ETUC position: An EU Economic and Social Governance for a prompt, strong and sustained recovery

Adopted at the virtual Extraordinary Executive Committee Meeting of 9 June 2020

Summary of key ETUC demands

In the aftermath of the crisis, and once EU fiscal policies normalise, it will be crucial to avoid making the mistakes of the past. After a decade of austerity and cuts, in the name of fiscal consolidation, with the result of exacerbating inequalities in society and at work, it is time now for a recovery strategy based on an ambitious, fair and inclusive approach. We need a new EU economic and social governance, with new parameters and rules, with a more people-centred agenda, aiming at increasing public expenditure and investment to support the green[1] and digital transition, as well as the industrial base and the related value chains.

The ETUC proposals advocate for a fairer Europe, well anchored to the EU fundamental values but with renewed treaties which better serve mainstream policies with high social potential, such as the European Pillar of Social Rights (EPSR), the EU Green Deal and the Sustainable Development Goals (SDG) of the UN2030 Agenda.

When implementing the EPSR, the EU governance should ensure that workers' rights to **collective bargaining** and fair remuneration are fully respected in all Member States.

Our proposals aim at a prompt, strong and sustained recovery of a more integrated Europe with the primary objective to protect and empower people. Increasing the EU's own resources to 2% of Gross National Income (GNI) - should back the implementation of the fiscal capacity to issue EU-labelled debt instruments that, in the post pandemic crisis, will generate 3 trillion euros expenditure for investments, employment and health systems.

It requires stronger EU institutions bound by a new social contract that adopt European social dialogue as a pillar of its governance and sustainable development as a leading objective. Multilateral surveillance processes should better integrate fiscal, economic and social objectives of the EU whose impact will be assessed against the creation of high-quality jobs and wage increases within an upward convergence process between Member States. Economic and employment stabilisers at EU level would ensure a more balanced economy and would counteract adversities whenever they occur.

The new economic and social governance of the EU should be based on full employment with high quality jobs, an inclusive society, and increased public spending and investments, especially delivering quality public health, education and training and social protection for all and protecting vulnerable groups. Within the exit phase from the pandemic crisis specific attention needs to be given to the circumstances of women and young people. The new governance should be based on creating stimulus for public and private investments, supported by the accommodative monetary policies of the ECB, mandated with full employment and price stability on an equal footing.

Investments should be promoted by a fiscal capacity and a golden rule for public investments. At the same time, urgent measures are needed to rebalance the prolonged current account surpluses some Member States have been experiencing for the last decade.

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[1] The terms "green transition" are meant as just transition towards a carbon neutral and circular economy

GENERAL PRINCIPLES

Several aspects of the architecture of the current economic governance are obsolete, especially in the aftermath of the pandemic crisis. The trade union movement is convinced that **the new governance has to be *fair* for people and aim at full employment, pursuing upward convergence of living and working conditions of Europeans, removing inequalities and eradicating poverty, in an ecologically friendly way. This should be supported by an ambitious action plan to implement the EPSR, in particular promoting collective bargaining and fairer public procurement, and improves** monitoring and accountability for results attained.

A reformed governance of the EU should come along with a clear, ambitious, and coordinated EU recovery plan to address the extraordinary nature of the crisis. It should be supportive of a massive fiscal stimulus underpinned by a European Union able to mobilise resources and investment, in order to address the relevant risks of a huge recession and unemployment following the emergency phase. ETUC priorities can be found in the ETUC Statement on the COVID-19 outbreak.

The pandemic crisis is leading Europe to deeper economic divergences and to social challenges that need to be addressed urgently. It brought some Member State to take the momentum to call for common efforts to overcome the current difficulties that hit the entire EU population. It is an exercise of solidarity but with excessively fragmented policy responses. At the same time, measures like SURE or other relevant stabilisers, could pave the way for a further integration of the EU.

It is crucial to evaluate the medium to long term effects of the pandemic crisis in different economic sectors and the labour market, and consequently re-evaluate social policies that boost the economy and employment. Income support and high coverage and effectiveness of social transfers will allow to maintain consumption levels, in turn stimulating economic recovery.

The European Commission, in its Communication ***'Europe's moment: Repair and Prepare for the Next Generation'*** published on 27th May 2020, has launched a strategy for recovery **'Next Generation EU'**, that includes funds of up to €750 billion, which together with €1.1 trillion from the Multiannual Financial Framework 2021-2027 will bring the total amount of the own resources of the European Union to 2% of EU Gross National Income, on top of the already launched emergency measures (€540 bn) and ECB so-called PEPP programme (€750 bn). The recovery plan proposed by the European Commission includes many demands pushed forward by the ETUC, and it is a significant step in the right direction. (ETUC Resolution on the EU recovery strategy after the COVID-19 outbreak – Adopted at the Extraordinary Executive Meeting of 9 June 2020)

ETUC appreciates that such a massive investment will largely be provided to member states through direct grants (€500 bn out of €750 bn), and that the money will be raised via common debt instruments guaranteed by the European Commission. ETUC also appreciates that the Commission will propose a number of new own resources, based on the Emissions Trading Scheme, a Carbon Border Adjustment Mechanism and on taxation of the operation of large companies, including a new digital tax and the Commission's proposals for a simplified Value Added Tax and a tax on non-recycled plastics. Additionally, progressivity of the national tax systems must be ensured, and unfair tax competition to be stopped through EU common corporate tax base and minimum tax rate, and reinforced fight against tax havens, tax evasion, avoidance and fraud.

Such a framework would provide the basis for a new EMU architecture with a fiscal capacity to issue EMU debt instruments, as a European safe asset, for increasing the EU's ability to act decisively in combatting the Corona-crisis and financing the necessary investments to make the Green Deal succeed. Ultimately the expected fiscal capacity could be turned into a Treasury, targeting the Eurozone, but opened to all EU Member States, issuing bonds for public investment and collecting taxes on an EU basis for a more integrated European Union supporting Green transition and social justice.

The economic governance should promote the rule of law, throughout the EU.

A NEW ECONOMIC AND SOCIAL GOVERNANCE OF THE EU

Full employment, the green transition, upward convergence of working and living conditions and strengthening of social protection (with public health and social care at the forefront) should be at the heart of a new governance framework; while ensuring fiscal sustainability, which is measured as the amount of interest devoted to servicing and refinancing public debts as shares of GDP. The ETUC asks for the termination of the Fiscal Compact to adopt rules that better reflect social and environmental objectives enshrined in the Treaties and through a deep revisiting of the Stability and Growth Pact according to the proposals of this resolution.

The European Central Bank should be mandated with the objectives of full employment and price stability, and should be allowed to act as lender of last resort through Quantitative Easing programmes when necessary.

Single fiscal reference values for all member states proved to be ineffective, the new governance should be based on multilateral surveillance that select country-specific fiscal targets which better reflect the socio-economic situation of the country and fiscal sustainability together with the social and environmental targets of the EU. Greater emphasis should be put on the difference between sovereign interest rates and expected rates of growth. Appropriate medium-term policy planning, in relation to fiscal targets and reforms, should promote full employment, social justice universal access to quality health and social care, adequate and effective social protection for all and the green transition. The sustainability of public finance should be assessed against this backdrop. The EU multilateral surveillance framework can help this process as far as, bound to the social and green agendas, it improves transparency, reliability and openness of policy-making, with more opportunity of involvement for social partners.

The ETUC:

- still strongly opposes the Fiscal Compact, as the budget balance and debt criteria are far too severe and lead to a contractive fiscal policy detrimental to economic growth and without a clear impact on debt sustainability,
- considers that the output gap framework used for EU fiscal guidance brings pro-cyclicality and lacks transparency, and
- finds that the six-pack legislation, and subsequent changes, have not reduced the procyclicality of fiscal policy and have not prevented severe cutbacks in public investment over the past decade in some Member States.

A renewed Stability and Growth Pact should facilitate full employment, universal quality health and social care services, education and training, social protection and an appropriate green transition. Public deficits and debts should be derived from these targets. Such deficits are necessary to support the aforementioned activities and will not encroach on private spending, on the contrary, they could even trigger it. It will not raise the interest rate, as far as the interest rate could remain lower than the expected rates of growth, since the ECB should be mandated to target full employment and price stability on an equal footing. The issue of coordination should not only be addressed with regards to the various fiscal policies within Member States but also between the monetary policy implemented at EU level and the fiscal policies implemented in the various Member States as a matter of fiscal sustainability.

The ETUC demands that public investment in infrastructure, as well as in universal and high-quality education and training, healthcare and research systems, should not be counted when national deficit levels are assessed. This is particularly relevant in economic downturns when fiscal multipliers are high. A Golden Rule for public investment would allow public investment to be financed via deficits. Formulated as an expenditure rule, the concept of structural deficit within the SGP would be abandoned.

Within the Euro zone, the correction of **macroeconomic imbalances**, especially regarding the current account balance, should be subject to symmetric approaches according to which excessive and prolonged deficits will be treated as well as prolonged and excessive surpluses. Fiscal policies should take in greater consideration European aggregates. For instance, when the EA deficit allows for a positive fiscal stance, (as in the last two years) extra expenditure should be sought also offsetting the position of countries in excessive and prolonged surplus. Last but not least, the policies aiming at avoiding macroeconomic imbalances (MIP) should be **coordinated with the social and fiscal rules**: social, economic and fiscal rules should be aiming at levels of output in each member state which are compatible with full employment and stable inflation.

The EU Semester process will aim at **adequate protection to all people,** including setting EU minimum standards when needed to boost upward convergence of living and working conditions. To do so, **the involvement of social partners is crucial,** also in the view of **reinforcing the democratic tenure of the Semester with more social dialogue at all levels.**

The **EU Semester** should be designed in a way that aims at stabilising **the EU economy, maintaining high levels of public investments, and a more prominent presence of EU automatic employment stabilisers** (permanent scheme to mitigate the unemployment risks in EU).

Private investments should be encouraged, creating a more favourable environment for investments. The "**InvestEU**" fund regulation should be modified in a way that widens the social window, specifying terms of social investments while not allowing private provision and particularly public-private partnerships to replace direct public provision, especially making reference to the EPSR, with a solid impact on jobs in the activities financed. The second change should fulfil the ETUC demand to be part of its governance. During the present emergency period the financial policy should have specific measures to support the whole touristic chain, also revising/changing the regulations of European structural and investment funds.

REINFORCING THE SOCIAL DIMENSION OF THE ECONOMIC GOVERNANCE

The ETUC is convinced that a strong recovery can only rely on a resilient social model. The new Economic and Social Governance needs a regulatory and financial framework to frame social progress, demographic change, climate neutrality and economic growth into the same picture. The exit from the pandemic crisis amplifies the magnitude of such challenges.

As the **European Pillar of Social Rights** (EPSR) is implemented also via the EU Semester, it is crucial in this historical period that the economic governance better promotes and enables social investment and investment in **skills**, education and training, quality healthcare and social care services, job-search assistance and social protection.

Implementing the EPSR means providing Member States with direction and also suggesting common legislation to be adopted and/or agreed on **common social objectives within the framework of strengthened cooperation, coordination and solidarity**. This is even more necessary now, as we will be facing the negative effects of the COVID-19 pandemic in health, employment, social and economic aspects. 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, and European Social Dialogue.

The European Semester should address **sustainability and accessibility to health services**. The economic governance penalised performance of the healthcare system as well as long-term care for the elderly. A recent ETUC paper denounces the effects that the Stability and Growth Pact rules caused directly or indirectly on the quality, access and affordability of public health and social care systems for the elderly. Moreover, concerning

Occupational Safety and Health, it is essential to develop and pursue our demands for zero tolerance of fatal accidents and the prevention of accidents at work.

The EPSR should help in **providing protection for workers in the workplace, stimulating the economy and employment**, and **supporting jobs and income**, especially for the most vulnerable and low-income groups (such as women as they still are less paid and overrepresented in the care sector, and young people as they have usually temporary/atypical contracts). These priorities should be reflected in the monitoring tools of reforms.

Investments in quality employment, integration into the labour market and equal opportunities are crucial to create the basis for high coverage, effective, adequate as well as sustainable social protection systems. These, and in particular pension systems, must rely on public expenditure increasing coherently with the demographic trends, in order to ensure that everyone in old age has the right to resources that ensure living in dignity. The economic and social governance would work better if minimum income schemes could guarantee sufficient income to meet the essential needs of people and their dependents and be highly inclusive and accessible; for those able to work, there must be combined measures to accompany job seekers to ease and make it desirable to re-enter the labour market.

Special attention be given to the fact that an increasing rate of population will be **aged 65+** in the coming years. Our public health and social care and social protection systems must be strengthened to have the capacity to meet increased demand and to be prepared for new threats or a resurgence of COVID-19. The European Pillar of Social Right shows the way ahead. It should be clear that social rights should be accessible to all, including third country nationals that dwell and work in the EU.

Social Imbalances should be monitored and addressed also thanks to an **upgraded/improved Social Scoreboard.** A revision of the process to measure macroeconomic imbalances is needed and it is time to integrate it with a **social imbalance procedures**. This is important because with the (desirable) double MFF budget, the EU will have a stronger means of delivering common social objectives. The identification of social imbalances should lead to Country-Specific Recommendations in order to correct such imbalances within a given period of time. This can also be done through the definition of Medium-Term Social Objectives to be specified in the National Plans.

The **public expenditure benchmark** should be aligned to actual needs emerging from demography and technological changes. Governments' net expenditure should evolve in line with the needs of an ageing population and employment. The approach to the "costs of ageing" penalises the most vulnerable, among which the elderly, who continue to be treated as a mere economic cost. A new economic and social governance should introduce the right to "**ageing in dignity**".

When introducing the **SDGs in the EU Semester** we nurture the ambition to endorse a holistic long-term view for rethinking our economic and social model toward a model that is based on climate-neutrality, inclusiveness and quality jobs. In the light of the pandemic risk and for improving living conditions, including for the elderly, **Goal 3 ("Ensure healthy lives and promote well-being for all at all ages") should have more prominent impact on the economic and social governance.**

The ETUC believes that **Goal 8 ("Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all")** has a multidimensional feature that is conducive for economies to **attain the entire 2030 Agenda**. It brings together sustainable growth, production, environment preservation, employment and quality jobs. In September the ETUC will present an EU adjusted version of the SDG8 Indicator developed by the ITUC which provides support to the objectives set in this resolution.

Since the economic and social governance will back the **European Green Deal** an overall perspective on "fair and just transition" is needed. This starts with the preservation of job opportunities/and employment levels. To support the change, and to adapt in a time of crisis, workers need to be reassured that they will continue to have a stable job or an income sufficient to preserve a good standard of living for them and their families. (In June 2020 the ETUC has adopted a resolution on European Green Deal initiatives)

Social Dialogue

Social dialogue is an irreplaceable tool of balanced crisis management and recovery policy as well as an essential governance instrument with regard to change. We conceive **social dialogue as a three-dimension process**: dialogue with institutions, collective bargaining and workers' information, consultation and participation.

The EPSR should ensure that workers' rights to **collective bargaining** and fair remuneration are fully respected in all Member States. It is necessary to set a level playing field within the internal market and trigger an upward convergence of wages and other working conditions also through the European Semester. Tackling gender pay gap is particularly important in this perspective. In this context social dialogue and collective bargaining are important tools which need to be fully supported at national level, along with binding measures for gender pay transparency.

Recital 4 of Regulation 1175/2011 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies 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 (See ETUC Trade Union Involvement Index). A small amendment in Regulation 1175/2011 (accordingly, changes are brought to Regulation 1466/97) would introduce an obligation on national governments to consult social partners at the national level on 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.

BOX 1 - 10 DEMANDS FOR CHANGING THE EU SEMESTER

i. Alignment of the timelines of the fiscal macroeconomic and social cycles. Draft budgetary law, the stability programmes and the national reforms programme are merged in ONE single document.
ii. Setting a framework for regular involvement of Social partners at European and national level. Social partners should have the right to be consulted at the milestones of the Semester. This includes: country-specific consultation to be run both concerned governments and EU institutions, and an obligation to report position of social partners within the National Plans.
iii. Introducing a rule for public investments being financed through debt, ensuring a minimum level of public investments (guaranteed by the EU + national budgets).
iv. Making the Euro Area Recommendations a drive for investments, establishing priorities for the InvestEU. For the implementation of the latter, involvement of social partners should be considered.
v. Reinforcing a benchmarking system that help an upward convergence of wage trends, consistently with the "inflation + productivity" rule, having respect of national laws and practices of collective bargaining.
vi. Replacing the cost-of-ageing with an ageing-in-dignity concept so that government's expenditure benchmarking is supportive of demographic changes.

vii. Eliminating asymmetries in tackling excessive deficits and excessive surpluses in the preventive and corrective arms of the economic governance. Euro Area Recommendation should better exploit fiscal space of the Euro area, and taking into account the current account balance of the EA.
viii. Improving the social scoreboard, considering the UN Agenda 2030 (especially SDG 8), including a well-being composite indicator (beyond the GDP), and indexes of efficiency of the labour market, vulnerability of work, and respect of trade union rights
ix. Linking indicators of the social scoreboard to ambitious targets of upward convergence of working and living conditions in Europe. The identification of social imbalances should lead to Country-Specific Recommendations in order to correct such imbalances within a given period of time.
x. Correlating the social and macroeconomic scoreboards with environmental targets.

Economic and social governance for the economic recovery

The Recovery Plan includes a supportive economic governance of the EU. **The economic and social impact of the current emergency measures is massive**. That's why we require **an approach that balances the need to protect public health with the dangers of fundamentally damaging growth, employment and increasing social hardship** over the long-term. **The support of emergency measures has to be continued** also after the lockdowns are lifted; and a sound recovery and investment strategy has to be put in place. The ETUC urges the European Commission to advance proposals for a new social and economic governance as soon as possible and the EU Council and the EU Parliament to set the EU integration progress on a path of social progress that first serve the people of Europe.