IS THERE AN ALTERNATIVE TO THE EUROPEAN ECONOMIC POLICY?

THE EUROPEAN PARLIAMENT RESPONSE

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On 25 February 2016, the European Parliament (EP) adopted its *Report on the European Semester for economic policy coordination: Annual Growth Survey 2016*. Maria João Rodrigues, Vice Chair of the S&D group in the EP and rapporteur of this Report, presents in this Tribune the main proposals of the EP. She outlines that fiscal consolidation and structural reforms are not enough and that the EU should have a strong priority in investment in Europe and expanding domestic demand.

Is there an alternative for European economic policy, after years of austerity and internal devaluation? The European Parliament (EP) has concluded that there is and has to be one. The Parliament's *Report on the Annual Growth Survey 2016*, voted in its plenary on 25 February 2016, sets out the economic and social policy priorities which the EU and its member states should pursue over the next year on the basis of their annual reform programmes and budgets, in the context of the so-called European Semester.

The political motivation of Parliament is clear. In a particularly difficult moment in European history, facing various crises and new external threats, Europe needs stronger internal cohesion between citizens as well as governments. The basic condition for this is through a stronger economic recovery in order to reduce unemployment, improve living conditions and achieve greater economic and social balance between and within each Member State.

Before a majority in the EP could achieve a compromise on these ideas, the discussion was hard and complex. The euro area runs an external surplus and some parliamentarians said that all Member States should seek to increase their external surpluses as proof of their competitiveness. No doubt that competitiveness is important but, from a certain level, external surplus is being achieved through sacrificing domestic demand, including wages and investment. Without them, Europe has delayed its transition to the desired green and digital economy and can't slash unemployment. Especially the euro area has focused too much on exports, saved too much money and invested in the rest of the world forgetting about its own future prosperity.

The Parliament has therefore decided that the European Semester can no longer be the machine for blind austerity, as it had been the case in recent years. It must be that this process of economic and social policy coordination is guided by the Europe 2020 Strategy for Growth and Jobs, which was unfortunately almost forgotten during the crisis years. The European policy mix must stand not only for fiscal responsibility and reforms, but also for a reinforcement of investment and domestic demand.

The EU's investment deficit is huge today and estimates are for new energy and digital infrastructure should reach EUR 1 trillion in three years[1]. These needs far exceed the capacity of the recently launched European Investment Plan, which must be therefore intensified and combined with a full-fledged Banking Union to help companies access financing for greater investment and job creation.

As what concerns the "notorious" concept of structural reforms, the European Parliament says that these should now aim at reinforcing the growth potential, such as by improving education and innovation systems, increasing resource efficiency as well as improving the coverage and sustainability of social protection systems and the functioning of public administration and effectiveness of tax collection.

Finally, governments' budgetary policy needs to be responsible, but needs to find a new balance between promoting growth, ensuring respect for citizens' social rights and maintaining the sustainability of public debt.

But it is in the field of euro area governance and management that the European Parliament has achieved a particularly important agreement. It recognized that the euro area has to be seen as one economic entity, whose specific problems need to be analysed and solutions defined and delivered through a coordinated effort. The EP stressed the euro area's large investment deficit and the need for Member States to share the effort to bridge it. Particularly countries with greater fiscal space should contribute more to the solution. Similarly, countries with greater external surplus should expand their internal demand, for the benefit of their own people as well as the rest of the euro area. Less competitive countries should no longer be required to continue internal devaluation processes, i.e. efforts to regain competitiveness by cutting wages and social protection. On the contrary, the euro area's survival and prosperity requires organising a convergence process for better economic and social standards.

This process certainly will require an effort of each Member State based on reforms and investments. However, this effort will also need to be accompanied by support from new instruments which the Economic and Monetary Union has yet to create: a Banking Union completed with a common scheme for insuring bank deposits, and a shared budgetary capacity at the level of the euro area, based on a more coordinated policy on taxes.

This agenda of deepening European economic governance can only be put in practice with greater democratic legitimacy, which means greater involvement not only of the European Parliament but also national parliaments as well as civil society organisations. European decisions today have an increasing impact on the possibilities of choice at national level, where national plans and budgets are adopted, but the democratic mandate for such European decisions is still weak.

The so-called European Semester of economic policy coordination must be democratized in depth, otherwise the feeling of alienation and lack of democratic control felt by many European citizens will create irreconcilable opposition to European Union belonging.

1. See the website of the ECFIN Directorate-General of the European Commission.

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