Democratic Legitimacy and Accountability:
The European Semester and the Irish Budget

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Democratic Legitimacy and Accountability: The European Semester and the Irish Budget

The Euro crisis and the measures being taken to deal with the problems being encountered in a number of Member States are forcing a reflection on the legitimacy and democratic visibility of the processes involved in financial and budgetary integration, and in the coordination of structural reforms.

Referring to “Strengthening democratic legitimacy and accountability” the van Rompuy Report of June 2012 stated:

*Decisions on national budgets are at the heart of Europe's parliamentary democracies. Moving towards more integrated fiscal and economic decision-making between countries will therefore require strong mechanisms for legitimate and accountable joint decision-making. Building public support for European-wide decisions with a far-reaching impact on the everyday lives of citizens is essential.*

The Maastricht Treaty and the series of Treaties, Regulations and Directives that have followed have given us the European Semester process. This paper concentrates on the implications of this process for the Irish national budget-making process and on the opportunities it offers in the context of strengthening democratic legitimacy and accountability at both national and European level.

Irish national budgetary procedure

Prior to the introduction of the European Semester, the Irish budgetary procedure was broadly as follows.

- In November, the Government published the “Estimates for the Public Services”, a forecast for the following year of the Government’s receipts and expenditure for the following year, drawn up on a “no policy change” basis. The logic behind the November publication date was based on the fact that, with most revenue receipts and expenditure commitments for the current year known, reasonably accurate forecasts could be made for the following year. At about the same time, the Government published the “Estimates of Receipts and Expenditure” for the current year, setting out the starting point of budgetary arithmetic for the following year.

- In December, the Government presented its budget proposals to the Dáil. These proposals included resolutions in relation to tax and expenditure changes. Where changes in excise duties and VAT were proposed, the budget proposals included specific financial resolutions which had to be voted on budget day so as to take effect immediately (in the case of excise duty increases) or at the beginning of the next VAT period – in each case, before the passage of the Finance Bill - but which had to be confirmed by primary legislation within four months of the budget in a Finance Bill. Each vote on a financial resolution had the same effect as a vote on a confidence motion.
in the Government. If any such vote went against the Government, the Government had to resign.

- Detailed debate on the budget took place after its adoption and did not affect the substance. The final, formal vote on the budget frequently took place some weeks into the fiscal year in question.

- If the budget included changes in social support measures, a Bill to give effect to these changes was presented in time to allow the changes to come into effect at the beginning of the fiscal year.

- A Finance Bill was then presented within the thirty sitting days period, setting out the detailed legislative provisions required to give permanent effect to the financial resolutions passed on budget day and to deal with further matters of detail. The debate on the Finance Bill and on the Social Welfare Bill constituted the real debate on the budget. While it was not uncommon for the Finance Bill to include modifications to detailed budgetary provisions, and not entirely unknown for detailed amendments proposed by the Opposition to be included, these amendments rarely affected the overall balance of budgetary policy.

- The Estimates for the Public Services (including, where appropriate, changes resulting from budgetary decisions) were debated later in the year of application (and, in some cases, not until more than half of the year had passed).

- At the end of the year, an Appropriations Bill is presented to the two houses of the Oireachtas. This is, in effect, the final discharge of the annual budgetary process. Debate on this Bill is usually brief and perfunctory.

From 1997 until 2007, the budget was presented and voted on in December in order to ensure that it could take account of the most up-to-date data on revenue and expenditure for the current year. In 2008, the Government was faced with a rapidly-deteriorating economic and fiscal situation and decided to present the budget for the following year in October in order, it said, to give greater certainty at an early stage to economic operators and taxpayers. It emerged in the early months of 2009 that the fiscal balance position had departed significantly from the path set out in the previous October and an emergency budget was introduced in April.

The EU/ECB/IMF Troika bail-out programme was agreed and introduced in November 2010. Budget forecasts for both revenue and expenditure were quickly seen to be wide of the mark. Substantial changes were introduced in response to the bail-out programme and were provided for in the detailed implementing legislation in 2011. The budget proposals for 2012 were presented and voted on in December 2011 and those for 2013 were presented and voted on in December 2012. The Government has announced that the budget proposals for 2014 will be presented in October 2013: this is, in any case, required by the European Semester process.

It can hardly be said that parliamentary debate on budgetary strategy has had a significant influence on Irish budgetary or fiscal policy. Until 2012, there was no point in the year when options for budgetary strategy in the short, medium or longer term were debated. Statements by the Government and the Opposition on budget day itself did, of course, include considerations of strategy but at that point, the Government’s strategy was set. Strategic issues could be and
were raised during the formal debate on the budget, which took place some weeks later but here again, the debate was conducted against the background of an already-settled strategy.

The debates on the Social Welfare Bill (centrally concerned with one particular set of distributional issues) naturally tended to concentrate on matters of detail. Similar considerations apply to the debates on the Finance Bill. In both cases, the exigencies of available parliamentary time force the debate to focus narrowly on a succession of details rather than on strategy.

A new set of constraints was introduced by the Troika bail-out programme. In practice, both the overall budgetary strategy and the balance between the detailed implementation measures are predetermined by the provisions of the programme. To the extent that there is any negotiation on strategy or detail, it takes place between the Government and the Troika. While the Troika meets with the Opposition parties, the conversation does not in any sense constitute a debate that can affect the course of fiscal or economic policy. Members of the Dáil find this irritating, to say the least. An additional irritant to members has been the discovery that detailed measures put forward by the Government to the Troika have been discussed by the Bundestag in Berlin before being revealed in Dublin. As far as we can judge, this parliamentary irritation is mirrored in public opinion: it appears that the documents reached the Bundestag via the European Commission and the German government. The salient point to draw out is that this irritation reflects an enormous difference between two parliamentary processes. The German process ensures a high degree of transparency and involvement in budgetary, fiscal and economic policy. This is not true of the Irish process.

The European Semester

The European Semester set out a new, common framework for national budgetary processes. It is currently being applied for the third time and is backed up by other provisions including the Treaty on Stability, Coordination and Governance (TSCG), provisions on the preparation of budgetary frameworks and provisions on the surveillance of Member States in bail-out programmes. The main lines of the European Semester are set out in the chart below. In outline, the procedure is as follows.

1. In November, the Commission produces the Annual Growth Survey (AGS) and also the Alert Mechanism Report (AMR), which is part of the macroeconomic imbalance procedure. The Commission then engages in a series of bilateral discussions with the Member States.

2. The European Parliament prepares and debates a report on the AGS and maintains a dialogue with the stakeholders.

3. The ECOFIN Council debates the AGS and AMR in preparation for the March European Council.

4. At its March meeting, the European Council adopts general guidelines for the Member States on the priorities for the EU as a whole, to be taken into account in the formulation of the Stability or Convergence Programmes (SCP) or the National Reform Programmes (NRP).
5. In April, the Member States present their NRPs and SCPs to the Commission. This submission includes each Member State’s medium term fiscal plan, which takes account of independently-produced or verified macroeconomic forecasts (specified by each Member State).

6. The Commission assesses the NRPs and SCPs and, in May, presents Country Specific Recommendations (CSR) to the Member States. The CSRs are discussed bilaterally by the Commission and the Member States.

7. The ECOFIN Council adopts the CSRs and the European Council endorses them in June.

8. The Member States present their budget proposals to the Commission by October 15. The Commission adopts an opinion on each draft budget as soon as possible and no later than end-November and communicates its opinion to each Member State. The budgetary process in each Member State must conclude before December 31.

The European semester – Who does what and when in Europe:

<table>
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<tr>
<th>November</th>
<th>December</th>
<th>January</th>
<th>February</th>
<th>March</th>
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<tr>
<td>European Commission</td>
<td>Annual Growth Survey (AGS), Alert Mechanism Report (AMR – part of new macroeconomic imbalance procedure) presented – comments on Draft budget</td>
<td>Bilaterals with Member States</td>
<td>Bilaterals with Member States</td>
<td>Assesses NRPs &amp; SCPs, Presents Country Specific Recommendations (CSRs)</td>
<td>Ongoing Bilaterals with Member States</td>
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Council of the European Union

AGS & AMR debated ahead of European Council meeting in March

European Parliament

Debate and orientations – adoption of report on AGS. Continuous economic dialogue in the form of hearings with main stakeholders in process.

European Council

Endorses reform priorities for EU Member States

Debates & endorses CSRs

Member States

National Reform Programmes (NRP) & Stability or Convergence Programmes (SCP) to COM

National Budgetary Processes (‘two pack’ – draft budget by 15 Oct)

Source: Presentation by Mr. Michael McGrath, Department of Finance, to IIEA, Dublin, March 13, 2013.

The Commission, in cooperation with the Member States, is to specify a harmonised framework for the content of the draft budgetary plan to be submitted by each Member State. The draft budget for each Member State must contain:

- the targeted budgetary balance,
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• projections of expenditure and revenue on the basis of unchanged policies,
• the targeted revenue and expenditure for general government and their main components,
• relevant information on general government expenditure by function including expenditure on education, healthcare and employment and, where possible, indications of the expected distributional impact of the main expenditure and revenue measures, a description and quantification of the expenditure and revenue measures to be included in the budget, particularly major fiscal policy reform plans with potential spill-over effects for other Member States; the description may be less detailed for measures with a budgetary impact of less than 0.1% of GDP.

Democratic Legitimacy and Accountability in the Budget Process

The procedure described here is one that makes very considerable demands on the participating institutions: the Commission, the ECOFIN Council, the Eurogroup, the European Council and the European Parliament. At the level of these institutions, it is a very participatory procedure and one which is accountable at an institutional level. The question is: is it legitimate and accountable at a democratic level? If not, what can be done to make it so?

Judged in terms of the principles of representative democracy, the process can fairly be described as legitimate. Each of the participating institutions, exercising its proper mandate, arguably has adequate opportunities to make its case and to bring its proper concerns to bear. Each of the participating institutions is accountable to its tutelary authority:

• the Commission is accountable to the governments of the Member States and to the European Parliament,
• ECOFIN and the Eurogroup are accountable to the governments of the Member States,
• the members of the European Council are accountable to the parliaments and, ultimately, to the electorates of their respective Member States,
• the European Parliament is accountable to the electorates of the Member States, and
• the national parliaments are accountable to their respective electorates.

Is this enough to ensure democratic legitimacy and accountability? Current conventional wisdom would say that it is not.

• Eurobarometer polls indicate an EU-wide lessening of public confidence in the European project.
• National opinion polls show a consistent trend towards an increasing distrust of governments and of current political systems in general.
• In many EU Member States, there is increasing public resistance to the continuation of policies of fiscal consolidation.

The issues of legitimacy and accountability appear to be most acute at national level. If this is indeed the case, we must ask what can be done at that level to respond to the expressed or implied concerns. In this connection, the process of the European Semester presents a number of occasions for thoroughgoing debate on budgetary strategy. A further opportunity or impetus
may be added by reforms contemplated for the Dáil. The Government has announced its intention to hold a referendum on the abolition of Seanad Éireann in the latter part of 2013. It has announced also that the proposed abolition of the Seanad will be accompanied by proposals to revamp the working methods of Dáil committees. Such proposals should include a review of Dáil participation in the budget process.

The following proposals are presented for consideration.

1. The Dáil should discuss and adopt an opinion on the Commission’s Annual Growth Survey (produced in November) before it is debated by the European Parliament and adopted by the European Council March meeting – the meeting at which the European Council adopts reform proposals for the Member States.

2. The Government should submit a draft of its Stability or Convergence Programme to the Dáil before submission to the Commission in April. To assist in this debate, the Dáil should be able to hear testimony from the independent macro-economic forecasters whose advice is taken into account by the Government.

3. The Commission’s Country Specific Reccomendations should be debated by the Dáil after they are received in May in preparation for the drafting of the Government’s budgetary proposals, which the Government will submit in October.

4. The most important opportunity for progress in the direction of democratic legitimacy and accountability lies in the requirement that the government submit draft budget proposals to the Commission by October 15, with the provision that the Commission can issue an opinion on the draft. In Ireland, this will mean, for the first time, that the Dáil has the opportunity to have a real debate on budgetary strategy in the making, rather than on a proposal which depends for its success only on the ability of the government to whip a majority vote.

5. The Government should establish a dedicated Budget Committee in the Dáil.

The process outlined here would mark a major opportunity for the Dáil to bring public concerns to bear on fiscal and economic policy making in a truly transparent fashion. Given the importance of the issues at stake through the various stages of this debate, it will be essential to ensure that appropriate measures are put in place to make the process a standard part of Dáil activity. The Government clearly has a responsibility to ensure proper accountability, particularly since, under current rules, it is the Government which determines the Order of Business for the Dáil. The reforms being considered by the Government should explicitly make this multi-stage debate an integral part of Dáil business. One way of doing this would be to write a provision for a dedicated Budget Committee into the Dáil structure. Some observers would point out that the delegation of such a multi-stage debate in its entirety to a Committee might militate against media and public attention to it. These issue should be thoroughly examined in the formulation of the reforms envisaged by the Government. In any case, it should be provided that the debate on the draft budget presented in October should take place in plenary session.

The Government, the Dáil itself as an institution and the political parties and groups should be particularly mindful of the need to encourage adequate media coverage of each stage of the debate.
Conclusion

The European Semester process offers opportunities to achieve higher levels of democratic legitimacy and accountability in national budgetary, fiscal and economic policy. The realisation of these opportunities depends on the approaches adopted by the political system, the media and the public.

For the political system, there is now a greater opportunity to place national policy in a clear EU framework and to draw out explicitly the external influences at play in a way which has not featured heretofore in the rather inward-looking debates to which we have been accustomed. Active parliamentary debates at the successive stages of the European Semester process should be used to put detailed debate on individual measures into its proper overall context.

Such an approach would follow best practice in other European Countries. The approach affords not only an opportunity to have a real debate on budgetary strategy in the making, it will also provide an opportunity to bring public concerns to bear on fiscal and economic policy. A detailed focused and considered debate would do much to improve the public understanding of both the process and the thinking behind the proposed measures and their likely impact on the economy. This would represent a major improvement in democratic accountability and also a major improvement in public understanding of measures with potentially serious economic and financial consequences. Creating the opportunities and structures is, of course, not in itself sufficient. For this to work those opportunities must be availed of and in particular full use must be made of the new structures.

The media has a vital role to play. Informed media reporting and analysis will not only awaken and sustain public interest in the process but will inform the public and their representatives. It will also encourage those representatives to avail of the opportunity to participate in and influence the process.