opinion

Opinion of the German Trade Union Confederation on the

Review of the EU Economic Governance Framework

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German Trade Union Confederation
Federal Executive Board
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In October 2021, the EU Commission launched an online consultation on the revision of the EU Economic Governance Framework. Civil society is invited to comment on 11 questions. The following are the core demands of the DGB:

- The DGB advocates a fundamental reform of the Stability and Growth Pact. Strengthening public investment is central both to stabilising the economy as a whole in the short term and to financing socio-ecological reform. The DGB therefore advocates a Golden Rule for public investment. In addition, the DGB calls for longer and more flexible debt adjustment paths for highly indebted euro area states. The DGB also considers an increase in the debt-to-GDP ratio target to be sensible in order to prevent rigid austerity policies for highly indebted Member States. Finally, there has to be more scope for an anti-cyclical economic policy. To this end, the DGB proposes a reform of the cyclical adjustment procedures or the abolition of the structural deficit limit of 0.5 per cent in favour of a spending rule.

- The DGB advocates a reorientation of European economic governance. Overall, the focus on fiscal sustainability and price competitiveness of Member States is a truncated goal of European economic governance. Full employment and good jobs, ecological sustainability, upward convergence of working conditions and income as well as a strengthening of social protection must become a more central part of a future economic governance framework.

- The European Semester must be democratised. National parliaments and the European Parliament must have a say in the formulation of country-specific recommendations. The social partners and other relevant stakeholders must be effectively involved in the economic policy coordination process.

Responsible: Stefan Körzell, Member of the Executive Federal Board

The DGB answers to the EU Commission questions are as follows:

1. **How can the framework be improved to ensure sustainable public finances in all Member States and to help eliminate existing macroeconomic imbalances and avoid new ones arising?**

   Macroeconomic imbalances were a central cause of the euro area crisis after 2010. As a consequence the EU introduced the Macroeconomic Imbalances Procedure to better monitor not only the development of government budgets but also other macroeconomic factors such as current account balances, unit labour cost developments, private sector debt, changes in real estate prices, etc.

   It is right that the EU Commission monitors macroeconomic developments in the Member States and makes appropriate recommendations for reform. In order to effectively coordinate 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. This is necessary in order to enable effective coordination in the Council. To avoid macroeconomic imbalances, both fiscal and wage policy are central.

   Having said that, the DGB and its member unions are very critical of the Macroeconomic Imbalance Procedure implemented in Regulations 1174/2011 and 1176/2011 for a number of reasons.

   The DGB criticises that the Macroeconomic Imbalance Procedure is unbalanced because it is implicitly oriented towards an economic model that focuses unilaterally on price competitiveness and aims above all to weaken wages and social rights.
   This is because of the asymmetric design of the macroeconomic scoreboard and the interaction between the Macroeconomic Imbalance Procedure and fiscal policy prescriptions: Caps on current account surpluses and deficits are not symmetric. Countries with current account deficits face sanctions from a deficit of 4 per cent on. Current account surpluses, on the other hand, are classified as problematic from a 6 per cent threshold on. Equally problematic are the caps 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. Conversely, a policy of wage moderation has no consequences, as there is no lower threshold. However, a policy of wage moderation can have at least as destabilising an macro-economic effect as a too expansive wage policy. The macroeconomic and fiscal policy framework of the EU is at odds with demands such as those of the DGB to permanently link successful export development to higher public investment and by promoting wage and consumption increases.

   Moreover, the actual handling of macroeconomic imbalances in the wake of the euro zone crisis has emphasized the scepticism of trade unions in Germany about European macroeconomic regulatory powers. In order to effectively reduce macroeconomic imbalances in the euro zone, surplus countries should be held accountable in the same way as deficit 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 lowered and wages depressed in the so-called programme countries (Greece, Spain and Ireland).

Furthermore, the DGB considers it problematic that the procedure on macroeconomic imbalances extends the Commission's monitoring, control and sanctioning powers to an indefinite number of national policy areas without addressing the demarcation between EU and national competences. After all, Member States that are found to have excessive macroeconomic imbalances must expect sanctions. The macroeconomic imbalance procedure provides the basis for drastic EU intervention in the economic policy of Member States in a very broad sense, i.e. including fiscal, labour and social policy. As far as political control is concerned, it is also problematic that, although the European Parliament has approved this procedure, the Commission is not accountable to the European Parliament when it comes to exercising the new powers bestowed under the Macroeconomic Imbalance Procedure.[1] This means that the EU Commission's discretionary powers in EU economic policy have been considerably expanded without establishing adequate parliamentary control.

The DGB therefore holds that a reform of the Macroeconomic Imbalance Procedure must comprise the following elements:

1) Symmetric alignment of indicators: Since the last euro zone crisis, it has become clear that austerity policy has had its day as an economic policy recipe. A sustainable European economic policy must focus on welfare-enhancing strategies and solutions. This means, in particular, that both surplus countries and deficit countries must be held accountable. To this end, the threshold value of the "current account balance" indicator must be adjusted symmetrically. For the indicator "nominal unit labour costs", a lower limit should be introduced for the threshold values.

2) Protect fundamental social rights and collective labour rights against macroeconomic adjustment policies: It must be effectively ruled out that, in order to strengthen competitiveness, once again fundamental social rights or collective labour rights in the Member States are restricted. In other words, a misguided macroeconomic stabilisation policy must not lead to social cuts, restrictions on national collective labour rights and wage reductions again. This condition must be enshrined in primary law! In order to identify social imbalances at an early stage and to take into account social consequences of macroeconomic stabilisation policies from the outset, the Social Scoreboard was introduced after 2018. This is a first step in the right direction. However, the Social Scoreboard needs crucial reforms. In order to flank the Macroeconomic Imbalance Procedure with a "Social Imbalance Procedure", the following points are central:

   a) So far, the Social Scoreboard has been based on the average of the Member States. For upward convergence in social matters, it is important to define target values and to measure the Member States against them.
   b) Poor performance of Member States on certain Social Scoreboard indicators should result in country-specific recommendations. In addition, financial resources could be made available to Member States, for example under the Structural Funds, to address social inequalities.

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[1] The EU Commission's assessment of corrective measures and sanctions in the context of the Macroeconomic Imbalance Procedure are deemed adopted unless a qualified majority in the Council votes against (see Article 10 of Regulation 1176/2011 and Article 3 of Regulation 1174/2011). The voting method of a reversed qualified majority significantly increases the EU Commission's discretionary scope in EU economic policy.

c) Finally, the indicators of the Social Scoreboard should be expanded. The European Semester should be aligned with the United Nations Sustainable Development Goals. Furthermore, the strengthening of collective bargaining systems should be made a central objective of this political steering process and corresponding indicators (e.g. collective bargaining coverage and co-determination) should be included in the Social Scoreboard. With the SDG8 Index for Sustainable Economic Growth and Good Jobs, the[2] European Trade Union Confederation has developed a set of indicators for better monitoring of the United Nations Sustainable Development Goals.

3) Improve political governance: Sanctions under the Macroeconomic Imbalance Procedure should not be allowed. If a Member State exceeds thresholds, a dialogue process should be initiated on an equal footing with the other Member States in which solutions are sought jointly. Recommendations under the Macroeconomic Imbalance Procedure must involve all relevant macroeconomic actors: At the euro area level, this includes the ECB, the EU Commission, all finance ministers of the Member States and the representatives of the social partners. The Macroeconomic Dialogue already exists at EU level and it could be the right body for this process. It would have to be reformed and supplemented by formats at national level. Particularly in times of economic volatility such as those we are currently living in, the Macroeconomic Dialogue is an important instrument that can contribute to confidence-building and mutual understanding between different macro-economically relevant actors.

4) An automatic stabiliser for the euro area: In order to avoid macroeconomic imbalances, an automatic stabiliser would have to be introduced at European level to provide fiscal impulses and prevent divergence of economic cycles in the monetary union. In this context, the DGB advocates reinsurance for national unemployment insurance systems within the single currency area.

Overall, the focus on fiscal sustainability and price competitiveness of Member States represents a truncated objective of European economic governance. Full employment and good jobs, environmental sustainability, upward convergence of working conditions and income, and a strengthening of social protection must become more central to a future economic governance framework.

2. How to ensure responsible and sustainable fiscal policies that safeguard long-term sustainability, while allowing for short-term stabilisation?

The DGB advocates pragmatic reforms which are possible without amending the Treaty and which would nonetheless contribute to a significant improvement in the fiscal framework. We support an agreement on the following reform proposals, which could be reached within the framework of the European Economic and Social Committee together with the employers and other civil society organisations.[3] Reform should focus on the following areas:

- Strengthen public investment: We advocate a Golden Rule that exempts public investment from EU debt rules. It is clear that the digital and socio-ecological transformation can only

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[2] ETUC approach to the Sustainable Development Goals: Sustainable Development Goals - Est Etuc

[3] EESC (2021): Opinion of the European Economic and Social Committee on Reshaping the EU budgetary framework for sustainable recovery and a just transition, ECO 553.

succeed with a significant increase in public investment. The new Recovery and Resilience Facility created last year is a first and important step in this regard. But the fund is temporary and can only cushion drastic cuts in investment. To reverse the trend in public investment, the borrowing scope of Member States to finance public investment needs to be expanded in addition to the EU recovery fund. A Golden Rule could be established through a reform of secondary EU law and, in part, even through a more flexible interpretation of existing rules.[4]

- More flexibility in debt reduction paths: For Member States with debt levels above 60 per cent of GDP, the six-pack prescribes rigid debt reduction paths. The 1/20 rule poses a particular problem: Calculations by the European Fiscal Committee show that a return to the 1/20 rule would particularly overburden Member States with debt levels above 100 per cent of GDP. A radical austerity policy would be the consequence. The DGB follows a proposal of the European Fiscal Board and argues for longer, country-specific and more flexible debt reduction paths.

- The DGB also considers an increase in the debt-to-GDP ratio target to be sensible in order to prevent rigid austerity policies for highly indebted Member States. The 60 per cent debt limit could be changed unanimously in the Council without there being a need to amend the Treaty. [5] This debt limit is currently not justified in macroeconomic terms. [6]

- Enable counter-cyclical economic policies: EU debt rules have proven pro-cyclical in the past. One reason for this is technical problems. The EU Commission's cyclical adjustment procedures are unsuitable. Estimates of potential growth are regularly revised downwards in economic downturns, which limits the Member States' room for manoeuvre in fiscal policy. The DGB calls for a reform of the cyclical adjustment procedures, for example by making estimates of potential output less sensitive to economic cycles or by basing the estimate of potential output on the goal of full employment. Alternatively, the DGB proposes that the structural deficit rule included in the six-pack be abolished altogether and replaced by an expenditure rule. Following a proposal by the Macroeconomic Policy Institute (IMK), the DGB argues for a differentiation between current expenditure and public investment.[7] An expenditure rule (medium-term growth rate of potential output + ECB target inflation rate) should be applied to current expenditure. Expenditure above the cap should be allowed if it is budget neutral, i.e. if spending elsewhere is cut by the same amount or if tax revenues increase. In essence, this is a combination of spending rules and the Golden Rule. Interest payments as well as cyclical government spending (unemployment benefits, short-time work allowance, etc.) would not fall under the spending rule. The latter is necessary so that the national automatic stabilisers can develop their full ef-

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[4] 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, study commissioned by the European Economic and Social Committee.
[5] Ibid.
[6] Dullien, Sebastian / Paetz, Christoph / Watt, Andrew / Watzka, Sebastian (2020): Proposals for the Reform of European Fiscal Rules and Economic Governance, IMK Report 159, Hans-Böckler-Stiftung.
[7] Ibid.

fect in times of economic downturn and an effective countercyclical economic policy can be better implemented in the future.

- The European Fiscal Compact, ratified by a majority of EU Member States in 2012, has led to a tightening of EU fiscal rules. In particular, it stipulated that the balanced budget rule (i.e. a structural deficit of no more than 0.5 per cent) be enshrined in national constitutions. The aim was to irreversibly establish a balanced budget as the guardrail of national fiscal policy. The DGB reiterates its call for the abolition of the Fiscal Compact. It must be possible to change fiscal rules if there are political majorities for a more expansionary fiscal policy or if the macroeconomic environment changes radically. The DGB also rejects a transposition of the Fiscal Compact into EU law, as sought by the European Commission.

3. How can the framework incentivise Member States to undertake the key reforms and investments needed to deliver on the Green Deal and help tackle today's and tomorrow's economic, social, and environmental challenges such as the twin transition while preserving safeguards against risks to debt sustainability?

The question relates to the creation of incentives for the implementation of the "right" investments and the "right" reforms. We will address these two aspects separately.

To ensure that Member States make the right investments to deliver the Green Deal, an unequivocal earmarking of funds, the provision of investment guidelines and quantitative targets for specific investment areas are key. The quantitative targets in the Recovery and Resilience Facility Regulation, according to which 37 per cent of EU investment aids should go to the green transition and 20 per cent to digitization, are a step in the right direction. The DGB welcomes the EU Commission's investment guidelines as formulated in the Commission Staff Working Document SWD (2020) 205 final on the implementation of the Recovery and Resilience Facility. The definition of investment contained therein as capital formation in areas such as fixed capital, human capital and natural capital is, on the one hand, broad enough to support investment in the socio-ecological transformation and, on the other hand, clear enough to prevent creative accounting.

If - as called for by the DGB - a Golden Rule for public investment is introduced in the future EU economic governance framework, it would be possible to build on these processes created in the context of the Recovery and Resilience Facility. Today Member States are versed in assessing the sustainability of public investment. In addition, the EU taxonomy for sustainable activities could play an important role in implementing the Golden Rule for public investment.

For the DGB it is key that investment projects are politically controlled in such a way that they contribute to the creation of decent jobs. The DGB therefore advocates a reform of EU procurement law to make sure that only those companies are awarded a public contract that apply collective agreements. Close involvement of social partners in the planning and implementation of investment projects is also essential and helps to ensure that social criteria are taken more into account in the allocation of funds (see also answer to question 6).

In terms of the topic of "incentives for reform" the DGB takes a critical view as these proposals undermine the clear distribution of competences regulated in the EU Treaties. The future EU economic governance framework should not lead to an even greater pressure on Member States to implement the reforms defined by the EU Commission in the areas of wage, labour market, social and education policy. The "grants for reforms" method must not be further institutionalised. There is a risk that it will be used to push through structural reforms that are formulated without involvement of parliament and social partners and that are not in the interests of workers in the EU. The method is undemocratic and puts cohesion in the EU at risk if the EU institutions impose reform requirements in sensitive policy areas such as social policy that focus unilaterally on financial sustainability.

In the view of the DGB, making EU investment funds conditional on reforms is only justified if these reforms fulfil a relevant function and contribute to an effective outflow of EU investment funds. Reforms that lead to the establishment of functioning public procurement systems or ensure sufficient staffing in planning offices, etc., are examples of this. The power of the purse, on the other hand, should not be used to force Member States to implement certain structural reforms in the area of labour market, social and education policy.

The DGB unquestionably supports the harmonisation of working and living conditions in the EU through social progress. However, the harmonisation of labour market, social and education policies in the Member States must take place only by way of ordinary legislative procedure through the setting of minimum social standards at European level. The DGB advocates, for example, EU minimum standards for basic social security and EU minimum standards for national unemployment insurance, as well as a EU minimum wage. The aim of such a policy is to support upward social convergence in the Member States.

4. How can one simplify the EU framework and improve the transparency of its implementation?

Abolishing the structural deficit rule as enshrined in the six-pack in favour of an expenditure rule would greatly simplify the EU economic governance framework and contribute to greater transparency. Taking into account economic cycles when calculating the permitted deficit actually makes sense. However, it is currently poorly implemented technically. The European Commission's cyclical adjustment method is not transparent and, moreover, exacerbates the problem of pro-cyclicality. The method used by the European Commission to determine the structural balance has proven to be problematic, as the calculation of potential output is strongly influenced by the current economic situation. In periods of economic downturn, for example, potential output is revised downwards rapidly and sharply, although this might not reflect the real situation. The downward revision of potential output has serious consequences for the calculated structural deficit and the corresponding consolidation measures. Less reliance on cyclical fluctuations when calculating potential output would give Member States greater budgetary room for manoeuvre for counter-cyclical economic policies.

Still, the problem of lack of transparency and incomprehensibility of the calculation for EU citizens remains. In view of the technical problems and the lack of transparency of the concept, the DGB advocates abandoning the controversial concept of structural deficit and instead applying an expenditure rule in a revised budgetary policy framework (for more information on the DGB proposal of an expenditure rule, see answer to question 2). Unlike cyclically adjusted budget deficits, public spending can be tracked in real time and is directly controlled by governments. Public investment should be encouraged by separating current spending from investment spending, with only current spending subject to constraints on nominal spending growth. In this way, the Golden Rule could be combined with an expenditure rule.

Simplifying Member States' economic reporting obligations could help make the budgetary framework more transparent. In the context of the European Semester and other economic and climate policy coordination processes, Member States are obliged to provide a large number of reports which are assessed by the EU Commission. They serve as the basis for country-specific reform recommendations. The reports include, for example, the national reform programme, the stability or convergence programmes, the national energy and climate plans, the draft budget plans or national recovery and resilience plans. Further reporting obligations are added when a Member State is in an Excessive Deficit Procedure or a Macroeconomic Imbalance Procedure. It is almost impossible for organised civil society to keep track of all the processes and to get involved effectively. A simplification and bundling of reporting obligations would be desirable – among other things to make sure that we trade unions can present our political priorities at the right place.

The process could also be simplified if the European Semester would focus on medium-term policy challenges in the Member States. Country-specific recommendations would not need to be reformulated every year by the EU institutions; they could remain valid two to three years.

5. How can surveillance focus on the Member States with more pressing policy challenges and ensure quality dialogue and engagement?

With the tightening of the Stability and Growth Pact, macroeconomic and fiscal surveillance has assumed excessive proportions which are difficult to comprehend for both Member States and relevant stakeholders. The DGB would welcome a scaling back of this form of macroeconomic micro-management in a future system of economic governance. It would be a step in the right direction if the EU Commission were to focus on the most urgent political challenges in the Member States and formulate appropriate economic policy recommendations. The decision on what the most urgent policy challenges are, however, should be taken by way of a democratic process and not in expert circles.

6. In what respects can the design, governance and operation of the RRF provide useful insights in terms of economic governance through improved ownership, mutual trust, enforcement and interplay between the economic and fiscal dimensions?

The German Trade Union Confederation welcomes the establishment of the Recovery and Resilience Facility, because joint borrowing to finance economic recovery represents a solidarity-based response to the Corona crisis. The DGB advocates the establishment of a permanent instrument of joint borrowing at EU level to finance future investments.

Which concrete lessons can be drawn from the implementation of the Recovery and Resilience Facility in terms of future economic governance has already been addressed in our answer to question 3. The Recovery and Resilience Facility has established a useful process for screening sustainable public investment, on which future economic governance can build. However, the DGB is critical of the link between the Recovery and Resilience Facility and the European Semester. EU investment aid should not be conditioned on a successful implementation of structural reform.

On the issue of ownership, the DGB believes that mutual trust and better implementation of EU requirements in the context of economic governance can only be achieved by democratising the European Semester. National parliaments and the European Parliament should have a say in the formulation of country-specific recommendations. Organised civil society should be involved in the European Semester in an effective and structured way. At present, the DGB is involved at various points in the European Semester - both at national and European level. However, it is usually incomprehensible what effect the various consultations have. The result of a consultation should be recorded in a joint document between government authorities and organised civil society and serve as a guide for the European Semester going forward in order to increase the effectiveness of the consultation process.

In the implementation and review of national recovery and resilience plans, the DGB advocates for structured, fair participation of organised civil society. The partnership principle has been a successful practice in EU structural policy for years and has ensured that all relevant stakeholders have a say in the prioritisation and management of major EU investment projects. The partnership principle should serve as a blueprint for future civil society involvement in the implementation of national recovery and resilience plans.

7. Is there scope to strengthen national fiscal frameworks and improve their interaction with the EU fiscal framework?

Regrettably, the new German government has ruled out an investment-friendly reform of the debt brake. Only a reform of the cyclical adjustment procedures is being considered. To finance the urgently needed investments, the new government is dependent on new sources of funding. The coalition agreement proposes to expand the financial scope for public investment by means of special funds, equity capital increases and the authorisation of public-sector companies to borrow. These sources of funding would be largely in line with debt brake requirements. A reform of the EU fiscal rules should ensure that these sources of financing are not taken into account in the calculation of the structural deficit limit of 0.5 per cent that is enshrined in the six-pack. Currently the entire public sector and not just the core budget is used to calculate the structural deficit. New financing options for future investments - where feasible under the German debt brake - should also be possible under European law.

8. How can the framework ensure effective enforcement? What role should financial sanctions, reputational costs and positive incentives play?

The sanctions-based system of economic governance that began with the Stability and Growth Pact and which was then gradually tightened after the euro area crisis has proved to be not very effective. The Commission did not impose any sanctions, although the Member States repeatedly violated its provisions. In the view of the DGB, financial sanctions for non-compliance with fiscal policy and macroeconomic targets are not effective, as the reputation of EU institutions may suffer. For this reason, among others, the DGB has also repeatedly spoken out against the introduction of macroeconomic conditionalities, such as those introduced in the Regulation on the Recovery and Resilience Facility and in the Regulation laying down common provisions for the European Structural Funds.

In addition to the risk of a loss of reputation for EU institutions, there is also the problem that macroeconomic conditionalities could prevent an expansionary fiscal policy that is urgently needed in the coming years: After the suspension of the escape clause, macroeconomic requirements could trigger a contraction impulse and motivate Member States to cut spending in order to achieve budgetary targets. This would run counter to the policy objective of territorial cohesion and the overall objectives of the NextGenerationEU programme.

Sanctions are also worth criticising from a democratic theory perspective. By threatening or imposing sanctions in the event of non-compliance with macroeconomic or fiscal policy requirements, the EU institutions' room for manoeuvre is extended to sensitive policy areas of Member States, such as social, labour market and education policy.

The EU's future economic governance should, as far as possible, dispense with sanctions and instead rely more on democratic procedures: In the event of non-compliance with fiscal policy and macroeconomic targets, negotiations should be initiated between the EU institutions and the Member States in which both sides seek solutions jointly and on an equal footing.

On financial incentives: For some years now, the EU has been using the financial incentive method. The DGB's assessment here is mixed, depending on the specific design. The Recovery and Resilience Facility is a negative example in this respect, as EU investment aid is also linked to non-relevant reform conditions of the European Semester. Depending on the financial situation of the Member States, withdrawal of EU investment support in case of non-compliance can quickly act like a sanction and hit Member States hard. Second, the system of financial incentives, as implemented in the Recovery and Resilience Facility, increases the binding nature of country-specific recommendations of the European Semester. Depending on the financial situation of the Member States, "recommendations" thus become de facto implementation requirements. It is all the more problematic that the country-specific recommendations have so far been formulated without parliamentary involvement. Thirdly, a withdrawal of investment aid can also have undesirable consequences economically. The debt problems in the Member States could worsen and the achievement of the macroeconomic and fiscal policy targets would be in jeopardy.

Financial incentives, on the other hand, make sense if they support reform processes in the Member States that have been agreed upon in a democratic process. The support of Member States' short-time work schemes through the granting of EU loans under SURE is a successful example of recent financial incentives.

9. In light of the wide-ranging impact of the COVID-19 crisis and the new temporary policy tools that have been launched in response to it, how can the framework – including the Stability and Growth Pact, the Macroeconomic Imbalances Procedure and, more broadly, the European Semester – best ensure an adequate and coordinated policy response at the EU and national levels?

For a sustainable economic recovery after the Corona crisis and a successful socio-ecological transformation, a turnaround in public investment must be initiated. The new Recovery and Resilience Facility created last year is only a first step in this direction. This is because the fund is limited in time and recent data from the EU Commission show that the EU will not achieve a turnaround in public investment despite the Recovery and Resilience Facility. The new fund will only be able to cushion drastic cuts in investment activity. According to EU Commission estimates, the EU will not even reach the pre-financial-crisis investment level in the next couple of years. Therefore, in addition to the EU recovery fund, the Member States' scope for borrowing to finance public investment must be expanded.

10. How should the framework take into consideration the euro area dimension and the agenda towards deepening the Economic and Monetary Union?

Monetary policy plays a central role in the stability of the monetary union. It should therefore also be on the agenda in a reform process to deepen economic and monetary union. Debt levels have risen significantly in many Member States in the wake of economic stabilisation measures. In order to avoid macroeconomic imbalances in the near future, it is essential that the ECB continues to play a constructive role and ensure appropriate and converging financing conditions for euro area countries. The Pandemic Emergency Purchase Programme (PEPP), which the ECB launched early in the spring of 2020, was an important step and has avoided turbulence in bond markets.

The DGB and its member trade unions advocate that the European Central Bank retains its innovative monetary policy instruments for stabilising the monetary union and develop new instruments (such as a greater deviation from the capital key in the bond purchase programmes in order to provide targeted support to those member states that are threatened with refinancing difficulties) to support the European economies in their upcoming transformation process. It can support the Green Deal with new requirements for securities purchases and the granting of loans to banks. The goal of price stability should be reconciled with other economic policy goals, such as climate neutrality and full employment. Ultimately, this will require an expansion of the mandate. But reforms are possible even without an amendment of the EU treaties, for example through stronger political guidance from the European Parliament on the ECB's secondary objectives. Overall, the ECB's changed role in EU economic policy places greater demands on its political governance architecture.

11. Considering how the COVID-19 crisis has reshaped our economies, are there any other challenges that the economic governance framework should factor in beyond those identified so far?

In addition to the immediate economic consequences of the COVID 19 pandemic, the socio-ecological transformation represents the central challenge of our time in the medium term. It requires consolidation of public investment on a higher level in the EU. In an impact assessment of[8] the Recovery and Resilience Facility, the EU Commission assumes that additional investments of 470 billion euros per year will be necessary by 2030 for the EU to achieve the climate targets it has set itself. The majority of these investments will have to be made by companies themselves. But increasing public investment has a key role to play, not least to stimulate private investment. Darvas and Wolff[9] estimate that the ratio between public and private investment should be 1:4 to 1:5. This means that even conservative estimates call for an increase in public investment in the EU of EUR 100 billion per year by 2030. The future economic governance framework should take sufficient account of these investment needs.

Finally, it is important that future EU investment policy is more strongly linked to a progressive gender equality policy. The DGB calls for the integration of the gender perspective as well as

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[8] European Commission (2020): Identifying Europe's recovery needs. Europe's moment: Repair and Prepare for the Next Generation. SWD (2020)98 final.

[9] Darvas, Zsolt and Wolff, Guntram B. (2021): A green fiscal pact: climate investment in times of budget consolidation, Policy Contribution 18/2021, Bruegel.

the implementation of gender budgeting and the integration of the EU gender equality strategy in all phases of economic governance. To this end, the Commission should clarify how the gender equality strategy is integrated in the sense of gender mainstreaming and evaluate the extent to which gender benefits from the EU budget.