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European Commission Review on the EU's Economic Governance Framework

Position of the Presidium of CESI

The European Commission adopted a Communication[1] setting out orientations for a reformed EU economic governance framework[2] on November 9 2022. This framework most notably includes the Stability Growth Pact[3] which stipulates a general (but to a certain extent flexible) prohibition of annual public deficits of the Member States of more than 3% of the national GDP as well as a long-term compliance with a debt-to-GDP ratio of no more than 60%. During the last decades, many countries have violated these rules.

Critics argue that the framework is too rigid to respond to major social, environmental and macroeconomic challenges. Particularly in times of crises – such as the integration of migration inflows post-2015, the Covid crisis post-2019, the financing of climate change mitigation and digitalisation, and now the war in Ukraine – substantial ad-hoc public spending and investment is required. Supporters argue that strict fiscal rules and surveillance are needed to keep unhealthy public debts at manageable and sustainable levels.

With the war in Ukraine, the need for public spending and public investments is expected to further increase. The discussion about a sustainable and commonly accepted EU economic governance system is therefore a salient one and will continue during 2023.

The Presidium of CESI considers:

1. Investments in well-resourced and resilient public services seem costly in the short term, but they pay off in the medium- and long-term because the next crisis comes for sure – it is just not clear when exactly, where, and which form and scope. Building public services which are performing and resilient to crises is important.

2. In view of the austerity-based policy responses to the financial crisis post-2007 (which led to heavy adverse social and economic disruptions) and the investment-based response to the Covid pandemic (which kept unemployment at bay and has led back relatively quickly to a path of economic growth throughout Europe) it seems plausible that the latter approach is in principle preferable to the former. This should be noted for further crises.

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022DC0583&qid=1669888504282
[2] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction_en
[3] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correctiontability-and-growth-pact_en

3. The current temporary Recovery and Resilience Facility (RRF) of the EU has been of most importance for Europe’s investment-oriented recovery after the Covid pandemic. It has been an appropriate approach to allocate funds based on national investment plans developed by the Member States themselves, but checked and controlled by the European Commission before and after execution. It remains important that the European Commission ensures that spending takes place in line with EU priorities and only for projects and initiatives that will most likely pay off over time.
4. At the same time, sustainable public debt targets over time should remain at the core of the EU’s economic governance framework. To finance increased needs for public spending, tapping new financial revenue opportunities should take precedence over new debts. Taxation policy can serve as an example. Carbon taxes, financial transaction taxes, digital taxes and increased capital taxation (especially compared to labour taxation) offer ample new public revenue sources which moreover foster socio-economic fairness for societies.