



ENA
Institute
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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?

The background features abstract, overlapping geometric shapes in various shades of green, ranging from light lime to dark forest green. These shapes are primarily located on the left and right sides of the frame, creating a modern, layered effect. The central area is a plain white space where the text is located.

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, 4th 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/>