

ECONOMY AND FINANCE

# HOW TO DEMOCRATISE EUROPE'S FISCAL RULES

Proposals for Reforming the EU's  
Economic Governance Package

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The European Commission's proposals to reform the EU fiscal rules carry important democratic deficits which jeopardise also their vital policy targets but could be addressed within the EU treaties.



The study identifies three main flaws which undermine national ownership; risk unequal treatment and neglect common European interests; as well as inadequately institutionalise the stated objective to balance fiscal, social, and ecological sustainability.



Formal involvement of national Parliaments and civil society in adopting national structural plans; granting the European Parliament co-decision rights in the Preventive Arm; and integrating equality and climate institutions into fiscal planning could remedy these deficits.



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## SUMMARY

This report is devoted to analysing the democratic implications of the European Commission's proposals for the reform of EU fiscal rules. While the proposals seek an important set of goals – to insulate the EU against fiscal risks while allowing important social and environmental investments – the package also carries important democratic shortcomings. The report focuses on three important deficits – the inability of EU economic governance to achieve true national ownership of EU fiscal goals due to its failure to meaningfully include national Parliaments and civil society; the risks of inequality of treatment and lack of attention to the common European interest produced by the bi-lateral approach to dealing with national debt reduction; and the inability of the proposals to properly institutionalise their stated objectives to balance fiscal, social and ecological sustainability. The report develops suggestions for addressing these deficits, by giving national Parliaments and civil society a formal role in the adoption of national structural plans; by providing the European Parliament with co-decision rights in the Preventive Arm; and by integrating institutions with expertise on equality and climate impacts in fiscal planning. Taken together, these proposals seek not only to democratise the package but to allow it to fully realise its vital policy goals.

# INTRODUCTION

On the 26<sup>th</sup> of April the European Commission proposed three new legislative measures for reforming EU economic governance.<sup>1</sup> This set of measures promises the most significant re-shaping of the EU's fiscal framework since the Euro crisis. Reflecting a fear that increasing levels of public debt are likely to threaten the Eurozone's long-term sustainability, the proposals make debt sustainability the primary anchor of fiscal policy coordination. At the same time, they also give Member States greater leeway to reduce debt on a slower path, where investments can be shown to contribute to crucial EU objectives, such as the climate transition or the European Pillar of Social Rights. The proposals therefore seek to find a new balance between an economically and socially sustainable EU. In the words of the Commission President, the Commission seeks to "rediscover the Maastricht spirit whereby stability and growth can only go hand in hand".<sup>2</sup>

Since its publication, numerous briefs and commentaries have analysed the proposals. In the main, the focus has been on the package's likely economic effects, such as its impact on the Eurozone's overall fiscal stance<sup>3</sup>, on particular EU priorities such as climate change<sup>4</sup>, and on whether the proposals should be reformed to be more politically acceptable to the Member States.<sup>5</sup> This work is important in considering whether the Commission's package can achieve its goal of creating both a more robust and socially sustainable EU economy.

The guiding assumption of this report, however, is that these commentaries also miss a crucial dimension of the package, namely its *democratic* effects.<sup>6</sup> While fiscal policy is often seen as a technical policy area, it lies at the heart of democratic politics. There is no area of policy, either national or European, that is untouched by fiscal decisions. The future choices of the European Commission on the necessary debt trajectories of the Member States are likely to be decisive in determining whether Member States invest significantly in green technologies, whether employees in key sectors can receive remuneration consistent with inflation, or how the necessary infra-structure to modernize public services can be financed. If democracy is fundamentally about using politics to choose between different policy goals, it is all the more important to understand *who is making fiscal choices* and how they can be made subject to meaningful democratic control.

This report therefore carries two main objectives. The first objective is to understand the democratic impacts of the EU's current reform proposal. How is it likely to affect democratic decision-making both at the national and at the EU level? And what can past research and experience in EU economic governance tell us regarding the democratic trajectory of EU economic governance if this package becomes law? The second objective is to consider possible steps to improve the package from a democratic perspective. As the report will demonstrate, the current set of reforms carry severe shortcomings, limiting opportunities for democratic contestation of national fiscal policies without establishing any compensating mechanism for democratic oversight at EU level. The report also therefore draws out concrete recommendations for how the democratic deficits of the reform package could be addressed, reflecting on their legal feasibility. As the report will argue, democratic reform is a key ingredient in establishing meaningful national and EU-level 'ownership' of EU fiscal rules, and hence is needed not just for its own sake, but for the Commission's proposal to realistically achieve their objectives.

The report carries 4 parts. Part 1 will summarise the reform package, focusing on the main changes it brings to fiscal policy coordination. Part 2 will examine the package from a

<sup>1</sup> Proposal for a Regulation on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation EC No 1466/97, COM (2023) 240 final (hereinafter Preventive Arm Regulation); Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, COM (2023) 241 final (hereinafter Corrective Arm Regulation); Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, COM (2023) 242 final (hereinafter National Budgetary Frameworks Directive)

<sup>2</sup> Ursula von der Leyen, State of the Union address, 14 September 2022

<sup>3</sup> Reforming the EU Fiscal Framework: Strengthening the Fiscal Rules and Institutions (imf.org)

<sup>4</sup> Fiscal rule legislative proposal: what has changed, what has not, what is unclear? (bruegel.org)

<sup>5</sup> The European Commission's fiscal rules proposal: a bold plan with flaws that can be fixed (bruegel.org)

<sup>6</sup> On the democratic legitimacy of EU economic governance prior to these reforms, see: Democratic control and legitimacy in the evolving EU economic governance framework (europa.eu)

democratic perspective, focusing on three significant democratic challenges the reforms produce. These are (4.1) how to establish meaningful national political ownership of EU fiscal objectives, (4.2) how to take full account of the European dimension of national fiscal planning and (4.3) how to establish an institutional framework that can properly balance fiscal, social and ecological sustainability. Part 3 will look at how each challenge could be addressed through concrete amendments to the package, touching in addition on their legal feasibility. Finally, Part 4 will summarize the report's main findings.

## 1

# THE 2023 ECONOMIC GOVERNANCE PACKAGE: CONTENT AND ORIGINS

The EU's framework for fiscal policy coordination has significantly evolved since the Maastricht Treaty. It remains underpinned by the same set of primary rules, namely the idea that fiscal policy is an area of 'common concern' that must be coordinated but not harmonised.<sup>7</sup> It also remains – even after this package – oriented towards the same set of overall goals – a 60% of GDP debt reference and a 3% annual budget rule.<sup>8</sup> The almost constant process of reform of fiscal policy since Maastricht, however, reflects the constant inability of Eurozone states to achieve this target (with doing so often reflecting the economic cycle rather than national policy choices). EU institutions have thus faced the same dilemma repeatedly – to double down on central fiscal rules even where Member States are clearly unable to meet them; or to relax them and in doing so face the accusation that they are encouraging fiscally irresponsible behaviour.

The Euro crisis saw a significant change to the underlying architecture. The centre of fiscal policy became the European Semester process, allowing the Commission to identify common challenges and risks through an Annual Growth Survey as well as a set of country-specific recommendations (CSRs), adopted by the Council.<sup>9</sup> These CSRs have tended to be broad in scope, covering areas from debt financing to important pillars of the 'social state' such as pension sustainability, green investment and social expenditure.

While this 'back and forth' of policy coordination has reaped some success,<sup>10</sup> the Commission's economic governance review is designed to tackle three key weaknesses of EU fiscal policy that were exposed in particular during the Covid-19 crisis. The first – a pattern highly visible today – is that spending continues to be pro-cyclical.<sup>11</sup> Essentially, governments

tend to spend when the going is good and cut back when the economic outlook tightens (thus encouraging rather than limiting economic volatility). The second is that fiscal policy coordination has failed to reduce massive heterogeneity, even within the Eurozone. As put by the Commission in its initial Communication, "the framework has not differentiated sufficiently between Member States despite different fiscal positions, sustainability risks and other vulnerabilities".<sup>12</sup> The last challenge is increasing indebtedness and its consequences for the social state – while high levels of public debt seemed relatively harmless in the 2010s, a new era of inflation and interest rate hikes has heightened the risks of indebtedness for EMU as a whole. The last challenge is particularly demanding – the EU has to tackle debt but at a time where significant investment is needed for other priorities, particularly for defence, the green transition, and to tackle the inflation squeeze on wage and living standards.

The reform package aims to address these challenges in a series of steps. The first step is to focus on the debt challenge. While the package does not propose to remove the famous 3 and 60% reference values, it places another value at the centre of fiscal coordination – long-term debt sustainability. The core of the excessive deficit procedure's (EDP) preventive arm will therefore in future be a debt sustainability analysis (DSA). These DSAs will be based on a single operational indicator – net public expenditure (seeking to simplify the multiplication of indicators used in prior fiscal assessments).

The second step is to encourage a shift towards more long-term target-setting. The European Semester was envisaged as a largely annual process. At the centre of the new process, however, are medium-term fiscal structural adjustment plans (from here 'structural plans') "to ensure that the debt ratio is put on a downward path or stays at present levels and the budget deficit is maintained below the 3% of GDP reference values over the medium term."<sup>13</sup> This longer-term planning is designed to allow a better balance between debt reduction and investment – where Member States can show that structural investments add debt but simultane-

<sup>7</sup> Art. 121(1) TFEU

<sup>8</sup> Art. 1, Protocol (No. 12) on the Excessive Deficit Procedure

<sup>9</sup> For the 2023 package, see 2023 European Semester: Country Specific Recommendations / Commission Recommendations (europa.eu)

<sup>10</sup> At the time of writing, only Romania is currently being monitored under the corrective arm of the EDP. See: [https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/closed-excessive-deficit-procedures\\_en](https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/closed-excessive-deficit-procedures_en)

<sup>11</sup> On this problem, see P. Heimberger and J. Kapeller, 'The performativity of potential output: Pro-cyclicality and path dependency in coordinating European fiscal policies' (2017) 24 *Review of international political economy* 5: 904–928.

<sup>12</sup> Commission Communication on orientations for reform of the EU economic governance package, COM (2022) 583 final, at p. 3

<sup>13</sup> *Ibid.*, at p. 6

ously present better prospects for long term growth, this “could underpin a longer adjustment period and a more gradual adjustment path”.<sup>14</sup> Member States can therefore themselves demand an extension of their structural plans from 4 to 7 years where they can justify this as part of a long-term plan for debt sustainability.<sup>15</sup>

The third step is a move towards greater differentiation in assessment and goal setting between Member States. At the heart of the Semester would therefore be a risk-based surveillance framework whereby the “technical trajectory” towards debt reduction looks different for different Member States. This is designed to ensure that heavily indebted states are not pushed into greater indebtedness by targets that are too ambitious for them even if easily met by others. Finally, the proposals also seek a number of safeguards (partly designed to meet some of the concerns of states such as Germany surrounding the original communication).<sup>16</sup> One concerns oversight institutions. The third proposal in the legislative package – on national budgetary framework – focuses in particular on independent fiscal institutions (IFIs) at the national level, expanding their role (for example by obliging governments to explain deviations from their assessments<sup>17</sup> and by establishing minimum standards for their operational independence).<sup>18</sup> The main objective of this increased role for IFIs is to increase the credibility of national fiscal planning by ensuring it is based on objective economic assessment. In addition, the proposals establish several minimum standards that debt adjustment plans would have to meet, for example that the debt ratio has to decline over the planning period<sup>19</sup>, and that adjustments are “front-loaded” for states seeking an extended fiscal plan/re-adjustment period.<sup>20</sup>

It is important, particularly for the purposes of this report, to also understand the institutional and decision-making system the package would establish. The proposals give the Commission significant powers, for example, to set a technical trajectory for the adjustment of national debt<sup>21</sup>, to assess the plausibility of national structural plans<sup>22</sup>, and to extend the adjustment period,<sup>23</sup> while also allowing the Commission to establish other rules (for example on the common priorities of the Union or the methodology of assessment) under delegated acts.<sup>24</sup> A number of steps remain, however, subject to Council approval: the Council is asked to en-

dorse national structural plans,<sup>25</sup> to approve ‘escape clauses’ from the debt path<sup>26</sup> and to recommend remedial measures where a plan is not submitted or does not comply with fiscal requirements.<sup>27</sup> As past experience of EU economic governance tells us, however, examples of the Council resisting Commission recommendations in this regard are rare.

The central axis of fiscal policy coordination established by these proposals is therefore the ‘bilateral’ relationship between national governments and the Commission, at three different stages of negotiation. The first concerns the adoption of national structural plans, which are to be preceded by a “technical dialogue” between the Commission and individual Member States.<sup>28</sup> The second is in the monitoring stage, where the Commission evaluates annual progress reports by the Member States and can recommend remedial measures. The third lies in the decision either to extend the national adjustment path, to allow the ‘escape clause’ for Member States facing emergency circumstances, or to trigger the corrective arm of the procedure.<sup>29</sup> In each of these stages – while numerical benchmarks exist – significant consequences turn on the Commission’s own assessment of whether Member States carry a sustainable fiscal position (and whether for example structural reforms and spending are likely to improve it). More broadly, by suggesting a reduction in the number of indicators by which Member States will be assessed and moving towards a more differentiated framework, the review seems part of what Mario Draghi once referred to as a shift in the Eurozone “from rules to institutions”.<sup>30</sup> In essence, the key element of this package is not a detailed set of prescriptions which all should follow but a *process*, with its central actor, the Commission, given significant discretion within it.

What is left out – the core of this report – is a significant role either for civil society actors or for the European Parliament. The package gives no additional powers to civil society bar repeating a soft obligation found in previous legislative acts, namely that Member States should report on whether they were consulted in establishing structural plans (without any obligation to in fact do so).<sup>31</sup> The social partners are mentioned in the main legislative text itself only once (as part of the European Semester dialogue).<sup>32</sup> Similarly, the European Parliament’s rights are confined to two elements: first the provision of information (for an example an obligation to be informed on how the EDP is monitored)<sup>33</sup> and secondly, the

<sup>14</sup> Ibid, at p. 13

<sup>15</sup> Art. 13(1), Preventive Arm Regulation

<sup>16</sup> ‘German Finance Minister Sceptical of new EU debt rules’, Euractiv (10.11.22). Available at: <https://www.euractiv.com/section/economic-governance/news/german-finance-minister-sceptical-of-new-eu-debt-rules/>

<sup>17</sup> National Budgetary Frameworks Directive, Art. 10

<sup>18</sup> Ibid, Art. 8

<sup>19</sup> Preventive Arm Regulation, Art. 6(a)

<sup>20</sup> Ibid, Art. 13(3)

<sup>21</sup> Ibid, Art. 5

<sup>22</sup> Ibid, Art. 15

<sup>23</sup> Ibid, Art. 13

<sup>24</sup> Ibid, Art. 32

<sup>25</sup> Ibid, Art. 16

<sup>26</sup> E.g. where the EU faces a general economic downturn or Member States face exceptional circumstances. Preventive Arm Regulation, Art. 24–25.

<sup>27</sup> Ibid, Art. 18

<sup>28</sup> Ibid, Art. 10

<sup>29</sup> Corrective Arm Regulation, Art. 3

<sup>30</sup> Speech by Mario Draghi, President of the European Central Bank, on the award of Laurea honoris causa in law from Università degli Studi di Bologna, Bologna, 22 February 2019. I am grateful to Johannes Linder for alerting me to this connection.

<sup>31</sup> Preventive Arm Regulation, Annex II (q)

<sup>32</sup> See also recital x, *ibid*

<sup>33</sup> Preventive Arm Regulation, Art. 29



possibility to engage in a dialogue, either with other EU institutions<sup>34</sup> (such as the Eurogroup, Council or Commission President) or through an “exchange of views” with Member States receiving recommendations.<sup>35</sup> The level of involvement of the Parliament is therefore lower even than that secured in the recovery and resilience regulation (which obliges for example the Commission to report to the Parliament’s ECON committee every two months).<sup>36</sup> Strong discretion for the Commission is not compensated by strong parliamentary oversight (producing, as we will now discuss, severe potential problems of democratic accountability).

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**34** Ibid, Art. 26

**35** Ibid, Art. 28

**36** Regulation 2021/241/EU of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, Art. 26(1)

## 2

## THREE DEMOCRATIC PROBLEMS WITH THE REFORM PACKAGE

Analysing these proposals from a democratic perspective requires briefly re-stating what democracy requires in a system such as the one established via EU economic governance. In simple terms, democracy requires that those affected by decisions have a say in how decisions are made, and are able to shape their content.<sup>37</sup> Historically, the EU's system of economic governance has challenged this idea of democracy in important ways. To give some examples, the ECB is intentionally an un-elected institution. Giving significant powers to the Commission also reflects the notion that the Commission – as a non-majoritarian body representing the 'European' interest – can deliver better quality economic regulation than its electorally accountable national counterparts.<sup>38</sup> Finally, EU economic governance has often lacked strong democratic mechanisms at the EU level because of its soft law character and hence the EU's relatively weak steering instruments in this area. The underlying notion is that – given that the most consequential decisions rest at the national level – the absence of institutions representing European citizens (such as the European Parliament) are justified.

Both these proposals – and the development of EU economic governance in the last decade – strongly question, however, the above assumptions. Far from having a soft law character, EU economic governance has been significantly 'hardened' over the past decade; a trend which these proposals would continue. While the formal sanctions contained in the EDP have not been triggered, the adoption of the RRF in particular opens the possibility for the EU to use access to the EU budget and recovery fund as a lever to ensure compliance with fiscal rules.<sup>39</sup> Far from being confined to a narrow range of economic issues, recommendations made by EU institutions in the context of economic governance can be highly prescriptive reaching deeply into areas of social policy normally reserved to the Member States.<sup>40</sup>

The negotiations between the Commission and Member States on national structural plans and debt trajectories thus have enormous democratic consequences, placing significant constraints on the autonomy of national Parliaments to agree independent national budgets.<sup>41</sup> At the same time, national plans will also have strong European effects – a failure of any one state to meet its fiscal targets, or to invest sufficiently in for example the ecological transition, may have a decisive impact on the ability of the Eurozone and Union as a whole to meet common goals (such as effectively fighting inflation or meeting globally agreed climate targets).<sup>42</sup> Increasingly, therefore, EU fiscal decisions shape the lives of Europe's citizens, requiring them to have the chance to shape EU fiscal policy in turn.

These proposals therefore pose a strong democratic question. This democratic question relates to at least three more concrete democratic problems the proposals introduce. Each of these problems concerns tension in the proposals that only strengthening the involvement of democratic institutions can remedy. In this sense, answering the democratic question is not only important from a legitimacy perspective but to allow these proposals to achieve their goals of effectively delivering both a sustainable EU economy and one that is socially and ecologically developed.

### 2.1 NATIONAL 'OWNERSHIP'

The first democratic problem concerns the national level, and particularly the idea that national 'ownership' of EU fiscal policy is a crucial determinant in its success. Ownership has become one of the most repeated terms associated with EU economic governance.<sup>43</sup> This carries an important logic. Giv-

<sup>37</sup> On the requirements of democratic accountability in EU economic governance, see M. Dawson & A. Akbik, 'Accountability in the EU's Para-Regulatory State: The Case of the Economic and Monetary Union' (2023) 17 *Regulation & Governance* 1: 142–157.

<sup>38</sup> M. Dawson, 'Better Regulation and the Future of EU Regulatory Law and Politics' (2016) 53 *Common Market Law Review* 5.

<sup>39</sup> A. Baraggia & M. Bonelli, 'Linking Money to Values: the new Rule of Law Conditionality Regulation and its constitutional challenges' (2022) 23 *German Law Journal* 2: 131–156.

<sup>40</sup> P. Rathgeb & A. Tassinari, 'How the Eurozone disempowers trade unions: the political economy of competitive internal devaluation'

(2022) 20 *Socio-Economic Review* 1: 323–350; D. Bokhorst, 'The influence of the European Semester. Case study analysis and lessons for its post-pandemic transformation' (2021) 60 *Journal of Common Market Studies* 1: 101–117.

<sup>41</sup> B. Crum, 'Parliamentary Accountability in Multi-level Governance: What role for Parliaments in Post-crisis EU Economic Governance?' (2018) 25 *Journal of European Public Policy* 2: 268–286.

<sup>42</sup> On this, see: <https://www.econstor.eu/handle/10419/208014>

<sup>43</sup> As put by the Commission's 2022 Communication, "the cornerstone of the Commission's orientations for the MIP would be an enhanced dialogue with Member States to achieve better implementation through ownership and commitment", above, at p. 10.

en that the most important levers for influencing EU fiscal policy rest at the national level, real change will occur only if EU level goals have strong national buy-in. Ownership provides therefore the guiding logic for several elements of the proposal. It lay at the heart of making national structural plans, based on a state-specific debt-sustainability analysis, the centre of fiscal policy. It also lay at the heart of establishing a variegated debt path for each Member State – one size fits all targets are unlikely to be effective if they are accepted in some states but rejected entirely by others. The emphasis on ownership also resonates with academic research on the European Semester which has often drawn a link between the degree to which EU fiscal rules are embedded in national politics and actual compliance with EU recommendations.<sup>44</sup>

There is a strong tension, however, between the rhetoric of national ownership and the institutions and mechanisms available in these proposals to deliver it. Most importantly, the reform proposals repeatedly view national ownership exclusively through the lens of the national government. The guiding assumption is that – if national governments ‘own’ structural plans and consent to them – they can form a reliable basis for long-term EU fiscal policies. The experience of the Stability and Growth Pact in the last decade, however, strongly questions this assumption. While governments may agree on a budget or fiscal outlook at time period x, shifting political priorities, societal resistance, and disagreements between partners within government and Parliament, can swiftly force governments to alter their fiscal priorities.<sup>45</sup> In simple terms, a ‘government consensus’ on a national plan is of limited use if it does not reflect an underlying *societal* consensus, in which the main actors of relevance to national fiscal policy also ‘own’ national plans. As recent experiences in France and Italy have shown, perceptions of exclusion from the political process can themselves be important triggers for social resistance to fiscal reforms.

Several actors are therefore of crucial importance in establishing greater national ‘ownership’. In a period where there is a strong link between inflation and growing concerns regarding wages and the cost of living, the social partners are significant actors. The limited regard for the social partners in the present proposals establishes two clear risks: first, a risk that national fiscal planning lacks crucial information regarding employment and economic conditions that only these actors hold; and second, a risk that these actors will have a greater reason to resist decisions for which they have not been adequately consulted.

Similarly, in a political environment where national politics is increasingly fragmented – and where many governments rely for their support on diverse coalitions – national Parliaments

are also crucial in the story of ‘national ownership’. Under the current proposals national Parliaments face an important bind. On the one hand, they retain their formal powers under national law to adopt the budget. On the other hand, the government’s own discretionary space in budget setting is limited by the structural plans they will negotiate with the Commission and the ‘debt path’ the new preventive arm regulation would establish. The weak participation rights the reform package give to national Parliaments – that governments should report on whether they were consulted<sup>46</sup> – therefore does little to compensate them for the transfer of budgetary authority that this reform would entail (with many of the most important decisions to be made in a channel between governments and the Commission which national Parliaments will have little ability to influence).

There is every reason to think that ‘national ownership’ matters – the proposals acknowledge this political reality by, for example, allowing governments to submit new structural plans where the composition of the government changes.<sup>47</sup> Real ownership, however, requires involvement and voice beyond the government; something which the present proposals fail to meaningfully offer.

## 2.2 BILATERALISM AND THE COMMON EUROPEAN INTEREST

The second major democratic problem with the proposal concerns a tension in all areas of EU governance, but which is particularly acute in economic policy, namely the tension between tailoring EU policy to the needs of specific states while ensuring the common European interest. EU law traditionally tries to achieve this balance by establishing laws with applicability across Europe. There remain several common elements in EU fiscal governance too, such as the Commission’s Annual Growth Survey, which forms the basis for CSRs, and the Maastricht criteria. Increasingly, however, EU economic governance has become a bi-lateral and state-specific process (a process reflected in the CSRs themselves). These reforms would further this trend significantly. Quite simply, they envisage different obligations for different states – with some states being allowed to prioritise investments and others urged to focus on debt reduction depending on a Commission assessment of their overall net public expenditure and fiscal outlook.

This bilateralism produces significant risks. The first of these risks concerns the horizontal effect of national fiscal policies i.e. their impact on the EU as a whole. As is reflected in the wording of Art. 5 TFEU, Member State fiscal policies are a “common concern”. If one state refuses to make ecological investment, if it undercuts social standards, or if it produces unsustainable debt, it impacts all others. The Euro crisis bears witness to this strong inter-dependence between Eurozone states in particular. Bilateralism, however, tends to

<sup>44</sup> On the importance for example of existing procedures for national parliamentary scrutiny, see M.B. Rasmussen, ‘Accountability challenges in EU economic governance? Parliamentary scrutiny of the European Semester’ (2018) 40 *Journal of European Integration* 3: 341–357.

<sup>45</sup> See V. d’Erman et al, ‘The European Semester in the North and in the South: Domestic Politics and the Salience of EU-Induced Wage Reform in Different Growth Models’ (2022) 60 *JCMS* 1: 21–39.

<sup>46</sup> Preventive Arm Regulation, Recital 16

<sup>47</sup> *Ibid.*, Art. 14(1)

hide and de-politicise these 'horizontal' impacts. The reform proposals therefore place significant trust in the sensitivity of the European Commission to the impacts of national fiscal policy choices on other states and its ability to make the 'correct' trade-offs between different goals (for example, between demanding that any given state prioritises debt reduction versus allowing debt repayment to be deferred because other important European priorities, such as social rights provision or green investment, are at stake). In the broader European policy-making process, the European Parliament is empowered in EU decision-making precisely because *this body* – as an institution directly accountable to EU citizens – is seen as most able to make such delicate policy trade-offs. Bilateralism thus poses the risk that the common European interest is lost through a package that sees EU fiscal policy as 'the sum of its parts' rather than as a whole.

The second democratic risk that bilateralism poses concerns equality of treatment. As stated both in the Treaty and in the case-law of the CJEU, Member States of the EU must be treated equally.<sup>48</sup> They should not be given less favourable treatment by EU institutions because of their size, prosperity or any other arbitrary feature. Common EU rules avoid this risk by establishing, for example Regulations and Directives of general application. The more 'individuated' EU policy becomes, however, the more the risk or at least perception of inequality of treatment is likely to arise. There are several features both in the general EU institutional system and the system of EU economic governance that heighten this risk.

More generally, the Commission is not just an enforcer of EU rules but a policy-making actor. Strict enforcement against powerful Member States thus always risks its ability to bring those same states on board for legal change (as Jean-Claude Juncker once reportedly put it, "France is France").<sup>49</sup> Within the system of EU economic governance, this risk of inequality of treatment is heightened by economic divergences between EU Member States. As already mentioned, funding under the NGEU fund is one incentive to encourage Member States to comply with EU fiscal rules. As the NGEU fund, however, is openly re-distributive, some states (such as Italy, Bulgaria or Hungary) disproportionately rely on NGEU when compared to other states (giving the Commission more or less leverage). The risk that results from this is that differences in, for example, the debt trajectory between states, or decisions to allow an extended debt reduction period, are perceived by citizens as arising not from underlying fiscal conditions but the relative power and size of the state under fiscal scrutiny. Such perceptions could of course undermine significantly both the legitimacy of the EU more broadly and the ability of EU fiscal decisions to be properly implemented.

## 2.3 BALANCING DEBT AND SOCIAL SUSTAINABILITY

The last major democratic problem with the economic governance proposals concerns the tension between debt and social sustainability. As is typical of proposals from the European Commission, the economic governance proposals tend to emphasise multiple objectives. The regulation on the preventive arm therefore sees debt reduction and management as a key objective but at the same time emphasises: "the medium- and long-term challenges facing the Union, including achieving a fair digital and green transition, including the Climate Law, ensuring energy security, open strategic autonomy, addressing demographic change, strengthening social and economic resilience and implementing the strategic compass for security and defence, all of which requires reforms and sustained high levels of investment in the years to come."<sup>50</sup> Often these goals are seen in the proposals as mutually re-enforcing in the sense that economic stability and reduced expenditure in servicing debt can allow greater social and ecological investment. This reflects another key way in which European policy can and should support democracy, namely by allowing both the EU and its Member States to achieve the full range of economic, social and other objectives established by the Treaty.

The democratic problem, however, is the failure of these proposals to establish the necessary institutions and procedures to achieve this balance. This is so in two ways. Firstly, while the proposals emphasise both fiscal and social objectives, they attach far stronger enforcement mechanisms in relation to the former than the latter. The proposed Regulation on the corrective arm of the EDP therefore attaches consequences to failure to meet debt sustainability goals, for example through the possibility to impose fines where Member States deviate from allowable debt ratios.<sup>51</sup> At the same time, it is not obvious that equivalent consequences attach to failures of national fiscal policy to meet other objectives, such as making necessary investments to meet the EU's social and ecological goals. There is a tendency in these proposals therefore to consider social and environmental programmes solely in terms of their impact on debt sustainability i.e. an underlying assumption that social investment is worthy but only if it improves the fiscal outlook in the long term.

A second democratic problem concerns institutions. One important element of the package is the strengthening of national fiscal institutions (IFI). Such institutions are meant to feed into national policy-making, by for example assessing the assumptions behind government forecasts and making recommendations that both governments and national Parliaments can take into account in fiscal planning. As the package makes clear, however, the primary role of these institutions concerns assessing fiscal risks – for example by providing an independent assessment of whether national

<sup>48</sup> ECJ Press Release 58/20 following the Judgment of the German Constitutional Court of 5 May 2020: <https://curia.europa.eu/jcms/upload/docs/application/pdf/2020-05/cp200058en.pdf>.

<sup>49</sup> See: <https://www.reuters.com/article/uk-eu-deficit-france-idUKKC-NOYM1N0>

<sup>50</sup> Preventive Arm Regulation, recital 5

<sup>51</sup> Corrective Arm Regulation, Art. 12

progress reports are consistent with the next expenditure path.<sup>52</sup> While this carries obvious advantages (in making governments and EU institutions aware of fiscal risks arising from national plans) it also leaves out the assessment of other types of risks. Just as the failure of Member States to conduct accurate and responsible fiscal planning establishes risks for the Union as a whole, so do national plans that do not accurately assess climate risk or the risks that arise from under-investment in the social state.

The proposals present a democratic problem by providing national and EU fiscal stakeholders with an incomplete, or even biased, picture of European fiscal policy. While in theory, fiscal, social and environmental risks are all meant to be assessed and balanced, in practice the proposals take far greater account of the former than the latter. The failure to properly integrate environmental and social objectives presents therefore a further democratic shortcoming.

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<sup>52</sup> Preventive Arm Regulation, Art. 22

## 3

## THREE ROUTES FOR THE DEMOCRATIC REFORM OF EU FISCAL RULES

How could these shortcomings be addressed? Any reforms to the existing package need to acknowledge a number of constraints. One is political acceptability – the Commission's proposals require of course the agreement of the EU's legislative institutions. Only the first preventive arm Regulation is subject to co-decision, making agreement among the Member States particularly important. A second constraint is legal feasibility – absent Treaty change, any amendments must respect the procedures provided for in the Treaties and the division of institutional responsibility it creates. The following three sets of proposals therefore firstly offer a range of policy options, from the least to the most ambitious; and secondly, openly discuss the legal challenges such reforms may present. In the view of the author, neither constraint should hinder a significant democratisation of the EU's fiscal framework.

### 3.1 EXPANDING NATIONAL OWNERSHIP: THE ROLE OF NATIONAL PARLIAMENTS AND CIVIL SOCIETY

As discussed above, there is evidence that the introduction of the European Semester strengthened some national Parliaments e.g. by addressing information asymmetries between national Parliaments and governments. This effect is particularly significant in states with limited levels of budgetary transparency. Yet, we see highly uneven involvement across different Member States, heavily dependent on the formal powers of EU scrutiny national Parliaments already hold.<sup>53</sup> We see a similarly mixed picture in relation to the involvement of civil society actors in the European Semester across Member States.<sup>54</sup> The current proposals do not make strong efforts either to increase the range of powers national Parliaments carry in relation to budgeting, or to better integrate civil society, in spite of their commitment to greater domestic 'ownership' of EU fiscal rules. Any meaningful democratisation of EU economic governance requires upgrading national parliamentary and civil society involve-

ment from a mere reporting obligation (the status quo). Such a strengthening would bring two important advantages – both ensuring wider buy-in to national structural plans at the national level (thus allowing them to 'stick' in the longer term) and allowing more meaningful domestic scrutiny (given the increasingly long-term budgetary horizons envisaged).

Such a strengthening could take two forms. The first would involve reforming the Preventive Arm Regulation. That Regulation establishes, as discussed, a process of national fiscal planning, with Art. 12 of the Regulation establishing requirements for national structural plans, and Art. 15 then creating a set of related criteria through which the Commission will assess a plan's adequacy. One route to strengthen both national Parliaments and other actors within civil society would be to make consultation of Parliaments, the social partners and civil society actors at the national level an obligatory requirement of national structural planning under Article 12. The Commission could then be asked to assess the extent to which meaningful involvement has occurred as part of the Article 15 process (with the potential to reject plans that do not take this requirement seriously). This would provide a tool and argument for national civil society and parliamentarians to influence the process of national budget-setting. At the same time, it would still leave the ultimate decision on the 'adequacy' of national plans with the Commission and Council (who would then determine for example the consequences for a Member State of submitting an inadequate plan according to the procedures established by Articles 17–19).

A second, more ambitious, path would be to amend the Council Directive on national budgetary frameworks. Art. 9 of that Directive concerns national budgetary planning, with proposed amendments asking Member States to approve a 4-year fiscal plan and to demonstrate how this plan meets the debt trajectories the Commission will set out for each state. An amendment to Art. 9 could demand that Medium Term Budgetary Frameworks be subject to the approval of national Parliaments in accordance with the constitutional requirements of each Member State. This would transform national Parliaments from in many cases spectators in a process of bi-lateral negotiation between national governments and the Commission to important actors, who need to be brought on board early in the process of fiscal planning and who themselves carry a legitimate voice on how national

<sup>53</sup> A. Skazlic, 'Routine or rare activity? A quantitative assessment of parliamentary scrutiny in the European Semester' (2021) 9 *Politics and Governance* 3: 112–123.

<sup>54</sup> See: <https://www.eesc.europa.eu/en/documents/resolution/involvement-organised-civil-society-national-recovery-and-resilience-plans-what-works-and-what-does-not>



policy priorities and EU fiscal objectives ought to be balanced. There is an obvious trade-off in such a proposal: the addition of the national Parliament adds a further veto player in the process of national budgeting. It is precisely, however, the inclusion of this actor that would add both legitimacy and, crucially, potential longevity to national plans (that would henceforth carry the imprint of the two main arms of national democratic governance).

Such a change would have important legal implications. There is no explicit competence in the EU Treaties to regulate national Parliaments. As the Court has long held, however, “powers which have not been expressly provided for in the provisions of the Treaties, can be used if they are necessary to achieve objectives set by those treaties”.<sup>55</sup> The original Directive on budgetary frameworks already provides an important precedent for this.<sup>56</sup> It establishes a number of obligations on Member States, namely to establish numerical fiscal rules, to conduct transparent fiscal forecasting and to allow independent auditing, for example through national fiscal Councils. These powers are derived from the general obligation of Member States to avoid excessive government deficits in Art. 126(1) TFEU. The involvement of national Parliaments in EU fiscal policy coordination would represent a further such step. In simple terms – and as the recitals to the Council Directive make clear<sup>57</sup> – national ownership of fiscal rules and the establishment of robust structural plans is integral to achieving the Treaty’s fiscal policy goals and avoiding excessive deficits. Just as the involvement of independent fiscal institutions may be important for budgetary transparency, so the involvement of national Parliaments is key to the credibility of national fiscal planning. Importantly, such a reform would i) add rather than subtract from the rights of national Parliaments by involving them to a greater degree than before in EU fiscal policy, in keeping with Art. 10 TFEU’s requirement that the EU is founded on representative democracy; and ii) allow for national differences by giving national systems leeway to determine the appropriate conditions for parliamentary approval in keeping with their national constitutional requirements. In this sense, there are important arguments as to why such a reform would not require Treaty amendment.

### 3.2 TACKLING BILATERALISM: FROM A SCRUTINY TO A POLITICAL EUROPEAN PARLIAMENT

Empowering national Parliaments is one crucial step in democratizing EU fiscal rules. Such a step would, however, frustrate rather than enhance EU democracy if it was not

accompanied by appropriate democratic legitimation at the EU level. As discussed above, the present proposals would provide a role for the European Parliament through a European Semester dialogue.<sup>58</sup> The rights contained in this article are, however, limited in nature, namely the ability to invite high-level officials to appear before the Parliament, and to consult relevant committees “where appropriate”. This fits a certain model of parliamentary involvement that is increasingly prominent in EU economic governance, namely a ‘scrutiny’ model where the primary job of the Parliament is seen as asking questions and participating in a regular dialogue with EU institutions. Academic work has already demonstrated the limits of this model. While economic dialogue is often effective in addressing information asymmetries<sup>59</sup>, it rarely produces changes in policy, and faces a number of practical hurdles e.g. the divide between the shifting political priorities of the Parliament and the high technical expertise of the Commission and other economic governance actors.<sup>60</sup>

What the scrutiny model leaves out of course is any political or agenda-setting role for the European Parliament. Whereas in other policy fields, the Parliament is decisive in debating and articulating the trade-offs between policy goals, and acting as a voice for European interests, economic governance sees the Parliament largely as a body to oversee a process of fiscal rule-making already established by other actors.

Here, once again, different paths for change are imaginable. Beginning with the least ambitious, Parliamentary involvement should at least meet the standards provided for in the RRF regulation, which provides two important opportunities for political accountability. One is its review report,<sup>61</sup> which asks the Commission to quantitatively assess how the application of the RRF contributes to the EU’s main policy goals (including equality between men and women) and to assess horizontally national planning. This report is to be presented to the Parliament and can also be subject to economic dialogue. The second opportunity is the recovery and resilience dialogue, which asks the Commission to appear before the ECON committee every two months to oversee the RRF’s application.<sup>62</sup> The proposed Preventive Arm Regulation is far less detailed in this regard. It neither details the timing and information the Commission must transmit to the European Parliament as part of its reporting obligations, nor does it provide meaningful detail on how regularly the European Semester dialogue should take place.

<sup>55</sup> As put by the Court, “powers which have not been expressly provided for in the provisions of the Treaties, can be used if they are necessary to achieve objectives set by those treaties (see, to that effect, Case 22/70 *Commission v Council* [1971] ECR 263, paragraph 28).” Case T-240/04 *French Republic v Commission*, para. 36

<sup>56</sup> Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

<sup>57</sup> *Ibid.*, at Recital 1

<sup>58</sup> Preventive Arm Regulation, Art. 26

<sup>59</sup> See e.g. T. Winzen, ‘The European Semester and parliamentary oversight institutions inside and outside of the euro area’ (2011) 9 *Politics and Governance* 3: 100–111.

<sup>60</sup> See A. Akbik, *The European Parliament as an Accountability Forum: Overseeing the Economic and Monetary Union* (Cambridge University Press, 2022)

<sup>61</sup> RRF Regulation, Art. 16

<sup>62</sup> *Ibid.*, Art. 26

A re-structured European Semester dialogue could for example, ask the Commission to present a report to the Parliament, followed by a Plenary debate, following the submission and assessment of national structural plans i) justifying the technical debt trajectory given for each state; and ii) discussing how national plans collectively will impact core EU policy goals such as the Climate Plan and the European Pillar of Social Rights. This refers to a problem identified by Ben Crum, namely that EU economic governance rarely crystallises into a “political moment” with sufficient political stakes to gather public and parliamentary attention.<sup>63</sup> An annual debate between the Commission and Parliament on how fiscal decisions by both individual Member States and the Commission impact the EU as a whole could provide such an opportunity.

A second opportunity concerns the use of delegation in the current proposals. The Preventive Arm Regulation envisages the use of delegated acts, allowing the Commission to specify a number of elements in later legal acts such as the methodology it employs to assess plausibility and, crucially, the common priorities of the Union.<sup>64</sup> While this use of delegation gives the Commission considerable discretion, it is also subject to control, with the European Parliament carrying the ability to revoke derogation. The European Parliament could be strengthened by widening the use of delegated acts in the proposal.<sup>65</sup> Art. 7 of the Regulation for example asks the Commission to give Member States prior guidance on their structural plans, including through providing a macro-economic forecast and a technical debt trajectory. At the same time, Art. 13 allows the Commission to extend the adjustment period for Member States from 4 to 7 years, with an additional possibility for Member States under Art. 14 to submit a revised structural plan. Rather than being specified in the core of the legislative proposal, these elements could also be subject to delegation (as could the methodology for assessing debt sustainability). This would allow the Parliament to revoke delegation where it was confident that decisions over the technical trajectory or extension were not consistent with the legislation's overall goals. As with other examples of delegation, the active presence of representatives of the Parliament in the Commission's expert groups and timely transmission of information is of some importance in ensuring that the Parliament could exercise this control of delegation properly.<sup>66</sup>

Finally, a more ambitious change in improving democratic voice would involve amending the Preventive Arm Regulation to allow the European Parliament to co-decide elements of the fiscal framework along with the Council. The

Council is involved in the procedure at a number of steps: it endorses national structural plans<sup>67</sup>, including their possible extension, adopts recommendations adjusting the net expenditure path for Member States<sup>68</sup>, and also adopts recommendations regarding ‘escape’ clauses i. e. the possibility for Member States to deviate from the debt path in cases of a severe economic downturn for the Union as a whole<sup>69</sup> or exceptional circumstances “outside the control” a Member State.<sup>70</sup> The most meaningful empowerment of the Parliament would be to amend the proposal to provide the Parliament with co-decision rights within these articles. Such a step would of course significantly alter the balance of power within EU economic governance (and hence could also be expected to impact the Parliament's scrutiny role in the context of the Semester dialogue). In simple terms, the Commission and Council would no longer be scrutinised by a Parliament with the power to ask questions only but one whose assent is needed for important elements of the process of fiscal surveillance to proceed. Importantly from a democratic perspective, it would introduce into the procedure the only actor institutionally designed to meet the key democratic deficits of the proposals, namely the danger that the application of fiscal rules does not reflect the common interests of EU citizens.

Such a change would also carry legal implications. It is well established that secondary law cannot be used to amend the procedures and distribution of authority contained in the Treaty itself.<sup>71</sup> Art. 121(6) – as the legal basis for this Regulation – allows the Council and Parliament to elaborate the rules for multi-surveillance, indicating that the Treaty framers envisaged the adaptation of the rules contained in Art. 121 (and that they wished to give the Parliament a role in that process). Art. 121(2) and 121(4) also give the Council specific rights, namely, to adopt guidelines on the general economic policies of the Union and to adopt recommendations to Member States where they are not consistent with these guidelines. Importantly, however, the changes to co-decision envisaged above do not *replicate* but instead are *additional* to these procedures. The changes to the Preventive Arm regulation would not affect the ability of the Council to adopt general economic policy guidelines or to make policy recommendations to the Member States under Art. 23 of the Regulation (a right that would *still* be exercised by the Council alone). Rather, these changes concern additional elements not envisaged by Art. 121, namely the establishment of a debt trajectory for Member States, the decision to invoke an escape clause and the adoption of national structural plans. The proposals would not therefore deprive the Council of its rights under Art. 121, but rather give the Parliament a say in further elements of the procedure beyond those established by that article (a role consistent with the decision to make legislation under Art. 121(6) subject to co-decision).

<sup>63</sup> B. Crum, ‘Parliamentary accountability in multilevel governance: what role for parliaments in post-crisis EU economic governance?’ (2018) 25 *Journal of European Public Policy* 2: 268–286, at p. 276

<sup>64</sup> Preventive Arm Regulation, Art. 32

<sup>65</sup> See also P. Heimberger, ‘Debt Sustainability Analysis as an Anchor in EU Fiscal Rules’, In-depth Analysis, EGOV DG for Internal Policies (March 2023) at p. 22

<sup>66</sup> See K. Hagesltam, S. de Lemos & G. Loi, ‘Enhanced Political Ownership and Transparency of the EU Economic Governance Framework’, In-depth Analysis, EGOV DG for Internal Policies (May 2023), at p. 11.

<sup>67</sup> Preventive Arm Regulation, Art. 16

<sup>68</sup> *Ibid.*, Art. 18, 19

<sup>69</sup> *Ibid.*, Art. 24

<sup>70</sup> *Ibid.*, Art. 25

<sup>71</sup> Case C-316/91 *European Parliament v Council*, para. 11



The history of the Union has been a history of slow democratisation. EU economic governance, however, has been relatively insulated from this process. Such reforms could give the European Parliament an opportunity to re-insert European democracy into fiscal rule-making.

### 3.3 BETTER BALANCING: INTEGRATING SOCIAL AND ENVIRONMENTAL RISK IN THE EU'S FISCAL FRAMEWORK

As already discussed, the reform package frequently cites social and environmental objectives. The history of policy coordination tells us, however, an instructive lesson. Taking, for example, social rights seriously in the process of economic policy coordination requires institutions who care about defending these rights and who are able to make decision-makers aware of the implications of different policy choices. In the European Semester, a process of 'socialisation' has often been attributed to the involvement of actors such as the Council's Employment and Social Protection, who have played a crucial role in re-prioritising social objectives.<sup>72</sup>

The National Budgetary Frameworks Directive is important in this regard. One of its goals is to strengthen both the role and the independence of IFIs in order to make national fiscal plans more reliable. In addition, it also asks national fiscal planning to "specify, to the extent possible, the macro-fiscal risks from climate change and their environmental and distributional impacts, and the implications on public finance of climate-related mitigation and adaptation policies over the medium-term and long-term."<sup>73</sup> The Directive therefore makes an important step forward in seeking to balance fiscal and climate related risks in national budgeting. It does not, however, task *independent* institutions with the measurement of environmental risks, nor does it ask Member States to include any assessment of distributional impacts of national policies from a *social* perspective e.g. regarding how national fiscal plans are likely to affect wages or income inequality. The danger that arises from this is an imbalanced basis for assessment by other actors i.e. that both national decision-makers and the Commission and Council make important fiscal decisions – for example on whether to allow an extended debt path when coupled with structural investment – based on incomplete or biased information.

There are once again a number of steps that could be taken to address this deficit. At a minimum, Art. 9 of the Budgetary Frameworks Directive could be amended to ask governments to assess investments and fiscal choices likely to have an impact on the objectives of the European Pillar of Social Rights and on the distributional impact of national fiscal planning (for example on wages and income inequality). This could al-

so be reflected at EU level: an amendment for example to Article 7 of the Preventive Arm Regulation could require the Commission – in preparing its 'prior guidance' for Member States – to include in its debt forecasting how it expects its technical trajectory to impact the ability of Member States to meet EU climate and social investment goals. The goal of these changes would be not to coerce national or EU actors into making certain policy choices but rather to provide a balanced basis of information for fiscal decisions (that reflect their underlying fiscal, social and ecological risks). Importantly, information on the social and distributional impact of EU fiscal policy choices is also of crucial importance to *other actors* in the democratic process, such as to allow parliamentarians and civil society to play a meaningful scrutiny role.

A second set of changes could involve complementing the increased involvement of IFIs with other bodies at the national level. The idea of IFI involvement is two-fold: to ensure that government planning is based on realistic assumptions; and to feed into the national political process (including through for example providing fiscal information and forecasting to Parliament, media and civil society actors). This leaves out bodies at the national level that could play a similar role regarding environmental and social elements of fiscal policy-making. The EPA network, for example, is a network of independent national environmental agencies that collect data on national climate policies; alongside it, the EIONET group of environment agencies and ministries coordinates national contributions to the EU's climate goals, cooperating intensely with the European Environmental Agency.<sup>74</sup> In the area of equality, national equality bodies were mandated by the racial equality Directive to implement its goals and play a crucial role both in assessing discrimination and ensuring that Member States establish procedures to mainstream EU equality law.<sup>75</sup> The last decades have therefore seen the explicit development of robust institutions at the national level tasked with mitigating climate risks and discrimination.

Amendments to the National Budgetary Frameworks Directive could therefore complement the work of IFIs by establishing an obligation for governments to mandate forecasts from national equality and environmental bodies on the likely distributive impacts of national fiscal planning and its consequences for EU social and environmental goals. These bodies could also then be given a role in the national budgetary process, for example, through presenting their findings to the national Parliament prior to structural plans being adopted (analogous to the role of IFIs). While such national bodies are diverse in their role and composition, several steps forward have been taken in recent years, including a pending legislative proposal to further strengthen and harmonise national rules regarding equality bodies.<sup>76</sup> In-

<sup>72</sup> J. Zeitlin & B. Vanhercke, 'Socializing the European Semester: EU social and economic policy co-ordination in crisis and beyond' (2018) 25 *Journal of European Public Policy* 2: 149–174.

<sup>73</sup> National Budgetary Frameworks Directive, Art. 9(1)(d)

<sup>74</sup> See: <https://epanet.eea.europa.eu/about>; <https://www.eea.europa.eu/en/about/who-we-are/our-knowledge-network-eionet>

<sup>75</sup> See: <https://equineteurope.org/>

<sup>76</sup> Proposal for a Council Directive on standards for equality bodies in the field of equal treatment, and deleting Article 13 of Directive 2000/43/EC and Article 12 of Directive 2004/113/EC, COM (2022) 689 final.

deed, as with IFIs, amendments to the Council Directive could also mandate governments to strengthen the independence of such institutions at the national level.<sup>77</sup>

The purpose of these reforms would be to ensure the reform proposals can achieve their mixed fiscal, social and ecological goals by allowing policy-makers to better understand the trade-offs involved in fiscal decision-making. EU fiscal rules cannot be fully democratised without a sustainable balance between economic and non-economic goals – and without institutions and measures of assessment commensurate to this task.

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<sup>77</sup> On independence of IFIs, see National Budgetary Frameworks Directive, Art. 8

## 4

## CONCLUSIONS

The purpose of this report has been to examine the democratic implications of the Commission's proposed package of reforms to EU economic governance and propose suitable reforms. In doing so, it has sought to add to the largely economic orientation of the existing debate. That debate has often been framed around a central choice – should EU economic governance be driven by strict rules, or governed by discretion and the need to negotiate realistic fiscal paths for Member States?<sup>78</sup> The very need for this package indicates that neither path is sustainable. Whereas strict rules are too rigid to reflect changes in economic and political circumstances, and the need for meaningful structural investment, a purely negotiated approach gives the Commission and Member States (particularly the powerful ones) too much discretion.

Faced with this choice, democracy offers a way-out. The EU requires fiscal rules that allow the Commission and Member States to do their job in producing sustainable fiscal policies. But it also requires a system of economic governance that allows Parliaments to do their job too: to sensitise EU economic governance to the needs of citizens across the EU and scrutinize the decisions officials make in 'our' name. In simple terms, parliamentary involvement is one powerful way of meeting the dilemma of giving policy-makers flexibility while also controlling their discretion.

If the current package is serious about establishing meaningful national ownership, about reflecting the common European interest, and about producing a sustainable balance between fiscal and social goals, it therefore requires significant reform. This paper has produced some suggestions to this focused on I) giving national Parliaments and civil society actors a formal role in the adoption of structural plans; II) providing the European Parliament with greater authority in EU economic governance, including co-decision rights in the Preventive Arm procedure; and III) ensuring a better balance between the fiscal, social and environmental risks of EU economic governance (principally by integrating institutions with expertise on equality and climate impacts). Such reforms are necessary not only to protect European democracy but to allow the Commission's proposed reforms to meet their policy goals.

<sup>78</sup> See: O. Blanchard, A. Leandro and J. Zettelmeyer, 'Redesigning EU fiscal rules: from rules to standards' (2021), 36 *Economic Policy* 106: 195–236, <https://doi.org/10.1093/epolic/eiab003>

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# HOW TO DEMOCRATISE EUROPE'S FISCAL RULES

## Proposals for Reforming the EU's Economic Governance Package



This study analyses the democratic implications of the European Commission's proposals for the currently ongoing reform of the EU's fiscal rules. The proposals seek an important set of goals: they aim to insulate the EU against fiscal risks while allowing important social and environmental investments. However, this study argues that the package also carries important democratic shortcomings. These threaten not 'only' democratic accountability in EU economic policy coordination, but also the vital policy goals of the reform.



The report focuses on three important deficits: 1) the inability of EU economic governance to achieve true national ownership of EU fiscal goals due to its failure to meaningfully include national Parliaments and civil society; 2) the risks of unequal treatment and lack of attention to the common European interest produced by the bilateral approach to dealing with national debt reduction; and 3) the inability of the proposals to properly institutionalise their stated objectives to balance fiscal, social, and ecological sustainability.



The report develops concrete suggestions for addressing these deficits within the current EU treaties. These suggestions are (a) giving national Parliaments and civil society a formal role in the adoption of national structural plans; (b) providing the European Parliament with co-decision rights in the Preventive Arm; and (c) integrating institutions with expertise on equality and climate impacts in fiscal planning. Taken together, these proposals seek not only to democratise the package but to allow it to fully realise its vital policy goals.

Further information on the topic can be found here:  
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