

Some (provocative?) thoughts on EU proposals for a reformed SGP

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Introduction: Change... in continuity

Main changes

- 1) **New indicator & reduced complexity**
- 2) **Focus on reforms and investment**
- 3) **Increased ownership & enforcement**

Yet, continuity with previous policies

- 1) **Focus on public finance consolidation**
- 2) **EU Semester & RRF**
- 3) **Dilemma: Common rules v. specific situations**

Plan

- 1 pattern
- 1 myth
- 2 questions



1) The pattern: The growing EU grip on macroeconomic policies

- **The original framework : Maastricht Treaty and EMU (1992)**
 - Single monetary policy (ECB) & Fiscal integration (+ SGP – 1997)
 - **Weak coordination of *national* socioeconomic policies:** Broad economic policy guidelines
- **Post-Eurozone crisis (2010-2012):**
 - **Stricter fiscal rules:** Six-Pack; Two-Pack; Fiscal Compact...
 - **Financial assistance:** European Stability Mechanism (ESM)
 - **Banking Union**
 - **Statistical harmonization:** rising Eurostat prerogatives
 - **Macroeconomic imbalance procedure:** European Semester and CSR
- **Covid-crisis: General Escape Clause & Recovery and Resilience Facility (RRF)**
 - **Conditionality & strict EU monitoring**
 - **Role of CSR:** growing EU influence on domestic reforms



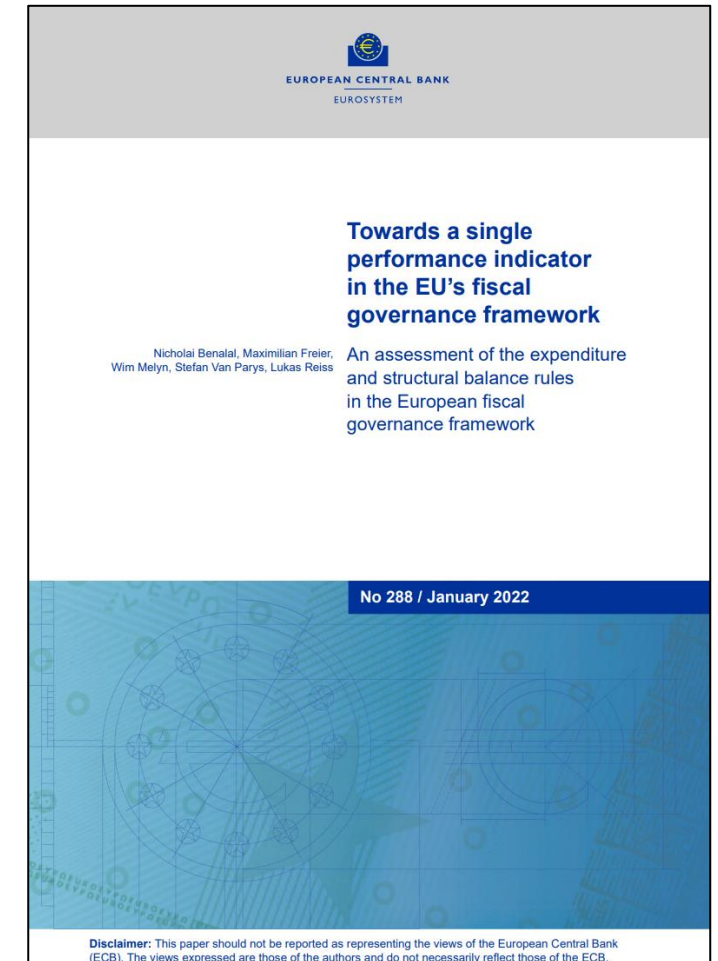
1) The pattern: The growing EU grip on macroeconomic policies

- **Step-wise increase of EU powers, in a wide-range of macroeconomic policies:** monetary, fiscal, but also banking, statistical and socioeconomic (social, investment... policies)
- **Many rules = greater political discretion** over the (non) implementation of measures and assessment of reforms
 - **E.g.:** negotiations with MS over the SGP, statistical requirements, (de)activation of the general escape clause, etc.
- **The Commission's proposal (2022) follows this logic:**
 - **Single macroeconomic governance framework** (fiscal policy, investments & reforms): national medium-term fiscal-structural plan
 - **More automatic enforcement**
 - **Focus on common EU priorities and EU agenda** (e.g.: “growth enhancing investment and reforms for EU priorities”)
 - **Latent Europeanization** of economic and social reforms?



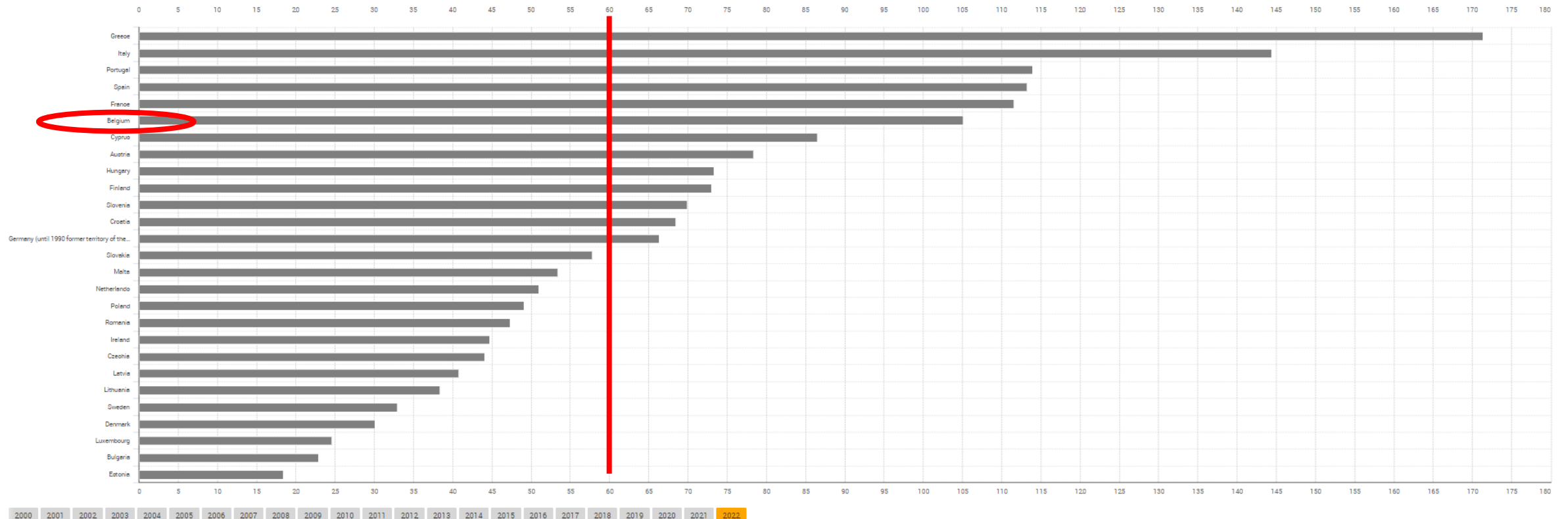
2) The myth of simplicity: the holy single fiscal indicator?

- **Widely shared diagnosis on current SGP:** Highly complex surveillance mechanism
- **Proposed solution? Focus on 1 fiscal indicator : net primary expenditure**
 - In line with previous reforms (e.g.: expenditure benchmark)
 - **Definition?** Expenditure net of discretionary revenue measures and excluding interest expenditure as well as cyclical unemployment expenditure
- **Simple rules: holy grail or the greatest E(M)U fantasy?**
 - Maintaining of the **3% and 60% limits...**
 - **Political underpinnings: one-sided focus** on the budget → What about *revenues*?
 - **Ownership and negotiations with MS**
 - **Debt sustainability analysis:** methodological controversies (e.g.: pro-austerity stance?) & political role of models (statistical thought experiments) → **No neutral instrument**
- **Conclusion?** It's complex to keep it simple...
 - **Transparency ≠ Simplicity:** still very technocratic framework
 - **Democratic issues:** not easy to understand or communicate



3) Q1: (How) to combine flexibility & ownership with simplicity & enforcement?

- Starting point: very contrasted national positions
 - E.g.: gross public debt



3) Q1: (How) to combine flexibility & ownership with simplicity & enforcement?

- **Ex-ante: Medium-term approach (4-7 years): inherent tension between strict (rigid) v. flexible (loose) plans**
 - What **room for negotiation** in the hands of national executives? Symmetrically, what **coordination** at EU level?
 - What interactions with **domestic elections** (democratic issue)?
- **Ex-post: Better enforcement → The dream of automatic implementation? But *how*?**
 - More sanctions (eg : fines or shortening of the adjustment period) ≠ Better implementation → Other tools (eg. reduced EU funds)?
 - How to reinforce national fiscal institutions?
- In sum: deciding *what, when and how* to sanction remains a **fundamentally *political* issue** in a **variegated & multilevel EU polity**
 - Euro area v. EU
 - Biggest countries (IT, SP, FR, DE) v. (semi-)peripheral countries

3) Q2: How (environmentally) sustainable is the focus on (public finance) sustainability?

- **How green is the SGP reform?**
- New focus on “green”/productive public investment – in line with recent EU initiatives (e.g. RRF)
- Yet, the proposed framework rests upon **3 intertwined dimensions**: public finance consolidation, transition and growth
 - **Underlying assumption**: no contradiction between the 3 aspects
- Yet, **how to prioritize** in practice? **What if conflicts arise** between these dimensions?
- Besides, **is green transition even compatible** with a macroeconomic framework focus on growth, innovation & consolidation?

Conclusion: Old wine in new bottles?

- **Long-term pattern:** growing EU grip on macroeconomic policies
- **The myth of simplicity** & the limits of the single fiscal indicator
- **Two questions (among many others...):**
 - Combining flexibility & ownership with simplicity & enforcement: **an oxymoron?**
 - Is the focus on sustainability **really sustainable?**

Thank you for your attention !

Appendix – To go further on the Belgian case

- Piron D. (2013). « Le cadre institutionnel de l'assainissement des finances publiques en Belgique », *Bulletin de documentation du SPF Finances*, 73 (3), 139-180.
- Piron, D. (2019). *Gouverner les régions par les finances publiques – Européanisation, fédéralisation et néo-libéralisme en Belgique*, Bruxelles, Larcier.
- Piron, D. (2022). « ‘On ne rigole pas avec Eurostat’ – La disciplinarisation budgétaire saisie par l'harmonisation statistique », *Gouvernement et action publique*, 11 (2), 33-53.
- Piron, D. (2022). “The Special Financing Law: Tax competition and fiscal consolidation at the heart of Belgium’s material economic Constitution”. In Grégoire, G. & Miny, M., *The Idea of Economic Constitution in Europe* (pp. 659-686). Brill Nijhoff.

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