

## CESI position paper on the steps towards a more democratic and social European fiscal and economic governance

According to the Treaties, the EU shall combat social exclusion and promote social justice and protection (Art. 3 TEU)<sup>1</sup> and has as objectives the promotion of employment and improved living and working conditions (Art. 151 TFEU)<sup>2</sup>. However, the EU and its Member States are failing to reach the Europe 2020 targets, the EU's flagship architecture for sustainable and inclusive growth and jobs.<sup>3</sup> The human scars of the last crisis in Europe have not healed.

At the same time, the European Economic and Monetary Union (EMU), the EU's overarching framework for economic, financial and fiscal policies in the EU, has emphasised economic, financial and fiscal policies which often lost sight of the EU's social objectives. This has manifesting itself, above all, in wide-spread and significant under-investment of the public hand in people and human capital in the Member States even in recent years of economic expansion and low interest rates.

The EMU has also represented a governance model largely based on intergovernmentalism (as opposed to political integration) with decision-making lacking basic features of transparency and democratic accountability towards the European citizenry.

It was only in 2013 that a revision of the instruments and governance of the EMU started to cautiously climb the European political agenda, also in order to strengthen both its transparency and democratic legitimacy and accountability as well as its social dimension. In 2015 a much-noted Five Presidents Report<sup>4</sup> followed to sketch a roadmap to further deepen the EMU in these regards, too. Further considerations were outlined the European Commission's Reflection Paper on the deepening of the EMU of May 2017<sup>5</sup>.

This led to an EMU Completion Package of the European Commission in December 2017<sup>6</sup> and, to help implement it, two specific legislative proposals to create a Reform Support Programme<sup>7</sup> and a European Investment Stabilisation Function<sup>8</sup> in May 2018.

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12012M%2FTXT>

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012E%2FTXT>

<sup>3</sup> [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/europe-2020-strategy\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/europe-2020-strategy_en)

<sup>4</sup> [https://ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union\\_en](https://ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en)

<sup>5</sup> [https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union\\_en](https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union_en)

<sup>6</sup> [https://ec.europa.eu/info/publications/economy-finance/completing-europes-economic-and-monetary-union-policy-package\\_en](https://ec.europa.eu/info/publications/economy-finance/completing-europes-economic-and-monetary-union-policy-package_en)

The current rethinking of the EMU is an opportunity to rebalance social priorities, public social investments as well as transparency, accountability and legitimacy:

- firstly, by putting social challenges at par with economic objectives, via the European Semester, the European Pillar of Social Rights and the newly proposed Reform Support Programme (RSP);
- secondly, by making room for adequate levels of public social investments in the Stability and Growth Pact (SGP) and the newly revised European Investment Stabilisation Function (EISF); and
- thirdly, by putting in place more democratic, accountable and transparent governance structures, in particular through a deeper involvement of the European Parliament in the EMU and a more inclusive stakeholder engagement in the European Semester especially at the national levels.

## 1. Putting social priorities at par with economic policies

- 1.1. The European Commission's Communication on further steps towards completing Europe's economic and monetary union of December 2017<sup>9</sup>, proposes to strengthen the **European Semester** with stronger focus on social aspects.

*Every annual European Semester cycle should highlight in the Annual Growth Survey (AGS), the Euro area recommendation, the Country reports and Country-specific recommendations (CSRs) the need to strengthen policies and measures in areas decisive to economic resilience: employment, education and public services, taxation, public administration, and the judicial system.*

- 1.2. The Communication on further steps towards completing Europe's economic and monetary union of December 2017<sup>10</sup> also identifies the new **European Pillar of Social Rights (EPSR)** as a possible compass for renewed socio-economic convergence in the EMU.

*The EPSR and its Social Scoreboard should serve as a reference framework for policy guidance issued to Member States in the context of the European Semester. The Social Scoreboard should be revised to congruently reflect all 20 principles of the ERPS, paying attention to a choice of indicators based on a sound methodology so that social progress is measured in a meaningful and realistic manner. When the Social Scoreboard finds that a Member State fails to deliver on a principle of the EPSR, this should automatically trigger a CSR.*

- 1.3. The European Commission's Communication on new budgetary instruments for a stable Euro area within the EU framework of December 2017<sup>11</sup>, puts forward the objective of a **Reform Support Programme (RSP)** to support structural reforms and convergence in the Member States. As stipulated in the subsequent legislative proposal of May 2018 for an EU regulation<sup>12</sup>, the programme would be open to all EU Member States, be earmarked with €25 billion between 2021 and 2027, and also offer incentivising financial support for Member States for reforms identified necessary in the European Semester.

*The RSP must not become an exclusive economic policy support programme but equally a social policy support programme. While a link to the EPSR should ensure that the European Semester's policy recommendations to the Member States become more socially-oriented, the provisions detailing the RSP should clearly mention the type of reforms that the programme*

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<sup>7</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM%3A2018%3A391%3AFIN>

<sup>8</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A387%3AFIN>

<sup>9</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017DC0821>

<sup>10</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017DC0821>

<sup>11</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017DC0822>

<sup>12</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM%3A2018%3A391%3AFIN>

*will support in the field of social affairs and employment, especially related to the quality of work quality, social protection coverage and adequacy, and the accessibility and affordability of public services, as is done for economic matters.*

## 2. Making room for adequate levels of public social investments

2.1. The EMU's Stability and Growth Pact (SGP) has contributed, in many instances, to force Member States to drastically limit financial resources for public social, health and education services in order to not breach the SGP's deficit rules. At the same time, an increasing amount of scientific and empiric evidence makes it highly plausible that well-resourced early childhood education and care, primary and secondary education, further professional training and labour market support policies and health care systems prevent costly social problems later, i.e. that well-resourced services pay off economically in the long-run.

*The European Commission should revise and adjust the EMU to enable more relevant and necessary public social investments by:*

- *putting forward a definition of what constitutes social investments (as opposed to social expenditure without economic returns). This requires a complementary measurement framework to allow for a reliable assessment of short, medium, and long economic and social returns generated by social investment;*
- *working towards a broader and more systematic application of the investment clause 2.2 referred to in its Communication on making the best use of the flexibility within the existing rules of the SGP of January 2015<sup>13</sup> in relation to public social investment; and*
- *proposing to adapt the SGP to exempt public social investments in line with a previously developed definition of social investment and corresponding measurement framework to assess expected returns. Especially the areas of early childhood education and care, primary and secondary education, further professional training and labour market support policies and health should be targeted.*

2.2. The European Commission's legislative proposal for an EU regulation on the establishment of a **European Investment Stabilisation Function (EISF)** of May 2018<sup>14</sup> aims to address the problem of under-investment across the EU by means of a central fiscal capacity for the EMU with a ceiling of €30 billion back-to-back loans for Member States. It intends to help maintain socio-economic cohesion objectives by triggering European financial support and public investments in the event of a asymmetric financial and economic shocks at the national level. The definition of *social* public investment in the proposal is narrow, only covering education and training, thus limiting it to human capital.

*The EISF should provide for public social investments beyond education and training, spanning also, at least, to early childhood education and care and healthcare.*

*The embryo scope of the EISF capacity of a maximum of €30 billion back-to-back loans for Member States should be significantly stepped up in the future in order to be able to absorb larger shocks effectively too. The EISF should only be a first step towards further and more ambitious measures including European Investment Protection Scheme to protect public investment from economic downturn, coupled with a European Unemployment Reinsurance Scheme to top up national unemployment schemes.*

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<sup>13</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52015DC0012>

<sup>14</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A387%3AFIN>

### 3. Putting in place more democratic, accountable and transparent governance structures

- 3.1. The European Commission's Communication on a European Minister of Economy and Finance of December 2017<sup>15</sup> considers the creation of a **European minister of Economy and Finance** to enhance the democratic accountability and legitimacy of decision-making within the EMU. By giving the role to a Vice-President of the Commission, a visibly mandated representative would be created, legitimised by and accountable towards the European Parliament.

*While the creation of a minister position is a step to reduce the EMU's democratic deficit, and hence welcomed by CESI, the role of the European Parliament in EMU decision-making needs further strengthening, not least to make it more transparent. Moreover, an inclusive and meaningful consultation mechanism of all European horizontal and sectoral social partners in euro area decision-making is required.*

- 3.2. The Reflection paper on the deepening of the economic and monetary union of May 2017<sup>16</sup> emphasises the need for a more **effective interplay in the European Semester** process between the European Commission and national governments on the one hand and European and national-level stakeholders on the other, not least to enrich the mechanism in terms of transparency and substance.

At European level, the European Commission has responded by complementing, with a start foreseen in 2019, existing consultation forums for the horizontal social partners and civil society organisations with a sectoral social partner consultation stream dedicated to CESI. At the national level, the European Commission has deployed dedicated European Semester officers to the capitals for outreach with stakeholders including trade unions and social partners.

*At EU level, more funding should be allocated for European trade union confederations and sectoral social partners such as CESI to support their structural member engagement efforts in the European Semester in terms awareness-raising, capacity-building and content-wise contributions.*

*At the national levels, the established European Semester officers should ensure a systematic coverage of all trade unions and social partners in their consultation meetings.*

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<sup>15</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017DC0823>

<sup>16</sup> [https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union\\_en](https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union_en)