



The European Semester and economic governance. Setting the course for prosperity

Demands

- "Economic Governance" - EU economic governance is one-sided. The focus is on pressure to make cuts. **Promoting sustainable development of well-being and prosperity** needs instead to **become the focal point**.
- The recent reform of economic governance was likewise disappointing given that the focus still remains austerity. The task now is to prevent a **return to austerity policies**. Specifically, an exception is needed advocating public investments.
- **The method for calculating Debt Sustainability Analysis (DSA) must be reformed** through a transparent, participatory process.
- To successfully accomplish social and environmental transition, **considerably more financial resources need to be raised** to support important social and environmental transition projects.
- The **social dimension must be further strengthened**: The Social Convergence Framework represents a first step. Further improvements are needed to the sets of indicators, which finally need to be given serious consideration.
- The **European Parliament** must be given co-decision rights on the documents of the European Semester at European level in order to **lend the process democratic legitimacy**. The current democratic deficit means that the European Commission's room for manoeuvre when making country-specific recommendations in the form of specific policy measures needs to be viewed critically.
- The **social partners** must be effectively and substantially involved in the European Semester at both European and national level.

Background

The European Semester introduced in 2011 formed the framework for the coordination of economic, budgetary, employment and social policy in the EU. The reform of economic governance came into force on 30 April 2024. This means 2024 is a transition year. The previous national reform programmes will be discontinued. Instead, medium-term fiscal and structural plans are to be submitted by the Member States to the European Commission; such plans are to cover a period of four or five years and can be extended to a maximum of seven years if a Reform and Investment Pact is also adopted and subsequently approved by the Commission. These plans should contain commitments for the budget itinerary and on reforms and investments, while helping to ensure a gradual reduction in debt and promote growth. The pressure to actually implement the country-specific recommendations will increase if there is otherwise the "threat" of a much shorter debt reduction path. This needs to be viewed critically in light of the lack of democratic legitimacy of the country-specific recommendations.

On 19 June 2024, the European Commission published the Spring Package with the current country reports, proposals for the country-specific recommendations and employment policy guidelines. These were adopted by the Council in July 2024 and have been approved by the European Council so that they can then be formally ratified by the Council. The European Parliament only has selective information rights within the framework of the EU Semester, but no systematic involvement or decision-making powers.

Contact

AK EUROPA
office@akeuropa.eu

AK EUROPA

The Austrian Federal Chamber of Labour (AK) is the legal body which represents the interests of approximately 4 million employees and consumers in Austria. It represents its members on all social, educational, economic and consumer policy-related issues at a national level and in Brussels at an EU level.

Reasons and arguments

Well-being rather than austerity

The reform of economic governance has been disappointing. As a result, it has not been possible to implement a fundamental change in the economic policy framework that moves away from restrictive debt rules and towards development geared to well-being and prosperity.

Although there have been certain improvements and a slightly more flexibility in debt reduction (for example, the impractical 1/20 rule has been abolished), the reform must be considered inadequate. Despite the considerable need for investment as part of the social and environmental transformation, the reference values of the Stability and Growth Pact were left untouched. In addition, the European Commission was given considerable power in the form of a non-transparent procedure. On the basis of "Debt Sustainability Analysis", which is subject to a number of methodological criticisms, net expenditure itineraries have been proposed for Member States for several years – without any public and participatory debate. This poses the threat of a return to austerity policies, which would entail significant social cuts.

Economic governance need to be finally fundamentally geared towards social progress. This means, among other things, an alignment with the "Magic Square of Economic Policy" by aligning budgetary policy with other economic policy goals instead of merely following rigid, restrictive targets.

In the meantime, the DSA procedure needs to be reformed and exemptions for public investments – in line with the golden investment rule – must be established. The social partners need to be substantially involved in development of the medium-term fiscal structural plans.

Enable investments for the social and environmental transformation

In order to achieve sufficient progress towards a just social and environmental transformation, comprehensive investments in the future are necessary. At European level, considerably more financial resources must be raised and made available in the medium and long term to contribute to effective fiscal and economic governance.

Strengthening the social dimension of the European Semester

Over the years, several sets of social policy indicators have been incorporated into the European Semester, such as the "Social Scoreboard" of the European Pillar of Social Rights and the SDG indicator set. A "Social Convergence Framework" has now been introduced, under which individual countries facing particular challenges in respect to upward social convergence are analysed in more detail. This development is important for studying employment and the social situation. However, it is insufficient.

What are often lacking are ambitious, progressive social policy objectives, consistent monitoring of the progress made towards achieving such objectives and clear conclusions for the necessary steps to be taken.

The European Commission should also – based on the focus of its [Communication on better assessing the distributional impact of Member States' policies](#) – analyse the impact on social distribution of its proposals made within the scope of the European Semester.

Making the European Semester more democratic

Furthermore, the European Semester needs to become more democratic. The regulatory supremacy of the European Commission with respect to the evaluation of budgets is one of the main points of criticism of the new rules. Overall, greater involvement of national parliaments, the European Parliament, civil society and social partners in the European Semester is essential in order to increase the democratic legitimacy of the process. The European Parliament must be given the right to co-decide on the documents of the European Semester at European level.