



# Europe in the coronavirus crisis

## Economic consequences and perspectives for France, Germany and Italy

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**Eileen Keller**

Political and economic situation in the three  
countries

Economic impact of the pandemic and national  
support measures

NextGenerationEU and national recovery plans

## Abstract

This paper gives an overview of the economic consequences of the Covid-crisis and the political responses to it in France, Germany and Italy. The paper begins with a short outline of the differing socio-economic contexts in which the three countries entered the crisis followed by its macroeconomic effects. The government measures to support the economy are presented, thereby highlighting some priorities and differences from a comparative perspective. The paper gives an overview of the national investment plans and how they relate to the European funding that comes from NextGenerationEU and closes with a short discussion of open questions and challenges ahead.

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### Introduction

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<sup>1</sup> Cf. the joint contribution of the two Secretaries of State for European affairs, Clément Beaune and Vincenzo Amendola, of 25 March this year. <https://www.lastampa.it/topnews/lettere-e-idee/2021/03/25/news/roma-parigi-insieme-per-un-europa-piu-forte-1.40068497?ref=twhpv>, <https://www.la-croix.com/Debats/LItalie-France-ensemble-Europe-puissante-2021-03-25-1201147542>

<sup>2</sup> Il primo discorso di Mario Draghi in Parlamento. 17 February 2021, [https://www.corriere.it/politica/21\\_febbraio\\_17/primo-discorso-mario-draghi-parlamento-testo-completo-b368674a-7101-11eb-b26f-1b97a5632ac6.shtml](https://www.corriere.it/politica/21_febbraio_17/primo-discorso-mario-draghi-parlamento-testo-completo-b368674a-7101-11eb-b26f-1b97a5632ac6.shtml)

The coronavirus crisis will be a more significant turning point in the development of the European economies than the global financial and economic crisis which started in 2007/2008. This is not only a result of the immediate economic impact of the various lockdowns, but also of structural changes not exclusively caused by the pandemic but accelerating as a result of the crisis. Examples include the automotive sector, digitalisation or the fight against climate change. Moreover, given the severity of the crisis, massive economic stimulus and growth packages have been agreed, providing a strong impetus for the future development of our economies beyond the immediate consequences of the crisis.

This analysis takes a comparative approach and looks at the economic effects of the crisis and the measures taken to deal with them in Germany, France and Italy. Given the high degree of interdependence of the three largest economies in the EU, overcoming the crisis can only be achieved by working together and this holds both from an economic as well as from a health perspective. Germany, France and Italy are among the founding members of the European Union and without sustained support from these three countries, Europe will not exist as a functioning and sustainable entity even in the reduced form of a core Europe. As the past years have shown, the EU cannot be

successfully led either by the European institutions (above all the Commission) or by Germany, as the most populous member state. The Franco-German engine, too, will only function sustainably if it receives broader support.

Against this backdrop, an increased interest in Italy has recently emerged in both France and Germany, which sees the country as an important partner, not solely because of its importance in dealing with the refugee crisis or the stability of the Eurozone. Shortly after the Brexit vote, Angela Merkel, François Hollande and Matteo Renzi met on Ventotene to discuss the future of the EU. In February 2020, members from the three countries' European Affairs Committees met in the *Triangle of Montecitorio*, the seat of the Italian Chamber of Deputies, to confer. Plans for increased cooperation between France and Italy, to be set out in the Quirinal Treaty modelled on the Elysée Treaty, the Franco-German friendship treaty, recently gathered momentum again.<sup>1</sup> All these developments are boosted by Mario Draghi's appointment as head of government in February this year, as he himself emphasised in his inaugural speech in the Italian parliament.<sup>2</sup>

## Political and economic conditions at the outset of the crisis

<sup>3</sup> Alexander Grasse and Jan Labitzke 2019: Italiens neues Verhältnis zur Europäischen Union: Zwischen wachsender Distanz und dem italienischen Wunsch nach Selbstbehauptung und Anerkennung. In: Deutschland & Europa, Heft 77-2019, [https://www.deutschland-undeuropa.de/77\\_19/eu\\_grenzen.pdf](https://www.deutschland-undeuropa.de/77_19/eu_grenzen.pdf), S. 38-49.

<sup>4</sup> Johannes Becker and Clemens Fuest 2017: Der Odysseus-Komplex. Ein pragmatischer Vorschlag zur Lösung der Eurokrise. München: Carl Hanser Verlag. See also the authors' guest article from 13 February 2017 in the German newspaper FAZ: Profitiert Deutschland wirklich vom Euro? <https://www.faz.net/aktuell/wirtschaft/konjunktur/profitiert-deutschland-von-schwachen-euro-staaten-14873599.htm> [l?printPagedArticle=true#pageIndex\\_2](https://www.faz.net/aktuell/wirtschaft/konjunktur/profitiert-deutschland-von-schwachen-euro-staaten-14873599.htm)

<sup>5</sup> Pawel Tokarski 2018: Deutschland, Frankreich und Italien im Euroraum. Ursprünge, Merkmale und Folgen der begrenzten Konvergenz. SWP-Studie 2018/S 25, S.22. <https://www.swp-berlin.org/publikation/euroraum-begrenzte-konvergenz/>

<sup>6</sup> Eurostat, gross domestic product and income by A\* 10 industry, industry excluding construction, [https://ec.europa.eu/eurostat/databrowser/view/NAMA\\_10\\_A10\\_\\_custom\\_75020/-bookmark/table?lang=de&bookmarkId=316db23a-bdcb-401e-ae69-16d336ff36f6](https://ec.europa.eu/eurostat/databrowser/view/NAMA_10_A10__custom_75020/-bookmark/table?lang=de&bookmarkId=316db23a-bdcb-401e-ae69-16d336ff36f6)

<sup>7</sup> OECD 2018: Regions and Cities at a Glance 2018 - Italy, <https://www.oecd.org/regional/ITALY-Regions-and-Cities-2018.pdf>

The coronavirus crisis has hit Germany, France and Italy in different economic and political circumstances. Politically, the crisis in Germany marks the end of Chancellor Merkel's 16-year term in office and follows an extended period of (weak) economic growth, low unemployment and considerable budget surpluses. In France, the crisis marks a break in the uneven reform path of President Macron, who was elected to office in 2017, but it also offers him new opportunities for action. This is certainly the case regarding European policy. The promise of a comprehensive reform of the EU was a decisive element of his electoral success. Equally, this applies to his economic policy, with new priorities for government action (stabilisation of the economy, suspension of the European debt rules, European investment initiative). Finally, Italy has been hit by the crisis in a persistently difficult economic situation of stagnating productivity and high youth unemployment. The country's relations with the EU have deteriorated over the past years because of the refugee crisis and the struggle over Italian budgetary policy, which contributed to the electoral successes of Eurosceptic parties.<sup>3</sup> It is often overlooked, however, that Italy is a net contributor to the EU and, unlike Greece, Ireland, Spain and Portugal, has at no time drawn on European funds from the ESM, although the country does, of course, benefit significantly from the ECB's accommodating monetary policy.

Economically, the divergences between Germany, France and Italy have amplified over the past 20 years. Germany has increased its competitiveness since the 2000s. Thanks in part to labour market reforms and wage restraint in order to secure jobs, it was possible to reduce unemployment rates from over 11% to under 5% from the mid-2000s onwards. At the same time, the foreign trade surplus increased sharply, mainly as a result of growing exports to non-euro countries.<sup>4</sup> High tax revenues coupled with low (or negative) interest rates have led to budget surpluses since 2014. While the overall economic situation was relatively positive up until the crisis, the medium-term prospects are fraught with uncertainty because of looming structural changes. They concern demographic change as well as

the upheavals related to digitalisation and the effects of geopolitical uncertainties for the strongly export-oriented German economy.

Italy, on the other hand, has clearly lost competitiveness over the past 20 years. While per capita income in Germany rose by 29% between 1999 (introduction of the euro) and 2018, it was only 0.8% in Italy (France: 17%).<sup>5</sup> This was mainly due to stagnation in productivity and, from the 2000s onwards, higher inflation than in Germany and France. Italy is economically characterised by a strong north-south divide, which has increased slightly in recent years, even though there are some areas in the south that resist this trend. The north and centre of the country, not unlike Germany, have an important manufacturing sector of predominantly smaller family-run businesses. In 2019, industry contributed 19.5% to the country's economic output (Germany: 22.9%, France 13.2%).<sup>6</sup> Italy is, for instance, the second most important producer of pharmaceutical products in the EU, almost on a par with Germany. In contrast, Italy's south, the so-called Mezzogiorno, which comprises about a third of the Italian population but only produces a quarter of Italy's economic output, suffers from major structural weaknesses. These include high unemployment rates, weak administration, clientelism and corruption. In Italy as a whole, youth unemployment is 30%, in some regions of southern Italy it is over 50%.<sup>7</sup>

Italy's economic weakness is a relatively recent phenomenon and not as easy to explain as it might seem at first glance. The country developed very positively in the first decades after the Second World War and for a long time had growth rates similar to Germany. Thus, the well-known structural weaknesses (inefficient administration, cumbersome judicial system, small-scale business landscape, nepotism) alone do not suffice to explain the current situation. Instead, Italy's economic stagnation of the past decades can best be described as an unfavourable cocktail of several factors, at least some of which had a self-reinforcing effect. The aforementioned structural weaknesses have become more significant than in

<sup>8</sup> See for example Andrea Lorenzo Capussela 2018: *A Political Economy of Italy's Decline*, Oxford: OUP.

<sup>9</sup> Bruno Pellegrino and Luigi Zingales 2017: *Diagnosing the Italian disease*. Nber Working Paper 23964, <http://www.nber.org/papers/w23964>, Sara Calligaris et al. 2017: *The Productivity Puzzle and Misallocation: An Italian Perspective*, CEP Discussion Paper No. 1520.

<sup>10</sup> Berthold Busch and Björn Kauder 2021: *Der Stabilitäts- und Wachstumspakt. Bestandsaufnahme und Vorschläge für mehr fiskalpolitische Disziplin in Europa*. IW-Analysen 142, 27 ff.

<sup>11</sup> See for example Lucio Baccaro and Massimo D'Antoni 2020: *Has the "External Constraint" Contributed to Italy's Stagnation? A Critical Event Analysis*. MPiFG Discussion Paper 20/9, [https://www.mpifg.de/pu/mpifg\\_dp/2020/dp20-9.pdf](https://www.mpifg.de/pu/mpifg_dp/2020/dp20-9.pdf), Marcel Fratzscher and Livio Stracca 2009: *Does it Pay to have the euro? Italy's politics and financial markets under the lira and the euro*. ECB Working paper series No. 1064. Ton Notermans and Simona Piattoni 2020: *EMU and the Italian debt problem. Destabilising periphery or destabilising the periphery?* In: *Journal of European integration* 42(3), 345-362. Christiane Liermann Traniello et al. 2021 (eds.): *The Value of Money: Controversial Economic Cultures in Europe: Italy and Germany*. Menaggio: Villa Vigoni.

<sup>12</sup> Marcello De Cecco 2007: *Italy's dysfunctional political economy*. In: *West European Politics* 30(4), 763-783, p. 766 ff.

the past in the face of increased global competition and the catching-up of the emerging markets.<sup>8</sup> At the same time, unfavourable entrepreneurial and political decisions have further exacerbated this development. This applies to mistakes in the privatisation of state-owned enterprises in the 1980s and early 1990s as well as to principles that emphasise loyalty instead of performance when filling management positions in companies. This has led to a misallocation of resources and Italy did not benefit from the IT revolution to the extent that other countries did from the mid-1990s onwards.<sup>9</sup> This development also affects Italy's industrial base in the north of the country.

The fact that Italy has the second highest level of public debt in the EU after Greece is mainly due to a rapid increase in new debt in the 1980s from under 60% to over 90% of GDP. Since the mid-1990s, the debt has been declining and has only risen again with the financial and economic crisis in 2007/2008 and the euro crisis in 2010/2011 (slumps in tax revenue, higher interest rates on Italian government bonds, an increase in welfare spending, problems in the banking sector). Thus, it was mainly debt servicing (interest costs) and not unbridled spending policies that contributed to the growing Italian debt burden.<sup>10</sup> Since the early 1990s, Italy's primary balance (government expenditure and revenue without loans or interest payments) has been almost consistently positive. The introduction of the euro has thus most probably had a disciplining effect on Italian budgetary policy, but it has also further aggravated the weak growth from which the country suffers.

France is also undergoing an intensified process of adjustment to the changed conditions of a globalised world economy. In recent years, the focus has been on improving the competitiveness of companies and adapting the (welfare) state. In economic terms, the macroeconomic divergences between Germany and France have increased again since the early 2000s. This is true for the foreign trade balance and unemployment figures, for example. At least since the Nicolas Sarkozy presidency, there have been heightened attempts to release growth forces through reforms. These included changes to the tax burden on companies as well as opening up regulated sectors to competition, modernising the administration and integrating young people in particular into the labour market

by making labour laws more flexible and strengthening vocational training. In this context, the goal of reducing new debt has also gained political importance.

The question to which extent the divergent developments mentioned above are *causally* related to the introduction of the common currency and its architecture is a controversial one, and this holds both for the political and the academic debate.<sup>11</sup> Ultimately, an assessment depends on how one weighs up advantages and disadvantages that are associated with the euro for Italy as for other countries. It is indisputable that the euro, but also the common rules of the single market, have significantly changed the overall economic framework in which European economies operate, although the same also applies to globalisation and digitalisation. Overall, the resulting pressure to adapt was higher for both France and Italy than for Germany, especially regarding the role of the state in economic policy.

The importance attributed to the euro when analyzing Italy's economic difficulties depends above all on how central one deems the use of the exchange rate mechanism in strengthening the competitiveness of the Italian economy. On the one hand, the euro had positive effects for Italy, as it ended the speculative attacks to which the lira was exposed on the international financial markets and led to more favourable refinancing costs. On the other hand, the elimination of the possibility of establishing international competitiveness through devaluations, which Italy regularly practised from the 1970s onwards, had a massive economic impact on Italian industry, whose model consisted of producing light industrial parts for the world market at low cost in the country's many small family-run businesses. A shift from labour-intensive to more capital-intensive forms of production, as promoted in Germany and other countries through the increased use of machinery and the automation of production processes, was largely absent. For Italy, this production strategy became a problem when inflationary tendencies could no longer be compensated for by devaluations because of the Euro and the emerging countries penetrated more strongly into the production areas that Italy had successfully occupied for 30 years.<sup>12</sup>

## The economic consequences of the coronavirus crisis

<sup>13</sup> Cf. Eurostat, <https://ec.europa.eu/eurostat/cache/recovery-dashboard/>

<sup>14</sup> Kieler Konjunkturberichte Nr. 76 (2021 | Q1), ifw Kiel, S. 12, <https://www.ifw-kiel.de/de/publikationen/kieler-konjunkturberichte/2021/euroraum-erholung-in-den-startloechern-0/>

<sup>15</sup> Gross Domestic Product for Germany 2020. Statement for the press conference on 14 January 2021, [https://www.destatis.de/DE/Presse/Pressekonferenzen/2021/BIP2020/statement-bip.pdf;jsessionid=98AA07AAA5A12208206A3A3166367A0B.live!732?\\_\\_blob=publicationFile](https://www.destatis.de/DE/Presse/Pressekonferenzen/2021/BIP2020/statement-bip.pdf;jsessionid=98AA07AAA5A12208206A3A3166367A0B.live!732?__blob=publicationFile)

<sup>16</sup> At that time, it was only 4% in Germany and 1% in France. OECD 2020: Job retention schemes during the COVID-19 lockdown and beyond. [https://read.oecd-ilibrary.org/view/?ref=135\\_135415-6bardplc5q&title=Job-retention-schemes-during-the-COVID-19-lockdown-and-beyond](https://read.oecd-ilibrary.org/view/?ref=135_135415-6bardplc5q&title=Job-retention-schemes-during-the-COVID-19-lockdown-and-beyond), p. 8.

<sup>17</sup> Ibid (Kiel).

All three economies have experienced historic slumps caused by the pandemic-induced artificial standstill. In Germany, the economy slumped by 9.7% in the second quarter of 2020, in France and Italy it was 13.5% and 13% respectively.<sup>13</sup> Over the whole year, the year-on-year economic performance was -5.3% in Germany, -8.2% in France and -8.9% in Italy.<sup>14</sup> The fact that the economic recession in Germany was less severe is also a result of the milder lockdown measures, especially in the first wave. For example, the German construction sector – the only one of all sectors – grew in 2020 compared to the previous year, while the sector suffered sharp declines in both France and Italy. Likewise, the fact that German GDP is less dependent on more contact-intensive branches (trade, transport, tourism) is likely to have played a role. In Germany, the reduction in exports contributed most to the decline in GDP with -4.6 percentage points, even though the economic recovery in Asia prevented even greater declines.<sup>15</sup> It will probably take at least until 2022 for the economy in Europe to reach its pre-crisis level. The full extent of the economic dislocation will only become apparent over time when short-time work schemes and state guarantees are scaled back and the number of insolvencies might rise with a time lag to the economic collapse.

In comparison to the decline in economic output, employment in Europe has only fallen moderately, unlike in the United States, thanks to the extensive use of short-time work. In France, one

third of all employees were on short-time work in the first lockdown in May 2020, in Germany it was just under one fifth. In Italy, around 7 million workers benefited from job-preserving measures (Draghi speech). Overall, the use of this instrument was significantly expanded compared to the economic crisis of 2009/ 2010, when Germany in particular managed a rapid economic recovery thanks to its extensive use.<sup>16</sup>

Nevertheless, unemployment rose from 6.8% to 9.3% in France and from 7.4% to 9.7% in Italy, but remained below the peaks of previous years (13.1% in November 2014 in Italy and 10.5% in June 2015 in France). Germany has seen a steady increase in unemployment at a low level (4.1%). This development set in before the crisis and seems to be stabilising at the current level. In contrast, in France and Italy a trend reversal has been discernible since last summer. With rising government expenditure and declining revenues, state debt has increased in all three countries. For 2020, the government budget balance – i.e. the difference between revenues and expenditures relative to the GDP – is estimated at -4.2% for Germany, -9.8% for France and -9.5% for Italy.<sup>17</sup> Between the end of 2019 and autumn 2020, the total debt-to-GDP ratio has risen from 60% to 70% in Germany, from 98% to 117% in France and from 135% to 154% in Italy (eurostat).

## Comparison of national support measures

In order to react to the slump in economic activity and income caused by the lockdowns and to mitigate the economic shock, comprehensive national measures were adopted from March 2020 onwards (table 1). In addition to a significant expansion of short-time work schemes, these include additional (and advanced) investments by the public sector as well as tax cuts (or deferrals),

guarantee programmes, compensation payments, subsidies for operating costs and the provision of additional equity capital.

When comparing the measures adopted in France, Germany and Italy, it becomes apparent that the amounts approved were less linked to the direct impact of the crisis and its economic consequen-



<sup>18</sup> Grégoire Normand 2020: Coronavirus : l'Etat prévoit un plan massif de 45 milliards d'euros d'aides. La Tribune, 17 March, <https://www.latribune.fr/economie/france/coronavirus-l-etat-prevoit-un-plan-massif-de-45-milliards-d-euros-d-aides-842378.html>

<sup>19</sup> IMF Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

<sup>20</sup> Elena Rancoita et al.: Financial stability considerations arising from the interaction of coronavirus-related policy measures. Financial Stability Review, November 2020, [https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart202011\\_01~47160f35a4.en.html#footnote.4](https://www.ecb.europa.eu/pub/financial-stability/fsr/special/html/ecb.fsrart202011_01~47160f35a4.en.html#footnote.4)

<sup>21</sup> IMF 2020: IMF Country report Italy, No 20/79, p. 18.

<sup>22</sup> Press release from 21 April 2021: <https://www.mef.gov.it/ufficio-stampa/comunicati/2021/Credito-e-liquidita-per-famiglie-e-imprese-ancora-attive-moratorie-su-prestiti-del-valore-di-158-miliardi-oltre-155-miliardi-il-valore-delle-richieste-al-Fondo-di-Garanzia-PMI-raggiungono-i-22.8-miliardi-di-euro-i-volumi-compressivi-dei-prestiti-gara/>

<sup>23</sup> Comité de suivi et d'évaluation des mesures de soutien aux entreprises. Interim report of March 2021, <https://www.strategie.gouv.fr/publications/comite-de-suivi-devaluation-mesures-de-soutien-financier-aux-entreprises-confrontees>, p. 175.

<sup>24</sup> Julia Anderson, Francesco Papadia and Nicolas Véron 2021: Covid-19 credit support programmes in Europe's five largest economies. Bruegel working paper 03/2021, <https://www.bruegel.org/2021/02/covid-19-credit-support-programmes-in-europes-five-largest-economies/>

<sup>25</sup> Comité de suivi et d'évaluation (ibid), p. 162 ff.

ces than to the diverging fiscal room for manoeuvre, especially in the early phase of the pandemic. Germany unpacked the “bazooka” (Finance Minister Olaf Scholz) as early as mid-March. With the Corona shield, the government adopted fiscal measures totalling 353.3 billion euros, leading to borrowing of around 156 billion, in addition to around 820 billion for guarantees. The French emergency plan (Plan d'urgence), in contrast, initially amounted to an estimated 45 billion. Added to this were 300 billion in the form of loan guarantees, a “massive measure based on the German model” as Economy Minister Bruno Le Maire stressed in a press conference.<sup>18</sup> Despite being more severely affected by the crisis, Italy's programme (Cura Italia) initially amounted to only 25 billion, followed in April by a more extensive liquidity programme (400 billion) for the economy.

According to the IMF, the fiscal measures approved so far (additional spending and loss of revenue through tax cuts and the like) amount to 7.6% of economic output in France, 11% in Germany and 8.5% in Italy. In addition, loans, guarantees and equity grants were approved amounting to 15.6% of GDP in France, 27.8% in Germany and 35.3% in Italy, with Germany being the only country not to set any upper limit on guarantees at all.<sup>19</sup>

The distribution looks somewhat different if one looks not at the approved funds, but at the volume of funds actually used so far. Because of the stronger economic slump, these are higher in France and Italy in relation to GDP – about 14% and 13% respectively, compared to a about 8% in Germany.<sup>20</sup> In France and Italy, more funds were thus paid out than was the case in Germany.

The high share of guarantees in Italy is striking, not only in terms of the approved volume, but also in terms of actual use. From a fiscal point of view, these have the advantage that they have a limited immediate impact on the fiscal balance (so-called below-the-line measures), because costs only arise when payment difficulties or insolvencies occur. For enterprises, the benefit of a state guarantee is that the state assumes part of the default risk if it cannot service a loan due to the crisis. This makes banks more willing to lend in the face of economic uncertainty.

Even though the Italian banking sector has been de-risking in recent years, the capital adequacy ratio of Italian banks is still below the EU average. The share of loans at risk of default has also declined significantly, but is still more than twice the EU average.<sup>21</sup> Currently, € 158 billion of loans are still subject to moratoria, loan guarantees for SMEs amount to more than € 155 billion.<sup>22</sup> Given long maturities and guarantees of up to 100%, there are zombie risks (i.e. risks of keeping ailing companies artificially alive) and the banking sector is de facto fiscally stabilised.

Regarding the French measures, two aspects in particular stand out: Firstly, there was a clear focus on supporting labour. The regulation of short-time work is generous in international comparison and can be seen as part of the French tradition of encompassing social benefits, which have tended to be reduced in recent years. An employer can receive up to 4,608 euros for an employee on short-time work (in Germany: max. 2,791, in Italy 1,199).<sup>23</sup> This has contributed to the fact that many French citizens have seen only small drops in their net income. Overall, the purchasing power of French households has remained stable in 2020. In addition, an employment protection programme through long-term part-time work is intended to flank the effects on the labour market. Under this scheme, workers can remain in the company for up to 24 months at reduced working hours with state wage compensation if the employer commits to providing further training. In addition, in the light of a youth unemployment rate of 20%, several programme lines support the integration of young people into the labour market.

Secondly, the French government aimed at strengthening the financial situation of companies, which are on average somewhat more indebted than German and Italian ones. The conditions for the state-guaranteed loans are particularly favourable. In the first year, the borrowing costs correspond to the refinancing costs of the banks – the latter thus do not earn money with them initially.<sup>24</sup> France has also realised the largest share of the state aid approved by the European Commission so far (around 155 billion or 29% of all aid paid), followed by Italy (20%, 108 billion) and Germany (19%, 104 billion).<sup>25</sup> French

Table 1 Important measures to combat the crisis in Germany, France and Italy

	Germany	France	Italy
<b>Important decisions</b>	<ul style="list-style-type: none"> <li>• March 2020: <i>Corona Schutzschild</i> (emergency aid, 353 bn in budgetary measures)</li> <li>• June 2020: Economic stimulus package (130 bn)</li> <li>• Further short-term measures (November and December aid, Überbrückungshilfen I-III)</li> </ul>	<ul style="list-style-type: none"> <li>• March 2020: <i>Plan d'urgence</i>, contains among other things <ul style="list-style-type: none"> <li>• State-guaranteed loans</li> <li>• Solidarity Fund → Repeated adjustments via supplementary budgets / ordinances</li> </ul> </li> <li>• September 2020: Plan de Relance (100 bn)</li> </ul>	<ul style="list-style-type: none"> <li>• March 2020: <i>Decreto Cura Italia</i> (25 bn)</li> <li>• April 2020: <i>Decreto Liquidità</i> (400 bn)<sup>26</sup></li> <li>• May 2020: <i>Decreto Rilancio</i> (55 bn)</li> <li>• Further measures: <i>Decreti Agosto</i> and <i>Ristorno</i></li> <li>• January 2021: <i>Piano Nazionale di Ripresa e Resilienza</i>*</li> <li>• March 2021: DL <i>Sostegni</i>* (32 bn)</li> </ul>
<b>Short-time work schemes</b>	For companies if at least 10% of the workforce is affected. Compensation of up to 87% of the lost net wage + full payment of social security contributions on the lost working hours.	Extension for up to 12 months, up to 70% of gross salary (equivalent to approx. 84% of net salary) up to 4.5 times the minimum wage	Replacement of up to 80% of gross wages, but salary-dependent ceilings (1,199 euros max.), thus, a worker on average wage receives about 45% of his wage for 0 hours worked
<b>Additional public sector investment</b>	<b>286 bn</b> (incl. short-time work) <ul style="list-style-type: none"> <li>• Grants for companies</li> <li>• Extension of certain social benefits</li> <li>• Investment programme</li> </ul>	<b>125.5 bn</b> (incl. short-time work) <ul style="list-style-type: none"> <li>• Support for SMEs (+ all companies in Dec. + self-employed)</li> <li>• Other social expenditure / transfers</li> <li>• Investment programme</li> </ul>	<b>121 bn</b> (incl. short-time work) <ul style="list-style-type: none"> <li>• Subsidies for child-care, up to € 1,200 (70 bn)</li> <li>• Grants for enterprises (43 bn)</li> <li>• Education (4 bn)</li> </ul>
<b>Tax and other duty cuts</b>	<b>42 bn</b> <ul style="list-style-type: none"> <li>• Temporary reduction in VAT</li> <li>• Further tax and payment cuts</li> </ul>	<b>29.7 bn</b> <ul style="list-style-type: none"> <li>• Exemptions from social security contributions</li> <li>• Tax cuts for companies</li> </ul>	<b>9 bn</b> <ul style="list-style-type: none"> <li>• Company taxation</li> <li>• Reduction of social security contributions</li> </ul>
<b>Loans, equity and guarantees</b> (approved)	<b>926 bn</b> Economic stabilisation fund contains <ul style="list-style-type: none"> <li>• 100 bn in the form of equity investments</li> <li>• 100 bn refinancing of KfW special programmes</li> <li>• 400 bn guarantees</li> </ul>	<b>356 bn</b> <ul style="list-style-type: none"> <li>• 21 bn for direct grants in the form of loans and equity support in selected companies</li> <li>• 335 bn in the form of guarantees</li> </ul>	<b>582 bn</b> <ul style="list-style-type: none"> <li>• Capital injection for Alitalia (3.3 bn)</li> <li>• Guarantees up to 579 bn</li> </ul>

\*Not included in IMF figures.

Source: Own compilation based on: IMF Fiscal Monitor Database (as of March 2021), OECD 2020 (Fn.16), own research.

<sup>26</sup> <https://www.mef.gov.it/inevidenza/Gualtieri-Un-bazooka-di-liquidita/>



<sup>27</sup> Comité de suivi et d'évaluation (ibid), p. 162 ff.

<sup>28</sup> Dashboard Germany Economic Stimulus Programme, <https://www.dashboard-deutschland.de/#/themen/konjunkturprogramm/konjunkturprogramm>

<sup>29</sup> See also Selin Ozyurt et al, German "Wumms" vs. French "relance": Who does it better?, 18 September 2020, Euler Hermes and Allianz, [https://www.eulerhermes.com/en\\_global/news-insights/economic-insights/German-Wumms-vs-French-relance-Who-does-it-better.html](https://www.eulerhermes.com/en_global/news-insights/economic-insights/German-Wumms-vs-French-relance-Who-does-it-better.html)

companies will also profit from permanent relief through the reduction of several corporate taxes from January 2021 onwards. These tax cuts constitute the largest single measure in the *Plan de relance*, aiming to reduce the competitive disadvantage that France has as a marketplace relative to other European countries in this regard.

Overall, the share of short-term stabilising measures relative to those that have an effect in the medium and long term is relatively low compared to the plans adopted elsewhere.<sup>27</sup> Even though demand-oriented anti-cyclical economic policies have traditionally had an important place, the French programme contains only very targeted measures for low-income households.

Looking at Germany, what is remarkable is the speed with which the massive supportive measures were adopted and how few concerns about misguided incentives (for example, by suspending the obligation to apply for insolvency) were expressed in the debates. The episode shows that high expenditures that lead to new debt also have a high legitimacy in crisis situations in Germany, accor-

ding to the motto: If you put money aside when times are good, you can draw on it in bad times. Germany has led the way in Europe and created incentives for other countries to follow suit in order not to be left behind in the crisis.

Germany has afforded itself a potentially expensive fiscal shield for its economy. Overall, the share of subsidies is relatively high compared to other instruments such as guarantees and loans. Grants totalling more than 35 billion euros have been approved so far. In addition, recapitalisations through the Economic Stabilisation Fund (Wirtschaftsstabilisierungsfonds) amount to 8.5 billion. The volume of approved loans and guarantees amounts to 50 and just under 5 billion respectively and is thus relatively low.<sup>28</sup> In addition, the German government relied on a strong anticyclical signal at an early stage. To stimulate the economy, VAT was reduced for 6 months in the second half of 2020. In addition, families received a bonus of 300 euros per child (see also table 3). Around 25% of the package adopted in June directly benefited German households.<sup>29</sup>

## NextGenerationEU and the National Recovery and Growth Plans

<sup>30</sup> In total, the volume of the ECB's securities purchases decided since March 2020 amounts to around €1,850 billion. In 2020, 80% of all debt instruments issued by the French government were purchased by the central banks (Rapport Nos finances publiques), for Italy the share may have been even higher. See also Annika Havlik and Friedrich Heinemann 2020: Magnitudes and capital key divergence of the Eurosystem's PSPP/PEPP purchases. [https://ftp.zew.de/pub/zew-docs/ZEWKurzexperten/ZEW\\_Shortreport\\_162020.pdf](https://ftp.zew.de/pub/zew-docs/ZEWKurzexperten/ZEW_Shortreport_162020.pdf)

<sup>31</sup> Clemens Fuest 2021: The EU's Big Pandemic Deal: Will it be a success? In: CESifo Forum 01/2021, 3-8, <https://www.cesifo.org/de/publikationen/2021/zeitschrift-einzelheft/cesifo-forum-012021-eus-big-pandemic-deal-will-it-be>

National and European responses to the crisis are closely intertwined. This is a result of the stabilising effect of European monetary policy<sup>30</sup> as well as the fact that the announcement of the European investment programme Next-GenerationEU (NGEU) created room for manoeuvre for short-term national crisis policies.<sup>31</sup> Italian measures to secure jobs are supported by the European Commission through the SURE programme with loans amounting to 27.4 billion. National and European measures are also closely intertwined in the implementation of NGEU, which is based on the allocation of funds from the Reconstruction and Resilience Facility (RRF) to the individual member states (table 2) and their realisation through national Reconstruction and Resilience Plans (RRPs).

NGEU with its 750 billion does not have the same importance in the national measures implemented to fight the crisis everywhere. With its European subsidies of about 26 billion euros, Germany will primarily finance those measures already decided in June as part of its economic stimulus and growth package that correspond to the European requirements with their focus on climate change, digitalisation and social cohesion. Germany is financing its decarbonisation programme with the promotion of hydrogen (2.2 billion) via the European funds, as well as buyer's premiums for the sale of electric cars (2.5 billion), but also an investment programme of 1.9 billion for the automotive industry and its suppliers.

**Table 2 Grants from NextGenerationEU**

	RRF (bn)	% of GDP*	Total NGEU (bn)
Germany	25.6	0.8	30.9
France	39.4	2.2	48.5
Italy	68.9	4.5	89.3

\*Incl. React-EU. Current prices.

Source: Darvas 2020: NextGenerationEU payments across countries and years, <https://www.bruegel.org/2020/11/next-generation-eu-payments-across-countries-and-years/> and Commission homepage: [https://ec.europa.eu/info/sites/info/files/about\\_the\\_european\\_commission/-eu\\_budget/recovery\\_and\\_resilience\\_facility\\_.pdf](https://ec.europa.eu/info/sites/info/files/about_the_european_commission/-eu_budget/recovery_and_resilience_facility_.pdf)

**Table 3 The stimulus and growth package from June 2020 and DARP (right)**

<p><b>Economic stimulus and crisis package</b></p> <ul style="list-style-type: none"> <li>• VAT reduction until the end of 2020 (20 bn)</li> <li>• Relief in electricity costs (reduction of the EEG levy, 11 bn)</li> <li>• Anticipated public sector investments (10 bn)</li> <li>• Stabilisation of non-wage labour costs (social guarantee 2021, 5.3 bn 2020 + XX 2021*)</li> </ul>	
<p><b>Economic and social balance</b></p> <ul style="list-style-type: none"> <li>• Bridging measures for SMEs (25 bn)**</li> <li>• Financial support for municipalities (14 bn)</li> <li>• Child bonus of 300 euros (4.3 bn)</li> </ul>	
<p><b>Investments in the future</b></p>	
<p><b>Growth package (51 bn)</b></p> <ul style="list-style-type: none"> <li>• Health protection (9.8 bn)</li> <li>• Hydrogen strategy (9 bn)</li> <li>• Digitalisation (9.3 bn)</li> <li>• 5G network and technology (7 bn)</li> <li>• Deutsche Bahn (railway company) (5 bn)</li> <li>• E-mobility (4.9 bn)</li> <li>• Investment in childcare facilities and full-time schools (3 bn)</li> <li>• Humanitarian aid (3 bn)</li> </ul>	<p><b>Of which included in DARP (28 bn)</b></p> <ul style="list-style-type: none"> <li>• Climate-friendly mobility (6.6 bn   22.6%)</li> <li>• Decarbonisation mainly through hydrogen (3.26 bn   11%)</li> <li>• Climate-friendly buildings (2.6 bn   9%)</li> <li>• Digitalisation of the economy and infrastructure (5.9 bn   20%)</li> <li>• Digitalisation of education (1.4 bn   4.9%)</li> <li>• Social cohesion (1.3 bn   4.7%)</li> <li>• Health system (4.6 bn   15.4%)</li> <li>• Administrative modernisation (3.5 bn   11.9%)</li> </ul>
<p><b>Total: 130 bn</b></p>	

\*Not quantified. \*\*Funded from existing programme.

Source: Own compilation based on the result of the coalition committee of 3 June 2020, [https://www.bmwi.de/Redaktion/DE/Downloads/E/eckpunktepapier-corona-folgen-bekaempfen.pdf?\\_\\_blob=publicationFile&v=6](https://www.bmwi.de/Redaktion/DE/Downloads/E/eckpunktepapier-corona-folgen-bekaempfen.pdf?__blob=publicationFile&v=6) and DARP <https://www.bundesregierung.de/breg-de/suche/deut-scher-auf-bau-und-re-si-li-enz-plan-darp-1898522>.

France and Italy, on the other hand, only presented comprehensive investment and growth plans after the agreement on the European aid package. In the French *Plan de relance*, which was presented in September last year, the approximately 40 billion in grants from the Reconstruction and Resilience Facility (RRF) were integrated in the stimulus package from the outset. Compared to the German plan, the French plan includes a broader programme of social measures. The European-financed part includes 7.5 billion euros for securing employment (hiring subsidies and subsidies to companies

that provide vocational training among other things) and about 6 billion for modernising the health system (table 4). The 3.2 billion destined to strengthen technological sovereignty and resilience will go primarily to innovative companies and project calls at the interface of research and practice in the areas of quantum research, cloud technology, cyber security and artificial intelligence. 4.7 billion are earmarked for the SNCF (rail network, secondary lines, rail freight), while the aerospace sector is supported with 1.8 billion.

**Table 4 The main measures of the Plan de relance (left) and the PNRR\* (right) (in billions of euros)**

<b>Ecological transition (30 bn   20.2 bn **)</b>	
<ul style="list-style-type: none"> <li>• Energy efficiency improvements to buildings (6.7 bn)</li> <li>• Support for rail and (local) transport (6.5 bn)</li> <li>• Plan for the automotive and aircraft sector including a purchase premium (5.5 bn)</li> <li>• Investment in “green” technologies (5.4 bn)</li> </ul>	<ul style="list-style-type: none"> <li>• Energy efficiency improvements to buildings (5.8 bn)</li> <li>• Infrastructure and green mobility (7.0 bn), of which 4.4 bn for railways, 1 bn for buyers’ premiums for clean cars</li> <li>• Energy and green technologies (5.3 bn), of which 1.9 bn for hydrogen, 1.7 bn for aerospace</li> <li>• Environment and biodiversity (2.1 bn)</li> </ul>
<b>Competitiveness (34 bn   5.6 bn **)</b>	
<ul style="list-style-type: none"> <li>• Reduction of production costs through tax reliefs (20 bn)</li> <li>• Investment in “technological sovereignty” (6.9 bn)</li> <li>• Equity strengthening of SMEs (3 bn)</li> <li>• Digitisation (1.9 bn)</li> </ul>	<ul style="list-style-type: none"> <li>• Technological sovereignty and resilience (3.2 bn)</li> <li>• Digitalisation, culture (2.1 bn)</li> <li>• Corporate finance (0.3 bn)</li> </ul>
<b>Cohesion (36 bn   15.2 bn **)</b>	
<ul style="list-style-type: none"> <li>• Securing employment through long-term part-time work and parallel training (7.6 bn)</li> <li>• Support for young people (6.8 bn)</li> <li>• Investments in the health sector (6 bn)</li> <li>• Support for local authorities (5.2 bn)</li> <li>• Investment in research and teaching (3 bn)</li> </ul>	<ul style="list-style-type: none"> <li>• Securing employment (7.5 bn), including 2.3 bn for employers who have apprentices, and 0.8 bn each for training, recruitment subsidies for young workers and entrepreneurs who have signed training contracts</li> <li>• Research, health, cohesion (7.7 bn), including 2.5 bn for health care in the countryside and 2 bn for digitisation in the health sector</li> </ul>
<b>Total (100 bn   41 bn **)</b>	

\*Plan national de relance et de résilience, national plan under NGEU. \*\*Share funded through NGEU.

Source: Own compilation based on France Relance, <https://www.gouvernement.fr/france-relance>

<sup>32</sup> Cf. European Commission, Digital Economy and Society Index 2020. Italy, <https://digital-strategy.ec.europa.eu/en/policies/desi-italy>

<sup>33</sup> Eurostat, Formal childcare, by age of child and duration of care, 2019 (% share of children in each age group) [https://ec.europa.eu/eurostat/statistics-explained/images/0/03/Formal\\_childcare%2C\\_by\\_age\\_of\\_child\\_and\\_duration\\_of\\_care%2C\\_2019\\_%28%25\\_share\\_of\\_children\\_in\\_each\\_age\\_group%29-LCIE\\_2021.png](https://ec.europa.eu/eurostat/statistics-explained/images/0/03/Formal_childcare%2C_by_age_of_child_and_duration_of_care%2C_2019_%28%25_share_of_children_in_each_age_group%29-LCIE_2021.png)

<sup>34</sup> World Bank, Research and development expenditure, <https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS>

Italy receives the largest share of subsidies after Spain with about 69 billion. However, in relation to economic output (4.5%) it is clearly behind some southern and eastern European countries because the calculation key takes into account the level of prosperity. The Italian *Piano nazionale di ripresa e rilancio* (PNRR), which was presented in January this year, is financed predominantly by the grants and loans the country receives from NGEU. In total, investments amount to about 220 billion euros, 191.5 billion of which are financed through the Reconstruction and Resilience Facility (about 69 billion in the form of grants and 123 billion as loans), 30.6 billion come from a national fund. Including contributions Italy receives from other EU programmes and other national funds, the total planned investment volume amounts to 248 billion euros.

In terms of content, the new government formed by Mario Draghi adopted the broad outlines of the plan drawn up in the second half of 2020 together with the social partners and the political institutions. The investments are intended to help Italy catch up in terms of ecological change and digital infrastructure. In addition, professional know-how is to be strengthened through investments in education, training and research. In the long term, this is supposed to contribute to a reduction in youth unemployment, a better integration of women into the labour market and a catching-up of the Mezzogiorno, remedying the weak growth from which the country suffers. 82 billion (about 40%) are destined for the South, mainly through investments in infrastructure. More than 53% of all investments in transport go there. The main aim is to improve rail connections and modernise ports. The employment of women is to be promoted through better infrastructure of care facilities (children, older people and people with disabilities). Young people benefit above all from the considerable investments in the education system (table 5).

In addition to investments, reforms shall contribute to strengthening competitiveness. These primarily concern the administration and the judicial system. Along

with investments in their digitalisation, the education and training of staff and the boosting of personnel, the simplification, dismantling and acceleration of procedures and regulations are intended to contribute to more efficiency, better accessibility and the processing of backlogged cases. While the reform section made up only a few pages in the Conte-government's draft, they constitute a 40-page chapter in the new government's plan. A centralised monitoring system will be set up to ensure that the investment plan's funds do not evaporate.

The Italian programme is considerable by international standards. However, some of the investments must be understood as catch-up investments – Italy is trying to make up for a backlog in a whole range of areas. In the European Commission's Digital Economy and Society Index, for example, Italy is in fourth last place, ahead only of Romania, Greece and Bulgaria.<sup>32</sup> The share of children in the 0-3 age group who are cared for outside families is 26.3%, 9 percentage points below the EU average (Germany: 31.3%; France 50.8%).<sup>33</sup> Italian expenditure on research and development amounted to 1.4% of economic output in 2018, compared to 2.2% in France and 3.1% in Germany.<sup>34</sup>

Against this backdrop, the Italian investment plan focuses more strongly than the German and French plans on strengthening and modernising across the board. This applies to basic medical care as well as to the equipment of public administration, the scope of government research funding programmes, the condition of water pipes and flood protection in the country and municipal investments in local infrastructure. Nevertheless, the investments for measures to combat climate change and for the digital sector are, in absolute terms, of similar magnitude to those in Germany and France. This applies to energy-efficient building renovation as well as sustainable mobility, the promotion of green hydrogen or the extensive investments in high-quality internet and mobile phone connections.

**Table 5 The measures of the Piano di rilancio (in billions of euros)**

<p><b>Digitalisation, innovation, competitiveness, culture (40.7 bn   49.2 bn)*</b></p> <ul style="list-style-type: none"> <li>• Digitalisation and innovation in public administration (7.4 bn)</li> <li>• Strengthening the judicial system in terms of personnel (2.3 bn)</li> <li>• Digitalisation, innovation and competitiveness in the economy (24.3 bn), including <ul style="list-style-type: none"> <li>o Tax relief for companies in return for selected investments (14 bn)</li> <li>o Roll-out of ultra-broadband and 5G network (6.3 bn)</li> <li>o International competitiveness of SMEs (2 bn)</li> </ul> </li> <li>• Tourism and cultural heritage (6.7 bn)</li> </ul>
<p><b>Ecological change (59.3 bn   68.6 bn)</b></p> <ul style="list-style-type: none"> <li>• Agriculture and recycling (5.3 bn)</li> <li>• Renewable energies and mobility (23.8 bn), including <ul style="list-style-type: none"> <li>o Renewable energies (5.9 bn)</li> <li>o Network infrastructure (4.1 bn)</li> <li>o Hydrogen (3.2 bn)</li> <li>o Local mobility (8.6 bn)</li> <li>o Research and development (2 bn)</li> </ul> </li> <li>• Building energy efficiency (15.2 bn), renovation of around 50,000 buildings annually</li> <li>• Environment, landscape, climate (15.1 bn), including <ul style="list-style-type: none"> <li>o Dealing with flood risks (2.5 bn)</li> <li>o Strengthening, resilience and sustainability of municipalities (6 bn)</li> <li>o Investment in water supply and water quality (4.4 bn)</li> </ul> </li> </ul>
<p><b>Transport (25.1 bn   31.4 bn)</b></p> <ul style="list-style-type: none"> <li>• Railways, e.g. new high-speed lines, regional railways (24.8 bn) and ports (0.4 bn)</li> </ul>
<p><b>Education and research (30.9 bn   31.9 bn)</b></p> <ul style="list-style-type: none"> <li>• Investments in education and care facilities (19.4 bn), including <ul style="list-style-type: none"> <li>o Childcare (4.6 bn), creation of 152,000 crèche places within 3 years and 76,000 places for children between 3 and 6 years</li> <li>o Digital equipment of schools and renovation of school buildings (7.6 bn)</li> <li>o Strengthening the research landscape, 3,000 new positions for doctoral students (0.4 bn)</li> </ul> </li> <li>• Application-oriented research (11.4 bn)</li> </ul>
<p><b>Inclusion and cohesion (19.8 bn   22.4 bn)</b></p> <ul style="list-style-type: none"> <li>• Active labour market policy (6.7 bn)</li> <li>• Social inclusion, urban planning (11.2 bn)</li> <li>• Special measures for social cohesion (2.0 bn)</li> </ul>
<p><b>Health (15.6 bn   18.5 bn)</b></p> <ul style="list-style-type: none"> <li>• Primary health care on site, telemedicine (7.0 bn)</li> <li>• Investment in technical equipment, research and training for the national health service (8.6 bn)</li> </ul>
<p><b>Total: 222.1 bn</b></p>

\*First figure: total from the RRF, second figure: total investments (including funding from national budgets).

Source: Own compilation based on the PNRR, <https://www.governo.it/sites/governo.it/files/PNRR.pdf>

## V. Open questions and challenges

<sup>35</sup> Jean Pisany-Ferry 2020: Europe's recovery gamble. <https://www.bruegel.org/2020/09/europes-recovery-gamble/>

<sup>36</sup> See for example Commission pour l'avenir des finances publiques 2021: Nos finances publiques post-Covid-19 : pour de nouvelles règles du jeu, [https://www.gouvernement.fr/sites/default/files/document/document/2021/03/rapport\\_-\\_commission\\_sur\\_lavenir\\_des\\_finances\\_publiques.pdf](https://www.gouvernement.fr/sites/default/files/document/document/2021/03/rapport_-_commission_sur_lavenir_des_finances_publiques.pdf)

<sup>37</sup> Philippe Martin, Jean Pisani-Ferry and Xavier Ragot 2021: Reforming the European Fiscal Framework. Les notes du Conseil d'analyse économique, No. 63, <https://www.cae-eco.fr/staticfiles/pdf/cae-note063-enV2.pdf>

NextGenerationEU is a solidary attempt to increase scope for individual EU member states to strengthen their economies in a socially acceptable way through additional investments. Italy, which has little fiscal room for manoeuvre on its own because of its indebtedness, is taking advantage of the opportunities available to it, making full use of the funds provided. The aid that the country, like some others, receives in relation to its economic output is higher than the payments under the Marshall Plan after the Second World War.<sup>35</sup> The pressure on the all-party government of national unity around Mario Draghi to succeed is enormous. There will be windfall profits everywhere in the form of European financing of national expenditures that are planned anyway, but this does not have to be negative per se if funds are not wasted just because they are available or if this results in relief for national budgets.

The fact that there is no conditionality of the kind we know from the Greek debt crisis was important to the previous Italian government in its negotiations on NGEU. Presumably, steering by the guidelines from the European Semester in consultation with the Commission and the Council will only work to the extent that there is an internal willingness to reform – a softer approach that relies more on self-responsibility than on hard external pressure. In some places, the plans presented are vague on the details of the investments and reforms as well as the time horizon for their realisation and had to be further fleshed out in exchanges with Brussels officials. It also remains to be seen how well Italy, in particular, will be able to institutionally manage the investment package; in the past, the country often failed to draw down the European funds it was entitled to from the structural funds. In this context, it should also be remembered that the Conte-2 government broke up over a dispute on the use of European funds.

From the French point of view, the main political issue is the fact that an agreement on a European investment package based on solidarity has been found. A more solidary Europe was one of President Macron's basic concerns, which he already called for during his election campaign and has repeated several times ever since. However, it must be noted that the reconstruction and resilience facility is not a coordinated European initiative in the sense of European common goods in the ways the funds are used. Apart from the agreement on rough targets for the use of the funds (at least 37% for climate, 20% for digitalisation) and a few joint lighthouse projects, especially the Franco-German initiatives in the fields of hydrogen, microelectronics and cloud technology, the funds are mainly planned according to national priorities.

Influenced by the US government's comprehensive economic stimulus and growth package, France is thinking about another stimulus and growth programme of its own. While the debate initially flared up around the question of who should pay for the crisis, with painful memories of past tax increases, it has calmed down in the meantime. This has been helped by the realisation that the financial markets tolerate debt ratios beyond 100%, that debt cuts or other measures are therefore not necessary at the moment, and that new debt is moreover necessary to get out of the crisis quickly given the severity of the recession – and this despite the risks posed by high debt levels in the medium term.<sup>36</sup> From the French perspective, this also includes a reform of the Maastricht criteria for dealing with public debt, as recently demanded by three influential French economists.<sup>37</sup>



<sup>38</sup> See, for example, the report of the Federal Court of Auditors (Bundesrechnungshof) on the possible effects of joint borrowing by the member states of the European Union on the federal budget of March this year, Lukas Guttenberg et al. 2021: Everything will be different: How the pandemic is changing EU economic governance. Jaques Delors Centre, Policy Brief, [https://her-tieschool-f4e6.kxcdn.com/fileadmin/2\\_Research/1\\_About\\_our\\_research/2\\_Research\\_centres/6\\_Jaques\\_Delors\\_Centre/Publications/20200211\\_Economic\\_governance\\_Guttenberg\\_et\\_al.pdf](https://her-tieschool-f4e6.kxcdn.com/fileadmin/2_Research/1_About_our_research/2_Research_centres/6_Jaques_Delors_Centre/Publications/20200211_Economic_governance_Guttenberg_et_al.pdf), Friedrich Heinemann 2021: NextGenerationEU: 750 Milliarden Euro suchen einen Sinn, ifo Schnelldienst 74 (2), 8-12, <https://www.ifo.de/publikationen/2021/zeitschrift-einzelheft/ifo-schnelldienst-022021>.

Regarding Germany, it is noteworthy that the approval of NGEU, including the envisaged subsidies, was met by relatively little criticism and was endorsed by a majority of over two-thirds in the Bundestag (Own Resources Decision). The special circumstances of the pandemic contributed to this, supported by the conviction that the situation required European solidarity. At the same time, the decision seemed to be well prepared internally, leading to relatively little discussion about the government's course even within the conservative CDU-CSU. Nevertheless, conflicts and concerns are smouldering in the background around the question of the budgetary sovereignty of the Bundestag as well as the scope of the European decision with regard to future liability issues and the institutional architecture of the Eurozone.<sup>38</sup> Even though the Federal Constitutional Court initially paved the way for a timely implementation of NGEU, the legal review of the Own Resources Decision has not been completed.

On the way out of the crisis, there are numerous uncertainties. These range from the scale of persisting economic damages to the elections that will take place in the coming period – in Germany in September, in France in May 2022, and in Italy in 2023 at the latest. Above all this remains the question of how well state investments succeed in generating sustainable growth within the country and strengthening the competitiveness of the economy, because only then will the investments really pay off.

## Aktuelle Publikationen des dfi

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**Eileen Keller:** Financial crises and the limits of bank reform: France and Germany's ways into and out of the Great Recession. - Oxford: Oxford University Press, 2021, - 272 Seiten.

**Wüstenrot Stiftung, Deutsch-Französisches Institut (Hrsg.):** Urbane Großräume in Deutschland und Frankreich. Fragen und Formen regionaler Kooperation / Grandes Aires Urbaines en France et en Allemagne. Enjeux et Formes de Coopération territoriale, Ludwigsburg 2021, - 216 Seiten.

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