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The parliamentarisation of the EU's economic policy

The euro crisis has seen a deepening of integration in the EU with a new framework for economic and budgetary coordination. This comprehensive set of rules and monitoring mechanisms has revived the debate on Europe's democratic deficit. However, in the scholarly debate, little attention has so far been paid to the actual steps that parliaments undertake to fill this void. This article describes the increasing role of the European Parliament (EP) in economic governance. Using mostly informal mechanisms, the EP is setting in motion an incremental process towards further control. Even though the formal role of the EP in economic governance is still limited, Europe's political union seems to draw ever closer.

Introduction: The EU's technocratic dilemma of European policy

In the past years, the criticism regarding European economic policy that the euro only has a monetary pillar has been overcome. Since the euro crisis, a supervisory mechanism, the 'European Semester', has been developed to get Member States to make cuts and implement reforms. In addition, the EU has begun to actively stimulate investment in various ways. The political union of economic coordination has thus emerged as three pillars: budgetary rules with the 3% deficit rule, control of national economies, and investments.

A need for independent economic supervision

The Netherlands hopes that these steps can be taken at a technocratic level. Its preference in this regard dovetails with the German views on independent economic supervision. Prime Minister Rutte regularly

repeats his 'rules are rules' mantra. However, lately the euro has been changing in nature because the independent supervision of budgets and economic policy tends to politicise rapidly. Commission President Juncker (2015a) calls the current supervision an incomprehensible "gas factory" and argues for flexibility in the application of the rules, and Draghi (17 March 2015) concluded that Member States do not stick to the rules anyway. In other words, if rules are applied with discretion, economic coordination will become a discretionary competence of the Commission. This leads us to our central question: if the rules no longer apply, who controls the Commission's decisions? In the framework of economic coordination, this article describes the EP's role in relation to the European Semester. Based on an expert meeting as well as interviews with 9 MEPs and 6 experts, it sets out how the EP perceives the Semester, as well as the expectations about the EP's development in this regard. The sections below discuss the changing context of economic governance, the EP's gradual development, the operation of the Semester, the EP's growing role in it, and, in conclusion, the possible changes the EP can make to the Semester.

Politicisation of the Commission and ECB

Developments towards expanding European economic policy are occurring in quick succession. With the Juncker Commission, Rehn as independent Commissioner has gone and Juncker is explicitly looking to establish a political profile. In the meantime, Juncker's ambitious investment fund EFSI has been launched, as have his plans concerning youth unemployment regarding which certain forms of taxation cannot be ruled out. More recently, the 5 Presidents of the Commission, Council, ECB, Eurogroup and EP outlined a vision for the future of economic governance, with a clear timeline towards more economic convergence and a strengthened institutional structure. Deepened integration should lead to an economic union, financial union and further development towards political union with more financial means (Juncker, 2015b).¹

The ECB: political independence under threat

In name, the ECB is independent, but in practice it is becoming increasingly political (Knot, 2015). The decisions the ECB is facing and taking reflect the national interests and differences in values between the Member States to be navigated by the ECB, says former ECB director Issing (2015). This qualifies the technocratic mandate. In this light, the harsh – and political – criticism of the decisions is understandable, as could be seen with the monetary expansion of €1.1 trillion, the avoidance of a dialogue with Greece about its recognised untenable debt situation (IMF, 2014), and the political pressure on Greece not to write off debt (Economist, 2015).

As a corollary, the democratic level of the developing economic-political system is the subject of heated debate. The Netherlands

never aimed for politicisation, in view of its focus on an independent Commissioner, independent ECB, independent banking supervision (Ministry of Finance, 2012) and economic supervision that should be 'rule-based' as much as possible (Ministry of Foreign Affairs, 2014). The emerging economic system has been referred to as 'executive federalism', underlining the danger of technocracy and undermining the role of parliaments (e.g. Habermas, 2012). However, in the debates on technocracy versus politicisation little attention is given to the actual steps parliaments take to fill the alleged gap in democratic control. Yet, many consider the EP the most important institution for safeguarding democracy (e.g. Van Rompuy, 2012).

The EP as a growing parliament

The politicisation of European economic governance is not an isolated trend but fits into the broader historical development of the EP. Over the past decades, the EP has proven to be a creative player in the European strife between the institutions. Initially, the EP was seen as a 'talking club' and a 'Mickey Mouse parliament' (Jacobs et al., 2012). But now it has co-decision rights for 90% of the legislative proposals and is presented as a 'legislative powerhouse' (Kohler, 2014). Although MEPs usually do not share the same political ideas, they often agree that the position of the EP itself should be strengthened in relation to other institutions. History shows that, time and again, it has been a battle to achieve this goal. In 1958, the members of the then Assembly decided themselves to assume the name 'European Parliament', and only years later this was officially ratified (Horspool & Humphreys, 2012). Over the years, one deadlock after another has arisen over the EP's competences regarding budgetary rights, co-decision or the appointment of Commissioners (Priestley, 2008). None of the EP's powers have been easily won. At times, the EP's development resembled the Echternach Procession, but ultimately it has moved towards becoming a fully-fledged parliament.

1 Originally, EP President Schulz was not among the authors of this Report, but after it had become known that, through Juncker, he was indeed involved in putting this vision on paper, the Report was renamed 'Five Presidents' Report'.

EP's quest for more powers and influence

The development of the EP should above all be considered as a gradual process towards more influence rather as a deliberate design. In this context, the Parliament uses various instruments to extend the scope of existing Treaty provisions. An important instrument has been the inter-institutional agreements, whose number has grown considerably over the past years (Maurer et al., 2005). In addition, the EP regularly makes package deals, or outright blocks decision-making (Kardasheva, 2009). For instance, it managed to use its influence in establishing the supervisory body for the Banking Union by blocking another proposal about the European Banking Authority for which it has co-decision rights. The chairman of the supervisory body is now appointed by the EP and is moreover accountable to it. According to former top legal expert of the Council, Piris (2012), the powers of the EP reach much further than the Treaty and are influencing the work of the 'independent' Commission on a daily basis.

Building up the EP as a powerhouse

The EP also manages to extend its power through strengthening its own organisation. With its approximately 6000 support staff, the EP has secured an independent knowledge position. This administrative staff work closely together with the Commission's DGs and have developed into a force onto itself. The Secretary General of the EP has a clear plan for its future (EP, 2013) and openly refers to the Commission as an 'executive' supervised by the EP (Welle, 2014). The different Directorates of the EP carry out their own impact assessments, calculate the costs of insufficient European policy and are instrumental in the many own-initiative reports of the EP. Originally, only the Commission had the right of initiative, but the new Commission emphasises that it

initiates its annual programme 'with a view to achieving inter-institutional agreement' (Art. 17 TEU). Finally, the EP manages to enforce agreements and promises during the hearings of new Commissioners.

The most obvious recent example of the EP's creative power is the nomination of *Spitzenkandidaten* for the elections of 2014. The elected Juncker has acquired the status of politician, based on a coalition in the EP. In Brussels, *Koalitionsverhandlungen* are therefore mentioned as a possible next step (Bertoncini, 2014), which thus has put a definite end to the discussion of whether Commissioners are civil servants (Christiansen, 2001).

Towards a greater politicisation of the European Semester?

Even now that the EU is shifting its focus from the internal market to a political union, the EP, with the Semester, seems to have another battle on its hands. Formally, its competences are currently limited to the Economic Dialogues and own-initiative resolutions. Behind the scenes, however, the EP is already extending its research capacities in the economic field, for example, by attracting former Commission officials. At the same time, parties such as the social democrats are presenting their own economic analyses by way of alternative for the Commission reports (Timbeau et al. 2014). Within the EP there is wide discontent about the way the Semester is implemented and the lack of ownership displayed by governments and national parliaments. In interviews, most MEPs are therefore calling for greater politicisation of the Semester. The informal mechanisms to gain stronger influence over the Commission are a long way from being exhausted, as confirmed by a Dutch MEP. However, in the coming years the fight over parliamentary influence will be a hard one. Despite the fact that the Commission is losing most of its aura of neutrality, the initial and deliberate philosophy behind the Semester is one of technocracy and depoliticisation.

The Semester as a technocratic monster

Each autumn, the Semester starts with the annual growth survey (AGS) setting out the general economic and social priorities for the EU. The AGS is additioned by an Alert Mechanism Report (AMR), the AMR analyses the macroeconomic situation in each Member State on the basis of a scoreboard of 11 headline indicators which for example warn for excessive current account deficits or dangerous private debt stocks. Subsequently, Member States have to submit their economic plans which must be aimed at striking a balance on economic and other objectives set out in the EU Treaties. Finally, the Commission formulates its country-specific recommendations (CSR) based on these reform plans. Following approval by the Council, these CSR are sent to the Member States to be implemented. The Netherlands lobbied hard for maximum technocratic leeway for the Commission on the CSR by introducing 'Reversed Qualified Majority Voting' (RQMV) in the sanctioning procedure, which would result in the Commission having considerable scope to correct countries with insufficient cuts or reforms.

The Semester covers a range of different Treaty provisions, strategies and guidelines, and looks at both budgetary and economic imbalances. In practice, political and thus subjective assessments are made of reforming countries (which are treated more flexibly) and countries that seem less reform-minded. Specific country desks analyse each Member State on the basis of, e.g. background studies, expert meetings and fact-finding missions. MEPs therefore label the Semester as 'intransparent' and 'extremely complex'. Scharpf (2013) goes even further, stating that the current institutional framework for the euro provides near-perfect protection against interference by democratic processes.

Politics and the European Semester

By creating a system of strict rules and automatic sanctions, with the Council only being able to correct the Commission by way of exception, the Council hoped to restore financial markets' confidence in, particularly, the Eurozone. Yet, everyday practice shows that it is hard to remove politics from the Semester. Economic developments are determined by a host of factors. The Commission has quite some discretionary room to grant countries delays or to prescribe measures. Heated debates have arisen between Commission and Member States over the content and application of the economic surveys (De Roose, 2015). For instance, in 2013, the Netherlands Bureau for Economic Policy Analysis (CPB) was not in favour of extra cutbacks, but the Commission was of the opinion that the Netherlands should cut 6 billion euros. In hindsight, with the economy picking up, the CPB's assessment proved prudent. In addition, in 2014, the rules dictated that France, for instance, should be rapped over the knuckles, but sanctions proved politically too sensitive. As far as possible, the Commission has avoided imposing sanctions and fines.

National parliaments' involvement

In line with the subsidiarity principle, the preference is for national parliaments to supervise economic decision-making. They play an important role particularly in the implementation by the government of the recommendations. However, there are doubts whether, in practice, it is possible for national parliaments to also play a European role, for example through nearly impossible interparliamentary consultation (Kreilinger, 2015). The Commission, too, expresses a preference for national parliaments, but finds the EP more suitable (EC, 2012).

MEPs themselves point to the importance of national parliaments' involvement, but immediately add their concerns over the lack of commitment or the insufficient awareness of spillover effects of national cutbacks. As such, the discussion about the involvement of the proper involvement of the EP is brought to the table once again. As a result of the choices made in the AGS and the CSRs, the politicisation of the Commission and the weak role of national parliaments, the question arises how the Commission uses its discretionary powers within the Semester.

First small steps towards stronger EP influence

Due its co-decision right, the EP has been directly involved in the creation of the Semester (Six-Pack and Two-Pack). By exerting increasing pressure, it managed to get the rules adjusted and the 'economic dialogue' included whereby Commissioners, Council Presidents and in some cases Ministers of Member States are called to account (on a non-binding basis) to the EP on policies pursued. However, the main challenge for the EP in this regard lies in the policy implementation; this, too, involves a process rather than a deliberate design. The first contours of this process can already be seen.

At the moment, the EP is strongly focusing on the AGS and wants a say in the resulting guidelines. The AGS is regarded as a political document in which matters important to the EP should be considered, such as employment, social indicators and budgetary flexibility. Judging by the interviews, the debate on the content of the AGS indeed has an impact on the Commission and thus on the preparation of the annual Spring Summit on the Semester. In accordance with a range of EP resolutions, the Five Presidents' Report now also mentions the focus on plenary debates about the AGS and further extension of the EP's role in this field through a new interinstitutional agreement. According to MEPs, a next step could be the establishment of convergence guidelines, which should be realised on the basis of co-decision by the EP (EP, 2015).

Who is keeping an eye on the European Semester?

The key components of the Semester are the budgetary and economic recommendations (CSR), which every Member State receives from the Commission. Formally, the EP still has little say in the CSRs. The interviews show that there is support among MEPs for more influence on the recommendations given their highly political nature and because national parliaments are thought to be less equipped to control the CSRs or to monitor the EU-wide impact of CSRs. However, within the EP there is no consensus as to what this influence should look like. Influence on the recommendations is difficult since it mainly involves a dialogue between the Commission and the Member States on what, in principle, are national matters. At the same time, concerns among MEPs are growing regarding the lack of implementation of the recommendations and the danger this presents to the economic stability in Europe (EP, 2015). Apparently, in many Member States still little attention is paid to economic spillover effects, while the bilateral dialogue between the Commission and each Member State proves not effective enough. This raises the question of who is keeping an eye on the European dimension of the Semester. It moreover touches upon the heart of the political discussion and thus upon the discord in the EP. Liberal and conservative MEPs keep stressing the need for rule-based recommendations, while left-wing MEPs are more in favour of flexibility. However, what the interviews and debates mainly show is that precisely on the point of enforceability of recommendations each MEP comes with his own analysis and different solutions. Step by step, the EP seems to be acquiring more influence but at the same time MEPs do not agree on what influence EP should actually have. The EP is becoming stronger as a controlling body but disagrees on the question of how far this should go and whether the technocratic nature of the Semester should be respected or whether more political supervision is in order. Is the EP joining the trend towards flexible (and political) interpretation of the rules, or will it remain committed to strict supervision of the EMU criteria?

The Semester is not what it used to be

Behind the debate on the EP's role in the Semester lies a more fundamental discussion. Politicians and experts are having serious doubts whether the EU (the euro zone) has chosen the right path with the European Semester. While the need for structural reform is obvious, the essential question is: how can reforms be enforced? Can 'Brussels' actually tell Member States how to run their economy? At the peak of the crisis, the EU went for technocratic discipline (the supervision union) with strict rules and sanctions based on mistrust. The governance structure system may have calmed the markets, but now that growth seems to pick up, the rules are called into question as they are perceived as too rigid and do not produce the desired ownership. Only in Member States that are or were subject to the emergency procedure have things been settled the hard way via the Troika formula. The other Member States do not seem to be bothered too much about the country-specific recommendations, or try to circumvent them. The EP underlines that the asymmetric nature of the Semester makes structural adjustments more demanding for periphery countries than for core countries (EP, 2014). Furthermore, according to EP reports, 40% of the recommendations are not complied with by Member States (EP, 2015b) and the Commission does not seem to be in favour of sanctions in this respect. Economic experts warn about a period of 'window dressing' where government leaders pay lip service to grand projects and reforms, but in practice nothing happens (Reuters, 2014). So it seems that there are limits to forcing countries to reform – which is not to the liking of many liberal and conservative MEPs. Therefore, options like voluntary contracts or trading budget requirements for economic adjustments are being considered. However, this invalidates the original rationale for the Semester and raises the question of whether other methods might not be more effective in promoting budgetary discipline and stimulating economic adjustments, e.g. by rewarding rather than punishing ('more for more'). But then the EU should have a much bigger budget and more revenue. In this respect, the Five Presidents' Report refers to a budgetary stabilisation function that should

be realised in the medium term. The EP has been calling for such a budgetary capacity already for some time now (EP, 2012). Such a fiscal capacity would demand closer EP control (EP, 2015).

Conclusion: incremental process towards parliamentarisation?

While its competences were originally limited, the EP has managed to develop into an increasingly genuine parliament. The importance of the EP now seems to be keep growing in relation to economic governance. With the introduction of the Semester, the institutional balance of powers seemed to tip towards the Commission. On paper, the initial rule-based supervisory system – which is what the Netherlands wants – seems largely technocratic, with an independent Commissioner, RQMV and hence limited role for MEPs. In the meantime, the EP has been establishing influence via informal mechanisms, increasing political interest by the MEPs, and Juncker looking for a more political profile of the Commission. For now, this translates only slightly into informal influence on the Semester. Big steps towards official influence seem moreover problematic due to the need for Treaty amendments, but a certain model can be seen to emerge thanks to the small and often informal steps being taken.

This incremental development in relation to economic governance fits in the longer-term pattern of politicisation of the EU. However, what exactly the EP wants to ultimately achieve unclear due to internal divisions. The EP's first priority seems to lie in increasing its influence on the annual growth survey. Furthermore, interviews show that MEPs are becoming more and more interested in questions like whether Germany is investing enough and whether Italian reforms are sufficient. In addition, the EP is equipping itself to better handle the economic debates and economic hearings. When looking at the Commission recommendations resulting from the Semester, and in particular their implementation in the Member States, the Semester appears to have reached its limits. The rule-based system is difficult to implement and meets with resistance in the Member States. This lack of effective output also raises

questions about the extent to which national parliaments can play a role in supervising the Semester and ensure national commitment. Commission officials acknowledge that there are weaknesses in the current system. Yet, the MEPs do not have a clear perception of the actual role the EP should assume in the Semester. Different MEPs seems to have different views on what the Semester is and should be. All in all, the rise of the EP is, as always, a process of 'incrementalism' without a clear goal. If not more effort is put into defining and explaining the role of the EP in economic governance, the current trend may be a typical example of integration by stealth.

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