position

DGB

Position Statement of the German Trade Union Confederation

For an EU economic recovery programme based on solidarity and sustainability

06.08.2020

Core demands

- The DGB welcomes the volume and fundamental orientation of the economic recovery programme planned by the EU as well as its integration into the Multiannual Financial Framework 2021-2027.
- Improvements are particularly necessary in the design of the so-called Recovery and Resilience Facility (RRF). The DGB rejects combining the RRF with the European Semester given the current design of this economic coordination process. The proposed integration into the European Semester presupposes a fundamental reform of fiscal rules, a strengthening of social and ecological indicators and the integration into a democratic process. The aim should be an economic and industrial policy coordination of the transformation. Similar to the Structural Funds, the regulation for the recovery and resilience facility should define investment and expenditure projects. The following areas should play a central role in this: sustainable mobility, an ecological conversion of transport infrastructure, digital infrastructure, expansion of renewable energies, energy efficiency measures, climate-friendly production and building renovation, circular economy, strengthening the public health sector, investments in education and training and strengthening social security systems. The partnership principle should also be codified in this new fund.
- A reform of the EU fiscal rules is necessary both for the short-term stabilisation of the economy as a whole and for financing the socio-ecological transformation. The DGB demands that the maximum debt levels be adapted to the macroeconomic environment, that the deficit ceiling be replaced by an expenditure rule, that public investments be strengthened, that the cyclical adjustment procedures be improved and the Fiscal Compact be abolished.
- A reform of state aid law is necessary in response to the new global challenges, such as the transformation to a climate-neutral economy. This concerns the subsidy policy towards third countries, the defence against hostile takeovers by means of public sector owned "Golden Shares" and a reform of derogations from state aid rules to strengthen services of general economic interest (public services).
- The strengthening of automatic stabilisers also has a stabilising effect on the economy. The DGB therefore reiterates its demand for EU-wide minimum standards regarding minimum income schemes and national unemployment benefit schemes.
- Last not least, fair wages are also crucial for a recovery based on solidarity and sustainability. The DGB welcomes the EU Commission's proposal for a legal instrument to ensure that every employee in the European Union receives at least a fair minimum wage.

Deutscher Gewerkschaftsbund
Bundesvorstand

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Introduction and summary

The European Union is facing an economic downturn of historic proportions. The European Commission is expecting an economic slump of 8.3 percent on average in the EU this year. [1] The economic consequences of the Corona pandemic are hitting many citizens hard. In many countries, short-time work is being introduced and unemployment is rising dramatically. Collapsing tax revenues and extensive economic stabilisation measures lead to Member States taking on record levels of new debt. A new sovereign debt crisis has been averted for the time being, but a deterioration of financing terms for certain Member States cannot be ruled out. Southern European countries are already finding it more difficult to raise the necessary funds to sufficiently stabilise their economies. The fiscal policy responses in some southern European euro-area countries are therefore significantly weaker than in Germany. [2] In order to prevent a widening divide between Northern and Southern Europe, a strong European response based on solidarity is needed. The Corona crisis has once again shown us how closely intertwined the European economies are - economic recovery must therefore be thought of in European terms!

That is why a number of concrete proposals for a European economic recovery programme have been made in recent weeks. In this context, the "Next Generation EU" package of measures presented by the European Commission deserves special mention. In this position statement, the DGB makes an initial fundamental assessment of the proposals submitted and also outlines a series of measures that should be implemented in the short and medium term in order to facilitate sustainable economic recovery. From our point of view, the following points are central to this goal:

1) Investing in the sustainability of our economies: Now is the time for a massive European investment programme, which accelerates the economic recovery and drives the socio-ecological transformation of European economies. It is clear that even before the Corona crisis, the European Union was faced with enormous structural changes. Climate change, digitisation, the energy and mobility transition require massive investments in the future viability of our economies. The DGB is committed to the national, European and international climate targets and strives for a resource-saving and fair restructuring of the economy. In order to finance these necessary investments, it is indispensable to issue joint EU debts. The DGB is of the opinion that the European Commission's package of measures for economic recovery, which it published at the end of May under the title "Next Generation EU", is a step in the right direction. However, improvements are necessary in the design of the Recovery and Resilience Facility. The DGB is particularly critical of the facility's planned decision-making processes and the link with the European Semester. In the corresponding draft regulation, the Commission proposes to decide - largely autonomously - on the allocation of funds in bilateral negotiations with the Member States. Such governance would lead to a further weakening of the democratic principle at

[1] European Commission (2020): Summer economic forecast, https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/summer-2020-economic-forecast-deeper-recession-wider-divergences_en#economic-forecast-documents.

[2] Bruegel datasets (2020): The fiscal response to the economic fallout from the Coronavirus, https://www.bruegel.org/publications/datasets/covid-national-dataset/.

EU level[3] and is unacceptable from DGB's point of view. The European Parliament and the national parliaments should be involved in the question of the allocation of funds. Furthermore, the partnership principle, as enshrined in the European Structural and Investment Funds, should serve as a blueprint for the management of the facility. The DGB rejects a link with the European Semester; instead, the draft regulation should define broad categories of expenditure and investment fields (see Section 1.2.).

2) Reform of the EU Economic Governance: Furthermore, a revision of the EU fiscal rules is urgently needed. Even if an investment programme was established at the European level funded by joint debts, the Member States would have to deal with significantly higher public debts in the years to come. We must draw the right lessons from the 2008 economic crisis – even if the causes of the Euro crisis and the Corona crisis are very different. Experience in some southern European countries has shown that an excessively rigid austerity policy not only directly hampers the economic recovery process, but also negatively affects the economy's growth potential in the long term. [4] The concurrent neglect of the state revenue side has left affected countries dependent on speculative financial markets, at the same time wealth inequality has risen.
A sustainable and solidarity-based EU economic recovery programme must therefore go hand in hand with a fundamental restructuring and a change of dogma in European economic governance, especially as regards European fiscal rules (see point 2).

3) Reform of EU state aid rules: Many Member States have supported domestic companies with loans, grants and capital holdings the wake of the lockdown. The European Commission interprets EU state aid law flexibly in this crisis situation. Furthermore, the EU Commission has introduced an exemption for ad hoc aid of up to €800,000. In the medium term, however, a reform of state aid law is required in response to the new global challenges. This concerns the subsidy policy towards third countries, the defence against hostile takeovers by public sector owned "Golden Shares" as well as a reform of derogations from state aid rules to strengthen services of general economic interest (public service). In addition, the implementation of an ambitious energy and climate policy makes extensive state intervention measures necessary. This is another reason why state aid rules need to be adjusted.

4) Minimum social standards and fair wages: Irrespective of the need for an ambitious European fiscal policy, a national stabilisation policy needs to have significantly greater scope for action in order to respond better to economic developments. Thus, a stabilising effect on the economy can also be achieved by strengthening national automatic stabilisers. [5] In order to better cushion cyclical shocks in individual countries, EU-wide minimum standards for minimum

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[3] See also Guttenberg, Lucas/Nguyen, Thu (2020): How to spend it right. A more democratic governance for the EU Recovery and Resilience Facility, Policy Brief, https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/20200610_How_to_spend_it_right_Guttenberg_Nguyen.pdf.
[4] Gechert, Sebastian/Horn, Gustav A./Paetz, Christoph (2019): „Why the Federal Government should prepare an economic stimulus package," https://makronom.de/warum-die-bundesregierung-ein-konjunkturprogramm-vorbereiten-sollte-30021.
[5] Gechert, Sebastian/Paetz, Christoph/Villanueva, Paloma (2020): The macroeconomic impact of social security systems, https://makronom.de/die-makrooekonomischen-auswirkungen-sozialer-sicherungssysteme-36287.

income schemes and national unemployment benefit schemes should be introduced in the medium term.[6] When introducing minimum standards, however, it is always important to lay down a robust non-regression clause. For the setting of minimum standards must under no circumstances lead to Member States with higher standards lowering their systems. Last not least, fair wages are also crucial for sustainable recovery in a spirit of solidarity. The DGB welcomes the EU Commission's proposal for a legal instrument that would give every employee in the European Union at least the right to a fair minimum wage. The German Council Presidency should be used to reach a respective political agreement. In order to create good jobs and fair wages, collective bargaining systems must therefore also be supported from the European level and collective bargaining must be promoted. Where there are no adequate collective agreement rules, statutory minimum wages can establish a lower threshold.

1. Investing in the future of our economies

The EU and its Member States are not only faced with the challenge of restarting the economy with economic stimulus packages after the Corona crisis. At the same time, climate change, along with digitisation, globalisation and automation, will drive structural change in Europe at an increasing pace. This could lead to a widening of the existing income and wealth gap. European economic stimuli must therefore ensure that the heavily interdependent value chains are both ramped up in a coordinated manner and modernised in the interests of sustainability. This will not completely resolve all the conflicts between short-term economic stabilisation and medium-term transformation. But it will be increasingly difficult to justify political measures that are not conducive to the goals of transformation. All short-term policy measures will therefore need to be assessed against their effects on digitisation and climate neutrality and must neither counteract climate protection nor lead to lock-in effects.

For the DGB it is clear that there must be no return to the status quo ante after the Corona crisis. A new economic and social model is needed for the European Union that leads to a sustainable, fair and inclusive form of economic activity. Particularly in the areas of sustainable mobility, green construction and conversion of transport infrastructure, digital infrastructure, the expansion of renewable energies, energy efficiency measures, climate-friendly production and building renovation, the course must be set as quickly as possible for a transformative path. Before the Corona crisis, the Commission set the annual requirement at €260 billion by 2030 in order to achieve the climate targets it had set itself. The need for financing will once again increase significantly with the economic downturn. Moreover, the crisis has shown that within the European Union there is a considerable need for more in the areas of public services, especially in the health sector, but also in education. Not least here, it is important to stem the negative developments of a misguided deregulation policy through state investments and to strengthen public services of general interest. Against the background of shrinking revenues, these needs are confronting many European countries with concrete financial bottlenecks. This makes it all the more important to breathe new life into European solidarity and create prospects for employment and a good life in all parts of Europe.

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[6] See DGB (2019): „Position of the DGB on the establishment of a fiscal capacity for the euro area," https://www.dgb.de/downloadcenter/++co++b2eab0de-56c8-11e9-a0ad-52540088cada, see also DGB (2019): „DGB opinion on the introduction of European minimum standards for minimum income schemes," https://www.dgb.de/downloadcenter/++co++9254c162-ee7a-11e9-8ad1-52540088cada.

1.1 "Next Generation EU": The European Commission's proposal for an economic recovery programme

At the end of May, the European Commission presented a package of measures for economic recovery entitled "Next Generation EU". In view of the historic economic slump - triggered by the corona pandemic - the Commission proposes to issue bonds on the capital market on a one-off basis, generating financial resources of €750 billion. These are to be passed on to the Member States mainly in the form of grants and loans.

The volume of the Multiannual Financial Framework 2021 - 2027 is then to amount to a total of €1,850 billion, an increase of almost 70 percent compared to the first Commission proposal of 2018. Of the €750 billion, €500 billion are to be passed on to the Member States as grants and €250 billion as loans. It is planned that the money from issuing the bonds will go into various programme items of the Multiannual Financial Framework, which are to serve economic recovery. However, the bulk of the money (€560 billion) is to be channelled into a new economic recovery fund (Recovery and Resilience Facility, see point 1.2 for explanation and assessment). In addition, the Structural Funds are to be increased by €55 billion. The Just Transition Fund, the European Agricultural Fund for Rural Development, Invest EU and several other funds are to receive more resources as well.

- The DGB welcomes the plans of the European Commission in principle. The proposal to finance economic development through joint debts and to basically pass on the financial resources generated to the Member States in the form of grants is right. This form of financing is the first step towards a solidarity-based distribution of the debt burden in Europe. National debt levels, which are under great strain as a result of the crisis, will be spared. A further widening of the divide between northern and southern Europe and a new national debt crisis may be prevented in this way. This is a welcome quantum leap in European fiscal policy! After all, the DGB has been calling for a joint debt instrument at EU level for years. To complete Economic and Monetary Union, a long-term joint debt instrument would be necessary and the European Commission's financing model is a step in the right direction.

- The planned volume of the EU recovery funds is also satisfactory. From the point of view of the DGB, a recovery programme amounting to 2 per cent of EU GDP per annum, which corresponds to a volume of around €280 billion per annum, is necessary to meet the enormous challenges. The crises funds currently proposed by the Commission amount to €1,290 billion over the next four years, which corresponds roughly to the DGB's target of two per cent of GDP per year. [7] However, this includes non-repayable grants, loans and guarantees. Overall, the DGB welcomes the planned volume of recovery funds. Taken together, the funds could well have a macroeconomic impact and prevent the gap between Northern and Southern Europe from widening. However, the decisive factor is that a large part of the money will be spent as grants and not as loans. The ratio of grants and loans should not be shifted further in favour of loans in the further course of the negotiations. It

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[7] €750 billion are raised through "Next Generation EU" + €540 billion are made available through the package of measures already adopted in April 2020, consisting of Pandemic Crisis Support Instrument from the European Stability Mechanism, a guarantee fund from the European Investment Bank and the European SURE programme.

is also important to maintain a high level of public investment for a longer time span than four years. The financing of the ecological and digital transition requires a longer time horizon. The DGB is also critical of the proposal by the President of the European Council, Charles Michel, to further cut the Multiannual Financial Framework 2021 - 2027 in order to ensure that some governments agree to the EU recovery programme. This proposal would mean that after the expiry of the recovery programme less funds would be available for cohesion policy in the medium and long term, which is something the DGB rejects.

- The general orientation of the EU recovery programme is correct. A large part of the funds is to be spent on promoting social-ecological and digital change. However, it remains to be seen how the "Next Generation EU" programme and the Green Deal are combined in concrete terms. In the view of the DGB, investments must be conditional upon achieving the Green Deal goals, support the transformation and secure jobs governed by collective agreements. Funds from the EU recovery programme should only be granted to companies that adhere to collective agreements and pay accordingly. It is clear that the transition to a climate-neutral economy in the long term will pose massive challenges for all sectors. This fact must also be taken into account in the European industrial strategy set out in the Green Deal. The DGB understands that we need a sustainable industry in Europe that also contributes to decarbonisation in other sectors through investment and innovation. European climate neutrality must not lead to de-industrialisation and relocation of production to countries with lower environmental and social standards.

  At the same time, the crisis must not be used to unreasonably delay or even block the upcoming transition processes. Now it is important to broaden the debate about climate targets and to include economic requirements - such as good jobs and sustainable prosperity - in the design of the transformation. Concrete measures must now be taken to create the conditions for transformation in order to ensure a necessary and proportionate increase in the ambition to achieve the climate goals.

  An investment offensive in climate-friendly infrastructures and innovative technologies will create jobs, facilitate the switch to climate-friendly alternatives and combat the threat of recession. Furthermore, it is important to create a suitable framework for private investment in the transition. Climate-friendly technologies are available in many areas. However, their use is often not yet profitable in business terms, so that market penetration and cost degression through economies of scale do not occur. The crisis also limits the scope for corporate investments. Targeted industrial policies can help. To this end, we must enable and incentivise companies to invest. Politics is called upon to use suitable financing instruments to promote the market upturn, for example through Carbon Contracts for Difference in accordance with EU state aid law, especially where economic restrictions or competitive disadvantages due to different international climate protection policies slow down the introduction of new technologies.

- The driving forces of structural change and the threat of recession could further aggravate the existing disparities between the regions in Europe. Against this background, an active European structural policy would play a decisive role. It should not be forgotten that there are many regions in Europe that have already undergone and are still undergoing far-

reaching processes of structural change. The regions in Europe are facing a wide variety of challenges. It is essential to create reliable perspectives and sustainable concepts for all affected regions, sectors and employees. It is consequential therefore to increase the Just Transition Fund. For the DGB, it is crucial that structurally weak regions or regions in transition and those particularly affected by the Corona crisis receive equal support. The Just Transition Fund, as it is envisaged in the Green Deal, requires mandatory co-financing with funds from the European Social Fund+ and the European Fund for Regional Development. As a result, the goal of creating a balance between the regions in Europe is increasingly being pushed into the background. Hence it is necessary to increase overall funding instead of simply move funds within the EU budget. The DGB rejects a mandatory lever for reallocation. Social and ecological criteria must be applied to all current EU funding, and "good jobs" criteria must be a condition.
All measures of the Green Deal and the "Next Generation EU" strategy must be embedded in an overall sustainable development strategy. Only through social, labour market, innovation, regional planning, structural and industrial policies actively designed by the Member States and the EU can we master the enormous challenges and create value, jobs and sustainable prosperity.

- Repayment of the loans with new own resources: the European Commission plans to repay the bonds between 2028 and 2058. Roughly 30 billion euros per year in interest and redemption payments would have to be raised over 30 years from 2028 on. We commend the EU for proposing to open up new own revenue sources. Otherwise, there would be a risk of huge cuts in expenditure in future funding periods. A reform of the revenue side should address the problem of the unequal distribution of social wealth in Europe.

- Finally, we welcome that economic recovery programme will be financed by a temporary increase in the volume of the 2021 - 2027 Multiannual Financial Framework. The collateralisation of Community bonds via the EU budget ensures that the Member States and the European Parliament are involved in the decision on the concrete fund allocation details. This is a milestone and ensures a democratic decision-making process. However, the allocation of European funds must be linked to compliance with the rule of law and democratic principles in the Member States. [8]

- On the other hand, we are critical of the planned cuts to the ESF+. The Commission's latest proposal provides for an additional reduction of 3.4%. If it remains unchanged, the ESF in Germany will lose a triple-digit million-euro amount compared to the previous Commission proposal of May 2018. The ESF is intended to cushion social problems, safeguard employability and contribute to combating poverty. Therefore, such an additional cut in the ESF cannot be justified, not least in view of the structural change that is taking place in parallel with the consequences of the COVID 19 pandemic. The planned cuts in EU co-financing rates must also be rejected. They are unacceptable and difficult to cope with for the existing projects. Even under the current funding conditions, many beneficiaries are

[8] The European Committee of the Regions has adopted a balanced opinion on this matter, see Committee of the Regions (2020): Strengthening the rule of law within the Union — A blueprint for action, https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:52019IR3730&from=EN.

hardly able to provide the co-financing. In fact, co-financing rates of up to 100 per cent are possible for the funds provided within the framework of REACT-EU, which can be channelled into ESF, ERDF and EHAP (Art. 1, 11 REACT-EU Regulation). However, many of the programmes that are subject to state aid must comply with the maximum funding rates of the General Block Exemption Regulation (GBER). In order to make use of this possibility, it is therefore absolutely necessary to create an exception for maximum funding rates of the GBER.

In addition, we criticise the lack of a gender perspective in the EU's "Next Generation EU" package of measures. The DGB advocates that the principle of "gender budgeting" be implemented in budget planning. At the very least, the Commission should evaluate the extent to which the sexes benefit from EU funding. In addition, the DGB regrets that the Commission does not clarify how the EU equality strategy and gender mainstreaming are to be integrated into the package of recovery measures.

1.2 The Recovery and Resilience Facility (RRF)

The Recovery and Resilience Facility is the core of the European Commission's recovery programme. According to the regulation proposal made by the Commission, it is to have a volume of €560 billion. Of the €560 billion, €310 billion will be provided to the Member States in the form of grants and 250 billion euros in the form of loans. The DGB sees the need for the following amendments to the regulation:

- The DGB rejects combining the RRF with the European Semester in light of the current design of this economic coordination process. The proposed integration into the European Semester presupposes a fundamental reform of fiscal rules, a strengthening of social and ecological indicators and the embedding in a democratic procedure. The aim should be an economic and industrial policy coordination of the transformation. The European Commission's proposal for a regulation on the Recovery and Resilience Facility[9] stipulates that resources from the Fund are to be used primarily to finance reforms and public investments recommended in the framework of the European Semester. Once again, the Commission is trying to establish an instrument to encourage the Member States to implement the Commission's structural reform proposals more effectively. Similar proposals from the Commission, such as the Reform Assistance Programme[10] or the Budgetary Instrument for Competitiveness and Convergence (BICC) have been rejected by the DGB in the past. As explained in 2.4. below, the DGB criticises the fundamental orientation of the European Semester, which despite recent reforms, in particular the introduction of the Social Scoreboard, is still a largely technocratic process in which the focus is primarily on narrow concepts of competitiveness and the reduction of public spending.

- Definition of spending projects: the DGB believes that the projects financed through the Recovery and Resilience Facility should be specifically named in the regulation and instilled with life by the Member States. Such a procedure has a long tradition in the case of the European Structural

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[9] Com (2020) 408 final.

[10] See DGB (2018): DGB opinion regarding European Commission proposal on the Multiannual Financial Framework 2021 - 2027, https://www.dgb.de/downloadcenter/++co++4fd46f5e-cafe-11e8-9647-52540088cada.

and Investment Funds. A similar procedure could also be implemented for the Recovery and Resilience Facility. Categories of expenditure could be defined in the proposed regulation. The DGB sees a particular need for public investments in the following areas: sustainable mobility, ecological conversion of the transport infrastructure, digital infrastructure, expansion of renewable energies, energy efficiency measures, climate-friendly production and building renovation, circular economy, strengthening of the the public health sector and investments in education and training. Finally, in the view of the DGB, it would be desirable for Member States to receive financial support from the Facility if they decide to strengthen their national unemployment benefit systems and expand their minimum income schemes (see points 4.1. and 4.2.).

- Democratic decision-making processes: The Facility's decision-making processes envisaged by the Commission to date have tended to be undemocratic. The Commission wishes to secure extensive political autonomy and proposes that it decide on the specific allocation of funds in the form of an implementing act. The DGB rejects this. This is because the decision on the investments and reforms with which economic recovery in the Member States is to be carried out is highly political. This is all the more true as the European Commission is offering the Member States enormous financial resources. [11] Against this background, the involvement of the European Parliament and the national parliaments in the allocation of funds is indispensable. Furthermore, the partnership principle, as enshrined in the European Structural and Investment Funds, should serve as a blueprint for the management of the facility. Partnership is a longstanding principle in the implementation of jointly managed financial resources of the European Union. The partnership principle implies close cooperation between the European Commission and national, regional and local authorities in the Member States, as well as social partners and bodies representing civil society. Partnerships offer a clear added value in improving the effectiveness of the implementation of the European Structural and Investment Funds. Through the Recovery and Resilience Facility, the European Commission will have a decisive impact on Member States' investment projects in the near future. This makes it all the more important to amend the Facility's fund allocation criteria and decision-making processes.

- Clarify the relationship with the European Investment and Structural Funds: The Recovery and Resilience Facility will create a fund which is almost as large as all the Structural Funds put together and which also has the same objective, namely to promote socio-economic convergence and boost investment in the sustainability of national economies. The crucial difference is that the social partners and the regions would have no say in the management of the Recovery and Resilience Facility. The DGB calls on the Commission to clarify the relationship and added value of the Recovery and Resilience Facility in relation to the European Investment and Structural Funds. The DGB rejects a further fund in addition to the Structural Funds with the same objective but without rights of co-determination for the social partners. The Cohesion Alliance criticism of the facility goes in a similar direction. [12]

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[11] The draft Commission Regulation provides for a key for the allocation of funds. According to this, Bulgaria and Greece, for example, would be allocated funds amounting to more than 10 percent of their respective GDP. See klartext 20/2020: EU Economic Recovery Plan: A New European Fiscal Policy, https://www.dgb.de/themen/++co++d2bc4f8e-a6f5-11ea-9014-52540088cada.

[12] The Cohesion Alliance is an association of national governments, regions, NGOs etc., organised by the European Committee of the Regions. Its members are committed to strengthening the European Cohesion Policy, https://aer.eu/cohesion-and-partnership-must-be-the-driving-force-for-european-recovery/.

2. Reform of the EU Economic Governance

Even if a joint debt instrument is created at European level to help Member States finance economic recovery, it is likely that Member States will still have to bear a large part of the costs themselves. The European Commission expects the public debt ratio in the euro area to increase from an average of 86 per cent of GDP in 2019 to 102 per cent in 2020, with Italy (158.9 per cent) and Greece (196.4 per cent) leading the way. It was right that the Member States decided as early as March 2020 to suspend the Stability and Growth Pact for a period of time. However, it is unclear how long the fiscal rules will be suspended. If they were to come into force unchanged after a transitional period, the Member States would be faced with a rigid austerity policy in the coming years. A reform of the EU fiscal rules is necessary not only in the next few years for a short-term stabilisation of the overall economy. A revision of the rules is also necessary in the medium and long term, as otherwise public investment, as required under the European Green Deal, would simply not be financially viable. The revision of EU Economic Governance[13] announced by the European Commission in February 2020 currently offers an opportunity to fundamentally rethink the existing fiscal rules.

Moreover, a comprehensive reorientation of the economic governance architecture is overdue. Economic, labour market and social policies of the Member States have been coordinated within the framework of the European Semester since 2011. The need for greater coordination of these policies is beyond question in the EU. In its current form, however, the European Semester is a predominantly technocratic instrument, which in the past has focused primarily on narrow concepts of competitiveness, reduction of public spending and liberalisation and deregulation. [14] The European Commission plans that EU support for economic recovery is linked to whether the Member States implement the EU's reform recommendations within the framework of the European Semester.[15] If this is the case, this economic policy coordination process will gain significantly in political importance. This makes a paradigm shift within the European Semester all the more important: A reform of the fiscal rules, and stronger focus of social and ecological goals as well as a democratic decision making process are overdue.

2.1 Adapting the maximum debts levels to the new macroeconomic reality

The targets for sovereign debt set in the Stability and Growth Pact (60 per cent of GDP) were chosen arbitrarily and reflect the macroeconomic environment at the time. The sustainability of sovereign debt depends on the real GDP growth rate, the annual primary balance and the real interest rates on outstanding sovereign debt. At the time of the Maastricht Treaty, the real interest rate in the euro area was higher than the real growth rate. In the meantime, however, the ratio has reversed.

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[13] European Commission (2020): Economic Governance Review, COM (2020) 55 final.

[14] 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. und 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), pp. 327-344.

[15] See European Commission's proposal for a regulation on the Recovery and Resilience Facility, Com (2020) 408 final.

Since the financial market crisis of 2008/2009, the real GDP growth rate in the euro area has always been higher than the real interest rate, which has important implications, because a higher debt ratio is thus sustainable in the long term. [16] If growth is higher than the interest rates paid on existing public debt, Member States can "outgrow" the debt. [17] Fiscal policy targets should take greater account of expected economic growth and real interest rate developments. This also means that, for countries in the euro area that have been in a situation of economic stagnation for years, the aim should be to reduce the real interest burden and to strengthen potential growth by increasing public investment (see point 2.2). Overall, the fiscal policy targets and the intermediate objectives of the consolidation path should be selected in such a way that socially and ecologically sustainable economic development is made possible.

2.2 Replacing the deficit limit with an expenditure rule

The upper public deficit limit of 3 per cent of GDP laid down in the Stability and Growth Pact and the benchmark of a maximum structural deficit of 0.5 per cent of GDP laid down in the Fiscal Compact have proved to be impractical. These restrictive benchmarks have not only led to a culpable neglect of the capital stock, they have also proved to be pro-cyclical, as was demonstrated after the financial and economic crisis. EU Member States, particularly in Southern Europe, were forced to cut spending during economic downturns, which not only exacerbated the recession but also put the goal of stabilizing the debt ratio in relation to economic output far off.

The DGB proposes to abolish the deficit limits and replace them with an expenditure rule in order to achieve a stabilisation of debt levels in the long term. According to this rule, government spending should increase each year by a maximum of the potential growth rate of the national economy plus the ECB's target inflation rate of two per cent.[18] In addition, only non-cyclical spending should fall under the spending rule, i.e. spending on minimum income schemes and unemployment benefits would be excluded. Moreover, even with an expenditure rule, an increase of the public expenditure quota should in principle be possible. It must be ensured that upward deviation from the expenditure rule is possible with corresponding counter-financing.

The decisive advantage of an expenditure rule over a deficit rule is that the former has a more anti-cyclical effect. Expenditure would have to be restricted in good times (because potential growth does not rise as fast as actual GDP), in times of downturns automatic stabilisers would be largely free to unfold. But even with an expenditure rule there is still the disadvantage that for its calculation the potential growth rate would need to be calculated, too, something that is associated with problems. In combination with the golden rule for public investment (see point 2.3.), however, an expenditure rule would significantly improve fiscal leeway of Member States.

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[16] Dullien, Sebastian/Paetz, Christoph/Watt, Andrew/Watzka, Sebastian (2020): Proposals for reform of European fiscal rules and economic governance, IMK report 159, Juni 2020, https://www.imk-boeckler.de/de/faust-detail.htm?sync_id=8945. The authors propose a public debt ceiling of 90 percent of GDP.

[17] Theodoropoulou, Sotiria (2018): Managing public debt: an introductory guide. ETUI, Brüssel, https://www.etui.org/publications/guides/managing-public-debt-in-europe-an-introductory-guide.

[18] Dullien, Sebastian/Paetz, Christoph/Watt, Andrew/Watzka, Sebastian (2020): Proposals for reform of European fiscal rules and economic governance, IMK report 159, Juni 2020, https://www.imk-boeckler.de/de/faust-detail.htm?sync_id=8945, see also Alvarez, Nacho et al. (2019): Towards a progressive EMU fiscal governance, https://www.etui.org/publications/working-papers/towards-a-progressive-emu-fiscal-governance.

2.3 Strengthening public investment

The current European fiscal rules systematically lead to a neglect of public investment. [19] Public investment is the expenditure item that is often the first to be cut in times of economic crisis.

This tendency is fatal, because the multiplier effect of public investment is particularly high, and cuts in public investment therefore have a particularly negative impact on economic growth. Cuts in public investment are particularly damaging in times of economic slumps and recessions. [20] in addition, many studies also identify public investment as a growth booster in the long term.

Public investment should therefore generally be protected from the cutbacks that result from compliance with EU fiscal rules. The DGB has long called for the EU fiscal rules to be supplemented by a golden rule for public investment. [21] The most consistent way to introduce such a rule would be to implement an "Investment Protocol" by means of the simplified revision procedure pursuant to Art. 48 of the Treaty on the European Union. But public investments can be strengthened within the existing EU fiscal rules even below the threshold of a treaty revision. [22] For example, the so-called investment clause[23] could be interpreted more broadly. The current fiscal policy framework provides for some flexibility in assessing the extent to which Member States follow the agreed public consolidation path. In particular, additional expenditure on public investment could be a positive asset. However, this flexibility is very limited and subject to certain conditions. In the opinion of the DGB, all investment projects co-financed by the EU without additional restrictions should excluded in the budget deficits calculation. Other investment projects that promote growth and contribute to a resource-saving transition of the economy could also not be counted in the budget deficits calculation. Currently such exemptions in the deficit calculation are already possible for Member States' contributions to the European Fund for Strategic Investments (EFSI). Further exemptions could therefore easily be implemented.

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[19] European Fiscal Board (2019): Assessment of EU fiscal rules. With a focus on six and two-pack legislation, https://ec.europa.eu/info/sites/info/files/2019-09-10-assessment-of-eu-fiscal-rules_en.pdf, S. 70.

[20] Gechert, Sebastian/Rannenberg, Ansgar (2014): Are Fiscal Multipliers Regime-Dependent? A Meta Regression Analysis. IMK working paper, No. 139, https://www.boeckler.de/pdf/p_imk_wp_139_2014.pdf.

[21] Truger, Achim (2015): Implementing the Golden Rule for Public Investment in Europe Safeguarding Public Investment and Supporting the Recovery, Working Paper AK Wien, https://www.arbeiterkammer.at/infopool/wien/Studie_Golden_Rule_for_public_investment.pdf.

[22] Seikel, Daniel/Truger, Achim (2019): The blocked completion of the European Monetary Union: A plea for pragmatic use of fiscal leeway, Wirtschaft und Gesellschaft 45 (1), 43-65.

[23] In its Communication "Making the best use of the flexibility within the existing rules of the stability and growth pact" Com (2015) 12 final, the European Commission explains the investment clause of the Stability and Growth Pact: under certain conditions, Member States are allowed to deviate from the consolidation path in order to make public investments. However, these conditions are very restrictive. Additional public investment spending is reserved for Member States that are in the preventive arm of the Stability and Growth Pact, provided that the output gap is greater than 1.5% of GDP and the 3% deficit limit is not exceeded.

2.4 Use of better cyclical adjustment procedures

A reform of the cyclical adjustment procedures used by the EU Commission could significantly improve the Member States' fiscal leeway after a recession. This is a rather technical measure, but it could have a very relevant effect.

The EU fiscal rules stipulate that medium-term budget targets are defined on a regular basis in order to reduce the debt level of the Member States to below 60 per cent of GDP. In principle, the EU budget rules stipulate a maximum annual structural deficit of 0.5 per cent of GDP (with some exceptions and additional provisions). The EU estimates the current phase of the business cycle in order to calculate the structural deficit. The relevant indicator is the so-called output gap, i.e. the difference between actual GDP and the GDP that would potentially be possible if the economy were operating at normal capacity. If the output gap is only small, it is assumed that production is running at normal capacity and the government's fiscal leeway is restricted. If, on the other hand, the output gap is larger, Member States have more fiscal leeway. Studies show, though, that the method of calculating the output gap tends to underestimate an upswing and to keep the level of under-utilisation small in a downturn. In the event of a recession the output gap is systematically underestimated.

What is the consequence? If the EU fiscal rules were to come into force again unchanged after a transitional period, Germany and other EU Member States with a debt level of over 60 per cent of GDP could face a strict austerity course. If the Commission decided to reform its cyclical adjustment procedures this effect could be mitigated. If the Commission were to stick to its calculation of the output gap from autumn 2019 and not correct it downwards in 2020 Germany would have additional fiscal leeway of €25 billion for 2021. [24] In addition, the smaller output gaps calculated in subsequent years will make it more difficult to use the general escape clause of the Stability and Growth Pact again to increase borrowing in response to a macroeconomic emergency. [25]

The European Commission's cyclical adjustment procedure is also used to calculate the structural deficit in the context of the debt brake, which is enshrined in the German constitution (the debt brake limits federal borrowing to a structural deficit of max. 0.35 per cent of GDP). A technical adjustment of this procedure could therefore give the federal government greater fiscal leeway in the coming years - even under the conditions of the debt brake.

The call for better use of the cyclical adjustment procedures is a pragmatic measure that could be implemented quickly. However, it does not replace a more comprehensive reform of the EU fiscal

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[24] Heimberger, Philipp/Truger, Achim (2020). The output gap nonsense endangers Germany's recovery from the corona crisis, Makronom, https://makronom.de/der-outputluecken-nonsense-gefaehrdet-deutschlands-erholung-von-der-corona-krise-36125.

[25] Concrete technical proposals for improving the cyclical adjustment procedure can be found at Heimberger, Philipp/Truger, Achim (2020). The output gap nonsense endangers Germany's recovery from the corona crisis, Makronom, https://makronom.de/der-outputluecken-nonsense-gefaehrdet-deutschlands-erholung-von-der-corona-krise-36125. See also Álvarez et al. (2019): Towards A progressive EMU fiscal governance. ETUI Working Paper 2019.13, https://www.etui.org/sites/default/files/WP%202019.13%20EMU%20fiscal%20governance-Web%20version-2.pdf.

rules, which will be necessary to ensure a recovery of the EU economy based on sustainability and solidarity.

2.5 Abolishing the Fiscal Compact

The Fiscal Compact was ratified in 2012 by the majority of EU Member States and has led to a tightening of EU fiscal rules. In particular, the compact stipulates that the rule of a balanced budget (i.e. a structural deficit of no more than 0.5 per cent) is to be enshrined in the national constitutions. The aim was to irreversibly establish a balanced budget as the guardrail of national fiscal policy. The DGB reiterates its demand for the abolition of the Fiscal Compact. It must be possible to change fiscal rules if there are political majorities in favour of a more expansive fiscal policy or if the macroeconomic environment changes radically. The DGB also rejects the translation of the Fiscal Compact into EU law, which the European Commission has been seeking in recent years.

2.6 A European Semester of socio-ecological progress

The reform of the fiscal policy framework is central to breaking up the biased focus of the European Semester on budget consolidation and to giving greater weight to social and ecological goals. For only a turnaround in European fiscal policy will enable the Member States to raise the financial resources needed for a solid and sustainable economic recovery.

Besides reforming the fiscal rules, the strengthening of the social and ecological dimension of the European Semester can only succeed if the corresponding goals are clearly identified in the central documents of the European Semester - the Annual Growth Report, the country reports, the national reform programmes and the country-specific recommendations - and if progress towards these goals is reviewed on a regular basis.[26] This includes the selection of appropriate indicators. The European Commission has meanwhile recognised the missing social dimension of the European Semester as an Achilles' heel in response to pressure from the trade unions, among others. Following the proclamation of the European Pillar of Social Rights, the Commission has therefore developed a so-called Social Scoreboard - a list of indicators to highlight social grievances. This Social Scoreboard was first used in the European Semester 2017/2018. The sustainability goals of the United Nations have also become part of the European Semester as of this year's semester cycle. This innovation has had little concrete impact so far, however.

The introduction of the Social Scoreboard is certainly a step in the right direction. However, this has not led to a higher appreciation of social and ecological objectives. The dominance of budgetary and competition-related objectives in the European Semester remains. [27]

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[26] Feigl, Georg/Soukup, Nikolai (2019): Realign EU policy: Seven proposals for steps towards a European Semester of Social-Ecological Progress, https://awblog.at/eu-politik-neu-ausrichten/.

[27] Hacker, Björn (2018): Social European Semester? The European pillar of social rights put to the test, Institut für Europäische Politik, Research Paper no. 2/18., http://iep-berlin.de/wp-content/uploads/2018/09/RP0218-Hacker_final.pdf.

For that reason, a balanced economic policy coordination process requires additional reforms:

- The indicators of the Social Scoreboard are based on the average performance of the Member States. For an upward social convergence it is important to formulate target values and to measure the Member States against them.

- So far, poor performance in the Social Scoreboard has had no political consequences. The Social Scoreboard would be more binding politically if poor performance of Member States regarding certain indicators were to result in respective country-specific recommendation. In addition, Member States could be provided with financial resources - for example within the framework of the Structural Funds - to remedy identified social ills. To give an example: Those Member States with a high at-risk-of-poverty rate could be allocated additional resources under the Structural Funds to finance projects to combat poverty. It would therefore be fatal to provide the ESF with fewer resources in the pandemic, rather than increasing them to meet the challenges.

- The indicators of the Social Scoreboard must be broadened. The European Semester should be aligned with the United Nations sustainable development goals. Also, the strengthening of collective bargaining systems should be made a central goal of this political steering process and corresponding indicators (e.g. collective bargaining coverage) should be included in the Social Scoreboard.

- Finally, it is essential that the European Semester be placed on a solid democratic foundation. Strengthening the democratic legitimacy of the European Semester can only be achieved by involving the parliament in the process and through greater an in particular effective involvement of the social partners. Only in this way can a critical public opinion be created. Technical fiscal policy and macroeconomic guidelines could be discussed in a broader social context. The effects of the Commission's fiscal policy and macro-economic guidelines on the labour market, social and health policies of the Member States would get more public attention. Conflicting objectives and distribution conflicts could be addressed. Co-determination rights of the European Parliament and the European Economic and Social Committee in the formulation of the Annual Growth Survey could be strengthened through an inter-institutional agreement. National parliaments could vote on National Reform Programmes and debate country-specific recommendations.

3 Reform of EU state aid law

With the outbreak of the COVID 19 crisis, the EU Commission temporarily suspended the ban on state aid under Article 107 TFEU in March 2020 in order to enable rescue measures to be taken

quickly to benefit the economy. In its Communication on a Temporary Framework for Economic Support,[28] it provides an accelerated procedure for various instruments. It allows direct grants of up to € 800,000, preferential state guarantees for bank loans, public and private loans at preferential interest rates, tax deferral measures, suspension of social security contributions and wage subsidies for employees, and state recapitalisation measures for companies. Such an emergency framework is welcome in order to cushion the slump in demand and production caused by the three-month lockdown and prevent the loss of millions of jobs. It is clear, however, that it will increase economic disparities in the Internal Market in the long term. Member States with emergency budgets cannot keep up with this kind of aid competition. They will emerge from the crisis even weaker, their companies will be forced out of the market or taken over, while at European level there is no adequate compensation mechanism to cushion these economic inequalities.

A future EU state aid law must steer national aid in such a way that common European strategies (for example to achieve climate neutrality) are supported. At the same time, European companies must be protected against competition-distorting subsidies from third countries. [29] The COVID 19 crisis has shown that strategic assets are not sufficiently protected against hostile takeovers, that strategically important production capacities (e.g. in the health sector) should be brought back to Europe or prevented from migrating, and that recapitalisation measures can be an important instrument for strengthening European competitiveness. However, a reform of the conditionality of state aid measures is necessary: they must support the EU objectives and commitments of Member States with regard to social, environmental and digital change. Furthermore, a guarantee of employment and location for employees must be a minimum requirement. Furthermore, shareholders must not receive dividends as long as the state owns shares, and management bonuses must be suspended. These and similar conditions, such as adherence to collective bargaining agreements and compliance with the rules of co-determination, must be laid down in advance in guidelines and not just on a case-by-case basis.

The above-mentioned aspects should be considered in the following actions of the European Commission: White Paper on Foreign Subsidies, the reform of the Communication on Important Projects of Common European Interest (IPCEI), the conditions for rescue and restructuring aid, the reform of the state aid package relating to services of general economic interest (public service) and the state aid guidelines on environmental protection and energy. Consideration should also be given to democratising state aid law by laying down important principles of state aid law not in the form of guidelines and communications from the EU Commission, but by means of directives under the ordinary legislative procedure.

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[28]European Commission (2020): EU Commission Communication: Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, https://ec.europa.eu/competition/state_aid/what_is_new/TF_consolidated_version_as_amended_3_april_and_8_may_2020_de.pdf.
[29] EU Commission White Paper: Ensuring a level playing field for subsidies from third countries, COM (2020) 253.

4. Minimum social standards for national unemployment benefit and minimum income schemes and fair wages

Finally, stabilisation of demand is essential for recovery in a spirit of solidarity and sustainability. An initial proposal by the European Commission on income support is currently being successfully implemented. The SURE Regulation creates the possibility for the Member States to obtain favourable loans from the EU to finance short-time work schemes for employees or similar measures for the self-employed. The DGB welcomes the Commission's proposal for a regulation in principle, as short-time work schemes avoid unnecessary redundancies and loss of income and can maintain production capacities and company staff. However, further reforms are needed to stabilise mass incomes and purchasing power. In particular, the DGB calls for:

4.1 Strengthening national unemployment benefit systems through the introduction of EU minimum standards

National unemployment insurance systems have come under severe pressure as a result of the lockdown. The European Commission's labour market forecasts paint a gloomy picture. In many countries there will be a significant increase in unemployment by the end of the year. The southern European states are particularly affected. In Greece and Spain, for example, the European Commission expects unemployment to rise to almost 20 per cent. In order to stabilize incomes and combat poverty and exclusion, the EU and the Member States should press ahead with strengthening the national unemployment benefit systems. Although the national systems differ widely, the introduction of EU minimum standards could be an important contribution to this end. Uniform binding minimum standards based on Art. 153 TFEU would make it possible, on the one hand, to preserve the traditional design of the social systems and, on the other hand, to ensure a uniformly high level of protection in the sense of upward social convergence. Possible criteria that could be used as a basis for minimum standards are, for example, net replacement rate, benefit duration and coverage ratio. In addition, the Directive should include a right to training and vocational qualification measures, as structural change and other challenges such as digitisation require continuing education.

4.2 EU Framework Directive on minimum standards for minimum income schemes

A European economic recovery programme must have a strong social component. In view of the continuing serious poverty problems in almost all EU Member States, existing minimum income schemes in the EU must be strengthened to enable people to live in dignity above the poverty threshold. In Greece, for example, a minimum income system was not introduced until 2017, and Italy did not make the transition from a fragmented regional system to a nationwide system until 2019. The corona crisis will put pressure on national minimum income schemes throughout Europe. In the view of the DGB, sound and participatory minimum income schemes play a key role in combating poverty and social exclusion. There have already been some initiatives on the European level in this field in the past such as Council recommendations and the Open Method of Coordination. Unfortunately, none of these measures have been legally binding so far. The European Pillar of Social Rights provides the debate with fresh impetus, as Principle No. 14 lays down appropriate basic minimum income schemes. Also, the current Federal German Government calls for a European framework on national minimum income schemes its coalition agreement.

In order to strengthen the national systems and, where necessary, to build them up, the DGB is therefore advocating European minimum standards for national minimum income schemes in the form of a framework directive. Binding European minimum standards should supplement the traditional instruments and ensure the adequacy of all basic security systems. On the one hand, minimum standards should be based on the minimum level of benefits, but should also include aspects such as easy and non-discriminatory access, the right to active integration and adjustment mechanisms. There are a number of studies that suggest possible criteria, not least by the EMIN network in 2017 and, building on this, the DGB[30]. Details of the design, procedures and funding of the schemes would remain within the competence of the Member States.

4.3 Fair wages

Finally, the EU should support Member States and social partners in achieving upward wage convergence. The policy of reducing wage costs in order to strengthen competitiveness must stop at European level! This can mainly be achieved by strengthening collective bargaining systems. In the European Semester the number of jobs covered by collective agreements should be monitored in the Social Scoreboard. In addition, the European Commission could point out ways to increase the number of jobs covered by collective agreement, for example through public procurement law. In future, public contracts, grants, subsidies and resources from the Structural Funds should only go to companies that adhere to collective agreements and pay accordingly. In addition, the EU should endeavour to ensure that collective bargaining systems are (re-)established in countries where, as part of the adjustment programmes at the time of the euro crisis, there were massive interventions in existing systems, some of which had disastrous consequences.

The DGB welcomes the EU Commission's proposal for a legal instrument to ensure that every employee in the European Union receives at least a fair minimum wage. For the DGB, an EU directive would be the appropriate legal instrument, as binding requirements can only be implemented by means of a directive. Minimum wages should reach at least 60 per cent of the national median wage of a full-time employee. In countries where the general wage level is too low, this threshold may have to be raised. For such cases, supplementary corrective measures must be introduced in co-operation with the national social partners. The German Council Presidency should serve to reach a political agreement on this.

In order to create good jobs and fair wages, collective bargaining systems must be supported and collective agreements must be encouraged. EU policy can make an important contribution to this end. Where there are no adequate rules for collective agreements, statutory minimum wages can establish a lower limit.

Not least because of the different systems in the various EU Member States, close involvement of the social partners in corresponding initiatives is indispensable.

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[30] DGB (2019): DGB opinion on the introduction of European minimum standards for national minimum income schemes, https://www.dgb.de/downloadcenter/++co++9254c162-ee7a-11e9-8ad1-52540088cada.