Background

European Semester: why it matters

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MEPs and 140 of their national counterparts at the second inter-parliamentary meeting are discussing economic governance and related issues, and more particularly ways to ensure adequate parliamentary scrutiny, and hence the democratic legitimacy of common policies adopted and national “ownership” of the economic reforms to be undertaken.

Whereas euro countries were meant to treat their economic policies as a common concern when the euro was created, the financial and economic crisis really brought home to them the need to restart economic integration. New instruments have therefore been put in place for closer economic policy coordination and surveillance.

One important tool is the European Semester for economic policy coordination, which provides EU input into the national economic policy-making process of every country.

However, there was also an important hurdle to be cleared - the lack of sufficient democratic

legitimacy structures for such coordination and integration. The European Parliament believes that tighter economic governance needs to be supported by tighter democratic control.

Closer integration must include ways to legitimise such action and the European Parliament among others has been pressing for Article 13 of the Stability Pact [1] to be put into practice.

This background note seeks to explain not only why the Semester matters, but also why Parliament believes that the key to successful economic policy coordination is for the European Semester to become more politicised and democratically accountable.

[1] As foreseen in Title II of Protocol (No 1) on the role of national Parliaments in the European Union annexed to the European Union Treaties, the European Parliament and the national Parliaments of the Contracting Parties will together determine the organisation and promotion of a conference of representatives of the relevant committees of the national Parliaments and representatives of the relevant committees of the European Parliament in order to discuss budgetary policies and other issues covered by this Treaty.

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Why is further economic integration needed?

A single currency union requires a sufficient level of economic integration, including both a properly-functioning single market and an effective system for economic and budgetary policy surveillance and coordination. A boom or crunch in one country does not leave others unaffected, just as events in one part of any country would not leave other parts unaffected.

At the launch of the Euro, economic integration was only partially achieved. Many economists, as well as the MEPs then making up the European Parliament, warned that this could pose a problem for the Eurozone. However, there was insufficient political will among governments to make true economic integration happen.

The current crisis has exposed the flaws of a monetary union without economic union and has produced a slew of new legislation, of which that for a banking union - on which negotiations are now under way between the Parliament and the Council - is but one example.

Why does the European Semester matter?

The European Semester provides the EU policy framework within which national economic policies and national budgets are to be designed for the year. In the European Semester process, the Commission and the Council indicate to each country where it needs to focus and which reforms it should carry out.

The European Semester therefore means that no EU country is any longer able to conduct its economic policy in complete isolation from other EU countries. This is an integral part of the process for economic integration and, in the longer term, a step towards real economic union.

Why does the Semester need more visibility?

The European Semester was initially framed as a technocratic exercise, which had no binding legal structure. Since 2011, at the insistence of MEPs in negotiations on the economic governance "six-pack", it was given more legal weight. However, substantial further work is needed to bring out the Semester's political dimension.

The issue that urgently needed - and still needs - to be addressed is that the transfer of powers to EU level required by the Semester has not been matched by improvements in democratic representation and accountability.

The European Parliament is working to improve this process, not only through the interparliamentary meeting but also through "economic dialogues" (public hearings) with the other EU institutions and countries. For example, many finance ministers have been quizzed by the European Parliament’s Economic and Monetary Affairs Committee, to ensure that the European dimension of economic reform feeds properly into national debates.

This serves as part of the "accountability check" on the decisions taken and to be taken.

How does the European Semester affect national economic policies?

The most concrete part of the Semester that affects EU member states' economic and budgetary policies is the country-specific recommendations (CSRs), proposed by the European Commission and adopted by the Council of Ministers. Failure to act on these recommendations may trigger further steps through the EU economic governance tools, including the Stability and Growth Pact and the Macro Economic Imbalance Procedure, both of which may ultimately lead to fines.

Examples of Country-Specific-Recommendations adopted in July 2013

Belgium (one of its seven CSRs): "Belgium's fiscal effort was not sufficient to end the excessive deficit situation and according to the Commission's estimates the transition towards debt reduction will not be respected in 2014, with debt rising to 102.1% of GDP. Belgium should pursue growth-enhancing structural reforms and co-ordinate adjustment needs across all levels of government".

Germany (one of its four CSRs): "To reduce the debt level Germany should improve the efficiency public spending for health and long-term care. Germany should also consider raising more tax revenue by applying the regular VAT rate to more goods and reforming the real estate tax base".

Spain (one of its nine CSRs): "Although important measures were introduced in 2012 Spain can still make its tax system more efficient and can increase the share of more growth-friendly indirect taxes. Spain also needs to step up efforts to tackle tax fraud and evasion."

France (one of its six CSRs): "France should take decisive action in view of the expected further increase in unemployment, including by fully and swiftly implementing the inter-professional agreement (ANI) on securing jobs concluded between the social partners".

Italy (one of its six CSRs): "The Italian tax system remains complex and suffers from high levels of tax evasion. Shifting the tax burden towards consumption, property and the environment, in order to reduce the fiscal pressure on labour and capital in a revenue-neutral way is essential to foster economic growth and competitiveness. Improving tax compliance and tackling the shadow economy and undeclared work would improve the overall efficiency of the system and make it fairer".

Netherlands (one of its four CSRs): "Imbalances and rigidities in the housing market are having a negative effect on the Dutch economy. In the property market the Netherlands should address tax incentives for home ownership, which leave households with high levels of mortgage debt and vulnerable to fluctuations in house prices. In the rental market, further steps should be taken to relate rents to household income and to target social housing at those most in need".

Hungary (one of its seven CSRs): "The business environment is one of the main concerns in Hungary and has deteriorated due to a series of measures, including restrictions on investors and an unstable regulatory framework, particularly for services. Businesses would benefit from reduced administrative burden, less corruption and more competition in the public procurement".

Do country-specific recommendations affect people's lives?

Yes. The recommendations influence national economic policies, which in turn affect people. Examples of recommendations given in the previous question point in this direction. A recommendation to liberalise a specific sector, for example the retail sector or network industries such as telecoms, gas or water, will automatically have an impact on the people working in those sectors and on consumers.

Likewise, recommendations to reform a pension system or mortgages will affect what people have to pay, the age at which they can retire and how much pension they will receive.

How are the Semester, and notably recommendations to countries, democratically vetted?

Currently the only democratic vetting is by national parliaments giving a mandate to their governments to endorse the annual guidelines at the spring European Council and when the Council adopts country-specific recommendations (CSRs) in July.

At EU level, the European Parliament holds economic dialogues with the other EU institutions, e.g. on how to implement the "comply or explain" principle for the Council when adopting the draft CSRs as proposed by the Commission.

The interparliamentary meeting serves as a fruitful tool in the quest towards better enagaging these two democratic levels together,

The European Parliament also gives an opinion, twice a year, on the functioning of the Semester. The Semester can be effective only if it has broad democratic vetting, not least for transparency and accountability. Many MEPs feel that the whole process needs to be made more political (at both national and EU levels) and less technocratic. The people should have ultimate control over the process, precisely because it has tangible effects on their lives.

The Semester has been undertaken three times now. What are its substantive weaknesses?

Economic and Monetary Affairs Committee MEPs have consistently taken the view that:

· the Commission needs to be braver in making the recommendations it feels are justified,

· for their part member states, must refrain from the ‘Brussels dictat’ rhetoric which creates false antagonisms and leads to a very low implementation rate of the requested reforms,

· the semester process, and the subsequent economic reforms required, should be compensated with EU financial means to give countries needing to undertake painful reforms more incentive to do so,

· the various actions under the Semester need to be sufficiently democratically controlled at both national and EU levels to be legitimate. Economic policy-making without democratic scrutiny is not sustainable,

· when a country does not act on recommendations, it must be required to explain why, notably to its national parliament. This would be part of the accountability which Parliament wants to increase, and

· the Commission needs to highlight better those economic policies in one country which may have positive or negative effect on the economies in other countries or the whole Euro area.

Where to now?

For Parliament, the Semester's success clearly depends upon it becoming more democratically accountable. Every improvement needed depends, directly or indirectly, on strengthening the accountability and transparency of the process. Improvements must therefore include stepping up pressure on players to justify their positions and give a more political dimension to the work involved.

Making economic coordination more legitimate should in turn make it more effective. Here are some pointers to where the European Parliament wishes to go with the European Semester.

Parliament's opinion on the European Semester

In late October 2013 the full house was voted a scathing opinion, saying that the Semester was not delivering the goods, as for 2012 only 15% of the recommendations had been carried out.

To achieve genuine convergence, more legislation is urgently needed, MEPs said, advocating a fund to cushion the short-term negative effects of economic reforms. "Surplus" countries should make more efforts to fight the crisis and not leave that solely to those in fiscal difficulties. MEPs also said that the European Commission should be more lenient with non-recurrent public investment with a proven track record of ultimately improving a country's budgetary situation, such as in necessary infrastructure or education.

What are the main steps in the European Semester coordination process?

Period	Activity
October	European Parliament resolution reviews implementation of the Semester cycle and feeds ideas into the next Annual Growth Survey (AGS)
November	European Commission publishes AGS
November	European Commission publishes Alert Mechanism
November-December	Economic dialogue with the European Commission in the European Parliament
January-February	European Parliamentary week on the Semester
February-March	European Commission publishes in-depth reviews (as a follow up to the Alert Mechanism)
March	European Parliament adopts resolution to feed into the spring European Council
March	European Council adopts nnual guidelines for the Semester
April	Member States submit national reform programmes (NRPs) and stability and convergence programmes (SCPs)
April/May	European Commission assesses NRPs and SCPs
May	Commission publishes draft country-specific recommendations (CSRs)
May	Economic dialogue with the Commission in the European Parliament
June	European Council endorses CSRs
July	Council adopts CSRs
July	Economic Dialogue with the Council in the European Parliament ("comply or explain" especially any changes made to the Commission draft CSRs)
June-October	Economic dialogue with specific Member States, as appropriate
October	European Parliament resolution on the implementation of the Semester cycle and to feed into the next AGS