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DIRECTORATE-GENERAL FOR INTERNAL POLICIES

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How effective and legitimate is the European Semester? Increasing the role of the European Parliament

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DIRECTORATE GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

ECONOMIC AND MONETARY AFFAIRS

HOW EFFECTIVE AND LEGITIMATE IS THE EUROPEAN SEMESTER? INCREASING THE ROLE OF THE EUROPEAN PARLIAMENT

BRIEFING PAPER

Abstract

The European Semester is a new institutional process that provides Member States with *ex-ante* guidance on fiscal and structural objectives. The Semester's goals are ambitious and it is still uncertain how it will fit into the new EU economic governance framework. We find that Member States are only slowly internalising the new procedure. Furthermore, the Semester has so far lacked legitimacy due to the minor role assigned to the European Parliament, the marginal involvement of National Parliaments and the lack of transparency of the process at some stages. Finally, there remains room to clarify the implications from a unified legal text. In fact, diluting the legal separation of recommendations on National Reform Programmes and Council opinions on Stability and Convergence Programmes may compromise effective surveillance and governance. The European Parliament has an important role to play. It needs hold the Commission and the Council accountable. This and the overall objective of enhancing the new procedure's effectiveness and legitimacy can be done by means of a regular Economic Dialogue on the Semester.

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AUTHORS

Mr Mark HALLERBERG, Professor of Public Management and Political Economy, Hertie School of Governance, Berlin
Ms Benedicta MARZINOTTO, Research Fellow, Bruegel, Brussels, corresponding author
Mr Guntram B. WOLFF, Deputy Director, Bruegel, Brussels

with research assistance of Lucia GRANELLI and Silvia MERLER

RESPONSIBLE ADMINISTRATOR

Rudolf MAIER
Policy Department Economic and Scientific Policy
European Parliament
B-1047 Brussels
E-mail: Poldep-Economy-Science@europarl.europa.eu

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ABOUT THE EDITOR

To contact the Policy Department or to subscribe to its newsletter please write to:
Poldep-Economy-Science@europarl.europa.eu

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LIST OF ABBREVIATIONS

AGS	Annual Growth Survey
BEPG	Broad Economic Policy Guideline
DG	Directorate-General of the European Commission
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EG	Employment Guidelines
EIP	Excessive Imbalance Procedure
EMU	European Economic and Monetary Union
EP	European Parliament
ES	European Semester
ESRB	European Systemic Risk Board
EU	European Union
GDP	Gross Domestic Product
IG	Integrated Guideline
IMF	International Monetary Fund
MoF	Ministry of Finance
MTBF	Medium-term Budgetary Framework
MTFA	Medium-term Financial Assistance
MTFF	Medium-term Financial Framework
MTO	Medium-term Budgetary Objective
NRP	National Reform Programme
PR	Proportional Representation
SCP	Stability or Convergence Programme
SGP	Stability and Growth Pact
SME	Small and Medium Enterprises
TFEU	Treaty on the Functioning of the European Union

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EXECUTIVE SUMMARY

The European Semester is a new six-month cycle in economic policy coordination in the European Union that starts in January and finishes in June/July. It is based on two procedural innovations. The first is a shift in the timing of the budgetary process. National Governments are asked to submit their Stability or Convergence Programmes before they are discussed by National Parliaments and translated into national legislation. The aim is to strengthen economic policy coordination across countries by providing ex-ante guidance. The second institutional innovation is the alignment of the timing of fiscal and structural reform plans. EU Member States are now asked to submit Stability or Convergence Programmes at the same time as their National Reform Programmes, implying that Member States should pay more attention to complementarities and spill-over effects across policy areas.

The Semester's objectives are ambitious and its interaction with the new emerging economic governance framework is complicated and, to some extent, unpredictable. We analyse here the main challenges ahead in differentiating between effectiveness, at national and European level, and legitimacy challenges.

On the first issue, effectiveness, early evidence is that countries have adapted differently to the new procedures depending on if they are 'old' or 'new' Member States; if their economic interests lie exclusively with the EU or not; and if they have strong or weak national fiscal frameworks. Second, it remains to be seen if an integrated legal text containing recommendations to correct the course of fiscal policy and intervene in individual markets through structural measures will end up strengthening or weakening the overall economic-governance framework. The European Parliament should in this context become a forum in which information is exchanged. Its role as guardian in the relationship between the European Commission and the Council should be made more visible and effective. Clearer involvement of the European Parliament would also reduce legitimacy concerns.

To achieve these objectives, in this paper, we envisage a wider economic dialogue with the European Semester playing a central role. We envisage an Economic Dialogue with the Commission and the President of the European Council that largely mimics the European Central Bank's Monetary Dialogue. A strong role for the European Parliament will increase the effectiveness of EU economic governance, even if we suggest that its involvement is limited to specific stages along the Semester cycle. On the other hand, we find mixed results as regards the possibility of an increased or new collaboration between National Parliaments and the European Parliament. The present briefing paper is a first investigation into the possible role of the European Parliament in the new emerging economic governance framework. A full study surveying also evidence on the actual experience of the first Semester cycle's follow-up will be delivered in 2012.

1. INTRODUCTION

1.1. The Semester's Innovations

The sovereign debt crises that some euro area countries have experienced during the last fifteen months indicate that the current design of European economic governance is not able to prevent crises from occurring and spreading. Along with the realisation that fiscal rules were not biting enough, it has also been recognised that the public sector was not solely responsible for countries' indebtedness but that, especially in euro area Member States like Portugal and Spain, the private sector also accumulated substantial debt in order to finance both consumption and investment.[1] Thus, an important lesson to draw from the crisis is a deeper understanding of the high level of interconnectedness between euro area countries, some of which are borrowers and other lenders, and between policy areas, with strong feedback effects operating between the public, the private and the financial sectors.[2]

Recent events generated momentum in favour of a reform of European economic governance. The European Commission submitted the main lines of the new EU governance framework on 12 May 2010[3], with formal proposals in its comprehensive package of 29 September 2010 organised into six legislative proposals, four of which are to be approved by the Council and the European Parliament (EP) through the regular legislative process. [4] Current proposals include measures to strengthen fiscal surveillance by the Commission, enforcement through semi-automatic sanctions, and a completely new regulation on surveillance and sanctioning of non-fiscal macroeconomic imbalances.

The emerging governance structure is anchored in the so-called European Semester. First proposed in the Commission's Communication of 12 May 2010 and then approved by the Council on 7 September 2010, the European Semester is a new institutional process with the ultimate aim of strengthening coordination between countries and of macroeconomic and structural issues. It consists of a cycle of economic policy coordination that lasts for about six months and is repeated every year. The cycle starts in each January with the presentation of the Commission's Annual Growth Survey (AGS). The AGS sets a number of priorities for the EU as a whole and identifies objectives that would serve the fulfilment of those priorities. The Spring European Council then endorses the AGS after discussion in the Council and the European Parliament. The Spring European Council explicitly invites EU Member States to take account of the AGS in the drafting of their budgetary and structural reform plans, which they need to submit to the EU already in the Spring. The Commission is set to deliver country-specific recommendations on the basis of these documents, with the Council expected to adopt them no later than July. Figure 1 summarises the timetable and the main elements of the Semester's governance structure. This process is based on two procedural innovations, each supporting a specific objective. The first is a shift in the timing of the budgetary process.

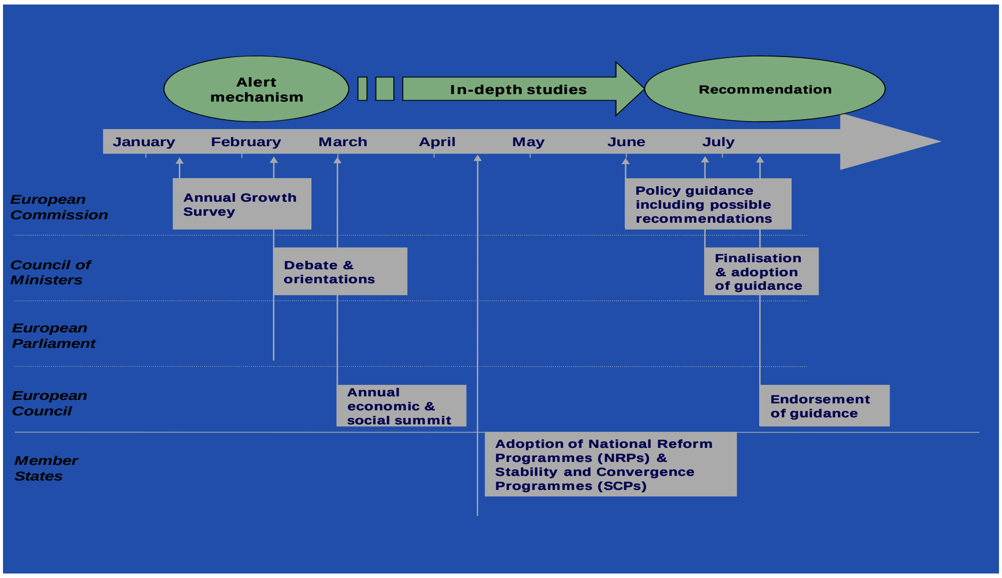
[1] Altomonte and Marzinotto (2010).
[2] Gerlach, Schulz, and Wolff (2010).
[3] Commission (2010a), Reinforcing Economic Policy Coordination, COM(2010) 250, 12 May.
[4] The six legislative proposals are as follows: 1) Proposal for a Council Regulation amending Regulation (EC) n. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 2) Proposal for a Regulation amending Regulation (EC) n. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, 3) Proposal for a Regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances, 4) Proposal for a Council Directive on requirements for budgetary frameworks of the Member States, 5) Proposal for a Regulation on the effective enforcement of budgetary surveillance in the euro-area, 6) Proposal for a Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro-area.

Since the late 1990s Member States have been required to submit Stability or Convergence Programmes (SCPs) under Regulation 1466/97 as part of the Stability Pact's preventive arm. These documents typically contain multi-annual budgetary projections and details of national fiscal consolidation strategies. Compared with practice prior to 2011, the difference now is one of timing, as National Governments must submit them before they are discussed in National Parliaments and translated into national legislation. The aim is to strengthen economic policy coordination between countries in the form of *ex-ante* guidance.

The second institutional innovation is the alignment of the timing of fiscal and structural reform plans. EU Member States are now asked to submit their SCPs alongside their National Reform Programmes (NRPs). Introduced in their current form in March 2005 under the revamped Lisbon Strategy, NRPs are used by Governments to inform the EU of their multiannual commitments to structural interventions in the economy from pension to product, labour and capital markets reforms. The Semester's prescription is that they should be submitted together with budgetary projections, implying that Member States need to take greater account of complementarities and spill-over effects between policy areas. Furthermore, the early announcement of EU priorities and objectives through the AGS means that *ex-ante* guidance is exercised not only for countries' fiscal policies but also for their growth strategies, albeit with some differences in the strength and coercive power of EU recommendations.

The European Council of 25 March 2011 introduced an additional tool to improve cross-country coordination of growth policies: it invited EU Member States to include in their upcoming reform plans reference to Euro-Plus Pact commitments. Initially suggested by France and Germany in early 2011 and then adopted by the Spring European Council, the Pact lists a number of priorities that largely mimic the content of the January AGS (i.e. competitiveness, employment, fiscal sustainability and financial stability).

Figure 1. The European Semester: timetable and governance



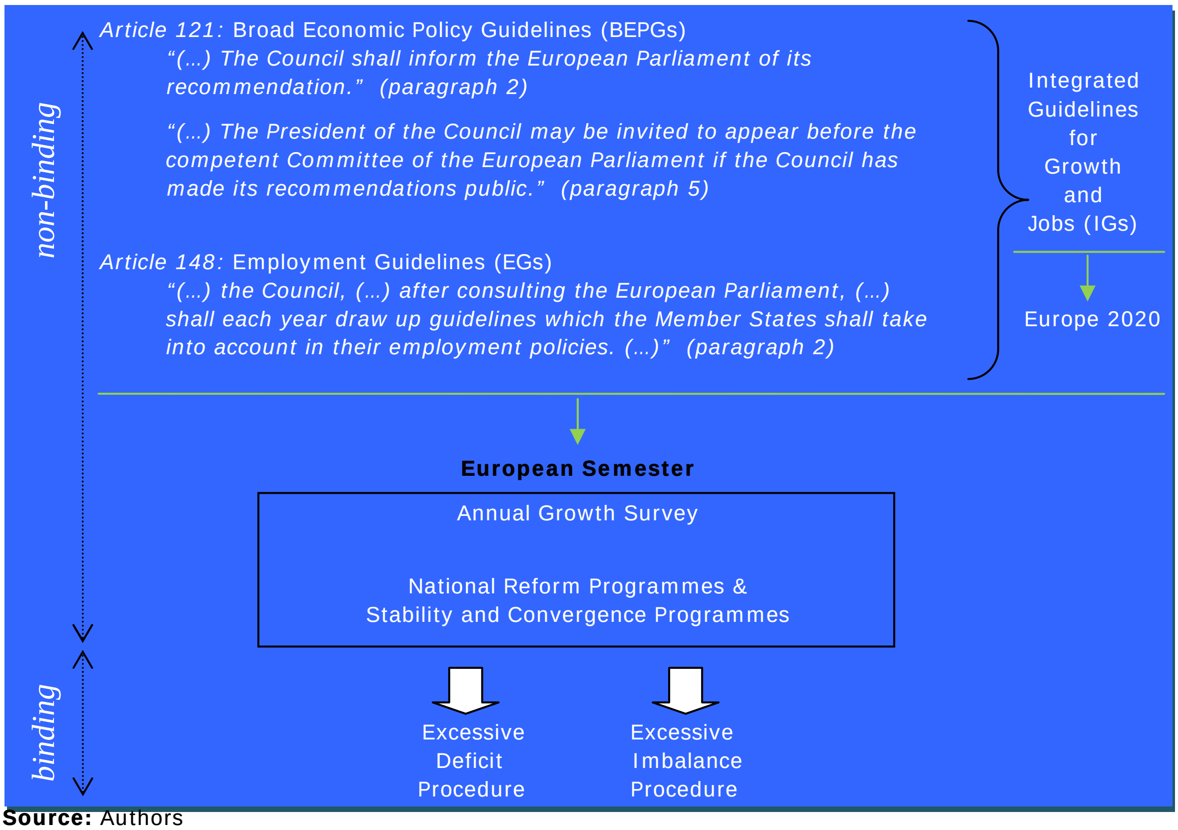
Source: Based on DG ECFIN

1.2. The Legal Architecture

The legal architecture of the Semester is not free of ambiguities which – if not properly addressed – may give rise to institutional conflicts. The European Semester is legally enshrined in Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU). The former commits EU Member States to economic policy coordination and dissuades them from implementing policies that could endanger the proper functioning of Economic and Monetary Union. The latter brings employment to the centre of EU economic-policy and requires Member States to submit regular reports on their employment situation. The Semester is thus underpinned by a Treaty-based system of surveillance and *ex-post* monitoring that recognises specific roles for the European Commission, the Council and the European Parliament. The fact that it is Treaty-based is, however, not sufficient to solve some legal ambiguities.

In practice, the European Semester builds on the Integrated Guidelines for Growth and Jobs (IGs) adopted in March 2005, which combined the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines (EGs) into a single document for the first time, each one in fact regulated by Articles 121 and 148 TFEU respectively. In turn, just like the IGs (BEPGs + EGs), part of the Semester's overarching framework relies on non-binding EU recommendations; this is indeed the case for measures that concern structural reform for example in the areas of welfare and labour markets. Nevertheless, the indications coming from the EU become binding and may lead eventually to sanctions if a country is made subject of the Stability Pact's Excessive Deficit Procedure (EDP) and the new Excessive Imbalance Procedure (EIP). Under the current framework, failure to meet the Stability and Growth Pact's deficit target in the coming years will indeed activate the EDP and, with it, a legislative process in which adjustment by the problematic Member States in question is mandatory.

Figure 2. The European Semester: Treaty base



Source: Authors

At the same time, failure to address structural problems that cause persistent macroeconomic imbalances will lead to the activation of the new EIP, which is expected to rely on similar coercive methods to the EDP. The legal ambiguities derive thus from the fact that the European Semester brings together two procedures (the Stability Pact's preventive arm and the IGs) that generate two different types of legislative acts. The Commission recommendation on SCPs provides the basis for a binding Council opinion, whereas its recommendation on NRPs informs a non-binding Council recommendation. On 7 June 2011, however, the Commission submitted country-specific recommendations in an integrated legal text merging recommendations for the two procedures in a single document. It remains an open question whether overall surveillance in the EU will be enhanced or not under this new procedure, a topic we will address below.

The rest of the contribution is structured as follows. Section 2 lists the challenges ahead. Section 3 describes the case selection and the rationale behind it. Section 4 provides preliminary evidence on the adaptation of a sample of EU countries to the first Semester cycle. Section 5 discusses the problems associated with the integrated approach and the position of the Commission in the legislative process. Section 6 looks at the involvement of National Parliaments based on original survey-based evidence. Section 7 addresses explicitly the question of the role of the European Parliament. Section 8 offers policy recommendations relating to the involvement of the European Parliament, National Parliaments, and the European Commission.

2. THE CHALLENGES: EFFECTIVENESS AND LEGITIMACY

2.1. Effectiveness

The Semester has ambitious objectives and how it will fit into the new emerging economic governance framework is a complicated and, to some extent, ambiguous issue. We analyse here the main challenges ahead, differentiating between effectiveness, at the national and European levels, and legitimacy challenges.

A first question is if the European Semester is and will be effective. Typically, policy effectiveness is defined as how well a particular instrument achieves a given policy objective.[5] In a multi-level framework such as the EU, multiple actors employ similar or dissimilar policy instruments to achieve the same overall policy objective. When it comes to economic policy coordination, it is certainly necessary to distinguish between developments at national and EU levels. We thus look at effectiveness from two perspectives: national and European.

2.1.1. The national level

A first question is to what extent national Governments have adapted to the new process and rules, thereby creating the necessary conditions for enhanced coordination between countries and policy areas. It is too early to draw definitive conclusions, but the preliminary evidence shows that Member States have, in this first round, adapted differently to the new process depending on their historical relationships with the EU, their contribution to the launch of economic policy coordination initiatives (e.g. the Euro-Plus Pact), the strength of their commitment to macroeconomic adjustment and their national fiscal frameworks.

2.1.2. The European level

The second question is if the new framework is able to deliver on surveillance, a result that would depend on the Semester's fit within the emerging economic governance structure. The role of the Commission in the Semester is not assessed enough, and this point is important — the effectiveness of the Semester is likely to depend not only on Member States' capacities to adapt to it, but also on the Commission's ability to deliver the required early and integrated surveillance. More precisely, we will explore here the role of the Commission versus the Council, and the relative advantages of the integrated approach in the preparation of country-specific recommendations.

2.2. Legitimacy

Another key issue is the extent to which the process is legitimate. Political science literature has devoted much attention to the role of legitimacy in policy-making processes. Scharpf (1999) considers the issue of legitimacy in the EU, using the classification developed in Scharpf (1970), which focuses on both input-oriented and output-oriented legitimacy. Input-oriented legitimacy is the extent to which there is Government by the people, that is, the extent to which the people participate directly in decisions.

[5] On the use of the concept of policy effectiveness in public policy analysis, see for example Heritier (2003).

Output-oriented legitimacy, in turn, is the extent to which a decision is for the people, that is, the extent to which a given decision is in the best general welfare interest of the population. Scharpf (1999) discussed the role of the European Parliament, stating that the institution by itself could not provide input-oriented legitimacy because of the lack of a 'thick' common identity among EU Member State populations. National Government involvement in decisions therefore remains important because national Governments provide most of the input-oriented legitimacy. When it comes to output-oriented legitimacy, there are several ways to increase it, according to Scharpf. Electoral accountability that allows populations to replace Governments that act contrary to their interests is one. A closely related feature is checks and balances on the actions of Government. Independent bodies that make decisions in the common interests of the population are appropriate and welcome in areas where direct electoral accountability would be unsuited.

2.2.1. Input Legitimacy

When considering the legitimacy of the European Semester, institutional features are therefore important. On the input side, European Parliament and National Parliament involvement in the process is important. However, there are two main reasons for questioning whether input legitimacy exists under the new procedures.

First, the European Parliament plays a minor role in the European Semester process.[6] On the basis of Article 121 TFEU and Article 148 TFEU, the Council shall inform the European Parliament of the adopted country-specific recommendations around July. In the present report, we look at if greater involvement and a more active role for the Parliament is desirable to increase legitimacy, and, if yes, how it should be achieved.

Second, the early discussion of fiscal and reform plans and the short period that countries have to finalise their SCPs and NRPs limit their capacity to involve National Parliaments. This time issue inevitably poses legitimacy concerns, in this case at national level. At the same time, however, a benign interpretation of this development is that National Parliaments may be informed of economic policy plans early in the year before the standard budgetary process has started. One could, of course, argue that national Government involvement suffices, but national Governments alone may take steps that are counter to the European interest. In these cases, independent bodies should play a role to assure adequate output legitimacy. In the European context, the Commission is the obvious player.

2.2.2. Output Legitimacy

Transparency plays a key role and is a pre-condition for assessing the degree of output legitimacy of any decision. Thus, for the European Semester to be legitimate it is necessary that the issues at stake are clear and transparent. Unfortunately, the first cycle of the European Semester is characterised by some grey areas. For example, in general, our review of the evidence is that the Council's country-specific documents at the end of the cycle water down many of the Commission's recommendations. This undermines the credibility of the AGS upon which the Commission's recommendations are based and thus also the transparency of the European Semester, depriving the entire process of the pre-conditions for output legitimacy. We believe that the European Parliament may indeed play a stronger role in the dissemination and interpretation of the priorities and objectives identified at the beginning of each year for the purpose of transparency.

[6] Similarly, the European Parliament's impact on the BEPGs, upon which the Semester's AGS is based, was also minimal.

The Parliament can serve as an institutional check to be sure that Council revisions to Commission recommendations do not undermine the general welfare of European citizens.

3. MEMBER STATE EXAMPLES

For the purposes of the present study, we have selected six EU countries: Estonia, Finland, France, Germany, Hungary and Ireland. They represent large and small Member States; countries that joined the European Union at different times; countries that have adopted the euro and countries that are still outside; countries whose main trading partner is the rest of the EU and others whose economic interests lie also outside; countries that are and are not under EU-IMF conditionality; and countries that vary in their use of multi-annual fiscal frameworks in their domestic budget systems. Hallerberg, Strauch, and von Hagen (2009) argue that there are two ways institutionally to centralise the budget process to promote greater fiscal discipline. The first involves delegating powers of decision to a strong Ministry of Finance (MoF). The second involves fiscal contracts between parties in coalition. In the latter case, the 'contract' serves not only a fiscal objective but also a political one. Multi-annual fiscal plans are more likely to be detailed, and to be honoured, under a 'contract' form of fiscal governance. Moreover, as Annett (2006) noted in his study for the IMF, Member States with contracts use the EU-level rules to reinforce their own domestic rules. For this reason, one may expect that 'contract' fiscal governance countries would be more likely to integrate elements of the European Semester into their domestic frameworks than would 'delegating' states. The extent to which each country fits the theoretical ideal type varies, however, as we will explain below. Annex II gives details for each of the six countries we have selected.

It is possible to assume that the features mentioned above partly explain countries' approaches to the European Semester. 'New' Member States may be more inclined to follow the new procedure as accurately as possible. Older Member States that have demonstrated historically a strong interest in economic policy coordination, in whatever form, may try to interpret the European Semester in a more original fashion; the Franco-German initiative for a Euro-Plus Pact would support this hypothesis. Countries whose sole trading partner is in the euro area or in the EU would be more committed to *ex ante* economic-policy coordination between countries and policy areas. For countries under conditionality, the first European Semester cycle should not be relevant as their economic policy strategy is in any case strictly defined by and designed according to their individual adjustment programmes. Finally, stronger national fiscal frameworks would adapt better and more promptly to the new framework than weak ones.

Estonia is a small Member State that joined the EU in 2004. It has a proportional representation electoral system. It is a contract state in terms of fiscal governance. The 'contracts', however, are not that developed — while there is some basis for medium-term fiscal planning and *ex ante* coordination with the aim of fixing fiscal targets, there is little consistency between multi-annual and annual targets.[7]

Finland is a small country that joined the EU in 1995. The Finnish electoral system is based on proportional representation; and is characterised by many political parties, high variance of ideological preferences, and relatively frequent Government changeovers. In line with the contract approach, at the end of December of the previous year, individual Ministries propose spending limits for the next three years to the Ministry of Finance; quantitative limits are eventually agreed on in March; Ministries will exploit the time from then to mid-September to specify and then negotiate with the MoF the contents of their spending plans. The country enjoys a very strong Medium-term Budgetary Framework (MTBF); there is a national multiannual plan that compounds the Stability Programmes submitted to the EU and this is well coordinated with the annual budgetary process.

[7] See the Commission's Fiscal Governance Database.

France and Germany are both large states and EU founding members. Both countries also follow a delegated approach. In terms of electoral system, France has a form of plurality while Germany has a two-ballot system, with the first ballot based on plurality and the second proportional representation. The distribution of seats depends mostly on the proportional representation ballot. In France, survey-based evidence provided by the Commission points to the existence of a highly developed MTBF with the strong involvement of Parliament[8], but in fact our evidence specifically addressing the role of National Parliaments shows a more nuanced picture. Parliament debated fiscal and structural plans in 2010 but not in 2011, and there are no plans to do so in 2012 because of scheduled elections. The German 'Medium Term Financial Plan' provides multi-annual targets that are at times detailed, but they are indicative only and they do not structure future spending to the extent found in Finland.

Hungary joined the EU in 2004 and is not yet part of the euro area. Given that it has a one-party Government it should be a delegating state, although in practice the Finance Minister is institutionally weak when compared to other EU countries (Hallerberg and Yläoutinen 2010). In formal terms according to the Commission's (2009) assessment of medium-term frameworks, Hungary has a framework as strong as Finland's, but in practice the Government has not maintained the spending limits promised in those frameworks to the same degree as Finland, and the MTFF in practice is indicative only (Hallerberg and Yläoutinen 2010).

Ireland is a small country that joined the EU in 1973 and is the only country in our sample that was under EU and IMF conditionality during the first Semester cycle. It has a single transferable vote electoral system. It is would be a 'contract' county according to the terminology of Hallerberg *et al*.(2009), although the nature of the 'contract' today focuses on what the Government (both the previous and current) has promised the EU and IMF.

In the following two sections, we assess the degree to which this set of Member States have integrated the European Semester according to what they have submitted under National Stability or Convergence Programmes and National Reform Programmes. We also consider if and how National Parliaments have responded.

[8] See above.

4. EFFECTIVENESS AT THE NATIONAL LEVEL: STABILITY/CONVERGENCE PROGRAMMES AND NATIONAL REFORM PROGRAMMES

KEY FINDINGS

- Member States have adapted differently to the European Semester.
- Ownership of and adherence to the new economic policy coordination cycle appears strongest in the new Member States (Estonia and Hungary); not relevant in countries under programmes (Ireland); strong but more freely interpreted in the larger old Member States (France and Germany) and weaker in small newish Member States that entertain intensive economic relations with countries outside the euro area or the EU (Finland).

We isolate three indicators that should provide insights into Member States' adaptation to the Semester: i) ownership of the cycle; ii) the relative strength of *ex ante* guidance; and iii) the adoption of an integrated approach (i.e. the acknowledgment of spill-over effects between fiscal actions and structural reforms). The analysis is based on an assessment of national SCPs and NRPs. Table 1 contains information on the submission schedule.

Table 1: Submission's schedule

	SCP	NRP	COM Rec.	COUNCIL Rec.
Estonia	29.04.2011	29.04.2011	07.06.2011	12.07.2011
Finland	06.04.2011	06.04.2011	07.06.2011	12.07.2011
France	03.05.2011	03.05.2011	07.06.2011	12.07.2011
Germany	27.04.2011	07.04.2011	07.06.2011	12.07.2011
Hungary	15.04.2011	15.04.2011	07.06.2011	12.07.2011
Ireland	29.04.2011	29.04.2011	07.06.2011	12.07.2011

Source: DGECFIN and national sources.

The level of ownership in each country is assessed by accounting for explicit references to the European Semester cycle in national fiscal and structural plans. Member States that explicitly mention the European Semester and/or provide details about their effort to adjust to the new procedure are said to have a stronger sense of ownership than countries in which the new procedure is not even explicitly referenced.

Second, we assess the success of *ex-ante* guidance. To do so, we focus on the contents of the AGS and the extent to which national plans mirror both the priorities and the objectives identified in the Commission's documents. The first Semester cycle started with the submission by the Commission of the first AGS on 12 January 2011. Annex I provides a list of its policy priorities and objectives. The document identifies three policy priorities: fiscal consolidation, labour market reform and growth-enhancing measures.

In turn, the Commission identifies ten objectives that support these three priorities: i) rigorous fiscal consolidation, ii) the correction of macroeconomic imbalances, iii) stability in the financial sector, iv) higher labour market participation v) pension system reform, vi) lower unemployment, vii) flexicurity, viii) the completion of the Single Market, ix) greater use of private capital to finance growth, and x) cost-effective access to energy.[9] We assume that *ex ante* guidance in the form of the AGS is more successful the more explicitly Member State endorse the AGS and adopt measures consistent with the AGS' objectives.

Third, we evaluate the extent to which Governments in the selected countries have adopted an integrated approach in the sense that they have acknowledged and possibly quantified spill-over effects across macroeconomic and structural measures, ranging from the fiscal consequences of reform to the incorporation of reform scenarios in budgetary projections.

The French and German documents contain references to the European Semester and in particular to the Franco-German initiative for a Euro-Plus Pact. They are thus characterised by a strong political commitment to economic policy coordination in the euro area. France recognises the role of the Semester especially in the area of structural reforms, as in its NRP, while the Stability Programme builds on previous EU assessments of French fiscal plans. The German Government, on the other hand, seems wary of *ex-ante* coordination under the European Semester more in the fiscal arena than in the area of structural reform.[10] In the French NRP, there is a high degree of adherence to the AGS, with strong emphasis on the sustainability of public finances, pension reform, labour market inclusion, flexicurity, more efficient use of resources to reduce greenhouse gas emissions, access to SMEs and stronger competition in post and telecommunications, transport and electricity. The structural interventions identified in the German NRP relate to increasing labour market participation, improving conditions for R&D and innovation, reducing emissions and investing in cost-efficient renewable energies, improving educational attainment and promoting social inclusion. Finally, with reference to the recognition of complementarities between policy areas, the French Government recognises the potential for spill-over effects across policy domains but these are quantified only in the Stability Programme. The opposite occurs in the German documents. Only the German NRP contains indications about spill-over effects, the size of which is also quantified; on the other hand, there is less on the integrated approach in the Stability Programme.

Estonia and Finland also have strong national specificities, though for different reasons. The Estonian documents contain references to the European Semester, Europe 2020 and the Euro-Plus Pact. By contrast, the Finnish documents do not make explicit reference to the new logic of the European Semester in either document.[11] As to the strength of *ex-ante* guidance, the Estonian NRPs emphasise the achievement of a medium-term budgetary objective (MTO) of surplus, improving the sustainability of social expenditure, continuing the gradual reduction of taxes on labour and profits, and increasing taxes on consumption and energy, avoiding macroeconomic imbalances, even if precise interventions are not identified, increasing youth employment, and implementing long-term structural changes in the energy sector.

[9] The first multiannual BEPGs of 2003-2005 – the natural precedent of the AGS - listed 27 guidelines. The BEPGs for 2005-2008 reduced them to 16. By bringing them to 10, the AGS makes further progress into the streamlining of economic policy guidelines.

[10] "By pursuing the line of fiscal policy presented in this Stability Programme, Germany will fully comply with these (i.e. excessive deficit procedure) requirements. The economic policy components of the consolidation procedure are contained in the National Reform Programme, and the measures therein with financial impact are simultaneously covered by the fiscal strategy and projection for public finances that are contained in the Stability Programme" (German Stability Programme).

[11] The documents were put together before the general election.

There is also awareness of the spill-over across the fiscal and the structural domains and an indication of the cumulative impact of measures. In the Finnish NRP, there is an emphasis on the need to guarantee the sustainability of public finances, support employment and fix climate and energy targets. There is little acknowledgment of the spill-over effects across the fiscal and other macroeconomic domains and no estimation of the impact of the suggested measure.

Finally, both Hungary and Ireland are special cases, the former for not being a euro area member, for having held the EU Presidency in the first Semester cycle and for being in fact under post-programme surveillance after having received financial support from the EU under the so-called Medium-Term Financial Assistance (MTFA) facility. Ireland, on the other hand was under conditionality in the first Semester cycle. The Hungarian documents suggest a very high level of commitment to the European Semester as well as to the Euro-Plus Pact, to which non-euro area members can only commit on a voluntary basis. The NRP is well-aligned with the AGS, including measures to increase the sustainability of public finances, increase labour market participation, reform the pension system and social protection, boost vocational training and incentivise the use of renewables. There is also great attention devoted to spill–over effects both in the Stability Programme and in the NRP. Submitted on 29 April, the Irish Stability Programme and NRP largely mimic the commitments the country has taken on board with the adjustment programme agreed with the EU and the IMF. For a country under conditionality, in fact, the strong umbrella for coordination provided by the European Semester has no relevance since the country is obliged to stick to the detailed fiscal and reform plan. In turn, none of the documents explicitly refer to the new framework. The listed measures are those of the adjustment plan, and the NRP is mostly developed along EU 2020 guidelines rather than being explicitly tailored around the AGS. There is also no attention to spill-over effects, but these may be implicit in the adjustment plan agreed with EU authorities.

5. EFFECTIVENESS AT THE EUROPEAN LEVEL: CHALLENGES OF INTEGRATED ANALYSIS AND POLICY FORMULATION

KEY FINDINGS

- EU Institutions need to adapt to the new economic policy coordination cycle. The Commission will have to identify the optimal fiscal and structural stance early on and prioritise across policy areas and countries.
- The interaction between the European Semester and the new economic governance is ambiguous. It is not clear how the use of an integrated legal text will affect surveillance. Moreover, the Council's rationale for departing from some of the Commission's country-specific recommendations is not transparent.

5.1. The choice of optimal fiscal and structural policy

First, the European Semester requires the analysis and formulation of policies to be integrated across countries and across policy areas. The alignment of the SCP and NRP in Member States and the renewed emphasis on the relevance of complementarities between fiscal policy and structural questions requires the identification and prioritisation of policy measures. This is a challenging task for the Commission.

5.2. Prioritisation across policy areas

Second, the *ex-ante* nature of the European Semester requires the Commission to come to an assessment of optimal fiscal and structural policy earlier in the process. For this, it needs to formulate earlier than under the old regime its view on the optimal fiscal stance for the euro area as a whole and the corresponding optimal level of deficits in line with Treaty obligations for the different Member States. This guidance needs to be grounded in solid analysis to convince National Parliaments of the importance of keeping to the proposed budget levels. Intervening early may also represent a risk in case economic circumstances change rapidly, but this risk must be weighed against the cost of less coordination and guidance. The AGS may be more effective in the area of structural policy, where circumstances change less quickly, than in the area of fiscal policy, where sudden macroeconomic shocks may require quick action.

5.3. Political and economic trade-offs

Third, it will be challenging to prioritise across policy areas. For example, the European Commission may highlight as it did in its first AGS that economic growth as well as high employment are areas of key importance. After an endorsement and confirmation of these overarching goals by the European Council, the Member State will then need to translate these goals into concrete policy measures in their NRPs. The Commission assesses these measures in a recommendation for a Council recommendation on the NRPs. In this recommendation, the Commission prioritises the policy areas in which action should be taken in the next year.

This evidently involves a judgement by the Commission. In the recommendations published on 7 June 2011, a prioritisation is made. However, it is not transparent how and on what grounds this prioritisation was reached. While many of the recommendations appear to be completely sensible, greater transparency would help increase ownership and in turn foster effectiveness, also at the national level.

5.4. Prioritisation across countries

Fourth, there are also cases in which policy recommendations may be subject to political and economic trade-offs. For example, pension reform may be economically necessary but may involve short-term economic costs in the introduction phase. Such a reform may also incur significant political costs, which may prevent the Government from undertaking equally important reforms of the labour market. While the Commission may form a view on the relative political feasibility, ultimately it is a difficult exercise to calibrate political and economic trade-offs. It therefore becomes all the more important that economic prioritisation by the Commission in its recommendation for a Council recommendation is well explained and justified.

5.5. Interaction with the new economic governance framework

Fifth, the Commission chose to give policy recommendations to all 27 Member States, treating them all, except for the countries receiving financial assistance in a programme, on an equal footing. This policy decision may make more pertinent and biting surveillance more difficult. So far, the Commission has not attempted to differentiate and prioritise policy actions across countries; therefore it is difficult for the Council to prioritise the urgency of policy actions across countries. Put differently, should a policy recommendation given to a troubled country not be more urgent than a policy recommendation to a country without major economic difficulties? The current way of presenting recommendations suggests that all countries need to take policy actions in an equally urgent way. It also remains to be seen how the analysis of cross-country spill-overs can be improved in the current set-up, which focuses on individual economies. Clearly it would be a task for the Commission to guide the Council on which countries they should pay particular attention to.

5.6. The challenges of an integrated legal text

Sixth, it remains to be seen how the European Semester will interact with the new EU economic governance framework emerging from the reform of financial supervision, the currently debated governance package and the Euro-Plus Pact. The currently debated governance pact includes a regulation on the prevention and correction of macroeconomic imbalances. This regulation has an overlapping Treaty base with the BEPGs and the related NRPs, namely Article 121 TFEU. The Commission is designing an early-warning mechanism to issue policy recommendations suitable to prevent macroeconomic imbalances. Here, it will be important to draw a clear line between the regular NRP process and the preventive arm of the Excessive Imbalance Procedure. This could be done, for example, on the basis of the severity of the potential imbalance and the extent of spill-overs arising from the imbalances. These two criteria will be all the more important for the corrective arm of the EIP, which should kick in in case of severe imbalances threatening the functioning of EMU.

The corrective arm of the EIP is likely to be very intrusive in terms of economic policy recommendations, and will ultimately lead to sanctions. In some policy areas, the EIP and the newly founded European Systemic Risk Board are likely to overlap[12]. Here it will be of great importance to avoid institutional conflict and benefit from the relative strength of different institutions to reach an effective policy solution. Finally, the Euro-Plus Pact is an important political-commitment device at the head of state and Government level, even if monitoring stays in the Commission's hands. Content-wise, it overlaps significantly with the regular Treaty-based procedures. In sum, there is a considerable number of different procedures emerging or already in place (see for example Figure 2). Given the high number of procedures and the confusion that might arise from it, political commitment and action on all fronts will be extremely important to the success of the Semester process. Ideally, Member States should back the regular Treaty-based surveillance by strengthening the Commission's independence and acting decisively in the Council and at home once recommendations are issued.

5.7. The Council acting on the basis of a Commission recommendation

Finally, and perhaps most importantly, while the Commission states that the SCP and NRP are legally separate, this does not appear to be the case. In fact, for each Member State, on 7 June 2011 the Commission issued a 'Recommendation for a Council Recommendation on the NRP of [country x] and delivering a Council opinion on the updated Stability Programme of [country x]'. Previously, the Council opinion has been a separate legal instrument to the Council recommendation on the NRP. By combining them in one document, analysis and policy recommendations get integrated. What used to be the Council opinion is no longer a separate legal instrument as required by Regulation 1466/97 (the preventive arm of the SGP). It is included in the Council recommendation as expression of the Council's view on the SCPs. This comes with significant risks and it could ultimately undermine the effectiveness of fiscal surveillance for a number of reasons: (a) within the Commission, the integration across policy areas could lead to weakening of the analysis and the subsequent policy conclusions on fiscal policy (aspects of fiscal discipline can be traded-off against other policy objectives). By opening up the document to include both policy areas, it is possible that different Directorates-General (DGs) might have a say on the overall messages of the document, thereby undermining the stringency of analysis and leading to faulty compromises; (b) by having one integrated document, several different Council formations will discuss the same document, potentially leading to an overlap. Political horse-trading could further undermine the stringency of recommendations issued by the Council in the area of fiscal policy. On the other hand, it is of course also possible that the integration will help finance ministers to convince other Ministries more easily of the necessity of addressing fiscal policy sustainability. Overall, it will be important that fiscal discipline cannot be traded-off against other policy objectives, and that structural reforms are not delayed when the fiscal situation is benign.

[12] Wolff (2011).

A final and very important issue is the extent to which policy recommendations given by the European Commission are watered down in the Council. In this note we have not conducted a systematic evaluation of this but preliminary evidence suggests that the recommendations become weaker in some cases in the Council.[13] This may be legitimate. However, this should happen in a transparent way. The European Parliament could play an important role in this regard by asking the Council to be transparent about its decisions and justify its actions, a topic we will elaborate on further below.

[13] For example, the Council recommendation on Italy: the Commission recommended that the process of opening up the services sector to further competition should be extended 'in particular in the field of professional services', while the Council recommendation changes 'in particular' to 'including', a significant weakening in emphasis. Similarly, there is evidence for such weakening in Hungary and a number of other countries of our sample.

6. ONE ASPECT OF INPUT LEGITIMACY: THE ROLE OF NATIONAL PARLIAMENTS IN THE FIRST CYCLE

KEY FINDINGS

- The adaptation of National Parliaments to the European Semester is strongly affected by the nature and strength of national fiscal frameworks
- There is more scrutiny of SCP in Parliamentary Committees under the new system, even if such scrutiny was mostly behind closed doors.
- Weaker National Parliaments are those that are more strongly in favour of an involvement of the European Parliament in the Semester cycle. But only an involvement with the plenary would provide added value to such collaboration.

National Parliaments can play an important, and useful, role in the European Semester. They already have mechanisms in place to scrutinise their country's annual budget proposals, they have to approve that budget, and they all investigate *ex-post* how the budget was executed. They represent the principle source of input legitimacy in Europe's parliamentary democracies and must surely be one target audience for the European Semester. The change in the calendar for when a Government writes and submits a SCP may mean that the National Parliament receives more detailed information about its Government's plans earlier. Parliaments also have some ability to change the Government's budget. If the Government ignores the advice it gets under the European Semester, it is possible that a Parliament may react on its own. In addition to the domestic arena, we also explore if there might be useful interaction between National Parliaments and the European Parliament under the European Semester.

For this preliminary report, we conducted a survey on the role National Parliaments play in the six Member States under study (see Annex III).[14] Before discussing the details, it is important to note that one country, Ireland, is generally not relevant for most of the questions we asked. It abolishes its Committees after each election and creates new ones under a new Government. The new Committees post the 25 February 2011 elections had not been formed in time to be relevant for the first cycle of the European Semester. The information we have is based on past behaviour only, and in general the Irish Parliament (the Oireachtas) has been a weak player in any case. Government Ministers inform Parliament of submissions to the EU, but there have not been planned debates. The main role of the Irish Parliament has been to provide an *ex post* audit of the Government's budget, rather than to play a role in the initial formation of multi-annual plans or in the design of budgets.

A first issue to explore is the relative power of a National Parliament to change the Government's budget. We expect actual changes of any significant magnitude to be rare; party discipline is high in many Member States, which means that Governments with majorities usually pass their budgets, and Governments have the ability to hold a vote of confidence on the budget where necessary. Nevertheless, more powerful Parliaments may have the ability to impress upon Governments their concerns, and there may be a connection between their ability to change the budget, the amount of monitoring they do, and whether the Government needs to pay attention to what the Members of Parliament say.

[14] The survey questions are reproduced in Annex III.

We examine i) if a Parliament can propose a budget independently of Government; ii) if it can propose amendments; iii) if those amendments are limited; iv) if amendments face an offset rule so that increased spending must be matched with spending cuts; v) if they are offsetting relative to the budget balance; and vi) if amendments can cause the fall of a Government. One can create an ordinal score for the strength of Parliament on the budget that ranges from 0 to 6 based on these questions.[15] The strongest Parliament is in Finland, with a score of 5, followed by Germany (4), Estonia (2), France (2), Hungary (1) and Ireland (0).[16]

The second theme to explore is the role Parliaments have played to date in multi-annual planning. Is there a multi-annual fiscal plan the Government uses in addition to its SCP? If so, does the general plenary debate the plan? Does it vote and approve a multi-annual plan? We ask the same questions for a country's SCP – does the Parliament discuss and vote on a Government's SCP? We assume that this type of scrutiny would be public and most likely to receive any press attention. Finally, we are interested in the timing of any debate. Does the timing suggest that the Government would be able to adjust its plans and/or that the timing corresponds to the timing of the Semester, or does it come late in the calendar so that the Government is essentially informing Parliament of its plans?

Within our sample, two countries – Finland and Germany – regularly have plenary debates concerning their Government's multi-annual fiscal plans. The timing of the debate traditionally in Finland is in April, but this debate will take place in October this year because of recent elections, and it is uncertain when the debate will take place next year. In Germany, there are two debates, in September and in November. The Estonian Parliament had a debate on the Government's multi-annual fiscal plans in May 2011, but this was exceptional – there was not a similar debate in 2010 and none is currently planned for 2012. Similarly, the French Parliament debated the Government's multi-annual fiscal plans in 2010 but not in 2011, and there are no plans to do so in 2012. Among our sample, Finland is the only country where the Parliament has a vote on the Government's multi-annual plans and where parliamentary approval is expected. Turning to a Government's SCP, in no country does the plenary debate or approve what the Government submits to the European Commission, and in no country are there plans to introduce any plenary consideration in 2012.

We then ask the same questions for parliamentary Committees. One finding is that the new timing for when a SCP is to be submitted has led to more consideration of it in parliamentary Committees. In 2010 in Germany, the Committee did not discuss the German Stability Programme, but it did discuss the Programme in April 2011 and there is anticipation that the next Programme will be discussed in April 2012.[17] In France, the Committee on Finance, the General Economy, and the Control of the Budget discussed the Government's Stability Programme in April 2011 and voted on it in June. Unlike in Germany, however, in the other countries there are no plans to have the same practices in place in 2012. In Hungary, the Committee on Audit Office and Budget briefly considered it, while the Committee on European Affairs spent more time on it. Once again, this was not the practice in 2010.

[15] A Parliament receives a score of 1 if the answer to questions 1-2 and 6 are yes and if 3 and 4-5 are no.

[16] The Finnish Parliament also has the right to vote on Finland's contribution under the European Financial Stability Facility when funds are dispersed to a given Member State.

[17] Concerning the Government's multi-annual fiscal plans, the Budget Committee discusses them twice, in July and in November, but it holds no vote on them.

These changes are in addition to regular discussions of Stability Programmes in Committees in Estonia and Finland, which were held in 2010, but with changes in the calendar to align timing with the deadline for submission to the EU. Like Hungary, Estonia had its European Affairs Committee, in addition to its Budget Committee, consider its SCP.[18]

While the regular discussion of a country's SCP in its Parliament opens up a possible channel for communication and even coordination with the European Parliament and with other EU institutions such as the Commission, there is a potential practical problem. In the Budget Committees in Estonia, Finland, France and Germany the discussion are held in private. This is intentional. The sense is that one can have honest discussions as to whether the Government's fiscal plans are realistic only if they are not for attribution. One participant in the survey noted that public debates quickly turn into 'shopping window politics', with members of Parliament instinctively saying whatever the party line is if they know that their comments will appear somewhere else later. It is also noteworthy that the country where these discussions are open, Hungary, also has one of the weakest Parliaments in institutional terms.

Finally, there was a series of questions as to whether a given Parliament planned to initiate reforms to coordinate with the Semester and if it would be useful for a National Parliament to engage in a joint debate on the Semester. No respondent indicated that reforms were forthcoming because of the introduction of the European Semester. There was, however, an interesting split on whether a joint debate would be useful. Respondents from Estonia, Hungary and France welcomed such a possibility. The Estonian commented that 'it's important to step-by-step increase the role of the Parliament in a joint debate on the European Semester with the European Parliament', the Hungarian noted that 'a joint meeting or debate with the National Parliaments and European Parliament on the European Semester may pave the way for closer cooperation on this issue', while the French person stated that 'the National Parliaments and the European Parliament have a joint interest in exchanging views on the procedures of the European Semester: calendars, objectives, and modalities of eventual sanctions'.

In Finland and Germany, however, there was not the same level of enthusiasm, with the first insisting that this 'would be contrary to the treaties' while the second answered cautiously that any such decision is a political one. The sample is small, but one can speculate that the responses are due to the relative strength of the respective Parliament given that the weaker ones welcome European Parliament participation.

Returning to the theme of whether the European Semester enhances legitimacy, the results are decidedly mixed. There was more scrutiny of the SCP in Parliamentary Committees under the new system. Given that Member of Parliaments are representatives of the people, this enhances input-oriented legitimacy. Some countries such as France, however, unfortunately do not plan to continue this practice. Most of this additional scrutiny at Committee level was behind closed doors and the average citizen did not have a chance to learn about it. While plenary sessions are generally open and provide one possible forum, in no country was there a plenary debate on a given SCP. The results on whether European Parliamentary involvement together with a National Parliament is desirable are intriguing, given that weaker Parliaments would prefer such involvement. They suggest that the European Parliament may be able to compensate for some deficiencies at the national level were European Parliament to play such a role. But once again the lack of transparency within Committees could be an issue.

[18] One question also asked whether the respondent knew of any case where a Government proposed an updated budget after receiving critical comments from the ECOFIN Council. No respondent could remember such a case.

It is hard to see how *ex-ante* coordination between the European Parliament and a National Parliament could take place, let alone be effective, if they are held only at the Committee level. They would have to involve the plenary, which given the lack of plenary interest so far does not seem likely.

7. THE ROLE OF THE EUROPEAN PARLIAMENT

KEY FINDINGS

- The European Parliament can play an important role as a forum for the exchange of information and a watchdog in the relationship between the Commission and the Council that would serve the purpose of increasing the European Semester's effectiveness and legitimacy.
- We propose an Economic Dialogue on the European Semester that should mimic the Monetary Dialogue.

As already mentioned, it is still not clear how the European Semester will fit into the emerging new economic governance framework including the Euro-Plus Pact and the governance package still under discussion. The role of the European Parliament may be better defined once the overall governance framework becomes clearer. We will provide a more detailed proposal on the exact role of the European Parliament in the full study to be delivered in 2012. In the present paper, we propose a stronger role for the European Parliament in more general terms. Still, we anticipate here some specific recommendations, in the next section, on the points during the process when the involvement of the European Parliament would be most appropriate.

The initial European Semester proposal foresaw a relatively minor role for the European Parliament. The plenary held a discussion on the Commission's AGS in February and was informed by the Council of the agreed country-specific recommendations, as foreseen in Article 121 TFEU.

The main challenges for the European Semester are to ensure its effectiveness and the legitimacy of the process. As to its effectiveness, the preliminary evidence is that countries have adapted differently to the new procedures depending on whether they are 'old' or 'new' Member States; if their economic interests lie exclusively with the EU or not; and if they have strong or weak national fiscal frameworks. Secondly, it remains to be seen if an integrated legal text containing recommendations to correct the course of fiscal policy and intervene on individual markets through structural measures will end up strengthening or weakening the overall economic-governance framework.

The European Parliament should in this context become a forum in which information is exchanged and its role of watchdog for the relationship between the Commission and the Council made more visible and effective. A clearer involvement of the European Parliament would also offset current legitimacy concerns at the input and at the output level.

To address both the effectiveness and legitimacy concerns, a wider Economic Dialogue with the European Semester playing a central role should be put in place. We envisage an Economic Dialogue with the Commission and the President of the European Council that largely mimics the European Central Bank's Monetary Dialogue. The President of the European Council and the Trio-Presidencies should be required, in the framework of this Dialogue, to inform the European Parliament of their own and other countries' progress in complying with the new procedures, to make sure that efforts are equally distributed and the underlying conditions for successful coordination not compromised. At the end of each Semester cycle, the European Parliament should have the power to hold both the

Commission and the Council accountable for the final country-specific recommendations that would be sent to each Member State.

The Dialogue’s format could be similar to that of the Monetary Dialogue with regular discussions between the European Parliament, the Commission and the President of ECOFIN on the preparation and follow-up of the AGS and the related country-specific and horizontal recommendations. These discussions should be public in order to raise the Semester’s public profile. However, the timing of such discussions cannot be random and needs to be precisely defined. Moreover, the European Parliament also needs to adapt to get the best out of the Economic Dialogue.

More detailed practical recommendations for the involvement of the European Parliament are given in the next section.

After the Council has issued the policy recommendations to Member States, the European Parliament should hold the Council and Commission accountable for their actions. This should involve demanding a clear justification from the Council on why the Commission's recommendations have been changed. This justification should be given in a public hearing to the respective Committee of the Parliament. In the case of a euro area country, the Eurogroup president should present the decision of the Council, while in the case of a non-euro area country, the rotating presidency should appear before the Committee. Moreover, the European Parliament should also hold the European Commission accountable by calling on the responsible Commissioner to testify before the Parliament (i) on the initial recommendations given and (ii) on whether the Council has adopted these recommendations.

8. POLICY RECOMMENDATIONS

The experience of the first year with the European Semester indicates a number of areas of improvement. First, preliminary evidence on compliance with the Semester's new procedures shows that the Member States in our sample have adapted differently to the new process. If it is persistent, cross-country variation in the speed of institutional adaptation may create political tensions in the Council. Second, at the level of national Parliaments, the main impact of the European Semester so far has been on the level of consideration of a Government's SCPs, and on the timing of when discussions took place within Parliamentary Committees. Overall, the Semester's legitimacy remains rather weak. Third, it will be of key importance that the integration of policy recommendations does not come at the cost of diluting the stringency of fiscal and structural surveillance. Fourth, also for the new governance set-up, political commitment remains of central importance.

A more precise definition of the role of the European Parliament in the Semester process will help to address at least some of the challenges outlined above. While we believe that the European Parliament can make an important contribution to enhancing both the effectiveness and the legitimacy of the Semester, we found that there is no room for obtaining the same results by strengthening, let alone changing, the nature of the collaboration between National Parliaments and the European Parliament. In detail, we recommend the following:

- As already happened this year, the European Parliament should have a discussion about the AGS to influence the subsequent (European) Council discussions. The President of the European Parliament should have a clear mandate from the European Parliament when participating in the European Council.
- The plenary debate on the AGS should be based on a report put together by a newly established European Semester Parliamentary Committee. This Committee could be composed of members from the Committee for Economic and Monetary Affairs, the Employment Committee, the Budget Committee and the Regional Policy Committee. The involvement of the Regional Policy Committee guarantees representation of territorial interests in a process that touches significantly on European regions' future budgetary constraints and growth potential, but hardly involves regional actors in the planning phase, especially in more centralised countries. A rapporteur should be identified early on in the process.
- After the Council has issued the policy recommendations to Member States, the European Parliament should hold the Council and Commission accountable. Did the Council follow the Commission recommendations? If not, why did the Council deviate and how can this deviation be justified? In turn, did the Commission issue pertinent and stringent recommendations or did the Council have to sharpen messages? The legal basis for holding the Commission and Council accountable is Article 121(5) TFEU.

- Such an *ex-post* accountability check of the European Parliament is preferable to *ex-ante* involvement of the European Parliament in the policy formulation process for a number of reasons. One is that the European Parliament does not typically have the technical expertise to delve into the deep economic issues underlying policy recommendations. Moreover, many of the policy recommendations, especially when they are part of the more stringent SGP and EIP, constitute potentially problematic recommendations for Member States. In such situations, fragmentation of the European Parliament along national lines is a risk. In addition, countries subject to serious imbalances are likely to remain in the different procedures for several years. In such a cyclical game, strong accountability checks in one year will significantly shape the policy recommendations in the following year thereby increasing the power of the European Parliament.

- In especially serious circumstances, the European Parliament should consider asking National Ministers to testify before it on their obligations relative to the EU. It is clear that National Ministers can be held accountable only to National Parliaments. However, in the European Semester, they have an obligation also to the EU, and the European Parliament could increase this obligation by calling on them to testify. To be more effective, this should be done only in cases of severe imbalance under the EDP or the EIP in case of serious breach of the Member State's obligation.

- The European Commission faces the challenging task of integrating analysis and policy recommendations across countries and policy areas while at the same time coping with a difficult legal set-up. We recommend that the legal separation of NRPs and Council opinions in the SCP should be maintained. Moreover, we encourage the European Parliament to increase the resources available to the European Commission to carry out effectively its surveillance mandate and to ensure that cross-directorate collaboration is as effective as possible.

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ANNEX I : ANNUAL GROWTH SURVEY

Three priorities:

1. Fiscal consolidation
2. Labour Market Reforms
3. Growth enhancing measures

Ten objectives:

1. Implementing a rigorous fiscal consolidation

- Annual adjustments of structural budget balance of 0.5% of GDP
- Public expenditure growth below the rate of medium term trend GDP growth
- Set expenditure path
- Front load structural budget deficits
- Increase taxes (indirect, enlarge tax basis, eliminate subsidies)

2. Correcting macroeconomic imbalances

- Decrease current account if the country is in deficit
- Increase the domestic demand if the country is in surplus

3. Ensuring stability of the financial sector

- Restructure indebted banks
- Increase bank capital requirements

4. Making work more attractive

- Shift taxes from labour
- Flexible work arrangements and childcare facilities to facilitate participation of the second earner

5. Reforming pension system

- Link retirement age with life expectancy
- Reduce early retirement schemes
- Develop complementary private savings

6. Getting unemployed back to work

- Design benefits to reward return to work
- Ensure coherence between the level of income taxes and unemployment benefits
- Adapt unemployment insurance systems to business cycle

7. Balancing security and flexibility

- Introduce more open-ended contracts
- Simplify the regimes for the recognition of professional qualifications

8. Tapping the potential of the Single Market

- Fully implement the service directive
- Remove unjustified quotas on professional services

9. Attracting private capital to finance growth

- EU project bonds
- Facilitate access to finance for SMEs

10. Creating cost effective access to energy

- Third internal market energy package
- Step up energy efficiency policies

ANNEX II: SURVEY COUNTRIES - OVERVIEW

	Estonia	Finland	France	Germany	Hungary	Ireland
Population (million)[19]	1.3	5.4	65.1	81.8	10.0	4.5
EU Membership[20]	2004	1995	Founding Member	Founding Member	2004	1973
Euro area Membership	2011	1999	1999	1999	No	1999
Under programme	No	No	No	No	No but surveillance	Yes
Electoral System[21]	Proportional Representation	Proportional Representation	Plurality	2-tier Proportional Representation, adjustment seats.[22]	Proportional Representation	Single Transferable Vote
Fiscal Governance[23]	Contract	Contract	Delegation	Delegation	Delegation	Contract
Duration of Government Budget Proposal Preparation[24]	Early-June to End-September	End-December to Mid-September	May-June to Early-October	End-December to End-June/Early-July	Mid-April to End-September	April to Early-December
Fiscal Institutions: Medium-Term Budgetary Frameworks[25]	1.00	1.60	1.60	1.40	1.60	0.60
Presentation of Proposal to the National Parliament[26]	By the end of September	Mid-September	Before the 1st Tuesday of October	Early-August	30th of September	1st Wednesday of December
Strength of Parliament in the Budgetary Process[27]	2	5	2	4	1	0

[19] Population measured on the 1st of January 2011 – Total. Eurostat.
[20] Year of EU entry. Http://europa.eu/about-eu/countries/index_en.htm.
[21] Hallerberg, Mark, Strauch, Rolf, and Jurgen von Hagen (2009), *Fiscal Governance in Europe.* Cambridge: Cambridge University Press.
[22] 'A two-tiered electoral system is one where an upper level of seats is used to fill in the results at a lower level to make the overall distribution of seats more proportional' (Hallerberg, Strauch, and von Hagen, 2007. Table 1).
[23] Author calculations.
[24] Indications on the important steps in the budget preparation in the EU Member States. European Commission, Directorate General for Economic and Financial Affairs (DG ECFIN), Country Desks.
[25] Medium-Term Budgetary Frameworks Index, median value, 2009. 'The index takes into account both the existence and properties of national medium-term budgetary frameworks and the preparation and status of Stability and Convergence Programmes. The index captures the quality of the medium-term budgetary framework through five criteria: (i) existence of a domestic medium-term framework, (ii) connectedness between the multi-annual budgetary targets and the preparation of the annual budget, (iii) involvement of National Parliaments in the preparation of the medium-term budgetary plans, (iv) existence of coordination mechanisms between general Government layers prior to setting the medium-term budgetary targets for all Government tiers, and (v) monitoring and enforcement mechanisms of multi annual budgetary targets.' European Commission, Directorate General for Economic and Financial Affairs (DG ECFIN), Fiscal Governance, Medium-Term Budgetary Frameworks Database. Http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/framework/index_en.htm.
[26] Author Update.
[27] Survey conducted for this paper. This indicator is an ordinal score ranging from 0 to 6 based on: i) whether a Parliament can propose a budget independently of Government; ii) whether it can propose amendments; iii) whether those amendments are limited; iv) whether amendments face an offset rule so that increased spending must be matched with spending cuts; v) whether they are offsetting relative to the budget balance; and vi) whether amendments can cause the fall of Government.

ANNEX III: QUESTIONAIRE

2011 Questionnaire on Parliaments and the European Semester

Country: XXXX Respondent: P1

This survey is intended to document the role that Member State Parliaments play in the preparation of documents for the European Union on their economic policies under Economic and Monetary Union.

While we will use your survey in our study, we will not reveal the names of individuals who filled them out. Your participation will be held in strictest confidence.

1. Planning Stage of the Budget Process

Member State Governments all formulate multi-annual economic plans for the European Union, which they traditionally have submitted to the European Commission in December or January in the form of Convergence or Stability Programmes. Prior to 2011 this meant that the European Commission would be evaluating budgets that Parliaments had already approved, rather than budget plans.

Under the European Semester, the calendar for the submission of Member State programmes has been moved to the spring before the budget year. The expectation is that European consideration of a Member State's fiscal plans will take place at the same time that a given Government is evaluating its plans.

This section asks you to consider the role of your domestic Parliament in the formulation of your country's fiscal plans both for the domestic and European level. The second set of questions is for the main Budgetary Committee in the lower house of Parliament.

1.1 Does your country use multi-annual budget programmes in addition to the Stability/Convergence Report it submits to Brussels?

__Yes **__No**

If the answer is yes, over how many years?

1.2 Where are Government multi-annual government budget programmes formulated?

__Coalition Agreement
__Within the Ministry of Finance
__Within an intergovernmental body, such as a Council that brings together leaders of central and sub-national Governments (Please explain the exact nature of the body in your country:____)
__Other (please explain):

1.3 The Role of Parliament in the Formation of Multi-Annual Fiscal Plans: Plenary

What role does the plenary (or full Parliament) play in the formulation of the Government's multi-annual fiscal plans and its Stability or Convergence Programme? Please check a box for each year. Please check the appropriate box. If the answer is "yes," please indicate the approximate month the event takes place.

	2010			2011			Expected 2012		
	No	*Yes*	*If yes, Which Month?*	*No*	*Yes*	*If yes, Which Month?*	*No*	*Yes*	*If yes, Which Month?*
Plenary Has a Public Debate on the Government's Multi-Annual Fiscal Plans									
Plenary Has a Vote on the Government's Multi-Annual Fiscal Plans									
Plenary Has a Public Debate on Government's Stability/ Convergence Programme									
Plenary Has a Vote on Government's Stability/Convergence Programme									

1.4 Does the Plenary play any other role in evaluating the Stability or Convergence Programmes the Government sends to Brussels?

__Yes __No

If yes, please explain:

1.5 The Role of Parliament in the Formation of Multi-Annual Fiscal Plans: Committee(s)

Which Committee (or Committees) considers the Government's budget proposal in the lower house of Parliament? Budget Committee? Finance Committee? Other? Please provide:

____

Are Committee meetings usually ____**secret** or are they ____**open** to the public? If both apply, please explain:

The following questions concern the role of this **Committee** in the setting of the country's multi-annual plan and Stability or Convergence Programme. Please check the appropriate box. If the answer is "yes," please indicate the approximate month the event takes place.

	2010			**2011**			**Expected 2012**		
	No	*Yes*	*If yes, Which Month?*	*No*	*Yes*	*If yes, Which Month?*	*No*	*Yes*	*If yes, Which Month?*
Committee Has a Debate on the Government's Multi-Annual Fiscal Plans									
Committee Has a Vote on the Government's Multi-Annual Fiscal Plans									
Committee Has a Debate on the Government's Stability or Convergence Programme									
Committee Has a Vote on the Government's Stability or Convergence Programme									

Does the relevant Committee play any other role in evaluating the Stability or Convergence Programmes the Government sends to Brussels?

__Yes __No

If yes, please explain:

2. The Role of Parliament in the Annual Domestic Budget Process

2.1. Can Parliament propose the annual budget independently of the Government?	**__Yes**	**__No**
2.2. Can Parliament propose amendments to the Government's budget?	**___Yes**	**__No**
2.3. Are amendments to the Government's budget limited?	**__Yes**	**__No**
2.4. Are amendments offsetting in terms of expenditures? That is, must additional spending be matched with corresponding spending cuts?	**__Yes**	**__No**
2.5. Are amendments offsetting in terms of the budget balance? That is, must additional spending be matched with corresponding spending cuts or revenue increases? (Difference from last questions: revenue increases also possible.)	**__Yes**	**__No**
2.6. Can Parliamentary amendments cause the fall of Government?	**__Yes**	**__No**
2.7. Is the treatment of expenditure and revenues made <u>separately</u> or simultaneously within Parliament?	**__Yes**	**__No**
2.8. Is there a time limit on the passage of the budget in Parliament?	**__Yes**	**__No**

2.9 Is there a general vote on the total budget within Parliament, and if so, when?

3. Monitoring the Implementation of the Budget

3.1 What is the role of Parliament in monitoring the execution of the annual budget?

3.2 Does the Government inform the Parliament of outcomes mid-year? If so, how often?

4. Response to European Union Evaluation of Domestic Stability or Convergence Programmes

4.1 Do you know of any instance where the Government proposed a new budget after it received a critical review from the Council of Ministers?

__Yes __No

If yes, please provide details concerning what happened:

5. Planned Changes/Reforms

5.1 The European Semester introduces a revised review of the multi-annual budget plans of Member States. There are more details that Member States will have to report, and the calendar is meant to coincide with the domestic budget process.

Does your Parliament plan to revise procedures at the domestic level in response to these reforms?

__Yes __No

If yes, please provide details:

5.2 Would you think it useful for your Parliament to engage in a joint debate on the European Semester with the European Parliament?

__Yes __No

Please explain your answer:

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT A
ECONOMIC AND SCIENTIFIC POLICY

Role

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- Employment and Social Affairs
- Environment, Public Health and Food Safety
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