



Economic Governance: Focus on Sustainable Development of Well-Being

Key points

- The EU's overarching economic goal is “to promote [...] the well-being of its peoples” (Art. 3 (1) TEU) and its equivalent global commitment is to implement the UN 2030 Agenda for Sustainable Development. However, both are barely addressed within the EU's main policy-making frameworks.
- The European Semester in particular is still driven by the Stability and Growth Pact, with the aim of executing fiscal rules and avoiding macroeconomic imbalances. Although this might avoid some forms of economic crisis that are detrimental to well-being, it is insufficient and needs a profound change.
- European policy making needs a systematic focus on the sustainable development of well-being, starting with a reform of the European Semester. The scientific progress made in defining the issue in the last decade could help to shape this governance reform.
- The new commissioners have announced changes in the right direction and with the autumn and winter package have already implemented some – albeit rather limited – first steps like the new Annual Sustainable Growth Strategy and amplified analyses within the accompanying documents.
- If we are to achieve a real refocus of the European Semester, we need a Sustainable Development Scoreboard with indicators and targets as a basis for the whole process, especially the recommendations and priorities that guide policy making, where the European Parliament should have a particularly strong involvement.

Background

What should be the overarching goal of policy in general and economic policy in particular? In the past 15 years, many initiatives have taken up this question to give a more adequate answer than “economic growth”. The premise shared by initiatives like the Commission on the Measurement of Economic Performance and Social Progress led by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi, the OECD's Better Life Initiative and the UN 2030 Agenda for Sustainable Development is that we should instead aim at sustainable well-being based on a broader set of economic, social and environmental objectives. Whereas “economic resources” and “non-economic aspects of peoples' lives” are decisive for determining current well-being, long-term well-being “depends on whether stocks of capital that matter for our lives (natural, physical, human, social) are passed on to future generations” (Stiglitz et al. 2009: 11). Distributional issues should be considered, not just average levels of well-being.

It is still true that “those attempting to guide the economy and our societies are like pilots trying to steer a course without a reliable compass” (ib.: 12). In 2009 the European Commission addressed this problem and released a communication containing a Sustainable Development Scoreboard (EC 2009: 7f.) and affirming (ib.: 10): “national and EU policies will be judged on whether they are successful in delivering these [social, economic and environmental] goals and improving the well-being of Europeans. For this reason, future policies should be based on data that is rigorous, timely, publicly accepted and covers all the essential issues.”

These ambitions stopped with the advent of the eurozone crisis. Instead, we have seen a profound reform of European economic governance, with the

new European Semester process designed to focus on policies to restrict national fiscal and economic policy based on fiscal rules and a Macroeconomic Imbalance Procedure Scoreboard. The social pillar supported by the Social Scoreboard has brought only limited progress.

Main findings

According to the European Treaties, the EU's overarching economic goal is "to promote [...] the well-being of its peoples" (Art. 3 (1) TEU). Furthermore, the European Union and its member states have committed to implementing the UN 2030 Agenda for Sustainable Development as the most important global, medium-term, strategic goal. In June 2019, the Commission's new president Ursula von der Leyen proclaimed her intent to "refocus the European Semester into an instrument that integrates the United Nations Sustainable Development Goals". Together with the Green Deal – with "just transition" as an important condition – and announcements for a strong Social Europe, there seems to be a window of opportunity to refocus the European governance framework on the sustainable development of well-being.

However, due to the lack of time for preparation, the autumn and winter packages unveiled only minor changes. Although the wording changed significantly, the structure of the documents and the analytical focus

remained more or less the same, especially concerning the euro area recommendations and its underlying analysis. The Country Reports published in February 2020 included an analysis of the new fifth reform priority (environmental sustainability) and certain Eurostat SDG Scoreboard figures in the annex, but failed to come up with a new, common and coherent analytical focus. For example, just transition is hardly mentioned, although it could serve as an integral concept for ecological, social and economic progress. What steps need to be taken to ensure that we see a real refocus and not just more sustainable wording in sub-chapters of the relevant EU documents?

1. Primary analytical focus: From growth and debt to sustainable development of well-being

The EU's dominant focus is still economic growth, as demonstrated by its main strategic development paper – the Annual Growth Strategy (which at least has gained the word "Sustainable" since last December) – and the quarterly forecasts as the main sources of information about expected short-term development. Legally, fiscal rules are better enshrined. Therefore, the Eurogroup and the Economic and Financial Council as the key political entities, the focus is probably more on debt than growth. Other issues are not given the same permanent attention. For example, in the Country Reports, the Social Scoreboard to monitor social issues

European economic governance: from the current setting to one focused on the sustainable development of well-being (SDW)

	Status quo	SDW governance
European Semester focus:	<ul style="list-style-type: none"> Economic growth (mainly by international competitiveness); restrained public finances 	<ul style="list-style-type: none"> Economic, social and ecological issues fostering the sustainable development of well-being
How are the decisions mainly taken?	<ul style="list-style-type: none"> By the Council, based on recommendations of the Commission 	<ul style="list-style-type: none"> By the European Parliament together with the Council, after a broad debate including social partners and civil society
Evidence base	<ul style="list-style-type: none"> Economic projections; scoreboard to prevent macroeconomic imbalances 	<ul style="list-style-type: none"> Projections and trend analysis; well-being oriented scoreboard
Indicator targeting & consequences of divergence	<ul style="list-style-type: none"> Rigid fiscal rules with the threat of sanctions, indicative scoreboard for MIP, benchmarking for others 	<ul style="list-style-type: none"> Targets (and path) set for all Indicators, with compulsory analysis to trigger a debate on how to proceed in case of divergence
Advisory bodies	<ul style="list-style-type: none"> Fiscal councils (and some productivity boards) with parademocratic experts to monitor only fiscal rules 	<ul style="list-style-type: none"> Representative well-being councils with experts nominated by the parliament and civil society

was basically restricted to an interesting annex, while the ecological dimension and sustainable development were completely missing (although a variety of indicators is available on the Eurostat website). However, the last point changed with the Country Reports published on 26 February 2020, where the European Commission included ecological sustainability as a reform priority and Eurostat's SDG Scoreboard was at least included in the annex. Nonetheless, as long as the country-specific recommendations derived from the reports do not address economic, social and environmental issues in the same way, the Commission should not sell the extensions as being adequate progress on the part of the European Semester.

Not all this means that economic sustainability should be abandoned as a policy goal. The extremely negative impact on well-being of economic insecurity, and more precisely unemployment, means that economic sustainability is indeed important, but it has to be one goal besides others. Some years ago we proposed a "magic polygon for well-being-oriented economic policy", similar to the "magic square" that is particularly well-known in Germany. In the wake of criticism of GDP growth as a goal in itself instead of a means to achieve well-being, we replaced growth with "fairly distributed material well-being", "quality of life" and "ecological sustainability" and – as a consequence of the recent crisis – added "financial stability" and "stable public sector activity" as further goals for economic sustainability. Since some of these goals are at odds with each other, in practice the "magic" involves achieving these goals simultaneously as far as possible, with discretionary decisions on current priorities due to economic, social and environmental circumstances. So, for example, if interest rates are below zero, public debt is on a slow downward path, full employment has not been reached, and global average temperatures are projected to reach tipping points, green investment should be of higher priority than strict fiscal rules. Although our concept is narrower than the Social Development Goals (SDGs), it can serve as a link between the broader vision, evidence-based economic policy making and the larger set of SDG indicators (for the Austrian example see Buxbaum et al. 2019).

2. A more democratic European Semester

Although in theory the European economic governance is rule-based to a large extent, in practice there are a great many discretionary decisions, ranging from the European Semester to the details of the rules themselves. With an even broader focus, the necessity for broad-based decisions increases still further. Therefore, the European Parliament should have the right to co-determine all aspects of economic decision making within the European Semester. The power of the Eurogroup as an informal meeting of national

representatives with rather weak legitimacy, no formally binding obligation to make decisions and discussions public, and no way of holding single participants accountable, should be reduced. Furthermore, the positions of each minister within the Eurogroup should be made public, allowing for expert discussion at the national level. Information on participants and the annotated agenda of the Eurogroup Working Group (EWG) and the Economic and Financial Committee (EFC), which prepare the decisions and consist of senior officials from national administrations, the Commission and the European Central Bank, should be made public.

Social partners as representatives of organised economic agents should be heavily involved at both European and national level – and not only formally by establishing ex-post meetings with an opportunity to comment on decisions already made. By involving the most important social groups, political acceptance would increase, which is vital for more stable solutions.

3. More and better indicators for evidence-based decisions

As [Stiglitz et al. \(2018: 118\)](#) stated, if we are to "deliver 'better policies for better lives', well-being metrics should be used to inform decisions at all stages of the policy process". A high level debate about priorities that takes into account synergies and trade-offs must be based on a full set of reliable indicators. If possible, their drivers should be identified in order to produce projections for a no-policy-change scenario and for the impact of certain priorities.

This might be one of the biggest hurdles to a systematic focus on the sustainable development of well-being, and for nearly every single indicator the statistical and scientific efforts have been far less than f.e. for economic growth or the public deficit. Furthermore, it is less clear what "the right" indicators are. The 232 SDG indicators are far too many and are not all relevant for the EU. Therefore, we not only need decisions on the political priorities, but also on the indicators guiding them. Eurostat has selected 100 indicators for an EU SDG indicator set, involving many political and scientific players. Equally important, they have developed a framework for monitoring and editing to deal with the still large volumes of indicators. Although further work is needed to use it as a forward-looking tool and some details could be changed, it serves as a good point of departure for an integrated scoreboard used as the primary tool for analysis within the European Semester.

Though the SDG indicators have their limitations, one should not forget that the same holds true for the current indicators shaping the decisions within the European Semester. There is no common analytical framework and there is no explicit reasoning why they have been

chosen as the most important ones. An example of this is the focus on government debt with an arbitrary threshold value of 60% of GDP. [Stiglitz et al. \(2018:48\)](#) qualify this target as an “example of a misuse of data” because “what matters for the country as a whole going forward is the nation’s balance sheet, along with balance sheets of all institutional sectors”. Even worse, together with the rules on public deficits, it is the only indicator that can trigger a quick change of policy through the Excessive Deficit Procedure.

Therefore, it is not enough to attach a new annex to the documents released as part of the European Semester. The handling of the Social Scoreboard over recent years should be a warning. Due to the lack of preparation time, one should not expect more from the current cycle, but the Commission should use the spring to autumn period to prepare for a profound change of the European Semester in the new 2021 cycle.

4. Targets, monitoring and discussions

To return to the metaphor of Stiglitz et al., with the above changes, we know our position and our destination, but still lack the detailed flight route. We need some kind of overall strategy (The Green Deal?), targets for our indicators, monitoring, and a procedure to deal with deviations from our route. In the current economic governance setting, there is no strategy and most of our effort is concentrated on fiscal indicators.

Therefore, the Stability and Growth Pact should be transformed into some kind of Sustainable Development Pact, where fiscal rules are downgraded to one element without predominant status. Such a pact should include the agreed reduction path for CO2 emissions, targets for the unemployment rate etc. – maybe the 10

most important economic, social and environmental indicators, which will be monitored in detail afterwards at both European and national level. But targets should also be set for the other indicators to reveal any problems that need further policies to address them. For the main indicators, deviations should trigger a broad debate based on detailed analysis of next steps within the European Semester.

5. Advisory bodies

Advisory bodies consisting of experts that do not take instructions from European or national authorities could help to enrich the debate. Again, they should not be focused on specific aspects so they can deal with the especially important role of synergies and trade-offs between targets.

Demands

- Focus the European Semester on the sustainable development of well-being
- Transform the Stability and Growth Pact into a broader Sustainable Development Pact
- Use a Sustainable Development Scoreboard, set targets and monitor progress
- Reform documents, analyses and institutions within the European Semester accordingly
- Ensure the strong involvement of parliaments and social partners

Literature

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