

## Opinion of the European Economic and Social Committee on 'The 2003 broad economic policy guidelines'

(2003/C 133/14)

On 10 December 2002, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on 'The 2003 Broad Economic Policy Guidelines'.

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 6 March 2003. The rapporteur was Mr Vever.

At its 398th plenary session on 26 and 27 March 2003 (meeting of 26 March), the Committee adopted the following opinion by 96 votes, with 8 abstentions.

### 1. Summary

1.1. The European Economic and Social Committee approves the inclusion from 2003 onwards of the broad economic policy guidelines (BEPGs, implementation report) in the new 'implementation package' presented by the Commission in January, which covers other related EU policies (employment, single market, Lisbon reforms), and in the 'guidelines package' to be presented in March, all set in a three-year time-frame. However, the Committee would emphasise that this must not have the effect of making the priorities more cumbersome or of watering them down, but rather of identifying them with greater precision.

1.2. The Committee stresses that the issues at stake over the next three years are highly complex; they call for economic policy to be tied in more closely with the euro, truly effective support for the new Member States' accession and more effective implementation of the reforms agreed at Lisbon.

1.3. The Committee notes that these objectives are themselves now more difficult to achieve due to the extremely worrying deterioration in the economic climate over the last two years, despite progress with the single market, the euro and political processes for achieving economic convergence between the Member States.

1.4. The Committee emphasises that the priority must now be to give new impetus to growth in Europe — needed to boost employment — by giving the BEPG a sharper focus, implementing them more effectively and providing them with a more structured framework.

1.5. Efforts to give the BEPG a sharper focus should, without marking a break with the guidelines devised in 2002, place more emphasis on the growth component of the Stability Pact, give rise to more closely coordinated economic

governance to tie in with the euro and create more propitious conditions for Europe to remain economically and technologically competitive.

1.6. More effective implementation of the BEPG should entail consolidating the Eurogroup's role in effective dialogue with the European Central Bank (ECB), involving representatives of socio-occupational interest groups and the social partners to a greater extent and at an earlier stage in the proceedings and developing indicators on progress in implementing economic guidelines and reforms, especially on progress towards the knowledge-based economy.

1.7. Steps to provide the BEPGs with a more structured framework should speed up completion of the single market in priority areas, securing fresh confidence and growth, reactivating the Lisbon reforms, including simplification of legislation, and consolidating measures for joint economic governance in the future Treaty being hammered out at the Convention.

### 2. The Commission proposals

2.1. In September 2002<sup>(1)</sup> the European Commission made a proposal to introduce, as of 2003, a new integrated annual cycle for presenting and implementing the broad economic policy guidelines (BEPGs), the employment guidelines and recommendations and the strategic objectives for the single market. The aim is to organise and coordinate the various policies more effectively.

2.2. The Spring European summit in March will be of key importance in this new cycle.

2.2.1. In the run-up to the summit, the Commission has been publishing reports as of mid-January on progress in implementing the BEPGs, the employment strategy, the single market strategy and the structural reforms agreed at Lisbon. These Commission reports for the summit also contain

<sup>(1)</sup> COM(2002) 487 final.

assessments of the Cardiff Process, the situation with state aid, innovation and enterprise policy.

2.2.2. The conclusions of the European spring summit, put together by the Presidency, will then give rise in April to new Commission proposals on BEPGs (for the EU as a whole and by country), the employment guidelines and recommendations and the single market strategy. As of 2003, these proposals will be for the medium term, reviewable every three years (i.e. 2003-2006). During that period (i.e. in 2004 and 2005) only limited adjustments will be made, in response to developments which might warrant them.

2.3. The European summit in June will be called on to approve guidelines based on the Commission proposals after a first reading by the specialised Councils (especially Ecofin, Employment-Social Affairs, Competitiveness). The specialised Councils will then formally adopt the guidelines.

2.4. During the last few months of the year, the Commission will collect reports from the Member States on progress made in implementation and on the measures planned, and examine these with a view to relaunching the cycle in January.

2.5. The Commission also proposes including in the cycle the open method of coordination for social protection issues.

2.6. Based on the above, the Commission submitted its first 'implementation package' on 14 January 2003, consisting of:

2.6.1. an assessment of implementation of the 2002 broad economic policy guidelines<sup>(1)</sup>: over and above the differences between the Member States' situations, the overall picture is considered to be rather disappointing mainly because of the slowdown in growth and the worsening budget positions of several Member States, while there are still delays in opening up markets — infrastructure and energy — and in pushing through structural reforms designed a) to improve the functioning of the labour market and b) to restore a financial balance in the various social welfare schemes;

2.6.2. a report looking towards a new employment strategy<sup>(2)</sup>: the objective of full employment is complicated by an ageing population, and quality and productivity at work need to be improved while taking account of disparities in labour market access;

2.6.3. a report on the state of progress of the European internal market<sup>(3)</sup>: the assessment is cautious, given that the progress achieved, albeit only partial (e.g. financial services, opening up energy markets, public procurement procedures), is tempered by persistent delays (cf. pension funds, fiscal harmonisation, Community patent);

2.6.4. a report on progress with the Lisbon strategy reforms<sup>(4)</sup> (the spring report): the report confirms the findings highlighted in the above-mentioned reports and stresses the need to step up efforts to push through economic and social reforms in line with the objectives on competitiveness agreed by the Member States.

### 3. The Committee's comments

3.1. With regard to the revision of procedures, the Committee approves:

3.1.1. the steps to secure greater consistency between the broad economic policy guidelines, the employment guidelines, measures to complete the single market and the Lisbon strategy reforms, which should bring real progress in view of the close interrelation between these different issues;

3.1.2. in particular, the link thus established between the different 'processes' — Luxembourg, Cardiff and Cologne — and the Lisbon strategy, which itself was updated in Gothenburg and then Barcelona;

3.1.3. the intention to make the political guidelines more constant basing them on a broader perspective, with a time-frame extended to three years;

3.1.4. the simplification of the cycle, with efforts to combine reports, guidelines and 'processes'; these have been proliferating over the last few years, and this has created cumbersome, parallel and sometimes conflicting procedures, hallmarked by a lack of overview.

3.2. However, the Committee would emphasise:

3.2.1. the need to avoid overloading the Commission's synthesis reports and the annual cycle of economic and employment guidelines by adding more analyses and prescriptions instead of incorporating them;

<sup>(1)</sup> COM(2003) 4 final.

<sup>(2)</sup> COM(2003) 6 final.

<sup>(3)</sup> SEC(2003) 43 final.

<sup>(4)</sup> COM(2003) 5 final.

3.2.2. in particular, the need to identify genuine economic governance priorities at European level, to base these on a detailed macroeconomic analysis and to provide them with political — and not merely technical — impetus and follow-up, involving the EU institutions and Member States on the basis of sufficiently convergent and consistent guidelines, even though account must also be taken of the diversity of national and regional situations.

3.3. As far as the content of the synthesis report and particularly the assessment of the implementation of the BEPG are concerned, the Committee points out that the Commission analysis and the proposals accompanying it have been submitted at a time when the economic and social situation of the European Union is giving extreme cause for concern:

3.3.1. confidence has plummeted since September 11 2001 amongst the various economic operators (investors, businessmen, consumers, savers and employees), especially in the face of the renewed threat of war in the Middle East and the ensuing international tension on the political, economic and financial scene as well as oil markets, with a sharp fall in financial and stock markets in 2001 and again in 2002, all of which has served to keep the economic cycle in a trough;

3.3.2. growth is weak, with an average EU growth rate which hardly went beyond 1 % in 2001 and 2002 and which will remain well below 2 % in 2003 due to the combined effects of slack internal demand and slower exports caused by the euro's rise in value. These growth rates are well below the 3 % annual growth target set in the Lisbon strategy. In contrast to other regions of the world, the EU does not have a macroeconomic policy robust enough to jack up its growth potential, which would put it in a better position to tackle the economic downturn head-on, boost confidence and underpin internal demand;

3.3.3. after a period in 2002 when it seemed to be holding up in the face of the economic downturn, the employment situation is rapidly deteriorating again; the first few months of 2003 saw a sharp fall in employment affecting both young and old on the labour market;

3.3.4. public sector deficits are particularly high in four Eurozone countries (Germany, France, Italy and Portugal), giving rise to warnings with regard to the 3 % limit fixed by the Stability and Growth Pact; other countries are now also succumbing to this tendency to run up higher deficits;

3.3.5. inflation remains within reasonable limits overall — in some quarters there is anyway more concern about deflationary pressures than about renewed inflation — even if the changeover to euro notes and coins at the start of 2002 was perceived by many consumers as a factor in price increases for some everyday items despite the fact that economic institutes and statistical indicators generally refute this;

3.3.6. in addition to this Europe-wide data, and without economic governance being more coordinated and better integrated than the BEPGs allow at present, the gap between national economies is still considerable, both within the EU and — perhaps more paradoxically — within the euro zone itself;

3.3.7. these gaps will only increase with enlargement from 15 to 25 members, officially scheduled for May 2004; although the acceding Member States are achieving growth rates which are often double the rates in the existing Member States, their level of development remains lower by nearly 50 % and they still have to complete and consolidate their adjustments to the market economy and the Community *acquis*.

3.3.8. Apart from the more visible cyclical downturns, it is worth pointing out the negative indicators on underlying structural data, such as the extremely unfavourable demographic outlook, the fragmentation of tax systems in the internal market, the burden of taxation and statutory labour charges in Europe, which is excessive compared to that of its main competitors, in particular due to a deterioration in taxation structure in Europe (cf Monti report), the improvements needed in the labour markets and the fact that the European economy needs to generate far higher job-creating growth than does, for example, the American economy. Overall, the problem is really Europe's inadequate autonomous potential for growth and its lack of attractiveness and competitiveness in certain areas, which might well jeopardize the very feasibility of the ambitious objective for 2010 set in Lisbon in 2000 in an economic climate which, it is true, was far more promising.

3.4. The indifferent economic and social situation together with these hazards for the Lisbon strategy are especially worrying given that they follow real progress in legal harmonisation, monetary unification and the development of many ancillary political instruments.

3.4.1. Thus, progress in legal harmonisation has continued towards completing the single market (e.g. elimination of checks between the Member States, many new directives, standardisation etc.), even though there are still delays 10 years after the 1992 deadline.

3.4.2. Monetary union has been a reality for four years, with 12 Member States currently belonging to the single currency and with the introduction of euro notes and coins in January 2002.

3.4.3. A number of common guideline instruments have been implemented in the context of the BEPGs: the very objective of the 'implementation package' which the Commission presented in January was to take stock of interactions between the various processes involved. In June 1997 the Amsterdam Treaty provided for the European Council to draw up annual guidelines for the Member States to take account of in their employment policies. The Luxembourg Process launched in November 1997 then specified the content of these guidelines for employment. In June 1998 another process agreed on in Cardiff provided for an annual review of structural reform in the markets for goods, services and capital in order to improve the functioning of the single market. In June 1999 a new process was adopted in Cologne to come up with recommendations for a European employment pact. And finally, at the March 2000 European summit in Lisbon, the 15 agreed on an ambitious multi-annual strategy to give new impetus to the European single market and to carry out economic, social and administrative reform, both at European and at national level, with the aim of making Europe 'the most competitive and dynamic knowledge-based economy in the world' by the year 2010.

3.5. The question which must therefore be asked is: Why is it that progress towards the single market, introduction of the euro, implementation of the BEPGs and the many convergence and reform processes that have accompanied them have not yet restored growth, competitiveness and employment in Europe? There are three possible explanations:

3.5.1. It is fair to say that, despite their merits, the broad economic guidelines can still be criticised for approximation and lack of focus. It is apparent in particular that the countries of the euro zone have received more mediocre scores overall (cf. public finances, labour market, product markets) than the three other EU countries which are still outside the euro zone. Of course, the intention here is not to question the benefits brought by the euro, which the Committee has always been at pains to point out. The point is that the euro has not yet been backed up with a sufficiently coherent and coordinated economic policy which is suited to this single currency. Under these circumstances, applying a single monetary policy and single interest rate to economies and policies which still vary considerably creates problems. The right policy mix to go hand in hand with the euro still has to be devised and applied,

four years after the single currency was introduced. Nowadays many parties advocate relaxing the Stability Pact to some extent, pointing out that the countries having difficulty complying with it, first and foremost Germany and France, account for a large part of European GDP and that the austerity of the Pact is hampering their growth potential. It should nevertheless also be pointed out that during years of stronger growth the countries concerned made little effort to prevent this from happening.

3.5.2. It is also fair to say that the broad economic guidelines are badly implemented by the Member States. It is very clear that progress has been somewhat offset by delays, both in completing the single market and in national reforms. As for the single market, the fact is that, ten years after the 1992 deadline, we still have not managed to do away with all cases of double taxation within the Community, to put in place a simple and definitive system of VAT, to open up — and secure free interconnection between — energy networks or to make any really decisive progress towards opening up services. At the same time, there are excessive delays in the transposition of directives into national law. The essential reforms planned in Lisbon to boost research and training, to modernise the labour market through negotiation and to ensure the balance and sustainability of social protection systems have fallen behind schedule in many countries. These shortfalls in implementation go a good way to explaining the poor performance of the European economy.

3.5.3. Lastly, it may also be argued that the broad economic policy guidelines are still inadequate in themselves. Certainly, one improvement from 2003 onwards will be the reform whereby the BEPG guidelines and subsequent objectives, the employment guidelines and measures to promote the single market and to implement the Lisbon structural reforms will be presented in a single package. However, this collation will undoubtedly be inadequate if it is not accompanied by more solidly based priorities. For example, not enough is being done to reduce the fragmentation of the tax system, while optimising European tax structure. The question of how attractive Europe is for international direct investment in the face of economic globalisation is not really addressed, even though it relates directly to the lack of dynamism in the European economy.

#### 4. The EESC's priorities

4.1. The Commission has announced that it will be presenting a package of guidelines on the BEPGs in early April 2003, in addition to the employment guidelines.

4.1.1. With this in mind, the Committee would highlight one requirement for 2003: securing the conditions for a significant, long-lasting boost to economic growth, upon which other priorities depend, including social and environmental priorities.

4.1.2. Given that the BEPGs operate in a three-year time-frame, part of this requirement will be to ensure steps are taken to assert a common economic policy linked to the euro and to be attentive to new support and cohesion needs after the 10 new Member States join the EU in 2004. This calls for a firm, active macroeconomic policy based on circular-flow relations in the economy, which shores up confidence amongst investors and other economic operators, thus stimulating growth.

4.1.3. To this end, the Committee proposes three areas for improvement: giving the broad economic guidelines a sharper focus, implementing them more effectively and providing them with a more structured framework.

#### 4.2. *Giving the BEPGs a sharper focus*

4.2.1. The BEPG priorities in 2002 were to:

- ensure growth and stability-oriented macroeconomic policies;
- improve the quality and sustainability of public finances;
- invigorate labour markets;
- re-ignite structural reform in product markets;
- promote the efficiency and integration of the EU financial markets;
- encourage entrepreneurship;
- foster the knowledge-based economy; and
- enhance environmental sustainability.

4.2.2. The Committee believes that these various objectives from 2002 remain valid per se not only for 2003, but also for the 2003 to 2006 period. On the other hand, the Committee would underline that more direct emphasis should now be placed on certain requirements which have a direct impact on economic recovery; this concerns the implementation of the stability pact, fiscal harmonisation and the promotion of innovation.

4.2.3. The Committee notes that the arrangements for implementing the Stability Pact have been at the centre of recent months' debates on economic issues in the Union, particularly because of the March 2002 Barcelona Summit's decision to set 2004 as a deadline for restoring a balance in public finances. This deadline was later deferred to 2006 at the Commission's initiative due to the economic downturn which was causing deficits to widen. In the current climate, the Committee advocates a realistic interpretation of the Stability and Growth Pact, not altering the spirit of the pact — the need to reduce deficits lies at the heart of achieving sustainable development — but reducing the risk of negative economic repercussions in the short term. The Committee thus recommends that:

4.2.3.1. the Commission issue regular reports on developments in the public finances of each Member State, and make public any recommendations from itself or the Council directed at a Member State which is manifestly drifting away from the public finance criteria,

4.2.3.2. more account be taken of the 'growth' component of the Stability Pact, particularly by incorporating criteria which are complementary to the public deficit and public debt criteria; this might concern inflation, employment, sustainable development (retirement, health, investments), taxation and statutory tax and social security contributions, and

4.2.3.3. lastly, if a deterioration of the international situation — in the wake of military conflict in the Middle East — were to warrant it, exemptions be granted from strict application of the Pact on an exceptional, temporary basis, so as to prevent economic problems deteriorating further in the short term.

4.2.4. The Committee also highlights the need to begin coordinating economic governance more closely in order to tie in with the euro. Since the countries of the euro zone have the greater share of economic clout in the European Union, and this will remain so after enlargement, setting up a properly coordinated economic policy between these countries will have highly positive repercussions for the European Union as a whole. One economic policy objective should be to launch greater fiscal harmonisation. Such harmonisation could focus on closer alignment of tax bases and safeguard the freedom to set rates, offsetting excessive competition by using minimal measures and bearing in mind the need to secure an investment-friendly fiscal balance in the European Union and to reduce the present excessively heavy tax burden on labour.

4.2.5. The Committee also stresses the need to do more to strengthen the industrial and technological fabric of businesses in Europe — which cannot be arbitrarily separated from the equally vital, parallel development of services — and, in so doing, to foster the innovation process. As underlined at the Lisbon Summit in March 2000, innovation should provide a vital engine for economic growth in Europe. Greater synergy should of course be created between the European framework programme for research and national programmes. However, steps should also be taken to encourage training, research and innovation in businesses, inter alia by introducing tax incentives. One particular priority for economic growth in Europe is to prevent the best-qualified young people from leaving Europe for other horizons on a long-term basis.

#### 4.3. *More effective implementation of the BEPGs*

4.3.1. It is not enough merely to adopt properly focused economic guidelines, they must also — and above all — be properly applied. This presupposes, amongst other things, an improved structure for the Eurogroup and the Ecofin Council, greater involvement for representatives of economic interest groups and the social partners and additional indicators for assessing implementation.

4.3.2. Better implementation of the BEPGs first of all entails improving the structure of both the Eurogroup and economic cohesion within the euro zone; this affects twelve out of the fifteen Member States. The Eurogroup has to become a genuine economic government in the euro zone, backed up by the Commission and capable of developing permanent, effective dialogue with the European Central Bank, as is the case in the United States with the dialogue between the executive and the Federal Reserve. Early interest rate cuts would also help to give the economy a boost. 2003 will be a good time to secure such a change in the role of the Eurogroup: although the arrival of the ten new Member States in the EU in 2004 will barely alter the economic clout of the Euro zone relative to the enlarged EU, in that their joint GDPs make up less than 10 % of that of the EU as a whole, it will nonetheless tip the balance in the ratio between the number of members and non-members of the euro zone from the current 12:15 to 12:25.

4.3.3. Representatives of economic interest groups and the social partners should also be more involved in the implementation of the new annual cycle of the EU's economic and social guidelines. One key element of progress is that since the 2002 Barcelona summit, tripartite summits have been held between the social partners and the presidents of the European Council and the Commission on the eve of the Spring Summit. This meeting has to constitute the culmination of more permanent dialogue between the economic and social partners

on the one hand and the Commission, Ecofin Council and Eurogroup and the Social Council on the other. Moreover, such dialogue must also be developed at national level with a view to the Spring Summit. In particular, employers' and trade union organisations should submit their own observations to their national public authorities every year regarding the stage reached in economic and social reforms, also highlighting their initiatives and their contractual negotiations and agreements.

4.3.4. These national reports from socio-occupational associations should provide a valuable contribution to the development of better indicators on progress in implementing economic guidelines and reforms. Comparative benchmarking should be introduced systematically and should cover those indicators which allow better measurement of steps to foster the knowledge-based economy and its contribution to boosting economic growth. Finally, there should be a debate on both good and less good — or bad — practices: a candid assessment of the initiatives and their results is vital for making progress towards better economic governance.

#### 4.4. *Providing the BEPGs with a more structured framework*

4.4.1. The presentation of a synthesis report situating the economic and social guidelines more clearly among other Community policies should provide an opportunity to improve the way these Community policies are used to back up growth policy. Three issues seem to be of priority importance for providing the BEPGs with a sturdier framework: completion of the single market, improved implementation of the Lisbon reforms and successful reform of economic governance procedures in the wake of the Convention.

4.4.2. As regards completion of the single market, the Committee would underline that over and above the measures needed to ensure its upkeep and secure its final completion, there are five or six crucial measures currently lacking and often blocked, which, if there were the political will to do so, would allow a major leap forward here in the short term, with all that this entailed for increased economic growth and employment. While welcoming the recent compromise reached at the Council at last allowing adoption of the Community patent to go ahead, the Committee would point out that there are other shortcomings which must be remedied, requiring inter alia the abolition of all trans-national double taxation — making it possible to put an end to the current hotchpotch of bilateral agreements — definitive, Europe-wide VAT arrangements simple for everyone to use, and a European company statute open to businesses of all sizes.

4.4.3. The Committee shares the Commission's concerns about delays in implementing the reforms agreed in Lisbon. Everyone is aware of the reforms to be undertaken or furthered, but they are not being implemented quickly enough to meet the Lisbon competitiveness objectives. The Committee therefore stresses the need to speed up these reforms, which will not be possible without considerable involvement of socio-occupational interest groups and the social partners, as underlined by the Committee in this opinion.

4.4.4. In the context of these reforms, the Committee especially underscores the need for simplified and better quality legislation at both national and European level; it has unceasingly stressed the urgency of this over the last few years and has put forward specific proposals in this connection. By freeing up resources and giving a free rein to entrepreneurship, the simplification of regulation would also help give a significant boost to the European economy's growth potential, especially encouraging rapid development of businesses of all sizes. The Committee will continue to monitor this requirement steadfastly through its opinions on the various subjects referred to it, and also because it has itself undertaken to implement its own code of conduct for simplification.

4.4.5. The Committee would lastly highlight the need to give European governance in the EU more structure by consolidating the Treaty's procedures following the work of the Convention. It would be especially valuable to include provisions in the new Treaty to take account of the following points:

4.4.5.1. the European Commission's role in the broad economic policy guidelines should be stepped up for matters coming under the Community's responsibility rather than the open method of coordination; the Commission should thus be allowed to make proposals and not just recommendations, thus requiring unanimity at the Council for them to be amended;

4.4.5.2. the same should apply to Commission intervention in matters relating to the Stability and Growth Pact: the Commission's recommendations, including those on sanctions, should in fact be proposals requiring a unanimous decision by the Council for them to be changed;

4.4.5.3. decisions on economic and monetary policy in the euro zone and on euro-related problems should be taken by euro-zone finance ministers meeting in the Ecofin Council — notwithstanding the expansion of their own internal economic dialogue and their dialogue with the European Central Bank as part of the Eurogroup's activities;

4.4.5.4. external representation of the euro should be unified, mainly through the Commission; and

4.4.5.5. abandoning the unanimity requirement for decisions on fiscal matters directly related to the single market should make it possible to undertake fiscal harmonisation — all the while leaving Member States free to set tax rates.

Brussels, 26 March 2003.

*The President*  
*of the European Economic and Social Committee*  
Roger BRIESCH