

ECONOMIC POLICY COORDINATION IN THE EU: LINKING NATIONAL OWNERSHIP AND SURVEILLANCE

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Surveillance of Economic Policy Coordination in the EU was the topic of a high-level workshop that was organized by the Jacques Delors Institut - Berlin on 15 April 2016. It was attended by 40 participants and held under the Chatham House Rule. Members of national parliaments, members of the European Parliament, officials from German ministries and EU institutions, academics and think-tankers discussed a wide range of questions: What are the design flaws in the multi-level governance architecture? Do we have a sound institutional set-up in economic policy coordination? What are its nature and direction? Are national parliaments lost in translation? How can we build bridges between the national and the European level and reduce the complexity of surveillance procedures? What needs to be done to achieve better accountability? This report summarizes these issues and provides input for the debate on strengthening the Economic and Monetary Union.

1. Introduction: Design flaws in the multi-level governance architecture

According to the EU treaties, economic policies are a “matter of common concern” (Article 121 TFEU). Economic policy coordination has been reformed over the last few years in order to strengthen this commitment. However, the European Semester and other surveillance mechanisms are often criticised for **lacking ownership**. Economic governance is mostly based on the threat of sanctions, which is not seen as credible, but reinforces the perception of actions being dictated by Brussels. Many observers think that economic policy coordination has still not found an adequate **balance between sanctions and incentives**.

The next sections (2, 3 and 4) of this report explain the shortcomings of economic policy coordination and surveillance as well as the challenge to meet high expectations of a “renewed” and “more integrated”¹ European Semester. Looking at a key indicator, the implementation record of country-specific recommendations, it seems clear that **the European Semester has not been a success story**. Sections 5-9 tackle several crucial issues: what national parliaments should do, reducing complexity in economic surveillance, inter-parliamentary cooperation, institutional reforms and, finally, better accountability. The conclusion (10) then stresses that politics and

policies should move centre-stage: Institutions and procedures are important, but content is the key to make the European Semester work better.

2. Ill-defined and competing institutional roles in economic governance

Economic governance in the EU involves a large number of actors, but their role in the coordination process is often unclear. The European Commission has become more visible in the European Semester as a result of recent reform efforts, but it has an ambiguous role in economic governance. Two different views exist concerning **what the Commission does and what it should do: coordinating or ruling?** Many national MPs refuse to be “ruled” by the Commission, but accept that countries might have to be “pushed” towards economic policies that are compatible with other member states. The Commission’s current role is one of facilitating the process by discussing how it can help, offering a partnership to member states.

Economic surveillance also relies on peer pressure, but in the Council (when the European Semester is discussed at working level and among ministers) **member states hardly ever criticise each other’s policies**. Furthermore, the heads of state and government in the European Council play a key role

in economic policy coordination. They are subject to some control by national parliaments, but there is still potential for more ex-ante scrutiny before a European Council meeting and more ex-post scrutiny afterwards.²

The **role of the European Parliament** is not sufficiently clear. Recently, the European Commission has started involving it more actively into economic policy coordination (e.g., in the discussion of the Annual Growth Survey). MEPs were also invited to attend meetings of the ECOFIN Council and the EPSCO Council. In order to **strengthen the role of the European Parliament**, putting the Annual Growth Survey under the Ordinary Legislative Procedure seems desirable in the medium to long term. But should the European Parliament only look at pan-European matters and create ownership at that level? This would imply a clear burden-sharing with national parliaments. Or should it also develop a direct relationship to national matters (e.g. country-specific recommendations). In this case, scrutiny areas of the European Parliament and of national parliaments might overlap.

Finally, while the European Parliament considers itself the “parliament of the euro” and rejects the idea of splitting itself or creating specific euro area structures, it has started to hold plenary and committee meetings that exclusively cover euro area matters. The **monitoring of economic developments at the Eurozone level** has been stepped up in the latest European Semester cycle, but what is the ideal parliamentary setting to scrutinize it? Both Eurogroup and Euro Summit play important roles in euro area economic governance, but they have no parliamentary equivalent and are largely controlled in an indirect way.

3. The nature and direction of coordination: Politicized or technocratic?

The European Commission could act as the technocratic branch of economic policy surveillance, be the impartial “guardian of the treaty” and have full analytical independence. Or it could be more actively involved in politics and articulate strong positions in the surveillance of national economic policies. The whole process would then become much more politicized. In this case, however, one wonders about legitimacy and to whom the Commission would be accountable. Would it gradually become a European

government? The **tension between politicized and technocratic elements in economic policy coordination** has not been resolved.

By pursuing a more politicized role, the **Commission would ultimately become a political actor on the national stage**, opposing or supporting the national government’s economic policies. Opposition and governing parties would try to domestically exploit Commission assessments. As a result, national debates could become more Europeanized. The European Commission has taken a first step into this direction. It has extended the period of time between country reports and country-specific recommendations in order to support domestic debates: In 2016, country reports were published at the end of February and country-specific recommendations were issued in May.

A more politicized European Semester could also lead to greater public awareness of it. While inter-parliamentary conferences mean that elites take ownership, probably only a politicization of economic policy coordination with clearly visible different positions would **reach citizens and allow them to take ownership**.

In addition to that, one could try to involve citizens via a **bottom-up approach** and a euro area “bill of rights” where they could raise their voice if certain codified rights, e.g. access to vocational training, were not guaranteed by a member state. If, in a petition-like mechanism, a certain threshold was met, a joint committee would come together in order to discuss the issue and trigger a politicized debate on economic policy coordination and convergence. Such a committee could consist of members of the national parliament, the European Parliament, the national government and the European Commission.

4. National parliaments in the European Semester: Lost in translation

Under the current system, national parliaments are asked to debate the (country-specific) recommendations from the EU level and translate them into their own actions. In the European Semester there are **three major stages where national parliaments could be active**: 1) related to the Annual Growth Survey, 2) when national governments prepare the drafts of Stability and Convergence Programmes and

National Reform Programmes, 3) with respect to the Commission’s country-specific recommendations.

The crucial task for national parliaments is to **increase ownership or at least knowledge of the European Semester**. MPs often emphasize that they do the groundwork for EU integration in their constituencies. Many European Affairs Committees or Budget and Finance Committees examine

what national governments propose in their programmes (ex-ante, before Stability and Convergence Programmes and National Reform Programmes are sent to Brussels). MPs can be expected to monitor governments, in order to find out what their plans, promises and pledges are: These documents contain relevant information, because they look one year back and three years ahead.

TABLE 1 ► Debates in National Parliaments under the European Semester (2012/2015)

Ex Ante: Stability/Convergence Programmes				Ex Post: Country-Specific Recommendations			
2012				2012			
Budget/Finance Committee Debate SCP?		EU Affairs Committee Debate SCP?		Budget/Finance Committee Debate?		EU Affairs Committee Debate?	
		No	Yes			No	Yes
Budget/Finance Committee Debate SCP?	No	AT, CY, DK, ES, IE, MT, NL, PL, UK (9)		Budget/Finance Committee Debate?	No	AT, DE, ES, FR, IT, MT, PL, PT, SI (9)	
	Yes	LU, PT, SE (3)	BE, CZ, DE, EE, FI, FR, IT, LV, LT, HU, SI (11)			Yes	CY, IE, LU, LV (4)
2015				2015			
Budget/Finance Committee Debate SCP?	No	HU, MT, SI, RO, UK (5)		Budget/Finance Committee Debate?	No	AT, DE, IT, IE, MT (5)	
	Yes	AT, ES, IE, LT, PT, SE (6)	BE, DK, EE, FI, FR, LV, LU, IT, PL, SL (10)			Yes	BG, EE, ES, FR, LU, PT (6)

Source: Prof Mark Hallerberg, Input presentation at the Jacques Delors Institut - Berlin, 15 April 2016, High-level Workshop “Surveillance of Economic Policy Coordination in the EU”. Reproduced with permission; original survey results from 2012/2013 and 2015/2016.

In ex-post scrutiny, the objectives of national parliaments are to monitor their own government, the Commission’s assessment and/or the process itself. In 2012, however, the national parliaments of the largest euro area economies (Germany, France, Italy and Spain) did not discuss country-specific recommendations at all (see Table 1). Since then, such debates have become more common across Europe and have shifted from European Affairs Committees to the sectoral committees that are responsible for budgetary and financial issues. **But while debates are a necessary condition for ownership in economic policy coordination, they are not a sufficient one.**

5. Debate, amend, vote – what national parliaments could do

When national parliaments get involved, what should they actually do? One option would be to **give national parliaments a right to vote on National Reform Programmes and Stability or Convergence Programmes**. Only a few of them

have this prerogative yet.³ The timing of the vote is the key question, as such a vote only makes sense before these programmes are sent to the European Commission by the end of April. This could be complemented with giving MPs the possibility to write amendments to these drafts. National governments would then have to justify their position and could be better held accountable.

As a consequence, national parliaments would also become more involved in **monitoring the implementation of governments’ plans, promises and pledges**. But the whole process would become more complex and inconsistencies between these positions and those of the European Parliament and the Council might occur. In addition to that, there has been little appetite for real deliberation: votes and debates would slowdown the process. The question also arises of what would happen if one national parliament rejected the draft of a National Reform Programme or Stability or Convergence Programme that had been prepared by its government.

Beyond such procedural aspects, there should be real debate on these programmes in national parliaments. Economic policy coordination and surveillance are usually not decisive in national policy-making. Currently, the process is “Commission-and-government”-led; parliaments merely try to get information. Even during the ex-ante stage, the Commissioner should come to national parliaments and present the Commission’s views on national fiscal and economic policies. Government and opposition would then have to react. This would mean a much **deeper involvement of the European Commission** instead of briefings by the national government on the Commission’s position.

Such a move could be accompanied by including into the treaties (Article 12 TEU on national parliaments) a minimum standard of information rights provided by Council members to their parliaments that could also be used in the European Semester. One might also seek a kind of formalised and verifiable corridor of **procedural minima** to be respected by all parliaments in engaging with the European Semester.⁴

6. Reducing the complexity of economic and fiscal surveillance

Judging from the implementation rate of country-specific recommendations as well as from parliamentary adaptation and ownership, the European Semester has not been a success story. Expectations have risen as its prominence in economic policy coordination and surveillance increased, but it is largely unknown outside expert circles.

Instead of creating new procedures or practices, economic policy coordination and surveillance could also work better with already existing procedures. The lack of ownership at the national level can be linked to a lack of relevance of country-specific recommendations. Since the latest European Semester cycle, however, they no longer address a large set of different policy issues but rather focus on those policy areas where reform is the most necessary.

Such an approach could also be applied to the European Semester as a whole: there are **too many procedures rather than too few**. Streamlining them into one single procedure with a clear indicator would make it easier to follow and scrutinize, enhance

visibility and facilitate involvement. Practices known from the International Monetary Fund’s “Article IV” consultations could serve as an inspiration.

7. Building bridges between the national and European level

With respect to the relationship between national parliaments and the European Parliament, the crucial questions are whether a clear division of labour and more cooperation *can* go hand-in-hand or whether these two objectives *cannot* be pursued simultaneously.

In the area of economic governance, an inter-parliamentary conference has met twice a year since late 2013 on the basis of Article 13 TSCG.⁵ Such **communication channels are necessary and inter-parliamentary conferences are a good idea**, but they need to be improved. Even though this conference (the “Inter-parliamentary Conference on Stability, Economic Coordination and Governance”) finally adopted Rules of Procedure in November 2015, two years after the first meeting, it still does not function well. The interaction of its members with the heads of the EU institutions does not take place on an equal footing and is often reduced to delivering speeches without real debate. Thus, instead of allowing dialogue, the “Article 13 Conference” risks becoming a platform for monologues and might not get the attendance it deserves. This is, however, a phenomenon known from other inter-parliamentary conferences.⁶

The current set-up reflects the lowest common denominator of the preferences about what the inter-parliamentary conference should do. **The question whether the “Article 13 conference” is a place for dialogue or a place for scrutiny has remained unanswered:** If it is not a place for scrutiny, its purpose would be dialogue, networking, exchange and learning from each other. The European Parliament and national parliaments would organize scrutiny individually. The competing view, however, insists that an inter-parliamentary conference is not about dialogue, but has to be about scrutiny, because direct accountability connections between the European and the national level are needed in the area of economic governance.

Previous attempts to agree on concrete numbers of participating MPs and to define the nature of the

conference's activities have failed, but parliaments should spend more time together: **The EU's multilevel democracy⁷ is not sufficiently coordinated.** The Speakers' Conference has a coordinating function, but only meets once a year. Creating a permanent working structure could help solve this problem. Another important aspect would be to have **more politics** in inter-parliamentary cooperation. Discussions should not happen along national borders, but between the different political families.

8. Institutional engineering in economic governance

Two new institutions were proposed in the Five Presidents' Report of June 2015⁸: **National Competitiveness Boards** would assess competitiveness, performance and reforms in order to stimulate debates at the national level. In addition, a **European Fiscal Board** would provide a neutral evaluation of the implementation of fiscal rules that would then lead to political decisions based on a transparent application of the rules.

A more far-reaching proposal is to create the position of a **new European Finance Minister who would become the public face of European economic governance, coordinate fiscal and economic policies and enforce fiscal and economic rules.**⁹ But such a far-reaching overhaul may only be viable once progress has been made in completing the Economic and Monetary Union. Then stronger institutional structures would exist and some of the initial difficulties of the High Representative-Vice President who had to build up the European External Action Service could be avoided.

A small European **investment budget or fiscal capacity** could be at the European Finance Minister's disposal. A monetary union needs instruments to deal with economic shocks and foster convergence. New capacities could, however, be seen as an entry point into a transfer union, significantly increase complexity and would possibly duplicate parts of the existing EU budget as its goal overlaps with the European Fund for Strategic Investment. It might be easier to agree on conditionality by linking the implementation country-specific recommendations to access to **cohesion funds**. Possible **subsidiarity** concerns related to this should not apply, because **conditionality** would be based on previously agreed priorities.

Open questions concern the future integration of the European Stability Mechanism into the EU treaties and its possible upgrade to a **European Monetary Fund**. If this happens, how can the institution maintain an operational independence and a strong capital base? Who would be responsible for compliance with a "memorandum of understanding"? And, in relation to the European Finance Minister, where would a treasury-like administration be located?

9. Better accountability structures instead of dialogues

Citizens want to know who is responsible, who takes decisions and who controls the process. Dialogue becomes meaningless if no action follows. Therefore, accountability needs to be improved. It can be defined as a set of standards or a mechanism for the evaluation of behaviour of public actors after which there can be consequences that flow from that behaviour and, if necessary, changes to that behaviour. **Clear responsibility and accountability structures in the European Semester are necessary.** On the one hand, at the European level, Annual Growth Survey and country-specific recommendations could be put under the Ordinary Legislative Procedure and allow for the European Parliament to co-decide. On the other hand, the sequencing of votes or approval procedures at the national level should be discussed, with ex-ante (before the EU level intervenes) and ex-post (once there is a decision, recommendation or report) as the two alternatives.

In order to strengthen accountability, another possibility would be to set up a **dedicated assembly for matters of the Eurozone along one of three different models**: It could consist only of MEPs (competences over national budgets would have to be transferred), membership in the assembly could be limited to MPs (preserving national budgetary sovereignty) or a mixed model that includes both sources of legitimacy could be built upon Article 13 TSCG: The members of this inter-parliamentary conference are already appointed, but its statute would have to be changed to allow the conference to control budgets and decisions as well as to create a specific Eurozone branch.

The choice between the three models would depend on the **future institutional configuration of Eurozone governance** and on the **budgetary**

sources of a fiscal capacity for the Eurozone (“no taxation without representation”). An alternative would be to create an inter-parliamentary committee which would be smaller than an “assembly”, possibly composed only of 2 MPs per member state and 28 members of the European Parliaments (56+28).¹⁰ It would be charged with controlling the European Finance Minister. However, a lack of willingness among member states to integrate further makes it politically challenging to establish new committees or assemblies.

10. Conclusion: It’s about politics and policy, not institutions and procedures

Can **economic policy coordination** be improved? The discussions at our high-level workshop showed

that there was consensus that it **can and should be improved**. How this can be achieved is another question and many different proposals were put on the table.

The conclusion can be summarized as follows: It is rare for the European Semester and recommendations issued by the European Commission to actually influence the national **policy** debate. National ownership is key and it is missing. Economic policy coordination and surveillance is not (only) about the **processes**. Treaties, **institutions** and procedures offer possibilities to debate and communicate, but at the heart of the matter are credibility and trust in European institutions. Many participants agreed that it is time to inject more **politics** into economic policy coordination and surveillance.

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9. H. Enderlein & J. Haas, “[What would a European Finance Minister do? A proposal](#)”, *Policy Paper No. 145*, Jacques Delors Institut – Berlin, October 2015.
10. H. Enderlein & J. Haas, “[What would a European Finance Minister do? A proposal](#)”, *Policy Paper No. 145*, Jacques Delors Institut – Berlin, October 2015, p. 11.

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