Generation
Climate
Europe

Why should young people care about EU Economic Governance?

Generation Climate Europe

2024

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Introduction

2024 is a significant year for the European Union (EU), with a fresh Commission taking office, new political priorities shaping the EU for the next five years, and new fiscal rules entering into force. In this brief, we consider the implications of these changes for future generations. We outline why young people should care about EU economic governance, while providing a critical perspective on the current economic governance framework and its failure to rise to the challenges of climate change.

New generations desire structural change in European economic governance[1]. According to the 2024 World Happiness Report, young people are less happy than older generations.[2] Concerns about energy poverty, housing and the cost of living are prevalent among the youth, and many are sceptical about whether the new fiscal rules will address these challenges effectively. In recent years, we have witnessed temperatures increasing, sea levels rising and a large spike in climate-related disasters. Public expenditure is crucial for supporting the green transition and protecting against these disasters. Governments need to invest more in areas such as renewable energy, public transport and housing. Arguably, the new fiscal rules will restrict the ability of Member States to invest in these areas. To achieve intergenerational justice[3] through green transition, the EU must continue to adapt its economic framework.

What does EU governance mean?

EU economic governance is the framework that coordinates Member States' economic and fiscal policy. It establishes rules for national governments to spend public money and control debt accumulation. It also seeks to foster economic growth and social prosperity. Since the Maastricht Treaty (1992), EU economic governance has been strengthened by new policy instruments; particularly the 1997 Stability and Growth Pact (SGP). The SGP states that deficits should not exceed 3% of GDP and debts should stay below 60% of GDP, i.e. the Maastricht criteria. Before 2011, the SGP was the sole economic policy framework with legally enforceable rules, with the rest of economic policy coordination being based on consensus. After the Eurozone crisis, EU policymakers decided to formalise economic governance structures and processes to prevent future crises. The European Semester was created to legitimise the process of policy coordination amongst Member States via an annual framework. The EU economic governance framework clearly has the potential to create fiscal space for green investments, a change that will be necessary to achieve the climate and environmental goals the EU.

[1] Reinventing Prosperity - Youth Vision for a New Economy Generation Climate Europe website
[2] World Happiness Report 2024
[3] Intergenerational justice states that the rights of past, present and future generations to live on a healthy planet are equal Generation Climate Europe Website

What are the milestones of the EU economic governance framework?

1992: Maastricht Treaty - laid the foundations for the Euro, and its convergence criteria (acceptable levels of public debt, inflation, interest rates and exchange rates).

1997: Stability & Growth Pact - established Excessive Deficit Procedures (EDPs) to sanction member states breaching the 60% public debt & 3% deficit levels.

2003: France and Germany SGP 3% rule violations - in response, SGP was reformed in 2005, whereas punitive proceedings had been opened for Portugal and Greece when they violated rules.

2008-12: Eurozone crisis - a long period of economic downturn with record debt and deficit levels across the EU. Boosted the need for a strengthened economic governance framework.

2010s: Further tools such as stability and supervisory mechanisms and regulatory instruments created to boost the framework post-crisis.

2021: NextGenerationEU - COVID-19 recovery package worth €750bn implemented to support the EU's recovery.

2024: Economic governance framework review - a provisional political agreement on proposed reform to the framework was reached between the Council and Parliament.

How did EU economic governance fall short?

EU economic governance has not adapted to different economic cycles over the years. Since 2000, only nine countries have stayed consistently below the required threshold debt levels, with four countries consistently staying above the same threshold.[4] During the Eurozone crisis, Member States with larger economies such as Germany and France promoted strict fiscal discipline and supported the SGP. Whereas, Member States like Greece and Portugal were more severely affected by the debt crisis and austerity measures. Following the Eurozone crisis, the national economic situation varied across Member States and there was a lack of adherence to the strict fiscal rules.

How has EU economic governance been reformed in the past?

Since the beginning of the 21st century, various economic and geopolitical crises have led to heightened debt levels. Recent reforms were introduced to allow for a more gradual pace of debt and deficit reduction, reflecting the post-pandemic reality. In 2023, the EU Commission proposed to revise the economic governance framework as it was outdated and inflexible. In 2024, the revised economic governance framework entered into force. It aims to strengthen Member States' debt sustainability, and promote growth through various reforms. While these reforms increase national ownership, they still primarily focus on the long-term objective of debt reduction. Arguably, more change is needed to empower governments in planning a fair and just climate transition.

Why is the revised framework being criticised?

Many have criticised the EU fiscal framework because of its focus on economic growth and debt reduction. It encourages short-term thinking, with profits being prioritised at the expense of climate-related investments for future generations. The EU fiscal rules are also criticised because they reinforce economic and social inequalities amongst Member States. Thirdly, the focus on economic growth demands excessive consumption that drives environmental degradation.

[4] EU countries reach deal on national spending rules reform, Politico (2023).
[5] The Tragedy of the Euro, Mises Institute (2010).
[6] A new economic governance framework fit for the future, European Commission website(2024).

Finally, fiscal rules do not adequately account for the external costs of growth, such as pollution, habitat loss, and resource depletion. National governments should be empowered by fiscal rules to invest in areas such as renewable energy, public transport, housing and climate-related grants to support a just and green transition, rather than prioritising economic growth and debt reduction as the new framework does.

How can we improve EU Economic Governance ?

New approaches to the EU economic governance have emerged. The Fiscal Matters Coalition is a group of civil society organisations, think tanks and trade union leaders who advocate for fiscal reform. Below, we list the relevant proposals from this group along with some other individual organisations. Proposals 1 to 7 can be found in the joint policy brief of the fiscal matters coalition, while propositions 8 to 10 are proposals put forward by other organisations, namely the European Trade Union Confederation, the European Environmental Bureau and the Zoe Institute.

1. **Ensure the quality of national medium-term fiscal structural plans.** It is necessary to improve the quality of these plans to ensure that national investments support debt sustainability, as well as EU environmental, social and economic priorities. This means including the "do not significant harm principle" of EU environmental law; using only specific and measurable objectives; ensuring that the assessments are publicly available; and finally, recognising the importance of "resilience-enhancing reforms and investments".

2. **Exempt future-oriented spending from the arbitrary deficit and expenditures limits.** Freeing specific future-oriented spending from these limits enables future generations to make quality investments.[7]

3. **Adjust the current debt sustainability monitoring through two changes.** Nowadays, debt sustainability analysis (DSA) is used to monitor a country's debt sustainability (e.g., analyses that forecast if governments are able to meet all their debt). However, these rules are not neutral and should be changed in two ways: (1) DSA's assumptions shall be derived from the treaties, and agreed upon in a political process; and (2) DSA's methodology shall be monitored and regularly updated to take into account fiscal uncertainties, for example, related to climate change.

4. **Reform the European Semester for a just transition.** This is important to improve the Semester's ability to steer member states towards the EU and national environmental and social targets.

[7] Investing in our Future: Seven EU economic governance reforms for a stronger, greener and more resilient Europe, Fiscal Matters (2023).

5. **Advance fiscal risks monitoring.** Rethink the Macroeconomic Imbalance Procedure (MIP), by including new climate-related risk indicators and reviewing the thresholds of some MIP indicators.

6. **Develop the democratic ownership of European fiscality.** Through enhancing the role of Independent Fiscal Institutions to foster democratic ownership. This in turn is likely to result in more policy buy-in, accountability and choice insight.

7. **Establish a permanent European Fiscal Capacity.** This refers particularly to creating a common EU borrowing capacity that would enable Member States to raise funds at a lower cost.

8. **Use the UN Agenda 2030 as a guiding European tool.** Introduce the UN Agenda 2030 and its Sustainable Development Goals (SDGs) within the EU priorities as a general framework to bind economic governance to sustainability constraints. [8]

9. **Integrate "Beyond GDP" Indicators.**[9] Integrate new indicators that go beyond the classic growth indicators e.g., Gross Domestic Product (GDP). Incorporate broader policy tools and initiatives in the areas of environmental sustainability, health, education, social protection and redistribution.[10]

10. **Create a socio-ecological framework.** Introduce a holistic way of increasing fiscal leeway through restructuring national finances, the creation of incentives for governments to encourage socio-ecological tax reforms, and the reallocation of subsidies from harmful industries to sustainable industries.[11]

Conclusion

The new term of the EU (2024-2028) is an essential period for youth to advocate for the economic governance framework to be reformed in a sustainable manner that ensures intergenerational justice. Unfortunately, EU economic governance is currently only based on short term solutions, which harm the environment in the long run. Acknowledging that economic growth is limited requires transforming this framework by integrating new key elements, such as wellbeing and supporting future-oriented investments, as laid out in the above proposals.

[8] Call to Action : ETUC letter in view of the Plenary debate on the Revision of the Stability and Growth Pact European Trade Union Confederation (2023).
[9] New indicators measure growth not only based on economic progress but also in terms of health, impacts on the environment and quality of life.
[10] EEB position on EU Economic Governance Framework, European Environmental Bureau (2022).
[11] Sustainability-linked Fiscal Leeway: A proposal to make the granting of fiscal leeway dependent on the achievement of green targets, ZOE Institute for Future-fit Economies (2023).

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Generation Climate Europe (GCE) is the largest coalition of youth-led networks on climate and environmental issues at the European level, uniting the largest youth-led networks in Europe, and bringing together 381 national organisations across 46 countries in Europe.

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