A NEW AND SUSTAINABLE FISCAL PACT FOR THE EU

(The meeting will be in English)

Meeting at Aalborg University, A.C. Meyers Vænge 15, 2450 Copenhagen SV, room 2.1.042

Friday June 2ND, 2023

Time: 12:00-16:00

Arranged by Netværk for Økonomisk Politisk Debat (NETØK)

NETOEK.DK

The Framework

The Stability and Growth Pact (SGP), which entered into force in 1999, sets out the fiscal conditions for the introduction of the single currency, the euro. It stipulates that an EU country may only have public debt amounting to 60% and a budget deficit of 3%, both in relation to GDP. In parallel, the European Central Bank (ECB) introduced an inflation target of 2%. So-called monetary financing to bail out indebted countries continued to be prohibited. Later modifications of the SGP have not least been about consultations and monitoring.

SGP has forced governments to pursue tight fiscal policies as was demonstrated during the sovereign debt crisis 2010-2015, hitting Greece especially hard. Denmark approved a Budget Act in 2014, which stipulates that public expenditure and income should in principle be in balance or in surplus, but allowing for a structural deficit of 1%. During the covid-19 pandemic, SGP was suspended until 2023 according to the 'escape clause', which was subsequently extended until 2024.

These fiscal limitations have meant that the burden of adaptation to crisis situations from 2008 onwards (financial, debt and corona crisis and now the Ukraine war) largely fell on the ECB, which approved a number of mechanisms to help countries reduce their debt burden, especially via the purchase of bonds as part of its low-interest rate policy. Despite intentions, these monetary policy measures have not led to the SGP criteria being met. After the Ukraine war and the ensuing energy and food price rises, the ECB changed gear and adopted an inflation control policy through higher interest rates.

At the advent of ‘corona’ in 2020/2021, it became clear that monetary policy could no longer serve as the main tool of economic policy at the EU level. Fiscal policy had to step in to support government finances to overcome the crisis. In a clever move, the EU Commission got around the opposition to a ‘fiscal union’ by assuming debt on its own to fund the Recovery and Resilience Facility (RRF) of around 750 billion euros, of which half was granted as non-reimbursable aid, the other half given as low-interest loans to individual member states. The intention is that the monies should be used to support the green transition, digitization and modernization of the welfare sector and industry. Denmark gets approx. DKK 11.6 billion in grant aid.

Reform proposals

There is broad agreement that the SGP criteria have been unrealistic from the beginning, and that they should be revised. Many reform proposals have been tabled. Three of the 'frugal four' countries, Sweden, the Netherlands and Austria, have scaled down their opposition to joint indebtedness and to relaxing the SGP rules while Denmark seems to be a stalwart. Meanwhile there is a clarion call for a new common European industrial policy, partly inspired by the US Inflation Reduction Act that favors production on US territory, regardless whether the firms are foreign or domestic.

The Netherlands and Spain have proposed some not very precise modifications to the SGP, and German S&D members of the European Parliament have issued a position paper on fiscal reform, ‘A New Economic Governance Reform for the European Union’. It emphasizes among others that the debt ceiling criteria should be the same for all but that the debt reduction demands must be tailored to the capacities of the individual member states, and further suggests a permanent investment mechanism inspired by the RRF so as to ensure sufficient investment funds for the green transition.

The Amsterdam-based Sustainable Finance Lab (SFL), which has published ‘A Sustainable Fiscal Pact for Europe’, is working actively to gather support for a revision by progressive forces in the member states.

The proposals concern the raising of the debt limit, suggesting that debt which goes to public, especially green, investments should not be included in the debt ceiling calculations, or at least not 1 to 1. In addition, a country-specific deficit policy should be adopted that takes green investments as well as the countries’ level of GDP per capita into account, instead of insisting on a structural deficit rule. Likewise, indicators for the green transition must be included in the monitoring of fiscal policy. Similar to the RRF, time-limited funds from the EU should be exempt from the debt limit. And finally, there must be social criteria linked to the assessment of governance.

Questions to be discussed

The questions to be addressed concern the overall European economy and the EU's basic promise of a more sustainable future. How could the rules of the game be designed so that they promote green and social development while taking into account the EU's weakest countries and the EU’s position in the world economy?

Speakers

Niels Fuglsang, Danish Social Democrat and member of the Group of the Progressive Alliance of Socialists & Democrats (S&D) in the European Parliament. Committee membership of: Industry, Research and Energy, Economic and Monetary Affairs plus the Subcommittee on Tax Matters.

Nikolaj Villumsen, Danish member of the European Parliament, elected by the Red-Green Alliance (Enhedslisten) and member and vice chair of the Left Group in the European Parliament (GUE/NGL). Was member of the Danish Parliament from 2011-2019. As MEP, Nikolaj is member of the environment, employment and constitutional affairs committees.

Jens Ladefoged Mortensen is Associate Professor in political science at Copenhagen University. His area of expertise is the role of the EU in the world economy concerning trade politics and related areas such as the geopolitics and competitiveness of the EU and the understanding of power in economic globalization.

Sara Murawski, Policy advisor and researcher in international trade and investment, finance and European integration at Sustainable Finance Lab. Sara has worked in journalism, think tanks, NGOs, the Dutch and European parliaments and with action groups, or

Herman Beun, Associate at SFL, policy advisor and researcher in the field of EU policy and democracy. Herman has previously worked in the European and Dutch parliaments, the Dutch Court of Audit and various think tanks on the financial crisis, banking supervision and economic policy. Currently working at SFL on the project "Changing fiscal rules and reforming the EU fiscal framework".

Program

12:00 – 12:10: Welcome, *Karen Helveg Petersen*, Netøk

12:10 -12:40: The broader economic and political context of EU reform, *Jens Ladefoged Mortensen*

12:40 -13:10: The view from the Left, *Nikolaj Villumsen*

13:00 – 13:40: Q&A of the two first presentations

13:40 – 14:00: Sandwich and coffee break

14:00 – 14:30: The political and economic possibilities for change, *Niels Fuglsang*

14:30 – 15:00: The progress and movements to change the SGP, *Sara Murawski* or *Herman Beun*

15:00 – 15:20: Coffee break

15:20 – 15:55: Q&A and panel discussion

15:55 -16:00 Closing remarks

Registration: Jørgen Lindgaard Pedersen, jlpe@dtu.dk, at the latest by May 29, 2023

Price: DKK 75 (covers lunch and refreshments, etc.)

Payment: Reg.nr.: 5366, Account.: 245829