Opinion of the European Economic and Social Committee on the 'Social impact of the new economic governance legislation' (own-initiative opinion)

(2012/C 143/05)

Rapporteur: **Ms BISCHOFF**

On 14 July 2011, 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:

Social impact of the new economic governance legislation (own-initiative opinion).

The Section for Employment, Social Affairs and Citizenship, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 25 January 2012.

At its 478th plenary session, held on 22-23 February 2012 (meeting of 22 February), the European Economic and Social Committee adopted the following opinion by 232 votes to 8 with 9 abstentions.

1. Conclusions and recommendations

1.1 Europe needs to speak with one voice, be quicker and less hesitant to act, and follow the right recipes if it is to find a convincing response to the most serious financial and economic crisis, and crisis of confidence, since the EU was established.

1.2 The EESC welcomes governments' efforts to rectify some of the design shortcomings of the euro area and to lay down elements of a new structure for European economic governance. This is necessary because the instruments and procedures used to date have not led to the desired reduction in debt or macroeconomic imbalances. The new structure for European economic governance (EEG) must, however, safeguard the democratic rights of the Member States and their freely elected parliaments, as well as the autonomy of the social partners and their freedom to conduct collective bargaining.

1.3 EEG focuses on economic policy, but will mainly affect social structures by forcing Member States to make specific reforms, using the threat of (semi-)automatic sanctions. The EESC recommends smart, sustainable budgetary consolidation that safeguards vital social investment, in order to avoid social asymmetries.

1.4 Some of the austerity measures already implemented or planned will have a negative impact, for example on people and businesses, by cutting back on social services or labour market measures for vulnerable groups and on key social infrastructure such as childcare or education. This will have negative repercussions for access to and quality of services, thereby seriously impairing quality of life for vulnerable groups.

1.5 The EESC notes that there is an inherent conflict of goals between the Europe 2020 strategy and European economic governance. Implementation of the European Semester and the "six-pack" must not undermine, for example, the poverty reduction target set out in the Europe 2020 strategy, and all measures must be assessed to determine whether they will increase poverty.

1.6 The EESC stresses that, as a matter of urgency, it is crucial to assess the social impact of the new economic governance rules, and calls in particular for:

1) a "social investment pact" to be developed;

2) representative civil society organisations, especially the social partners due to their specific duties and competences, to be fully involved at an early stage in all actions;

3) a convention to be set up to work out a strategy for securing social progress in upcoming treaty amendments;

4) a "social safety net" to be provided by means of equivalent "social governance";

5) the freedom of the social partners to undertake collective bargaining to be safeguarded and promoted;

6) new sources of revenue to be opened up to consolidate public finances; and

7) public spending to be made more efficient, spending to be better targeted and action against tax evasion to be stepped up.

2. A new structure for crisis management

2.1 The Lisbon treaty reinforced the social dimension of Europe, established the social market economy as a goal, laid down the fundamental social rights in law and mandated social impact assessments for all EU projects and initiatives. The EESC has long maintained that a social market economy in Europe needs to combine competitiveness with social justice. There is no conflict between a dynamic economy and social progress; rather, they are mutually conducive [1].

[1] EESC opinion on the social agenda, OJ C 182, 4.8.2009, p. 65.

2.2 The EESC has welcomed the fact that, in the new Europe 2020 strategy, the EU has agreed to create smart, sustainable and inclusive growth.

2.3 The European Union is currently undergoing the most serious crisis it has experienced since it was established, as the financial crisis has developed into a profound economic, debt and social crisis in many countries. On top of that, there is a crisis of confidence in the European institutions and uncertainty as to what to do. Europe needs to speak with one voice, be quicker and less hesitant to act, and follow the right recipes.

2.3.1 Austerity programmes and financial safety nets are at the centre of attention, while the measures needed to improve economic governance and increase growth remain fragmentary and opaque and there is no sign of a debate on the pros and cons of closer integration.

2.3.2 There is increasing concern that this crisis of confidence is developing into a crisis of democracy, especially because of fears of sanctions. The EESC stresses that directly elected national parliaments must be free to adopt budgets and form governments in line with their powers and responsibilities.

2.3.3 The EESC has already pointed out in a number of opinions that the crisis has become a real stress test for Europe. Austerity policy is generating social unrest in a number of countries, and is promoting anti-European and nationalist feeling.

2.4 EU policy and national governments have responded to the "debt crisis" that has arisen over the last few years in the wake of the financial crisis – in part due to massive deregulation of the financial markets – by imposing austerity programmes in an attempt to calm the financial markets. The EESC has already repeatedly welcomed the fact that, despite resistance from many quarters, the European Commission has presented proposals for a financial transaction tax and stability bonds ([2]).

2.5 At the same time, attempts have been made to rectify some of the design shortcomings of the euro area and to lay down elements of a new structure for European economic governance. This should, in future, help to strengthen economic policy coordination, tighten up budgetary policy and control, and improve competitiveness ([3]). In the autumn of 2011, the European Parliament adopted five regulations and a directive reforming European economic governance (known as the "six-pack").

2.5.1 This economic governance "six-pack" is based on three pillars:

— Beefing up the existing Stability and Growth Pact: The Excessive Deficit Procedure (EDP) provides additional, much stricter rules on cutting public deficits and public debts, requiring Member States to bring current levels of debt to the Maastricht ceiling of 60 % within the next 20 years, regardless of the economic climate. This is pro-cyclical and potentially damaging to growth and employment.

— Setting up the "Excessive Imbalance Procedure" (EIP): This is an entirely new policy process, to be conducted at European level. Its aim is to detect and correct macro-economic imbalances that could threaten the stability of the single currency.

— Enforcing the Stability Pact as well as the "Excessive Imbalance Procedure" with sanctions that effectively "bite": European recommendations to "streamline" national policy decisions have already existed since the Maastricht Treaty was signed. What is entirely new, however, is the fact that these recommendations would now be accompanied by almost "automatic" sanctions on those countries that are members of the euro area. This is being done by introducing "reverse majority voting", which is at the very least questionable for it constitutes a completely new procedure that is so far not covered by the Treaty. Put simply, the Commission proposal to levy annual sanctions of 0.1 or 0.2 % of GDP on Member States that do not follow up on its recommendations will be adopted unless the Council of Finance Ministers finds a qualified majority to vote it down within a period of ten days. This introduces a high degree of "automaticity" into the process of sanctions, thereby forcing Member States to actually take serious account of the policy recommendations produced at European level.

2.5.2 On 23 November 2011, the Commission added two new regulations to the six-pack: the first one is on enhanced surveillance of Member States experiencing serious difficulties with financial stability, the second on monitoring and correcting draft budget plans of Member States. The first will broaden, strengthen and deepen country-specific policy recommendations for countries under a macro-economic adjustment programme, non-compliance with which will result in a suspension of payments from the European Structural and Social Funds. The second enhances the power of the Commission in supervising national budgetary procedures, requiring Member States to put in place binding rules on the size of deficits. Both regulations would add to peer pressure and strengthen in-built pro-cyclicality with well known consequences.

2.5.3 The yearly six-month review period dubbed "European Semester" has been designed to avoid contradictory demands for fiscal policies coming from the Member States, and to keep

([2]) EESC opinions on Financial transaction tax, OJ C 44, 11.2.2011, p. 81, and on the Annual Growth Survey, OJ C 132, 3.5.2011, p. 26.

([3]) See the opinions listed in the EESC opinion on the Annual Growth Survey, OJ C 132, 3.5.2011, p. 26.

track of the enforcement of Europe 2020's goals. This aims at ensuring that the EU's headline targets will in fact be incorporated into national budget planning in time and ahead of the vote in national parliaments for the ensuing fiscal year. EEG focuses on economic policy, but will mainly affect social structures by forcing Member States to reform them, using the threat of (semi-)automatic sanctions.

3. **Social impact of the new rules**

3.1 In the fourth year of the financial and economic crisis, the economic and employment outlook in Europe continues to deteriorate. 23 million people are unemployed; the latest unemployment figures (4) show that in September 2011 unemployment rates in the EU27 and the euro area stood at 9.7 % and 10.2 % respectively, an increase over the same period in 2010. The youth unemployment rate rose from 15.5 % to 21.4 % between 2008 and 2011, while the inactivity rate rose from 55.6 % to 56.9 %. In Greece and Spain, almost every second young person is without a job (5). This means that over 5 million young people are not in employment, training or education. The employment gains of 1.5 million recorded up to mid-2011 did not offset massive job losses during the crisis, when 6 million jobs were shed. The rise in employment has mainly come from an increase in temporary contracts and part-time jobs.

3.2 Compounding this, economic forecasts have drastically revised growth rates downwards, with the European Commission acknowledging in its recently published autumn forecast 2011-2013, that "the recovery of the EU economy has stopped" and that there will be no foreseeable improvement in these high levels of unemployment (6).

3.3 The global banking crisis from 2007-2009 seamlessly led to the current sovereign debt crisis, for governments have put considerable resources into bailing out banks and state guarantees to keep the monetary system afloat. Subsequently, average debt levels have increased from 60 to 80 per cent of GDP, reducing considerably the room for manoeuvre for automatic stabilisers and other counter-cyclical policies to work. This means that labour market and social policies will bear the brunt of the adjustment burden. Throughout the different European policy initiatives runs one single thread: wages are to be turned into a key instrument for adjustment by means of wage cuts and wage deflation.

3.4 The EESC believes that the consequences of these developments are potentially dangerous for both the fundamental economic health and the social fabric of Europe. As the Social Protection Committee highlighted in its report on the Social Impact of the Economic Crisis, implemented or planned austerity measures will have an impact on social inclusion by cutting back benefits and services for vulnerable groups such as people with disabilities, with negative repercussions for access to and the quality of public services and thus for people and businesses (7). High interest rates make it nearly impossible for Member States to effectively achieve a reduction of their budget deficits and the level of debt. Greece for example has been running a primary surplus in its state budget since spring 2011, but deficits are still rising because of an unsustainable interest rate burden.

3.5 Austerity measures, which put vital social investment at particular risk, will further reinforce the downward spiral. In the absence of any new sources of growth, cuts in expenditure at the same time bring about negative developments on the revenue side of budgets, such as declining tax revenues and rising social expenditure on unemployment benefits. Budget deficits risk expanding further, engendering potentially disastrous effects from financial markets that closely monitor trends in all Member States.

3.5.1 Furthermore, austerity measures that dampen final demand in one Member State can have significant knock-on effects in other countries, leading to a downward spiral. This can occur either along the value-added chain throughout the single market or through the trade channel. Embarking on a path of simultaneous austerity programmes in a number of countries will add to the bleak outlook for growth and could unleash a vicious circle of uncertainty for investment, including investment in education and training, research and innovation, employment and consumption.

3.6 In the EESC's view, the preparation and implementation of EU governance measures should include a close examination of whether, and to what extent, negative economic developments in Member States and regions are connected with market imbalances, market concentration processes and market abuse by large business groups. The Committee feels that effective measures to counter this – e.g. coordinated tax policy measures – should be taken at all levels and included in the consolidation measures. This should improve the competitiveness of SMEs, and likewise that of export-oriented industrial production. Structural measures to safeguard growth and job creation should be carried out in tandem.

3.7 The Committee regrets that all related policy processes are based on asymmetry and introduce a structural bias: In a letter written by Commissioner Olli Rehn, the Commission's view on euro area imbalances identifies the problem which huge external deficits may cause, whereas large, persistent current account surpluses are not seen as a problem for the

(4) http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-31102011-BP/EN/3-31102011-BP-EN.PDF.

(5) Joint Employment Report 2011, COM(2011) 815 final, pp. 2 and 4.

(6) http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1331&format=HTML&aged=0&language=EN&guiLanguage=en.

(7) Joint Assessment by the SPC and the European Commission of the Social Impact of the Economic Crisis and of Policy Responses 2010, pp. 9-10.

cohesion of the single currency [8]. Redefining the terms of competitive positions implies that the problem lies with those who are running up debt to finance external deficits, whereas countries running surpluses are encouraged to do so.

3.8 In preparing the scoreboard for "macro-economic imbalances", the Commission is defining the indicators in such a way that dynamic wage developments in the various economic sectors are immediately being signalled and scrutinized, whereas a Member State embarking on a strategy of wage stagnation will simply get overlooked. The idea is also to start up with "relative" comparisons where unit wage cost developments are compared with the main competitors. This type of comparison can help to detect divergences in competitiveness, but it must not lead to wage increases automatically being seen as negative and low wages and wage agreements automatically being seen as positive. Instead, increases in productivity and inflation must be recognised as a guideline for increases in wages and salaries.

3.9 The Committee in particular expresses its concern at the fact that governments have committed themselves to measures and behaviour that are beyond their scope and sphere of influence. The European Parliament and Council Regulation on the prevention and correction of macroeconomic imbalances contains an advance-warning mechanism at the heart of which is the indicator scoreboard (art. 3). The indicators describe both the lower and upper thresholds on internal and external macroeconomic imbalances that are designed to trigger the Excessive Imbalances Procedure (EIP). These indicators include unit labour costs, despite the fact that they are primarily the result of autonomous collective bargaining among the social partners and do not fall within the remit of government economic policy.

3.10 The Committee therefore believes that the social partners should become part and parcel of the implementation of the Regulation, both in the euro area and at national level. The Committee underlines that whatever form the institutionalisation of social partner involvement in the implementation may take, social partner autonomy must not be questioned and ILO Conventions 87 and 98 must be fully respected. Furthermore, observation of the general objectives of the European Union, in particular social progress and an upwards harmonisation of EU social policy, should be an essential part of it, as well as fundamental social rights that result from the EU Fundamental Rights Charter (art. 51(1) must be taken into account).

3.11 In times of economic and social difficulty and change, it is important for social organisations to be included in such processes and in the implementation of governance and consolidation measures. They have a valuable contribution to make in terms of education and prevention, employment and social harmony based on respect for human dignity and social solidarity.

4. **Social impact of actions in the Member States**

4.1 The EESC is deeply concerned about the social consequences of the crisis, now clearly visible in most Member States, and recommends that the structural reforms be designed to promote growth and employment. Safeguarding and promoting employees' rights and basic social rights will have a positive impact on overall economic productivity. It must, as a matter of principle, be ensured that governments have the tax revenue necessary to operate properly and that tax evasion is firmly clamped down on.

4.1.1 The EESC notes with concern that national and regional disparities are increasing. Such disparities are a serious threat to European integration, because for the first time they are significantly reducing economic and social cohesion within the existing Union. In the past, increases in social and economic disparities have always been temporary, and linked to the accession of new Member States.

4.2 In its report on "The social impact of the crisis", the Social Protection Committee concluded that "the financial and economic crisis led to a significant deterioration of the social situation for large groups of people, in particular young people, people working on temporary contracts and migrants. In all countries the unemployed are among the groups most at risk of poverty" [9]. This situation has triggered protests and social unrest in Greece, Spain and many other Member States.

4.3 The most recent Eurostat survey from 2011 also shows that people in the EU are concerned about this, and have noticed that poverty is on the increase:

A large and growing majority of Europeans think that poverty is on the increase. When asked whether poverty has increased or decreased over the last three years, 87 % of all Europeans say that it has increased. The belief that poverty levels have risen in the last three years is much more strongly held than in autumn 2010. Only 22 % of Europeans think that enough is being done to address the issue of poverty [10].

4.4 The EESC is deeply concerned that the social consequences of efforts to deal with the crisis will split Europe even further apart, resulting in a loss of public support. The EU must, however, regain the public's trust.

(8) Letter of 4 November 2011, addressed to Jan Vincent-Rostowski, Re.: Treatment of current account deficits and surpluses in the EIP.

(9) See the "2010 Update of the Joint Assessment by the (SPC) and the European Commission of the social impact of the economic crisis and of policy responses", 26 November 2010 (16905/10, SOC 793, ECOFIN 786), p. 2.

(10) Special Eurobarometer 377.

4.5 In its view, every effort must be made to ensure that austerity measures do not increase the risk of poverty. An effective social impact assessment must be carried out, looking into how the goal of helping at least 20 million people out of poverty and social exclusion within the next ten years can still be achieved, given the new circumstances, and what action this would require. The flipside to growing poverty is that assets and profits are also growing; this is exacerbated by inadequate fiscal and budgetary strategies in some Member States. The structure of European economic governance and implementation of the European Semester must not result in missing the poverty reduction target set out in the overarching Europe 2020 strategy.

5. **Need for comprehensive social impact assessments**

5.1 The EESC noted in 2011 that the horizontal social clause (HSC, Article 9 TFEU) was a fundamental innovation and that it was binding on the EU when implementing its policies ([11]).

5.2 In this connection, the EESC has already noted that the HSC must be applied to the broad fields and overall architecture of the new Europe 2020 EU socio-economic governance agreed upon by the European Council in 2010 ([12]). This includes the European Semester, the "six-pack", and also the Euro Plus Pact and the safety nets.

5.3 The EESC emphasises that the crisis measures absolutely must not lead to breaches of the rights guaranteed in the Charter of Fundamental Rights, and also that, conversely, it is necessary to determine what measures need to be taken over the next year to safeguard those fundamental rights ([13]).

5.4 The Social Protection Committee and the European Commission have jointly criticised the fact that to date "few [Member States] have conducted social impact assessments of fiscal consolidation measures" ([14]).

5.5 The EESC stresses that, as a matter of urgency, it is crucial to assess the social impact of the new economic governance rules. The EU has undertaken to promote social inclusion, and has not only linked this with quantitative targets but also enshrined it in the Treaty in qualitative terms with fundamental social rights. This directly affects people's quality of life, and needs to considered and presented in qualitative and quantitative terms in the impact assessments. The proposed legislation has undergone only isolated impact assessments, which in many cases paid only limited attention to the social impact; moreover, the results of these assessments have frequently been ignored ([15]).

6. **Europe needs a social investment pact**

6.1 Given that the nature and extent of the direct and indirect acts of interference in social rights and structures and the social acquis are as yet unknown, we need to develop an overarching concept – on the basis of comprehensive, independent impact assessments – that combines and reinforces the following elements:

6.1.1 Timely, comprehensive involvement of the social partners in all measures

6.1.1.1 All measures – those already taken and those planned for the future – should only be implemented after close consultation with the social partners, not least on the basis of Article 152 TFEU. This also applies to the austerity requirements in particular, which have been presented as being purely economic or budgetary but in fact result in a deterioration in the social situation. One example of an area where the social partners need to be involved is the deployment of the EU task force for Greece. In addition, social organisations and non-governmental organisations are to be fully involved at an early stage in all actions.

6.1.2 A "social investment pact"

6.1.2.1 The EESC believes that it is essentially impossible to save one's way out of a crisis such as that affecting Greece and other Member States, but rather that one can only grow one's way out of it. In the context of economic governance, the EESC suggests making sustainable investments in skills, infrastructure and products and promoting investment in the social economy, social enterprise ([16]) and social services.

6.1.2.2 This should be implemented in the form of a social investment pact. The EESC therefore seconds the call for such a pact made by Frank Vandenbroucke, Anton Hemerijck and Bruno Palier. They state that "The key challenge is to make long-term social investment and short-term fiscal consolidation mutually supportive at both the EU level and in the Member States. We believe that the objectives formulated in the Europe 2020 Strategy can provide a framework to achieve this, on condition that an 'EU social investment pact' is anchored in pro-growth budgetary policy and financial regulation." This means, in their view, that the new macroeconomic and budgetary surveillance must be accompanied by a social investment pact ([17]).

([11]) EESC opinion on Strengthening EU cohesion and EU social policy coordination OJ C 24, 28.1.2012, p. 29.
([12]) Ibid.
([13]) EESC opinion on the Strategy for the Charter of Fundamental Rights, OJ C 376, 22.12.2011, p.74.
([14]) See footnote 9.
([15]) According to the EAPN's 2011 assessment.
([16]) Social Enterprise is a key element of the European Social model. The EESC supports the Commission's launch of a political framework and action plan to promote social enterprise in Europe and the importance of their full implementation at both EU and national level. EESC opinion on Social entrepreneurship and social enterprise, OJ C 24, 28.1.2012, p. 1.
([17]) Vandenbroucke, Frank, et al. The EU needs a social investment pact, OSE No 5, 2011, p. 5.

The EESC is very concerned by the social impact of, in particular, small pensions being cut as part of crisis measures. It once again urges the Commission to take the first steps towards developing an EU-wide definition of an adequate pension ([18]).

6.1.3 Opening up new sources of revenue for public budgets

6.1.3.1 Government money cannot be used for everything – bailing out banks, making benefits more generous, investing in innovation and supporting business. It is be essential for government to tap new sources of revenue. At the same time, public spending must be made more efficient and better targeted. The EESC believes that Member States' tax base will have to be broadened, not least by imposing financial transaction taxes, closing tax havens, ending tax competition and taking measures to tackle tax evasion. At the same time, there needs to be much more focus on the quality of investments, if all Member States are committed to social investment and consolidate their budgets through growth and reforms. In addition, a general re-think of tax systems is needed, with due regard for questions of contributions from different kinds of income and assets ([19]).

6.1.4 "Social safety net" by means of equivalent "social governance"

6.1.4.1 Without a "social safety net" (Jean-Claude Juncker), the EU's architecture will remain incomplete, and Europe will take a step backwards towards a purely economic and budgetary union, a long way away from its commitment to a social market economy. The EESC would quite emphatically caution against such a development.

6.1.4.2 The EESC advocates developing a system for responsible economic and social governance. Short-term consolidation must be tied in much more closely with the Europe 2020 strategy's goals of boosting smart growth, social cohesion and social inclusion.

6.1.4.3 The EU also needs to ensure that all economic and budgetary policy measures are fully compliant with the social objectives laid down in primary law and with fundamental social rights – including, in particular, the right to collective bargaining and strike action – and that the social acquis is not impaired.

6.1.5 A convention to establish a strategy based on social progress for pending treaty amendments

6.1.5.1 The EESC specifically calls for a convention on this subject to be organised. Given the extent of the treaty amendments currently on the agenda, we need both wide-ranging debate and democratic legitimacy. As was the case for the previous convention, national parliaments, the European Parliament, the social partners and the EESC should all take part. In the interim report and road map, it must be ensured that these treaty amendments are flanked by equivalent social provisions and that the outcome is included in the report scheduled to be published in March on the implementation of agreed actions.

6.1.6 Safeguarding and promoting the social partners' freedom to undertake collective bargaining

6.1.6.1 The EESC reiterates its position that the obligations under the Charter of Fundamental Rights apply to all EU institutions and bodies, and therefore that restrictions on free collective bargaining are absolutely unacceptable and that the European Commission should take immediate action to counter this. It certainly should not itself be making recommendations to the Member States that contravene the Charter of Fundamental Rights. On the contrary, it should be making every effort not only to safeguard fundamental rights, but also to promote them. The crisis is a test case of how well established Europe's culture of fundamental rights really is ([20]).

Brussels, 22 February 2012.

The President
of the European Economic and Social Committee
Staffan NILSSON

([18]) EESC opinion on the Green Paper on pensions, OJ C 84, 17.3.2011, p. 38.
([19]) EESC opinion on the Results of the Employment Summit, OJ C 306, 16.12.2009, p. 70 – point 3.4.2.
([20]) See footnote 13.