S&D WIR IN EUROPA

Die SPD-Abgeordneten – Fraktion der
Sozialdemokraten im Europäischen Parlament

POSITION

REFORM OF
FISCAL RULES

A NEW ECONOMIC GOVERNANCE FRAMEWORK FOR THE EUROPEAN UNION

In November 2022, the European Commission presented proposals to reform EU fiscal rules, which respond to the serious problems presented by the current regulation. The German S&D delegation strongly supports the reform of EU fiscal rules; the fiscal policy framework must be adapted to suit today's reality. This means that we need both new and improved rules for sustainable public finances and financial leeway for future investments.

In a single market with a common currency, but with differing national economic structures and regional and sectoral specialisations, the European Union's transition to climate neutrality is possible only as a European project.

Therefore, we urgently need a determined, coordinated and solidarity-based approach for EU economic governance in order to jointly address the economic, social and energy crisis and to prevent divergence in the EU.

German S&D Members consider that it is henceforth necessary to differentiate between periods of economic crisis and recovery in order to successfully reform the fiscal rules. Furthermore, the new rules must place stronger emphasis on financing public expenditure sustainably.

THE REFORM SHOULD BE BASED ON THE FOLLOWING:

- In principle, during recovery periods, a healthy balance between public revenue and expenditure needs to be struck so that debts can be reduced and reserves built up.

- Regardless of the debt ceiling, in future, the necessary debt reduction must be tailored to be conducive to growth and must consider the economic capacity of the Member States. Debt reduction should be in line with GDP growth rather than follow fixed repayment rates.

- The current sanctions-based rulebook should be remodelled to include incentives encouraging Member States to comply with rules and to invest in line with the European priorities and supporting national reform. We can learn a great deal from the NextGenerationEU crisis instrument, which was established to aid the post-pandemic recovery.

- For periods of crisis, the reformed rulebook must ensure that Member States can make use of the necessary flexibilities in fiscal policy without completely disregarding the entire rulebook by invoking an escape clause. In future, the escape clause should only remain as a last resort.

- In order to future-proof the EU, public investment must be stabilised in the long term at a higher level. Even Member States with higher debts must be able to transition to climate neutrality. This can only be achieved at EU level. Therefore, we also need to establish how to guarantee a higher level of public investment, even after the Recovery Fund programme ends in 2026.

- We need a more harmonious and rules-based EU tax policy. This means increasing efforts to fight tax fraud and money laundering and effective provisions against harmful tax competition between Member States, as well as implementing tax policy agreements in order to prevent, for example, individual Member States from lowering taxes, which would be a barrier to the necessary debt reduction.

- In order to ensure that the effects of economic and financial crises are balanced more evenly between Member States and to make the EU more resilient to crises, a permanent European Unemployment Reinsurance Scheme must be incorporated into the EU's economic governance framework. The successful crisis instrument SURE could be further developed into such a scheme. This kind of instrument would automatically activate in crisis periods to financially support short-term employment and similar measures.

Assessment of the Commission's proposal:
The communication presented by the Commission already addresses many weaknesses of the current fiscal rules and forms a solid basis for the reform discussion. At the same time, important points remain unresolved and require further clarification:

YES TO COUNTRY-SPECIFIC FLEXIBILITY WITH REGARDS TO THE REDUCTION OF PUBLIC DEBT

A one-size-fits-all approach is not appropriate, given the differing levels of debt, which have only worsened following the COVID pandemic and the energy crisis. Sustainable and growth-friendly methods of debt reduction and lasting debt sustainability are possible and must be guaranteed with the appropriate rules.

However: The same rules should apply to all. Despite increased country-specific flexibility with regards to debt reduction, all Member States must be assessed based on the same criteria and ultimately be treated equally. Clear and transparent criteria need to be defined for this purpose, which can be used to calculate debt reduction paths and to carry out the debt sustainability analysis. Debt reduction requirements must be proportionate to growth and public revenue must be taken into account when determining debt sustainability.

YES TO A SINGLE EXPENDITURE RULE

The Commission's paradigm shift from structural deficits to a single expenditure rule simultaneously increases transparency and simplifies the implementation of the rules for Member States. At the same time, it allows for some headroom between its individual debt reduction path and the upper deficit limit of 3% of GDP for financing public investment.

However: This is not enough to cover the massive investment required for Europe's transition to climate neutrality. Many countries will not be able to finance this alone. We need a coordinated and solidarity-based solution to jointly address future challenges such as the socio-environmental transformation, the clean energy transition and digitalisation. The goal must be to maintain the higher level of investment facilitated by NextGenerationEU beyond 2026, so that public investment in key areas defined by the EU can be permanently guaranteed without cutting budgetary resources in other important areas. A permanent investment mechanism with a volume of around 1% of the European economy, modelled on the recovery fund and based on EU bonds would be an appropriate response to the Member States' massive funding requirements. The EU's own resources must be sufficiently increased to support the re-financing.

YES TO BETTER ENFORCEMENT MECHANISMS

While Member States are to be given more leeway when setting their fiscal policy objectives, the Commission is planning stricter enforcement of rules and penalties for infringements.

However: Where are the incentives? In order to further motivate governments to abide by the rules governing debt reduction and public expenditure, compliance with these rules could be a requirement for accessing the resources of a new EU investment fund. This would bring an incentive-based approach to the compliance toolbox.

YES TO ADJUSTING ECONOMIC GOVERNANCE BASED ON THE SUCCESSES OF THE EU RECOVERY FUND

The Commission's proposals show that it is prepared to learn from the positive experiences of NextGenerationEU, especially as regards the interplay between reforms and investment, as well as the involvement of the Member States in the development of recovery plans. The German S&D delegation considers the following to be a successful model for the future: Democratically established orientations at EU level and the involvement of the Member States in preparing country-specific reforms that are linked to the payment of additional EU funds.

However: The current proposals strengthen the Commission's role in future EU economic and financial policy, especially through the close coordination with the Member States when drafting and assessing national fiscal and structural plans. The German S&D Members call for relevant democratic checks and balances to be laid down in the future framework to strengthen the roles of the European and national parliaments. In addition, social partners must be involved.

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CONCLUSION

We need a simpler, more flexible and simultaneously more binding framework for economic and fiscal policy coordination. This means we need an economy-oriented expenditure rule that is combined with uniformly reaching correction mechanisms for the event that individual Member States do not meet common objectives. In order to make the future rules more binding and more attractive, the necessary reforms and fiscal adjustments should also be linked to incentives through a stabilised European investment fund that seamlessly takes over from the EU recovery fund after 2026. This would then also make it possible to achieve the necessary increase in public investment in key European areas and to jointly overcome the current challenges relating to climate, energy and digitalisation. At the same time, EU and national revenues need to be increased through better coordinated tax policies and new European own resources.

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