the information available at 9 October 2020.

2 https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Schlaglichter/Konjunkturpaket/2020-06-03-eckpunktepapier.pdf?__blob=publicationFile&v=14 based on Bruegel, »The Fiscal response to the economic fallout from the coronavirus«, https://www.bruegel.org/publications/datasets/covid-national-dataset/

deferred liabilities, but government policy will require that they be repaid at some point in the future. Consequently, we do not aggregate them with the fiscal measures that involve concrete transfers to private agents. Next, we examine the impact of these measures on the economy, based on a detailed analysis of fiscal multipliers. Then we compare the calibration of the Recovery and Emergency Plans with the measures adopted in 2008. Lastly, we detail the measures taken to support employment and to focus on the long term, particularly the ecological transition.

THE RECOVERY PLAN MEASURES

On top of the 6 billion euros focused on measures to promote youth employment and green technologies and infrastructure in 2020, the Recovery Plan could, based on our estimates, mobilize 32 billion euros in 2021 (1.3 percentage points of GDP). Its impact on the deficit is expected to be lower, however, as 17 billion euros will be financed in 2021 by the European stimulus plan. The new tax and social security contribution measures related to the Recovery Plan would cut government revenue by about 9 billion euros, mainly resulting from cuts in production taxes. The remainder of the fiscal impulse would come from the expenditure side. In 2021, the key expenditure measures in the Plan will be: extended short-time working[3] and state-funded training (4.3 billion euros); new expenditures related to the »Ségur de la Santé«[4] health-care reform (1.4 billion of the 6 billion euros anticipated by 2026); the energy-efficient renovation plan for public buildings (2.3 billion of the 6.7 billion euros budgeted for 2021–22[5]); youth employment initiatives (3.5 billion of the 6.6 billion euros for 2020–22) (Table 1); the investment surplus in transport infrastructure and clean vehicle subsidies (1.6 billion of the 4.5 billion euros in 2020–21); the strengthening of the equity capital of SMEs–VSEs (1.5 billion of 3 billion euros); the financing of the hydrogen strategy (+1 billion euros); measures to support the cultural sector (+1 billion euros); measures to support the regions (0.8 billion euros); and support for the poor (+0.7 billion euros). The other measures cover a large number of programmes (ranging from sectoral measures to technological sovereignty, and also including biodiversity, the circular economy, the agricultural transition and the sea) and represent just over 5 billion euros in 2021. The government projects 37 billion euros in new measures for 2021 in the Recovery Plan, and the 5 billion-euro variance from our estimate stems from the difference in how we quantify extended short-time working in 2021 and a different scaling up of the investment plans.

3 Based on our economic and employment forecasts, we quantify the extended short-term working scheme at 3.3 billion euros for 2021, while the government forecasts 6.6 billion euros in the Draft Budget for 2022.

4 A consultation process among stakeholders in the French health system which took place between 25 May and 10 July 2020 at the initiative of Health Minister Olivier Véran .

5 We assume that, due to delays in launching projects and administrative constraints, one-third of the work will be done in 2021 and two-thirds in 2022.

In 2022, the new measures resulting from the Recovery Plan are expected to amount to 30 billion euros (1.2 percentage points of GDP). A significant share (36 per cent) of the package will be used to scale up investment programmes, primarily in the environmental, technological sovereignty, digital, cultural and health-care sectors. The cut in production taxes is expected to represent one-third of the total measures in 2022. Lastly, crisis-specific measures, whether to protect jobs or prevent business bankruptcies by shoring up equity capital, are not expected to represent more than 3 billion euros in 2022.

THE IMPACT OF THE RECOVERY PLAN ON GDP IN 2021 AND 2022

We need to take a detailed look at the measures to estimate the impact of fiscal policy on GDP growth (for more details, see Sampognaro 2020). The wide range of multiplier effects for each measure means that the composition of the fiscal policy implemented goes a long way towards explaining its impact on growth. A significant percentage of the Recovery Plan rolled out in 2021 (38 per cent) will be focused on non-targeted support for businesses, in particular through a cut in production taxes. In a time of high uncertainty, these measures will not be particularly effective in revitalizing investment in the short term and will have a low multiplier (estimated at 0.3 in the first year). While the Recovery Plan is betting on public investment, only 25 per cent of the plan for 2021 will be used to fund public investment. Even though the public investment multipliers are high (close to one), the slow speed of project implementation explains the modest improvement in growth in 2021 related to public investment.[6] In contrast, short-time working, measures to promote employment, measures to strengthen equity capital, sector-based subsidies and assistance for the poorest households will support employees' income and the financial position of companies coping with the long-term impacts of the health restrictions and changes in consumer behaviour. These measures, which represent 37 per cent of the plan for 2021, will benefit from a strong multiplier effect (Figure 1).

The Recovery Plan is projected to improve GDP by 1.1 per cent in 2021, which corresponds to an apparent multiplier of 0.8 (Table 2). In 2022, the new Recovery Plan measures are expected to represent 30 billion euros (1.2 percentage points of GDP) and have an impact on the economy of 0.9 percentage point of GDP. The apparent fiscal multiplier in 2022 (0.7) would be slightly below that of 2021, resulting mainly from the increasing share of non-targeted measures (46 per cent) in the Recovery Plan's fiscal package for 2022, while, in contrast, the weight of targeted measures in the Recovery Plan declines sharply between 2021 and 2022 (from 37 per cent to 18 per cent). In total, the Recovery Plan would result in a cumulative gain in economic activity of

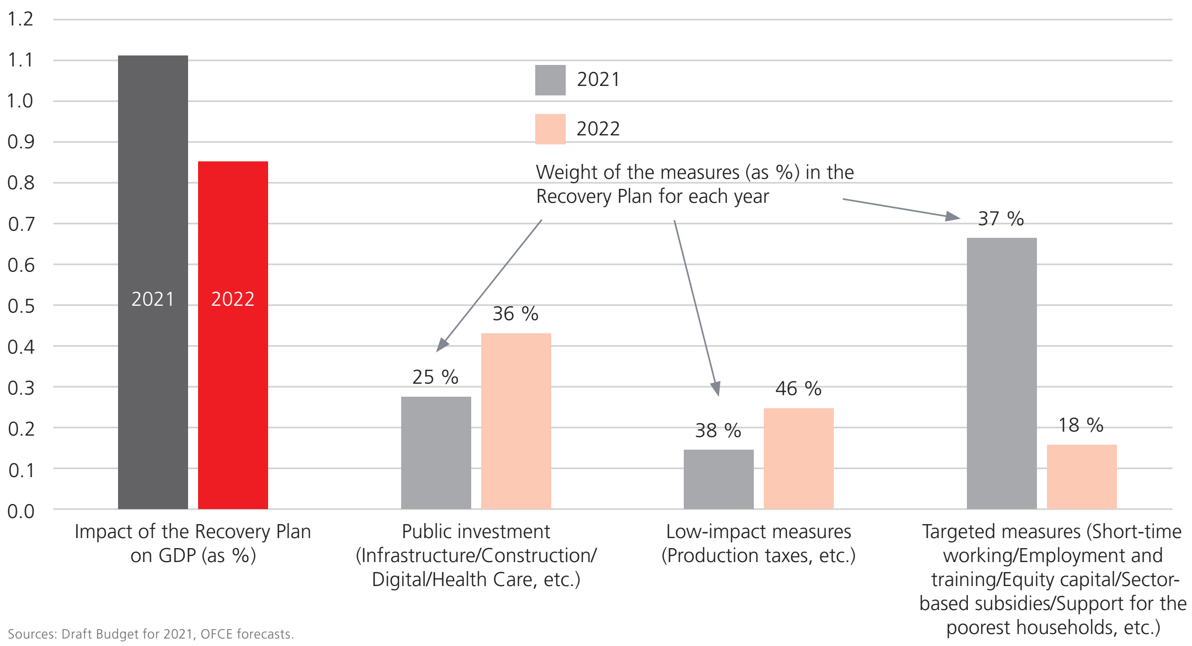
6 In 2022, the share of the Recovery Plan earmarked for public investment is expected to be 36 per cent.

Table 1
New Recovery Plan measures

(euros billions)	2020	2021	2022	Total 2020–22
Environment	2.4	7.3	10.8	20.4
Energy renovation	0.0	2.2	4.5	6.7
Biodiversity, fight against land take	0.0	0.6	0.7	1.3
Decarbonization of industry	0.2	0.3	0.7	1.2
Circular economy and short channels	0.1	0.2	0.2	0.5
Agricultural transition	0.0	0.4	0.8	1.2
Sea	0.1	0.1	0.1	0.3
Green infrastructure and mobility	1.2	1.6	1.7	4.5
Green technologies	0.8	1.9	2.1	4.8
Competitiveness	0.7	13.5	15.4	29.7
Corporate taxation (cut in production taxes)	0.0	10.0	10.0	20.0
Business financing	0.0	1.5	1.5	3.0
Export support plan	0.1	0.1	0.1	0.2
Technological sovereignty	0.3	1.0	1.9	3.1
Digitalization of the state, regions and businesses	0.1	0.5	0.8	1.4
Culture	0.2	0.6	1.1	1.9
Cohesion	3.1	11.3	3.8	18.1
Job protection	0.3	3.7	1.0	5.0
Disability	0.1	0.0	0.0	0.1
Youth	2.7	3.5	0.4	6.6
Professional training	0.0	1.0	0.0	1.0
Research	0.0	0.3	0.6	1.0
Health-care reform	0.0	1.4	1.4	2.8
Regions	0.0	0.6	0.3	0.9
Support for the poor	0.0	0.7	0.0	0.7
Total	6.1	32.1	30.0	68.2

Sources: Draft Budget for 2022, OFCE calculations.

Figure 1
Impact of the Recovery Plan on GDP and breakdown by three categories of measures (% of GDP)
Impact of the Recovery Plan on the French economy (as % of GDP)



Sources: Draft Budget for 2021, OFCE forecasts.

2 percentage points of GDP over two years, for a cumulative fiscal impulse of 2.6 percentage points of GDP.

The targeted emergency measures (2.6 percentage points of GDP) in 2020, however, related to short-time working and programmes to help troubled SMEs through the solidarity fund, assistance for the self-employed and exemptions from social security contributions for the hardest-hit sectors, result in a multiplier of 1.3 for 2020. The Emergency Plan would thus reduce the decline in economic activity by 3.4 percentage points of GDP.

If we combine the measures in the Recovery Plan and the Emergency Plan, the cumulative fiscal impulse is 5.2 percentage points of GDP in 2020–22 for a gain in economic activity of 5.4 percentage points of GDP over three years.

Table 2
The Emergency Plan and the Recovery Plan and their impact on GDP

	2020	2021
New measures (as % of GDP)	2.6*	1.3
Average fiscal multiplier	1.3	0.8
Impact on GDP (%)	3.4	1.1

Note: * Including the 6 billion euros in the Recovery Plan for 2020.

Sources: Draft Budget for 2021, OFCE forecasts.

WHAT CAN WE SAY ABOUT THE FISCAL POLICY RESPONSE TO THE COVID CRISIS?

France's economic policy response to the crisis can be analysed by comparing the fiscal impulse with the cumulative loss of economic activity, and with the previous crisis. We perform this exercise for the two years following the onset of the crisis.

According to the Cour des comptes (France's highest auditing body), during the subprime crisis the French government initially implemented a 26-billion-euro stimulus plan (1.3 percentage points of GDP at the time), which was subsequently increased and eventually reached 34 billion euros (1.7 percentage points of GDP) over two years. We have estimated the impact of the stimulus measures at 1.6 percentage points of GDP (Sampognaro 2018).

For comparative purposes, the emergency and recovery measures represent 3.9 percentage points of GDP for 2020–21 for a positive impact on GDP of 4.5 per cent (Table 3). This figure is meaningful only in terms of the fall in economic activity. But the cumulative losses of economic activity excluding the Recovery (and Emergency) Plan for the eight quarters following the shock would represent 15.1 per cent of annual GDP versus 5.8 per cent in the eight quarters following the failure of Lehman Brothers. The current fiscal response is thus roughly proportional to that of 2009–10 and represents 30 per cent of the cumulative loss of GDP excluding the Recovery and Emergency Plans for eight quarters.

While the plan calibrations are roughly the same as a percentage of the reduction in economic activity, things look quite different if we compare the cumulative losses of percentage points of GDP remaining after the fiscal stimulus. Despite the implementation of the plans, these losses would be 10.6 percentage points of annual GDP at the end of eight quarters for the Covid crisis versus 4.2 percentage points of GDP for the subprime crisis. For the Covid crisis, however, the level of GDP reached after eight quarters would be –0.3 per cent of pre-Covid GDP according to our forecasts, while it was –0.8 per cent two years after the shock caused by the Lehman Brothers failure. While the economic shock resulting from Covid is more severe than that of the financial crisis, at least in the short term, the effects on economic activity could potentially be smaller after two years. This high-severity economic shock, which will in principle be shorter in duration than the 2008 shock, makes a good case for strengthening the short-term measures to limit the long-term impacts on the manufacturing base. This means accepting a further deterioration in the public accounts to absorb business losses, which are projected to be 56 billion euros in 2020 alone (see Heyer and Timbeau 2020).

Table 3
Analysis of the Recovery and Emergency Plans in terms of the fall in economic activity

	Cumulative GDP losses over two years excluding plans* (percentage points of annual GDP) (a)	Impact of plans on GDP over two years (percentage points of annual GDP) (b)	Ratio of (b / -a) (as %)	Remaining cumulative GDP losses over two years (percentage points of annual GDP)	Level of GDP two years after the initial shock (as % of pre-shock GDP)
Covid-19 crisis Q1 2020 – Q4 2021	–15.1	4.5	30%	–10.6	–0.3%
Subprime crisis Q4 2008 – Q3 2010	–5.8	1.6	27%	–4.2	–0.8%

Note: * GDP excluding the Recovery and Emergency Plans is determined in the autumn 2020 forecast for France (see Note 10).

Sources: Insee, Cour des comptes, OFCE forecasts.

Table 4
Main employment measures in the Recovery Plan in 2020–21

Programme	Additional participants (thousands)		Net effect on employment expected at year-end (thousands, Q/Q-4)		Budget cost (€ millions)
	2020	2021	2020	2021	
Subsidized contracts					1,456
Employment and skills programmes		60		27	417
Employment initiative contracts	10	50	1	4	269
Integration through economic activity		35	0	15	206
Civic service	20	100	6	19	564
Work/study					2,370
Apprenticeships	30	10	8	–5	1,200
Professionalization contracts	20	7	2	–1	800
Other					370
Training					1,461
Training					1,250
Youth guarantee		50		5	211
Other					2,300
Youth hiring incentive	333	67	37	–19	1,100
Short-time working					6,600
Other					2,300
Total	413	378	55	45	15,300

Source: Draft Budget for 2021, OFCE calculations.

Assuming cumulative losses in 2020 of more than 50 billion euros, we estimate the capital requirements for SMEs to be at least 20 billion euros (see Plane 2020). But we believe the mechanism for strengthening equity capital, which offers a government guarantee of 2–3 billion euros, is undercalibrated to avoid multiple SME failures. While this mechanism might be effective for companies that lack short-term financing, but whose potential profitability is relatively high, that is not the case for many companies in sectors with direct exposure to the crisis, such as hotels and restaurants, recreation, culture and event management, whose future profitability is uncertain and very difficult to estimate.

THE (DIRECT) EFFECTS EXPECTED FROM THE RECOVERY PLAN ON EMPLOYMENT IN THE SHORT TERM (2020–21)

The Covid-19 pandemic has had a major impact on the labour market in 2020: economic activity fell, workers were prevented from going to their workplaces, the use of telework and short-time working became widespread, schools were closed, and workers became vulnerable to Covid. During the lockdown, we saw paid employment make a very rapid and very sharp adjustments to economic activity. Starting in the second half of March, companies terminated large numbers of temporary assignments and did not renew fixed-term contracts. Temporary employment thus fell by 424,000 at end-April 2020 compared with end-December 2019, with two-thirds of the adjustment occurring in industry and construction, and the employment rate for those on fixed-term contracts/temporary assignments fell by 1.2 percentage points in the second quarter of 2020. Some, but not all, temporary workers were re-hired when the lockdown was lifted[7]. This particularly sharp adjustment in employment hit young people and the less educated the hardest: in May 2020, 3 per cent of people who had had a job before the lockdown lost their job because their contract ended or they were laid off, but this percentage increases to 8.6 per cent for 15–24 year olds (see Insee 2020; Ducoudré and Madec 2020).

The epidemic did not end just because the lockdown was lifted, and its effects will last into 2021. Indeed, the resumption of economic activity is not expected to result in the rapid absorption of the salaried jobs lost in the first half of 2020 (–794,000 salaried jobs). In September 2020, the government unveiled its Recovery Plan, which is heavy on measures to promote employment (including youth employment), integration and professional training in the period 2020–22, for about 15 billion euros (see Table 4). This plan includes the expansion of the subsidized contract programme (1.5 billion euros), work/study measures (2.4 billion euros), training (1.5 billion euros), an incentive to hire young people (1.1 bil-

7 76 per cent of the temporary employment that was terminated at end-April came back at end-August 2020.

lion euros) and expenditure of 6.6 billion euros to cover short-time working in 2021.

We estimate that these measures – excluding the impact of short-time working detailed below – would have a positive net impact on job creation in 2020 (+55,000 jobs in Q4 2020 year over year) and in 2021 (+45,000 jobs in Q4 2021 versus Q4 2020).

MASSIVE TAKE-UP OF THE SHORT-TIME WORKING SCHEME BY COMPANIES

Companies made extensive use of the short-time working scheme during the lockdown. On average, in the second quarter of 2020, 16.5 per cent of employees were put on short-time working – the equivalent of 4.2 million employees working an average of 27 hours per week – mainly in hotels and restaurants, transport equipment, construction, transport services and retail. The Directorate of Research, Economic Studies and Statistics in the Ministry of Labor (DARES) estimates the number of hours of short-time work eligible for compensation at 2.1 billion between March and August 2020.

The scheme was significantly expanded to address the consequences of the health crisis. To encourage companies to stay in business, while supporting sectors that were experiencing long-term consequences, the government decided, first, to lower the percentage covered by the state and Unedic (French unemployment insurance scheme) (60 per cent of gross wages from 1 June 2020). Second, it created an extended short-time working scheme (APLD), subject to a collective agreement, which caps the duration of short-time working at 40 per cent of working time over a period of up to 24 months, covering 70 per cent of gross wages. Lastly, the list of sectors affected by the restrictions related to the preventive measures will continue to be covered by the state and Unidec to the fullest extent (hotels, restaurants, cinemas, transport, gyms and so on), at least until 31 December 2020.

Given our forecasts for the use of this scheme, which are based on our forecasts for economic activity by industry through until end-2021, the total number of hours would come to 2.3 billion in 2020, at a cost of 24.4 billion euros, and 330 million hours in 2021, at a cost of 3.2 billion euros, including APLD.[8] Ultimately, the scheme is expected to support household income to a significant extent in 2020 and to save large numbers of jobs (548,000 employees on short-time working at end-2020, 96,000 at end-2021) by reducing the cost of the crisis borne by businesses.

SHOULD WE FOCUS ON THE LONG TERM DURING A RECOVERY?

The French Recovery Plan was presented by the French government as forward-looking and focused on the long term. Some of the amounts committed are in fact intended to support investments that could alter the structure of the French economy in the medium or long term. Funding for the environmental transition and competitiveness thus stands at 26 billion euros for 2022, accounting for nearly 40 per cent of the new amounts committed in the Recovery Plan.

The French Recovery Plan differs sharply, for example, from that of the United Kingdom, where the main measures concern the end of the year 2020 and the year 2021. Germany's situation is closer to that of France. A large number of programmes, in amounts well above 20 billion euros, are dedicated to public investments, support for regional authorities, research expenditure and support for the hydrogen industry.

COMPETITIVENESS AND RELOCATION

The amount earmarked in the Recovery Plan for competitiveness is 35 billion euros in 2020–22: continued cuts to corporate taxes (10 billion euros a year starting in 2021), the strengthening of companies' equity capital (3 billion euros), subsidies for industrial relocation (1 billion euros) and investments in the technologies of the future (11 billion euros).

This plan puts a strong emphasis on cutting production taxes. It cannot be denied that industry is particularly hard hit by the tax base for these taxes. It pays 20 per cent, but accounts for only 14 per cent of the market value added. By lowering production taxes, this measure therefore aims to increase companies' competitiveness and encourage industrial relocation. This cut has been planned for a number of years, with several reports noting that production taxes are higher in France than in partner countries (see: Martin and Trannoy 2019). In addition, the consensus is that the tax bases for production taxes cause inefficient distortions in terms of the allocation of production resources. The Recovery Plan has given the government the opportunity to implement a long-standing project with little discussion and in particular without worrying about how to finance it, at least until 2022. The impact is expected to be modest, however, based for example on the experience of the Competitiveness and Employment Tax Credit (CICE), which in 2019 was converted into a permanent reduction in social security taxes. The cut in production taxes amounts to 10 billion euros (in 2020) or roughly half of the CICE. This latter measure, had it been funded, would have helped to create about 150,000 jobs. Excluding the funding, and thus from a short-term perspective, the CICE's contribution would have been 400,000 jobs.[9] We can therefore expect around 200,000 jobs for the production tax cut.

These lower taxes do not come with any requirement that multinationals have a local presence, however, or that they benefit companies regardless of the extent of their exposure to the Covid crisis. In addition, this long-term measure was not

8 These estimates cover only the amounts of compensation paid to companies by the state and Unedic, and do not include lost social security contributions nor the CSG (general social security contribution).

9 See the latest »Rapport CICE 2019« by France Stratégie and in particular the OFCE's assessment of the funded and unfunded macroeconomic effects, https://www.strategie.gouv.fr/publications/evaluation-credit-dimpot-competitivite-lemploi-synthese-travaux-dapprofondissement.

subject to corporate tax reform, as the government has not abandoned its plan to lower the corporate tax rate to 25 per cent by the end of 2022. When the crisis is over, the question will therefore arise of how this measure will be financed.

The policy of strengthening the equity capital of SMEs and mid-tier firms, budgeted at 3 billion euros, aims to protect the manufacturing base from the Covid shock so as to keep profitable companies from declaring bankruptcy. Because of the magnitude of the shock and the losses companies have accumulated (more than 50 billion euros »just« in the first half of 2020), however, this measure appears to be undercalibrated. Quite apart from SMEs in the retail and hotel/restaurant sector, many companies in the industrial sector could find themselves with negative equity due to the weight of their fixed costs. This is true in particular for industrial SMEs and mid-tier companies with high productive capital-intensity. At a time when the future profitability of many companies is highly uncertain, the current mechanism in the Recovery Plan does not address the risk of a disintegration of the manufacturing base in the face of the solvency issue. We believe that taking greater account of the cost of tangible assets for companies hit by the Covid shock would be a fair and effective way to limit the risks of bankruptcy (see Plane 2020). The first step towards reindustrializing the country is to protect the existing industrial infrastructure.

Industrial relocation subsidies represent only 1 per cent of the overall amount of the Plan and 20 times less than the cut in production taxes for 2021–22. The government is focused more on tax incentives than on direct relocation subsidies. The 1-billion-euro package consists of two measures: the first, at 600 million euros, covers targeted investments in five strategic sectors: health care, critical inputs for industry, electronics, agri-food and 5G industrial applications. The second, at 400 million euros, will support industrial plant projects in the regions.

Finally, the government will rely on the fourth Investments for the Future Programme (*Programme d'investissements d'avenir*) to mobilize 11 billion euros by 2022 to support innovation and, in particular, investments in the technologies of the future. This large-scale programme comprises several measures: financing for extraordinary investments in several industrial sectors and technologies of the future (digital technologies, medical research and the health-care industries, decarbonized energy, food sovereignty, sustainable transportation and mobility, cities of the future, digital education, cultural and creative industries); a guarantee of sustained and predictable structural financing for the higher education, research and innovation ecosystems; and equity capital assistance, to support growth in the innovative business financing market, through direct, general or thematic investment funds or funds of funds.

THE ECOLOGICAL TRANSITION

The second focus of the Recovery Plan is the environmental transition. The amounts committed are expected to be 2.4 billion euros in 2020 and could be increased to more than 10 billion euros in 2022. In total, nearly 30 per cent of the funding announced is projected to be earmarked for the environmental transition. A number of programmes have been developed and those related to the energy renovation of buildings and to electric mobility will be the primary tools. Among the government's choices, it is difficult to distinguish between opportunistic measures (such as support for the SNCF, which has been hit hard by the lockdown – this is seen as falling under support for the transition, but could be classified as short-term business support), replacements for measures that have already been explicitly undertaken or that are implicit in the target of net carbon neutrality by 2050, and measures to strengthen the national low-carbon trajectories (see Hainaut et al. 2020). The amounts proposed correspond to those that were recently assessed (by I4CE, but also in line with the European Commission's assessments in »Clean Planet for All«[10]).

The government probably chose the two sectors – energy renovation and »green« mobility infrastructure – in which it could have the greatest effect on the national economy and employment and also achieve economic profitability. ADEME (French agency for ecological transition), for example, argues that the energy renovation of buildings leads to lower energy costs, so the needed investments are at the very least profitable, with a positive net present value (Gouëdard and Callonnec 2020)

The question is therefore whether the Recovery Plan is used to finance measures that have already been decided on or whether it helps to accelerate the environmental transition. There is no easy answer to this question but it is likely that, as with production taxes, the idea is mainly to take advantage of the Recovery Plan to implement and finance measures that had not been implemented only because there was no funding. Unlike production taxes, the environmental measures were mandatory. But perhaps more so than with cuts in production taxes, it will be difficult to extend them beyond the Recovery Plan because their implementation will either prove challenging or fail to achieve the economic gains expected.

CONCLUSION

The French Recovery Plan builds on the support plan. It is based on the idea that the public deficit should absorb as much of the shock from the crisis as possible. The public debt generated in the short term, which, based on our estimates, is expected to be 10–15 percentage points of GDP per year of pandemic, should thus be lower than that incurred by a long and protracted crisis of the kind we saw in 2008.

A comparison of the French plan with those of other major developed countries, however, shows that the French Recovery Plan is far more cautious, once the previously announced measures, capital measures and timetable are taken into ac-

10 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0773.

count. The strategy of supporting the economic agents hardest hit by the initial effects of the crisis to encourage a rapid rebound is not taken far enough, even though France is one of the countries that has paid the heaviest toll in the pandemic.

The French government is taking advantage of the easing of fiscal criteria to finance a significant cut in production taxes and to fully commit to its environmental transition policies. The experience of the 2008 crisis shows that recessions can persist and that it may be wise to find a balance between very short-term and medium-term measures. But this assumes that the short term has not been forgotten. After reimposing lockdown measures in mid-October 2020, the French government announced new measures, mainly targeting individual entrepreneurs and small businesses, which will reinforce the support for the French economy where we identified a flaw. Arguably, the trade-off between the short term and the medium term is better now.

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IMPRINT

© 2020
FES Paris
41bis, boulevard de la Tour-Maubourg,
F-75007 Paris, France

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Front cover: Yevhen – stock.adobe.com
Design concept: www.bergsee-blau.de
Layout: www.zumweissenroessl.de

EUROPA

Recovery strategies in Europe

The restrictions imposed to combat the COVID-19 pandemic have led to a pronounced drop in production, a steep rise in unemployment and public debt. As a result, profound social distortions have arisen. Further, the pandemic has also revealed the strong dependence of Europe's economy from the production of vital products beyond the continent. Accordingly, national governments as the EU have had to devise wide-ranging programmes to support and revive the economy.

The development of these "recovery" programmes is taking place at a point in time when the European economies at a crossroads. They are faced with meeting the immediate challenges stemming from social and ecological transformation and digitalization. As result, there is significant pressure to ensure that the measures to implement economic revival to do not lead to a restructure of the pre-pandemic status quo. Instead the countries should seize the opportunity of massive public spending programmes to start the transformation of the economy and society towards climate neutrality and social equality.

A series of reports form several European countries analyse their respective national recovery plans and assess them in view of meeting the complex challenges. A synopsis offers a comparative perspective by interpreting and classifying the events and individual measures introduced in the individual countries. The aim is to develop policy recommendations that not only meet the long-term structural challenges faced by the EU-member states, but also to combat the immediate effects of the pandemic.

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