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Stick first, carrot later for EU structural reforms

The EU Commission tries a new strategy to implement an economic model ignoring workers' interest

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The European Commission is a master of political influence. It artfully exercises its power in various ways to gradually widen the net of its influence. This includes policy areas in which the European treaties only grant it limited rights to intervene. It is especially adroit at this in economic policy. The European Commission's most recent proposals on stabilising the EU's economic and monetary union are a perfect example of this powers net-widening – and hint at a change in strategy.

Initially, the European Commission tried to persuade member states using the stick approach. The new instruments of economic governance introduced after the economic and financial crisis followed the same pattern. Especially their strengthening of the Stability and Growth Pact (SGP), through the six-pack and the two-pack measures, as well as the macroeconomic imbalance procedure.

For the Commission, the economic and financial crisis that began in 2008 had two causes. These were an overly lax budgetary policy, and the member states' intractable unwillingness to reform, which damaged their competitiveness. So it was decided that the Commission would oversee their budgetary and economic policy even more closely, and would sanction any rule breaches more swiftly.

EU sanctions are simply ignored

Yet this sanctions-based system of economic governance – which began with the SGP in 1997 and has been strengthened bit by bit since the crisis – has had little effect. The Commission has not imposed any sanctions, even though the Member States have repeatedly breached the SGP's requirements. To this day, the Member States seldom stick to the structural reforms recommended under the European Semester. There is

simply too much political resistance.

Moreover, the rise of populist and anti-European movements has shown that the political costs of this sanctions-based economic governance are also too great. For many countries in the bloc, the EU's calls for budget cuts appeared too authoritarian and stoked anti-European resentment.

What is now happening in Italy is a striking illustration of this. The unconditional Europe-euphoria of past Italian governments – and the country's subordination to the European economic policy regime, which conflicted with Italian interests – paved the way for today's nationalistic counter-reaction.

Shift to an encouraging approach

Meanwhile the Commission seems to have changed its strategy. Instead of the stick, it is now reaching for the carrot. A good example of this is the reform support programme, which the European Commission hopes to establish in the next EU budget. This programme promises member states a financial reward, as long as they commit to implementing structural reforms that comply with EU requirements. Germany's Chancellor Angela Merkel, speaking recently to the *Frankfurter Allgemeine* newspaper, already signalled her approval of the reform support programme.

The 'investment stabilisation function', a newly proposed instrument to cushion country-specific economic shocks, has a similar purpose. According to the Commission's plans, member states will be able to secure loans during economic downturns to keep their public investments stable. It is hoped this will enable anti-cyclical economic policy. Trade unions have long been calling on Europe for this kind of coordinated investment promotion instrument.

Experience shows that the structural reforms recommended by the Commission often conflict with workers' interests.

Yet these proposed reforms also come with strict macroeconomic conditionalities. Member states will only have access to the loans if their economic policy in the prior two years has been largely in line with European budget and macroeconomic requirements. Only then, and almost as a reward, can they access the loans to stabilise their public investments.

EU structural reforms: the devil's in the detail

Exercising political power in this way is certainly more subtle. Rewards, as compared to punishments, typically do not bring as many opponents out of the woodwork. Nonetheless, the Commission's planned instruments are highly problematic for three reasons.

Firstly, depending on the current financial situation, any withdrawal of EU funds to member states for non-compliance with policy requirements can quickly have the same effect as a stick. This is made clear in the example of loans from the European Stability Mechanism (ESM). The ESM also works on the basis of 'money for structural reforms' and the troika's draconian adjustment programmes indicate which policy requirements the EU has in mind. This led Anne Karrass (ver.di) to neatly summarise the idea behind the reform support programme as a 'troika for all'. Given their dire financial situation during the crisis, EU countries were in reality forced to agree to any and all conditions.

Second, the Commission's proposed instruments increase the politically binding nature of the EU's economic governance regime. Member states will have to think very carefully in future about whether or not they ignore the Commission's country-specific recommendations. If they do so, they will face the threat of a withdrawal of funds under the reform support programme. So they could be blocked from accessing the investment stabilisation function during economic downturns. As a result, member states will have far less room for manoeuvre on economic policy.

Lastly, the Commission's recommended structural reforms are largely formulated in the technocratic way, without parliamentary involvement. The national parliaments and the European Parliament still do not have a right to co-decision in country-specific recommendations formulated for the European Semester.

Workers excluded from consultation

Experience shows that the structural reforms recommended by the Commission often conflict with workers' interests. Apart from informal conversations between the trade unions and the Commission, workers cannot democratically express any fears they may have about their interests.

The European Parliament lacks leverage over the fiscal compact and the

ESM, which both strengthen the EU's economic governance regime as an intergovernmental annexe. However, for the reform support programme and the investment stabilisation function, the European Parliament does have an opportunity to prevent or change the Commission's proposal. It should use its political power wisely.



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