The European Semester

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Presentation :

1. **Introduction**
    1. The instability of the EMU
    2. What the crisis revealed
2. **New economic governance**
    1. From Maastricht to the Fiscal Compact: The European Semester
    2. Country specific recommendations in the social field
3. **Challenges for trade unions**

1.1 Introduction : the instability of the EMU

1992 : Signing of the Treaty of Maastricht – launch of the Economic and Monetary Union **(EMU)**

Economic union = the economic policies become a question of 'common interest' but remain national
No mechanism for fiscal, budgetary, economic or social convergence

Establishing a coordination and surveillance mechanism for Member States economic policies

EMU

intergovernmental federal

Monetary union = single currency (euro)

Management of the single currency: European Central Bank (ECB)

Mission: Price stability, without prejudice support for general economic policies

1992 (…)	1995	1996	1997	1998	1999…
Launch of BEPGs		BEPG 1996	BEPG 1997	BEPG 1998	BEPG1999
European Council launches a pre-EES			Launch of EES	LDE 1998	LDE 1999
		Agreement on SGP	Launch of the SGP	Preventive component	Repressive component
				Launch of Cardiff	

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1.1 Introduction : the instability of the EMU

Main construction defects:

- Weakness of the coordination mechanisms for economic policies (BEPGs)
- Short-sighted and rigid regulations for public finances (“stupid” SGP)
- *No bail out clause* : everyone for themselves (fear of moral hazard)
- Limited mission of the ECB (not a « lender of the last ressort » >< BoE, Fed)
- No mechanisms forseen in case of an asymetric shock (Eurozone gold ≠ OCA).

These defaults result from the combination of :

- the monetarist vision of those who drafted Maastricht. Economic convergence of in the Eurozone in terms of growth, productivity, balance of trade, prices, employment and will happen automatically, thanks to the market. Ex: Investors will seek better returns on investment in the South where capital flows, increased productivity, export capacity etc.

→ no need for ‘economic government’. Only a few common rules: price stability, sound public finances, competitiveness.

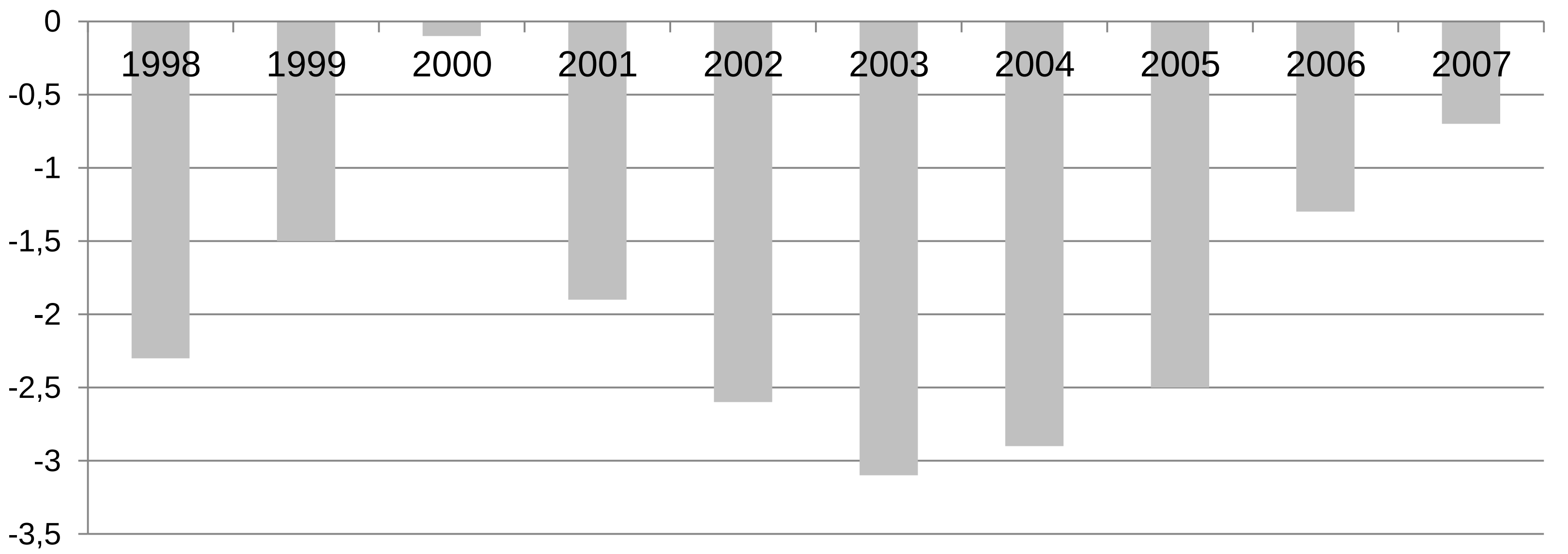
- The rejection in 1992 of more enhanced European political integration. Thanks to the faith in convergence by the market, the risks of an incomplete EMU are manageable.

→ no need for economic government or an EMU budget

1.2 Introduction : what the crisis revealed

From 1992 to 2008 (almost) nothing to report. We share the euro, but not economic, fiscal, investment, or social policy. Moreover, we deregulate the financial markets; credit is easily accessible (housing, household and state budgets….) *Public finances in the Eurozone are generally under control.*

Evolution of public deficits in the Eurozone (average, % of GDP)



NB : there are only three years of increase in deficits out of 10, none clearly exceeded the threshold

1.2 Introduction : what the crisis revealed

But the convergence of national economies does not happen (productivity, prices, trade balance).

No one worries about this: there is no alarm, no preventative or corrective mechanism (see the construction defects of the EMU) There is no perception of these imbalances.

Until…

2008: Explosion of the financial and banking crisis
2008-9: Public rescue of the banks and support to both the economy and employment = growing public deficit and debt
2009: “discovery of the Greek case” and the start of the sovereign debt crisis
2010-2012: contagion: GR, IE, PT, ES, CY (HU, LV, RO)

1.2 Introduction : what the crisis revealed

Why couldn't the EU stop the crisis earlier ?

Crisis in GR, TP, IE etc. = 'asymmetric shock'
Standard theory states that in a monetary union the next steps are:

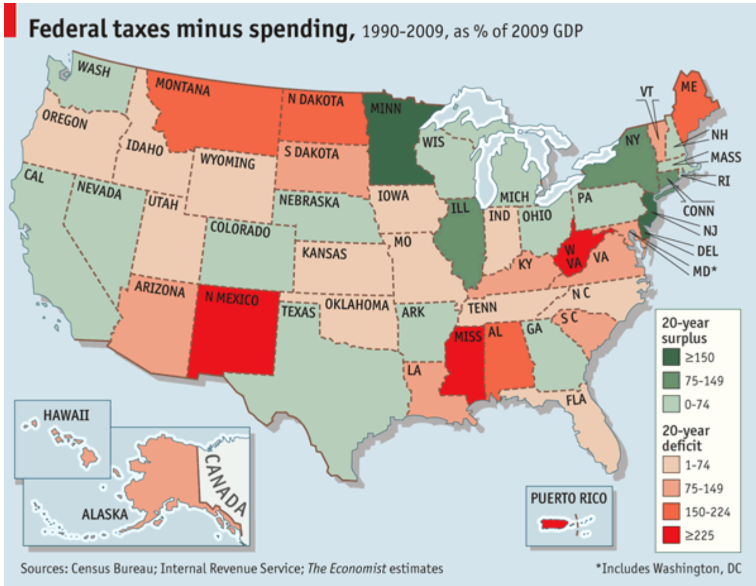
- Financial transfers (from rich areas → poor areas)
- Monetary devaluation (competitive devaluation)
- Mobility of workers towards work (emigration)

In the Eurozone (pre-crisis)

- No structural solidarity instruments
- ~~Monetary devaluation~~
- Reduced mobility of workers (cultural and linguistic obstacles)

US : Transfers, monetary policy, mobility

Net beneficiaries and contributors to federal transfers (1990-2009)



People in the US accept this situation as, according to Krugman "they think of themselves as a nation"

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1.2 Introduction : what the crisis revealed

In the absence of tools to deal with the crisis, and faced with contagion, the (delayed) EU reaction:

- Greek bailout: May 2010
- Irish bailout: December 2010
- Portuguese bailout: May 2011
- 2nd Greek bailout: July 2011
- Spanish financial assistance plan: July 2012
- Cypriot financial assistance plan: (on-going)

… despite the « no bail out » clause

And indirect financial support for States by the ECB (purchase of sovereign bonds via secondary markets)

… a 'broad' interpretation of the mandate

The "political price" of these bailouts and the correction of the defaults in the construction:

New economic governance of the Eurozone

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2.1 From Maastricht to the Fiscal Compact: the Semester

The framework of the “new economic governance” (2010 – 2012):

- May 2010: creation of a European Financial Stabilisation Mechanism
- September 2010: launch of the reform of the Stability and Growth (Six Pack) which notably sets the ‘European Semester’
- January 2011: Anticipated launch of the first European Semester
- March 2011: Adoption of the Euro+Pack (by 23): tightening of budgetary discipline and reinforced coordination of economic policy
- July 2011: Signing of the Treaty establishing the European Stability Mechanism (ESM)
- November 2011: Launch of the Two Pack: *ex-ante* monitoring of fiscal and economic policy (adoption pending)
- January 2012: adoption of the stability coordination and governance treaty (Budget Pact) (by 25)

→ With what procedures and what content?

1992: Maastricht ➔ EMU

Europe 2020

1997: Stability and Growth Pact

European Semester (from 2011)

Coordination of Economic policy

Multilateral surveillance

January **February** **March**

(November)

Commission: Examination Annual Growth Survey (AGS)

Council and European Parliament: AGS debated

European Council: Approval of reform priorities for Member States

April- May

Stability programs (Euro)
Convergence programs (non-euro)

1. Objectives and budget path
2. Economic hypotheses
3. Budgetary and economic measures
4. Impact assessment in case of changed hypothesis

Corrective arm: Excessive deficit procedure

- Recommendations
- Sanctions (Euro)

+ Extension of multilateral surveillance of macroeconomic imbalances (current balance, external debt, prices, costs etc.)

+ Adoption of National Reform Programs (NRPs)

June

Commission - Council: Recommendations to Member Sates

July

Formal adoption of recommendations

In principle, the ten GL (6 BEPG and 4 **LDE**) give specific guidance for the NRPs

In principle, the ten GL form the basis of the recommendations

5 Shared EU-MS objectives :

-Employment rate of 75% of 20-64 year olds
- 3 % of GDP invested in R&D and innovation
- 20% (or 30% in case of international agreement) reduction of GHGs compared to 1990
- 20 % more renewable energy- 20 % more energy efficiency
-10 % reduction in school drop out rates – at least 40 % of 30-34 year olds with higher education diploma or equivalent
- 20 million fewer people (in, or danger of) poverty and social exclusion.

BEPG: 10 Guidelines (GL)

1. Ensuring the quality and the sustainability of public finances;
2. Addressing macroeconomic imbalances;
3. Reducing imbalances in the euro area;
4. Optimizing support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy;
5. Improving resource efficiency and reducing greenhouse gases;
6. Improving the business and consumer environment and modernising the industrial base in order to ensure the full functioning of the internal market;
7. Increasing labour market participation and reducing structural unemployment;
8. Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning;
9. Improving the performance of education and training systems at all levels and increasing participation in tertiary education;
10. Promoting social inclusion and combating poverty.

Member States of the Eurozone, joined by BG, DK, LV, LT, PL and RO, decided to undertake suplemntary assurances in terms of competitivity, employment, of public finances and financial stablity

Euro Plus Pact

2.1 From Maastricht to the Fiscal Compact: the Semester

Added to this are:

- The Fiscal Compact (“Treaty of stability, coordination and governance”) (2013):
  - Balanced budgetary position or in surplus. To be incorporated in constitutions or equivalent (organic law). If excessive deficit: economic and fiscal program supervised by the Commission and the Council in the framework of the SGP
  - Public debt <60% of GDP. If beyond this: reduction at an average of 1/20th per year
  - Coordination of economic policy: commitment to submit for discussion ex-ante any major reform of economic policy.
- The Two Pack (pending adoption):
  - Annual obligation for Member States to present their draft budget for the following year to the Council and to the Commission (by the 15th of October at the latest);
  - Closer monitoring of Member States undergoing an excessive deficit procedure;
  - Even more strict control for Member States facing serious financial instability or receiving budgetary assistance.

2.1 From Maastricht to the Fiscal Compact: the Semester

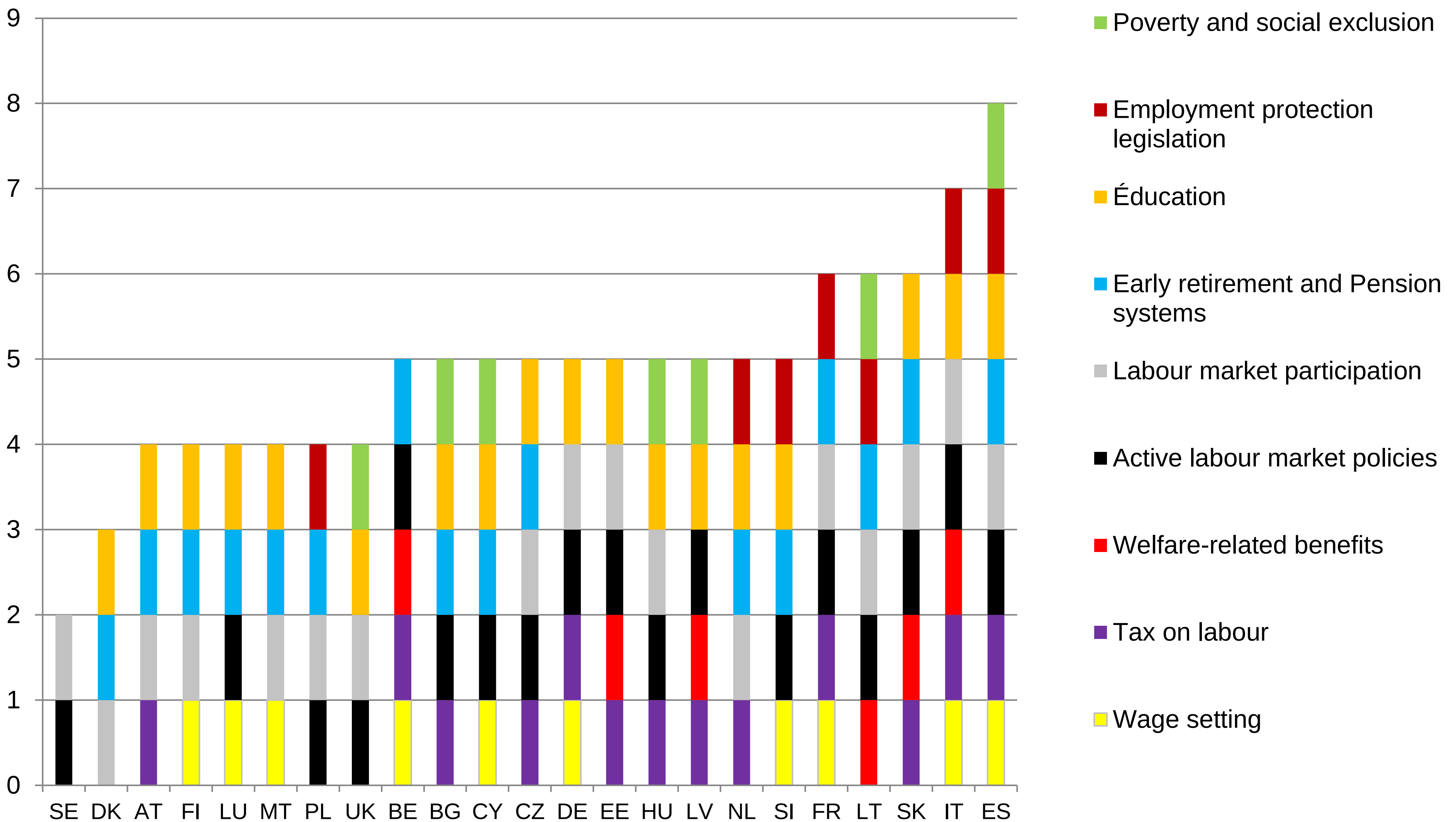
From Maastricht, which foresaw monitoring debts and public deficits, we move to a new form of economic governance, which broadens monitoring of macroeconomic imbalances:

- The balance of current accounts,
- External debt,
- Market share in export markets,
- Unit labour costs
- The effective exchange rate
- The evolution of unemployment,
- Private sector debt,
- The flow of credit to the private sector,
- The prices of real estate,
- Public sector debt.

There is at the same time a broadening of the areas monitored by the EU and reinforcement of the binding character of their recommendations.

What impact on social policy?

2.2 'Social' recommendations by country (2012-2013)



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2.2 'Social' recommendations by country (2012-2013)

Salaries :

- Ensure that wage-setting is aligned with productivity
- Revise the wage indexation system

Legislation relative to Employment Protection:

- Adjust legislation in the field of employment protection to meet the challenge of youth unemployment
- Reduce barriers to employment

Participation in the labour market

- Reduce tax disincentives for a second income
- Reinforce the participation of women in the labour market
- Promote full-time childcare for dependents

Tax on work

- Reduce the tax-burden on labour, especially for those on low incomes

Poverty

- Facilitate access to childcare
- Improve support for children living in poverty
- Better targeting of social assistance measures
- Promote equal access to quality social assistance measures
- Ensure the adequacy and coverage of social protection systems

Pensions

- Promote active aging and life long learning
- Reduce early retirement
- Establish an explicit link between the legal age of retirement and life expectancy

Education

- Facilitate the transition from school to work through employment apprenticeships and incentives to hire young people.

2.2 'Social' recommendations by country (2012-2013)

- Concrete putting into place in Member States of national reforms of the social security sector:
  - Reduction to social security budgets (unemployment benefit, pensions, healthcare etc.)
  - Restrict access to unemployment benefit and other social support, and reduce the amounts given
  - Increase the age of retirement
  - Reduction of the minimum wage and pressure for wage indexation reforms
- Labour market reforms
  - Flexible and atypical
  - Relaxation of the rules regarding collective and individual redundancy packages.
  - Flexible rules on working time
- Weakening of collective bargaining
  - Decentralization of collective bargaining systems at the enterprise level
  - Strengthening the representativeness criteria for collective bargaining
  - Weakening the role of institutions of social dialogue

Source : *The crisis and national labour law reforms: a mapping exercise*: Isabelle Schömann, Stefan Clauwaert, ETUI – 2012.

2.2 ‘Social’ recommendations by country (2012-2013)

- → The ‘social’ recommendations by the EU direct structural reforms directed by governments (every year, during the Semester, each State must show an account of their reforms)
- → These reforms aim to reinforce economic competitiveness. Otherwise know as the ‘social’ writ large (employment, pensions etc) and wages in particular become a variable adjustment in the EU, and more particularly in the Eurozone: to restart the competitiveness of countries in crisis, the EU requests the reform of ‘social devaluation’.
- → As well as these (formal) recommendations, DG ECFIN of the European Commission gives clues (informally, which should not have ‘automatic political consequences) that are ‘employment-friendly’- decreased unemployment benefit, reduced notice period, increased trial period prior to permanent employment, increased maximum periods of cumulative short term contracts, upward revision of the age of retirement, penalties for early access of pensions, lower minimum wages, reducing the scope for collective wage bargaining, general reduction of union power in the area of wage determination. (source: “Labour Market Developments in Europe 2012”)
- → Does this new economic governance model signal the death of the European Social Model? (Mario Draghi, WSJ, 24th February 2012)?

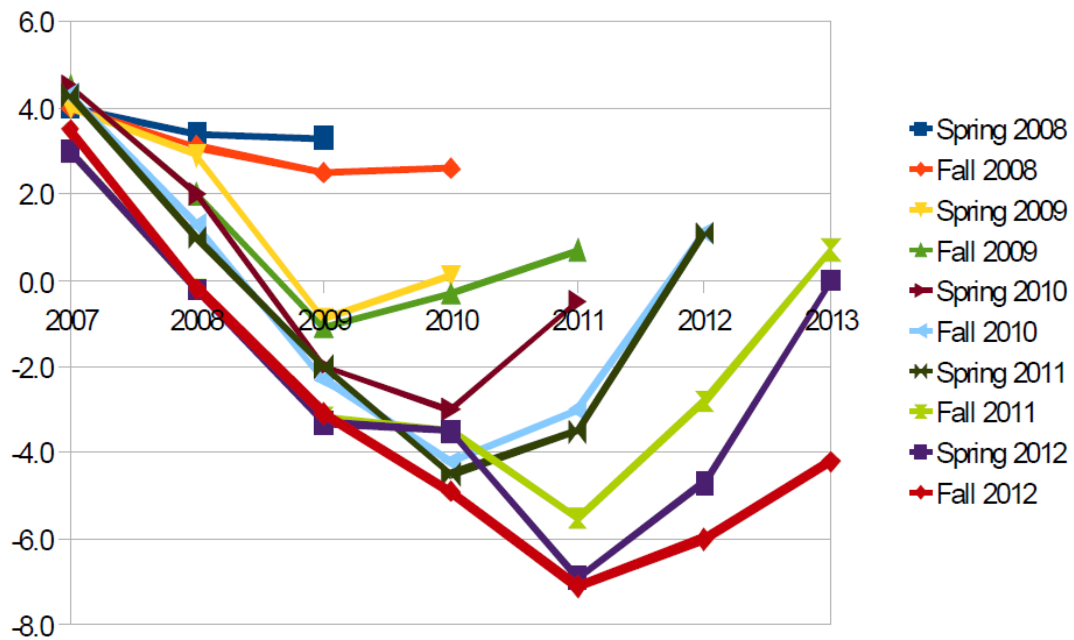
3. Challenges for Trade Unions

Union analysis: 1) Austerity policies do not work

Greece: GDP Forecast Errors

Source: EU Commission

IMK Hans Böckler Stiftung



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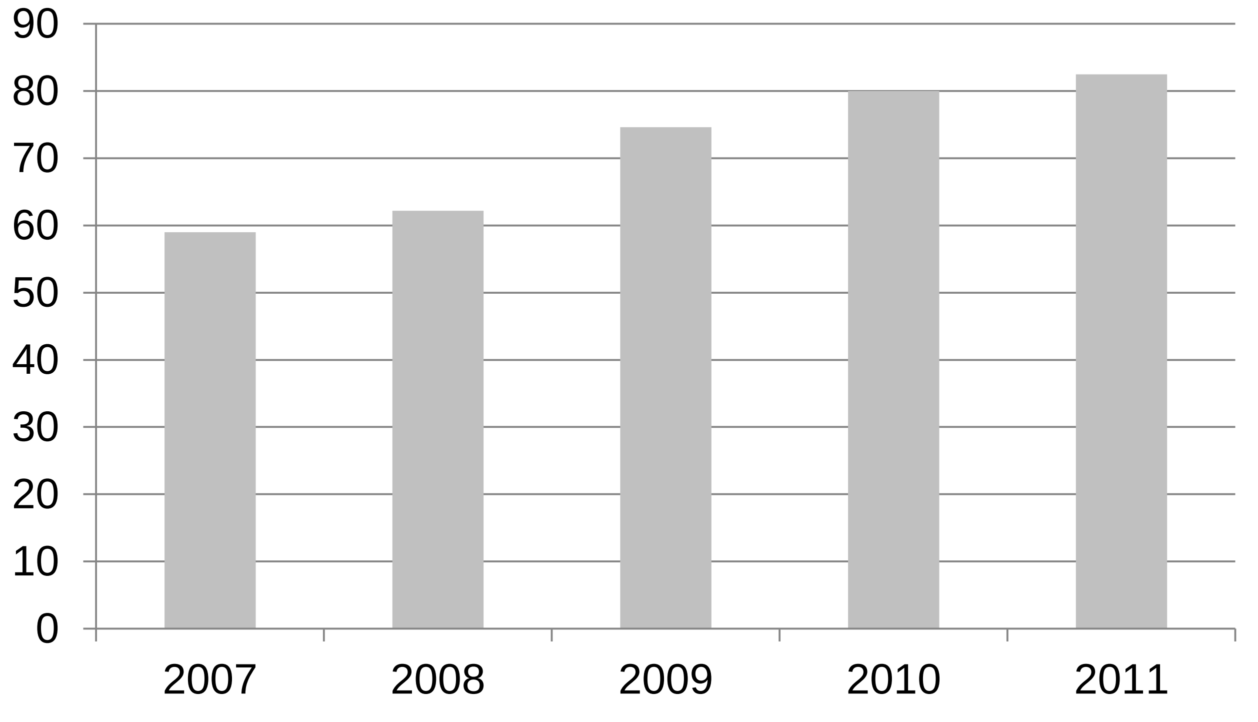
3. Challenges for Trade Unions

Union analysis: 2) In weakening growth, austerity policies have accentuated the problem of public debt

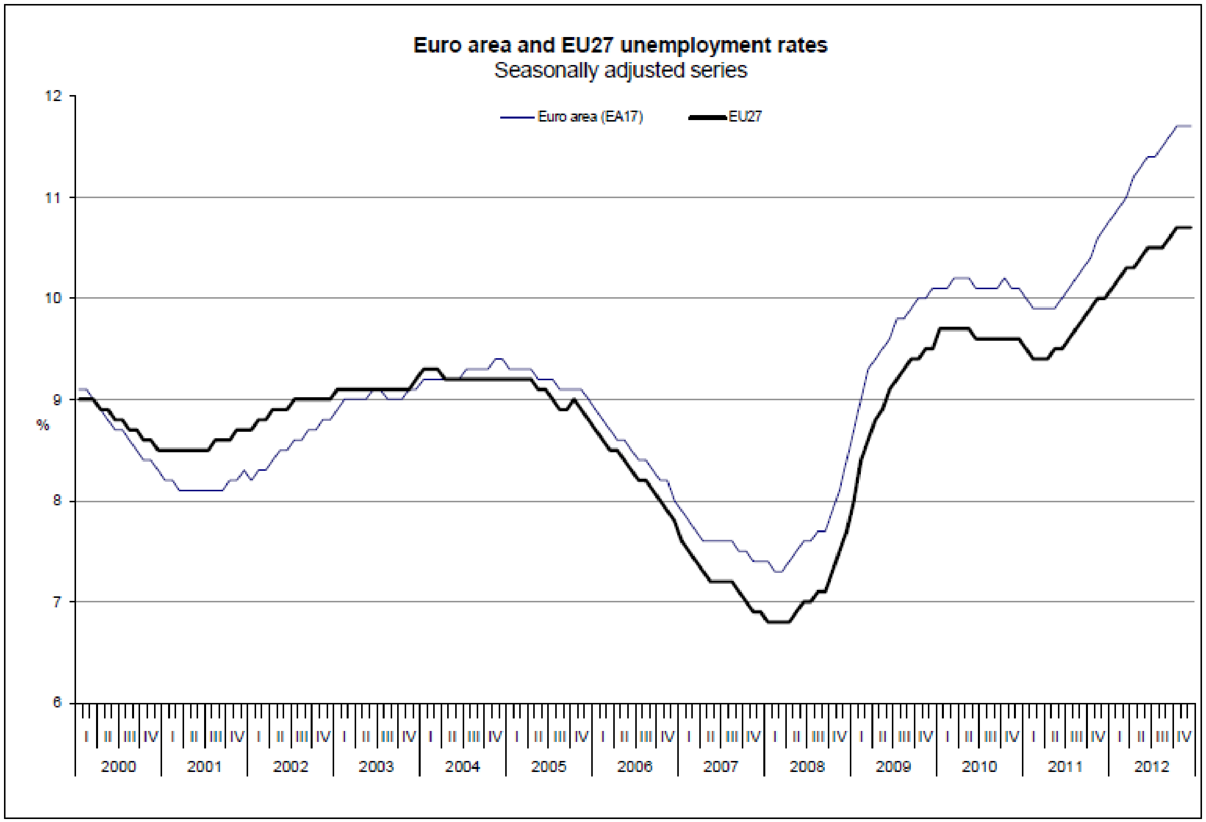
Evolution of public debt in the EU-27 (% GDP)



3. Challenges for Trade Unions

Union analysis: 3) Austerity policies have created an unemployment explosion

Evolution of unemployment rates in the EU-27 and in the Eurozone



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3. Challenges for Trade Unions

Union analysis: 4) 'Structural reforms' preferred by the EU are a means of dismantling the European Social model.

The EU/Member States rationale: these reforms are needed to improve the competitiveness of the economy, boost exports and thereby boost growth and employment.

BUT:

- In a single market with a single currency, an increase in competitiveness of a country through labour market reforms = exporting unemployment to other countries of the single market.
- Wage standards advocated by the Commission (i.e. nominal wage increases in line with productivity) lead only to a decline in purchasing power which effects domestic demand; the only tangible effect is an increase in profit margins.
- In the countries under memorandum, the decline in domestic demand is not, or is only slightly offset by the surge in exports.
- Finally, remember that the EU cannot "undermine the power accorded to Member states to define the fundamental principles of their social security systems" (Article 153 of the TFEU). Under the Treaty, the EU has no jurisdiction or competences with regard to remunerations, the right of association, the right to strike or the right to lock out (id.)

3. Challenges for Trade Unions

The ETUC calls for a new “social compact” based upon three pillars – social democracy, economic governance in the service of sustainable growth and quality jobs, and economic and social justice (*via* the politics of redistribution, taxation and social protection)

Specifically:

- Maintenance of national expertise in wage setting: specific role of social partners, specific role of social partners, free collective bargaining and social dialogue
  - Better wage coordination: setting minimum thresholds in each Member State, statutory minimum wages to 60% of the median wage (where ...)
  - Implementation of instruments of solidarity : like Eurobonds
  - Strengthening the role of the ECB (LLR) (but what conditionality?)
  - Establishment of a robust framework for regulating European financial industry
  - Taxation: tax on financial transactions, harmonization of tax bases of companies and their rates, the fight against tax evasion and tax havens
  - Coordinated policies for industry and green investment (see DGB proposal).

(For more details, see "A Social Compact for Europe" Executive Committee’s resolution, June 2012)

3. Challenges for Trade Unions

- (The DGB – the Confederation of German Trade Unions) has launched a campaign in favour of a 'Marshall Plan for Europe' = a development, investment, and economic kick start for Europe 2013-2022.
- Changing course: "To embark upon a new path leading to the modernization and long term growth to strengthen our continent, to create jobs in the 21st century and to provide prosperity for all."
- "European Energy Shift" – establish a low-energy economy that conserves available resources to make us independent from energy imports in the long term and to massively reduce CO_2 emissions in Europe.
- Prepare cities and communes for aging populations, promote education and training, modernise and expand existing public and private infrastructure, open industrial centers and services of the futures, reinforce innovation, research and development, improve cooperation between European countries that will not be able to make the challenges posed by the ecological transition alone etc. . .
- Annual investment for this program: 150 billion euros. Creation of a "European Future Fund" capable of mobilizing a portion of the 27,000 billion euros in search of safe and secure investment opportunities (debt insurance; payment of interest on these "New Deal" loans via revenues from the FTT) + removal of a tax on capital in all Member States)

3. Challenges for Trade Unions

In the near future, trade unions will have to decide on the propositions from the Commission and the President of the European Council on the “social dimension of the economic and monetary union” and in particular:

- The feasibility of a European unemployment assistance system in the Eurozone?
- “Contractual arrangements” between the Commission and Member States? + European financial assistance linked to the implementation of reforms?
- Reinforcing the ‘employment’ and ‘social risk’ dimension in the European Semester? (social indicators: rates of employment, of poverty, social norms, NEET. . . + basic social norms, like those included in the Youth Guarantee)

The ETUC calls for a stronger involvement of social partners in the third "European Semester", in particular:
- European consultations on AGS
- National consultations prior to the NRPs and the CSR
- Shift priorities: domestic demand, investment, jobs, social justice (in particular profit monitoring)

Thank you for your attention