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Not a matter for technocrats

The European Commission wants to expand its ability to steer economic policy. Democratic control is needed to prevent forced austerity measures

Reform of economic policy governance is currently in full swing in Brussels. The European Commission outlined its first reform proposals in November last year. Concrete legislative initiatives will follow in the first half of 2023. While this issue might seem a little arcane, it actually is not. It is nothing less than a readjustment of Member States' financial policy-making.

Boosting public investment is key. Depending on what reforms are finally agreed upon, the Member States will have more or less leeway to use public investment to finance the socio-ecological transformation. In this regard, the reform proposals do not go as far as trade unions and other civil society organisations had wanted. The reform package does not contain a golden rule for funding net investments by borrowing, for example. But the Commission's proposals do contain important investment policy innovations. Whether they will suffice to close the immense investment gap depends on many factors, amongst others on whether the proposals will be accompanied by industrial policy measures.

A fraught situation

From a trade union perspective, another consideration is key to the upcoming reform process. In the context of Covid-19 and the energy crisis, debt levels have increased substantially in many Member States. That means that the pressure to consolidate will increasingly weigh heavily on national budgets for the foreseeable future. Meanwhile, the European Central Bank (ECB) has implemented historically unprecedented monetary policy tightening in recent months, and the end is still not in sight. This has already considerably increased Member States' refinancing costs. Furthermore, inflation rates in the euro area are increasingly drifting apart, especially between Eastern and Western Europe. This could hinder the functioning of a single monetary policy. The situation in the currency union is therefore fraught and a new

currency crisis can't be ruled out.

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Memories of the last Eurozone crisis remain vivid, especially of the subsequent austerity policy imposed by the Troika, comprised of the European Commission, the ECB and the International Monetary Fund (IMF). Trade unions are adamant that a technocratic institution like the Troika should never again be able to pressure the Member States into cutting pensions and public sector wages or undermining collective bargaining coverage. A reform of EU economic governance must therefore effectively rule out a rigid austerity policy this time around.

Naturally, any currency union has to have rules to ensure that Member States pursue a sustainable budgetary policy. After the financial crisis, however, they went too far. The Troika's austerity drive had fatal social consequences. And it didn't even achieve the aimed-at budgetary consolidation because the so-called structural reforms stifled economic growth. Economic studies have also shown that the Euro system – in other words, the currency union's institutions and rules – has imposed enormous macroeconomic adjustment pressures that have fallen on ordinary workers' shoulders. This affects not only so-called Programme countries receiving financial aid from the European Stability Mechanism but also many core countries of the currency union.

What do the reform proposals entail?

Can the Commission's proposed regulations ensure that there will be no austerity policy 2.0 or enforced structural reforms, aimed unilaterally at boosting price competitiveness, primarily by suppressing wages and social rights? It remains unclear. The fact is that the European Commission is proposing a slight deviation from a rules-based fiscal policy. In other words, political negotiations between the Member States and the Commission are set to return to the centre of economic policy coordination. Debt reduction is no longer to be *determined* 'mechanically' on the basis of macroeconomic benchmarks but *agreed* in negotiations with the Member States.

This also entails a significant increase in the European Commission's fiscal-policy margin of discretion. If the reforms are implemented as the Commission proposes, it would have a *carte blanche* to prescribe Member State budgetary policies in accordance with its own preferences. After all,

the Commission defines the parameters of debt sustainability analysis and largely formulates the country-specific recommendations that the Member States have to implement to obtain an extension on their debt reduction. Furthermore, it conducts negotiations with Member States on their Four-Year Plans, including expenditures, structural reforms and investment plans. These can be altered only in exceptional instances. If the Commission and the Member States are unable to reach an agreement, the former's spending limits are to kick in automatically.

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It remains to be seen what substantive policies will emerge from all this. On one hand, the focus on political negotiations represents an opportunity. That approach could yield rather more nuanced fiscal policy guidelines. Country-specific challenges could exert more influence on debt reduction. Properly implemented, more moderate debt reduction could be agreed upon with the Member States, giving them more leeway in funding public investments and stimulating growth. The Commission proposals could thus usher in a more flexible implementation of the rules. And yet, Germany's finance ministry, who seems to fear exactly this scenario, has demanded that fiscal rules should not be up for negotiation.

On the other hand, a converse scenario is also imaginable. Suppose that macroeconomic conditions deteriorate even further to the detriment of the highly-indebted Member States. Financing conditions look increasingly gloomy and speculators begin to bet on Italy's sovereign default. The European Commission would come under tremendous pressure to get the Member States to step up their austerity measures. Or the political balance of power within the Commission might shift and hard-line neoliberals, with a seat at the negotiating table, come to draft the country-specific recommendations. In that case, the Commission would not be able to prevent the imposition of a strict austerity policy in the Member States. And, in contrast to a decade ago, it now has a whole series of sanctions to actually enforce implementation. It can threaten Member States with the withdrawal of structural funds and money from the Recovery and Resilience Facility, as well as impose fines. And even more sanctions can be expected, aimed at the relevant Member State's reputation.

The need for democratic control

The problem with the European Commission's reform agenda, from a trade union standpoint, is not that EU fiscal policy will be more of a matter of negotiation but rather that it will be negotiated in a political arena beyond democratic control. In other words, while it would be good if future European fiscal policy was more closely determined by political negotiations and less by the mechanical application of rules, fiscal policy is not a technical matter to be delegated to technocrats. As Mark Dawson and Adina Marikut-Akbik emphasise, hitherto, the European Commission has applied methods in this area that correspond rather to the convictions of an independent regulatory authority responsible for deciding on technical issues. These governance mechanisms are not suitable for the highly political matters negotiated within the framework of economic policy coordination. Technocratic political governance has, among other things, contributed to Member State perceptions that EU fiscal policy guidelines are often 'imposed by Brussels' and are not implemented effectively.

More political negotiations are definitely the right way to go, but they must also be more democratically embedded. The German Trade Union Confederation (DGB), in a recent position paper, has therefore demanded that the policy control mechanisms of EU economic governance should be scrutinised. The upcoming reform must be accompanied by extensive democratisation.

Controlling public finances is a parliamentary sovereign right. This basic principle must finally be implemented at the European level, too.

The DGB is demanding, among other things, that: first, the draft law which the Commission is expected to bring forward in the first semester of 2023 should be adopted within the framework of an ordinary legislative procedure with the participation of the European Parliament. Second, the future legal text should contain minimum standards for parliamentary involvement in formulating the Four-Year Plans. Effective involvement of the social partners and other civil society organisations should also be ensured. Third, the role of the European Parliament in the European Semester for coordinating economic policy should be upgraded. European Parliament involvement should ensure that the Commission's reform recommendations do not conflict with fundamental EU policy goals, such as the Green Deal or the European Pillar of Social Rights.

Fourth, changes in Four-Year Plans should be made easier in the event of a change of government or a shift in macroeconomic conditions. Increases in state spending must also be feasible if offset by appropriate tax measures, without having to roll out the whole process once again. Finally, the details of debt sustainability analyses should be established in a transparent and democratic way.

As a result, stronger democratisation and politicisation of European fiscal policy would also boost trade union power resources. If political decision-making was based not on allegedly objective expert data but rather was discussed and hammered out in the political arena, we could use our established networks and channels of influence to make our political demands heard.

Nevertheless, democratisation clearly cannot solve all the currency union's problems. The fact remains that its Member States are particularly exposed to market pressures in the absence of a last resort lender. This structural problem can be solved only by introducing euro bonds, which the DGB has long advocated. In any case, democratisation is no guarantee of a better social balance in the European Commission's policy recommendations. But boosting democratic controls would at least mean that technocratic mistakes would be more closely scrutinised and criticised in the public arena. Controlling public finances is a parliamentary sovereign right. This basic principle must finally be implemented at the European level, too.



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