

To: *President of the European Council, Charles Michel; President of the Eurogroup, Paschal Donohoe; President of the European Commission, Ursula Von der Leyen; Chair of the Economic and Financial Affairs Council, João Leão; Commission Executive Vice-President, Valdis Dombrovskis; Commissioner, Paolo Gentiloni; Commissioner, Mairead McGuinness; Permanent Representatives and Ambassadors to the European Union, Wilem van de Voorde; Dimiter Tzantchev, Edita Hrdá; Jonas Bergin Liisberg; Michael Clauss; Aivo Orav; Declan Kelleher; Ioannis Vrailas; Pablo García-Berdoy; Philippe Léglise Costa; Irena Adrassy; Maurizio Massari; Nicholas Emiliou; Sanita Pavluta-Deslandes; Simonas Šatūnas; Georges Friden; Tibor Stelbaczky; Marlene Bonnici; Robert de Groot; Nikolaus Marschik; Andrzej Sadoś; Nuno Brito; Luminița Teodora Odobescu; Iztok Jarc; Maria Malová; Marja Rislakki; Lars Danielsson.*

15th February 2021

Dear President/ Chair/ Commission Executive Vice-President/ Commissioner/ Permanent Representatives and Ambassadors,

We are currently in the midst of the greatest health, social, and economic shock of our lifetimes. The policy agenda set in the emergency and recovery phase in the year ahead will have profound socio economic effects, determining the shape of our economy long after the pandemic is over. At the same time, we cannot afford to address one crisis whilst ignoring another – by leaping out of the COVID frying pan into the climate fire. Indeed, there is no vaccine for environmental breakdown.

To be consistent with the Green Deal and a socially just transition, to build up a resilient economy that works for people, and to decarbonize it within the timespan of only one generation, massive and well designed investments are needed over the long run. A return to business as usual – the revival of failed austerity policies of the past – is simply not an option. We must build back better, so that all European member states are stronger coming out of the COVID crisis than they were going in. This year stands before us as a unique opportunity to do things differently and start a fresh chapter to European policy making.

Fortunately, the European Commission has launched its economic governance review - which will review the EU's main fiscal framework, the Stability and Growth Pact and subsequent fiscal legislation. As academics, civil society, trade union leaders, and citizens, we are deeply concerned that the current fiscal framework prioritises debt reduction and balanced budgets over much more important human, economic and environmental outcomes – like creating well paid green jobs, reducing inequality, lifting millions out of poverty, and implementing much needed green infrastructure projects. We desperately need a complete overhaul of the current approach to fiscal policy to reshape our economies and tackle the unprecedented challenges facing the EU head on.

Lessons need to be drawn from previous policy failures. The set-up of our fiscal framework transformed the 2008 global financial shock into a self-made economic crisis and an unnecessarily prolonged recession. It resulted in years of public and private under-investment, hampering our environmental goals whilst prompting a surge in inequality between and within countries of the Union. By stifling employment opportunities and household incomes, it is no secret our fiscal framework helped fan the flames of populism and raised significant questions around the

democratic nature of the European set-up. Ultimately, the irreparable harm left so many ordinary people more vulnerable to future potential shocks, like the COVID crisis.

The scale of the crisis and severity of the economic downturn forced the temporary suspension of fiscal rules – simplistic and arbitrary limits for public debt and borrowing. To protect European citizens and businesses, to support the economy following the pandemic, the Commission deemed - and Member States agreed - more fiscal flexibility was necessary than permitted under our fiscal framework. Meanwhile, the NextGenerationEU package and the Recovery and Resilience Facility were agreed; recognising that the European Union needs a flexible and sizable central budget to address imbalances between countries and enhanced upwards social and economic convergence.

But the conditions that warranted these temporary measures were true before and will remain long after the crisis is over. It is therefore vital that the old fiscal framework is not reapplied before new economic governance and flexible principles to coordinate fiscal policies within the Union are agreed. Rejuvenating and re-establishing fiscal policy as the primary tool of macroeconomic management deserves an open and public debate.

Fiscal policy should be an enabler, not the chain that holds economies back. Our fiscal framework needs to be aligned, not at odds, with stated goals of full employment and environmental protection laid out in the Treaty of the European Union. Whilst welcome, an enhanced EU level budget alone will not be enough to meet these goals, national fiscal policy must be empowered too. Indeed, as we continue to face growing uncertainties, arbitrary numerical fiscal rules are simply not fit for purpose.

Tinkering around the edges with incremental changes will fall wide of the mark. The European Commission needs to seize the current narrow window of opportunity to spearhead a significant paradigm and narrative shift. It is all the more urgent to turn fiscal policy from an end to a means, and think more functionally about what the wider economy, society and the planet we inhabit really need. Getting policy right in this area is one of the single most important priorities for recovering from Europe's greatest peacetime recession and addressing social and ecological challenges.

We realise that the reform will not be simple and completed over night. We ask you to use the following principles as a bedrock when rethinking the current fiscal framework. We believe that if these principles are not met – you are going to fail the people and future generations of Europe.

1. Member States are fiscally enabled and incentivized to flexibly reach the goals of full employment with decent jobs and a socially just green transition, making sure no one is left behind.
2. A sizable and permanent community EU budget and borrowing capacity is established for promoting investment supportive of the Green Deal and a socially just transition.
3. A coordinated interaction of fiscal and monetary policy is made possible: governments take a primary role in macro stabilization. The ECB pursues an accommodative stance that supports democratically decided fiscal objectives, allowing member states to take full advantage of the fiscal potential afforded to them by monetary policy.

Of course, looking only at the sheer quantity of borrowing is not sufficient. Public spending and revenues cannot simply be aimed at providing measures to boost GDP growth with no consideration of the impact on future public prosperity or resilience. Economic and fiscal policy need to be primarily guided through a lens of broader public good and wellbeing, reducing inequality and meeting ecological commitments.

Far from making fiscal policy more responsible, the current fiscal framework is the exemplar of irresponsibility – the EU's consistent failure to meet its own goals on environmental protection and full employment are indicative of this. The price of inaction will prove far more costly to governments and society in the long run. We have high hopes and we are looking forward to an open-minded debate

without prejudice. No stone should be left unturned. You can count on our support in delivering this transformative agenda, and we look forward to your next steps.

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