RECOMMENDATIONS FOR EUROPE

CHAPTER 2: DISTRIBUTIONAL CONFLICTS AND SOCIAL CAPITAL

Short Term:

- Burden-sharing policy measures should aim to reduce tensions across income groups. In particular, social insurance should be provided without jeopardizing incentives for job search and reallocation.
- Welfare systems should be redesigned so as to provide security and reduce existing rigidities and barriers to both entry to and exit from jobs. Income support should clearly focus on encouraging people to accept new jobs. To provide support to those prevented from working due to health-related restrictions without jeopardizing work incentives, the social safety net should include income-contingent loan facilities.

Long Term:

- The NGEU program's quantitative targets for spending on climate and digital transformation are problematic in that the restrictions are hard to monitor and enforce, and do not ensure that the money is well spent. Should they turn out to be counterproductive, they would add to distrust in EU initiatives. A more appropriate design should include countries setting specific targets, leaving discretion on how to achieve these targets to the individual countries, and holding them accountable for meeting the targets.
- The funds should be allocated to activities overcoming market failures and addressing cross-country spillovers, e.g., multi-country infrastructure to support a digital transition or an efficient public sector to strengthen social capital. Expenditures should prioritize visible investments and exploit policy interdependencies rather than duplicate single-country initiatives.
- The coronavirus crisis is an opportunity to rethink child care and gender roles. Resilience in care requires several elements, including longer hours of child care and school attendance, the possibility of access to care for sick children, and more flexibility to adapt to parental circumstances.

CHAPTER 3: LIFECYCLES AND EDUCATION: THE CORONAVIRUS CRISIS ACROSS GENERATIONS

Short Term:

- The Covid-19 disease threatens lives at all ages. Because the economic value of time spent learning is about the same as that of time spent working and is automatically invested in the human capital needed to service accumulated debt, education should be given at least the same priority as work when designing contagion-prevention measures.
- Policy should ensure equitable access to digital equipment and physical study spaces, both of which more than usually hamper the home-learning opportunities of underprivileged students.

Long Term:

- In the aftermath of the pandemic, there will be a need to make up for lost learning with shorter school vacations or longer hours of attendance, increased spending, and innovative techniques for delivering new types of basic broad-based competencies.
- Flexibility and ability to learn will be more important in the coming times of drastic and unpredictable structural change. Practical vocational training remains useful but should not be excessively narrow, and should be enhanced with cognitive skills, training in problem-solving, and logical preparation for learning new skills.
- Lifelong education is particularly important, especially for workers with vocational schooling. Access to education should be flexible, allowing individuals to choose which new skills to learn. In optional higher education, individual choices should also follow market signals, in a very different environment where public policy should keep fulfilling its quality certification and funding roles.

CHAPTER 4: BUSINESS INVESTMENT

Short Term:

- Financial support should be given to firms, in particular small and medium-sized companies, to improve investment levels, both to kickstart recovery and to enhance productivity and to provide the ability to innovate in the medium and long term; but it is important to avoid subsidizing zombie firms.
- The policy instruments that support investments by firms should give room to market signals to determine which investment projects are likely to be viable. Governments should primarily provide partial funding of loan guarantees, so that the private investors bearing the rest of the risk are appropriately incentivized to assess the quality of investment.
- Countries should introduce or extend tax loss carryback provisions. The extension of tax loss carryback also reduces the risk of supporting non-viable firms because it only helps firms that were profitable before the crisis. In addition, extended loss carryback helps only those firms that paid taxes in the country, not those that shifted profits to low-tax countries.

Long Term:

- From the perspective of European cohesion and solidarity, it is important that all member states, including those constrained by high debt levels, are able to use instruments to support investment. The European Commission should encourage member states to make solvency support measures part of the recovery plans they submit when they apply for funding from NGEU.
- NGEU's strong focus on supporting green investment is problematic. Climate change should primarily be addressed through CO_2 prices and complementary regulation, not by subsidizing the reduction of greenhouse gas emissions. Since uncertainty about future CO_2 prices and environmental regulations reduces private green investment, emphasis should be placed on establishing reliable and predictable CO_2 price paths and regulations.
- Relaxing state aid rules during the crisis is justified, but there is a risk that countries might engage in harmful subsidy races in industries with excess capacities. While companies will need to reconsider the tradeoffs between production costs and vulnerability of value chains, reducing vulnerability may require more, not fewer, international value chains. Hence, policy measures meant to wind down border-crossing value chains would also be highly counterproductive. Deepening the European internal market, for instance by moving quickly to capital market union, should be a key priority for the coming years.
- To foster economic growth after the crisis, the EU should turn its attention toward improving conditions for medium- and long-term private investment. This requires reducing uncertainty regarding future tax and regulatory policies that allow market processes to develop their full potential in terms of generating efficiency and innovation.