REFORMING EU MACROECONOMIC GOVERNANCE

GREENS/EFA POSITION PAPER

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EXECUTIVE SUMMARY

THE GREENS/EFA
in the European Parliament

Executive Summary

The recent history of Europe is one of recurring crises. The global financial and euro crisis a decade ago have exposed stark divisions in Europe while bringing about some reforms to the Eurozone' institutional architecture, without solving the underlying lack of risk-sharing mechanisms to address economic shocks.

More recent economic crises have further exposed that **Europe does not have the right fiscal rules, institutions, or economic coordination mechanisms.** The Covid-19 pandemic has required a suspension of Europe's fiscal rules, and the creation of Next Generation EU, a far-reaching yet temporary instrument based on joint EU debt. In the current juncture, the Russian war of aggression and weaponisation of energy led to divergent measures among member states, pointing to the need for a coordinated EU response providing a targeted social safety net whilst laying down the foundations of a truly energy independent Europe.

This **sense of perma-crisis is set to continue** amid a succession of record-breaking heat waves, forest fires, and droughts. The climate emergency is a long-term challenge that will require more than the slow adoption of ad hoc emergency responses seen up until now.

Instead of lurching from crisis to crisis, **Europe has to become more resilient,** with a macroeconomic governance that allows it to absorb economic shocks, finance the just transition to a decarbonised future, and protect social investment to ensure no one is left behind.

An ambitious reform of the currently suspended Stability and Growth Pact (SGP) is urgent. The current fiscal rules are widely discredited: counterproductive, pro-cyclical, promoting short-termism, indifferent to spending quality, asymmetric, unenforceable, based on unobservable variables subject to massive revisions, and ultimately aiming for arbitrary numerical reference values (the 3 and 60 percent of GDP deficit and debt levels) that were agreed under vastly different circumstances 30 years lacking any economic rationale.

Moving away from a **narrow vision of EU economic governance based on mistrust** means that we view rules at EU level not as a constraint but as an enabling condition to orient national budgets towards the pursuit of commonly identified EU policy objectives, including social and territorial cohesion and environmental sustainability. We need a framework that does not focus only **on the quantity of spending and borrowing** from a narrow accounting perspective, **but instead assesses its quality.**

To achieve this, we refocus the fiscal rules away from **annual deficits**, and towards the more relevant metric of the sustainability of public debt from a long-term perspective. Under this rule, **country-specific debt adjustment paths** are agreed with each Member State, with debt sustainability assessments **incorporating the fiscal consequences of climate inaction,** which may require increases of targeted green expenditure. To properly account for any debts incurred in order to accelerate the just transition, we introduce **amortisation** as the accounting method for investments recognised as sustainable under a green golden rule, i.e. green (renewables, energy efficiency, grids) and social (housing, education, healthcare infrastructure, national co-financing of cohesion funds) investments. Amortisation spreads the cost of net public investment over the life-cycle of an investment (e.g. 20 years or more), instead of fully accounting for it upfront. This allows the frontloading of urgent climate investments, flattening the emissions reductions curve in line with the Paris Climate Agreement-aligned scenarios.

To speed up the green transition and ensure Member States can and do invest also where debt levels are high or the political inclination to address the climate emergency is limited, we need a follow-up instrument to the recovery and resilience fund (RRF). Based on Article 122 to address the climate and energy price emergencies, the **EU Energy Transition Facility would be funded via joint EU debt-issuance**, and address the surge in energy prices with grants for energy efficiency and renewable energy.

The **governance** of the SGP is overhauled, moving to **multi-year National Investment and Reform Programmes (NIRPs).** These programmes are co-created between incoming national governments and the European Commission **at the beginning of each legislature**, and validated by the Council and the European Parliament. The latter shall have a binding say if national programmes are rejected, and in the disbursement of Energy Transition Facility funds. Investments funded via this new facility as well as expenditures receiving a preferential treatment under the green golden rule are made conditional on compliance with the new set of fiscal rules and are aligned with the country-specific reforms and investment priorities set out in the NIRPs. These serve as additional incentive to implement the commonly agreed programmes. Independent fiscal institutions at national level, operating under commonly developed methodologies and minimum standards for governance and accountability, serve as additional checks on the new framework.

This position paper embeds these changes in **broader reforms of the EU macroeconomic governance framework**, including a completion of Banking Union notably through a European Deposit Insurance Scheme providing private stabilisation via the banking sector, as well as making the European Stability Mechanism the EU's debt agency under the European Commission.

A section focusing on **Treaty change** includes the introduction of majority voting on **tax matters** and governance of **EU own resources** under the ordinary legislative procedure, a permanent fiscal capacity at EU level, and changes to the deficit and debt limits of 3 and 60 percent of GDP. Finally, the Green Group in the European Parliament proposes a clarification of the **European Central Bank's** mandate and accountability, notably introducing dual interest rates to boost private investment in the green transition.

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