



French Recovery Plan: €100 Billion Investment in the Economy of the Future

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The French government is implementing a plan of support for its economy, struggling with the effects of the pandemic. The main objective is to restore growth and return to the path of reducing the deficit. The complex investment package also should hasten the ecological transformation and reindustrialisation. The accomplishment of these tasks may be complicated if the pandemic churns on and the society suffers in the aftermath.

Thanks to the [quick implementation of the aid plan](#) during the spring lockdown, the French economy has been managing to avoid till now—despite a double-digit recession in the second trimester—a wave of bankruptcies and mass unemployment. After a deal made by the European Council on the [European Recovery Plan](#), the French government decided to present its own version. Dubbed “France Relance”, the programme is subsidized by the EU to 40% and is a concretisation of promises made with the [appointing of Jean Castex as the new prime minister](#). It focuses on public co-funding of investments and reducing taxes for industry. The government foresees that 20% of the €100 billion planned will be in the form of credit warrants, and thus won't have a direct impact on the public deficit. All payments from the recovery plan should be completed by the end of 2022.

Restoring Growth. In announcing the plan on 3 September, Castex said that the government wouldn't repeat the errors from the 2008 crisis by increasing taxes. “France Relance” financing will be possible by quickly restored economic growth. Spending for this purpose is one of the pillars of the plan and amounts to €35 billion. The main part (€20 billion) will compensate for the reduction of non-corporate taxes (e.g., CIT) imposed on companies (so-called *impôts de production*). Budget income from these taxes almost double the CIT contribution. Among the three taxes of this kind, the authorities decided to reduce two, both of which fuel local governments. The most bothersome of these taxes to payers—the solidarity contribution to the pension system

(0.19% from turnover exceeding €19 million)—will remain intact. A part of added-value corporate tax translated to local government (1.5%) will be abolished; meanwhile, a corporate property tax calculated on the value of immobility and the company's turnover, will be halved.

Problems with fluidity caused by payment backlogs have been among the most persistent difficulties of French small and medium-sized enterprises (SMEs), even long before the pandemic. The government estimates that some crucial sectors (defence, aviation, and space industries) are too fragmented on the subcontractor level, which makes consolidation necessary. It should prepare the economy for [a Europe-wide consolidation policy](#), peddled also by France. Therefore, among the tools of support for SMEs, including convertible debentures (facilitating the buy-out of companies) and participation loans, is an incentive to consolidation in the first stage. Participative loans, granted by the state investment bank Bpifrance, should not only support the SMEs' investments (the state wants to invest €3 billion, hoping for €15 billion in added value) but also to make it possible for some strategically vital startups to avoid takeovers by foreign companies. Other goals of this part of the plan are to support innovation, reindustrialisation, and digitalisation of companies (€11 billion overall).

“France Relance” is criticised by the left for not paying enough attention to social issues. The government argues that €35 billion in spending is programmed within the pillar “Social and Territorial Cohesion”. Half of this sum will be granted to companies willing to employ young people. Every

company that by the end of January 2021 employs a person under 25 years old for at least three years will receive a one-time bonus of €4,000 from the state. The government also plans to increase funding of internships and professional training. More than €6.5 billion has been locked in for funding salaries of employees in sectors that still can't be restarted because of the pandemic. Salary increases for healthcare personnel (€6 billion), compensation for local governments (€5 billion), and research funding (€3 billion) have also been included. The annual school allowance will be increased from €350 to €450. The authorities hope for a significant demand stimulus this way.

Climate: Priority for Industry. The French government believes that industrial trends for future decades will be created before 2030. This conviction is linked to the energy transformation and other actions aiming to achieve climate neutrality by 2050. Being prepared for these challenges and simultaneously maintaining competitiveness requires investment. The third pillar of "France Relance" is €30 billion in spending for this purpose. The money will help to develop more environmentally friendly transport (€11 billion), especially by railroad. The government will go back to developing high-speed lines. It will also support cargo rail service (carriers are able to use rail infrastructure free of charge till the end of 2020; in 2021, they will be charged half rate) and renew some old cargo rail corridors, such as Perpignan-Rungis (in the latter city, France's largest food distribution centre is located). Local rail lines and night rail service also will be supported. Furthermore, a help package will be addressed to the purchasers of electric cars (through a system of subsidies) and local governments developing public transport and bike infrastructure. Another important element is the thermic renovation of buildings, which will cost €7 billion. The rest of the spending will be reserved for ecological innovations by enterprises (€9 billion), hydrogen energy research (€ 2 billion), green agriculture (€1.2 billion), and biodiversity protection and water retention (€1.8 billion).

Dangers and Challenges. The basic difficulty the authors of the plan must cope with is reconciling its long-term goals and ambitions with the uncertainty that will dominate both political and economic life for the next few years (vaccine availability, scale of the recession, directions of scientific and technological development). The government has decided therefore to concentrate the investments on the two next

years by favouring goals achievable in the shortest term. It also has implemented a mechanism of grant retreat from delayed projects. The advantage of this solution consists of accumulating the demand stimulus and promoting efficiency. The risk is in funding investments that may fail in the long term.

Before the latest negotiations in the EC, the French authorities promised that businesses would be able to get more funding from the EU. However, President Emmanuel Macron's idea of a big investment budget for the Eurogroup was abandoned in 2018 as a result of the Franco-German compromise established by the [Meseberg Declaration](#). What is more, even in comparison with the EC's proposals concerning the future Multiannual Financial Framework (MFF) from autumn 2019, the funding of such programmes as "Horizon Europe" or "InvestEU" has been substantially reduced. Company representatives say that "France Relance" won't be able to recompensate for such cuts. The plan, although creating conditions for consolidation, fails to deliver new mechanisms of mediation and cooperation between sector tycoons and their subcontractors. It is also being criticised for not creating incentives for employees to accept hardships during the crisis, for example, by participation in future gains.

Conclusions and Prospects. The unsure results of the French recovery plan will be the first serious test for the government of Jean Castex. Public opinion made on this basis will influence Macron's re-election chances in 2022. If the crisis caused by the pandemic leads to a huge rise in unemployment, accusations that the plan did not sufficiently address social problems may find fertile ground.

Because of the massive resistance of Member States to France's vision of the sovereignty and strategic autonomy of Europe, resulting in serious cuts by the EC to important EU programmes in the 2021-2027 MFF, France's further moves in the EU will be more limited and focused on securing the good outcome of the "France Relance" programme. The priority will be to ensure new sources of revenue to the EU (digital and emissions taxes), as well as to create better terms of competition for French companies on the American and Asian markets (consolidation). France will also push further for fiscal and social unification of the EU market, which can result in new tensions with Central European countries.