Opinion of the European Economic and Social Committee on the European Economic Recovery Plan (additional opinion)

(2009/C 228/28)

On 15 January 2009, the European Economic and Social Committee, acting under Rule 29(A) of the Implementing Provisions of its Rules of Procedure, decided to draw up an additional opinion on the ‘European Economic Recovery Plan.’

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 5 March 2009. The rapporteur was Mr DELAPINA.

At its 452nd plenary session, held on 24 and 25 March 2009 (meeting of 24 March), the European Economic and Social Committee adopted the following opinion by 138 votes to 8, with 13 abstentions.

1. Summary

1.1 A key role in surmounting the current crisis falls to the representatives of the associations of civil society, and in particular the social partners. A strengthened social dialogue is needed, on the one hand to draw up and implement a policy likely to put an end to the crisis as soon as possible and, on the other hand, to mitigate as far as possible the economic and social fallout of the crisis. Thanks to the European social model, the European Union has a better baseline than other regions of the world from which to contain the impact of the crisis. Even within the EU, it is becoming apparent that the policies pursued by countries that have more consensus-based systems are meeting with greater success.

1.2 The European Economic and Social Committee has shown in various ways that it is fulfilling its institutional remit of supporting the other European institutions in the current financial, economic and social crisis. Thus, at a conference held on 22 - 23 January 2009, the Committee established the institutional framework for a dialogue with the various stakeholders: banks, companies, trade unions, institutions and other civil society actors. Instruments for combating the crisis were discussed from an institutional, legal, economic and political, social and academic point of view.

1.3 Moreover, at its plenary session held on 15 January 2009, the EESC adopted an opinion on the European Economic Recovery Plan (1). The key points of this opinion can be found in section 2 and the full text of the opinion is appended.

1.4 A final assessment could not be made in that opinion, as no information was available at the time on the most important issue: actual implementation in the Member States, which has to be the driving force. Implementation has to be closely analysed, as does the proportion of the measures and resources proposed in the recovery plan which is actually new and additional, as opposed to that which was already planned or adopted before the recovery plan.

1.5 The Committee calls on all stakeholders, particularly the Member States and the European Commission, to make a start on implementing the recovery plan without further ado. The Commission is also asked: (a) to provide an overview of the state of implementation of the national programs, (b) to list the instruments available for accelerating the progress of these measures and (c) to assess the extent to which the necessary coordination of national policies is functioning properly or whether there are undesirable developments.

1.6 On 17 March 2009 the Committee held a conference, at which ways of surmounting the crisis were discussed with representatives of the national economic and social councils, the European institutions, the social partners and representatives of other civil society associations. In particular there was an exchange of experience on implementation of the European economic recovery plan at national level and on the contribution which organised civil society can make to economic recovery.

1.7 The purpose of drawing up this additional opinion on the European Economic Recovery Plan is to develop key points of the previous opinion, to flesh out or update certain aspects and to raise questions for discussion with the national economic and social councils.

1.8 The discussion will be continued at the EESC in the course of drawing up the Programme for Europe, with the aim of presenting the European institutions with a coherent and effective package of proposals.

2. Brief overview of the Committee’s previous opinion on the European Economic Recovery Plan

2.1 The Committee wholeheartedly supports the European Economic Recovery Plan of the Commission and the Council. It considers it to be the right economic policy reaction to the coming challenges. Rapid, decisive, ambitious, targeted and coordinated action is required to stabilise the confidence of consumers and investors and boost demand.
2.2 The Committee highlights the following aspects as particularly positive:

2.2.1 Economic policy-makers seem to have learned from experience. Whilst in previous downturns policy was mainly passive, policy-makers now seem to have recognised the need for an active, counter-cyclical macroeconomic policy to complement past reliance on supply-side measures, in order to stimulate domestic demand.

2.2.2 The Committee attaches particular importance to the statement that full use must be made of the flexibility of the reformed Stability and Growth Pact. In an extraordinary situation like the current one this means temporarily allowing the 3% budget deficit ceiling to be exceeded. The stress placed on the ECB's monetary-policy responsibility for the development of the real economy and the reference to further scope for interest rate cuts also appear significant to the Committee.

2.2.3 The Committee welcomes the commitment to a coordinated approach. An international crisis requires internationally coordinated responses. Freeloading and 'beggar-thy-neighbour' policies also need to be prevented.

2.2.4 Another positive feature is the fact that the objectives of the Lisbon strategy play a key role in the current short-term crisis management measures:

- The impact of the crisis on individuals has to be mitigated in line with the principle of social cohesion. The labour market must be supported and the weakest members of society must in particular be better protected.

- Companies' competitiveness must be strengthened, so that by investing, producing and exporting they can contribute to the recovery and emerge strengthened from the crisis. Forward-looking public-sector investment in innovation, education and research must, in addition to strengthening demand, also serve the purpose of structural improvement.

- SMEs may be a key driving force on the path out of the crisis. Support measures are thus needed to again secure unhindered access for SMEs to funding and to strengthen their competitiveness and innovativeness.

- It is also important that public and private stimulus measures serve the objectives of the Union regarding environmental protection, energy saving and climate change, by aiding the transition to a low-carbon economy.

2.3 The Committee opinion also contains some critical comments:

2.3.1 At 1.5% of GDP over two years (an average of 0.75% of GDP per annum), the scale of the EU's economic recovery plan is relatively small compared with packages adopted in other regions of the world. A further concern is the fact that the package actually includes much less 'new money' than the headline amount of EUR 200 bn. In the case of both European and national-level measures, the plan in many cases does no more than list or bring forward measures which had already been adopted, even before the recovery plan.

2.3.2 Care should be taken to ensure that the structural improvement measures do not counteract the objective of stimulating demand and employment. They must be designed to be socially acceptable and conducive to growth and employment.

2.3.3 It will be possible to evaluate the success of the broad range of measures for the Member States only when it becomes clear whether the most appropriate policy mix is being used in each case. Not least for psychological reasons, it is, however, particularly important that all stakeholders take concrete action as soon as possible, as otherwise there is a danger of pessimistic expectations becoming entrenched.

2.3.4 Following on from the initial policy steps, in the form of various rescue packages to restore the operation of the financial sector, there is now a need for a globally coordinated reorganisation of the financial markets aimed at building confidence. The critical mass of the euro area, which has grown with the enlargements, must be used in order to ensure that greater weight is given to European ways of doing things, strengths and experience. The European Economic Recovery Plan does not set out any detailed proposals in this area, however.

3. Further general comments

3.1 The greatest immediate challenge facing economic policy is to restore the confidence of consumers and investors by means of an effective demand stimulus. Demand needs to be created in order to encourage growth and keep unemployment down, so that the kind of downward spiral which occurred in the 1930s can be prevented. In so doing, the failures of the past, which contributed to the current crisis, must be avoided.

3.2 It appears that the economic-policy toolkit of the European Union, and particularly that of the monetary union, were designed for smooth economic development and crisis prevention. They are not, however, adequate for rescue measures in times of crisis. What is needed, therefore, is a new direction in economic policy, new paths and European-level governance which offer appropriate reactions to crises like the current one.
3.3 We have learned to our cost that the market cannot solve all problems (1). The exaggerated belief in the market mechanism as a panacea, short-term thinking and planning and chasing after ever higher returns must be replaced by a realistic, less ideological policy.

3.4 The fact that the market has failed in the financial sector does not, however, mean that it does not function at all any more but it does show the need to avoid or correct adverse market developments through targeted legislation and supervision. The new policy must therefore build on the foundations of a market economy which encourages and rewards initiative and risk-taking. However, the ‘all-powerful market’ must once again be subjected to stricter rules, in order to ensure that it functions as smoothly as possible. Free markets need crash barriers, if only because in reality perfect market conditions do not exist. In the case of the European Union, a further factor is that the European economic and social model is based on principles which require the correction of market results. A renewed focus on a longer-term objectives and values is also part of this model.

3.5 Economic policy, both at European and national level, has – admittedly rather late - taken some important steps in the right direction. Interest rates have been cut, although scope for further cuts still remains. State intervention, aid, guarantees and assumption of risk have once again been recognised as useful and necessary. In particular cases, even nationalisation is not ruled out as an ultimate rescue measure. Public-sector budgets are being used through tax cuts and increased public expenditure to support demand. The macroeconomic policy mix has thus become more balanced.

3.6 The Committee reiterates its concern that the scope of the European Economic Recovery Plan is likely to be too small (see point 2.3.1). This may in part be because, at the time the package was put together, official growth forecasts seriously underestimated the depth of recession. Thus, at the time its autumn forecast was published on 3 November 2008, the Commission was still expecting minimal growth of the euro area economy of 0.1 % in 2009, whereas the interim forecast of 19 January 2009 (-1.9 %) was already two whole percentage points lower. Current forecasts for the end of the first quarter indicate that a contraction of some 4 % is now expected. The impact on growth and employment is thus much graver than was realised only a short time ago. While it is plain that the first thing to do is implement the measures already in place as quickly as possible, the change in the economic situation and outlook over the past few weeks has been so acute that there is clearly a much greater need for countermeasures at various levels, as argued in section 4 of this opinion.

3.7 The economic stimulus measures will cost a great deal of money. Most EU countries will exceed the 3 % budget deficit threshold. In the framework of the more flexible, reformed Stability and Growth Pact this can under certain circumstances be considered sensible, necessary, and therefore as something to be tolerated without penalty. Naturally the same flexibility must thereby be applied to euro-area candidate countries as to existing members of the monetary union. The conditions of the Pact should not be an obstacle to forward-looking investment in research, development and education aimed at creating the potential for future growth, because this growth will provide the basis for putting public finances back onto a sustainable course rapidly once the crisis has been overcome.

3.8 We need to start thinking now about how we can return to a long-term sustainable path after the crisis. In any case, to return to such a path, credible national strategies are needed. The urgency of this task is already highlighted by the worrying widening of spreads on certain euro area government bonds, which suggests that investors are growing increasingly doubtful about the solvency of individual national governments. Intelligent solutions are needed to stabilise public finances, which avoid the ‘kill or cure’ methods of the 1930s which were carried out at the expense of workers and the weaker members of society. At that time a combination of wage and social dumping together with protectionist measures contributed to the catastrophe.

3.9 It will be essential for government to tap new sources of revenue. Member States’ tax base will have to be broadened, not least by the closure of tax havens, an end to tax competition and measures to tackle tax evasion and tax fraud. A general rethink of the entire tax system is needed, with due regard for questions of distributive justice between different kinds of income and assets. This means in particular demanding a contribution from those who made notable gains from the very mistakes made on the financial markets that are now having to be corrected at taxpayers’ expense using public money.

3.10 Clearly, the fiscal moves to stimulate the economy cannot be budget-neutral in the short term, but will need to be funded by borrowing to avoid any conflict with the goal of boosting demand. Consideration must thereby be given to a number of short- and long-term impacts – pros as well as cons – of increased public debt. On the negative side, as capital utilisation increases, a crowding-out effect may push up capital costs for businesses. Since assets are even more highly concentrated than income, increased debt financing will also make for wider income disparities.

(1) Even the CEO of the Deutsche Bank, Josef Ackermann, went so far as to say that: ‘I do not believe in the ability of the market to heal itself.’ (www.faz.net – 17 March 2008).
3.11 On the other hand, debt financing need not mean a corresponding rise in the budget deficit, since stimulating economic activity also increases public revenue. Nor must taking on new debt be seen exclusively as a burden on future generations who will have to pay the interest on it. After all, future generations benefit from ‘smart’ investments in areas such as education and infrastructure – and they are also the heirs to today’s government bonds. It must also be remembered that equally high costs are incurred if less money is used to combat the crisis as this would make for an even bigger fall in economic performance and employment. And, under that scenario, the monetary costs would also be accompanied by much higher social costs and human suffering caused by unemployment, down-skilling and heightened social tensions.

4. Further comments on the toolkit for national measures

4.1 The first step involved the implementation of rescue plans for the financial sector which, although impressive, varied in their effectiveness. The process of recapitalisation is not yet complete and confidence has not yet been restored, with the result that serious liquidity shortfalls remain. Further efforts are therefore needed to provide businesses and households with sufficient financial resources. Clearly public support - not only that given to financial institutions - will have to be contingent on a series of criteria and conditions, which will ensure that it benefits the economy and that appropriate corporate governance is in place.

4.2 Rapid and effective help is needed for those hardest hit, i.e. for the socially disadvantaged and the labour market, as it is those in the weakest position, those with insecure employment conditions, such as temporary and contract workers, who experience unemployment first. Only if the recession persists will permanent staff be put on short-time working or laid off - at least temporarily. In the light of expected demographic trends, intelligent restructuring of the economy is needed, with employees being kept on and trained rather than made redundant, so that sufficient skilled workers will be available once the economy begins to recover. Support for the unemployed should be linked with skills acquisition and retraining programmes. It should also be borne in mind that the official unemployment statistics do not reflect the full extent of the problem. In times of recession many people disappear from the employment statistics, for example because they are not entitled to unemployment benefits or because they have given up hope of finding a job. Bringing young people into the labour market should have the highest priority during the recession.

4.3 Support for the business sector should also aim to provide companies - particularly SMEs - with unfettered access to finance once again, and ensure that the product markets function smoothly. Measures to support the economy should also be aimed at ensuring that the economy emerges strengthened from the recession. The aim should be to benefit from a ‘double dividend’, with smart, structural investment not only giving the economy a short-term boost but at the same time increasing its competitiveness and future growth potential in line with the Lisbon strategy. This will require investment in innovation and modernisation of infrastructure (such as trans-European energy networks and broadband infrastructure) and investment in research and education. Assistance is needed – for instance on the tax front or through government guarantees – to strengthen the competitiveness and innovativeness of SMEs and thus harness their potential as supports for economic recovery.

4.4 The Committee also notes that, in addition to stimulating demand, a range of other measures can also help boost confidence among economic stakeholders. Simpler legislation, quicker procedures and less red tape can also help stimulate economic activity.

4.5 Economic recovery does not mean that everything goes back to the way it was before the crisis. There must be emphasis on energy-saving and environment-friendly projects in order to accelerate the transition to a low-carbon green economy.

4.6 Measures aimed at improving structures must be socially acceptable and must stimulate growth and employment in order not to counteract efforts to promote demand and cushion social impacts. Particular importance is attached to wages policy, which must take due account of the dual role of wages within the economy. While, at a micro-economic level, wages are a cost-factor for businesses and thus affect price competitiveness, they are, in macro-economic terms, the key factor determining domestic demand. As companies will only invest and create jobs if they expect strong demand, a medium-term strategy of keeping wage rises in step with productivity growth in the national economy as a whole will, from a macro-economic viewpoint, make sure a proper balance is struck between sufficient growth in demand and price competitiveness. The social partners must therefore work to avoid wage restraints along the lines of a beggar-thy-neighbour policy.

4.7 The impact on growth of the individual budgetary measures will also depend on the multiplier effect, which in turn depends on the propensity to consume and import penetration. There is thus a risk that, as a result of uncertainty, general tax cuts will only lead to increased savings. There will be a greater impact on demand if cuts are targeted at people on lower incomes, as they tend to have a greater propensity to consume. But people on the lowest incomes often pay no tax and will therefore not benefit. Particular solutions must
therefore be sought for this group. A time limit could also be put on certain tax cuts to create an incentive to bring forward purchases. Certain targeted direct transfers, such as the temporary increase in unemployment benefit proposed by the Commission, would also be likely to be relatively effective. Earmarking of transfer payments, e.g. education or climate vouchers, could also increase the impact on demand. The latter could for example be used when buying low-energy goods, solar-energy equipment or season tickets for public transport.

4.8 When allocating resources from various funds (the Structural and Cohesion Funds, the Rural Development Fund, the European Social Fund, the Globalisation Fund) there should, in addition to efficiency, be emphasis on a flexible, pragmatic approach with a view to accelerating the impact of spending.

5. Strengthening the European dimension

5.1 Member States' differing economic structures mean that the current crisis is affecting different countries in different ways – hence the need for different national packages of measures. There is thus a risk of growing disparities both within Europe and within the euro area. National policies are limited in their effect here. A European policy is therefore needed, with better economic coordination and governance at European level. The European level must also have adequate tools on which to draw to implement its policy effectively.

5.2 The packages of measures need to be implemented quickly. This requires coordination, harmonisation and proper orchestration, as, without a coherent approach, the danger is that individual countries may adopt measures that favour their own domestic businesses, upsetting the fundamentals of a level playing field and ultimately resulting in a race for subsidies. Broad harmonisation is also needed on the tax front, not just in terms of measures to revive the economy but encompassing the entire taxation system. Protectionist trends are also a risk where countries attempt to boost their international competitiveness through cost-side measures and try to get out of recession by drawing on foreign demand. This is true both within the individual EU countries and also between the major global trade blocs (as witnessed by the ominous slogan headlined under the US economic recovery plan: 'buy American').

5.3 The EESC would ask the Commission to provide a rapid overview of the implementation of the national economic recovery plans and to show which tools are available to speed up any progress under these measures. This is needed to assess the scale of the measures actually implemented, to facilitate mutual learning and to determine whether any undesirable developments are in evidence. Such undesirable developments – veering towards protectionism – might include, for instance, distortions of competition, dumping (not least on the tax front), freeloading and, outside the euro area, currency devaluations. The Committee therefore calls on the Council and the Commission to strictly prohibit – or where necessary to abandon – any action tantamount to a beggar-thy-neighbour policy.

5.4 Strengthening the European dimension also requires that increasing consideration be given to joint European projects, for instance in energy supply infrastructure. Greater flexibility between the various EU budget headings would make it possible for such projects to be part-funded from unused resources. Thought should also be given to the idea of a European bond from a European sovereign wealth fund.

5.5 EU solidarity must also be shown to non-euro-area countries experiencing balance of payments difficulties (e.g. Hungary and Latvia) and to banks and financial institutions in non-euro-area countries, with due allowances made for these countries' position in the catch-up process.

6. Financial market reform

6.1 As with other issues of global importance, the EU is, in particular, also called upon to show a united and cohesive front – and to speak with one voice – on the 're-regulation' of the financial architecture. In the interests of all stakeholders and to help secure overall stability, Europe must lay the groundwork and put a European stamp on any new arrangements. At all events, a paradigm shift is needed to promote a long-term, sustainable approach, underpinned by appropriate incentives and bonuses. A re-ordered global financial system must be conductive to the development of sound financial innovations that do not compete with genuine economic investments but support the real economy.

6.2 The new system must be underpinned by principles such as transparency, risk limitation, realistic risk mapping in financial statements, and the inclusion of hedge funds und private equity in the regulatory arrangements. Any new regulation must also help prevent pro-cyclical impacts and excessive leverage. The reform proposals must not be a piecemeal affair, made up of individual disconnected measures, but must present a comprehensive, coherent package of measures covering all the relevant areas. There must be no competition for regulation or deregulation between countries or trade blocs. At the very least, that also requires coordinated, cross-border monitoring and control and independent European rating agencies.

6.3 Particular attention must also again be paid to how pension systems are funded (1). Over the past few years, driven by a belief in the infallibility of the markets, pensions have increasingly been funded via the capital markets, resulting, contrary to original indications, in major financial losses for the bulk of current and future pensioners.

7. The role of organised civil society

7.1 The public will have to bear the brunt of the crisis – hence the particular need to involve the economic and social players in framing future policy. The European Economic and Social Committee has shown in various ways that it is fulfilling its institutional remit of supporting the other European institutions in the current financial, economic and social crisis. Thus, at a conference held in January 2009, the Committee established the institutional framework for a dialogue with the various stakeholders: banks, companies, trade unions, institutions and other civil society actors.

7.2 Employees and businesses have a key role to play in tackling a crisis that was not of their making and is not their responsibility. A strengthened social dialogue is needed, on the one hand to draw up and implement a policy to put an end to the crisis as soon as possible and, on the other hand, to mitigate as far as possible the economic and social fallout of the crisis on ordinary citizens.

7.3 In the Member States, appropriate measures should be developed in conjunction with the social partners to avoid excessively low wage increases that would fail to give adequate support to demand and growth. Enhanced macroeconomic growth also helps improve coordination by aligning wage growth more closely with macroeconomic policy.

7.4 In the current crisis, it is vital not to compound injustice and inequality. A ‘new social deal’ is needed – not least in the light of the upcoming European Parliament elections – to demonstrate clearly to the public and, in particular, to the weaker members of society that they are not being abandoned by the political players. Legal and financial measures are essential to prevent the crisis spilling over to the European social model.

7.5 Social dialogue is also vital to tackling the economic and social impact of the crisis (1). History shows that economic crises can be either beneficial or detrimental to social dialogue. Such dialogue benefits where the need for closer cooperation is recognised. However, compromises are more easily reached in a growing economy – a fact that, in times of crisis, may result in increasingly uncooperative and self-serving behaviour that benefits one particular group alone. Were that to happen, the way out of the current crisis would be considerably more painful than it is already set to be.

7.6 In seeking to boost demand, the aim is to make intelligent use of the additional resources so as to secure greater economic competitiveness once the crisis is over. Similarly, moves to tackle the crisis must also be used as a conduit to a stronger system of social dialogue at all levels. The most recent joint analysis by the European social partners of the challenges facing labour markets is a good base from which to explore the scope of flexicurity. Instead of structural reforms designed to relax the rules on protection against dismissal and extend working hours, measures should be developed under internal flexicurity to foster permanent jobs. This would mean that staff could be kept on during the downturn, working shorter hours and using the remaining time for further training, thereby ensuring that an upskilled workforce is once again in place when the economy recovers. The recent moves in that direction in the Netherlands can be seen as best practice here. Even the most flexible workers need greater security, giving them the opportunity to stay on the labour market and improve their skills.

7.7 What characterises the social economy, which provides an authentic expression of organised civil society, through its different social and organisational models, is the innovative way in which it meets social needs, combining profit with solidarity, creating high-quality jobs, strengthening social and territorial cohesion, linking production and sustainable development and, lastly, encouraging active citizenship and corporate social responsibility. All of these features, which are today crucial to overcoming the current systemic crisis, mean, on the one hand, that social economy actors should be given a key role in managing the crisis and, on the other, that the Commission should include a real boost for this social model of public enterprise in its policies and programmes (2).


The President
of the European Economic and Social Committee
Mario SEPI

---

(1) The Industrial Relations in Europe report published by the European Commission in February 2009 also highlights the key role of the social partners.

(2) See too, on this same subject, EESC Opinion 50/2009 adopted on 15 January 2009, not yet published in the OJ.