

EESC Hearing on 'Reshaping the EU Fiscal Framework
for a Sustainable Recovery and a Just Transition'

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Transcript

Good morning, members of the Committee and study group, everybody in the audience. My name is Alicia Hinarejos. Thank you for inviting me to take part in this hearing on reshaping the EU fiscal framework. And thank you for allowing me to do so with a pre-recorded video, given the time difference.

There is a general consensus, and there has been for some time, that the fiscal framework needs to be reformed. The Commission agrees, and launched its Economic Governance Review in February 2020. Its report at the time was very critical, finding that the current economic and fiscal framework was not effective, lacked transparency, and credibility. In the meantime, both the review and the fiscal framework itself are on hold because of the pandemic.

Consensus is that (while it may not be easy to secure agreement) reforms should take place before budgetary surveillance comes into back into full force, possibly in 2023.

The focus of this hearing so far has been on one specific element of the framework for economic and fiscal governance: fiscal rules. I follow the interventions by Prof. Dullien and Prof. Repasi, who have focused on reforms to the fiscal rules that are possible without Treaty changes. These scholars' report is outstanding and comprehensive and I agree with the legal analysis. I will just say a few words about the suggested reforms, which span from amending the fiscal rules to getting rid of them completely and just using looser standards.

I will focus on the reforms to fiscal rules first.

When thinking about what would need to be changed in order to adopt these reforms, the thing to bear in mind is that the overarching Treaty requirement is to avoid excessive deficit and ensure sustainability of public finances within the currency union. In deciding what 'excessive' is, the Treaty just says that both deficit and government debt should be taken into consideration. Specific values are not set in the Treaty itself, but in the Protocol on the Excessive Deficit Procedure annexed to the Treaties, and which can be changed by unanimity.

So the Treaty gives us quite some leeway. When it comes to these specific reforms to fiscal rules, secondary legislation needs to be amended, the protocol only in some:

- A debt anchor or expenditure rules: could be put into place without any Treaty changes, but amending secondary legislation.
- Reform of the rules on Government debt: You cannot remove these rules completely, but you can change them (relax them). You would need to change the reference value in the Protocol on Excessive Deficit Procedure attached to the Treaties, but no Treaty reform need be undertaken. Plus you would have to amend secondary legislation. The values do not have to be uniform for all Member States.

- Creating more room for public investment (golden rule): Again, the Treaty would not stand in the way of this, you would just need to amend secondary legislation.

Now I will say something about the proposals for doing away with fiscal rules and using instead fiscal standards, which would likely need a Treaty reform.

- One, it may well be that economically standards make a lot more sense than fiscal rules (not my area of expertise)
- Two, numerical fiscal rules are clear and foreseeable, but this has been a bit of a pretence in the past, given that, in the end, enforcement is up to the Council, who has very broad discretion. Thus there has been no effective enforcement of these numerical fiscal rules. You could say it is more honest or straightforward to say that we have standards that we define and apply on a case by case basis.
- The first problem here is the broad discretion given to expert bodies (either fiscal councils or the Commission) to define by themselves the rules to be applied.
- I think this comes down to having to separate the standards from their enforcement. It may be acceptable to give this broad discretion to expert bodies as long as it cannot lead to any binding decision (but then arguably this would look quite different from the mechanism of fiscal discipline envisaged in the Treaty, and you may have to amend it)
- But the proponents of this change would go further than this, arguing that these decisions should be binding and that there can be judicial control of these pronouncements—I think that is a no go, as Profs Dullien and Repasi argue in their paper. In practice the Court of Justice would show deference to the expert bodies and exercise a light-touch review, and we would have a legitimacy problem with these decisions taken by expert bodies exercising enormous discretion in the definition of the standards to be applied, and limiting national budgetary autonomy to a degree that would be unacceptable, including to national constitutional courts.
- Against this background, it seems far more feasible to focus on reforming fiscal rules (at least in the short to medium term) rather than on getting rid of them altogether.

Beyond specific fiscal rules, the wider reform of the European Semester should aim for more inclusion of parliaments (EU and national) and social partners, to increase ownership and legitimacy. And more needs to be done to ensure the centrality of the social pillar within this framework.

And finally, we should be mindful of the limitations of any multilevel fiscal framework that relies exclusively on fiscal discipline and coordination of national fiscal policies in the absence of a meaningful fiscal capacity at the central level.

In other words, arrangements for surveillance and coordination of national fiscal policies will always be limited in what they can achieve; their reform should be part of a more ambitious EMU reform that includes the creation of a permanent fiscal capacity for the EU or the euro area. That way we don't need to rely on Member States' economic and fiscal policies to be able to deal with large shocks on their own, and to place so much emphasis on discipline. Additionally, a central fiscal capacity could create incentives or 'carrots' for Member States to

comply with fiscal and economic recommendations without the need to resort to disciplinary enforcement (that seems not to have worked well so far).

This is, of course, a longer term reform and it is right, for the time being, to focus on a pressing, more limited reform of fiscal rules. But we should not forget its place within a broader, more ambitious plan.

Thank you and I remain at your disposal.