

ETUC updated answers to the renewed public consultation on the Economic Governance Review

Adopted at the virtual Executive Committee Meeting of 8-9 December 2021

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?

It is now urgent to go beyond the Fiscal Compact and revisit the Stability Growth Pact embracing a Beyond-GDP approach based on social justice, solidarity, inclusiveness and environmental progress. Well-being, inclusive labour market and quality of work should be the centrepiece of a new economic and social governance. It should also reflect the 4 channels of wellbeing proposed by the OECD: education, gender equality, health care, and social protection.

The ETUC thinks a new sustainable development paradigm has to be promoted, based on a new balance between fiscal, macroeconomic, social and environmental issues. The General Escape Clause should last until a new revised economic governance framework is in place. In the meantime the Commission should put forward country-specific guidelines for transition periods until its full implementation, during which time no excessive deficit procedure should be activated and with the possibility to use the 'unusual event clause' on a country specific basis.

The investment gap of a Member State has to be linked to an increased capacity of the EU to spend in investments. In this respect, the Next Generation EU scheme is very welcomed, it answers important social and investment needs, in which the Recovery and Resilience Facility assumes a great relevance for the present and the future of the EU. Furthermore, sustainability of public finance should imply the removal of excessive and prolonged current account surpluses that translate into high balance surpluses in government's budgets. Such surpluses should instead be directed to investments at EU level.

Ultimately, the sustainability of public finances should depend upon output growth. Furthermore, given how destructive the processes of correcting macroeconomic imbalances turned out to be in terms of sustainable growth and real convergence in the previous crisis, improving the governance that aims at the management of macroeconomic imbalances would also support the sustainability of public finances. This is even more relevant since the political sustainability of the EU integration project also depends on the promised real upward social and economic convergence among Member States. The Macroeconomic Imbalances Procedures (MIP) extended the surveillance to macroeconomic variables beyond public deficit and debt. Insofar as avoiding large deviations in these variables is important for the smooth functioning of a monetary union, this was a step in the right direction. However, there are improvements that can be made in the way in which imbalances are monitored and corrected.

The correction of macroeconomic imbalances, especially regarding the current account balance should be a matter of more concerted and symmetric approaches within the Eurozone. Until now, the context in which the Country Specific Recommendations ("CSRs") are issued, and justified, focus on a state-by-state approach. Coordinated action across the Eurozone would be more appropriate for imbalances such as stagnated wages not following productivity growth, or large current account surpluses or deficits. A permanent Eurozone fiscal capacity, issuing EU denominated debt, would help towards that end. However, as a first step in that direction, it would be necessary to make the

current account balance limits on the surplus and the deficit similar. At the moment, Member States are allowed to run larger current account surpluses than deficits, as a share of their GDP. Additionally, not enough pressure has been put on Member States with current account deficits, through CSRs, so as to take action to rebalance them. While it is true that current account deficits create more vulnerabilities, within a monetary union the asymmetric/unilateral adjustment of current account deficits without rebalancing of current account surpluses in Member States can, and has been, creating a deflationary bias. An acceptable solution would be to impose an investment deposit within an EU investment fund to cope with these imbalances.

For current account imbalances to remain sustainable, the real effective exchange rate of Member States should be growing annually in line with the target inflation of the ECB plus the average trend productivity growth rate in the Member State. At the moment, it is the national productivity boards that are assigned the role of steering national policies in that direction, usually by means of structural reforms that aim at increasing productivity. Given the uncertainty of what works in achieving higher productivity growth, the social partners should be also explicitly involved in the process of steering nominal unit labour costs and the real effective exchange rates along the steady state path defined above. Again, and as with fiscal policies, coordination should not only be sought when considering national policies but also in the EU/EA aggregate.

The MIP scoreboard monitors several financial variables, which as the analysis of the drivers of the Eurozone crisis suggested, had an important role in creating imbalances among the members of the Eurozone. However, recommendations on correcting these variables do not fall within the scope of the CSRs but of the ESRB (European Systemic Risk Board). The two processes are NOT coordinated. This is likely to increase the weight of CSRs relating to drivers of current account imbalances, such as the evolution of nominal unit labour costs. Combined with an uncoordinated/unilateral manner of targeting these can have serious deflationary effects in the Euro area as shown in the past where the policies of (unilateral) internal devaluation corrected current account deficits but at an excessively high economic and ultimately social cost. The real effective exchange rate that is being monitored in the context of MIP should not be the one with reference to forty-one other industrial countries but rather intra-EU.

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

We would first like to highlight that misguided fiscal policies in the EU, besides having deplorable short-term effects, have a long-lasting impact on economic development and therefore on debt sustainability. Multiple research indicates strong and persistent long-run multiplier effects in the EU, in the early years after the financial crisis and subsequent crisis (2008-2011), and concluded that early stimulus was beneficial even in the long run, while the subsequent turn to austerity was badly timed and thus deepened the crisis.

A comparison between macro-economic crisis management in the USA, which launched its second QE programme in 2010 (QE1), and the EU, is informative. In the US the Central Bank is both mandated with price stability and maximum employment. It was able to launch quantitative easing as early as 2010, deficit reduction was less abrupt, thus preventing a double-dip crisis. It allowed to stabilise the public debt to GDP ratio (when it increased in the EU), while allowing a decrease in interest payment as share of GDP. Total hours of work in the US began to increase in 2010 and reached its pre-crisis level in 2014, while a slight recovery in total hours worked took place only in late 2013 in the EU (and euro area) to reach pre-crisis levels in late 2018. Finally, public investment in the EU was the first target for spending cuts, impeding future economic development in a much more brutal manner than in other economies. Comparing the average government investment rate of 2015-2019 with the pre-crisis average (2005-2009), 20

out of 27 Member States saw their rate decline (for some by as much as 50%) to such an extent that the value of the stock of public capital, marked by negative net public investment, deteriorated between 2013 and 2017 in the euro area. In other words, the EU tackled the crisis in a very orthodox manner, by cutting spending at the expense of growth, very much counting on external demand at the expense of aggregate internal demand, while also leading to increased divergences in the economic performances of Member States. Put in another way, the fiscal rules implemented, together with the limited mandate of the ECB, are not sound and paved the way for a defiant political environment.

We therefore understand Member States' lack of compliance with fiscal rules as this would have hampered growth and employment even more sharply. It can be shown that until the COVID pandemic, if most Eurozone Member States had a favourable interest rate and growth environment, they could have run primary deficits while keeping their debt-to-GDP ratios constant to the benefit of public investment and employment. This reflects a policy choice that prioritises deficit reduction and a limited Central Bank mandate environment, at the expense of economic development, social and ecological issues, without clear impact on debt sustainability.

The sustainability of public finance is dependant both on fiscal policies, which are under the control of democratically elected governments and EU institutions, and interest rates on sovereigns, which could be indirectly under the management of the ECB with extended mandates for maximum employment to be more accountable to democratic bodies. Managing the two sets of policies, monetary and fiscal, in a dynamic context with common objectives is the issue at stake.

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?

The ETUC advocates for a new economic and social governance targeting full employment, upward convergence of living and working conditions, high quality public services and high rates of public investments. Stimulus for public and private investments must support green and digital transitions, assessing their impact on quality job creation and decent wages within an upward convergence process between Member States. With the RRF the country specific recommendations are significantly more prominent. All this makes more important that the European Semester is democratised, meaning that the involvement of national parliaments, the European Parliament and social partners must be improved (see also answers to question 9 and 11). The ETUC rejects structural reforms that focus one-sidedly on cost competitiveness and blind austerity.

For the recovery strategy to be effective, it needs to be coupled with an ambitious new multi-annual financial framework (MFF), creating the right ground for the implementation of a pan-European Fiscal capacity. Since such fiscal capacity would require to be permanent, and in order to increase fiscal sustainability, an increase in EU's own resources would be needed, as mentioned in the *"Interinstitutional agreement between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources"*.

As it will be more amply clear in the next question, enough evidence supports the hypothesis that the present economic governance, as designed in the current version of the Stability and Growth Pact, has a pervasive unintended effect on curtailing public investment. This also can be extended to the level of public expenditure, it is especially

relevant when dealing with public goods and services, as they are amply supported by government budgets, regardless that they are provided by the government itself or by any kind of partnership scheme with private sector. Considering that the share of final consumption expenditure by government is relatively high in the EU countries, and mainly composed of the employees' compensation in the public sector, the latter is the first candidate to experience cuts when a Member State has to generate a surplus. This is exacerbated if the fiscal adjustment process must be implemented during an economic downturn, which will most likely reduce tax revenues. Moreover, since the public services such as Health, Education, Employment or other Social Services are very labour intensive, a reduction in the resources implies a rapid and severe decline in the quality of the service provided.

The best way to significantly increase the EU's own resources is through a reform of taxation making it fairer for wage earners and increasing overall tax income of member states. To achieve more tax and social justice, an **increased taxation on polluting emissions** while respecting social justice, an **increased and fairer corporate taxation**, and a **more radical stance on the fight against tax avoidance and tax evasion are necessary.**

This would ensure a **good guarantee for perpetuating a common European debt instrument** and thus generate a permanent fit-for-purpose financing capacity of the EU at the disposal of all Member States.

Such financings should be **targeted to sectors that are strategic to ensure resilience in the EU economy and to regions that are more affected by the crisis** to improve territorial cohesion and social inclusion, social dialogue and collective bargaining. 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.** Priorities:

1. **Investment to be strengthened in strategic sectors**, based on common EU industrial and service policies, and by focusing on environmentally sustainable economic activities, in line with the provisions of the Green Deal and the just transition dimension.
2. **Stimulating a recovery led by a stronger internal demand**, reducing inequalities, ensuring a **fairer redistribution between profits and wages**, through decent wages, upward wage convergence, ending the undervaluing of work, and strengthening collective bargaining at European, national and sectoral levels.
3. **Developing a structured approach to just transition to make society and the economy greener, more circular and more sustainable**, with the Green Deal playing a key role. All measures to relaunch the economy after the COVID-19 crisis must be in line with their main objectives as well as compatible with the **Paris agreement and the UN SDGs**. The ETUC advocates an SDG-8 centred approach to development, where decent jobs for all is a key policy target.
4. **Building a Europe that is fully prepared for the Digital Age**, by speeding up the second phase of digitalisation, increasing public funding and overcoming fragmentation, while ensuring a level-playing field for all economic actors, combating monopolies and the undue exploitation of market power, guaranteeing labour rights and decent jobs for platform workers and fully respecting the GDPR.
5. **Boosting Research and Innovation** and the deployment and spreading of key technologies anchored in well balanced IP regulatory frameworks.

6. **Supporting the creation of quality jobs and re-skilling and up-skilling of the workforce.** This should include statistical capacity to gather data on social and labour issues in all member states.

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

The European Fiscal Board's 2019 assessment of the EU fiscal rules rightly points out one of the main problems: that the six-pack legislation and following changes have not reduced the procyclicality of fiscal policy and have not prevented severe cuts in public investment over the past decade in some Member States. It also identified multiple sources of unnecessary complexity, calling for a simplification of the existing EU fiscal framework. The ETUC supports the agreement struck between employers, workers and other stakeholders in the EESC on the reform of the EU economic governance. The EESC rightly points out that the reforms should focus on strengthening public investments, more flexible and country-specific adjustment paths and more counter-cyclical leeway.

A reform of the EU fiscal rules is not only necessary for the purpose of a short to medium term stabilisation of the economy. It is also of vital importance in order to finance the socio-ecological transformation of our economy, guaranteeing full employment, high quality jobs and just transitions. It should give equal weight to a range of key policy objectives such as sustainable and inclusive growth, full employment, decent work and just transitions, fair distribution of income and wealth, public health and quality of life, environmental sustainability, financial market stability, price stability, well-balanced trade relations, a competitive social market economy and sustainable public finances. This would be consistent with both the objectives set out in Article 3 on the Treaty on the European Union and with the current UN Sustainable Development Goals.

Strengthening public investment

The EU fiscal framework needs to be reformed in a way that 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 on employment. Cuts in public investment, and in government spending more generally, are particularly damaging in times of economic slumps and recessions. In addition, many studies also identify public investment as a growth booster in the long term. A long-term increase of public investments also provides a more secure basis for private sector planning. These facts justify an approach that treats public investments preferentially as far as the assessment of Member States compliance with EU fiscal rules is concerned. The ETUC continues to advocate a golden rule for public investments, to safeguard productivity and the social and ecological base for the well-being of current and future generations. This means that net public investments, as defined in the national accounts, need to be excluded from the calculation of the headline deficits. If an expenditure rule is implemented as demanded (see below), net public investments should also be excluded from the public expenditure ceiling, while investment costs would be distributed over the entire service-life, instead of a four-year period, as it is currently the case. Future generations inherit the servicing of the public debt, but in exchange, they receive an increased public capital stock. As a very first step, the ETUC suggests that the "investment clause" of the Stability and Growth Pact should be interpreted more broadly. So far, it has been rarely invoked primarily because of its restrictive eligibility criteria. These eligibility criteria should be broadened, and public investments should justify a temporary deviation from the adjustment paths, independently of the position of the Member State in the economic cycle and even if these investments lead to an excess above the 3% of GDP deficit reference value. Currently, deviations from the Medium-Term Budgetary Objective (MTO) or the

adjustment path towards it are only allowed if they are linked to national expenditure on projects co-funded by the EU. But more generally, the ETUC suggests a broader definition of public investments. The European Commission's guidance to Member States, in the context of the Recovery and Resilience Facility and the definition of investments therein, constitutes a good starting point. This includes investments in tangible assets but also investments in health, social protection, education and training, and investments aiming at the green and digital transition. At the very least, investment projects financed by the Recovery and Resilience Facility should be included in this list.

Reforming cyclical adjustment methods

The ETUC suggests reconsidering the European Commission's method for cyclical adjustment. The current procedure is opaque, and a source of procyclicality. The European Commission's method determining the structural balance has proven to be problematic because the calculated potential output is strongly influenced by the current economic situation. The downward revision of the potential output has severe consequences on both the calculated structural deficit and the consolidation efforts identified. Making the calculation of the potential output less sensitive to cyclical fluctuations can open up fiscal room for countercyclical economic policies in Member States. Two alternative proposals could be considered. One option would be to use medium-term averages for potential growth or to revise potential output estimates only in the medium term, e.g. every five years. Such a calculation, which is less sensitive to cyclical fluctuations, would have suspended the potential adjustment from spring 2010 onwards and could have opened up considerable room for manoeuvre for all Member States under the preventive arm of the SGP. Another option would be averaging several potential output estimates or integrating hysteresis effects.

Flexible and country-specific debt adjustment paths & expenditure rule

The ETUC supports the proposal made in 2020 by the European Fiscal Board, which is to introduce 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, in particular, the 1/20 rule. A country-differentiation of debt to GDP reduction strategies should be based on a comprehensive economic analysis taking into account factors such as: the initial level of debt and its composition; the interest rate-growth differentials as a matter of sustainability; inflation perspectives; the projected expenditure needed to ensure dignity in ageing and environmental challenges; unemployment and poverty levels; internal and external imbalances; and, primarily, whether the fiscal adjustment is realistic.

It is of utmost importance to develop country-specific plans that enable Member States to effectively manage their public spending and investment in the long-term, bearing in mind a broad range of economic, social and environmental factors. The ETUC is critical about debt and deficit ratios targets that are set in the Protocol on the excessive deficit procedure annex to the Treaty, which could however be changed by a unanimous vote in the Council without a formal Treaty change procedure. Since such a process could prove to be problematic, the ETUC suggests fixing quantitative criteria in secondary law while allowing for regular revisions and country-specific deficit and debt ratios targets (adjustment paths), taking into account the current macroeconomic context. The ETUC suggests abandoning the contested concepts of structural deficit/balance and instead implement a public expenditure rule in a revised fiscal framework. It is widely accepted that the change in the structural balance is a problematic indicator for the orientation of fiscal policy since it considerably underestimates the extent of fiscal restraint in phases of crisis and overestimates the success of consolidation during an upswing. Unlike the cyclically adjusted deficit, public expenditure is observable in real time and is directly controlled by the government. Public investment should be favoured by separating

current and investment budgets submitting only the current budget to limits for nominal expenditure growth. This way, the golden rule for public investment could be combined with an expenditure rule. Nominal public expenditures would be calculated net of interest payments, of unemployment spending and spending related to minimum incomes schemes, and of the estimated impact of any new discretionary revenue measures. Especially since urgent measures are particularly required to address the substantial staff shortages in health and social care and the related problem of low wages in these sectors. The limits could be determined by the medium-term growth rate of real potential output plus the ECB target inflation rate of 2%. Increases in permanent nominal expenditure growth above this limit would be allowed if revenues are increased correspondingly. Such a rule would stabilise expenditure growth over the cycle and enable full implementation of automatic stabilisers. Finally, within this context, it is worth adding that relying solely on national automatic stabilisers in recessions is not fully in line with the idea of countercyclical policy. EU facilities aimed at sharing certain social risks connected to unemployment, or employment activation measures, or poverty prevention, can result in automatic stabilisers having a deeper impact while stabilising the internal market and the Euro area.

Furthermore, fiscal deficits caused by reduced output and employment do not fully compensate cyclical losses and are not enough to fully counter a cyclical downturn. They are only passive and partial countercyclical responses, and need to be supplemented by active discretionary temporary responses to cyclical downfalls to be reversed in upswings. In the past, Member States had decided to continue decreasing debt to GDP ratios with negative economic consequences while fiscal stimuluses would have been more adequate. In a future fiscal framework, provided that a favourable interest rate environment continues to prevail, larger primary deficits should be allowed, while keeping debt to GDP ratios constant and ensuring debt sustainability. This is why exceptional clauses must remain a cornerstone of any future EU fiscal framework and should be adapted accordingly.

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 integrated and this integration has to be reflected in the way the Semester and national plans are designed. The MIP has to be completed by a Social Imbalances Procedure based on an upgraded social scoreboard (cf. proposal of Belgium and Spain currently discussed in the EU Council). Sustainable public finances have to be linked to country-specific objectives whose definition includes pro-growth public expenditure targets including a golden rule for investments and replacement of cost-of-ageing ratio with a ratio that supports adequate expenditure to ensure dignity of people at all stages of life.

The ETUC considers that a consolidation of Simplified National Plans is needed, and different policy areas should be considered for a better integration of Fiscal, Social, Environmental and Economic Objectives of the Economic Governance.

As part of the European Semester and analogues, today, Member States compile a wide number of national plans and consequently carry out a cumbersome number of micro tasks: National Reform Programs, Stability or Convergence Programs, Draft Budgetary Plans, Economic Partnership Programs, corrective action plans, and just transition plans. This number is incremented with the RRF and the National Recovery and Resilience Plans.

It is exceedingly difficult for social partners to engage in a timely manner, with the minimum standard of quality in a full-fledged consultation process. A simplification of the

reporting mechanism should be explored. A rethinking of the reporting phase at the national level, which result in a single report that encompasses SDG, European Pillar of Social Rights (EPSR), Macro economic and social imbalances, environmental and climatic effects and gender equality, would create synergies specially in the phases of collecting input and having the interaction with either the national governments or the Commission teams.

The ETUC proposes, cutting across several parts of the 6- and 2- packs (starting from section 2 of Regulation 1466/97) to revitalise the role of national plans and incorporate policy priorities into a single document to build consistency between economic, social and environmental elements of development within the economic governance. It will also better integrate the fiscal planning with policy planning, better coordinating time and contents of the policy priorities with the allocation of resources on both short and medium term (3 years).

As the quality of the involvement varies a lot among the different Member State, it would be desirable that the EU laws regulating the EU Semester make the consultation of social partners compulsory in the drafting and implementation of national plans. So far, the involvement of the social agents depends exclusively on the goodwill of governments.

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?

During a crisis, monetary and fiscal policy have become mutually reinforcing. Low interest rates create fiscal space, and the use of that space makes monetary policy more effective. Moreover, both the IMF and the European Commission state that debt to GDP ratios should stabilise in the short to medium term, thanks to low interest rates and increased growth rates. Together with the RRF, such an environment is favourable to fiscal impulse and fiscal sustainability.

However, although a safeguard clause for social partners' autonomy and collective bargaining is included in the recitals, and despite demands from trade unions, the EU institutions did not include a binding rule for social partners' consultation on the NRRPs. Nevertheless, if coupled with guidelines provided by the 2021 Annual Sustainable Growth Strategy (ASGS), the inclusion of such an obligation represents a step forward. Indeed, this rule builds upon current cooperation between the Commission, the Council and the social partners in the frame of the European Semester and consolidates it further. The ETUC will continue to advocate for a binding rule for more structured consultations – based on the quality criteria of the ETUC's Trade Union Involvement Index – in the perspective of a long-awaited reform of the economic governance. Indeed, the ETUC firmly opposes macroeconomic conditionalities as these could be used as a means to put pressure on Member States by requiring them to implement austerity measures in the use of RRF funds.

The ETUC welcomes the inclusion of the principle of additionality (Article 5 p.15) – i.e. resources of the RRF should not substitute recurring national expenditures. This should allow for an increase in net public investment. According to the Regulation, RRF resources may also be allocated to incentive schemes for private investment. This could divert part of the funding from much needed public investment, reduce transparency and public scrutiny of resources mobilised through the RRF and will create an overlap with the scope of other EU funds, like the InvestEU. Nevertheless, if such schemes are put in place, the ETUC and its member organisations will monitor that they do not entail the privatisation of public services and are effectively conducive, and conditioned, to the key

policy objectives of the RRF, including tackling the green and digital transitions, as well as the creation of quality jobs.

Finally, stabilisation objectives currently dominate the debate against the backdrop of persistent sustainability risks. Flexibility under the severe economic downturn clause comes with a general condition: Member States can be allowed temporarily to depart from the adjustment path towards their medium-term budgetary objective provided that this does not endanger fiscal sustainability in the medium term (Art. 5(1) Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies). In this respect we think there is scope to strengthen national fiscal frameworks and improve their interaction with the EU fiscal framework (see also question 7 below). With the set of reforms suggested above (golden rule for net public investment, expenditure rule for current budget and country-specific adjustment path) and since uniform numerical criteria are misplaced because debt sustainability depends fundamentally on the differential between the interest rate and the growth rate and on a state's capacity to maintain a sufficient primary surplus, determinants of debt sustainability are all very much country-specific. Member states could therefore prepare their fiscal plans and budgets with regards to their economic, social and environmental needs and provide their expectations on sustainable growth rates to set medium-term debt ratios targets to be achieved. If accepted, such adjustment paths would answer the investment and social challenges ahead of us while ensuring debt sustainability, since Member States must, as mentioned in the Guidance to Member States, provide an assessment of the "sustainability of the changes in social, budgetary and financial terms". The operation of the RRF also provides a valuable process with respect to delineating sustainable public investments. If a golden rule for net public investment is introduced in the future EU budget framework, it would be possible to build on these processes created in the context of the Recovery and Resilience Facility. Member States have by now got used to assessing the sustainability of public investments. In addition, the EU Taxonomy for Sustainable Activities could play an important role in implementing the golden rule for public investment.

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

As the Semester will monitor the short-term stability of public finances, it has to be conceived for ensuring transparency, accountability and efficiency of governments' decisions. 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. Still, we must always keep in mind that the EU MFF and NGEU, whatever increased, will be about 2% of Gross National Income ("GNI") so national governments are by far the most responsible for social expenditure ensuring social cohesion and well-being of people. In order to avoid past fiscal disorders, the current preventive and corrective arms need to be reformed:

- The reference values concerning debt/GDP and deficit/GDP were not reasonable in the past and are out of touch with reality. They have to be abandoned, or concerning the debt to GDP target, considered as a very far-reaching target, better replaced with more credible and country-specific targets and Medium-Term Objectives ("MTOs") ;
- Country specific targets and MTOs have to be built ensuring the needed spending for ensuring dignity of living standards in all phases of life of people. ETUC considers urgent to get rid of the formula of cost of ageing, as part of the SGP, that

in these years has imposed to governments to drastically cut expenditure on health care and pensions;

- Country Specific Targets and MTOs should let public investments being financed through debt (net public investment being excluded from deficit calculations), ensuring the needed levels of public investments coming from the sum of the ones guaranteed by the EU and those left to the national budgets;
- Merging the “budgetary cycle” with the social and macroeconomic cycles in order to increase coherency and policy consistency in the short and long term, means ensuring consistency with the draft budgetary law, the stability and convergence programmes, and the national reform programmes;
- The macroeconomic scoreboard and the social scoreboard have to be put in correlation, and interrelations between macroeconomic and social imbalances reported once a year, furthermore, countries with relevant imbalances made under in-depth review with a closer involvement of social partners; the proposal for Social Imbalance Procedure advanced in EPSCO (October 2021) goes in this direction.
- The social scoreboard is improved and associated to the SDG implementation especially exploiting the driven capacity of SDG 8 and therefore it will include a well-being composite indicator (beyond the GDP), an index of efficiency of the labour market, an index of vulnerability of work and an index of respect of trade union rights;
- The social and macroeconomic scoreboards should be put in correlation with environmental targets in order to identify policy options that build on positive correlations and synergies and urge policy options that are “game changer” when evidences show that economic and social policies are at odds with environmental objectives.

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

On top of what is expressed above on the need to introduce symmetric corrections and sanctions, the ETUC would like to stress that a new economic, social and environmental governance will have potential for a more effective enforcement of decisions coordinated at EU level.

The ETUC considers that strengthening the social dimension of the governance will exponentially 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. The ETUC asks for a stronger and structured interaction between monitoring and correction of imbalances in the fiscal, economic, social and environmental 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. Finally, the ETUC has often denounced that so far the social dimension remained underdeveloped.

After 3 years since the adoption of the Social Scoreboard of the European Pillar of Social Rights, and even more with the effect of the COVID-19 pandemic, it appears evident that there is an undesired bias in the economic governance architecture that leads to social deterioration. This is especially harmful when dealing with rebalancing social performances such as Public Employment Services, or human capital investments as the education system. It can even be dramatic when considering the deteriorating situation of the public health systems in some countries that had to face more intense fiscal consolidation process in the last decade.

An “Excessive Social Imbalances Procedure” should be established to rebalance the economic and social dimension of the economic governance. The ETUC supports the initiative of a Social Imbalance Procedure as proposed during the EPSCO Council meeting in October 2021, having regard to the need to improve such a proposal clarifying that: i) the cycle shall aim at removing social imbalances, in a logic of upward convergence of living and working conditions, ii) that this cycle should not be ancillary to the budgetary and macroeconomic cycle, and iii) social partners should be granted a role that actually allows them to participate in, and influence, the process.

The identification of social imbalances should automatically lead to country specific recommendations. This can be done through the definition of Medium-Term Social benchmarks, set at EU level in agreement with social partners, to be defined in National Plans (see question on reduced number of National Plans above).

Fiscal and macroeconomic recommendations should not hamper the correction of social imbalances identified. On the contrary, they should be supported by adequate investments and appropriate financial resources for the policy response.

In this regard, it should be specified that the benchmark on the social situation of a country cannot be based only on the continental average. The definition of a series of thresholds or minimum levels would incentivise their alignment through successive supervisory iterations, as has happened with deficit and debt levels. The Headline targets adopted in Porto at the Social Summit, and part of the Action Plan that implements the EPSR, provide good orientations. 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 the ETUC would provide a framework in which the monitoring of social performances can also 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?

We have to go beyond the SGP. The new reality requires stronger EU institutions bound by a new social contract that adopts sustainable development as a final policy objectives.

Strengthening the social and environmental dimension of the economic governance is crucial and, to achieve this, a substantial change in the fundamental rules of the economic governance is needed. Art.148 of TFEU is a weak counterbalance to the strength that the Treaty injects in the fiscal, market and macroeconomic components of the economic governance. To remedy this and have a greater impact, the EPSR, its renewed scoreboard and its Action Plan, endorsed on the 7th of May in Porto, should exert a stronger role and be better integrated in the architecture of the economic governance of the EU. The [ETUC “Resolution Inputs for an Action Plan to implement the EPSR”](#) provides concrete measures to reinforce minimum standards for all European workers and promoting upward convergence, especially through the European Semester. The ETUC proposal is to establish a framework that, through the EU Semester and social imbalances procedures, gives as output CSRs that address shortcomings unveiled by the social scoreboard and country-based analysis. This would actively promote the implementation of the EPSR and would be consistent with the provisions that appear both in the RRF and structural fund regulations that refer

to the implementation of the EPSR. The EU Semester will be confirmed as the part of the economic governance that contributes to enforcing the EPSR at EU and national levels so as to bring tangible benefits to European workers and citizens.

The ETUC proposes to reinforce the role of social dialogue at EU and national level also amending Regulation 1466/97 (similar to Regulation 1175/2011). Social dialogue is an irreplaceable tool of balanced crisis management and accelerating recovery as well as an essential governance instrument with regard to change.

Recital 4 of Regulation 1175/2011 says that the social partners shall be involved within the framework of the European Semester, on the main policy issues where appropriate, in accordance with the provisions of the TFEU and national legal and political arrangements. However, it does not provide for a clear obligation for Member States, which indeed do not respect this provision. The [ETUC Trade Union Involvement Index](#) has monitored for 5 years quality of trade union involvement in the EU Semester at national level. It shows that the level of involvement is unsatisfactory and depending too much on the good will of national governments. A small amendment in Regulation 1175/2011 (accordingly, changes are brought to Regulation 1466/97) may introduce an obligation on national governments to consult social partners at the national milestones of the semester (points c and d of article 2-a.2), introducing criteria such as good timing, meaningfulness and appropriateness of the consultation.

An overarching “partnership principle” should articulate rules for social partners’ involvement at European and national level in all processes belonging to the Economic governance of the EU. At national level, social dialogue should be promoted to ensure social progressive policy frameworks and greater consistency between national plans (National Reform Programmes, national recovery and Resilience Plans, Just Transition Plans, National Energy and Climate plans, operation programmes for structural funds, etc.).

In several questions of this consultation, and even in the Commission document itself, we point out that the present governance system imposes several unintended but pervasive biases.

The Semester cannot be limited to a deepening of the analysis but should implement a new development model. Effective monitoring and policy models are crucial for decision makers.

Sustainable development must have a fundamental role in the EU Governance, by including a close connection to the **European Green Deal**. The policy objective of green sustainable growth should keep an overall perspective: a “fair and just transition” would allow **to combine environmental and health protection with social justice and quality employment**.

When introducing the **SDGs in the EU Semester** we nurture the ambition to endorse a long-term view for rethinking our economic and social model toward a model that is based on climate-neutrality, strong other ecological criteria which reinforce biodiversity, inclusiveness and quality jobs. The ETUC believes that **Goal 8** has a **pivotal role** in the UN2030 Agenda. The Semester should be a process of convergence toward the best performers in Goal 8: in Europe, it means first of all implementing the European Pillar of Social Rights.

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

The EU and Member States have to cooperate with social partners to design European solutions that make the EU integration process irreversible and reconcile the EU citizens with the EU integration project. Many of the innovations and facilities introduced in the

emergency of the pandemic crisis go in this direction, and many temporary emergency solutions (such as the RRF and SURE, financed through EU-denominated bond issuances) can be redesigned to be permanent thus increasing the deeper integration and the unity of the EU.

When it comes to the revision of the Stability and Growth Pact and of the EMU architecture, one should take into account that the current crisis is raising enormous questions on the ability of Member States to absorb an increasing level of debt in a low growth environment. As referred in previous answers, the issue at stake is the difference between the interest rates paid on the debt and the expected rate of growth. The interest rate is very dependent on the role the European Central Bank can undertake. The ECB has launched its welcomed PEPP programme, but the ETUC requested it to last for an undetermined time period with unlimited capacity. Moreover, although the outcome of the ECB review of its monetary policy is disappointing in this regard, since there is no mention on the future of its unconventional policies or the enlargement of its mandate, one cannot neglect that monetary measures put in place in 2020 by the European Central Bank (ECB) de facto confirmed its commitment to stop any return to a sovereign-debt crisis, providing Member States margins of manoeuvre, from a fiscal standpoint. The implemented European indebtedness capacity should be made permanent, as a Treasury in the medium to long term, targeting the Eurozone but open to all EU Member States, to finance public investment for the needed socio-ecological transformation of our economies through a common debt instrument. The issued bonds could, if needed, be bought on secondary markets by the ECB and would represent solidarity in reputation, without implying real transfer, only implicit transfer between Member States.

Such instruments could be financed if taxes at the European level would be implemented and be targeted to increase the MFF own resources to back common EU-debt issuances by a Treasury targeting the Eurozone, but opened to all EU Member States.

So as to ensure a fair level playing field and enhance the fight against tax avoidance, and while welcoming first steps on the public Country-by-Country reporting and the upcoming agreement of the OECD/inclusive framework on tax avoidance, the ETUC demands that the Commission comes forward quickly with a proposal for a prompt implementation of a minimum corporate tax rate for Multinational companies (MNCs) and an ambitious plan for a common consolidated corporate tax base, with an adequate apportionment formula for profit reallocation. Moreover, the ETUC recalls its defence for a minimum corporate tax rate of 25%, which is crucially needed. Additionally, in view of the soaring of profits in some sectors and the global decreasing trend in corporate tax rates, corporate income tax rates can be increased immediately, either temporarily or permanently, because they will only affect profitable businesses. Indeed, according to recent studies, MNCs have increased their mark-ups by more than 60% in the last 40 years. Firms that are not making excess profits would pay nothing additional. In this respect, the European Commission fact sheet published in May 2020 mentions a proposal for a levy "*on operations of companies that draw huge benefits from the EU single market*" that could be considered as a rather interesting proxy, as long as one defines properly what the exact meaning of "*benefiting from the EU single market*" is.

The ETUC demands the adoption of a Financial Transaction Tax with the largest base achievable; and positively assesses the implementation of a progressive net wealth taxation at the European level that is not at the expense of national tax structures. Alternatively, consideration should also be given to levying a portion of very large estates. This levy should be paid in instalments over a longer period of time so that it can be implemented most effectively.

The revision of the Energy Tax Directive could be used to implement an EU-wide carbon tax to encourage more sustainable behaviour. As carbon taxes hit low- and middle-

income households harder, it should be ensured that any regressive distributional effects are offset by appropriate tax recycling mechanisms at the Member States level, such as direct lump transfers.

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, at both national and EU level. This way, a balanced economic policy can be established, where all interests are reconciled. This is particularly the case for the governance of the Recovery and Resilience Facility, where social partners' involvement has not been satisfactory. The partnership principle, which has long been a tradition in the governance of the European Structural and Investments Funds, should serve as a blueprint for an effective mechanism of social partners' involvement.

In the event of significant deviations from indicators representing the economic policy objectives, there should be negotiations between the EU institutions and the Member State. The two sides should develop solutions together and on an equal footing. Instead of threatening the Member States concerned with financial sanctions, the introduction of positive incentives could ease the problem. The promotion of inclusive and sustainable growth must be the key criterion in the recommendations.