For a modern and ambitious EU economic governance and common fiscal policy

To reduce the EU's carbon footprint, a radical change in production and consumption patterns in Europe is needed. Macroeconomic policies and European budgetary rules can no longer be based on outdated, climate-damaging growth models. Instead, they must be based on beyond-growth strategies that take into account the Paris Agreement, the planetary boundaries and social indicators. This thorough reimagining of economic and fiscal policies must also take into consideration the EU's responsibility vis-a-vis the Global South, solidarity with the peoples therein, and the development of their capacities and communities.

Furthermore, the European budgetary rules are perceived unfairly by many people across Europe, leading to a rejection of the European Union as a political project. As pro-European ecologists, we have a duty to offer an alternative political discourse that proposes a new vision for the EU – one that prioritises the wellbeing of people especially the marginalised, both in Europe and beyond.

In a political union like the EU and the eurozone, we need common budgetary rules to serve European objectives (Paris Agreement, European Pillar of Social Rights, human rights, peace and prosperity). The EU can no longer be satisfied with a single monetary policy for the eurozone member states, a fragmented budgetary policy and a budget of 1% of the total GDP of the member states. We must obtain a more homogeneous coordination of economic policies and a real European budget that are at the service of the ecological transition and social well-being, both by reinterpreting the rules in the short term and by modifying the treaties in the medium term.

Since the Maastricht Treaty of 1992, the EU has set a target for its Member States to limit their annual public deficit to 3% of GDP and their debt to 60% of GDP. These 'Maastricht criteria' severely restrict medium and long-term investment spending.

The ecological transition requires massive investments from Member States. Our public policies must be assessed against the objectives of the transition rather than arbitrarily limiting their financing on the sole basis of budgetary criteria and taking into account that there is no sustainable debt in an uninhabitable planet.

In addition to the Maastricht criteria, after the 2008 economic crisis, the European Union introduced enhanced coordination of Member States' economic and budgetary policies through the European Semester. This framework of economic and budgetary governance is no longer adapted to the macroeconomic challenges facing the EU.

Our macroeconomic governance framework must be able to evolve and be based on the objectives of adaptation to climate change, respect for planetary limits, social justice and human well-being, and thus be based on the objectives that the European Union has already collectively set itself, such as the Green Deal, the social rights and the 2030 sustainable development objectives.

To the monitoring of macro-economic imbalances, a monitoring of environmental and social imbalances must be added in a contractual approach and democratically discussed with the Member States. Such discussions must include consultations with all levels of governance in the Member State and with the relevant civil society, taking the example from the European Commission's framework for dialogue with civil society;

The European Union must also equip itself with new means to act directly. This means strengthening the European budget by directing it towards ecological transition, social cohesion and the fight against poverty.

In order to finance this budget, it is necessary to move away from the logic of mainly direct contributions from Member States. Genuine own resources must be put in place. They must contribute to better regulating globalisation, ensuring social equality, fighting tax competition and redirecting the economy towards less polluting activities.

These ambitious reforms are possible through a reinterpretation of the treaties, and therefore without amending the treaties. Indeed, between the Stability and Growth Pact created in 1997, its reform in 2005, and other reforms between 2011 and 2013, there have been numerous interpretations of the rules.

The 60% debt limit and the 3% deficit cap place arbitrary constraints on Member states' public budgets as these figures are based on assumptions that are out of reach in the current context. The 3% and 60% need to be revised by standards that suit an economy that respects the Paris Agreement, the planetary boundaries and social cohesion. However, overcoming such thresholds would require a Treaty change.

Responsible fiscal policies should also look at the quality of public expenditure. Both the increasing spending in polluting sectors, driven by short term political motivations, as well as refraining from expenditure that addresses the current social and environmental challenges, will leave future generations worse-off and will negatively impact long-term debt sustainability.

This is why,

<u>On the budgetary rules of the Member States, the European Green Party calls for:</u>

- Replacing the current approach to public debt with a "green debt rule" that will support investments in adaptation and ecological transition. A new ecological definition of public debt sustainability will be needed that takes into account climate risk and the investments needed to address it. Prescribing low public deficits and debt may prevent certain member states from investing speedily and at scale in the necessary green transition and climate adaptation policies. Investments necessary to fulfil the EU green transition and biodiversity policies should be enabled, encouraged and monitored. Further, leaving climate related risks unaddressed today can lead to an increase in public deficit and debt in the future. Increased public expenditure would be needed to address the immediate consequences of climate related events (e.g. floods, heatwaves, droughts) while a loss in public revenues (e.g., reduction in value added and corporate income taxes) is inevitable due to the disruption of economic activities resulting from such events. Therefore, debt sustainability should incorporate the necessity of green investments and the consequences of climate inaction and require increases of targeted green expenditure;

- Supporting green and social investments, by allowing the amortisation of expenditure on the ecological transition, and investments in health or education over their entire life cycle, as is the case in the private sector. It should be mandatory to valuate and include the societal and environmental benefits in the investment cases. These investments are currently discouraged because their full amount is accounted for in a single year, adding to deficits.

<u>On the recast of the European Semester and the coordination of economic policies, the EGP calls for:</u>

- The European Union to redefine its public policy objectives such as well-being, fight against poverty, just transition, respect of planetary limits and identify the corresponding indicators. For example, the budgets of the Member States and the European Union must be transparent and accounted for, following the standards of green budgets. Indicators should be mainstreamed in order to monitor the annual budget of Member States and measure the deviation from the alignment with the Paris Agreement, while duly internalising the cost of inaction;
- The European semester to be transformed into a long-term policy coordination cycle, based on specific contracts for each Member State. These contracts should include reforms and investments to meet the various European objectives. These national contracts must be drawn up for the duration of a term of office, in consultation with the various levels of governance and must therefore be renegotiated each time there is a change in the legislative majority in order to ensure a democratic legitimacy. These national contracts should also be discussed with the European Parliament. Civil society must be comprehensively involved in these consultations, including labour unions and representatives of marginalised and minoritised communities;
- The use of green budgeting tools, which aim to estimate the impact of each expenditure and tax on the different European objectives of the European taxonomy (climate, circular economy, biodiversity, water…), will be the first step of this coordination cycle;
- Reviewing the thresholds of some indicators, so that they become symmetrical. For example, trade surplus thresholds should be identical to trade deficit thresholds, since in the long-term trade surpluses are as much of a problem as trade deficits;
- Breaking down debt indicators for public and private sector debt according to the origin of this debt (from climate-friendly spending, future-neutral spending or spending on climate-unfriendly investments) and adapt policy responses according to the origin of the debt, beyond just its level or evolution.

<u>On the creation of a real European budget, the EGP calls for:</u>

- Establishing an ambitious European budget contributing to social and territorial cohesion and to the green and sustainable transition, including the transition of the European agricultural model;

- Establishing a Green Facility, modelled after the RRF with substantial funding to address the EU investment gap for a socially just transition. Experiences from the European recovery plan put in place following the COVID-19 crisis should be utilised when planning the Facility;
- The European Stability mechanism, based currently on an intergovernmental Treaty, to be integrated into the EU legal framework and be transformed into an EU debt agency. In order to avoid the mistakes of the past, any future macroeconomic adjustment program should be subject to a thorough social impact assessment;
- No EU funding to be used for projects that are harmful to the climate, biodiversity and the environment. We will reconcile nature and biodiversity protection and we should not impede the needed development of renewable energy infrastructure. As iterated in the December 2022 EGP Congress resolution on "Green and social solutions to the energy crisis", support the creation within European law a "leave no one behind" principle applicable to the EU budget in order to safeguard social and labour rights;
- Increasing European taxes based on carbon emissions as well as on pollution and waste: extend the border carbon tax to new polluting sectors, enlarge the European carbon market and abolish free quotas; extend existing taxes on pollution (e.g. plastics) and develop new pollution taxation instruments. Also step by step abolish all environmentally harmful subsidies;
- Using more revenues from the ETS to significantly improve the financing of the EU social climate fund to ensure a socially just transition;
- Studying the feasibility of different taxes such as on share buy backs, EU withholding tax, an own resource based on EU minimum capital gains tax as well as insisting on the implementation of an ambitious Financial Transaction Tax (FTT);
- Introducing the OECD corporate minimum tax agreement for small and medium companies and implement a higher level for the biggest companies to get out of tax competition between Member States;
- Introducing a homogeneous capital gains taxation framework, including a minimum capital income tax;
- Creating more sources of income for the EU. We propose measures like a common European windfall tax on the profits of large European companies and a digital tax for large international digital companies. Furthermore, we explore the possibility of a European wealth tax on the highest wealth and income;
- Ensuring that such measures do not translate disproportionately in consequence to end consumers, such as through price hikes, and that adequate mechanisms are implemented to especially protect marginalised and vulnerable consumers. This includes for example, improving and expanding the special climate fund.

<u>On the reinterpretation of the treaties in the short term and the relaunching of the treaty recasting process, the EGP calls for:</u>

- Abandoning the principle of budgetary neutrality and create of a permanent European fiscal capacity with the possibility to issue EU common debt for stabilising the economy and engage in the provision of European public goods beyond what is currently funded by the EU budget offering common solutions to problems shared by European citizens;
- Using the bridging clause in the Lisbon Treaty that allows for a switch from unanimity to qualified majority voting on fiscal issues;
- Working towards a revision of the treaties to replace the 3% and 60% thresholds with standards for the necessary expenditure allowing European investments in the green and social transformation that allow for the necessary European investments in the green and social transformation. Ultimately, in the long run, working towards a revision of the treaties to expand the EU economic and monetary union (EMU) into an economic, monetary, and fiscal union.