Background

European Semester: why it matters, and what can be done to improve it

With the creation of the Euro, participating countries were meant to treat their economic policies as a common concern. The idea was that tighter economic integration, with a common currency, would lead to similar economic policies across the different Eurozone members. This did not happen, as we now know.

The crisis brought home the need to restart economic integration if the Euro is to be preserved. New instruments have been put in place for a 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 still is 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.

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

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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 a 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. There was however insufficient political will among governments for true economic integration to happen. The current crisis has exposed the flaws of a monetary union without economic union.

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 an EU country is no 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 fact that the European Semester does not have the visibility which a process of such importance should have is a fundamental problem, because it aggravates an acute lack of transparency and accountability for what is proposed and decided.

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

The issue that urgently 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. This in turn has led to murky policy-making.

The European Parliament is working to improve the visibility of this process, for instance through "economic dialogues" (public hearings) with the other EU institutions and countries. This serves as part of the "accountability check" on the decisions taken.

For example, in July Parliament held a public hearing with the Council on the same day that it adopted country-specific recommendations as to how to implement the "comply or explain" principle included in the "six-pack".

More comprehensive reforms to increase the visibility and accountability nonetheless remain necessary.

How does the European Semester affect national economic policies?

The most concrete element of the Semester that affects Member States' economic and budgetary policies is the country-specific recommendations (CSRs), proposed by the Commission and adopted by the Council in July. Not implementing 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 2012

Belgium (one of its seven CSRs): "Continue to **strengthen competition** in the retail sector by lowering barriers and reducing operational restrictions. Introduce measures to strengthen competition in the network industries by revising regulatory barriers and reinforcing the institutional arrangements for effective enforcement of state aid rules."

Germany (one of its four CSRs): "**Reduce the high tax wedge (...), in particular for low-wage earners**, and maintain appropriate activation and integration measures, in particular for the long-term unemployed."

Spain (one of its eight CSRs): "Introduce a **taxation system** consistent with fiscal consolidation efforts and more supportive of growth, including a shift away from labour towards consumption and environmental taxation."

France (one of its five CSRs): "Adopt **labour market measures** to ensure that older workers stay in employment longer; improve youth employability especially for those most at risk of unemployment, by providing for example more and better apprenticeship schemes which effectively address their needs (...)."

Italy (one of its six CSRs): "Implement the adopted **liberalisation and simplification measures in the services sector**. (...) Implement the planned reorganisation of the civil justice system (...)."

Cyprus (one of its seven CSRs): "Improve competitiveness, including through the **reform of the system of wage indexation** (...). Take steps to diversify the structure of the economy. Redress the fiscal balance by restraining expenditure."

Netherlands (one of its five CSRs): "Take steps to gradually **reform the housing market**, including by: modifying the favourable tax treatment of home ownership, including by phasing out mortgage interest deductibility (...)"

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 done by national parliaments in 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 the EU level, the 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.

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 twice now. What are its substantive weaknesses?

Economic and Monetary Affairs Committee MEPs take the view that:

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

• 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 EP wishes to go with the European Semester.

Parliament's opinion on the 2012 European Semester

In late October the full house adopted its opinion on how the European Semester 2012 was carried out and what must be improved in the next cycle. The resolution calls on national parliaments to play a greater role in this coordination and urges the European Commission to check that countries put its recommendations into effect.

The resolution also notes that in many member states, the national parliament, social partners and civil society were not involved in the European Semester and asks the Commission to remedy this in 2013. It also asks the Council to explain why it sees fit to modify country-specific recommendations. Finally, MEPs asked that the European Parliament be more extensively involved in the next Semester cycle and notably at the early stages.

Parliamentary week on the Semester at the start of the cycle

An inter-parliamentary meeting of MEPs and national MPs will be held at the start of every year (late January / early February), before the Spring European Council. In it various EP committees will host inter-parliamentary committee meetings in their respective areas of competence, after a more general high-level opening event.

This European Parliamentary Week will enable the EP to take account of discussions with representatives of national parliaments and also to raise their awareness of the Semester's consequences for them.

Finally, it should ensure that national MPs are also aware of the broader picture when discussing their countries' national economic policy targets.

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

Period	Activity
October	EP 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 - Newly introduced for the 2013 exercise
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	EP resolution on the implementation of the Semester cycle and to feed into the next AGS