

## The Finnish Confederation of Professionals (STTK) inputs in the public debate for the EU economic governance review

### **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?**

Freedom and responsibility should be increased at the level of member states. As member states are ultimately responsible for the sustainability of their public finances, they should also have more freedom in order to pursue fiscal policies they desire. This means that the EU fiscal framework should be simplified and made more flexible.

The macroeconomic imbalances procedure (MIP) needs to be strengthened. In particular, current account balances have to be managed in a coordinated manner. The tolerance for deviation from current account balance should be symmetric and defined as 3 % of GDP. Larger surpluses or deficits would lead to extra deposits to, for example, the European Investment Bank (EIB) which would then direct these funds to new investments in the EU.

### **2. How can the framework ensure responsible fiscal policies that safeguard longterm sustainability, while allowing for short-term macroeconomic stabilisation?**

The austerity measures and structural reforms followed in the Euro Crisis failed to decrease the debt-to-GDP ratio of member states. Instead, they contributed to higher unemployment and increased inequality.

Rather than austerity measures, investments are needed in order to strengthen the sustainability of public finances. Fiscal rules should implement a “golden rule” for public investments, that is, public investments should be excluded from the calculation of the deficit rules.

The fiscal framework should also be simplified. In particular, the structural deficit should be abandoned. Even though structural deficit might be justified theoretically, in practice it is almost impossible to define the structural deficit real-time and it is also highly sensitive for revisions.

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### **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?**

Public investments are often the first spending items that are cut in times of crises. Even though EU level public investments are also needed, it is most likely that member states need to take responsibility for most public investments. In order to avoid cutting public investments and incentivizing ecological transformation investments we need to exclude public investments from the EU fiscal rules.

EU level public investments can be funded through EU own funds that need to be developed further. For instance, carbon border adjustment mechanism and financial transaction tax are welcomed ways to raise funds for investments.

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

Dropping the obscure concept of structural deficit would effectively simplify the fiscal framework.

Moreover, introducing country-specific elements in the fiscal framework would be positive. Instead of adjusting 1/20 of the public debt above 60 % of GDP, we need transparent country-specific targets that are realistic to achieve and appropriate in the business cycle. A country-specific debt-to-GDP reduction strategy should be based on a long-term comprehensive economic analysis and a debt sustainability analysis and, if needed, allow for flexibility from the headline debt and deficit ratio targets (60% and 3% to GDP).

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

A number of national plans should be consolidated to one Simplified National Plan that integrates different policy areas such as fiscal, social and environmental objectives. In addition, the consultation of social partners in the drafting and implementation of this plan should be made compulsory.

### **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, employment and fiscal dimensions?**

One key insight is that economic governance gains more legitimacy when social partners are actively involved in the process.

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

Both the preventive and corrective arms of the Stability and Growth Pact should be amended to allow for greater flexibility and public investments. Ideally, the reference value concerning debt-to-GDP ratio (60 %) would be abandoned and the reference value for deficit-to-GDP ratio (3 %) would exclude public investments while allowing for flexibility and countercyclical fiscal policy in times of crises.

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

As the proposed framework would increase the freedom and responsibility of member states, enforcement should also mainly lie in the hands of the member states.

However, sanctions, reputational costs and positive incentives also have a role to play. In particular, violations of the framework should be sanctioned preferably through “forced investments”. That is, violating the framework would automatically lead to an additional deposit with, for example, the European Investment Bank (EIB) which then supports additional investments in the EU.

### **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?**

Social aspects should be set at the same level as economic aspects in the governance framework. Economic objectives should not be prioritized over social objectives. The EPSR should have a stronger role and be better integrated in the architecture of the governance framework.

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

Freedom for and responsibility of economic policy should mainly lie with the member states. However, EU own funds should be developed further, and they should be used for financing common projects and possibly countercyclical fiscal policy when an EU-wide economic crisis hits.

To ensure a level playing field and fight against tax avoidance, EU should implement a minimum corporate tax rate and a common consolidated corporate tax base. Cooperation, exchange of information and other actions to fight aggressive tax planning and tax avoidance should also be implemented.

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**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?**

The fiscal framework has to be democratised. Key is to allow more freedom and responsibility in fiscal policy for member states as they have strong democratic decision-making institutions. What comes to the simplified EU fiscal framework, European Parliament should have a more significant role in it as well as social partners.