



ENA  
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Policies

# Corporate Bailouts

*Business-as-usual or opportunity for fostering socio-ecological transition?*

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# Introduction

- ▶ **The economic impact** of the pandemic has revived the discussion on bail-outs of distressed firms
- ▶ **A few only bailouts** implying equity injection until today but...
- ▶ ...concerns about a solvency crisis leading to mass bankruptcies
- ▶ **European Commission:** Capital needs evaluated from EUR720 billion to EUR1.2 trillion for 2020. Similar estimations for the UK and Italy
- ▶ **Equity injection/recapitalisation** as a more appropriate tool for supporting the economy in the upcoming stages of the crisis compared to debt funding
- ▶ **Some policy initiatives** for recapitalisation (Germany, U.S, Spain/SEPI, European Commission/Solvency Support Instrument)

# Open issues, dilemmas & trade-offs

1. **Public finances:** How far can bailouts go from a fiscal point of view?
2. **Magnitude of bailouts:** Is there room for usual “creative destruction” dynamics? Is the argument about the risk of a new generation of inefficient “zombie” enterprises relevant? On the opposite, should the preservation of social value of firms be prioritised?
3. **Criteria:** What kind of criteria for the eligibility of firms & sectors?
4. **Conditionalities:** How demanding and binding? Should the intensity of economic recovery be prioritised against conditionalities?
5. **Role of the state as a shareholder:** Provisional or long-term? Rights? Legitimacy and contribution of state ownership policy?

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# Mapping the public discussion

# Magnitude of bailouts

- ▶ Non-validation of the European Solvency Support Instrument
- ▶ From the necessity of extensive bailouts to the acceptance of restructurings, policies for “anticipation and management of change”, creative destruction
- ▶ Removal of distortions from:
  - ▶ Less efficient firms (i.e. traditional SMEs)
  - ▶ “Zombie firms”
  - ▶ Sectors considered on a irreversible declining path or which proved non-resilient in the pandemic (e.g. tourism)
- ▶ Concerning approach given the rising number of serious restructurings in Europe resulting in thousands of lost jobs for each individual case (see ERM data base)

# Selection of firms/sectors

- ▶ Solvent before the pandemic
- ▶ Consensus on “strategic” firms
- ▶ Proposals for SMEs but... small probabilities in terms of policy implementation
- ▶ Sectorial criteria: Can “old” sectors proceed to green restructuring or should they be abandoned in favour of sectors considered more sustainable and resilient following the pandemic?
- ▶ Contradictions between criteria (i.e. social vs economic, social vs environmental, economic vs local)
- ▶ Non-eligibility of firms associated with tax heavens

# Conditionality

- ▶ Social conditionalities (non-layoff clauses)
- ▶ Changes of business models (greening of industry)
- ▶ Relocation of industrial units (de-globalisation - control of strategic goods)

# Conditionalities

- ▶ **Unambitious, unclear or weak conditionalities** reflect uncertainties and limitations:
  - **Conditionalities** should wait as their are jeopardizing the intensity of economic recovery
  - **Absolute prioritisation** of economic growth
  - **Could lower** international competitiveness and hinder industrial restructuring
  - **Conventional** restructurings as a conditionality (reduction of employment, etc.)

# The role of the State as a shareholder

- ▶ Leading to deviations from profit-maximising management
- ▶ Risk of “politicisation” of firms
- ▶ Bailouts and equity injection as a “necessary evil”:
  - short-term intervention
  - no voting rights according to the experience of banks bailouts

# The role of the State as a shareholder

- ▶ The state as a long term investor to support major societal transformations (climate transition, 4<sup>th</sup> industrial revolution)
- ▶ State Ownership Strategy for recovering intervention capacity in oligopolistic markets of key-importance (energy, digital economy, transport) after 30 years of privatisations/deregulation

# Competing approaches

# 1. Bailout as a short-term minimum intervention

- ▶ **No criteria** for the eligibility of firms except being solvent before the pandemic crisis
- ▶ **No conditionalities** or weak/non-binding ones
- ▶ **State as a shareholder:** withdrawal as soon as possible, no voting rights, factor of market distortion
- ▶ **Clear focus** of “too-big-to fail firms”
- ▶ **Maintenance of market discipline** and creative destruction for SMEs
- ▶ **Interest of tax payers** preserved through a fast recover of the fiscal cost of bailouts (non-convertible preferred stocks)
- ▶ **Modification of business models:** At a later stage and through a market-based approach

## 2. Bailouts as a window of opportunity for the emergence of new business models

- ▶ **Extensive recapitalisations** for preserving *social value* of firms
- ▶ **Window of opportunity** for accelerating and monitoring structural change in business models and economic sectors in line with sustainable development values
- ▶ **The state as a shareholder** exercises its full rights and acts as an investor of first resort (Development banks, Wealth Funds, State participation agencies, bodies for SMEs, etc. )
- ▶ **Special policies** for the recapitalisation and support of SMEs
- ▶ **Interest of tax payers** through dividends from state participations in the stock of companies
- ▶ **Long-term interests** of tax payers are promoted through the increase of the resilience and sustainability of the economy

# Concluding remarks

- ▶ **Dilemmas arising** from individual bailout cases correspond to the one arising from critical challenges: *Climate change mitigation - Adaptation to the 4IR - Just transition (climate/digital) - Tackling social inequalities - Role of SMEs vs oligopolistic situations - Globalisation/deglobalisation debate, etc.*
- ▶ Policy-makers seem unprepared and confronted to serious barriers and difficulties due to the absence of far-reaching strategies enjoying a broad consensus on necessary societal changes
- ▶ **Prevail of a “business-as-usual approach”** of bailouts reproducing the experience of banks bailouts in the 2008-2009 crisis
- ▶ **Alternative approaches** both in the U.S and Europe thought confronted to various limitations and obstacles (ideological, objective)

# Concluding remarks

- ▶ **“By tradition” bailouts** are associated with the “privatisation of profits - socialisation of losses” scheme
  - Not an issue of interest for “alternative policies”
- ▶ **However**, it remains a complex issue of urgency emphasised by actors of the economy (enterprises, SMEs, trade unions, local authorities, etc.) and to which any government is confronted in times of severe economic crisis
- ▶ **Shaping a progressive agenda** on e.g. bailouts and other topics of “minor interest” increases the **credibility** of alternative policies and progressive political forces, their capacity to **influence policy-making** and chances to successfully exercise **governmental functions**

# Thank you

This presentation is based on the working paper: “Corporate Bailouts: Business-as-usual or opportunity for fostering socio-ecological transition?” available at: <https://www.enainstitute.org/en/publication/corporate-bailouts-business-as-usual-or-opportunity-for-fostering-socio-ecological-transition/>