



**POLICY POSITION**

# For A Future-Proof EU Economic Governance

## INTRODUCTION

The European Union (EU) has recently undertaken significant reforms to its economic governance framework, aimed at establishing more credible and effective rules. Whereas the reform is long overdue and very much needed, the balance is more on debt and deficit reduction rather than necessary investments to help the EU deal with the challenges ahead, such as accelerating climate change, economic and social divergence, poverty and inequality, fundamental changes to the world of work, and war on EU's borders. Instead, more effective criteria are needed to ensure debt and deficit sustainability and to recognise the contribution of quality public investments and reforms to economic prosperity and debt sustainability.

The pursue of European priorities such as security and defence, and the green transition demand substantial funding, underscoring the imperative for robust financial support from the European level. However, to ensure the effectiveness of such support, it must be coupled with strong conditionality measures.


Moreover, Enrico Letta's [High-Level Report on the future of the Single Market](#) features an array of welcome proposals that can help the EU economy respond to

The profound changes, challenges and opportunities in the global economic arena. The EU must be ambitious and audacious in its efforts to develop a new Single Market capable of boosting European integration, enhancing competition, and reinforcing cooperation and solidarity among Member States.

## FOR A MORE DEMOCRATIC AND ACCOUNTABLE EUROPEAN ECONOMIC GOVERNANCE

The current decision-making process can widen the gap between people and the decisions impacting on their lives. A more democratic and accountable approach to European economic governance demands a comprehensive overhaul of the EU institutions and their decision-making processes. It is crucial to establish a fairer distribution of power among these institutions to prevent undue influence and maintain impartiality. For this reason, the Treaty of the European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) need to be reformed and updated.

Social partners, including unions and sectoral social partners, as well as organised civil society should be more structurally involved in the roll-out of



the European economic governance. The European Commission and Member States must ensure more consistent, inclusive stakeholder engagement, including through social and civil dialogue. This pertains especially to the European Semester.

Moreover, key priorities to enhance the democratic accountability of the European economic governance should focus on increasing transparency. Transparency regulations must be enforced more vigorously to ensure clear access to decision-making procedures and to promote stronger public understanding. At the same time, citizen participation needs to be enhanced, including through citizens' panels and other deliberative and participatory tools, alongside the strengthening of the European Parliament's role in the decision-making process.

## **STRENGTHENING THE ROLE OF ORGANISED CIVIL SOCIETY AND SOCIAL PARTNERS WITHIN THE EU'S ECONOMIC GOVERNANCE**


Organised civil society and social partners act as intermediaries between citizens, business and decision-makers and have a vital role in fortifying the EU's economic governance. They provide a diverse range of perspectives,

therefore contributing to the development and implementation of more democratic, citizen-oriented policies.

Their role in monitoring the implementation of economic policies, ensuring accountability among policy-makers, and advocating for transparency and democratic values in decision-making processes is crucial. Ensuring a higher degree of democratic ownership must be a priority. For this reason, organised civil society and social partners need to be involved in the decision-making process with regards to fiscal and economic reforms throughout the whole process by finding forms of institutional cooperation with the European Parliament, the European Commission, the Council of the European Union, as well as with national and local parliaments. A more inclusive and participatory decision-making process contributes to Europe's stability and is paramount for advancing democratic governance and upholding the rule of law.

## **COMPLETING THE ECONOMIC AND MONETARY UNION (EMU)**

Building from the successful implementation of the European



instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and of the Next Generation EU (NGEU), EU decision-makers need to act on lessons learned and work towards an EU, central fiscal capacity, promote tax justice, and increased own resources. Without publicly financed social investments, the EU economy will decline. It is fundamental to ensure that Europe has the public finances to deliver better public services, protect its people against environmental, geopolitical and economic risks and carry out the deep transformation towards an economy that fits within planetary boundaries.

The EU should establish a centralised fiscal mechanism to form a Eurozone Fiscal Capacity, serving as a stabilising influence by offering aid to Member States grappling with external economic shocks, mirroring the approach taken during the pandemic with the implementation of the NGEU. By harmonising regulatory frameworks, a strong capital markets union (CMU) would foster enhanced accessibility to financial resources, nurture entrepreneurial endeavours, and unlock avenues for investment, thereby fostering economic expansion and employment opportunities.

At the same time, new financial revenue opportunities should be tapped to finance increased public spending. This necessitates the joint closure of loopholes for unethical tax avoidance and illicit tax fraud at the EU level and the recruitment of more tax administration staff in all Member States. The latter should be more highlighted in the European Semester.

## **BOOSTING ECONOMIC STABILITY, RESILIENCE AND HIGH-QUALITY EMPLOYMENT**

The EU needs to foster an inclusive environment for business, empowering entrepreneurs from all backgrounds, including women, young people and migrants – as key groups with untapped entrepreneurial potential – and creating a strategic framework for sustainable economic growth and societal progress.

A common project for the creation of European public goods financed largely with the Union's own resources based on supranational, progressive taxation and criteria, including taxation on the use of data with the consent of those who produced them, should complement the European economic governance and make it more balanced and less procyclical.



Moreover, strategic investments in digital infrastructure should be a primary focus for the EU institutions. These investments serve a dual purpose: they'd foster an ecosystem that supports entrepreneurship and enhance the competitiveness of European industries worldwide. By allocating resources towards digital infrastructure development, the EU can create a solid foundation for innovation and success, particularly benefiting small and startup companies.


Targeted financial incentives play a crucial role in promoting a culture of innovation, risk-taking, and entrepreneurial initiatives. Also, by providing concrete support to startups and Micro-, Small and Medium-sized Enterprises (MSMEs), these investments contribute to the broader goal of equipping them with the necessary resources to effectively compete in global markets through their highly skilled workforce.

The EU must shape a new sustainable path that secures an economically, environmentally, socially, and intergenerationally sustainable future for all. For this to become a reality, the whole framework and economic thinking underpinning the Sustainability and Growth Pact (SGP) must be revised, and a

new Sustainability and Wellbeing Pact developed to advance a green and just society, ingraining in EU legislation the pursuit of qualitative growth over GDP growth.

This will necessarily imply a reform of the EU Treaties, whose arbitrary rules are no longer fit for purpose and do not reflect the needs of the current macroeconomic realities. Treaty change should not be an obstacle to carrying out important reforms. Ambition is essential for a comprehensive system change geared towards creating a sustainable economy of wellbeing. A new legislative approach in the SGP, shifting from strict rules to more general standards, would guarantee a system that properly accounts for country and context specificities.

Rather than relying on ex ante rules which are unable to predict new macroeconomic circumstances and unforeseen crises, a system based on standards would allow more country-specific fiscal measures. Fiscal standards must still pre-empt Member States to avoid excessive government deficits; however, they would only consider debt as excessive when unsustainable for the individual MS with high probability. Unsustainability would be assessed on an ongoing basis through a thorough debt



sustainability analysis (DSA), and it would allow the single Member State together with the Commission to adjust fiscal trajectories considering both debt viability and investment requirements. This system would be an important way forward: releasing Member States of the burden of strictly complying with absolute criteria would leave them with the individually required fiscal space to advance a green and just transition.

## **TOWARDS A GREENER ECONOMIC GOVERNANCE**


The European Green Deal's objectives cannot be met without a green and social economic governance. As it lowers pollution levels and pushes businesses and governments to embrace renewable energy sources like solar and wind power, it promotes the adoption of sustainable practices in a variety of industries. A green economic governance actively seeks to reduce greenhouse gas emissions and save biodiversity by supporting environmentally and socially just innovations, such as electric car sharing schemes and energy-efficient and social buildings and infrastructure.

Moreover, this transition to sustainability stimulates innovation and boosts new job opportunities in green industries,

advancing technological advancements to address environmental issues. In this regard, promoting more diverse and inclusive entrepreneurship will lead to more innovative and socially impactful businesses that can contribute to climate action and the European Green Deal's goals. In addition to helping the EU achieve its climate goals, a greener economic governance creates the foundation for a more resilient and healthier environment for present and future generations by promoting the shift to a circular economy and placing an emphasis on resource sufficiency.

Overly restrictive fiscal policy needs to be avoided at all costs, especially in a moment in which several EU Member States have already cut or are planning to cut green investment and social spending for 2024 and 2025. Unnecessary fiscal consolidation will exacerbate economic, environmental and social woes, which will also jeopardise debt sustainability. The political agreement on fiscal rules stands in the way of the EU and Member States achieving a range of political objectives, from agreed climate and environmental targets, to achieving strategic autonomy and economic and social convergence in Europe.

We must build on the success of the NGEU and make sure that Europe has the



public finances to deliver better public services, protect its people against environmental, geopolitical and economic risks and carry out the deep transformation towards an economy that fits within planetary boundaries.


Moreover, we are witnessing a surge in protests against the unequal distributional effects of climate action, where the burden falls disproportionately on ordinary people while the extremely wealthy are not paying their fair share. A fair transition requires governments to support low-income households to gain access to energy-efficient homes, renewable energy or low-carbon mobility. Electric car-sharing schemes and public transport must be affordable and accessible to all, and energy grids need to be upgraded, which requires massive investments in collective infrastructure.

To achieve this, the EU should design an economic governance fit for the challenges of the next decade. This would entail combining fiscal rules for national budgets flexible enough to frontload green and social investments with a stronger and permanent European fiscal capacity. Furthermore, the EU should establish a long-term just transformation fund post-2026 to drive the socially just transformation of our economy towards

net-zero and circularity, and to boost confidence for companies and citizens in the transition, while strengthening economic and social cohesion by ensuring that governments can make long-term investments towards social and green objectives.

At the same time, the EU needs to commit to adopt progressive taxes, such as a tax on extreme wealth, a frequent flyer levy, an excess profit tax on fossil fuel and a financial transaction tax to support the EU and governments to plug green and social investment gaps. Solid environmental tax reforms are necessary to implement the polluter pays principle (PPP), while guaranteeing that they don't negatively affect low-income groups. Investments should be targeted towards fostering the most sustainable modes of production, as well as include clear social and environmental conditions such as job creation, respect for workers' rights, production with low environmental footprint, and limits on dividends. This should include targeted support to the social economy sector and prioritise support to MSMEs, as large companies have access to capital markets.

Furthermore, public investments towards the black industries, including agriculture, should be supported for innovation and new green and social



solutions. This means, for example, that agricultural support must be linked to green targets. A greener economic governance should involve promoting sustainable practices, supporting or strengthening eco-friendly industries and governmental institutions and organisations, and integrating environmental considerations into the EU's economic policies and decision-making process.

## **PROMOTING SOCIAL JUSTICE AND PROTECTING WORKERS**


The introduction of a strong, social dimension of the European Semester could make Member States more accountable for improvement of working and living conditions both in the public and private sector. In particular, the (upward) Social Convergence Framework has the potential to hold governments accountable for pursuing common social objectives outlined in the European Pillar of Social Rights (EPSR). A strong, future-proof European economic governance should prioritise social investments, especially those focusing on people, those needed to address staffing shortages across health, care and other public services, workers' capacity and participation in the labour market.

For a well-functioning, renewed European economic governance, collective agreements that ensure proper, decent wages and employment conditions for employees are essential. In addition, building on the already existing pieces of legislation, the EU needs to implement fair labour laws and standards applicable to all workers across all sectors, including private, public and independent workers, while ensuring diversity and inclusion in the job market. At the same time, ensuring favourable working environments should also go beyond monetary rewards and include key factors such as workplace safety, job stability, the right to disconnect, harmony between work and personal life, and chances for professional growth.

Making education and mobility opportunities more accessible is a necessary precondition for a well-functioning job market, alongside the promotion of relevant skills to prepare workers for the future societal and economic transitions. Key examples include digital skills, AI skills, green skills, entrepreneurial skills and diversity management.

Regarding young professionals, it is imperative to help recruit young workers by supporting paid internship schemes and entry-level jobs to enhance their





abilities and explore diverse career options.

The current EU social and work regulations should be fully implemented and eventually harmonised, when necessary, in the EU as far as it is aimed at achieving an upward progress in working conditions, while new legislation should never undermine higher standards set at national level. Moreover, the EU should protect itself against competition from countries where social justice or work regulations are not up to the standards set by the International Labour Organization (ILO). In case of products imported from non-EU countries with much lower salary grids a form a compensation should be given to EU workers producing the same products, especially if it is considered essential to keep a baseline production in these sectors to avoid complete dependency from countries outside EU.

## **A STRONGER SOCIAL DIALOGUE**

The enhancement of the social dialogue within the context of the European economic governance necessitates the establishment of strong mechanisms that promote active participation and collaboration among workers, employers, and governments. These mechanisms

require empowering them to actively shape policies that directly impact jobs, wages, and working conditions. One effective approach to achieve this is by formalising channels of communication and consultation, such as tripartite forums or advisory bodies, where representatives from different stakeholder groups can convene to discuss economic policies, exchange perspectives, and negotiate agreements. These platforms should ensure equal opportunities for all parties to engage in constructive discussions, including in the drafting of the medium-term fiscal-structural plans.

Finally, it is of the utmost importance to emphasise inclusivity and diversity within the social dialogue, guaranteeing that the voices of marginalised groups, including women, historically underrepresented groups, and vulnerable workers, are heard and represented. This requires proactive measures to address institutional and material barriers to participation and promote equal opportunities for engagement.

## WANT TO KNOW MORE?

*Only by working together can we provide common solutions to the challenges Europe faces and ensure that Europeans' ambitions mirror the future work of the European Union. By bringing our member organisations together in our Political Committees, we continuously develop new policy positions and put existing ones to good use. Please visit our website [www.europeanmovement.eu](http://www.europeanmovement.eu) to take a look at our main policy positions that guide our current work and get in touch if you would like to join us or support our work.*



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