

SUSTAINABLE

RECOVERY MEASURES

FOR THE CORONASHOCK

Mari Pantsar

Director
Carbon-neutral circular
economy

Oras Tynkkynen

Senior Advisor
Carbon-neutral circular
economy

The already fading Finnish economy has suffered an additional shock in the new coronavirus pandemic. The outlook is now uncertain, and the pandemic is anticipated to continue for several months – with restrictions in place for even six months¹ – and it is assumed that a major proportion of the population will eventually contract the virus.

The contagion itself and the measures imposed to curb its spread are bringing not only human suffering but also unprecedented disruptions in the production and demand of goods and services that will have a lasting impact on the public and private economy. Europe and Finland are heading towards a recession, possibly followed by an economic depression.

According to Bank of Finland estimates, the Finnish economy will decline this year by 1.5–4.0 per cent² and according to Etna Economic Research, 1–5 per cent³; both consider the more pessimistic end of the bracket more likely. The Bank of Finland and Etna Economic Research also predict a v-shaped shock: the rapid slump will be followed by rapid recovery, partly thanks to concerted public-sector efforts.

1 https://thl.fi/documents/533963/1449651/Ennusteita_hidastamistoimien_vaikutuksesta_2020_03_18.pdf/b5f1ec87-565a-59f6-0f5b-6090390c9b-c8?t=1584516033014 (in Finnish)

2 <https://www.suomenpankki.fi/fi/media-ja-julkaisut/tiedotteet/2020/suomen-talous-taantumaan-koronapandemian-takia/> (in Finnish)

3 <https://www.etla.fi/ajankohtaista/etla-suomen-bkt-voi-supistua-tana-vuonna-jopa-5-koronaviruspandemian-takia/> (in Finnish)

Contents

Baseline	1
Key messages	3
Black and green recovery	4
Effective recovery measures	4
Crisis response in Finland and around the world	4
Sustainable recovery measures	5
Summary	7

Sitra working paper 27 March 2020

© Sitra 2020

Sustainable recovery measures for the coronashock

Mari Pantsar and Oras Tynkkynen

ISBN 978-952-347-174-0(PDF) www.sitra.fi

Helsinki: Sitra, 2020

(Working papers)

Sitra working papers provide multidisciplinary information about developments affecting societal change. Working papers are part of Sitra's future-oriented work conducted by means of forecasting, research, projects, experiments and education.

In economic terms, the crisis can be divided into four phases:⁴

1. **The supply chain shock:** the early spreading of the epidemic and the resulting restrictive measures hit the supply chains in China and global trade.
2. **Sectoral disruptions:** the first industries to suffer are the travel industry, transport, culture and certain services.
3. **Acute overall disruption:** blanket restrictions on travel, gatherings and public services cause a profound damage to the economy.
4. **Recovery:** as the epidemic subsides, restrictions are gradually lifted and the economy starts to recover.

While we understandably and rightly initially focus on the acute situation at hand, the chronic ecological sustainability crisis is not disappearing. Global heating, the sixth mass extinction and the depletion of natural resources still threaten to profoundly shake the foundations of our well-being as a human race.

Responding to the climate and environmental crisis requires immediate, robust action and it cannot wait. As Prime Minister Sanna Marin has stated, “As a global community, we must be able to make decisions about the climate or we will find ourselves in a crisis much worse than this.”⁵ This paper focuses exclusively on sustainable measures that are effective in alleviating and recovering from the coronashock.⁶

KEY MESSAGES

- The coronavirus disease pandemic and the measures taken to counteract its impact cause an economic shock, which will push Finland and Europe first into recession and later, possibly, into prolonged depression.
- Responding to the climate and environmental crisis requires immediate, robust action and it cannot wait.
- Depending on the choices made, the economic recovery measures taken will either postpone or speed up the solution of the ecological sustainability crisis.
- In many respects, the Finnish economy is in an unprecedented situation which may call for an unprecedented arsenal of measures.
- Finland and the EU have already launched massive economic relief measures, and many more measures will probably need to be taken in the future.
- We are putting forward a series of measures that could help the economy recover in ways that simultaneously respond positively to the sustainability crisis.
- Sustainable Investment Package I would inject funds into public expenditure such as national and local public and non-motorised transport projects.
- Sustainable Investment Package II would support private investments in, for example, energy upgrades of residential buildings and low-emission technologies for industry.
- Increased tax credit for household expenses would be available for household energy upgrades and switching to renewable energy sources.
- A purchase subsidy for sustainable solutions would offer consumers temporarily increased financial support for sustainable investments.
- A transition subsidy for the international transport industry would contain incentives to invest in energy-efficient fleets.
- Competitive tendering within the sustainable technology industry would encourage investment in domestic renewable energy sources, such as offshore wind power.
- A sustainable tax reform would immediately introduce reduced taxation on labour, which would be compensated for by increasing environmental and consumption taxes once the current crisis is over.

4 <https://voxeu.org/article/covid-19-europe-needs-catastrophe-relief-plan>

5 <https://www.hs.fi/politiikka/art-2000006448420.html>

6 For necessary long-term reforms, see e.g. <https://www.sitra.fi/artikkelit/8-tapaa-vahvistaa-suomen-ilmastotyota/>, <https://www.sitra.fi/julkaisut/kestavan-kehityksen-verouudistus-kohti-paastotonta-suomea/> and <https://www.sitra.fi/julkaisut/the-role-of-the-eu-ets-in-increasing-eu-climate-ambition/>

Black and green recovery

From the sustainability perspective, recovery measures occupy two extremes. Black recovery relies on the traditional carbon- and resource-intensive production and infrastructure, while in green recovery the situation is converted into an opportunity to support and speed up the transition to a carbon-neutral circular economy.

Our response to the corona recession could, in other words, either postpone or support the resolution of the ecological sustainability crisis. Because of path dependencies, the choices we make now may irrevocably determine the direction of development in the long term.

For example, China has, at previous times, based its economic growth on black recovery, and the country may well choose the same path in the future.⁷ In contrast, the US recovery package following the 2008 financial crisis allocated USD 90 billion to sustainable energy options.⁸

Fatih Birol, Executive Director of the International Energy Agency IEA Secretariat, has appealed to governments to prioritise stimulus packages that direct funds towards clean energy transition. The adopted measures could support energy efficiency, renewable energy and carbon capture. He has also urged governments to take advantage of the drop in oil prices by redirecting subsidies for fossil fuel consumption into other alternatives.⁹

Effective recovery measures

For policies to be effective they have to fulfil certain criteria:

- **Speed:** the impact of the pandemic on the economy is immediate and, therefore, the measures should have an impact as soon as possible.
- **Temporariness:** a temporary shock need not, as a rule, be responded to by measures that result in a permanent increase in spending or reduction in tax revenue.

- **Effectiveness:** the return on each euro of public spending on upholding the economy and employment should be as high as possible.
- **Coordination:** the Finnish economy is deeply dependent on the global economy and, in particular, the EU economy, so all measures should be aligned with those taken elsewhere.¹⁰

The timing of measures taken is also important.¹¹ The purpose of crisis response is to mitigate damages while the crisis is still ongoing and harming the economy. Stimulus packages aim at speeding up economic recovery once normal operations of companies and households resume.

Some of the relief measures are such that they cannot necessarily be naturally paired with sustainability targets, nor is it feasible to do so. For example, it is probably wisest to implement universal loan repayment and tax holidays for reasons of practicality and fairness.

With zero or negative interest rates, monetary policy measures are limited. This heightens the significance of fiscal policy and other measures.¹²

The crisis caused by the coronavirus disease is in many respects unprecedented in the history of Finland. Exceptional times call for exceptional measures.¹³ Some principles that we take as a given in a normal situation (e.g. the restricted role of the public sector in open economies) may have to be compromised temporarily.

Crisis response in Finland and around the world

The EU and many of its Member States have announced immediate crisis relief actions to support their economies, and more measures are expected as the situation unfolds. For example:

- **Sweden** has proposed a crisis package of up to EUR 30 billion, including wage subsidies, sickness

7 <https://www.bloomberg.com/news/articles/2020-03-09/post-virus-stimulus-packages-could-devastate-global-climate-goals>

8 <https://obamawhitehouse.archives.gov/the-press-office/2016/02/25/fact-sheet-recovery-act-made-largest-single-investment-clean-energy>

9 <https://www.weforum.org/agenda/2020/03/clean-energy-coronavirus-crisis>

10 For more information on EU policies, see e.g. <https://www.cer.eu/insights/bold-policies-needed-counter-coronavirus-recession>, <https://www.delorscentre.eu/en/publications/detail/publication/corona-a-european-safety-net-for-the-fiscal-response/>, <https://www.bruegel.org/2020/03/economic-response-coronavirus/>, <https://voxeu.org/article/covid-19-europe-needs-catastrophe-relief-plan> and <https://www.etuc.org/en/document/appeal-make-money-value-not-health-whatevertakes>

11 <https://voxeu.org/article/covid-19-europe-needs-catastrophe-relief-plan>

12 <https://www.vesavihrial.fi/2020/03/korona-ja-talouspolitiikka/>

13 For debate on helicopter money, see e.g. (<https://voxeu.org/article/helicopter-money-time-now>) and on green quantitative easing see e.g. (<https://www.positivemoney.eu/2019/11/response-weidmann-green-qe/>)

allowances and added support to local authorities, in addition to which the Riksbank will be lending up to EUR 50 billion to businesses.¹⁴

- **The European Central Bank** will support banks by relaxing a number of conditions¹⁵ and launch a EUR 750 billion asset purchase programme.¹⁶
- **The European Commission** has added flexibility to the existing State aid rules to enable crisis initiatives.¹⁷ It is proposing a relaxation of the Stability and Growth Pact rules¹⁸ and a EUR 37 billion package to be paid out from the EU structural funds to allow national governments to provide necessary support for the healthcare system, SMEs and short-term employment measures.¹⁹

Examples of measures taken in Finland include:

- Increasing **Finnvera's** authorisation to grant funding to EUR 10 billion.²⁰
- **The State Pension Fund of Finland** is instructed to increase its investments in commercial paper of Finnish companies by EUR 0.5–1.0 billion.
- **Company tax payments** are deferred, the interest rate is lowered and the payment schedule for pension contributions is extended.²¹
- **The Bank of Finland** will resume purchasing commercial paper with up to EUR 1 billion.²²
- **Finnair** may be granted a state guarantee for a EUR 600 million loan.²³

The government has also announced that it will carry out the key points of the²⁴ package proposed by labour market organisations, including:²⁵

- Temporary reduction of **employer pension contributions**.
- Deferral of **pension insurance contributions**.
- Added flexibility in **employment legislation** for the private sector (e.g. a shorter statutory co-operation negotiation period and extending furlough schemes to temporary contracts).
- **Improved security** for employees who are furloughed or made redundant (e.g. waiving the unemployment benefit waiting period and relaxing the work requirement).

However, the Federation of Finnish Enterprises has criticised the package for being insufficient.²⁶ The government has announced that its next step is to prepare structural measures bolstering the public sector and municipalities.²⁷ Safeguarding the welfare state will now take substantial buffering so that the depth of the 1990s recession and its repercussions can be avoided.

Ninety per cent of the respondents to the survey carried out by the Confederation of Finnish Industries considered public relief measures aimed at businesses facing difficulties fairly or highly necessary. The most important measures were found to be leniency and additional financing offered by lenders, the tax administration and insurers; help with paying wages; and employer contribution deferrals.²⁸

Sustainable recovery measures

In the following, we are putting forward some potential sustainable measures that could help speed up economic recovery. These measures have the potential to support the Finnish economy in ways that are in line with – or at

14 <https://www.regeringen.se/pressmeddelanden/2020/03/krispaket-for-svenska-foretag-och-jobb/>

15 <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200312-45417d8643.en.html>

16 https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1-3949d6f266.en.html

17 https://ec.europa.eu/commission/presscorner/detail/en/ip_20_496

18 https://ec.europa.eu/commission/presscorner/detail/en/ip_20_499

19 https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/13032020_-_coronavirus_response_investment_initiative_final_v2_0.pdf

20 https://tem.fi/artikkeli/-/asset_publisher/hallitukselta-mittava-paketti-yritysten-tueksi-finnveran-kautta-10-miljardin-euron-lisarahoitus-yrityksille

21 https://vm.fi/artikkeli/-/asset_publisher/poikkeusolojen-ratkaisuja

22 <https://www.suomenpankki.fi/fi/media-ja-julkaisut/puheet-ja-haastattelut/2020/paajohtaja-olli-rehn-koronakriisin-taloudelliset-vaikutukset-ja-keskuspankkien-toimet/>

23 https://valtioneuvosto.fi/artikkeli/-/asset_publisher/10616/hallitus-tukee-finnairia-suunnitteilla-600-miljoonan-euron-valtiontaukausta

24 https://valtioneuvosto.fi/artikkeli/-/asset_publisher/10616/hallitus-esittaa-laajoja-taloustoimia-koronavirusepidemian-haittojen-minimoimiseksi

25 <https://ek.fi/ajankohtaista/uutiset/2020/03/18/tyomarkkinajarjestojen-lista-yritysten-auttamiseksi-koronakriisissa-askel-oikeaan-suuntaa-mutta-lisaa-tekoja-tarvitaan/>

26 <https://www.yrittajat.fi/tiedotteet/622393-yrittajat-paljon-hyvaa-mutta-jarein-tukiarsenaali-jaa-yha-varikolle>

27 <https://vnk.fi/documents/10616/21411573/Korona-info-20-03-2020.pdf/19f65c5a-bcd4-9d2e-bf9d-ff6ed0f06c5e?version=1.0&download=true>

28 https://ek.fi/wp-content/uploads/EKn_koronakysely_17.3.2020.pdf

least are not conflicting with – solutions aimed at resolving the sustainability crisis. Some of the taxation measures could also support long-term structural changes.²⁹

Most of the proposed measures are feasible once the immediate crisis of the next few months subsides and restrictions are gradually lifted. However, for the right measures to be implemented at the right time, the debate, preparation and decisions must be made well in advance.

This list has not been intended to be an exhaustive proposal but rather as an opening for wider discussion. Nor are the measures listed in any order of preference or priority.

Naturally, some measures require a substantial amount of planning and evaluation. Putting together the best possible rescue package is a balancing act between many different and sometimes conflicting goals. This is a task that befalls elected policy makers.

- **Sustainable Investment Package I:** public investment. This package would inject funds into sustainable public expenditure such as national and local public and non-motorised transport projects as well as the strengthening of the national electricity grid. As the economy takes a dive, it is reasonable to bring forward planned infrastructure projects.
- **Sustainable Investment Package II:** private investments. Sustainable investments made by businesses and households are in danger of declining as a result of the corona crisis. This package would support private investments in, for example, energy upgrades of residential buildings and low-emission technologies for industry as well as the charging infrastructure for electric vehicles. Funding could be channelled through the national climate fund where appropriate.
- **Increased tax credit for household expenses.** Increasing the tax credit for household expenses would be justified when used for energy upgrades and switching to new heating methods and renewable energy sources. The tax credit could be raised from the current 40 per cent and the current cap of EUR 2,250.
- **Purchase subsidy for sustainable solutions.** Public funds have been used, at various stages, to support

sustainable purchases made by private consumers, such as exchanging vehicles for low-emission ones (scrappage scheme), the purchasing of electric cars, converting to gaseous fuels or the replacement of oil heating with other heating methods. Previous schemes could now be reinstated and current schemes could be ramped up temporarily. Support schemes would be best directed temporarily towards all projects that fulfil the criteria, so that they could be launched swiftly without uncertainty of the continued availability of funds.

- **The transition subsidy for the international transport industry.** Following travel restrictions and bans, international air traffic and shipping are the sectors suffering the heaviest losses because of the crisis. If the decision is taken to support these sectors, investments should be primarily made on sustainability, such as more energy-efficient fleets. Alternatively, it could be agreed that any support to these sectors is conditional on lowering emissions or increasing the proportion of sustainable fuels once the crisis is over.³⁰
- **Competition for sustainable technologies.** Competitive tendering has been applied successfully and cost-effectively to promote Finnish-based renewable energy sources. With the risk of investments drying up for the foreseeable future, the government could step in and place more of the energy supply under competition, provided the projects can be rolled out at pace. A portion of the competitive projects could involve new technology projects such as offshore wind power.
- **Sustainable tax reform.** The taxation of labour could be lowered with immediate effect in a manner that would be fair from the income distribution perspective and to maintain sufficient purchasing power, which helps retain jobs in the long term.³¹ Once the economy has recovered sufficiently, tax reductions could be covered by increasing environmental, energy and consumption taxation, while cutting environmentally harmful subsidies. Employment could also be supported by reducing employer contributions and through wage support.

29 See e.g. <https://www.sitra.fi/julkaisut/kestavan-kehityksen-verouudistus-kohti-paastotonta-suomea/>

30 <https://www.transportenvironment.org/news/bailout-airlines-only-if-they-start-paying-tax-and-using-cleaner-fuels>, https://www.huffpost.com/entry/airline-bailout-climate-rules_n_5e73df84c5b63c3b648d435f

31 <https://www.bruegel.org/2020/03/economic-response-coronavirus/>

SUMMARY

Sustainable recovery measures for the coronashock

The new coronavirus and the actions taken by the government to limit the effects of the pandemic are dramatically shaking the Finnish economy, employment and well-being. This working paper proposes a series of measures that support recovery from the economic shock while at the same time promoting solutions for the ecological sustainability crisis.

Potential sustainable recovery measures

- Sustainable Investment Package I would inject funds into public expenditure such as national and local public and non-motorised transport projects.
- Sustainable Investment Package II would support private investments in, for example, energy upgrades of residential buildings and low-emission technologies for industry.
- Increased tax credit for household expenses would be available for household energy upgrades and switching to renewable energy sources.
- A purchase subsidy for sustainable solutions would offer consumers temporarily increased financial support for sustainable investments.
- The transition subsidy for the international transport industry would contain incentives to invest in energy-efficient fleets.
- Competitive tendering within sustainable technology would encourage investment in domestic renewable energy sources, such as offshore wind power.
- A sustainable tax reform would immediately introduce reduced taxation on labour, which would be compensated for by increasing environmental and consumption taxes once the current crisis is over.