# Opinion of the European Economic and Social Committee on the 'Communication from the Commission — Annual Growth Survey 2014'

*COM(2013) 800 final*

(2014/C 214/10)

Rapporteur-general: **Ms PICHENOT**

On 13 November 2013 the Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, on the

*Communication from the Commission — Annual Growth Survey 2014*

COM(2013) 800 final.

On 18 November 2013 the Committee Bureau instructed the Europe 2020 Steering Committee to prepare the Committee's work on the subject.

Given the urgent nature of the work, the European Economic and Social Committee appointed Evelyne Pichenot as rapporteur-general at its 496th plenary session, held on 26 and 27 February 2014 (meeting of 26 February) and adopted the following opinion by 187 votes to 2 with 11 abstentions.

## 1. Conclusions and recommendations

### 1.1 *Consolidating the European Semester and involving civil society more closely*

1.1.1 To enhance **national ownership and democratic legitimacy**, which are crucial to the European Semester process, the EESC recommends involving civil society stakeholders more closely, while acknowledging the diversity of national practices: It therefore recommends the following:

— a **practical guide** on the European Semester instruments should be created for national, regional and local elected representatives as well as economic and social stakeholders,

— European institutions, especially the Commission, should develop more contacts with **national parliaments** and hold hearings with them, given the democratic legitimacy of their remit for budgets and economic reforms,

— the debate with civil society on the schedule for structural reforms and the mutual impact of Member State policies should be continued,

— Member States should be more strongly encouraged to involve the **social partners** and consultative bodies in framing reforms based on country-specific recommendations as well as in drawing up and monitoring National Reform Programmes (NRPs),

— the social partners and civil society must be involved in **evaluating government policies** preceding any rationalisation or modernisation measures,

— the **annual integrated report of national ESCs and similar institutions** [1] should continue being sent to the European Council. In this connection, national consultative bodies should be encouraged more strongly to participate in drawing up this integrated report,

— the Council and Commission should **officially respond** to written input from national civil society, thus showing that consultation is taken seriously and is reflected in the debate on country-specific recommendations,

— a method to meet **quality standards in terms of involving civil society organisations** and social dialogue in the Member States should be worked out, based on a study to be published in 2014 at the initiative of the EESC's Europe 2020 steering committee.

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(1) See CESlink: http://www.eesc.europa.eu/ceslink/?i=ceslink.en.home.

1.1.2 In its 2014 annual growth survey (AGS), together with the appended reports ([2]), the Commission sets out its vision of the European Union's economic and social policies, with an emphasis on coordination between European policies and national measures. This analysis, which includes the same priorities as in previous years, is the first stage of the European Semester.

**The previously established macroeconomic and budgetary monitoring system is continuing to evolve in 2014**, based on documents inspired by the principle of coordinated discipline, monitoring and penalties. It is based on an **alert mechanism** to prevent macroeconomic imbalances, **National Reform Programmes** (NRPs) and **country-specific recommendations** (CSRs) drawn up in consultation with each Member State. In addition, the European Semester remains closely linked to the Europe 2020 strategy and its quantified targets.

1.1.3 The financial then economic crisis which continues to affect Europe has exposed the cracks in the governance system of economic and monetary union. Unless these shortcomings are urgently addressed, the very existence of the euro could be at stake. The EESC acknowledges that **significant progress has been made on economic governance**, but reaffirms the urgent need to ensure democratic legitimacy and ownership of these processes at national level. This Committee opinion **ties in with previous opinions on the AGS**, which are summarised in the recommendations set out in point 2.1 of this opinion. The current opinion complements and updates previous opinions, and looks at the prospects for 2015, based on the conclusions of numerous recent opinions.

1.1.4 The 2014 Annual Growth Survey is the first stage in this procedure, which the **Europe 2020 Steering Committee** will be monitoring throughout the year. At the same time, national economic and social councils and similar institutions will be monitoring the implementation of reforms and policies at national level. The Committee is pleased that an explicit link has been made between the **spring Tripartite Social Summit** and the European Semester process. To complement this, it would like the positions of the European social partners to be published in an appendix to the European Semester documents. It would also like the AGS to be accompanied by a report on the state of play with regard to the Europe 2020 strategy. Such an analysis is needed to prepare for the mid-term review of the strategy.

1.1.5 The Committee believes that the crisis has not yet been overcome. It therefore calls on the European institutions and the Member States to reconcile appropriate fiscal consolidation with **determined and persistent measures to promote growth, employment and competitiveness** throughout a European Union of 28 Member States. The EESC urges the next Commission to implement an ambitious **investment programme** improving access to financing for small and medium-sized enterprises. The European Structural and Investment Funds should support the Europe 2020 objectives. They could also be used to back up the reforms set out in the country-specific recommendations. At the same time, the Committee urges the Commission to present a roadmap for specific implementation of the 'social investment' package.

1.2 *More coherent governance for genuine economic and monetary union*

1.2.1 Following on from the report entitled 'Towards a genuine economic and monetary union' ([3]), the EESC is pleased to note that there has been **gradual progress from 'coordination'** to more coherent economic governance among the Member States, through the European Semester process. In particular, it notes that the AGS has been adapted to new governance rules in the euro area in particular, with the submission of **draft budgets in mid-October** so that the Commission can evaluate whether Member States have taken the requisite steps to achieve the objectives set at European level. After this, budgets are finalised at national level. This procedure should fully respect the democratic legitimacy of national parliaments, which have the sole power to amend and adopt budgets.

1.2.2 The EESC recognises that the agreement reached at the December 2013 Council meeting on future common rules on the monitoring and resolution of failing banks is to some extent a step forward. It notes that progress is still needed on the foundations of the Banking Union. Many challenges still have to be addressed in the near future, particularly with regard to consolidating the financial sector and the deadline for setting up a Single Resolution Mechanism. The Committee is deeply concerned about the risks arising from an **incomplete Banking Union** and the use of an intergovernmental process ([4]).

1.2.3 The EESC is disappointed with the cutbacks in the 2014-2020 **multiannual financial framework** (MFF). However, it is pleased that there is capacity to invest over EUR 400 billion. This sum is available for rapid deployment to promote growth and employment at national and regional level through the European Structural and Investment Funds (ESIF), thus helping to achieve the Europe 2020 strategy's objectives. The Committee appreciates that for the first time **political decisions are backed by financial commitment**. These two factors combined are important in supporting growth.

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([2]) Annual Growth Survey, COM(2013) 800 final, with annexes.

([3]) Van Rompuy: 'Towards a genuine economic and monetary union', Brussels 12 October 2012, European Council.

([4]) European Council conclusions, December 2013.

1.2.4 In this AGS the Commission is endeavouring to create a European framework to promote growth in Europe, through a combination of **economic governance**, the **multiannual financial framework**, and policies to complete various aspects of the **Internal Market and trade policy**. The Committee supports the Commission's call to Member States to take this **European framework** into account when formulating their national policies. It notes that growth and competitiveness are now top priorities in the AGS. The Committee would like to advocate a broad interpretation of competitiveness in terms of high quality and effectively targeted products and services, and not solely in terms of prices.

1.2.5 In order to preserve the European model of social cohesion — something which is also advocated in 'Towards a genuine economic and monetary union' — in line with the Treaty's horizontal social clause, the EESC calls for a radical change of course by the European Council in order to add a social dimension to EMU. This should be done by proactively including the **scoreboard of social indicators** ([5]) in the European Semester on an equal footing with macroeconomic and budgetary indicators. The purpose of this social dimension should be to prevent the risks of social imbalance and to flank stabilisation mechanisms, not least on the basis of the Youth Guarantee and the Structural Funds, which among other things can be used for (re)training.

The EESC would also like the EU's **gender dimension** to be reflected in all these instruments.

1.2.6 The severe crisis which Europe is undergoing and policies implemented to combat debt problems could jeopardise many of the Europe 2020 strategy's objectives. The EESC would like the **initiative on SMEs** to be immediately launched from early 2014. It takes a favourable view of the new mandate which the EIB has entrusted to the EIF (EUR 4 billion, for SMEs and microcredit), which has been beefed up through additional capital.

1.2.7 The EESC stresses that the EU has **many assets** that could help it to emerge from this crisis, whether in terms of infrastructure, high-quality services or the Single Market. These assets should be harnessed in order to speed up the environmental transition and to promote innovation, SME access to credit, and business competitiveness in general, with a view to achieving sustainable, green and inclusive growth.

1.3 *A dynamic long-term prospect of revising the Europe 2020 strategy*

1.3.1 This opinion has been drawn up with the March 2014 European Council conclusions in mind; it is also intended to feed into the **mid-term review of the EU 2020 strategy**. This is an important issue for the new European Commission, which will begin under the Italian presidency. The EU must show ordinary Europeans that it has the political will and detailed vision to bring about deeper integration in order to achieve a 'better Europe', i.e. 'more Europe' in certain policy areas. In order to begin preparing the mid-term review of the Europe 2020 strategy, the review should be **synchronised with the European Semester instruments** so as to strike a new balance between responsibility and solidarity. The Committee recommends including a scoreboard of environmental indicators in the European Semester.

1.3.2 The Committee is pleased that the 2014 AGS encourages Member States to meet **the challenges of the 21st century** and to promote investments serving longer-term objectives, for example in relation to climate change, despite difficult budgetary conditions. In its objectives, methods and instruments, the European Semester should continue to address the greening of existing industrial processes in individual sectors as well as the economy as a whole, in order to ensure economic recovery based on a more sustainable model of development. In its priorities for growth and competitiveness set out in the AGS, the Commission mentions promoting resource efficiency, with improved waste management, more efficient water use, and increased recycling and energy efficiency.

This revision of the strategy should embrace **emerging themes and practices** such as the circular economy, the participatory and collaborative economy, eco-design, environmental efficiency, eco-mobility, renovation of buildings and sustainable urbanisation as levers of sustainable development.

1.3.3 A new European strategy will have to build on joint evaluations by the European institutions and the Member States, at the same time as tying in with the **United Nations post-2015** sustainable development objectives (future SDOs). The European Union has contributed significantly to defining the **universal scope** of these future sustainable development objectives. This review will need to ensure **coherence** between all policies, in line with what has been done for development policy at European level. These **shared future global objectives** will have to be translated into a **sustainable development process specifically for the European continent**. To this end, the Committee recommends that the mid-term review is aligned with the sustainable development objectives for 2030, in close cooperation with the Member States.

([5]) There are five indicators: the unemployment rate, young people who are neither in employment or training, poverty risk of the working age population, inequalities, and gross disposable household income.

1.3.4 The Committee would like to play its part in this process of ensuring sustainable economic transition and remains vigilant in calling for an ambitious climate/energy policy. Account should be taken of the outcomes of the conference held on 13 and 14 February 2014 on 'A New Global Partnership: the Positions of European Civil Society on the Post-2015 Agenda' ([6]) — a conference in which the EESC played a key role.

## 2. **Annual Growth Survey 2014 — continuity and a more in-depth approach**

2.1 With regard to **continuity**, this opinion on the 2014 AGS takes up the observations set out in the Committee's previous opinions on the European Semester, with additional input from national economic and social councils and similar bodies. The **following conclusions remain relevant** in 2014:

— the '**European Semester**' is an evolving but complex process enabling closer coordination, set up at short notice in response to the worst multidimensional crisis in the history of the EU, a crisis which exposed the inherent shortcomings of an incomplete EMU;

— anchoring growth in the objectives of the **Europe 2020 strategy**, with particular emphasis on the importance of: education, training and lifelong learning; active labour market measures; entrepreneurship and self-employment; social inclusion policies; and energy efficiency;

— environmental transition to a **sustainable production and consumption model** as an essential prerequisite for economic recovery;

— Member States and regions are growing increasingly **far apart** from one another; there is also a growing gap between central and outlying areas. There is an urgent need for cohesion policies to restore convergence to the EU;

— the need for effective implementation of reforms by European institutions and the Member States;

— **increased public debt**, exacerbated by the banking crisis;

— **differentiated fiscal consolidation** compatible with renewed growth; policies to consolidate public finances must take a longer-term perspective and be based on efforts to strike an intelligent balance between revenue and expenditure, supply and demand;

— in parallel with this, there is an **urgent need for an initiative to restore growth, employment and competitiveness**; effective reforms of product, service and labour markets where necessary; support for investment and solidarity policies; a full **Banking Union**;

— the far-reaching social implications of policies implemented in response to the crisis; the need to take into account **social justice and equity** when calculating the costs and benefits of structural reforms; the need for a social impact assessment of these reforms;

— respect for the social partners' autonomy and collective agreements; cooperation and close consultation with the **social partners and civil society**, while strengthening the democratic legitimacy of the European Semester; strengthening social dialogue, particularly on labour market reforms.

### 2.2 *Instruments of relevance to a growth survey*

2.2.1 The EESC notes that the European Semester process has resulted in a gradual transition from coordination to more binding economic governance for the Member States. At the end of 2013 this took the form of an evaluation of country-specific recommendations, which will be used as a basis for the **next recommendations in spring 2014** and for their translation into NRPs. The various European Semester instruments enabling analysis for the purposes of closer coordination constitute an intricate interlocking mechanism. Unfortunately, at present only a **very small number of European and national experts** fully understand this mechanism.

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([6]) A New Global Partnership: European Civil Society Positions on the Post-2015 Framework.

2.2.2 For the first time in autumn 2013, the Commission evaluated euro area countries' **draft national budgets** before these budgets were debated and adopted by the respective national parliaments. The Commission has not asked any of the thirteen euro area countries concerned to revise their drafts, thus avoiding any conflicts of legitimacy for the time being. However, the Alert Mechanism Report, which analyses ten macroeconomic indicators ([7]), states that there will be in-depth reviews of **sixteen countries this year** to identify imbalances and to determine whether they are excessive or not.

2.2.3 According to the Commission's analysis, the current situation is at a **turning point**, with prospects of an **overall recovery (1,1 % for the euro area, 1,4 % for the EU-28)** which therefore need strengthening. The Committee is concerned that this still fragile incipient recovery is not yet visible in all Member States. However, it acknowledges that there has been progress with the new AGS, which makes **growth and competitiveness the top priority**. The Committee will be monitoring implementation of this priority in order to ensure that the EUR 400 billion is allocated to projects intended to achieve it. It will make sure that the future convergence and competitive instrument helps countries in difficulty to step up the quality and pace of their reforms.

2.3 *Continuing uncertainties?*

2.3.1 The AGS notes that there is an **incipient and still modest recovery**. The Committee is concerned about the uncertainties emphasised in the Commission's document, such as the correlation between failing banks and sovereign debts or decreased demand in emerging countries, the fragmentation of the financial system, and high unemployment levels. These uncertainties undermine prospects and stand in the way of growth.

2.3.2 The EESC notes that the 2014 AGS is generally more optimistic in tone than the IMF and OECD forecasts, which suggest that the pace of global economic recovery is slower than announced in May 2013, mostly due to a worsening outlook for emerging economies ([8]). Over the last few years, there have been several occasions where the Commission was optimistic about recoveries which never happened. It calls on the next Commission to review **economic forecasts and if necessary to change course**. In any case, the Committee stresses that stagnation or excessively slow recovery would threaten social protection systems, particularly in countries where such systems are still fragile.

2.3.3 During the crisis labour markets deteriorated. However, we are not now seeing an equivalent improvement as economies stabilise; the AGS merely points out that there is a time lag between economic recovery and employment. If this lag continues, there is a risk of **long-term structural unemployment**. This is why **labour market participation must be stimulated** in various ways, through qualifications, lifelong learning, involvement of the social partners, as well as government and private sector investment programmes to create jobs.

2.3.4 It is still too early to say whether we are out of the euro crisis. There are numerous dangers, such as the risk of excessively low inflation (less than 1 %) over a longer period leading to **deflation**, which could jeopardise any prospects of recovery. **ECB monetary policy** is decisive in this respect. One of the other risks which the Committee would like to emphasise is that several banks may be too weak to meet their obligations. The forthcoming stress test under ECB supervision will be an important indicator of the state of health of the financial sector.

2.3.5 The AGS acknowledges that **business prospects are difficult**, with weak growth forecasts in some countries and difficult access to credit causing problems for many SMEs, some of which are facing bankruptcy.

2.3.6 The EESC acknowledges that **social and economic disparities** make it difficult to set uniform priorities valid throughout the European Union. In order to draw up relevant country-specific recommendations, the Committee recommends specific measures to ensure **dialogue between the Commission** and civil society, and to strengthen **social dialogue**.

([7]) Indicators of the scoreboard for prevention and correction of macroeconomic imbalances: current account balance, net international investment position, real effective exchange rate, export market share, nominal unit labour costs, property prices net of inflation, private sector credit flow, unemployment rates — three-year average, private sector debt, public sector debt, total financial sector liabilities.

([8]) OECD, Economic outlook, analysis and forecasts, Euro Area — Economic forecast summary (November 2013), http://www.oecd.org/eco/outlook/euroareaeconomicforecastsummary.htm.

2.3.7 The EESC remains concerned about the problems inherited from the crisis. It is seriously concerned about the potential risks of the asset quality review (AQR) and stress tests to be carried out on banks in 2014; such monitoring must be credible, but the Banking Union does not offer immediate solutions.

2.3.8 The EESC welcomes the agreement on the directives on deposit guarantee systems and on recovery and resolution of banks. **Implementation of a Banking Union in relation to monitoring and resolution** will be of key importance in relaunching the economy and restoring trust. This is why the EESC is calling for speedy adoption of a **Single Resolution Mechanism** as a key instrument for managing future banking crises. The Committee is extremely disappointed that the recent Council was unable to reach agreement on full Banking Union and opted for an intergovernmental process.

## 3. **Stabilisation at the same time as fragmentation**

3.1 The AGS acknowledges that Europe's share in international trade contributes significantly to the EU's wealth and that recovery is focusing on **growth more strongly driven by increased exports** to emerging economies, with internal devaluation in some countries.

In a context of fierce international competition, the EU still has a very strong trading position, despite **significant changes in value flows and chains**. The EU also wants to ensure greater openness to investments. In response to this development, the European Union has committed itself to bilateral negotiations on both trade and investment and to the implementation of bilateral agreements. The Committee still attaches great importance to enforcing rules, standards and values in all agreements, where necessary using safeguard measures and WTO dispute settlement, and to being involved in arrangements to monitor these agreements.

3.2 The absolute priority given in the first AGSs to draconian general austerity policies has been replaced by a differentiated approach with more nuanced fiscal consolidation objectives. The EESC supports the call for Member States to design better consolidation plans, with more attention paid to the **quality, content and intensity of these plans**. The EESC acknowledges that the Commission has explicitly emphasised the influence of fiscal policy on growth, public sector efficiency, and social justice. It has also criticised environmentally harmful subsidies.

3.3 As emphasised in its opinion on the social dimension of EMU, the EESC is concerned about the economic and social situation. The trends in terms of economic recovery and social inequality **differ considerably** from one country/group of countries to another, undermining the prospects of all Member States sharing in prosperity. The EU is tasked with **preventing growing economic and social fragmentation**, not just within the euro area, but also, more broadly, in the Single Market. The EESC reiterates its call for a framework directive to combat poverty by facilitating labour market inclusion.

3.4 The EU as a whole should commit itself to reforms enabling it to adapt more successfully to changing economic conditions. As already emphasised in the Committee's previous opinion on the AGS, the costs and benefits of these structural reforms must be fairly shared by all stakeholders (workers, households/consumers and businesses).

3.5 The EESC feels that the priorities of the 2014 AGS do not tie in closely enough with the **Europe 2020 strategy and its quantified targets**. It reiterates its concerns about the **lack of progress** towards targets. The Committee asks why no attempt has been made to analyse the reasons for this lack of progress and looks forward to the mid-term review. It is also concerned about the diverging trends within the EU in terms of economic activity, employment, unemployment and precarious working conditions. In many fields, Europe 2020 targets are becoming more and more unattainable. Unemployment appears to have stabilised at 10,9 % in the European Union (12,1 % in the euro area), i.e. at levels not seen since the launch of economic and monetary union.

3.6 Even though the institutions have been calling for a stronger social dimension of EMU since 2011, the Committee notes the very disappointing outcomes of the December 2013 European Council, which had included this priority on its agenda. And yet, the Committee would like to point out that the **Employment Report includes some effective analytical tools**. It notes that the European Semester includes the social indicators scoreboard in the employment report and calls for its inclusion in a single monitoring framework giving equal priority to economic and social dimensions. **Quantifiable employment and social performance targets** are needed alongside government debt and deficit targets. Similar adjustment and solidarity mechanisms will be needed to correct social inequality and promote social investment. For many years, the EESC has emphasised that there is an **enormous need for investment**, including social investments, to create jobs, reduce poverty and combat social exclusion. This will require both public and private sector investments, and in some cases implementation of **structural reforms**.

3.7 The EESC also emphasises that structural problems in Member States must be dealt with at the source. **Structural competitiveness, economic growth and a strong social dimension** are key factors in helping Europe to emerge from the crisis. The recently proposed scoreboard of social indicators should be used to strengthen change in the short and medium term, in close cooperation and consultation with the social partners.

3.8 It is vital to integrate the **gender dimension** in the new economic governance. The Committee calls on European institutions and Member States to take the gender dimension into account in their reforms, to define gender-specific data in all instruments, and to identify the impact of gender inequality on growth, particularly in the NRPs and the country-specific recommendations.

3.9 Due to the lack of **sufficient coordination between national policies**, policies in one Member State can have a negative impact in other Member States. The AGS mentions this problem, but the debate launched by the communication on plans for major economic policy reforms needs to be pursued in greater depth, to ensure that we have a coherent **schedule for structural reforms**. In this connection, **fiscal or social competition as well as energy mix and migration policy choices** could have negative repercussions for other Member States.

3.10 The main challenge now is to **support economic recovery**. Among other things, this will require proper implementation of major economic reforms, and efforts to strengthen **structural competitiveness**, i.e. the capacity to innovate, as well as to enhance the quality of products and services, to rethink work organisation and management, and to develop research and its applications, alongside **other price-related competitiveness factors** such as production capital and labour costs, together with the allegedly excessively strong euro.

## 4. **Long-term investments conducive to sustainable growth**

4.1 The EESC is disappointed at the insufficient emphasis on investment and restoring **domestic demand**. Europe needs growth and jobs — this is why a **new European investment programme** is necessary. The EESC reiterates its proposals for an investment plan to create high-quality jobs for young people in particular, support sustainable development, and enable projects to promote an innovative future, at the same time as furthering education, research, infrastructure and environmental efficiency. The main criterion for such a programme should be to create jobs and as a result to reduce poverty and to relieve pressure on government budgets thanks to wider participation in the labour market.

4.2 Such an investment programme should complement and strengthen efforts to achieve greater **business competitiveness** and to promote economic recovery in order to enhance the EU's economic performance on the international arena, as well as ensuring a prosperous, inclusive and resource-efficient future. Solidarity and fairness both within countries and across Europe are essential in ensuring that the measures taken are politically and socially acceptable and in everyone's interest.

4.3 The EESC is happy with the reference to efficient use of **natural resources** and to energy policy implementation as priorities of the 2014 AGS intended to ensure growth and competitiveness. The Committee feels that building an **inclusive and green economy** will be the main challenge of the next few years, one which will mobilise Europe to emerge from the crisis. Measures to stimulate growth and employment must be based on an environmental transition to a low-carbon and environmentally resource-efficient economy by 2050. The EU will need to speed up this process.

4.4 Given that spending cuts alone cannot lead to growth, the EESC calls on the Commission to take a more in-depth look at policies on private investment, access to credit for SMEs, boosting consumption, and structural reforms in the field of fiscal policies. National-level measures in these three areas (**investment, consumption, taxation**) will only be fully effective within a clearly defined coordinated **European framework** geared towards prospects of sustainable development and shared prosperity.

4.5 The EESC reiterates its recommendations for **European level investment**, specifically through **EIB or EIF bonds** to finance growth, attract surplus savings worldwide, allow certain future-oriented structural investments to be excluded from the definition of public debt, and focus more attention on industrial policy.

4.6 In order to help relaunch **domestic demand** in Europe, we need more labour market participation, improved public employment services, and active labour market measures. Despite its modest funding, the **Youth Guarantee** is particularly welcome here. However, it is also essential to give employees and workers **stable employment and wage prospects**, as an essential precondition for restoring confidence and consumption.

4.7 If we want to encourage a relaunch of the Internal Market, modernisation of employment contract legislation to promote greater labour market **flexibility** should also strike the right balance by taking into account the **dimension of employment security**. Eurostat estimates a rate of 8,7 % of working poor in the EU in 2011 ([9]), and the economic crisis is continuing to exacerbate precarious conditions.

4.8 Similarly, the Commission's call for 'more effective social protection' to support social change and gradually reduce **inequality and poverty** should be interpreted as a demand for high-quality services to the most vulnerable groups. In 2012 a quarter of the EU's population, almost 125 million people, was at risk of poverty or social exclusion, according to Eurostat ([10]). This figure has been growing since 2008 and cannot be blamed on poor management of social protection systems; rather, the causes are the economic crisis and policies which have not paid enough attention to the issues of fairness and social justice.

4.9 In view of this, the EESC emphasises that the costs and benefits of structural reforms to achieve rationalisation must be fairly shared by all stakeholders. Above all, this means we need to start thinking now **how the benefits of the expected future long-term recovery are to be shared**. The EESC once again calls on the Commission to clarify its views on wages, inflation and productivity.

## 5. Governance is improving, but is still limited and uneven

5.1 The EESC considers that when evaluating the EU's new economic governance, we need to **simplify processes**. It has already been emphasised in the Committee's opinions that the European Semester schedule is overloaded with instruments (SGP, TSCG, six pack, two pack, etc.). The EESC notes that despite the complexity of this evolving governance, it does seem to have reassured markets about the EU's and the Member States' determination to meet the **challenges of EMU**. We now need to combine credibility, comprehensibility and legitimacy.

5.2 In terms of involving the **social partners and civil society**, the focus in the AGS seems mainly to be on national ownership, with insufficient emphasis on their real involvement in shaping guidelines and implementing policies. The credibility and social acceptability of reforms is contingent on close cooperation and consultation with the social partners; failing this, implementation cannot succeed.

5.3 Ordinary Europeans also expect Europe and its Member States to ensure that this new governance meets the **other challenges** they are facing in areas such as combating global warming, energy policy, industrial policy, promoting careful and efficient resource use, etc. In view of this, the EESC welcomes the Commission's energy priorities.

5.4 An incentive mechanism could be set up within the economic and social governance system, with a single monitoring procedure **in support of national reforms** intended to achieve **convergence and competitiveness**. The 2014 AGS mentions the lively debate on the new convergence and competitiveness instrument with '**contractual arrangements**' or 'contracts for competitiveness' under which Member States would commit themselves to reforms in exchange for financial support to facilitate implementation. The Committee feels that more details are needed on financing arrangements (added value compared to existing Structural Funds, types of reform eligible for support, size of the financial instruments, source of financing) and the form of these contractual arrangements. In view of this, it feels the **debate should remain open and that hasty decisions should be avoided**. A contractual approach underpinning the convergence and competitiveness instrument could offer more room for manoeuvre at national level enabling closer civil society involvement. This approach also seems to represent a compromise between voluntary coordination and compulsion in areas where Community competences are currently limited. The Member States will re-visit this idea at the October 2014 European Council meeting.

5.5 With regard to the shift in **taxation** from labour to e.g. consumption, the EESC is concerned that in the current context this could undermine domestic demand. It is also concerned about the risk of Member States undercutting one another on salaries, something which would also undermine demand.

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([9]) http://www.europarl.europa.eu/RegData/bibliotheque/briefing/2013/130424/LDM_BRI(2013)130424_REV1_FR.pdf.
([10]) http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-05122013-AP/EN/3-05122013-AP-EN.PDF.

5.6 With regard to **environmental taxation**, the EESC notes with interest that the Commission has set itself the priority of rethinking labour-based taxation and transferring the burden to other areas linked to e.g. pollution. Steps should be taken to promote environmental tax reforms in Member States given that these could support fiscal consolidation at the same time as helping to cut consumption of natural resources and imported fossil fuels. This would be less harmful for growth and employment then indirect taxation.

5.7 With regard to **property taxes**, which the AGS merely mentions as another alternative to labour-based taxation, the Committee would like the Commission to explain its ideas on this subject and to include more substance in the next AGS.

Brussels, 26 February 2014

*The President*
*of the European Economic and Social Committee*
Henry MALOSSE