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BRIEFING FOR MEMBERS

EUROPEAN ECONOMIC POLICIES

Purpose of this briefing

This briefing for Eurodiaconia members aims at providing an understanding of the main challenges relating to European economic policy, and how this impacts social policies and their work. The briefing will highlight the developments of European economic policy which has evolved considerably since the 2008 economic crisis, as well as the state of play and ongoing changes. It will also demonstrate the interrelation between European economic policy and European social policy, and their impact on the policies at national and local levels.

What is European economic policy? The Economic and Monetary Union

In the EU, economic policy is the remit of each individual Member State. While there is no proper economic policy conducted at EU level, multilateral coordination of economic policies between countries takes place to promote economic and social progress for the EU and its citizens. This framework for coordination has been modified significantly since the crisis which exposed its weaknesses. It is still in the process of reforming nowadays.

Article 3 of the Treaty on the European Union states that the EU "*shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress […]*". Article 3 of the Treaty on the Functioning of the European Union assigns the EU exclusive competence for monetary policy for countries whose currency is the euro. By contrast, economic policies remain in the realm of each individual Member State, but article 5 of the same treaty stipulates that economic policies should be coordinated to overcome this asymmetry. Articles 2, 5 and 119 TFEU constitute the basis for economic coordination: they require the Member States to view their economic policies as a matter of common concern and to coordinate them closely. The EU is therefore legitimate to act in the field of economic policy with the objective of promoting the development of the economic, employment, and social situation in Europe for the benefits of citizens.

Eurodiaconia is a federation of 48 social and health care organisations founded in the Christian faith and promoting social justice.
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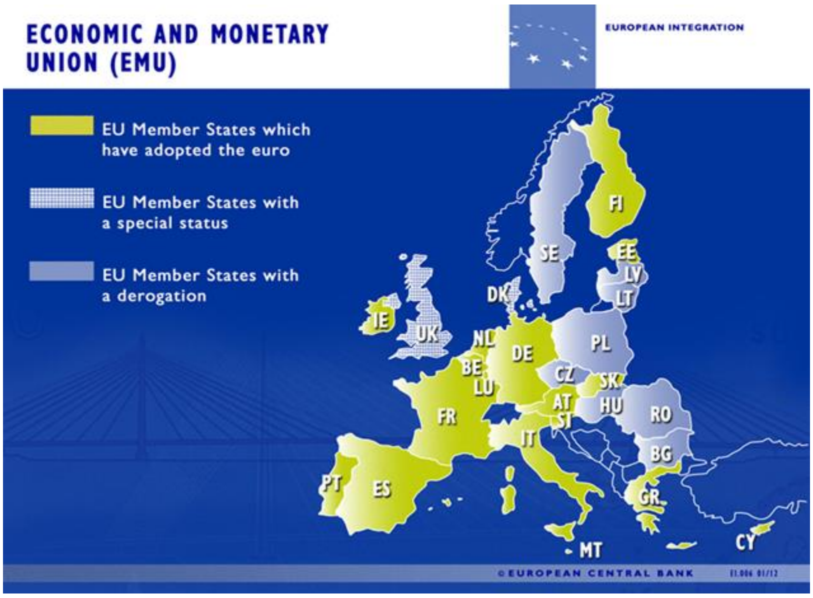
The areas subject to the EU economic governance are financial, fiscal, and macroeconomic issues, crisis management, macro-financial supervision, and investments. The European policy framework for economic governance is the economic and monetary union (EMU). The EMU was first set out in detail in the Maastricht Treaty in 1992 and began formally on 1 January 1999 with 11 Member States. The monetary union now comprises the 19 member states whose currency is the euro while the economic union concerns all 28 countries.



Within the EMU there is no single institution responsible for economic policy. Instead, the responsibility is divided between Member States and the EU institutions. The main actors in EMU are:

- The European Council which sets the main policy orientations;
- The Council of the EU which coordinates EU economic policy-making and decides whether a Member State may adopt the euro;
- The 'Eurogroup' which coordinates policies of common interest for the euro-area Member States;
- The Member States who set their national budgets within agreed limits for deficit and debt, and determine their own structural policies involving labour, pensions and capital markets;
- The European Commission which monitors performance and compliance;
- The European Central Bank (ECB) which sets monetary policy, with price stability as the primary objective and act as central supervisor of financial Institutions in the euro area;
- The European Parliament which shares the job of formulating legislation with the Council, and subjects economic governance to democratic scrutiny in particular through the new Economic Dialogue.

The economic and financial crisis exposed significant weaknesses in the European economic governance framework which led to many reforms to reach the current state of play. These reforms were conceptualized from 2015 as part of a movement to “deepen the EMU”, firstly within the Five Presidents Report, followed by a paper on the deepening of the EMU in 2017, and the publication of a package for completing the EMU in December 2017. The reform proposals in the package are still under discussion.

Economic coordination: the European Semester and the economic policy guidelines

Until 2011, economic policy coordination was mainly based on consensus, without legally enforceable rules. The scope of economic coordination was wide, and different forms of cooperation could be implemented, depending on the extent to which the cooperation agreement involved was binding.

The crisis exposed fundamental problems and unsustainable trends in many European countries, and made it clear that the EU's economies are strictly interdependent. Greater economic policy coordination across the EU was considered necessary in order to address problems and boost growth and job creation in the future. The European Semester of economic and budgetary coordination was created in 2011 as a strengthened framework for policy coordination between member states. The European Semester is a nine-months period each year during which the Member States' budgetary, macroeconomic and structural policies are coordinated. The aim is to ensure that all policies are analysed and assessed together and that new policy areas such as macroeconomic imbalances and financial issues, are included. To find out more about the European Semester and its key stages, please check Eurodiaconia's Semester toolkit.

In 2015, the European Commission decided to revamp the European Semester. This stem from the recognition that the economic and financial crisis had had deep social consequences which the solely economic and fiscal focus of the European Semester was not managing to reverse. In the "new" European Semester, discussions and recommendations about the euro area take place before country-specific discussions (between the Autumn and the Winter packages), greater attention is given to social fairness, and dialogue with national stakeholders and the European Parliament at key stages of the process has been strengthened.

This socialisation or rebalancing of the European Semester was further reinforced in November 2017 with the proclamation of the European Pillar of Social Rights. Setting up 20 principles in the field of social rights as objectives for all 28 Member States, the Social Pillar has the ambition of becoming the compass for the European Semester in which it has been streamlined. This was done for the first time in the 2018 Semester cycle and involved substantial changes such as a further focus on social challenges in the Annual

Growth Survey, more space for the analysis of each country's social situation in the country reports, as well as a further increase of the share of employment, social, health and education recommendations in the country-specific recommendations to reach 44%.

The European Pillar of Social Rights, three chapters, 20 principles:

Lastly, on 31 May 2018, the Commission adopted a proposal for a regulation on the establishment of a reform support programme – a new instrument designed to foster the implementation of reforms in all EU Member States, starting with priority reforms identified in the European Semester, particularly in the country-specific recommendations. The proposal is currently being discussed in the European Parliament in the context of the new multiannual financial framework negotiations.

Additionally, the Council, on the basis of a proposal from the European Commission and conclusions of the European Council, adopts integrated guidelines:

- Broad Economic Policy Guidelines
- Guidelines for Employment Policies

They lay down the scope and the direction of policy coordination of EU countries. They also support the goals of the Europe 2020 strategy, which implementation is monitored through the European Semester. The integrated guidelines form part of the guidance and monitoring in the context of the European Semester. If the Commission finds that the economic policies of a member state do not comply with the Broad Economic Policy Guidelines or that there is a risk they could compromise the functioning of the EMU, the Commission may issue a warning. The same does not apply to the employment guidelines, although their implementation is monitored in the Joint Employment Report (first published as a draft in the Autumn Package and in its final version in the Winter Package).

Following the proclamation of the European Pillar of Social Rights in November 2017, the Employment Guidelines were substantially revised in order to better reflect the principles of the Social Pillar, and now explicitly refer to the role of civil society organisations and the necessity for national governments to involve them in the European Semester process. Despite their name, the employment guidelines do not only refer to employment policy. Guideline 8 in particular refers to "Promoting equal opportunities for all, fostering social inclusion and combatting poverty".

Table 0.1: The Europe 2020 strategy's key priorities and headline targets

	Targets
Smart growth	• Increasing combined public and private investment in R&D to 3 % of GDP • Reducing school drop-out rates to less than 10 % • Increasing the share of the population aged 30–34 having completed tertiary education to at least 40 %
Sustainable growth	• Reducing greenhouse gas emissions by at least 20 % compared to 1990 levels • Increasing the share of renewable energy in final energy consumption to 20 % • Moving towards a 20% increase in energy efficiency
Inclusive growth	• Increasing the employment rate of the population aged 20–64 to at least 75 % • Lifting at least 20 million people out of the risk of poverty and social exclusion

Economic surveillance: the Stability & Growth Pact and the Macroeconomic Imbalance Procedure

The Stability and Growth Pact (SGP) was made in 1997 when EU countries agreed to strengthen the monitoring and coordination of national fiscal and economic policies to enforce the deficit and debt limits established by the Maastricht treaty – namely no more than 3% of GDP for government deficit and 60% for public debt levels. These criteria were deemed necessary to enable countries to share a single currency. The SGP is composed of a preventive arm – which focuses on yearly reporting of member states and assessments by the European Commission, and of a corrective arm, the Excessive Deficit Procedure – which is reinforced surveillance by the European Commission of those states who do not respect the criteria and can lead to sanctions.

Following the sovereign debt crisis of 2009-2010, the Stability and Growth Pact was upgraded with the six-pack and the two-pack. The six-pack improved the SGP and added a macroeconomic surveillance component, including a macroeconomic imbalance procedure. The macroeconomic imbalance procedure, like the Stability and Growth Pact, is equipped with a preventive and a corrective arm through which sanctions can be imposed.

The five convergence criteria.

What is measured:	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured:	Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria:	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without severe tensions

In January 2015, the European Commission issued a communication on “Making the best use of the flexibility within the existing rules of the SGP” in order to support the EU’s efforts to increase investment levels – which had plummeted since the crisis – and encourage structural reforms. The communication explained how the Commission intends to apply the SGP structural reform and investment clauses more flexibly when evaluating member States’ compliance with the pact’s rules. This stemmed from the recognition that fiscal policy needs to be used to support public investment during an economic downturn. This implies in turn that it should not be restrained by rigid rules, especially during crisis. The Stability and Growth Pact prevents, in many instances, Member States from engaging in social investments because necessary investments in human capital and housing as well as in social, health, and education services often mean a breach of the SGP’s deficit rules.

The investment clause to the SGP grants Member States the possibility to deviate temporarily, under the preventive arm of the SGP, from their medium term objective (MTO) or adjustment path towards it to accommodate investment if a number of conditions are met. In practice, however, this clause has failed to provide adequate leeway for social investment. The current governance framework allows flexibility only to a very limited extent, due to the risk of abuse by Member States who want to break deficit limits by presenting excessive spending as (social) investment. In fact, one of the key shortcomings of the SGP in its current form is that it fails to stimulate sufficient levels of productive social expenditure, which is conducive to economic growth.

Why is European economic policy relevant for you?

Economic and social policies are closely interrelated. A reform of one usually impacts the other which means that they cannot be considered separately. This has consequences when it comes to advocacy work, since the economic impacts (whether good or bad) of the social reforms supported have to be taken into account and highlighted. Similarly, this also implies that advocacy should be done towards economic and fiscal actors since their actions have social impacts.

As highlighted above, the European Semester was first created with a purely economic and budgetary purpose. In 2011, the objective was to better coordinate economic and fiscal policies in the EMU. A recognition of the deep social consequences of the economic and fiscal crisis as well as of the austerity measures taken by governments was necessary before the process could evolve and start taking social policies into account. Having this understanding is very useful to comprehend the process as it is today and the difficulties in socialising it. A lot of policies which started with an economic and fiscal purpose at EU level are evolve to include social policy.

Furthermore, some economic and fiscal policies at EU level have a direct impact on social policies at national and local level. As explained above, the Stability and Growth Pact and its strict criteria have important consequences on the spending capacities of European governments, which in turn impacts social investments and social expenditures at national and even local levels. Especially when considering that social policy, healthcare, and education represent on average 31% of GDP and 65% of public expenditures in Europe, these are therefore some of the most affected areas by the limitations of public deficit.

What is Eurodiaconia doing?

Eurodiaconia is very active in advocating and inputting into the European Semester since its very beginning. We collect information on the situation on the ground from our membership and channel it into our advocacy to the European Commission so that its assessment and reporting is a close to the reality as possible. Eurodiaconia has been advocating since the beginning for a rebalancing of the Semester towards social challenges and participated in promoting the positive evolutions that took place in the last few years. We take part in the structured dialogue with the European Commission throughout the European Semester and are recognised as an important and trustworthy partner in this process.

Additionally, Eurodiaconia is developing its advocacy in the economic sphere, working increasingly and economic issues and developing a narrative which highlights the economic advantages of having good social policies. This feeds into every aspect of our work to highlight the benefits of the social reforms we promote and to insist on social impact assessment of economic and fiscal actions at both EU and national levels.

What can you do?

Input into Eurodiaconia's work on the European Semester so that your country's situation is better reflected. Eurodiaconia also encourages you to get involved in the European Semester at national level, ensuring that you are consulted at the various stages of the process, particularly by the European Semester Officer[1] of the EU Representation in your country and by your own government.

You can also develop an economic aspect to your advocacy, highlighting the economic benefits of the social reforms you advocate for and insisting on the impact of economic policies on the social situation in your country. Develop a network of contact in the financial and of economic authorities in your country to ensure interrelation and coherence between your national/local economic and social policies.

Further information and links

On EU economic policies:

http://www.europarl.europa.eu/factsheets/en/sheet/87/economic-governance

http://www.europarl.europa.eu/thinktank/es/document.html?reference=EPRS_BRI%282018%29628273

On economic arguments for social policies:

https://www.socialeurope.eu/crisis-of-globalization-restoring-social-investment-is-key

https://ec.europa.eu/social/main.jsp?catId=737&langId=en&pubId=7511&furtherPubs=yes

https://www.socialeurope.eu/who-really-creates-value-in-an-economy

On the Economic and Monetary Union:

https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/economic-and-monetary-union/what-economic-and-monetary-union-emu_en

https://ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en

https://ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en

https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-emu_en.pdf

https://ec.europa.eu/commission/publications/euro-summit-14-december-2018_en

On the European Semester:

https://www.eurodiaconia.org/toolkit-european-semester/

https://ec.europa.eu/eurostat/documents/3217494/9087772/KS-02-18-728-EN-N.pdf/3f01e3c4-1c01-4036-bd6a-814dec66c58c

https://doi.org/10.1080/13501763.2017.1363269

http://europa.eu/rapid/press-release_IP-18-3972_en.htm

[1] Eurodiaconia can give you their contact details.

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https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/europe-2020-strategy_en

http://data.consilium.europa.eu/doc/document/ST-10464-2018-INIT/en/pdf

On the European Pillar of Social Rights:

https://ec.europa.eu/commission/sites/beta-political/files/european_pillar_of_social_rights.pdf

https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en#relatedlinks

On the Stability and Growth Pact:

https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/history-stability-and-growth-pact_en

http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/497746/IPOL_IDA%282018%29497746_EN.pdf

https://ec.europa.eu/info/business-economy-euro/euro-area/enlargement-euro-area/convergence-criteria-joining_en

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