SYNDICAT EUROPEÆN TRADE UNION
CONFEDERATION

# ETUC Guidelines to provide inputs in the Public debate for the EU Economic Governance Review

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The European Commission has relaunched the consultation on "economic governance": the rules that govern economic policymaking across EU countries. Our aim is to move away from austerity and create conditions that bring about the permanent mobilisation of resources for investments and the financing of the European social policies.

By following this link, the survey of 11 questions can be completed. It is not necessary to answer all the questions. Replies to each question are limited to 5000 characters. It is not recommended to copy and paste the text below. Multiple replies with identical text will be discarded.

Please find below some inputs and suggestions, question by question, for proposals and ambitions for a reform of the EU Economic Governance. All the proposals below are based on the updated ETUC response to the Public consultation.

## 1. How can the framework be improved to ensure sustainable public finances in all Member States and to help eliminate existing macroeconomic imbalances and avoid new ones arising?

Going beyond the Fiscal Compact and revisiting the Stability Growth Pact (SGP) to promote greater flexibility and to enable necessary social and environmental investments is now a matter of urgency. It is crucial to set EU economic rules that go beyond GDP when assessing Member States' performance, and to consider the success of the EU economy in relation to citizens' wellbeing, inclusive labour markets, and labour and environmental standards. At stake is: i) the capacity of the EU and Member States to invest in healthcare, education, transport, a cleaner environment and other public services and infrastructures; and ii) the capacity of our economies to produce quality jobs and make work the centre of our development model.

The macroeconomic imbalances procedure (MIP) needs to be revised, to include economic, social and environmental indicators that take into account the greater need for investments and public spending required to support the environmental, digital and societal transitions.

The investment gap of Member States has to be linked to an increased capacity of the EU to spend on investments. In this respect, the Next Generation EU scheme responds to some important social and investment needs, in which the Recovery and Resilience Facility (RRF) has great relevance for the present and the future of the EU.

## 2. How can the framework ensure responsible fiscal policies that safeguard long-term sustainability, while allowing for short-term macroeconomic stabilisation?

Public investment in the EU was the first victim of spending cuts, impeding future economic growth in a much more brutal manner than in other economies. Public health expenditures were seriously affected in several EU Member States.

For the sake of economic competitiveness, some Member States had to push through reforms that were detrimental to labour and wages, and destroyed collective structures. Now additional effort is required to have these restored, such as: decreases in employment protection legislation, decentralisation of collective bargaining, fewer collective agreements, and a reduction in firing and hiring costs. As a consequence, wages are stagnating. That's not just terrible for the working people, is also very bad for business.

These austerity measures and structural reforms, together, were supposed to decrease the debt to GDP ratios (when in fact they increased) and have a positive effect on the economy. Instead they strongly contributed to high unemployment, increased inequality and a sharp and protracted contraction of productivity and GDP.

The sustainability of public finance could be safeguarded by implementing a "golden rule" for public investments, to support and maintain sustainable levels of investment and growth, and to sustainably lower the debt to GDP ratio in the long run.

Furthermore, we need to abandon the contested concepts of structural deficit/balance and instead implement a public expenditure rule. In a revised fiscal policy, this would be calculated net of interest payments, of unemployment spending and spending related to minimum incomes schemes, as well as of the estimated impact of any new discretionary revenue measures (especially since particularly urgent measures are required to address the substantial staff shortages in health and social care and the related problem of low wages in these sectors). Simultaneously keeping government spending sustainable in relation to long-term debt-to-GDP ratios. Updating the debt rule, in order to fit the current fiscal stance and ensure debt ratios reduction in a responsible way, is also necessary.

3. **How can the framework incentivise Member States to undertake the key reforms and investments needed to deliver on the Green Deal and help tackle today's and tomorrow's economic, social, and environmental challenges such as the twin transition while preserving safeguards against risks to debt sustainability?**

At least €1 trillion investment per year is needed for social progress and a sustainable future. That is the level of investment required for a decent future for people and the planet.

The provision of investment guidelines and quantitative targets set in the RRF regulation (37% of national investment on climate protection and 20% on digitalisation) are a step in the right direction.

The recovery strategy must rapidly channel investment into key strategic areas that can reinforce Europe's sustainable growth and quality employment creation, by deploying all available financial tools.

The priorities for a Just Transition include: strengthening investment in strategic sectors; stimulating a recovery led by a stronger internal demand; reducing inequalities, thus ensuring a fair redistribution between profits and wages; making our societies and economy greener, more circular and more sustainable (all the measure to be in line with the main objectives of the UN SDGs); supporting the creation of quality jobs and re-skilling and up-skilling of the workforce.

ETUC advocates for investment facilities and fiscal rules that ensure full employment, decent work and a better life for all, which enable our economy to: recover from the pandemic; address the challenges of digital and ecological transformations, in a sustainable manner to allow huge investment required for social needs; create new and quality jobs while protecting workers engaged in labour transformations; and create social progress to improve living and working conditions of people.

We demand a permanent fiscal capacity, and in order to increase fiscal sustainability, an increase in EU's own resources would be needed. The best way to significantly increase EU's own resources is through a reform of taxation, to make it fairer for wage earners and increase overall tax revenues of Member States. To achieve more tax and social justice, increased taxation on polluting emissions, increased and fairer corporate taxation, and a more radical stance on the fight against tax avoidance and tax evasion are necessary.

4. **How can one simplify the EU framework and improve the transparency of its implementation?**

The EU fiscal framework needs to be reformed in such a way that it better protects public investments. The multiplier effect of public investment is particularly high, and cuts in public investment, therefore, have a particularly negative impact on economic growth and employment.

ETUC continues to demand for a “golden rule for public investments”, this means excluding net public investment (new investments) from deficit calculations in the framework of the SGP, since they bring high economic returns. Also a public expenditure rule for current spending as a way to escape the Fiscal Compact requiring balanced budget. Moreover, cyclical adjustment methods used by the European Commission need to be reformed (by abandoning the contested concepts of structural deficit/balance).

ETUC supports the idea of introducing country-specific elements in a simplified fiscal framework, while maintaining debt sustainability, by getting rid of rigid debt reduction paths as prescribed in the six-pack regulation. A country-differentiation of debt to GDP reduction strategies should be based on a long-term comprehensive economic analysis and a debt sustainability analysis.

ETUC is critical about debt and deficit ratios targets (60% and 3% to GDP) that are set in the Protocol on the excessive deficit procedure annexed to the Treaty. ETUC suggests, instead, to allow for regular revisions and country-specific deficit and debt ratios targets, taking into account the current macroeconomic context. It means having more flexibility in debt reduction paths.

5. **How can surveillance focus on the Member States with more pressing policy challenges and ensure quality dialogue and engagement?**

The cycles of multilateral surveillance should relate to the 4 dimensions of development: social, environmental, economic and fiscal. They have to be reflected in the way the Semester and national plans are designed. Sustainable public finances have to be linked to country-specific social objectives. However, currently, Member States compile a wide number of national plans and consequently perform a cumbersome number of micro tasks: National Reform Programs, Stability and Convergence Programs, Draft Budgetary Plans, Economic Partnership Programmes, Corrective action plans, Just Transition plans. This number is incremented with the RRF and the National Recovery and Resilience Plans.

A consolidation of one Simplified National Plan is needed, and different policy areas should be considered for a better integration of Fiscal, Social, Environmental and Economic Objectives of the Economic Governance.

This would also help social partners to properly engage in a timely manner, with the minimum standard of quality in a full-fledged consultation process. In any case, as the quality of the involvement varies a lot among the different Member States, it would be desirable that the EU laws regulating the EU Semester make the consultation of social partners in the drafting and implementation of national plans compulsory.

6. **In what respects can the design, governance and operation of the RRF provide useful insights in terms of economic governance through improved ownership, mutual trust, enforcement and interplay between the economic, employment and fiscal dimensions?**

The RRF has built a useful process in evaluating sustainable public investments, and it is a positive practice for the future EU economic governance. Mutual trust and better implementation of EU requirements in the context of economic governance can only be achieved with a more democratic EU Semester Process. This should result in strengthening the coordination, transparency and role amongst EU institutions, including providing the European Parliament with greater powers to scrutinise the EU's economic governance framework, such as to set macro-objectives and policies, and to hold the European Commission to account in monitoring their implementation. Moreover, and most importantly, trade unions must be involved in the design, governance and implementation of national plans.

ETUC suggests alternative governance rules that specifically include transforming the RRF into a stable facility that boosts investments in European environmental and social infrastructures while ensuring a fair green, digital and demographic transitions. The European Commission should make the Recovery and Resilience Facility a permanent funding instrument which enables crucial investment in key areas, and ensures coherence with the 20 principles of the European Pillar of Social Rights (EPSR) and the indicators set out in the Social Scoreboard.

**7. Is there scope to strengthen national fiscal frameworks and improve their interaction with the EU fiscal framework?**

Fiscal policies have to be better intertwined with social and economic policies. It means that the current multilateral surveillance process, based on the EU Semester, will continue to pursue its objectives of preserving short-term stability of national budgets and planning a sustainable social and economic development of the EU. The European Commission must amend both preventive and corrective arms of the Stability and Growth Pact to allow for greater flexibility and smart public investment in social areas without the pressures from debt and deficit ratios reduction mechanisms The reference values concerning debt/GDP and deficit/GDP have to be abandoned. In particular, as for the debt to GDP objective, it has to be considered as a very long term target, better replaced with more credible and country-specific fiscal targets. The Macroeconomic imbalance procedure, including economic, social and environmental indicators, should be integrated in this process, coupled with a procedure for social imbalances (see below).

**8. How can the framework ensure effective enforcement? What should be the role of financial sanctions, reputational costs and positive incentives?**

A new economic and social governance will create the right environment for a more effective enforcement of decisions coordinated at EU level. ETUC considers that strengthening the social dimension of the governance will improve the level of enforcement of policies coordinated at European level. Incentives will come from the possibility to raise consensus and maintain stability at all political and administrative levels. ETUC asks for a stronger and structured interaction between monitoring and correction of imbalances in the fiscal, economic and social fields. A more structured involvement of social partners at EU and national level will also improve ownership and help actual implementation of policies at national level.

A Social Imbalances Procedure, based on the European Pillar of Social Rights and the Social Scoreboard, should be established to identify, prevent and address shortcomings in social fields in a Member State. The identification of social imbalances should automatically lead to country specific recommendations. Countries with relevant imbalances under the in-depth review should address these with a close involvement of social partners.

The Headline targets adopted in Porto at the Social Summit, and part of the Action Plan that implements the EPSR, provide good orientation. Such targets have to bind the future economic governance architecture to social progress.

A more comprehensive model of development refers to the UN2030 Agenda. The SDG-8 centred model proposed by ETUC would provide a framework in which also the monitoring of social performance can be updated using a more complete definition of well-being, efficiency of the labour market, labour vulnerability and respect of fundamental trade union rights.

**9. In light of the wide-ranging impact of the COVID-19 crisis and the new temporary policy tools that have been launched in response to it, how can the framework – including the Stability and Growth Pact, the Macroeconomic Imbalances Procedure and, more broadly, the European Semester – best ensure an adequate and coordinated policy response at the EU and national levels?**

Strengthening the social dimension of the economic governance is crucial. The EPSR, its renewed scoreboard and its Action Plan should play a stronger role and be better integrated in the architecture of the economic governance of the EU.

Sustainable development must have a fundamental role in the EU Governance, by including a close connection to the European Green Deal. A green sustainable growth should keep the overall perspective of a “fair and just transition” that would allow to combine environmental and health protection with social justice and quality employment. The Semester should be a process of convergence toward the best performers in the SDG 8: in Europe, it mostly means implementing the EPSR.

Social dialogue is an irreplaceable tool of balanced crisis management and accelerating recovery as well as an essential governance instrument with regard to change. ETUC proposes to reinforce the role of social dialogue at EU and national levels by setting a binding rule for governments to involve social partners (consultations to be timely, meaningful and at appropriate level) in national economic policymaking, and in the drafting and implementation of plans for using EU Funds.

**10. How should the framework take into consideration the euro area dimension and the agenda towards deepening Economic and Monetary Union?**

ETUC suggests exploiting the potential of the EU bonds to move towards a permanent EU fiscal capacity with appropriate EU own resources to tackle economic shocks at EU and national levels. In addition to the EU recovery fund, Member states’ borrowing capacities to finance investments and stabilisation tools must be expanded. Moreover, based on the positive experience of the *Support to mitigate Unemployment Risks in an Emergency* (SURE) and considering the need to continue supporting national short-time working schemes, favourable loan conditions and repayment costs should be maintained in order to continue making SURE (or similar tools) affordable and a viable option for keeping unemployment rates under control.

Moreover, in view to ensure a fair level playing field and to enhance the fight against tax avoidance, ETUC demands for a prompt implementation of a minimum corporate tax rate for Multinational companies and an ambitious plan for a common consolidated corporate tax base, with an adequate apportionment formula for profit reallocation.

Finally, a strong policy framework for social progress, such as the EPSR and its Action Plan, with clear targets aimed at improving working conditions of all Europeans and with a stronger involvement of social partners, could be a firm counterbalance of a deepened single market.

**11. Considering how the COVID-19 crisis has reshaped our economies, are there any other challenges that the economic governance framework should factor in beyond those identified so far?**

The fiscal governance framework needs to be democratised. Fiscal policy is the classic domain of parliamentary politics, and its decisions affect the entire structure of state expenditure and revenue. Therefore, national parliaments, the European Parliament and social partners need to be given a much more prominent role in the future EU economic governance framework. National parliaments and national social partners should have a say in setting priorities, policy objectives and monitoring the implementation of national reform programmes and national recovery and resilience plans. In a similar vein, there is a need to involve trade unions, and civil society to a greater extent, in the European Semester, both at national and EU level.