Economic governance reform: ETUC priorities against austerity and for investments

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The ETUC strongly opposes the reform of the economic governance of the EU. It lacks vision for sustainable growth, it harms socio-economic resilience and is at odds with upward convergence of working and living conditions in the EU. For the first time in a decade, legislative intervention on the SGP sets stricter rules than the reformed ones. Investment ambition is too modest with minimum public investment levels benchmarked at pre-covid levels. Social expenditure is set in trade-off with other policy priorities while member states will be forced in unwanted reforms of pensions and health systems. The reform does not address democratic flaws of the economic governance of the EU.

Since the commencement of the economic governance review, the ETUC has promoted balanced economic governance framework promoting social progress and well-being. The successful implementation of SURE and NGEU convinced the ETUC of the validity of its policy proposals. The response to the Russian invasion of Ukraine highlighted the EU's potential to protect citizens against external risks. The ETUC urged all EU decision-makers to act on lessons learned and work towards EU fiscal capacity, tax justice, and increased own resources. The ETUC presented constructive proposals to the co-legislators during the design of the reform and throughout its legislative process.

A reform that fails to meet trade union demands

Co-legislators reached an agreement on economic governance on February 10th, with our overall assessment being negative. **This reform's deficiencies include the absence of ambition in investments and just transition.** Whereas the instability in the international scenario places the EU in front of multiple challenges, the EU has a strategic need to ensure fiscal space for investments and social cohesion. While EU objectives require Member States to mobilise additional public investments and just transition measures, these fiscal rules aim for overly rapid fiscal consolidation and set insufficient investment levels equivalent to pre-COVID periods. Given the current international scenario and projections of weak performances of the EU economy, the reformed SGP may prove impossible to implement.

This reform betrays the younger generation walking the streets during Fridays for Future and workers, as it reduces space for job creation and just transition. By aiming to generate balanced or surplus structural positions in government budgets, this reform limits fiscal space for investment and creates dangerous trade-offs between sustainability, resilience, security, and social progress. As past austerity periods show that restrictive fiscal policies penalise women's position in the labour market and in society, this reform also betrays the promise to tackle gender-based employment and wage gaps well present in the EU. Overall, the reform deeply overestimates the role of private investments and overlooks social conditionalities or need for social progress. This will only exacerbate the desertification of the manufacturing industry in the EU already heavily affected by a long-standing situation of subdue levels of private investment while profit-dividends have skyrocketed as never before.

This reform fragments EU solidarity and lacks fairness and transparency. The ETUC's rejection of the new rules is also related to the non-transparent methodology of the debt sustainability analysis (DSAs). Countries with debt exceeding 90% will face reinforced mutual surveillance, with their fiscal efforts subjected to minimum mandatory benchmarks (debit and deficit safeguards applied to countries with debt above 60% or 90% of debt/GDP) that will rigidly cap government net expenditure. Even stricter fiscal efforts resulting from the assessment of risks associated to debt ratio (DSA conducted by experts under the European Commission responsibility) will put pressure on countries to make fiscal efforts that could undermine their attempts to protect and improve funding for public services, just transition and other EU priorities.

Some governments resist the idea that a social dimension of the EU Semester could make them accountable for improvement of working and living conditions. The (upward) Social Convergence Framework has the potential to hold governments accountable for pursuing common social objectives. While the reform may take account of the EPSR and the social convergence framework, the risk is that the outcome will be determined by the technical rules applied in the Debt Sustainability Analysis.

The reform leads us to predict further reforms that undermine pension adequacy and public services. Member states are incentivised to legislate components of the cost of ageing with the aim of reducing their impact on public finances in the post-adjustment period. This will likely lead to treating, once again, the increasing needs of an ageing population as an unwanted burden. It also pushes generations against each other and undermine the principle of intergenerational solidarity enshrined in the EU framework agreement on active ageing and an inter-generational approach. This represents the first democratic shortfall of this reform, penalising the most vulnerable in our society.

Technocratic decision-making will widen the gap between people and decisions impacting their lives. A complex methodology to calculate the financial risks of member states will be in the hands of a handful of technocrats. The DSA methodology implies adopting many assumptions on potential growth, investment multipliers, demography and discretionary assumptions which leave no room for actual democratic debates on suitable policy determination. Pessimistic assumptions have negative self-fulfilling growth results as a consequence, which make the austerity effort even harsher. This represents the second democratic shortfall of the reform.

The reform underestimates the relevance of social dialogue and threatens collective bargaining. Social partners are listed as stakeholders, yet the SGP does not value social dialogue and collective bargaining when defining investments and reforms or accompanying economic and industrial transformations. This is surprising given the widely accepted understanding that the lack of social dialogue is one of the bottlenecks slowing down RRF implementation. The role of the European Parliament and national Parliaments is also undervalued with limited access to key decisions such as those related to the DSA. The European Commission will appear as a counterpart, not a partner of the member states, giving leeway to misleading narratives of the EU. This is a third democratic shortfall of the reform.

Trade union action against austerity programs and for sustainability investment plans

The ETUC sees no urgency in adopting the reform of the economic governance and believes the reform fails to take advantage of the opportunity for implementing a balanced economic governance framework aimed at social progress and well-being. The reform will depress investments, harms social cohesion, and it lacks a vision for a stronger, fairer EU. Action is needed to prevent unfortunate decisions concerning fiscal objectives and reform priorities, which are already in motion with a first draft of national plan from June 2024.

The trade union movement will take action to avoid that workers pay the bill of austerity and will promote a job-rich investment agenda instead. A more precise reference to Article 148 and the endorsement of the Social Convergence Framework may represent a scope of action to increase the relevance of upward social convergence, including the elimination of gender-based gaps, in the overall EU Semester. In this context, the ETUC will be vigilant that the extensions of multiannual fiscal-structural plans could be (mis)used to press Member States towards implementing neoliberal policy reforms to the detriment of workers.

Workers' voices must be heard from the onset of the reformed EU Semester. Although the involvement of social partners remains confirmed, the lack of reference to the specificity of social dialogue undermines the 2016 Quadripartite Agreement on the Relaunch of Social Dialogue and the recent Recommendation on Strengthening Social Dialogue. This must be remedied via a common European trade union movement strategy.

The ETUC opposes the unbalanced deal of the Economic Governance Reform reached by the EU institutions and will:

- **Continue advocacy work and political pressure for an EU-financed investment tool, tool as a follow-up mechanism to the RRF refinancing an improved SURE,** and increasing the MFF framework and amount, including new own resources for the EU budget;

- **Oppose austerity at EU and national levels, promoting common social and environmental objectives (starting with the elaboration of anti-austerity programs and sustainability investment plans);**
- **Ensure timely, meaningful, and appropriate consultation of trade unions in designing implementing, monitoring and evaluating national plans, coordinating inputs for national plans;**
- **Coordinate inputs for anti-austerity measures and investment priorities, especially those concerning energy and climate plans, just transition and common EU objectives.**