Global Workplace Law & Policy

Next Generation EU: What this European Semester cycle tells us

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On 25 May, the European Commission presented its proposed package of Country-Specific Recommendations (CSRs), the first since Next Generation EU (NGEU) was adopted. Analysis of the CSRs provides interesting information on the impact of the European recovery strategy on the relationship between the fiscal and macroeconomic policies of the Union and the employment and social policies of the Member States. Indeed, the implementation of the NGEU, and in particular its main component, the Recovery and Resilience Instrument (RRF), has been integrated into the EU governance processes taking place in the context of the European Semester.

In the past, the Union clearly emphasised the stability of national public finances but, with the Covid-19 crisis, the narrative seems to have changed. Member States have received support, mainly through the Recovery and Resilience Instrument, to channel public funds, where necessary, to address the social and economic challenges resulting from the pandemic.

More than two years after the outbreak of the pandemic, social life and business activities seem to be on the road to recovery. There is optimism about a complete end to Covid-19-related measures.

It is to be hoped, however, that this does not also mean a complete return of the EU to the old approach to fiscal policy.

The European Semester before Covid-19

The European Semester can be described as the annual exchange between institutional actors, mainly between the European Commission and national governments, through which the Union steers and monitors national policies. As the name suggests, the procedural steps of which the Semester consists take place over a six-month period, from Autumn to Spring. The most significant documents that make up this institutionalised dialogue are (in chronological order):

- the Annual Sustainable Growth Strategy, in which the Commission identifies the overarching policy priorities for the entire Union.
- the Joint Employment Report of the Commission and the Council, which gives an overview of the main employment and social developments in the Member States.
- the Country Reports, which consist of the Commission's overview of Member States' progress and challenges in relation to the Union's economic growth and employment rate targets.
- the National Reform Programmes, in which Member States outline recent and upcoming reforms that address the challenges identified in the National Reports and during the previous six-month cycle.
- Country-Specific Recommendations, proposed by the Commission and then adopted by the Council, which identify the main challenges for each Member State and suggest policy reforms to address them. Each year, the adoption of the CSRs coincides with the conclusion of the European Semester cycle.

It is worth mentioning that the European Semester is one of the economic governance mechanisms that were put in place during the Eurocrisis of 2011. At the time, it was feared that the rising public debt of some Member States could pose a danger to the sustainability of the Eurozone. Consequently, a series of instruments was set up to monitor national budgets and promote 'more responsible' fiscal policies. The effect was to induce national governments to adopt austerity measures, including regressive labour and social policies.

During this period, it became even more evident that the predominant approach of the EU was to view social and labour standards as variables that could be adjusted to achieve desired fiscal and macroeconomic objectives. This is clear if one considers the CSRs adopted from 2011 to 2019, namely from the date of the establishment of the European Semester to the year before the outbreak of the Covid-19 pandemic.

Especially in the years immediately following the 2011 Eurocrisis, most national governments received recommendations to adjust wage-setting mechanisms – with adverse effects on sectoral collective bargaining – as well as to lower employment protection in the direction of flexibility in order to boost labour market participation and to limit public spending on pensions.

Interestingly, the overall EU approach did not change substantially with the adoption in 2017 of the European Pillar of Social Rights (EPSR) and its complementary benchmarking tool, the Social Scoreboard. Theoretically, the Pillar plays a role in the EU's governance systems, as both the Commission and national governments have to take it into account during the various phases of the Semester. However, the Semester cycles in 2018 and 2019 maintained the focus on labour market participation, flexible employment policies and sustainable public spending. The main differences with the previous cycles are a greater emphasis on improving social welfare and a strengthening of social dialogue. Overall, this shows that the impact of the EPSR on economic governance has been rather modest.

The implications of the recovery strategy for economic governance

In 2020, the outbreak of the pandemic led to a substantial readjustment of surveillance and monitoring mechanisms in the context of the European Semester.

A first change occurred in connection with the decision to activate the general escape clause of the Stability and Growth Pact. In practice, this meant abandoning the activation of corrective measures in the event of excessive public debt or deficits, thus giving Member States more leeway to mitigate the social consequences of the pandemic. The suspension of the operational arm of fiscal policy surveillance had an immediate effect on the policy approach that emerged from the 2020 CSRs which, for the first time, had a predominant social perspective. The transformation was evident: the Union encouraged national governments to implement income support instruments for all workers (both employed and self-employed), to improve the resilience of health systems, to strengthen social protection and social assistance and to make greater efforts to include marginalised workers, including migrants.

A second element that changed the traditional course of the European Semester was the adoption of Next Generation EU. This is because the implementation of the Recovery and Resilience Facility was integrated into the Semester, which was adapted accordingly. The RRF consists of a fund of 670 billion euros that Member States can access, either in the form of loans or grants. In order to draw on these resources, national governments must submit National Recovery and Resilience Plans (NRRPs) outlining the investments and strategic reforms they would implement. Thus, there seems to be a transformation of the European Semester from a budgetary surveillance mechanism to an instrument for monitoring the proper implementation of the resources allocated in the context of NGEU.

It is worth mentioning that, with the integration of the RRF into the Semester, the conditions for the EPSR to have a greater impact in influencing national policies have also been strengthened. When drafting their NRRPs, national governments have to indicate how the outlined reforms would contribute to implementing the Pillar. In turn, the Commission has undertaken to assess the coherence of the NRRPs with the Pillar and to formulate its CSRs accordingly. However, there are reasons to fear that the emphasis on the principles of the Pillar is more rhetorical than substantive: analysis of the NRRPs reveals that, more often than not, national governments have merely stated that they have taken the Pillar into account when drafting their planned reforms, without providing further details. Similarly, the Commission’s assessment also seems rather formalistic and superficial, as all NRRPs are rated positively even in the presence of critical remarks concerning poor performance in relation to the Social Scoreboard.

The 2022 Country-Specific Recommendations

In 2021, the European Semester did not produce any CSRs in order to leave room for the NRRP submission, assessment and approval process. The CSRs issued in 2022 are therefore crucial to an understanding of whether the more social perspective that emerged in 2020 is to be considered a temporary exception or whether it has a legacy, with a potentially transformative effect upon the primacy of fiscal rigidity in the Union’s growth strategy.

An analysis of the 2022 CSRs (as proposed by the Commission, since the final version will be approved by the Council during the summer) provides mixed impression.

On the one hand, just like the 2020 CSRs, these CSRs were issued against the background of the activation of the general escape clause of the Stability and Growth Pact. This means that, given the current uncertain situation, the Commission will not subject any Member State to an excessive deficit procedure. Furthermore, the Commission has confirmed those CSRs which are aimed at strengthening national employment and social policies such as developing social housing, providing better coverage of unemployment benefits and limiting extreme cases of precariousness in the labour market.

On the other hand, it is interesting to note that, although the CSRs also take into account the reforms that national governments have outlined in their NRRPs and are therefore rather concise, the Commission has refrained from inviting Member States to develop measures to help citizens cope with rising inflation, aggravated by the energy crisis and the war in Ukraine. There is thus a lack of CSRs aimed at increasing purchasing power through, for example, an increase in wages. In addition, the Commission has resumed emphasising the importance of the sustainability of Member States' public debt. National governments have been warned that their fiscal plans must reflect a more prudent medium-term adjustment path in order to offset the increase in debt resulting from the pandemic. For some governments, the emphasis on fiscal stability has been linked to recommendations to reduce pension spending, similar to what was heard in the first years after the 2011 Eurocrisis. This seems to herald that, in the next Semester cycles, there may well be greater pressure to implement reforms to reduce public debt, as in the past.

The calm before the storm?

Overall, the 2022 CSRs confirm that the Union's recovery strategy coincides with an adjustment of the relationship between fiscal policy and national employment and social policies. This takes the form of assuring active funding for social support measures. However, there are indications that this social turnaround might fade away once the (political) decision to reactivate the corrective measures to deal with national budgetary situations has been taken.

To counteract such a development, what we need therefore is an urgent review of the EU's economic governance rules and, in particular, a revision of the debt and deficit limits defined in the Stability and Growth Pact.

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