Opinion of the European Economic and Social Committee on 'The Economic recovery: state of play and practical initiatives' (own-initiative opinion)

(2011/C 48/11)

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On 18 March the European Economic and Social Committee decided to draw up an own-initiative opinion, under Rule 29(2) of its Rules of Procedure the

'*Economic recovery: state of play and practical initiatives*' *(own-initiative opinion).*

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 20 July 2010.

At its 465th plenary session, held on 15 and 16 September 2010 (meeting of 16 September 2010), the European Economic and Social Committee adopted the following opinion by 146 votes to 45 with 16 abstentions.

1. Conclusions and recommendations

1.1 The financial crisis of 2008 and the ensuing economic crisis were of a level not seen since World War II. When, at the beginning of 2010, there were signs of a recovery from this recession a sovereign bond crisis erupted, this time, not a global but a European crisis. The necessity to relieve the public budgets of costs incurred by supporting banks and discretionary measures, rising unemployment and the additional austerity measures in many countries, together, represent a threat to economic growth. Against this background the EESC finds it necessary to search for political measures not only to achieve economic recovery but even to prevent Europe from falling into yet another recession.

1.2 In 2009 the EU experienced a negative growth of -4.1 %. Before the spring sovereign bond crisis the growth forecast for 2010 was 0.7 %. Unemployment is expected to be around 10 % in 2010, coupled with a 2 % reduction in labour force participation. The average budget deficit was 2.3 % in 2008, increased to 6.8 % in 2009 and is estimated to rise to 7.5 % in 2010. During the financial crisis massive public payments maintained the liquidity of the financial market. Before the crisis there was a private credit boom which has since been replaced by large needs for public credit. At the same time, in order to increase demand, the private sector still needs credit. The economic situation varies widely among Member States. Public budget deficits are greatest in Greece, other Mediterranean countries, UK and Ireland. Unemployment is highest in the Baltic States and Spain. At the same time the Baltic States have succeeded in reducing high public deficits and negative growth in a very short time through stringent economic actions.

1.3 *An entry strategy*

The extensive economic changes during the last decades makes it inappropriate to talk about an exit strategy. We have to find new economic and political initiatives to develop a roadmap for the emerging society – i.e. an entry strategy.

1.4 *Private consumption essential for aggregate demand*

The restrictive impact on the overall European economy of proposals to reduce the highest public deficits pushes self-sustained growth into the future. To keep the process of growth going the EESC stresses the importance of aggregate demand, and private consumption in particular. For economic support to have a substantial effect on growth it must target the lower income groups. Since they consume a larger part of their income less will disappear as increased savings. If the shift from labour to capital, spanning several decades, can be reversed we have a source of future growth. Of course investments and exports are important but as private consumption makes up about 60 % of GDP, its development is crucial for growth, particularly in the present situation.

1.4.1 Estimate the effects of the austerity programmes

High unemployment, a reduced labour force, moderate wage increases, public expenditure cuts, tax increases and the new austerity programmes will reduce possibilities for growth. Under these circumstances, the Commission should urgently estimate the contractive effects of all this and put forward proposals for counteracting measures to retain growth. Growth is necessary for the other economic policy goals. Sitting still and waiting for the restrictive effects of the austerity programs to materialise is not an option.

1.5 *Measure the development of competitiveness*

The current account balance has not been adequately considered among the economic policy objectives. The longstanding deficits and surpluses in some countries made it evident that the problems of the spring 2010 EU economic crisis would appear sooner or later. The EESC wants to underline the need to reduce the large differences in current account balances. The central objective then becomes competitiveness, as measured by the Real Unit Labour Cost, which covers developments in wages and productivity. During the last decade the competitiveness of Ireland, Greece, Italy, Spain and Portugal fell by 10 % on average. Budgetary problems were bound to arise.

1.5.1 Current account balance into the Stability and Growth Pact

With differing developments for wages and productivity within a currency area, the only cure is to change relative wages or increase productivity in lagging countries. The EESC, therefore, proposes that the Commission conducts a check on current account balances, similar to those carried out on public deficits and debt. This can be formalised by amending the Regulations governing the Stability and Growth pact. The current accounts and the underlying reasons, wages and productivity developments, should be scrutinised in all 27 Member States, but with more powers to act in the euro countries. In this way, the real economy is introduced into the Stability and Growth Pact.

1.5.2 Statistics on private credits and foreign share of sovereign debt

New statistics on private credits and the foreign share of sovereign debt should be included in discussions on the Stability and Growth Pact.

1.6 *More effective regulation and supervision practices in the financial sector*

With regard to the financial sector, it could be efficient to keep some bank capital public, in order to have some insight into the banking sector. The financial experiences of 2010 show that proposed financial supervision and regulation are not enough. More effective regulation and supervision practices are necessary, particularly after the financial sector's behaviour during the Greek crisis, to change this behaviour and find new ways of financing public debt.

1.7 *Public investments in infrastructure and energy*

Investment must focus on environmental protection and measures against climate change. The EESC favours taxes as an instrument to influence the market to reduce dangerous emissions. In a period of lacking business investments the public sector has to step in by investing in infrastructure and energy. According to the revised Stability and Growth Pact, investments do not have to be included in excess deficit calculations.

1.8 *Active labour market policies*

Labour market policies should be centred round the search for new skills for new jobs. It is also necessary to increase the general level of education. The EU 2020 strategy is important for achieving this. An obvious policy to increase the employment rate is high-quality childcare and a parental leave long enough and sufficiently paid.

1.9 *Entry strategy for family policy and skills development*

When the need for unemployment support is reduced, the same public resources should reappear in family policy and skills development. An exit policy is turned into an entry policy. The architecture of social systems must lead to welfare and employment, albeit of course within financial possibilities.

1.10 *New sources of income – taxes on financial transactions and on CO_2*

Taxes on financial transactions and on carbon dioxide are possible new sources of public income. Apart from raising income they respectively reduce short-termism on the financial market and improve our environment.

1.11 *Let EIB issue Eurobonds*

By letting EIB issue Eurobonds, or rather EU-bonds covering all 27 Member States, new capital could be raised for the public sector without total reliance of the private financial sector. Financial resources should be found upstream, for instance from Institutions of Occupational Retirement Provision (IORP) so that the EIB becomes an interface between these capital resources and its investments. Eurobonds are also possible instruments for long-term private savings.

2. **State of play** [1]

2.1 The financial crisis of 2008 and the ensuing economic crisis were of a level not earlier seen since World War II. When, at the beginning of 2010, there were signs of a recovery from this recession a sovereign debt crisis erupted, this time, not a global but a European crisis. The necessity to relieve the public budgets of support to banks and other sectors and costs of other discretionary measures, rising unemployment

[1] Based on the Commission documents *Progress report on the implementation of the European Economic Recovery Plan* and *Interim forecast February 2010*.

and the additional austerity measures in many countries, together, represent a threat to economic growth. Against this background the EESC finds it necessary to search for political measures not only to achieve economic recovery but, even more, to prevent Europe from falling into yet another recession.

2.2 *Negative growth*

2.2.1 When the European Economic Recovery Plan was decided upon in December 2008, the forecast for economic growth in 2009 was around 0 %. It turned out to be -4.1 %. The plan was based on an over-optimistic forecast, but without fiscal stimuli, it would have been even worse.

2.2.2 The level of economic support from Member States was greater than the planned 1.2 % of GDP. For 2009 and 2010, it may amount to 2.7 % of GDP. Perceived needs in Member States were greater than planned support, but actions still, considering the development of growth, too small.

2.2.3 The economic stimulus has not only come from public budgets. The ECB and other central banks reduced interest rates to close to zero and increased liquidity in the economic system to an unprecedented level. Some Member States also used massive sums of public money to save some banks. Nevertheless, these actions did not prevent negative growth in 2009, which shows the severity of the financial and economic crisis.

2.2.4 Before the spring 2010 crisis, growth forecast for 2010 was 0.7 %. This is lower than for our main global competitors. On the positive side there is a rise in confidence indicators, increased growth in other parts of the world and world trade almost returning to its earlier level. On the negative side, business investments were still falling in the fourth quarter of 2009, industrial production does not show any marked improvement, the latest increase in demand was only for building up the inventories, the extremely low rate of capacity utilisation gives no impetus to investment, the state of the banking sector does not give any leeway for increased investment, and on top of this - the turbulence on the sovereign bond market.

2.3 *Trade*

World trade collapsed in the fourth quarter of 2008. The year before, it had increased by about 20 % but now it fell by 12 %. The fall continued during the following quarters. The most significant fall in a given quarter, compared to the same quarter a year earlier, was around 30 %. In the fourth quarter of 2009, the trend was reversed with an increase of 4 %. Figures for the EU were almost exactly the same. The fall was somewhat larger for EU intra-trade than for extra-EU-trade.

2.4 *The labour market*

2.4.1 The effects on unemployment are still expected to increase as such effects regularly lag behind developments in the real economy. During 2010, unemployment will be around 10 % in the EU, an increase of 3 % in a year, with large differences between the Member States.

2.4.2 Unemployment is only one of the effects, reduced labour force participation is another. This has been around 2 % of the labour force. On top of this, many people have reduced their working hours in order to save jobs, corresponding to a further 1 % reduction in the labour force. In a recovery, this last effect is probably the first to return to normal. Growth has to be high enough. If not, it will be 'jobless growth'.

2.5 *Public deficits*

The average budget deficit of 2.3 % of GDP in 2008 increased to 6.8 % in 2009 and is estimated to increase to 7.5 % in 2010. The deterioration depends not only on active support measures but also on increased expenditure and reduced tax revenue through automatic stabilisers. According to the OECD, these social protection measures saved more jobs in Europe than in other economies.

2.6 *The financial market*

2.6.1 Even in 2010, the situation on the financial market is unclear. There is no evidence whether the continued low level of investment is due to a continued lack of liquidity, risk avoidance by credit institutions, or lack of demand from the industry sector.

2.6.2 A return of the credit market to more long-term instead of extreme short-term transactions is a necessary part of sustainable economic recovery. This point is further elaborated in an EESC opinion on a tax on financial transactions [2].

[2] See *Financial transaction tax.*

2.6.3 From 2006 onwards, up to the outbreak of the financial crisis, there was a large surge for private credits (3). Private debt doubled in the euro area, as in the USA. Private spending was high and created large current account deficits in some countries. In 2009, this credit boom disappeared and was partly replaced by public debts. Large public deficits will persist in the coming years. At the same time, there is a need to increase private sector demand to get the recovery going. For both, credit is needed.

2.6.4 Serious losses in stock values have hit the pension funds, estimated at 24 % in real terms for 2009 (4). Pensioners' income levels are at risk, which will affect the possibility of increasing private demand. Entitlements from pension funds are very long-term, whereas the placement of the holdings of the pension funds is much shorter. There is, therefore, a need for more long-term financial instruments on the financial market for both pension funds and other pension institutions, such as insurance companies.

2.7 *Country specifics*

2.7.1 Among the large Member States, the steepest falls in GDP were registered in Germany and the UK. Among the smallest Member States, all three Baltic States had the largest falls in 2009. This came after a number of years of very high GDP growth. During these years, wage increases had also been very high, above productivity increases, but the Baltic States reacted very quickly to the crisis with wage reductions, particularly Lithuania. The highest wage increases during 2009 were registered in Greece, with no corresponding productivity increase. The exception to all in 2009 was Poland which had a positive growth rate of 1.7 %. Some reasons are increases in public investment and private consumption and a rather good employment performance.

2.7.2 The largest drops in the employment rate during 2009 also occurred in the Baltic States, followed by Bulgaria and Spain. No Member State maintained its employment rate but in Germany it only fell by 0.4 %. The unemployment rate in 2009 was highest in Latvia (21.7 %), followed by Lithuania, Estonia, Spain, Slovakia and Ireland.

2.7.3 During the sovereign bond turmoil in 2010, the public deficit in Greece was revealed to be around 13 % of GDP, which created speculative attacks on the euro. A similar deficit emerged in the UK. The deficit in Spain increased to an unsustainable level practically 'overnight'. Large deficits and high level of public debt are met by austerity measures in these countries, as well as in Portugal, Italy and Ireland, among others.

3. **Practical initiatives to achieve economic recovery**

3.1 *Entry strategy – not exit strategy*

3.1.1 There has been much debate about an exit strategy, i.e. taking away all extra public support for the economy. The legal reasons are the rule of less than minus 3 for budget deficits and the limit of 60 % of GDP for sovereign debt. As the Commission rightly pointed out in its Communication on Europe 2020, '*support measures should only be withdrawn once the economic recovery can be regarded as self-sustaining*' (5). With all the uncertainties for our economies, it will be very difficult to decide when it is 'self-sustaining'. The restrictive impact on the overall European economy of proposals to reduce the highest public deficits pushes self-sustained growth further into the future. Moreover, an exit strategy in this sense means that, after stopping these support measures, we can return to the situation before the crisis. This cannot be the case.

3.1.2 Firstly, there are many changes being implemented, or in the pipeline, for the financial sector. Hopefully, the financial sector will become more transparent and crisis-proof. Secondly, the state of play in other parts of the economy also has to be changed. Otherwise, there is a definite risk that the problems we have experienced during the last years will appear again.

3.1.3 By considering economic changes during the last decades, we must look for new economic and political initiatives which could make the economy less risky. This cannot be a proposal for an exit strategy because when setting a roadmap for an exit strategy, we also decide upon the emerging society, i.e. we decide on an entry strategy.

3.2 *Aggregate demand*

3.2.1 In theory, there are two ways of achieving economic growth – to produce more with the same technique or improving the technique to get more out of existing productive resources. Where to put the emphasis depends on the economic situation. In a boom, all resources are used and the only way to achieve more growth is to invest in innovative production methods. In a recession, such as the one which started in 2008, there are many idle resources which have to be put to use. Thus, the policy must be to increase demand. Unfortunately, aggregate demand is no longer recognised as the real motor of economic growth.

(3) Centre for European Policy Studies no 202 of February 2010.
(4) OECD: *Pensions at a glance*, 2009.

(5) COM(2010) 2020, point 4.1.

3.2.2 For measures to increase demand they must not only have a direct effect on consumption and investment, but also increase consumer and investor confidence. Just as automatic stabilisers work in downturns, increased confidence can work in an upturn. Confidence can increase the effect of public measures to make the upturn self-sustaining. For this to be the case, it is not only the amount of support that is important, but also the groups at whom it is directed. The lower income groups consume a larger part of their incomes than the higher income groups. Therefore, the more support that is directed to the former, the less of it will disappear through increased savings.

3.2.3 For the original economic recovery plan, the effect could be smaller than expected as many of the Member States' measures had already been planned and did not give any extra push to growth. In the spring of 2010, the Commission rightly stresses that measures to increase growth have to be socially effective. Forecasted growth for 2010 is below 1.5 %, which many economists consider to be the potential growth for the EU. But even at 1.5 %, unemployment and the budget deficits will not be reduced fast enough.

3.2.4 The EESC wants to stress the importance of aggregate demand to get the process of growth going and points, in particular, to the importance of private consumption.

3.2.5 Increased investment is important. Under the revised Stability and Growth Pact, it is possible to have the adjustment of an excessive budget deficit postponed if the extra expenditure is for investment. But investment is not always the only instrument for higher growth.

3.2.6 Nor is increased export sufficient. EU trade occurs mainly between Member States. External trade – exports to other parts of the global economy – has for long time been around 10 % of EU GDP. EU-trade makes up a third of world trade. But excluding intra-EU-trade, the EU share is reduced to 16 %. Trade is important and also an indicator of global competitiveness. There are signs of increased exports to the rest of the world. This is good, of course, but not much of a comfort in a situation of insufficient investment and a deteriorating labour market.

3.2.7 According to the ILO ([6]), a worldwide shift from labour to capital has been underway for more than a decade. From 1999 to 2007 the profit share in EU 27 rose from 37 to 39 % of GDP. It fell drastically during the second half of 2008 to 36 % but during 2009 it increased to 37 %. ([7]) These are signs of increased inequalities in income distribution.

3.2.8 The largest part of GDP is private consumption. Its share differs widely depending on what is undertaken by public or private entities according to the political system in each country. Nevertheless, a change in its share might also be an indicator of a change in income distribution. Consumption had fallen to 58 % of EU GDP in 2008 from 60 % in 2005 and 61 % in 2000. Although only a small change over a long period, it indicates that there is room for increased private consumption as a means to increase aggregate demand ([8]), particularly important in the present economic situation.

3.2.9 But in 2010, high unemployment and a reduced labour force participation rate, combined with very modest wage increases, do not indicate any increase in consumption, rather the opposite. A reduction in public support measures is, therefore, currently not an appropriate policy. Having come to this conclusion, the current situation (in 2010), with large cuts in public expenditures and increases in tax revenues, is extremely problematic from an economic policy viewpoint. These unavoidable reductions in aggregate demand from the public budgets are definitely pro-cyclical in the sense that they will reduce possibilities for growth. Their impact of reducing above all the incomes of public sector employees will spread through the economy at large as reduced demand. Growth will not be allowed to reach its potential rate.

3.2.9.1 It is in the utmost interest of the EU to have estimates of the potential restrictive effects of these new public budget cuts. These measures have been taken in a drastic way. There should be a similar interest for the EU to have those countries not in this extremely difficult situation to take counteracting measures, i.e. increasing the level of aggregate demand. The Commission has to estimate its extent on an urgent basis, and then come forward with adequate proposals. The Commission plans to do this in the economic forecast in November 2010. This is too late. Growth during the first quarter of 2010 was close to the forecast of 0.7 % - but that was before the austerity programmes. Sitting still, waiting for the restrictive effects of the austerity programmes, is not an option.

([6]) ILO: Global Wage Report 2009 Update, November 2009.

([7]) Eurostat, euroindicators 61/2010, 30 April 2010.

([8]) The figures are calculated from Eurostat data. The differences between Member States are surprisingly large, e.g. from 46 % in Sweden to 75 % in Greece. Most countries have experienced small reductions in the share of consumption but for some the changes have been dramatic. In the UK, its fall from 72 to 60 % in 8 years is hard to explain.

3.2.9.2 The EESC believes that the present economic situation calls for fresh discussions. The 3 % limit for public deficits should be kept but it must be combined with a discussion on the large differences in deficits since countries with very large deficits have to consolidate their public budgets definitively. Requirements for other countries that are at (or slightly above) the 3 % limit should be milder. Where there still is a possibility to finance deficits at a relatively low interest rate, we have an interest in temporarily refraining from overly restrictive budget measures. Re-reading the revised Stability and Growth Pact from 2005 shows that this really is very much in line with the changes made at that time, particularly concerning public investments and periods of recessionary pressure.

3.3 *Current account balance back on the political agenda*

3.3.1 Price stability, economic growth and full employment have long been the predominant objectives of economic policy, in the search for prosperity and welfare. Budget balance and public debt are intermediate targets to ensure that the real objectives are reached. Two objectives have not been considered for a long time. One is fair income distribution. The other is the current account balance. The importance of this objective faded away. This was a mistake. In a single market with a single currency, this objective is fundamental.

3.3.2 Looking at the current account balance, i.e. the trade balance with other countries, what was to come in the euro area was very clear. Currently and over time, a large current account deficit has developed in Greece. Germany, the Netherlands and Sweden have for a long time had surpluses. On the other hand, most Mediterranean countries have deficits, although the largest deficits appear in Bulgaria.

3.3.3 Even large short-term current account deficits or surpluses are not a problem. Problems occur when they persist over many years or if imported capital is not properly invested implying that potential productivity increases are not realised. Inside the euro area, Greece, Portugal, Spain, Italy and Ireland have had quite large deficits practically since the introduction of the euro. Outside the euro area, the Baltic States together with Bulgaria have had extremely high deficits. Large deficits can only be changed through extremely hard economic policy, as in 2009 in Estonia, Latvia and Lithuania.

3.3.4 Having noted the extent of differences between the Member States, the EESC wants to underline the need to reduce most of these differences. This leads us to point at competitiveness as the central objective. Competitiveness is measured by the real unit labour cost, which represents the combined effect of wage and productivity development. Within the euro area, Germany and Austria, in particular, have increased their competitiveness through lower real unit labour cost. On the other hand, since 2008, wage levels in Germany have been rising faster than productivity, resulting in a less competitive situation. During the last decade, Ireland, Greece, Italy, Spain and Portugal reduced their competitiveness, on average, by 10 % ([9]). When a deterioration in competitiveness continues for a long time, it can lead to budgetary problems. This effect has been obvious in 2010. The fundamental reason, to be found in the changes of competitiveness, has not been adequately noticed.

3.3.5 Since changes in exchange rates are no longer part of the euro area toolkit, changed relative competitiveness, with a higher level of prices compared to other countries, must be sought in 'real exchange rates'. With differing developments for wages and productivity within a currency area, there is no other way to cure the problems but to change relative wages between the countries or increase productivity through investment in lagging countries. It would be absurd to ask countries with good productivity development to stop this.

3.3.6 Experiences from the Spring 2010 crisis show that Eurostat should be given audit responsibilities vis-à-vis the national statistics offices. Accurate statistics will be even more important if statistics on current account balances, wage and productivity developments are a basis for new political discussions at the European level.

3.3.7 The EESC proposes that targets on budget balance and public debt are complemented with current account balances. Using a single figure is impossible in this case. Positive current accounts for some countries always correspond to negative accounts in other countries. The problem appears when the difference is too wide or too sudden or where imported capital is not used for productive investments.

3.3.8 The EESC, therefore, proposes that the Commission conduct a check on current account balances, similar to those carried out on public deficits and debt. This idea has now been put forward also by the Commission in its Economic Guidelines and in a document on reinforcing economic recovery. These questions are also being discussed by the special Task Force on Economic Governance under the chairmanship of the European Council president van Rompuy.

([9]) *Crisis in the euro area and how to deal with it*. Centre for European Policy Studies, February 2010.

3.3.9 The EESC wants to strengthen the character of these proposals. The new current account target should be treated in the same way as the two existing targets in the Stability and Growth Pact. The current accounts, and the underlying wage and productivity developments, should be scrutinised by the Commission in all 27 Member States. Powers to act against those with negative developments should, as with public deficits and debt, be greater with respect to the euro countries. European actions should concern the direction of policy changes and not their implementation in practice. This will remain a national competence in compliance with the subsidiarity principle. Simply by amending the Regulations governing the Stability and Growth Pact the real economy or, in other words, the macro-economic aspects could be introduced into the Stability and Growth pact.

3.3.10 The crisis has shown that even other aspects of the Stability and Growth Pact need to be further developed. Statistics on private credits and on the share of foreign loans in sovereign debt should be published together with the ordinary statistics required by the Stability and Growth Pact. These new figures could serve as early warning systems and as pressure on countries with a problematic economic situation.

3.4 *Other key areas for a new European economy*

3.4.1 Public financial support, financial regulation

3.4.1.1 In order to prevent a disastrous development for whole sectors of the economy, above all the car manufacturing industries, large public support has been granted. The 'usual' European state aid policy was not used to stop such support in the current situation.

3.4.1.2 The most spectacular support was given to the financial sector. In some European countries as well as in the USA, some banks were partly nationalised. There will certainly be a turn around for this policy but it may take some years. Even in the long run, it could be an efficient part of a national financial policy to keep some bank capital public to provide insight into the banking sector.

3.4.1.3 Parts of the financial sector, receiving unprecedented support from governments, subsequently participated in speculative attacks on the sovereign bond market inside the euro area during the Greek crisis. The financial market tried to seize decision-making power from politicians. Following the development of an extremely severe crisis, politicians regained their power. Politicians can be criticised for failing to take action until a severe crisis was in place, both during the financial crisis and the sovereign bond crisis. This shows that proposed regulation and financial supervision are not enough. More effective regulation and supervision practices are necessary to change the behaviour of financial institutions and to find new ways of financing public debt.

3.4.2 Greening of the economy

In the long run, investments have to be concentrated on environmental protection and measures against climate change. The shift in the composition of investments has to start now. The Commission believes that there seems to be a stronger tendency towards a shift among our international competitors. The shift is crucial, not only for environmental reasons, but also for European global competitiveness. New jobs can be created to replace the ones that disappear. In this way economic sustainability can be combined with environmental and social sustainability. Like the Commission in the proposal for Broad Economic Policy Guidelines the EESC favours taxes as an instrument to influence the market to reduce dangerous emissions.

3.4.3 Infrastructure and energy

In a period lacking business investments the public sector needs to step in with public investments. This is necessary both as a stimulus to growth and because of the great need for infrastructure and energy investments. The banking sector's new unwillingness to take on risks in providing credit to businesses is particularly problematic for SMEs. Despite the current government bond problems there is still an interest rate bonus for government bonds in most countries, leading to an advantage for public investments. According to the revised Stability and Growth Pact, investments do not have to be included in excess deficit calculations.

3.4.4 Active labour market policies

Labour market policies have to be active and not only restricted to economic support to the unemployed. Many different schemes have been used to re-skill both those who are still in work and those who are unemployed. The objective of 'education for all' in the Spain-Belgium-Hungary programme is promising. An inclusive policy does not only mean that people can get a job, it must also make it easier for them to play a more active part in society.

3.4.4.1 Setting an objective for an increased employment rate, as in EU2020, is never enough. In order to improve the employment rate, some fundamental policies have to be in place.

— Skills policies are among them. Life-long learning is a must. A great problem is to find out who should pay. Society, the employers or the employees? In some way, all three must be involved in financing.

— The basis for this is the general standard of education. Europe needs to raise the overall knowledge levels.

— An obvious policy to increase the employment rate is to set up a high-quality and cheap childcare system, combined with parental leave that is long enough and sufficiently well-paid to be an incentive to have children.

— There are many obstacles that prevent people from being able to apply for a job. Each disadvantage may require its own policy when it comes to labour force participation.

3.4.5 Social policies

3.4.5.1 In a report [10] on social protection and social inclusion, the Commission acknowledges that welfare systems have played a vital role in mitigating the social and economic impact of the crisis. Social spending during the crisis is said to have increased on average from 28 to 31 % of the Member States' GDP. When the need for unemployment support is reduced, the same public resources should reappear in family policy and skills development. This is an example of how an exit strategy will develop in an entry strategy.

3.4.5.2 Adequate income support, access to the labour market and to quality social services are important according to the Commission. What the EU can do on social issues is only a small complement to national social policies. We have seen many EU instruments to encourage Member States to learn from each other – bench-marking, peer review, the open method of coordination. They have not had the expected result. The EU cannot force Member States to follow examples of good practice. 'Naming and shaming' could be one way to raise public awareness of the differences.

3.4.5.3 Austerity measures have to be balanced. We cannot allow the social welfare systems to be sacrificed on the altar of budget balance. The crisis has revealed remaining deficiencies in social systems. The architecture of social systems must lead to welfare and employment. But social systems also have constraints; they have to be kept within financial possibilities.

3.4.6 New sources of income [11]

3.4.6.1 In an opinion on the post-Lisbon strategy, the EESC mentioned both a tax on financial transactions and a carbon dioxide tax as new sources for public revenue. These have so-called double dividends, i.e. that apart from raising revenue they can also respectively reduce short-termism on the financial market and improve our environment. The current reason for the search for new sources of finance is to reduce large budget deficits. Taxes on financial transactions and carbon dioxide are to be preferred to raising other taxes, such as on labour and through VAT. The later ones would reduce general demand, which in the current situation is not advisable.

3.4.6.2 Another new public financing method is Eurobonds. This could supply capital to the public sector without a total reliance of the private financial sector. Eurobonds would attract financial resources directly from their source such as pension funds looking for long-term placements for their money. There is also the possibility to open up to private long-term placements for savings at the EIB in order to find new sources for the EIB. Hence, the EIB becomes an interface between these new capital resources and its investments. Long-term savings would then be available for long-term public investments e.g. in infrastructure. Eurobonds are a 'concept' but should include all EU Member States. Here, we once again have a double dividend – room for speculation against sovereign debt on the financial market would also be reduced.

Brussels, 16 September 2010.

The President
of the European Economic and Social Committee
Mario SEPI

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(10) Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions *Proposal for the Joint Report on Social Protection and Social Inclusion 2010* - COM(2010) 25 final.

(11) See EESC opinions on *Financial transaction tax* and on *The implications of the sovereign debt crisis for EU governance*.