ECONOMIC GOVERNANCE REFORM TASK FORCE

ETUC PAPERS

Contents

INTRODUCTION TO THE ETUC AMENDMENTS TO THE LEGISLATIVE MEASURES PROPOSED BY THE EUROPEAN COMMISSION CONCERNING REGULATION 1466/97, REGULATION 1467/97 AND DIRECTIVE 2011/85

The ETUC amendments to the Regulations on the preventive and corrective arms of the economic governance of the EU reflect the ETUC resolution on a new EU Economic and Social Governance (2021) and related positions available here.

The ETUC finds that the proposed reform, limited to certain aspects of the Stability and Growth Pact, is not ambitious enough. ETUC amendments try to correct the shortcomings of a partial reform, while it considers necessary that the Council of the EU engages with social and sustainability objectives also through a Pact for Employment and Investments that could rebalance the Stability and Growth Pact.

The ETUC amendments try to resolve the following shortcomings:

- The Fiscal Compact is not terminated and, even if the more loathsome part is apparently put aside, it may still be source of austerity-driven interpretation of the reformed fiscal rules.
- The reform does not retain in full the lessons learned from the RRF. In particular, the ETUC regrets that neither a fiscal capacity of the EU nor a EU-financed fund for investments are part of the reform.
- The ETUC is afraid that the attempt to simplify the economic governance of the EU may be vanished by the provisions concerning the adjustment trajectories according to the Debt Monitoring Tool.
- Finally, it is unclear how social objectives and job creation will be taken into account when analysing and evaluating fiscal sustainability of member states and, eventually, the activation of excessive deficit procedures.

With this limited ambitions and with factual risks to fall in the austerity trap again, the ETUC has approached the proposed reform of the Stability and Growth Pact setting the following priorities:

A first group of amendments wants to avoid too quick and too ambitious debt and/or deficit adjustments or requiring an unsustainable initial fiscal efforts. The ETUC proposes amendments aimed at starting the debt consolidation (or declining debt ratio) after the end of the adjustment period (in 4/7 years) plus Country-based deficit trajectories conditional to social criteria and objectives.

A second group of amendments ensures that investments are protected under the next expenditure rule and under the excessive deficit procedure. In particular the ETUC asks that fiscal efforts should be compatible with the greening and modernisation of the EU economy and the preservation of social cohesion in times of crisis. In particular, the ETUC proposes a different treatment for investments that create jobs and boost the green transition.

A third group of amendments aim at rebalancing macroeconomic boundaries with the achievement of the European Pillar of Social Rights building on article148 TFEU. The ETUC demands that when evaluating the risk position related to debt and deficit, the Commission and the Council should take in due account situation of employment, wage dynamics, poverty, social exclusion and other relevant social objectives of the economic governance. The social dimension of the economic governance is completed by requests to introduce the principle of fair and progressive taxation and protect public pensions expenditure to fulfil the principle of “ageing in indignity”.

A fourth group of amendments look at the democratisation of processes and role of social partners identified at milestones of the new processes introducing precise measures to mark the time of and quality criteria for the social partners’ involvement.

In attachment ETUC proposals to amend Regulations on preventive and corrective arms.

ETUC BRIEFING NOTE: WHAT TYPES OF PUBLIC INVESTMENT SHOULD BE GRANTED SPECIAL TREATMENT IN THE FUTURE EU FISCAL SURVEILLANCE FRAMEWORK?

One of the demands of the ETUC regarding the proposed legislation on the reform of the fiscal surveillance framework of the EU is that public investment, at least certain types thereof, receive special treatment, for example, through a 'golden rule', exempting them from the calculations of budget deficit for which corrective actions are required, or by amortising their costs over several years. Our position is that spending on public investment can have a positive impact on the productive capacity of member states in the medium- to long-term but also on aggregate demand in the shorter-term and, for that, we think that expenditure on public investment could generate growth and good jobs which would improve the sustainability of public debt but also social and environmental sustainability.

One of the questions that arise, however, is how these types of public investment should be defined. In this briefing note, we outline a few principles for choosing the types of public investment that should be prioritised for special treatment and provide some examples to illustrate these principles.

A first principle should be that these public investments should fall within the realm of the EU 'common priorities' as identified in the Annex VI of the proposed regulation (COM(2023) 240 final) as well as that of the 'Important Projects of Common European Interest identified in the European Commission Communication 2021/C 528/02 on the criteria for the analysis of the compatibility with the internal market of State aid to promote the execution of important projects of common European interest. If the logic of EU fiscal surveillance is that increased public debt creates risks that spill over from one member state to the rest, then public investment that creates shared benefits among member states and which can improve the sustainability of public debt should be one of the first priorities.

A second principle, should be that the definition of public investment should be broadened from that of the European System of Accounts (ESA 2010) to the one that is used for the implementation of the Recovery and Resilience Fund, as illustrated in the Guidance to Member States of the European Commission on Recovery and Resilience Plans (SWD(2020) 205 final). The definition of investment in the European System of Accounts (2010) includes spending only on what is considered as *fixed* capital, that is, on infrastructure, buildings but also R&D, patents and software). This is too narrow a definition.

In contrast, for the purposes of the national Recovery and Resilience Plans, (non-recurrent) spending that 'would bring about a structural change and have a lasting impact on economic and social resilience, sustainability and long-term competitiveness (green and digital transitions), and employment', thus including not just fixed but also human and natural capital, is considered as investment. Human capital is accumulated by means of spending on health, social protection, education and training, whereas natural capital is enhanced by actions aiming at increasing resource efficiency and the share of renewable natural resources, protecting or restoring the environment, or by mitigating/adapting to climate change. We believe that public investment in human and natural capital is essential for the well-being of citizens, and especially of an aging population, as well as the well-being of the planet.

The Sustainable development Goals of the UN2030 agenda offer the most advanced and consensus-based framework to prioritise investments that at the same time contribute to environmental and social objectives of the sustainability agenda. Creating sustainable jobs reflecting decent work **standards, especially those set by collective agreements, should be a leading principle.**

A third principle, nested within the above two, should be that special treatment should be given to public investment that integrates *explicitly* and *ex-ante* green and social objectives, what we could call 'eco-social' public investment. This should provide some safeguards against the emergence of a new imbalance between the green/climate and the social dimension of the EU socio-economic governance, which increasingly includes a climate dimension (through for example, the need to coordinate fiscal-structural plans with the national energy and climate plans). Of particular importance to us is that the jobs created by public investment in the twin green and digital transition should be of high quality across all the dimensions that we consider important. Public 'eco-social' investment would also help citizens and workers, especially the more financially vulnerable, face the cost-of-living difficulties that climate change and climate mitigation policies are expected to trigger (what Isabel Schnabel of the European Central Bank had called 'climateflation', that is, inflation due to climate policies). More broadly, public 'eco-social' investment would help mitigate the current disadvantage that social priorities seem to have relative to green priorities in the various EU policy frameworks, because EU legislation on climate is more extensive and binding than it is for social issues.

ANNEX: Non-exhaustive list of examples of public investment which would fit the above criteria are the following:

- Social investments (related to SDG8): Employment and skills, Education and childcare, Health and long-term care, Social policies, currently defined under the RRF.
    - 1. Adult learning, including continuous vocational education and training; recognition and validation of skills
    - 2. Employment support and job creation, including hiring and job transition incentives and support for self-employment
    - 3. Modernisation of labour market institutions, including infrastructure, employment services and forecasting of skills and labour inspectorates; employment protection and organisation; social dialogue and wage setting mechanisms; adaptation of workplaces
    - 4. Early childhood education and care: accessibility, affordability, quality and inclusiveness, including digitalisation and infrastructure
    - 5. General, vocational and higher education: accessibility, affordability, quality and inclusiveness, including digitalisation and infrastructure
    - 6.Healthcare: resilience, sustainability, adequacy, availability, accessibility, affordability and quality, including digitalisation and infrastructure
    - 7. Long-term care: resilience, sustainability, adequacy, availability, accessibility, affordability and quality, including digitalisation and infrastructure
    - 8. Social housing and other social infrastructure
    - 9. Social protection, including social services and integration of vulnerable groups

- Investment aiming to achieve any of the 6 objectives mentioned in article 9 of the EU Taxonomy regulation (2020/852), such as:
    - Renovation of buildings, especially in schemes with an integrated social dimension, aiming progressively higher state financial support to households struggling more with covering the costs;
    - Greening of transport, esp. modal shift from private to green public transport, especially in areas with lower incomes;
    - Decarbonising industry: development of green hydrogen, greening of heavy industries, waste management and circular economy with the creation of high quality jobs;
    - Research, development and innovation esp. supporting the greening of economy and energy security;

    - Investment to support regions and workers in sectors particularly affected by decarbonisation beyond EU funding, to ensure also good working and living conditions.

- Investment in human capital social infrastructure, such as:
    - health, incl. long-term care to deal with consequences of ageing populations and improve well-being;
    - education and training, incl. early childhood care and skills for the green economy;
    - housing (esp. when integrating climate objectives as well).

- Other SDG related investments
    - Invest in rural areas for sustainable agriculture and food production with fair working conditions.
    - Investment for an inclusive digital transformation, such as the upskilling/re-skilling workers and citizens to fully benefit from digital technologies
    - Inclusive smart cities, with specific references to disabilities, work-life balance, women position in society, sustainable mobility, accessible and quality public services, etc.
    - Investments to interconnect rural area, reduce inequalities, addressing depopulation of remote and rural areas, create equal opportunities for education, access to fundamental services and transport in rural and remote areas.

REFORM OF THE ECONOMIC GOVERNANCE AND RECOVERY AND RESILIENCE FACILITY (ADVOCACY)

The ETUC appreciates the Recovery and Resilience Facility, it saved jobs and supported SMEs while greening the EU economy. The RRF positively exploited the EU capacity to raise resources issuing EU bonds; it allocates resources through a solidarity-based distributional keys; it reinforces unity of intents of member states on common objectives such as the Green Deal. The implementing of the RRF also injects mid-term development planning, mitigating the short-termism that characterises the current economic governance of the EU.

Against such positive development, the RRF implementation meets some difficulties as well. Until now the EU has disbursed €106 billion of grants and about €50 billion of loans. Not a big result for a programme that was supposed to be "frontloaded". Only €27 billion can be referred to green and digital objectives (the 2 areas subject to quantitative benchmarks). Only 11% of the milestones across the national plans have been met so far. Social objectives remain underrepresented. Among them, labour-related measures remain marginal so just transition measures. The new economic governance has to take the best of the RRF while addressing emerging challenges!

ETUC members reported on bottlenecks delaying the RRF implementation. Understaffed public administrations, inefficiencies and red-tape delay the implantation of most innovative projects. Corruption, bribing, interferences from criminal organisations, frauds, money laundering present a huge obstacle to the effective implementation of RF resources. There are also impediments stemming from mismatching between NRRPs projects and local communities' needs; there are difficulties to manage financial flows (for instance creating new assets, not having margins to increase the expenditure needed to operationalise them), and rapidly changing priorities that create time gaps between planning and implementation of specific projects.

In this regard, a weakness factor of the RRF is the lack of involvement of social partners. It appears unrealistic to plan investment and reforms, that transform the way we produce, consume and work, without a proper involvement and engagement of social partners in the monitoring, implementation and accountability of the NRRPs.

The RRF lessons were partially received in the ongoing reform of the economic governance. The ETUC remarked already that the EU fiscal capacity for investment and solidarity is neglected. The net-expenditure rule does not consider that assets need to be operationalised. The current reform takes from the RRF regulation the idea of Mid-Term Structural Fiscal Plans organised with investment and reforms but with limited involvement of social partners. It also confirms the EU Semester as the main process that monitors and orientates the implementation of national plans but not clear how the current bottlenecks in the implementation of national plans will be addressed.

The new economic governance should confirm what is good in the RRF and remove obstacles and shortcomings to its implementation. Therefore, the ETUC proposed amendments that, especially in the preventive arm:

- specify when and how social partners should contribute to the definition, implementation and accountability of national plans and along the EU Semester.

- Reinforce social objectives elevating Art.148 TFEU at the same level of articles 120, and 126 TFEU.

- improve the content of Mid-Term Structural-Fiscal Plans with clearer reference to social objectives, sustainability constraints, progressive taxation and preservation of adequacy of pension systems.

- introduce the principle that better coordinate investment need with public expenditure levels to operationalise available new or upgraded assets.

- ask that along with the legislative reform of the Stability and Growth Pact the Council engages with the elaboration of a proposal for a fiscal capacity of the EU to finance EU investments, trigger upward social convergence and activate new quality jobs.

COMMUNICATION

MORE JOBS FROM RECOVERY AND RESILIENCE INVESTMENT AND LESS AUSTERITY

While our governments struggle to spend money of the EU recovery plan, workers are worse off with less jobs, poorer pensions and less climate-friendly investments.

The implementation of the Recovery Plan meets obstacles that were built in the past because not having heard workers and their unions, measures envisaged in the plans are not viable. Moreover, unfortunate cuts to public administration and tolerated corruption. On the contrary, workers would be better off if we restart investing in staffing local administrations, building modern and sustainable infrastructures, and promoting quality work in the public and private sector.

With the petition No Austerity 2.0 the ETUC mobilise for new rules that link investments with job creation, with less pollution and less global warming; for jobs of good quality because regulated by our trade unions, that government's expenditure is evaluated according to the adequacy of unemployment benefits, pensions and minimum income.

THE DEBT ISSUE IN THE ECONOMIC GOVERNANCE REFORM

Advocacy section

The ETUC has introduced amendments to the proposed reform of the Stability and growth Pact aimed at

- avoiding that debt consolidation (or declining debt ratio) start before the end of the adjustment period (in 4/7 years) that each member state has to agree with the Commission and the Council when issuing the Mid-Term Fiscal -Structural Plans;
- investments and social expenditure are protected under the net expenditure rule.

The ETUC proposals will likely clash with some influent Member states which are strongly focused on risks associated to allegedly excessive government debts. <u>It is necessary that the ETUC opposes misleading narratives on sovereign debt levels in the EU and risks associated to that.</u>

As first thing the ETUC wants to confront the narrative that wants the Euro Area confronted with a public debt challenge. Actually, the Euro Area aggregate debt is at 93% of GDP. This is higher than before the pandemic in 2019, when it stood at 84% of GDP but it has been neither the result of profligacy nor does it demonstrate characteristics of unsustainability. Public debt ratios rose since 2020 because member states deployed economic policy responses to counter the consequences of the pandemic, responses which allowed the EU economies to recover faster and GDP grew at a relatively high pace in 2021 and 2022 so decreasing the debt to GDP ratios, although nominal debts and deficits were high. Most of the debt generated during the pandemic was bought by the ECB and was issued at very low interest rates and with longer maturity terms. Public debt rose further as governments also took fiscal measures to support citizens against the soaring cost of living following the Russian invasion in Ukraine.

According to most recent ECB projections, the public debt ratio is expected to fall in the next couple of years primarily thanks to the fact that output growth is expected to outstrip interest rates, a fundamental condition for public debt sustainability, and this despite currently high interest rates.

Secondly, Europe faces sustainability challenges which require much higher public investment. It would be therefore counterproductive to sacrifice public investment that are massively needed, such as this necessary to implement Fit-for-55 package and to fulfil the EPSR principles to meet outdated debt target levels

Many argue that the high public debt ratios of certain member state - such as Greece, Italy, Spain, France, Belgium, Portugal - is worrisome as it could create spillovers for the rest of the Eurozone instead. The ETUC is convinced that debt position of member states should be evaluated against the possibility of failing to enhance environmental and social sustainability and its spillovers by holding back productive investments selected to create jobs and achieve vital environmental objectives. Such member states should firstly improve the efficiency of the public administration, fight corruption and re-establish social cohesion as best guarantee to have a more broadly defined sustainable economy.

The EUC amendments to the legislative package should go together with the following demands that have to complete the reform of the EU economic governance:

- Supportive monetary policies of the ECB,
- EU-financed investments tools
- Creating objectives for nationally-financed investments
- Good governance criteria to ensure that investments are environment-friendly and job-rich

COMMUNICATION

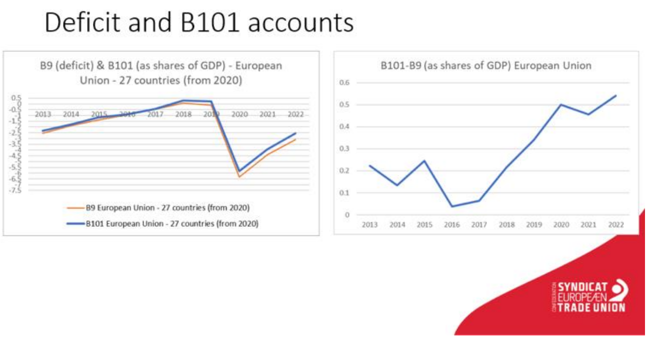
CUTTING PUBLIC DEBT TOO QUICKLY AND TOO MUCH IS HARMFUL FOR EUROPEAN WORKERS

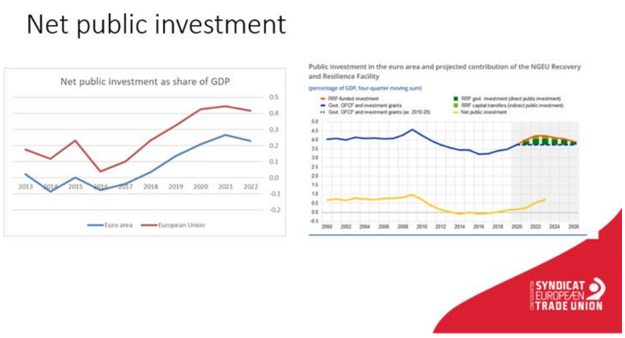
An economic governance that cuts public debt - to quickly and too much - will only transfer the cost of inefficient decisions on workers. The risk for European workers is to set the EU back on to austerity tracks. Asking member states to reduce their debt - too quickly and too much - means job losses, downward pressure on wage, attacks to collective bargaining and less generous protections against employment or together adverse facts of life. On the contrary, the ETUC thinks that public debt, when well managed, increases the role of the state for the wellbeing of people. The ETUC strongly ask that governments can use the debt leverage to activate investments for sustainability in a way that economic growth is decoupled from destruction of natural resources and global warming.

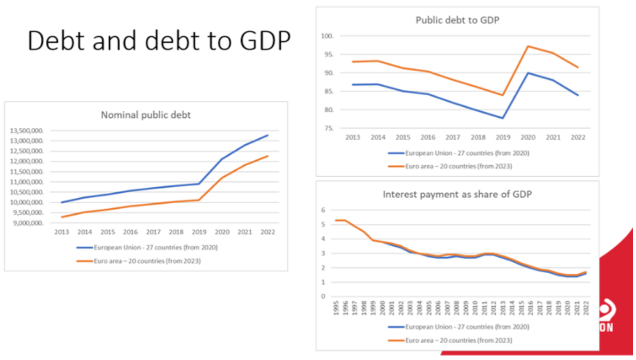
If you want an economic governance that produces sustainable jobs with better wage and better pensions, sign our petition

STOP AUSTERITY 2.0

USEFUL GRAPHS







ON AGEING AND ECONOMIC GOVERNANCE REFORMS

The current/former SGP rules reward MS which introduce full funded pension pillars so incentivising a reduced solidarity. Moreover, the concept of cost-of-living caps expenditure for health, long-term care, pension to demography and growth, so forcing privatisation of welfare systems. It is at the origin of CSRs strongly detested by people and fought by trade unions.

The objective of this note is to underline how:

- *the EPSR imposes that adequacy of benefits must have equal relevance as fiscal sustainability and the cost-of-ageing concept replaced by ageing-in-dignity*
- *pension and retirement issues should be treated separately from the economic governance debate, or to make it an political issue, which could be disregarded when dealing with fiscal rules.*

The proposals for the reforms of the EU economic governance refer quite regularly to the costs of ageing and particularly of pensions as a fiscal challenge, which could endanger Member State's fiscal sustainability. The ageing challenge is often illustrated by the doubling of the old age dependency ratio (population 65+ to population 15-64) from 26% in 2010 to 50% in 2050. In other words, the problem resides in less people working and contributing to pension schemes, with more people heading towards retirement and for longer than in the past decades.

As a matter of fact, revenues must increase and/or costs must decrease, but one should keep in mind that most of the technical assumptions for pension issues are based on positive growth prospects.

So far, the current approach in the economic governance framework has mostly led to cut-based and cost-saving pension reforms, that results in inadequate pension benefits or indiscriminate raise of the retirement age for workers. None of the proposals are satisfactory from a trade union perspective. However, If nothing changes, indeed, the systems will be in trouble.

Another basic fact about pensions is that they are financed (be it through distribution schemes or capitalisation schemes) by withdrawing from the economy a given amount each year to pay pensions the same year (distribution schemes) or when pension age arrives (capitalisation schemes).

Clearly, fulfilling all principles of the European Pillar of Social Rights policies enabling an increase in revenue (through an increase in the number of contributors) to the pension systems is part of the solution, as stipulated in the HLG Report on the future of social protection and the welfare states. Nonetheless, even assuming full employment and positive net migration policies (since it does not seem reasonable to call for an increase in fertility rate) the active population could still prove insufficient to covers pensions' financial needs.

However, since forecasts assume that growth-should be in positive territory in the long time horizon, this means that the economy will create more income with less people working and more people retired. Important productivity gains appear - GDP per hours worked increases - that must be redistributed to an increased number of pensioners. A share of the wealth created should be devoted to them. Increasing, in a progressive manner and better balanced between workers and employers, social contributions, could allow for an increase in revenue while defending social justice. Increasing other sources of taxation in a progressive manner could also be another way.

In this respect, from an economic governance point of view, pension budgets could be treated separately and exempted from deficit and debt calculations, since the demographic change is a structural change, and pension systems should be balanced in the middle to long-term. Only if

Member States do not act such an issue should be debated. This solution would allow member states to tailor their pension policies in a manner that respects the sustainability of adequate pensions, in a logic of upward convergence, while better adapting to the country need-based reforms and the design of the pension systems in the most efficient manner, compatible with the national traditions.

Whatever the reforms are , adjustments will have to take place and this is a national political choice, on more redistributive policies encompassing remuneration, taxation, social contributions and pensioners' well-being developments, rather than an economic governance issues

In the proposed reform of the economic governance, there are no specific measures any longer but the cost of ageing and impact of pension reforms are embodied in the elaboration of the fiscal trajectory (art. 6a), the expenditure path (articles 12 and 13) and plausibility of debt ratio trajectories (art. 8 and Annex V + the non-legislative tool Debt Sustainability Monitor).

We propose to include a principle of **ageing in dignity** which assumes that expenditure paths are considered aligned with the EPSR when they ensures adequate, affordable and universal access to health, long-term care and pensions for all, having in mind the changing needs of an ageing population. It is then defined as a debt trajectory that accommodates health, long-term care needs and pension income of an ageing population.

AMENDMENTS TO REGULATION ON PREVENTIVE ARM (IF AGREED, THEY WILL BE MOVED IN THE TABLES OF AMENDMENTS)

In ANNEX II the following sentence is included:

(d) Information ~~on implicit liabilities related to ageing, and~~ contingent liabilities with a potentially large impact on government budgets, including government guarantees, non-performing loans, and liabilities stemming from the operation of public corporations, including the extent thereof, potential expenses and obligations arising from court cases and, to the extent possible, information on disaster and climate contingent liabilities.

(D bis) Information on implicit liabilities and need analysis related to ageing of the population, along with medium-term plans for financing such of an ageing population with specific reference to relevant the EPSR principles and the achievement of EPSR target on poverty.

…

(p) ~~For Member States with low public debt challenges but large implicit liabilities due to population ageing, the national net expenditure trajectory and the reforms in the national medium-term fiscal-structural plans should take due consideration of long-term fiscal sustainability challenges of public finances.~~ ~~**When drawing such considerations an information will be provided on needs related to ageing of the population, along with medium-term plans for financing such of an ageing pollution with specific reference to relevant the EPSR principles and the achievement of EPSR target on poverty.**~~

In Annex III, the following sentence is added:

(k bis): A description and quantification of the expenditure and revenue measures that fulfil the requirements under points (d bis) and (p) in Annex II and risks that threaten the capacity of the member states to provide adequate, affordable and universal access to health, long-term care and pension income in alignment with the EPSR.

In ANNEX V the following sentence is added:

- **(NEW): When assessing the plausibility of debt trajectory, the European Commission should consider pension as an independent variable ensuring that adequate, affordable and universal accesso to health, long-term care and pensions, having in mind the changing needs of an ageing population.**