

**Opinion of the Committee of the Regions on 'Reinforcing economic policy coordination'**

(2011/C 42/04)

## THE COMMITTEE OF THE REGIONS

- points out that, in the process of reforming the Stability and Growth Pact, we should not neglect its main purpose, namely creating an economy with strong foundations for the prosperity of the citizens of the European Union, with more and better jobs;
- encourages the European Commission to seek an optimum combination of policies and instruments in order to minimise the impact of budget cuts in the main policy areas of the 'Europe 2020' strategy;
- calls on the European Commission to seek solutions that raise European citizens' awareness of the European endeavour and help to enhance the democratic functioning of the European Union;
- urges the Member States to apply the principle of bottom-up compliance with the rules of the Stability and Growth Pact, incorporating the necessary budget discipline into national law by means of institutional changes where necessary;
- notes the failure to give proper consideration to the role of local and regional authorities both in shaping guidelines and in implementing budgets. The Committee recommends that it should play an assisting role in the European semester procedure, possibly by means of a response to the European Commission's annual progress report, to be discussed at the Spring Council. The objectives of economic policy coordination should be strengthened by ensuring a proportionate degree of regional and local authority participation, particularly for regions that enjoy legislative power in those areas.

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| <b>Rapporteur:</b>          | Mr Konstantinos Tatsis (EL/EPP)<br>President of the Prefectoral Authority of Drama-Kavala-Xanthi   |
| <b>Reference documents:</b> | Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the Economic and Social Committee and the Committee of the Regions on Reinforcing economic policy coordination<br>COM(2010) 250 final<br>Communication on Enhancing economic policy coordination for stability, growth and jobs<br>COM(2010) 367 final |

## I. POLICY RECOMMENDATIONS

### GENERAL OBSERVATIONS

#### THE COMMITTEE OF THE REGIONS

1. welcomes the initiative taken by the European Commission to present a plan for coordinating Member States' economic policies, both in response to the challenges created by the global economic crisis and as a means of promoting European integration;

2. considers that the European Commission proposal is sufficiently justified and that it is aimed at the full and efficient deployment of tools for economic governance as provided for by the Lisbon Treaty;

3. supports the strengthening of the Stability and Growth Pact, with a view to securing greater compliance and successfully boosting growth in the European Union and its regions;

4. recognises that, in accordance with the Lisbon Treaty, EU Member States 'shall regard their economic policies as a matter of common concern and shall coordinate them within the Council' (Article 121), while upholding the principle of subsidiarity;

5. points out that, in the process of reforming the Stability and Growth Pact, we should not neglect its main purpose, namely creating an economy with strong foundations for the prosperity of the citizens of the European Union, with more and better jobs;

6. stresses that, any reforms that should be adopted should seek to strike the right balance between effectiveness and democracy, in order to deepen the European Union, and therefore opposes proposals such as the suspension of voting rights in cases other than those already mentioned in the Treaties;

7. is in favour of the renewed emphasis on public deficits and debt where financial monitoring is concerned, so as to

prevent and, if possible, avoid any further deterioration in financial discipline;

8. notes also that incomplete harmonisation of national economic policies is causing for instance Member States with weak economies to be burdened by exorbitant interest rates on their debt;

9. is concerned about the effectiveness of the measures proposed by the European Commission to restore strict application of the Stability and Growth Pact, and reiterates that the principle of proportionality must be observed;

10. warns that the extensive changes to secondary legislation provided for in the communication may give rise to delays, and calls on the Member States to observe the terms of the Stability and Growth Pact with immediate effect, without having to refer to these changes;

11. takes note of the European Commission's proposal regarding means for ensuring compliance with the Stability Pact on the part of eurozone countries and is critical of possible reintroduction of the Commission's original proposal that a Member State's non-compliance should result in the discontinuation of funding under cohesion policy and the common agricultural or fisheries policies, as this runs entirely counter to the principle of proportionality, and would hit hardest those regions that are lagging behind in their development and that need jointly funded programmes to combat their structural weaknesses;

12. notes that exiting the crisis will require a policy mix so that budgetary reform is accompanied by a return to strong, balanced and sustainable development;

13. points out that European integration cannot be achieved instantly but that it is an ongoing process during which this kind of economic crisis can be a spur to radical and far-reaching reforms that both promote economic competitiveness and further the European Union project;

14. agrees that the fiscal adjustments required to apply the provisions of the communication will have far-reaching implications across many policy areas, including regional policy, social policy and policies relating to cohesion and innovation, and in this context calls on the European Commission to ensure that budget deficits are addressed in a proportional and balanced manner;

15. encourages the European Commission to seek an optimum combination of policies and instruments in order to minimise the impact of budget cuts in the main policy areas of the 'Europe 2020' strategy;

16. calls on the European Commission to seek solutions that raise European citizens' awareness of the European endeavour and help to enhance the democratic functioning of the European Union;

17. stresses that monetary union and the euro are the most valuable achievements of the European Union in terms of completing the single market and bringing opportunities and living conditions in the Member States into line; considers that in order to maintain and build on these achievements it will be necessary to exercise the utmost caution when re-defining the rules;

18. welcomes the coordinated attempt by the European Commission and the Member States to set national objectives within the framework of the Europe 2020 strategy and to identify obstacles to growth;

19. stresses the fundamental role played by local and regional government in promoting policies relating to entrepreneurship, training, innovation, and the fight against poverty and social exclusion, and invites the Member States to strengthen the local and regional dimension of the surveillance mechanism so that it is as reliable and rigorous as it needs to be; urges that local government involvement in shaping the objectives of the Europe 2020 strategy and in implementing the relevant policies be secured;

20. calls on the Member States to accelerate the reforms made necessary by the crisis, given that those reforms will help to create a strong and competitive European Union once the crisis has passed;

#### *EFFECTIVE MEASURES FOCUSING ON GROWTH TO PROMOTE COMPLIANCE WITH THE TERMS OF THE STABILITY PACT*

21. notes that fiscal imbalances can be caused by many different factors, and therefore welcomes the European Commission's proposal for an in-depth qualitative analysis of public debt. The Committee points to the role of private debt and welcomes its inclusion in the analysis, while stressing the importance of the banking system for a healthy economy;

22. is concerned that the planned sanctions may not be proportionate or effective and opposes any proposal to cut the resources earmarked for development policies;

23. notes that cohesion policy and the common agricultural and fisheries policies are the cornerstones of EU development. Any undermining of their objectives would be counterproductive and contradictory to the aim of the communication and the EU's main policies. In any case, funds should be released under certain conditions only if they are confirmed as being properly managed, verified and they should not be used for any other purpose;

24. considers that, despite the safeguards, a compliance mechanism for the Member States based on funding from the Community budget could have particularly negative consequences and hinder the achievement of economic, social and territorial cohesion. The suspension or cancellation of Community funding as a sanction will shift the financial burden from Member States' central governments to their local and regional authorities, making the public, workers and businesses collectively liable for the national policy errors of the government of each Member State. The withdrawal of funding will thus have a negative impact on growth and may even aggravate fiscal imbalances, as it will be imposed on Member States that already have major fiscal problems;

25. warns that the inevitable cross-border repercussions of sanctions based on funding from the Community budget will jeopardise territorial cohesion and undermine Member States' commitments;

26. also notes that disproportionately severe sanctions will lead to a loss of popular support for European integration, and that in consequence, sanctions should be devised that aim at to achieve Member State compliance while simultaneously strengthening public awareness of the importance of budget discipline and the use of the structural funds to boost the effectiveness of national policies;

27. notes the need for the planned sanctions to be workable and persuasive, as that is the only way to ensure the legitimacy of the new Stability and Growth Pact;

28. calls on the European Commission and the Council to seek ways to act more rapidly in the event of fiscal imbalances, while upholding the principles of subsidiarity and proportionality and applying sanctions in stages;

29. urges the Member States to apply the principle of bottom-up compliance with the rules of the Stability and Growth Pact, incorporating the necessary budget discipline into national law by means of institutional changes where necessary;

30. stresses the importance of a bottom-up approach also when it comes to the role of local and regional authorities in ensuring proper management of resources, implementing economic policy, and promptly identifying growth problems at local level;

31. calls on Member States to promote greater decentralisation in the management of cohesion funding so as to strengthen transparency and accountability in the handling of Community appropriations. Only regional authorities have in-depth knowledge of local and regional needs and are in a position to make the necessary improvements and adjustments. This would make the role of local authorities in the management of Community funding clearer;

*CAREFUL COORDINATION OF GROWTH WITH REGIONAL AUTHORITIES PLAYING AN ACTIVE PART*

32. notes that Europe's common financial and economic governance must be improved in order to strengthen the euro and the single market; one objective of this will be to ban the speculative use of debt default protection products and transactions involving tax havens;

33. welcomes the idea of establishing a European Semester as a single framework for surveillance of national budgetary procedures and debt levels and the idea of extending surveillance to include macroeconomic imbalances;

34. notes the failure to give proper consideration to the role of local and regional authorities both in shaping guidelines and in implementing budgets. The Committee recommends that it should play an assisting role in the European semester procedure, possibly by means of a response to the European Commission's annual progress report, to be discussed at the Spring Council. The objectives of economic policy coordination should be strengthened by ensuring a proportionate degree of regional and local authority participation, particularly for regions that enjoy legislative power in those areas;

35. The instruments recommended in connection with the coordination measures should take into account the interaction between horizontal policies at local level and the central role of fiscal policy, while also incorporating the dimension of long-term sustainability; active employment policies also come into play here;

36. stresses the importance of peer review and exchange of best practice in relation to budget preparation and implementation, and expresses its concern regarding the possible delays and bureaucratic hurdles that the solutions recommended may entail for the process of drafting, adopting and implementing the Member States' budgets;

37. considers that if the necessary economic growth is to be achieved, there must be the requisite structural reforms in European Union Member States, across a broad swathe of fields, including budgetary discipline and control of public-spending policy, knowledge and innovation policy, protection of the most vulnerable groups in society under social policy, competition policy, and policy to ensure the effectiveness of public services. In this context, the Committee urges Member States to set bold targets for the Europe 2020 strategy and calls on the Council to provide for a generous increase in the Community budget in order to make available the means necessary to achieve the goals;

38. awaits with interest the legislative proposals of the European Commission, and will examine carefully their implications for Member States' regional and local authorities.

Brussels, 1 December 2010.

*The President  
of the Committee of the Regions*  
Mercedes BRESSO

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