Position Statement

Position Statement of the German Trade Union Confederation on
the EU Commission Communication on Orientations for
a Reform of the EU's Economic Governance Framework

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1 Summary

- The DGB believes that the proposals of the EU Commission constitute a reform path that can contribute to an improvement of EU economic governance within the limits of primary law.
- The DGB welcomes the fact that the Member States will be granted more flexibility in debt reduction and that country-specific challenges will be better taken into account.
- The DGB sees a need for improvement above all in the area of public investment. The Commission proposal does not provide for a blanket preferential treatment of public investment in the future regulatory framework. It is unclear whether the enormous investment gap that is emerging in the context of the digital and socio-ecological transformation can be closed on the basis of the EU Commission's proposals.
- The general problem with the planned reform project is that the proposals will exacerbate the democratic deficit of EU economic governance. The EU Commission's discretionary powers will be considerably expanded without strengthening parliamentary control at the same time. Nor does the EU Commission's communication contain any proposals for improving the involvement of the social partners in economic governance coordination. Strengthening the democratic principle in EU economic governance and safeguarding the democratic options of the parliaments of the Member States with regard to their fiscal policy is indispensable, not only to increase the "ownership" of the rules, but also to strengthen the legitimacy of the EU in economic policy issues.
- In addition, further reforms of the Macroeconomic Imbalance Procedure are necessary. The indicators should be more balanced, basic social rights must be effectively protected and a comprehensive participation of all relevant macroeconomic actors must be ensured.

DGB

2 Introduction

The European Commission presented elements of a wider reform of the EU's economic governance framework in its Communication of 9 November 2022.[1] The Communication is intended to form the basis for negotiations with the Member States, the European Parliament and organised civil society in the coming months. Concrete legislative proposals are to follow in the first half of 2023. In essence, it is to be about a revision of the so-called six-pack legislative package.

The DGB has already defined its priorities for a reform of the economic governance framework in its position statement "Requirements for a solidarity-based and sustainable recovery programme of the EU".[2] Similarly, we have participated in the EU Commission's consultation on the review of the EU economic governance framework.[3] In the European Economic and Social Committee, we were also able to reach a consensus on the necessary pillars of a reform in an own-initiative opinion[4] with employers' representatives and other civil society organisations. Building on the previous positions, in this opinion statement the DGB evaluates the reform proposals now presented by the European Commission. This statement is intended to make pragmatic reform proposals for the upcoming legislative process.

The core of the Commission's proposal is that in future country-specific expenditure paths will be agreed between the EU Commission and Member States on the basis of a debt sustainability analysis and set out in 4-year plans. If the Member States present investment and reform programmes, the debt adjustment path can be extended by three years. The structural deficit limit is to be abolished, but the 3 % deficit criterion anchored in Protocol 12 of the Treaty on the Functioning of the European Union will be retained, as will the 60 % debt ratio. However, the Member States will be given more flexibility in reducing debt.

3 Evaluation

From a trade union perspective, the EU Commission's proposal must measure up above all against the following questions: Firstly, do the new rules offer sufficient scope for an expansion of public investment, which is so urgently needed for the future socio-ecological transformation? Secondly: Can the proposed rules prevent us from having a new austerity

[1] European Commission (2022): Communication on orientations for a reform of the EU economic governance framework, COM (2022) 583 final, Brussels, 9 Nov. 2022.

[2] DGB (2020): Requirements for an EU recovery programme based on solidarity and sustainability, https://www.dgb.de/-/W10./

[3] DGB (2021): Statement of the German Trade Union Confederation on the Review of the EU Framework for Economic Governance, https://www.dgb.de/-/bTZ.

[4] European Economic and Social Committee (2021): Reshaping the EU budgetary framework for a sustainable recovery and a just transition, own-initiative opinion ECO/553, https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/reshaping-eu-fiscal-framework-sustainable-recovery-and-just-transition-own-initiative-opinion-gr-ii

policy imposed by the EU after the Corona and energy crises? Thirdly, does the new framework leave Member States enough flexibility to adequately counteract economic downturns with counter-cyclical economic policies? And last but not least: Will the EU Commission's proposals strengthen democratic principles such as accountability, democratic control and co-determination?

The answer to these questions is mixed and depends on details that still have to be defined in the upcoming legislative process. In general, it is a far-reaching reform path that the EU Commission outlines in the Communication. Concepts and rules that have been common for years and have proven to be not practical or economically sensible will be thrown overboard.

At the same time, it is clear that the reform path outlined by the EU Commission is not a fundamental realignment of EU economic governance. The EU Commission essentially remains true to its economic policy principles: the overly strong fixation on the sustainability of public finances remains in place. A prosperity-oriented policy in which, in addition to the sustainability of public finances, other economic policy objectives, such as full employment, social convergence and environmental sustainability, are given greater focus, will only be partially achieved with the reform proposals. Nevertheless, it is an important proposal that can contribute to an improvement of economic goverance coordination within the limits of primary law.

3.1 Strengthening public investment

In order to strengthen public investment, trade unions among others have been calling for years for the introduction of a Golden Rule allowing for net public investment funding through public borrowing.[5] Public investment would be given preference when calculating permitted deficits. A golden rule for public investment makes economic sense and could be introduced without Treaty change if new public debt maintained a safety margin vis-à-vis the 3 % deficit criterion.[6] Unfortunately, the Golden Rule is not included in the Commission proposal.

Nevertheless, the Commission Communication contains a number of proposals designed to strengthen public investment. These include in particular the following:

- According to the ideas of the EU Commission, the Member States are to be given the opportunity to present investment and reform plans. In return, they will be granted a longer debt adjustment path on condition that the investment and reform plans do not jeopardise the debt sustainability of the Member States, the

[5] Truger, Achim (2015): Reform der EU-Finanzpolitik: Die Goldene Regel für öffentliche Investitionen (Reform of EU fiscal policy: The Golden Rule for public investment), WISO direkt 35/2015, Friedrich-Ebert-Stiftung, https://library.fes.de/pdf-files/wiso/12078.pdf.

[6] Dullien, Sebastian / Paetz, Christoph / Repasi, René / Watt, Andrew / Watzka, Sebastian (2021): Between high ambition and pragmatism. Proposals for a reform of fiscal rules without treaty change, expert study commissioned by the European Economic and Social Committee (EESC), https://www.boeckler.de/en/faust-detail.htm?sync_id=HBS-008245.

planned investment corresponds to EU priorities and the country-specific recommendations are implemented.

- In future, the EU Commission's debt sustainability analysis will be at the heart of EU economic governance. It is designed to ensure that growth-stimulating public investment has a positive impact on the debt sustainability of Member States.

Whether these principles can be used to close the enormous investment gap that has massively widened in the context of the digital and ecological transformation is more than uncertain and cannot be easily quantified on the basis of the Commission's proposal. An impact assessment of the reform proposals would only be meaningful to a limited extent because the EU Commission's discretionary scope is huge. Much also depends on the exact parameters of the debt sustainability analysis, the development of interest rates, further monetary policy decisions and the question of whether another EU investment fund will be created at EU level to support Member States in financing the socio-ecological transformation.

DGB demands for the upcoming legislative process:

- Combine Golden Rule and spending rule: In the view of the DGB, net public investment should be excluded from the expenditure cap proposed by the EU Commission. In this way, the Golden Rule could be meaningfully combined with the expenditure rule.[7] Critics point to the implementation problems of a Golden Rule and fear that it would open the door to rampant public debt. In the view of the DGB, these concerns are not justified. For an effective implementation of a Golden Rule, a clear definition of public investment is necessary. It is equally important that there are functioning political steering mechanisms to ensure that "creative accounting" is avoided.
- Green investments must not be put at a disadvantage: Public investments are also necessary because they create the conditions for meeting the European climate goals. Massive investment is needed in the expansion of electricity grids, smart distribution grids and storage technologies, in railways and waterways, in charging stations and hydrogen infrastructures, but also in the nationwide expansion of broadband, public transport services and much more. Long-term and steady public investment often interact with private investment. In many places, they are a prerequisite for companies to invest in new production processes, products and business models. In addition, not investing becomes significantly more expensive. On the one hand, location factors and thus the attractiveness for value creation deteriorate, on the other, future costs increase, for example due to extreme weather events. However, investments in sustainable change will only have a positive impact on growth and the sustainability of public

[7] Dullien, Sebastian / Paetz, Christoph / Watt, Andrew / Watzka, Sebastian (2020): Proposals for the Reform of European Fiscal Rules and Economic Governance (Vorschläge zur Reform der Europäischen Fiskalregeln und der Economic Governance), IMK Report 159, Juni 2020, https://www.boeckler.de/pdf/p_imk_report_159_2020.pdf

finances in the medium to long term.[8] Therefore, the EU Commission's debt sustainability analysis should be designed in such a way that these aspects are adequately taken into account and investments in transformation are not disadvantaged. The EU Commission's assessment of public investment programmes should not only focus on the direct impact on economic growth, but also on the extent to which the investment programmes can contribute to achieving the EU's economic policy objectives, such as the Green Deal and the implementation of the European Pillar of Social Rights. To this end, considerations such as macroeconomic effects, the importance for European supply chains, job effects or the impact on regional economic structures and equal living conditions should also be given greater consideration.

- Push ahead with plans for an EU Sovereignty Fund: Depending on the concrete design of the future fiscal governance framework and the monetary policy decisions of the next few years, it will be necessary for the EU to support the Member States in financing public investment, investment aid and subsidies that are necessary for sustainable change. Community funding is particularly useful for strategically important investment in technologies and infrastructure of the future, in order to strengthen the European industrial base and to specifically build up and develop other industrial sectors important for the transformation. The massive US subsidy programme that the Biden administration set up last year can also have an impact on the investment and competitive conditions of European industry. In principle, the DGB supports the considerations of the EU Commission to find an appropriate European response to this development.[9] In the case of public funds, it is imperative that they are clearly linked to criteria of location development, job security and qualification strategies. The goal must be to make decent work and the preservation and creation of jobs central concerns of a forward-looking transformation policy in addition to a sustainable restructuring of economic structures. European competition law requirements, which focus exclusively on the supposedly lowest price, sometimes run counter to this goal. This does not do justice to the complexity of transformation and the different needs in the sectors and regions. Instead, when supporting private investments, a holistic view is needed on the relevance for value chains, the achievement of climate neutrality as well as employment effects and regional impacts. In future, this should also be reflected in the rules

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[8] Pisani-Ferry, Jean (2021): Climate Policy is macroeconomic policy, and the implications will be significant. Policy Brief 21-20, Peterson Institute for International Economics, https://www.piie.com/publications/policy-briefs/climate-policy-macroeconomic-policy-and-implications-will-be-significant/; Darvas, Zsolt / Wolff, Guntram (2021): A green fiscal pact: climate investment in times of budget consolidation, Policy Contribution 18/2021, Bruegel, https://www.bruegel.org/policy-brief/green-fiscal-pact-climate-investment-times-budget-consolidation; Thie, Jan-Erik / Teitge, Jonas / Trauboth, Antje / Jaeger, Carlo (2022): Wie viel Wachstum - welches Wachstum? (How much growth – what kind of growth?) IMK Study No. 82, Düsseldorf: Hans-Böckler-Stiftung, https://www.imk-boeckler.de/de/faust-detail.htm?sync_id=HBS-008455.

[9] Ursula von der Leyen announced in her 2022 State of the Union address that she would create a European Sovereignty Fund. See also: Vestager, Margrethe (2022): We need a European fund for green change, guest commentary in Handelsblatt, 13.12.2022/ Breton, Thierry (2022):
A European Sovereignty Fund for an industry "Made in Europe", https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_22_5543.

of state aid law, which must be adapted to the transformation challenges. In future, state aid law must provide the framework for an active industrial policy that follows clear objectives of climate-neutral and resilient value creation, decent work, and securing and developing employment.

3.2 Growth-friendly reduction of high debt levels

With the reform proposals, the EU Commission is signalling that it has learned its lessons from the growth-damaging and antisocial austerity policies it pushed in some Member States during the Eurozone crises. In future, according to the EU Commission's ideas, it should be possible to make the reduction of high debt levels growth-friendly. To this end, it is proposing several reforms, all of which are welcomed from the point of view of the DGB:

a) The 1/20 rule, according to which Member States with debt levels above 60 % of the gross domestic product must reduce debt by 1/20 annually, is to be abolished.
b) The debt adjustment paths are to be agreed bilaterally between the EU Commission and Member States on the basis of a debt sustainability analysis carried out by the EU Commission. Such an approach allows country-specific challenges in debt reduction to be better taken into account.
c) Member States are to be given the option of negotiating a longer debt adjustment path with the EU Commission if they submit a reform and investment plan (see above).
d) Finally, the EU Commission proposes a flexible interpretation of the 3 % deficit criterion anchored in primary law. In the 4-year plans, the EU Commission would check whether Member States achieve the 3 % deficit criterion "in the medium term".[10] This requirement will be particularly relevant from 2024, as the escape clause of the Stability and Growth Pact will then be deactivated. This means that the fiscal policy rules will apply again. The EU Commission assumes that 11 Member States will have deficits of over 3 % due to the higher interest payments and the continuing relief measures.[11] In order to prevent the opening of an Excessive Deficit Procedure for these countries, the Member States are to be given greater time leeway to reduce the deficit level towards the 3 % target.

DGB demands for the upcoming legislative process:

- Estimates of Member States' debt sustainability should only provide a starting point for negotiations with Member States for the optimal adjustment path and expenditure ceiling: It is right that the EU Commission chooses a more risk-based approach and determines the debt reduction path on the basis of a debt sustainability analysis and in negotiations with Member States. However, the EU Commission's plans harbour the

[10] European Commission (2022): Communication on orientations for a reform of the EU economic governance framework, COM (2022) 583 final, Brussels, 9 Nov. 2022, p. 9 and p. 12.
[11] European Commission (2022): European Economic Forecast, Autumn 2022, p. 49.

danger of a self-fulfilling prophecy: if, on the basis of its estimates, the EU Commission comes to the conclusion that a Member State's debt is not sustainable, the financial markets would react with increased risk premia, thus driving up the Member States' financing costs even further. As a result, debt could rise further. Hence, more transparency and clear communication are important: debt sustainability analyses are at best a helpful analytical tool to show how debt dynamics develop under certain conditions. They should not be applied mechanically to determine the optimal fiscal policy of Member States,[12] but should only provide a starting point for further negotiations with Member States. A certain degree of discretion on the part of the EU Commission in the negotiations with the Member States on the necessary adjustment path and the expenditure ceiling is thus entirely desirable, but must urgently be supplemented by democratic control mechanisms (see section 3.4.).

- When the EU Commission negotiates the reform plans with the Member States, it must be ruled out that these reform plans lead to labour market flexibilisation, to social cuts or to a restriction of workers' rights.

3.3 More flexibility for a counter-cyclical economic policy

The EU debt rules have proven to be pro-cyclical in the past. Actually it would be the governments’ task to stabilise aggregate demand and thus smooth out cyclical fluctuations. Instead, the existing set of rules has led to Member States cutting spending and running primary surpluses during periods of economic weakness. In the monetary union, the problem of a lack of cyclical stabilisation is particularly virulent because the Member States lack the monetary policy tools to counteract phases of economic weakness. The ECB's monetary policy applies to the entire currency area, while the economic situation in the Member States differs greatly. It is therefore all the more urgent that a reform of the economic governance framework gives Member States more flexibility in their fiscal policies to be able to react appropriately to cyclical fluctuations. The Commission Communication contains some sensible reform proposals in this regard:

a) The structural deficit limit of 0.5 % is to be abolished and an expenditure limit agreed instead. The details are to be determined in the 4-year plans. The upper limit for government primary expenditure is to be based on the respective debt sustainability of the individual Member States. Cyclical expenditure and expenditure on interest payments should not be covered by the expenditure ceiling.

b) Similar to the current framework, there will also be a so-called general escape clause and an exceptional circumstances clause in the future, which allows the Member States of the Eurozone or individual Member States to deviate from the debt adjustment path in the case of unforeseeable events, such as deep economic

[12] Sigl-Glöckner, Philippa / Krahé, Max (2022): Fiscal Policy for Sovereignty instead of a European IMF (Fiskalpolitik für Souveränität statt europäischer IWF). Geldbrief of 8 December 2022, Dezernat Zukunft, https://www.dezernatzukunft.org/fiskalpolitik-fuer-souveraenitaet-statt-europaeischer-iwf/.

crises, in order to support their own economies. This is an important instrument in the existing framework that allows for a counter-cyclical economic policy. It is right that the EU Commission proposes to leave the decision on the deactivation of these clauses to a political body, namely the Council. The COVID 19 crisis and the subsequent energy crisis have shown that the decision on the end of an economic crisis depends on many political considerations. It was right that the EU Commission and Council decided to extend the escape clause until 2024, although macroeconomic indicators suggested an earlier economic recovery.

DGB demands for the upcoming legislative process

- A broad definition of cyclical expenditure: The Commission proposal leaves open what kind of cyclical expenditure would be excluded when calculating the expenditure ceiling. At one point in the document it suggests that unemployment insurance expenditure in particular should be counted as cyclical expenditure. It makes sense to use a broad definition of cyclical expenditure in the upcoming legislative process. The current crisis has shown that expenditure items such as short-time allowances, sickness benefits but also parts of the minimum income have a cyclical stabilising effect. A broad definition of cyclical expenditure is also important to strengthen the social dimension of EU economic governance. This would ensure that these expenditure items are protected from possible cutbacks when expenditure ceilings and debt adjustment paths are defined.
- Reform of methods of estimating the growth potential: The proposal put forward by the EU Commission to abolish the structural deficit limit and to define an expenditure ceiling instead is correct. However, estimates of potential potential will continue to play a role in debt sustainability analysis. It is therefore necessary to address the methodological weaknesses in the estimation of potential growth and potential output. One focus should be on better reflecting the impact of economic crises[13] and structural reforms[14] in the estimates.

3.4 Democratic control

Since the introduction of the European Semester, the European Commission has moved to the centre of EU economic governance. With the proposals presented, the EU Commission will extend its influence even further. The deficit of parliamentary control, which already exists in the area of European economic policy, could increase even further as a result. In order to strengthen the "ownership" of the rules much invoked by the EU Commission the democratisation of EU economic governance is of central importance. Otherwise, there is a

[13] Heimberger, Philipp / Truger, Achim (2020): Output gap nonsense endangers Germany's recovery from the Corona crisis (Der Outputlücken-Nonsense gefährdet Deutschlands Erholung von der Corona-Krise), *Makronom*.
[14] Krahé, Max / Schuster, Florian/ Sigl-Glöckner, Philippa (2021): Wird die Konjunkturkomponente der Schuldenbremse ihrer Aufgabe noch gerecht? (Is the cyclical component of the debt brake still up to its task?) *Wirtschaftsdienst* 101 (8), 621-628.

risk that Member States will perceive the rules as "imposed by Brussels" and not implement them.

In essence, the democratic deficit in the area of EU economic governance is owed to the fact that with its country-specific recommendations, which have become increasingly binding in recent years, the EU Commission exerts direct influence on policy areas such as social, pension, labour market and wage policy, which are the responsibility of the Member States and not the EU.[15] The country-specific recommendations are mainly drafted by the EU Commission and only formally approved by the Council. The corresponding reform proposals are primarily concerned with fiscal sustainability and strengthening the price competitiveness of Member States, which often leads to the formulation of recommendations aimed at liberalising the labour market and weakening collective bargaining institutions. At the same time, little consideration is given to aspects of equity or adequacy of welfare state institutions.[16]

This increase in competences of the EU Commission in recent years is not matched by reciprocal competences of the European Parliament. Within the framework of the European Semester, the European Commission only employs methods that basically correspond to the self-image of an independent regulatory authority that has to decide on technical issues. That is, it conducts expert surveys, organises consultations with relevant stakeholders and threatens sanctions in case of non-implementation.[17] These political steering mechanisms are not compatible with highly political issues that the EU Commission decides on within the framework of the European Semester.

The proposals now presented would further exacerbate the democratic deficit. The following elements of the Commission's proposal are problematic:

a) The proposals would further increase the binding nature of the European Semester's structural reform requirements. Member States commit to implementing the structural reforms defined in the European Semester in the 4-year plans. If Member States do not implement the structural reforms, they face EU funding cuts and more rigid debt reduction paths.
b) The EU Commission defines the central details of the debt sustainability analysis, which becomes the linchpin of the new EU economic governance. It is also the

[15] Rathgeb, Philip/ Tassinari, Arianna (2022): How the Eurozone disempowers trade unions: the political economy of competitive internal devaluation, *Socio-Economic Review* 20 (1): 323-350; Bokhorst, David (2022): The influence of the European Semester. Case study analysis and lessons for its post-pandemic transformation, *Journal of Common Market Studies* 60 (1): 101-117; Syrovatka, Felix (2019): Frankreich im Fokus der Neuen Europäischen Arbeitsmarktpolitik, *Arbeit und Wirtschaft Blog*, https://awblog.at/frankreich-neue-europaeische-arbeitsmarktpolitik/ .

[16] See Crespy, Amandine and Vanheuverzwijn, Pierre (2019): What "Brussels" means by structural reforms: empty signifier or constructive ambiguity? in: *Comparative European Politics* 17 (1): 92-111, see also: Haas, Jörg S. / D'Erman, Valerie / Schulz, Daniel F. and Verdun, Amy (2020). Economic and fiscal policy coordination after the crisis: is the European Semester promoting more or less state intervention? *Journal of European Integration* 42(3), 327-344.

[17] Dawson, Mark / Marikut-Akbik, Adina (2023): Accountability in the EU's para-regulatory state: The case of the Economic and Monetary Union. *Regulation & Governance*. https://doi.org/10.1111/rego.12442.

institution that conducts the bilateral talks on the 4-year plans with the Member States. If the Member States and the EU Commission cannot agree on a 4-year plan, the multi-year (net) expenditure path originally drawn up by the EU Commission will automatically apply[18] which is then submitted to the Council for decision. This gives the EU Commission a very wide discretionary scope when assessing the budgetary policy of the Member States.

c) According to the EU Commission's ideas a 4-year plan can only be revised if "objective circumstances make the implementation of the plan infeasible."[19] The EU Commission remains vague about what these circumstances might be. The underlying idea, though, is that Member States adhere to the (net) expenditure path laid down in the 4-year plan even in the event of a change in the political balance of power. A revision would be subject to a complex procedure and would need to be approved by both the EU Commission and the Council. A practically irreversible determination of Member States' budgetary policy over several years, possibly beyond legislative terms, is inconsistent with democratic principles.

DGB demands for the upcoming legislative process

- In order for the EU Economic Governance to become more democratic the European Parliament must be strengthened and the national parliaments involved.
- The legislative proposal, which the EU Commission is expected to present in the first half of 2023, should be adopted by way of an ordinary legislative procedure with the participation of the EU Parliament.
- Minimum standards of parliamentary involvement in the preparation of the 4-year plans should be defined in the future legislative text.[20] Effective involvement of the economic and social partners and organised civil society must also be ensured.
- The role of the European Parliament in the European Semester must be enhanced. In cooperation with the European Parliament processes should be established to ensure that the EU Commission's reform recommendations do not violate fundamental EU policy objectives such as the Green Deal or the European Pillar of Social Rights.
- Easy revision of 4-year plans in the event of a change of government or a change in macroeconomic conditions must be facilitated. An increase in government spending must also be possible without complications, with appropriate tax counter-financing, without having to restart the entire process.

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[18] European Commission (2022): Communication on orientations for a reform of the EU economic governance framework, COM (2022) 583 final, Brussels, 9.11.2022, p. 13.

[19] European Commission (2022): Communication on orientations for a reform of the EU economic governance framework, COM (2022) 583 final, Brussels, 09.11.2022, p. 13, own translation.

[20] Guttenberg, Lucas / Ngyen, Thu (2020): How to spend it right. A more democratic governance for the EU Recovery and Resilience Facility, Policy Brief, Jacques Delors Centre / Hertie School, https://www.delorscentre.eu/fileadmin/2_Research/1_About_our_research/2_Research_centres/6_Jacques_Delors_Centre/Publications/20200610_How_to_spend_it_right_Guttenberg_Nguyen.pdf.

- The details of the debt sustainability analysis must be determined in a transparent and democratic process and should be reviewed regularly.

3.5 Macroeconomic imbalance procedure

In addition to a reform of the fiscal governance framework, the European Commission proposes a reform of the Macroeconomic Imbalance Procedure, which was introduced after the Eurozone crisis. These are rather small-scale reform proposals that aim, among other things, at a more forward-looking recognition of macroeconomic imbalances. In addition, the reform efforts of the Member States are to be taken more into account.

In the view of the DGB, there is a fundamental need to revise the Macroeconomic Imbalance Procedure. On the one hand, it is right that the EU Commission monitors the macroeconomic development in the Member States and makes corresponding recommendations for reform. For effective coordination of national economic policies, as provided for in Art. 121 TFEU, the EU Commission must obtain a comprehensive picture of economic policy developments in the Member States in order to enable effective coordination in the Council.

On the other hand, the DGB is very critical of the concrete design of the Macroeconomic Imbalance Procedure implemented in Regulations 1174/2011 and 1176/2011 for various reasons.

The DGB criticises that the Macroeconomic Imbalance Procedure is unbalanced because it is implicitly oriented towards an economic model that focuses on price competitiveness only and aims above all to weaken wages and social rights.[21] One problem is the design of the MIP scoreboard:
The thresholds for current account surpluses and deficits are not symmetrical. Countries with current account deficits must expect sanctions from a deficit of 4 per cent on. Current account surpluses, on the other hand, are classified as problematic from 6 per cent on. Equally problematic are the limits for the development of unit labour costs. Member States face sanctions if nominal unit labour costs rise by more than 9 per cent over a three-year period. The current inflationary phase, with projected price increases of 15 to 20 per cent over three years that are not due to rising wage costs, demonstrates the inappropriateness of this limit. Conversely, a policy of wage moderation would remain inconsequential because there is no lower threshold. Demands such as those of the DGB to permanently complement successful export development with higher public investment and by favouring wage and consumption increases are blocked in the current macroeconomic and fiscal policy framework of the EU.

Furthermore, the actual handling of macroeconomic imbalances during the Eurozone crisis has fostered the scepticism of trade unions in Germany towards European macroeconomic regulatory powers. In order to effectively reduce macroeconomic imbalances in the Eurozone, surplus countries should actually be held accountable in the same way as deficit

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[21] Koll, Willi / Watt, Andrew (2022): The Macroeconomic Imbalance Procedure at the Heart of EU Economic Governance Reform, *Intereconomics* 57(1), pp. 56-62.

countries. However, history has shown that it is mainly the deficit countries that have been obliged by the Troika (European Central Bank, EU Commission and International Monetary Fund) to bear the burden of adjustment. Under the guise of competitiveness, social standards have been slashed and wages depressed in the so-called programme countries (Greece, Spain and Ireland).

The Macroeconomic Imbalance Procedure can provide the basis for drastic interventions by the EU in the economic policy of the Member States and the collective bargaining policy of the social partners. The problem is that the discretionary power of the EU Commission as regards EU economic policy is considerably expanded with this procedure, without establishing adequate parliamentary control or improving civil society involvement. In the view of the DGB, a more comprehensive reform of the Macroeconomic Imbalance Procedure should therefore be put on the political agenda.

DGB demands for the upcoming legislative process

- Protect fundamental social rights against macroeconomic adjustment policies: Another abuse of fundamental social rights and workers' rights in Member States in order to strengthen competitiveness must be effectively ruled out. Better monitoring of social indicators can contribute to a balanced and sustainable economic policy. Social imbalances must be recognised at an early stage, and the social consequences of macroeconomic stabilisation policies must be taken into account from the outset. The Social Scoreboard introduced after 2018 is a first step in the right direction, but needs improving in crucial points.[22] Overall, however, mere monitoring of social developments is not sufficient to effectively prevent a macroeconomic adjustment policy from being pushed forward by the EU Commission in the future, which primarily relies on wage moderation and deregulation of the labour market.
- Respect regulatory powers in EU Treaties and improve political governance: Sanctions under the Macroeconomic Imbalance Procedure should not be allowed. If a Member State exceeds the thresholds, a dialogue process should be initiated at eye level with the Member States with the aim of joint solutions. All relevant macroeconomic actors must participate in the recommendations within the framework of the Macroeconomic Imbalance Procedure: At the euro area level, this includes the ECB, the EU Commission, all finance ministers of the Member States plus the representatives of the social partners. The Macroeconomic Dialogue established at EU level could be the right body for this. It would have to be reformed accordingly and supplemented by formats at national level.

[22] DGB (2021): Statement of the German Trade Union Confederation on the Review of the EU Framework for Economic Governance, https://www.dgb.de/-/bTZ.