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ETUC Position on the Reform of the economic governance (toward an EU pact for employment and investments)

Position adopted at the Executive Committee Meeting of 30-31 March 2023

The reform of the economic governance of the European Union issued on 9 November 2022 should be assessed as insufficient. The European Commission's (EC) proposal appears inconsistent with both the Versailles Declaration of 11 March 2022 and Porto's Social Summit Conclusions in 2021. Social and sustainability frameworks, such as the EPSR and SDGs, are disregarded.

The proposal of the EC reflects some long-standing ETUC demands such as a reinforced national ownership of reforms, differentiated adjustment fiscal paths, the abolishment of the rigid 1/20 rule of debt/GDP consolidation as well as the structural deficit criterion, less relevance to the 60% debt/GDP ratio, the possibility to apply escape clauses to single countries, an immediate reform of the SGP, and secondary legislation. These positive aspects stay in a project of reform that, however, remains silent on too many points to gather full consensus from the trade union movement.

The current proposal fails to make the green, digital and demographic transformation an opportunity for European workers. It is silent on how the governance will protect income of workers or pensions in a situation of high inflation and soaring cost of living. It neglects the role of social partners and social dialogue. An investment-friendly narrative is present, however, it is unclear whether national and EU budgets can fill the investment gaps. The proposal fails to take inspiration from the European Social Partners' Declaration proposing indicators to complement the GDP as in the Porto's Council Conclusion on the 8th of May 2021.

The EU Social Model, the Euro and the Single market are European common goods and equally important. Therefore, the ETUC calls for a European pact for employment and investments to be fixed in Council Conclusions to complement and rebalance a reformed Stability and Growth Pact, which implies a revision of the secondary legislation and the end of the Fiscal Compact. The EU must invite social partners to advance proposals.

The ETUC insists that the reformed economic governance should be an economic and social governance, that brings full employment and improvement of working and living conditions and environmental constraints in its medium-term horizons. The economic governance should reinforce the EU capacity to provide prompt response to crisis and build on lessons learned form the Next Generation EU and the SURE mechanism.

The democratic quality of the economic governance should be improved by giving social dialogue a more prominent role in the design and implementation of the National Plans. Social partners have to be consulted at the milestones of the Semester and should be allowed to advance proposals for negotiated-CSRs. National and European Parliaments have to be decision makers in the definition and implementation of national plans and in the definition of broad economic guidelines that instruct the European Semester. They should also co-decide on enforcement measures and sanctions under the different processes of the reformed economic and social governance.

The EC, governments and social partners should operate with a constructive spirit of cooperation with a focus on partnership and positive incentives. The ETUC opposes to make the disbursement of EU funds subject to macroeconomic conditionalities (e.g. forcing reforms for sustainability of pension systems). The Economic governance should be a rule-based process that reinforces the European convergence process with a stronger social dimension, promote social justice, rule of law and fight against corruption. It should contribute to stem inequalities while preserving the unity of the single market against any form of tax, social and environmental dumping.

For a fiscal and macroeconomic framework that works for European workers:

The institutional framework should be made less technocratic and more Member State (MS)-specific already in the common fiscal framework that orientates the definition of Medium Term Fiscal-Structural Plans. The economic governance should be transparent and thus without arbitrary debt and deficit limits that incentivise undifferentiated reduction of public spending without sufficient regard for EU objectives, euro area needs and spending quality – with public investment as collateral damage. The “Do No Significant Harm” principle should become its cornerstone so that investments and reforms that leave future generations worse-off are ruled out.

The insistence on the 3% deficit threshold could constrain current public spending and potentially prevent increasing pay and staffing in critical areas of public services. This could be countered by fair and progressive tax policies.

An investment rule should be included in order to maintain nationally-financed investments at satisfactory level to cope with transitions. The risk-analysis framework (DSA) should be defined in a way to address environmental and social risks. DSA methodology needs work and the use of non-observable variables must be avoided. It should provide room for adequate social spending for an ageing population, having adequacy of social protection performances, including pensions, as bidding criteria.

The macroeconomic framework should be more responsive to both excessive deficit and surplus positions of MS current accounts, in a symmetrical manner, and treated within a euro area macroeconomic adjustment path. Sanctions must be applied uniformly to all MS and their social consequences must be analysed. Sanctions should avoid reputational damage that could harm MS access to financial markets.

The macroeconomic scoreboard should be revisited to fit with the current challenges of green and digital transitions, open strategic autonomy and employment and social conditionalities.

While state aid rules should be reformed and fiscal rules should be providing more leeway, such policy changes could be insufficient and destabilising, if not coupled with a new fiscal capacity for investment, an EU sovereignty fund for just socio-ecological transition, especially since financial markets are in high demand of a European safe asset. Such a fund should also finance important projects of common European interest, with the aim to protect EU investments and the overall competitiveness of the EU economy in the global market.

Towards a European Pact for employment and investments. Referring to article 148 of the TFEU, the Council should solemnly commit to social and investment objectives, mandating the EC to operationalise the following measures that compose a European pact for employment and investments.

Adopt a benchmark for public investment that keeps Europe ahead of key global competitors. Quantitative minimum benchmarks on public growth and net investment levels would be desirable, also with a golden rule for investments and a EU-debt financed budget for investments.

Ensure the national plans are required to progress toward delivering the SDGs, Porto Headline Targets and EPSR action plan. A procedure for social convergence that detects and removes the social imbalances should be finally endorsed.

In agreement with, or on the proposal of, the European social partners, list minimum qualitative and procedural criteria for the involvement of social partners in economic governance, also in light of the Recommendation on strengthening social dialogue in the EU. This should include the possibility for social partners to submit negotiated CSRs.

Confirm an instrument for stabilising employment on the SURE model in the revised version, improved in its governance and extended in terms of objectives and resources as in the ETUC Proposal for a SURE 2.0.

ANNEX to the Position on the Reform of the economic governance

FISCAL AND MACROECONOMIC ASSESSMENT

Treaty change. The Commission communication does not envisage a change in treaty for enabling the new economic governance framework. The reference values of the 3% of GDP budget deficit and 60% debt-to-GDP ratio would remain unchanged, although not being based on any economic rationale. While Member States should demonstrate decreasing debt-to GDP ratio trends, the risk of exacerbated fiscal consolidation is still present. Indeed, while the 3% deficit threshold is problematic since there is no mentioning of a golden rule for public investment(see below), the 60% debt-to-GDP is becoming much less prevalent on fiscal policy making, since Member States must exhibit decreasing debt-to-GDP ratios without one-fits-all numerical standard.

National ownership. The lack of ownership of fiscal policy by Member States was seen as the main reason for the lack of implementation of fiscal policy recommendations. The communication of the Commission suggests a more favourable stance on the issue. Taking the methodology of the Recovery and Resilience Facility as a basis, the Commission suggests that “The national medium-term fiscal-structural plan would be at the centre of the reformed Stability and Growth Pact and would be proposed by the Member State on the basis of a common EU framework” ensuring equal treatment and multilateral policy coordination.

Fiscal policy. National medium-term fiscal-structural plans within a 4-year horizon would be based on reference adjustment paths, provided by the European Commission, anchored on debt sustainability, meaning that for Member States with substantial and moderate fiscal challenges, it should ensure that, even in the absence of further fiscal measures, debt ratios would remain on plausibly downward paths after the fiscal adjustment period and, deficit would be maintained below the 3% of GDP threshold. The debt sustainability analysis, the reference multiannual adjustment path, and the corresponding level of the structural primary balance at the end of the 4-year adjustment period, would be made public by the Commission. Member States could request, and be granted, an extension of the adjustment period (a maximum of 3 years), provided they underpin their plans with a set of reforms and investments that supports sustainable growth and debt sustainability. In this respect, as accurately stated by the European Commission, the new framework is differentiating between Member States with regard to their fiscal positions, sustainability risks and other vulnerabilities, and, as requested by the ETUC, getting rid of the current debt reduction benchmark, the so-called 1/20th rule.

New indicator. The national medium-term fiscal-structural 4-to-7-year plans, and their expected impacts on debt-to-GDP targets, would be supported by a single operational indicator, the net primary expenditure, expenditure net of discretionary revenue measures and excluding interest as well as cyclical unemployment expenditure (including revenue and expenditure fluctuations outside the direct control of the government). In this respect, the European Commission proposal is answering the critical need for simplicity and clarification. No reference is made to structural measures of public accounts or for potential measures of economic development.

Adjustment paths. Member States’ national medium-term fiscal-structural 4-to-7- year plans should be anchored to the 3% of GDP budget deficit supported by national net multiannual primary expenditure paths. Member States would be defined as experiencing “substantial” or “moderate” debt challenges with regards to their risk profiles according to the debt sustainability analyses of the European Commission[1]. Member States with substantial debt challenges should ensure that after their 4-year national

[1] The European Commission debt sustainability analysis will need a strengthened assessment, especially with regard to fiscal-related climate risks.

medium-term fiscal-structural plans their 10-year debt trajectories at unchanged policies are on a plausibly and continuously declining paths while maintaining deficits below the 3% of GDP budget limit . Member States with moderate challenges would have 3 more years to ensure their 10-year debt trajectory is on a plausibly and continuously declining path at unchanged policies. This difference in treatment could lead to some kind of procyclicality or austerity in fiscal policy making, especially for substantially indebted Member States.

Treatment of public investments in the new proposed framework. The Commission's approach could be potentially investment friendly: the growth enhancing effect of public investments will be explicitly acknowledged in the debt sustainability analysis and Member States will be granted more time for debt consolidation if they propose investment and reform plans. The ETUC regrets that the Golden Rule of public investments is not part of the reform agenda, which would ensure preferential treatment of public investments. The Commission's reform proposal does not differentiate between public investments and current public spending and at the same time it keeps the 3% budget deficit limit. Thus, there is the risk that deficit increases will be interpreted first and foremost as future nominal debt increases, without due consideration of their impact on GDP developments and debt-to-GDP ratios, leading to harsh austerity. Given the huge amount of public investment needed to cope with the socio-ecological transformation of our economies, and the important support for social policies and for strong universal public services[2], it would be misguided to prevent some Member States from investing to the scale needed or to cut welfare spending. This would lead to some kind of procyclicality in fiscal policy making. To mitigate such negative trends deviations from, the 3% deficit criterion should be allowed if the fiscal room of manoeuvre is used for growth enhancing public investments. In addition to this, and in accordance with the "ensuring sound public finances" principles as requested by the European Commission, and to ensure high coverage, effective and adequate social protection, increases in taxation would be surely needed, but should be based on tax and social justice principles and progressivity, encompassing income, wealth and social security systems.

The Economic and Monetary Union. The ETUC deplores that the new economic governance framework does not exhibit a European fiscal capacity to cope with the investment and social challenges Member States are facing, and are going to face for the years to come. There is no consideration for the maintenance of newly enacted European capacities such as the SURE mechanism or the NextGenerationEU. This is of great importance since, contrary to ETUC's request, the ECB is not mandated with full employment.

European governance. The future legislative proposals of the Commission specifying the medium-term fiscal-structural of 4-to-7-year plans should set minimum standards for parliamentary scrutiny and social partners involvement, at both national and European levels. This would increase accountability and democracy in policy making, especially when drafting the medium-term fiscal-structural 4-to-7-year plans at national level, while preventing policies detrimental to workers and societal well-being. Indeed the current proposal leaves very large discretionary powers to the European Commission, which would require democratic counterbalancing scrutiny and accountability. For that reason, the opinion of the Independent Fiscal Institution regarding national fiscal plans should be subject to social partners' advice, in order not to leave fiscal consulting solely to technocrats. Finally, the ECOFIN Council of Finance Ministers and the Eurogroup must become more transparent by publishing positions of national ministers as well as preliminary work of the so-called Eurozone Working Group.

The process leading to the current proposal of economic governance reform started more than 2 years ago. Since then, the ETUC has adopted positions that are now framing

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[2] Especially in health and long-term care. The pandemic revealed that a lot more needs to be done to make our health and care services resilient and addressing these challenges should be acknowledged.

the ETUC assessment of the proposal issued by the European Commission in November 2022. All docs are available here: https://est.etuc.org/?p=1193.

On the social convergence framework, if national plans are required to progress toward delivering the SDGs, Porto headline targets and EPSR action plan the reformed governance should permanently insert, in national plans, a chapter that reports on the progress made towards the achievement of the Sustainable Development Goals, including EU financed investments to build European public goods, through public investments and sustainable private investments.

It should also set rules for national medium-term fiscal-structural plans to include mandatory measures, milestones and targets to achieve Porto's Headline Targets, make the European Pillar of Social Rights, with its action plan and the social scoreboard, a vector of social policies, particularly in the context of the European Semester, also through the valorisation of the Employment Guidelines as an operational arm of the Pillar European Social Rights.