Opinion of the European Economic and Social Committee on 'The Community Method for a Democratic and Social EMU'

(own-initiative opinion)

(2016/C 013/07)

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On 19 February 2015, the European Economic and Social Committee, under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on:

The Community Method for a Democratic and Social EMU.

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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 10 July 2015.

At its 510th plenary session, held on 16 and 17 September 2015 (meeting of 17 September), the European Economic and Social Committee adopted the following opinion by 161 votes to 6, with 10 abstentions.

'The EU must be a community of citizens, not banks. Its foundation is democracy, its future social justice ([1]).'

1. **Conclusions and recommendations**

1.1. A genuine stabilisation of the economic and monetary union (EMU) can only succeed if faults in the EMU's construction are rectified and major reforms are undertaken to accomplish this. This requires a change to the treaties as part of a convention. Since this is unrealistic before 2018, in the meantime other measures must be taken to enhance the democratic and social dimension of the EMU within the framework of the existing treaties and to ensure that the self-imposed rules are followed.

1.2. The longer the current savings-oriented policy — primarily focused on making spending cuts — continues without an effective investment plan to generate revenue through growth, social cohesion and solidarity, it will become increasingly clear that Europe's economic integration and prosperity is at risk from growing social inequalities.

1.3. Continuing on the current course is therefore not an option. Instead, social, political and economic cohesion must be strengthened to avert a break-up of the euro area. The EESC agrees that divergences in the EMU economies must be given greater consideration and that balanced structural reforms in these countries must be introduced to reflect the requirements of a monetary union and in accordance with national requirements, in order to ensure the necessary convergence. In addition, the EESC believes that short-term demand management is essential.

1.4. The EESC calls for greater 'parliamentarisation' of the euro area, with a grand EP committee comprising all members of parliament from the euro area and from those countries wishing to join (26 Member States), combined with stronger coordination of members of parliament from the euro area on EMU issues (COSAC +). This could get under way in a relatively short time.

1.5. The EESC points out that some of the economic policy goals of economic governance of recent years must be brought more into line with the EU's social policy objectives under Article 4(2) TFEU and possible conflicts between economic and social objectives should be resolved. All measures under the European Semester — in accordance with the horizontal social clause — must be subject to a social impact assessment. These results should be made public and discussed at national and European level. The EESC can support this within the framework of its competences.

([1]) Heribert Prantl *Europa — Traum oder Alptraum* (Europe — dream or nightmare), presentation in Ludwigsburg on 14 July 2013.

1.6. The removal of divergences in the functioning of labour markets, wage-setting systems and welfare systems also plays an important role in a democratic and social EMU.

1.7. The EESC is convinced that macroeconomic dialogue in the euro area (MED-EURO) can make a key contribution to the democratic and social development of the EMU, the outcomes and conclusions of which should be taken into account both when drawing up the Annual Growth Survey and in the scoreboard and country-specific recommendations.

2. **Challenges and criteria for a democratic and social EMU**

2.1. The EESC has issued several opinions with specific suggestions on how the EMU could be better designed. Whereas some of these opinions set out future scenarios, this opinion provides proposals for how the democratic and social design of the EMU can be developed as quickly as possible within the framework of the Community method in such a way that it bolsters democratic resilience and meets the social obligations arising from the treaties. Serious moves towards more comprehensive treaty change are unlikely before 2018. At the same time, there is still concern that the intergovernmental instruments, in particular the Fiscal Compact, are undermining the Community method and provoking division in Europe ([2]). The longer the savings-oriented policy — primarily focused on making spending cuts — continues without the addition of at least an investment plan and measures to generate growth and social cohesion and solidarity, it will become increasingly clear that Europe's economic integration and prosperity is at risk from growing social inequalities.

2.2. The crisis in the euro area has laid bare the design errors of monetary union. As there was a failure to coordinate the various national economic policies from the outset, in many respects members of the monetary union grew apart ([3]).

2.3. In the context of the crisis the intergovernmental method appeared to be the only way to adopt important EMU instruments — like the Fiscal Compact — quickly, as individual Member States would not have agreed to a Treaty change. On the one hand, some instruments have been improved during the crisis. At the same time, there is consensus that parliamentary design and monitoring of the EMU has hitherto been insufficient. This must now be rectified as part of a more consistent integration policy. The group of foreign ministers ([4]) therefore recommended as early as 2012 that 'full democratic legitimacy and accountability' be guaranteed in all measures, calling for stronger cooperation between the EP and national parliaments ([5]). The European Commission's Blueprint for a deep EMU suggested building on the institutional and legal framework of the treaties. The Eurogroup could then lead the way with specific measures, provided such measures were open to all Member States.

2.4. Within the framework of European policy, more and more intergovernmental solutions, such as the Fiscal Compact, are being implemented, heightening the risk that a parallel system governed by international law is being created. Published in December 2012, the Van Rompuy report pointed out that a common understanding was important in order to carry out more far-reaching reforms. Moreover, a high degree of social cohesion was needed, as were a strong role for the EP and national parliaments and renewed dialogue with social partners. The accountability (ownership) of the Member States also had to be improved. In so doing, the then president of the European Council ([6]) brought the social dimension and the specific role of the social partners into the debate, which previously had been geared primarily to economic and budgetary policy issues and the lack of democratic legitimacy.

([2]) The EP, the fiscal compact and the EU-institutions: a 'critical engagement'; Elmar Brok (EPP, DE), Roberto Gualtieri (S&D, IT) and Guy Verhofstadt (ALDE, BE).

([3]) European Commission: *Employment and Social Developments in Europe 2014*, 15 January 2015, http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7736

([4]) Final report of the Future of Europe Group of 17 September 2012 by the foreign ministers of Austria, Belgium, Denmark, France, Germany, Italy, Luxembourg, the Netherlands, Poland, Portugal and Spain.

([5]) Ibid. p. 2 (f).

([6]) In close cooperation with Mr Barroso, Mr Juncker and Mr Draghi.

2.5. Following the 2014 EP elections, and with the position of Commission president thus enhanced by democratic elections, there have been new discussion proposals:

a) the analytical note *Preparing for Next Steps on Better Economic Governance in the Euro Area* [7], published by the four presidents on 12 February 2015;

b) the five presidents' report *Completing Europe's Economic and Monetary Union*, 22 June 2015 [8].

2.6. The EESC takes note of these proposals and will assess them in terms of how much the ideas for the further development of 'economic governance' contribute to a social, democratic, solidarity-based and political union which guarantees appropriate participation of EU citizens and the social partners.

2.7. The EESC takes the view that the EMU requires a genuine strengthening of intra-Community cooperation, as hinted at in the Commission's 'blueprint'. By extending demand instead of stifling it, this would ensure that the economic capacities of the various countries are more closely aligned within the framework of a growing and prosperous economy. This includes an upwards harmonisation of social standards and labour rights.

2.8. The co-existence of the Community method, intergovernmental initiatives (such as the Fiscal Compact) and other new 'intermediate forms' linked to the Commission's and the European Court of Justice's supervisory function in the application of international agreements have given rise to renewed confusion regarding operators and their legitimacy and accountability. Transparency and thorough democratic scrutiny cannot be guaranteed given this state of affairs and this has aroused a lot of criticism. In the midst of the crisis, quick solutions had to be favoured, albeit with the declared intention that individual international-law agreements should later be transferred to the Community method. The five presidents intend this state of affairs to continue until 2018. Their timetable would further postpone the full democratisation of the EMU, and their report does not pay the question of political union enough attention. In the meantime, the European Semester dialogue between the EP, Council and Eurogroup, as well as between national parliaments and the Commission and between national parliamentarians and MEPs (COSAC), is intended to enhance trust and spur joint action. In this regard, the EESC points out that increased dialogue cannot replace integration policy. The Community method must now be strengthened once again and form the basis of a functioning EMU, instead of different, parallel systems based on international law.

3. **Better EMU governance through more participation, transparency and accountability**

3.1. Better involvement of the social partners can contribute to improved EMU governance, and structured dialogue with civil society helps to improve democratic resilience. The EESC is willing to play a special role here and to make its experience and resources available, as is already the case with the 2020 strategy, for example [9].

3.2. The question of 'ownership' especially by the social partners, as introduced by Council president Herman Van Rompuy, promises to be much more difficult, especially as the social partners — unlike governments — have so far been involved in a very limited way in designing the objectives/instruments of economic governance. How can we then encourage them to get involved in a policy, the details of which they have little influence over? As social partners and economic operators, they have a substantial influence on pricing levels and stability, for which the EMU provides the overarching framework for their respective systems for setting wages and organising labour market and social policy.

(7) *'Preparing for Next Steps on Better Economic Governance in the Euro Area', Analytical Note by Jean-Claude Juncker in close cooperation with Donald Tusk, Jeroen Dijsselbloem and Mario Draghi*, Informal European Council held on 12 February 2015.
(8) *Five Presidents' Report, Completing Europe's Economic and Monetary Union*, http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf
(9) EESC opinion: Taking stock of the Europe 2020 strategy (OJ C 12, 15.1.2015, p. 105).

3.3. In 2013, the Commission published its communication on the social dimension of the EMU ([10]) responding to the discontent of civil society stakeholders. 'Problematic' economic developments should be identified and dealt with at an early stage since persistent social inequalities could jeopardise the financial and economic stability of the EMU. In the discussions that followed, it became clear that there were two schools of thought. The first one is based on the assumption that the social dimension of the EMU is an additional, optional and voluntary pillar, in contrast to the mandatory budgetary and economic policy procedures. Others, like the EESC, would point out that some of the economic policy goals are at odds with the EU's social policy objectives under Article 4(2) TFEU and call for these conflicting aims to be made public and resolved.

3.4. The Commission wants to involve the social partners more closely and to engage in a discussion on wage development and collective bargaining. It has already taken several steps in this regard. On the other hand, it would like to discuss the European Semester with the social partners and calls for them to be involved more effectively in the Member States. The EESC itself has put forward very concrete proposals to ensure that the social partners play a more effective role in economic governance (SOC/507) ([11]). At least the new allocation of Commission portfolios, especially the broadened remit of vice-president Dombrovskis, can be seen as a sign that greater attention will be devoted to the participation of the social partners.

4. **Proposals and evaluation**

4.1. ***The presidents' report***

4.1.1. The EESC expects the report on *Completing Europe's Economic and Monetary Union* ([12]), presented by the five presidents ([13]) on 22 June 2015, to serve as a guide for future development of structures for economic policy governance in Europe. The EESC is of the opinion that ongoing imbalances as well as the creation of trust require more effective and democratic economic governance, notably in the euro area ([14]). On the other hand, the analysis is based on some false premises, which leads — despite some good points — to problematic conclusions: without a change of course, the savings-oriented policy would continue, leading to more wage and welfare cuts. While it is recognised that the minimum conditions for the long-term viability of the EMU have not yet been achieved, the recommended stepping up and long-term institutionalisation of the current anti-crisis policy is nonetheless to continue. The EESC sees a contradiction here.

4.1.2. The current (not least in comparison with the USA and Japan) disastrous economic situation in the euro area is not attributed to the ongoing anti-crisis policy, but to the uncompetitiveness of some Member States because of divergent wage trends and government deficits. The EESC finds it regrettable that the short-term challenges for macroeconomic policy, such as inflation and deflation, and the failure (from 2010 onwards) of counter-cyclical policies, as well as excessively weak demand, are being overlooked and a largely asymmetric adjustment policy is to continue. Regrettably, the five presidents completely disregard the fundamental problem, which has become evident during the crisis: unlike the US, Japan and the UK, the euro area as a whole lacks a 'lender of last resort'.

4.1.3. The report completely overlooks the approaches taken by other central banks, which enabled the USA and the United Kingdom to recover relatively quickly, while the situation in Europe only worsened. Instead of a counter-cyclical stabilisation policy, existing instruments of economic governance are to be strengthened, including by means of national competition councils that focus on reducing debt levels ('deleveraging') and on production-oriented wage development. The EESC regrets that the opportunity to assess the long-term sustainability of the foundations of the existing policy framework and to complement them with an enhanced pan-European perspective was not taken.

([10]) COM(2013) 690 final, Strengthening the Social Dimension of the Economic and Monetary Union.

([11]) EESC opinion: Structure and organisation of social dialogue in the context of a genuine economic and monetary union (EMU) (OJ C 458, 19.12.2014, p. 1).

([12]) See footnote 8. Only those elements of the report that are relevant to this opinion will be discussed.

([13]) The President of the European Commission, the President of the European Council, the President of the European Parliament, the President of the Eurogroup and the President of the European Central Bank.

([14]) EESC opinion: Completing EMU: The political pillar (OJ C 332, 8.10.2015, p. 8).

4.1.4. The EESC finds it regrettable that the presidents attribute the much worse than expected economic trend purely to the fact that the new mechanisms of economic governance, as well as the adjustment programmes of the countries in crisis, were not thoroughly applied and were inadequately organised. The over-emphasis on structural reforms and price competitiveness of the Member States to complete the economic union (Chapter 1) overlooks the fact that structural reforms and wage-setting are subject to constant negotiations and problem-solving at local level — processes that follow democratic principles. The five presidents, however, position themselves as external operators who wish to steer Member States closer to arbitrarily defined benchmarks, without enhancing their democratic legitimacy to do so or creating ownership.

4.1.5. The EESC is therefore concerned that the report's lack of perspective of a fully-fledged fiscal union will further de-legitimise the euro area in the Member States, particularly because their approach of 'more of the same medicine' will not improve the economic well-being of all their citizens and the national perspective will continue to dominate. The EESC considers the proposed measures for integrating labour markets and welfare systems to be completely inadequate, not least because — in contrast to the presidents' rhetoric of wanting to achieve a 'social AAA rating' for the euro area — these measures have only secondary importance. The EESC considers the development of a social union to be an integral part of a democratic and social EMU, not an afterthought.

4.2. ***Bruegel analysis and proposals*** ([15])

4.2.1. The European think tank Bruegel notes that from the outset the EMU was characterised by significant differences in economic, social and political conditions, which are responsible for the policy errors in Member States and inadequate European economic governance. It proposes a reform of economic governance in the fields of banking union and macro-prudential supervision of the financial sector, the prevention of strong divergences in unit labour costs and fiscal policy governance, which can ensure that the budgets of individual members are sustainable and that resources are available in the event of a banking and sovereign debt crisis. The EESC has very recently put forward very similar proposals in its opinions ([16]).

4.2.2. Capital flows from surplus countries have been partially responsible for overheating in deficit countries, with nominal wages increasing as a result. The financial imbalances have so far been given too little attention. This is at odds with the intention of having deeper financial market integration.

4.2.3. The pro-cyclical fiscal policy between 2011 and 2013 and the absence of a counter-cyclical fiscal policy in 2014 have further exacerbated social hardships unnecessarily ([17]). In addition to the necessary structural reforms, policies should therefore offer people opportunities, for instance through favourable conditions for private investment in order to rebuild long-term employment. Moreover, policy should include measures to enhance competitiveness in order to generate income and prosperity to guarantee social stability to all. The EESC therefore strongly endorses the conclusion that, in the short term, aggregate demand and inflation must be increased as a matter of urgency. Furthermore, the ECB must be relieved of the tasks of fiscal policy and adjustment of unit labour costs, which fall outside its mandate but which it carries out for all intents and purposes owing to the political inaction of the other institutions.

4.2.4. In the EESC's view, further action is required in order to address the basic issues of democratic legitimacy. The EESC strongly supports the full 'parliamentarisation' of the euro area (grand EP committee including all members of parliament from the EMU and those wishing to join the euro area). Even coordination among members of parliament from the euro area on EMU issues should be improved within the framework of COSAC ([18]).

([15]) André Sapir, Guntram Wolff: *Euro-area governance: what to reform and how to do it*, 27 February 2015, http://www.bruegel.org/publications/publication-detail/publication/870-euro-area-governance-what-to-reform-and-how-to-do-it/

([16]) EESC opinions: Completing EMU — The proposals of the European Economic and Social Committee for the next European legislature, OJ C 451, 16.12.2014, p. 10; Completing EMU: The political pillar (OJ C 332, 8.10.2015, p. 8).

([17]) Zsolt Darvas and Olga Tschekassin, Poor and under pressure: the social impact of Europe's fiscal consolidation, Bruegel Policy Contribution 2015/04, March 2015.

([18]) See footnote 14.

4.2.5. In 2014 COSAC itself pointed out that many parliaments are not yet sufficiently involved, and expressed concern that the link between the public and the EU has therefore been disrupted. They call on the Commission and the Council to work together with members of parliament to address the situation with practical proposals ([19]). Although the forms of participation provided for in Article 13 of the Fiscal Compact are a step in the right direction, they fall short of genuine 'parliamentarisation'.

4.3. ***The overarching responsibility of all economic operators***

4.3.1. Removing the divergences in the functioning of labour markets, wage-setting systems and welfare systems also plays an important role in a democratic and social EMU. A federal system with a single European labour market together with uniform institutions and welfare systems, as in the USA, does not seem feasible in the short term. In addition, the Macroeconomic Imbalances Procedure (MIP) should be strengthened in a symmetrical way with the social partners becoming involved.

4.3.2. The EESC points out that some of the economic policy goals of economic governance of recent years must be brought more into line with the EU's social policy objectives under Article 4(2) TFEU and possible conflicts between economic and social objectives should be resolved. All measures under the European Semester — in accordance with the horizontal social clause — must be subject to a social impact assessment. These results should be made public and discussed at national and European level. The EESC can support this within the framework of its competences.

4.3.3. The five presidents' report speaks of a financial, fiscal and political union, while there is no mention of the social union. It urges strengthening the unique European model, while no longer saying anything about the unique European social model. It is true that the image of the 'social triple A' is raised, which is intended to be achieved as part of a deepened EMU, but it remains extremely vague. Social issues are dealt with at best as supplementary matters, or in the context of increased mobility of the labour markets in the Member States. Key elements — mentioned without further explanation — are a minimum level of social protection, effective welfare systems in the Member States as well as new employment 'flexicurity' initiatives.

4.3.4. The governments of the Member States have an important responsibility for the further development of a democratic and social EMU. The same applies to the social partners, both nationally and at European level, for whom the EMU provides the overarching framework for their respective systems for setting wages and organising labour market and social policy. As economic and social players, they play a key role as regards compliance with the EMU's common stability target.

4.3.5. The EESC reiterates that a monetary union with different price and wage trends in the Member States inevitably gives rise to imbalances between the regions of the same currency area, whereby external shocks can develop into social and political crises and may further exacerbate divergences ([20]). Therefore the EESC believes that a serious debate on a well-founded architecture of the EMU, implying a consensus concerning economic and social objectives as well as agreed governance, is unavoidable ([21]). The EESC concludes therefore that EU macroeconomic dialogue (MED) needs to be strengthened and deepened within the euro area.

4.3.6. Macroeconomic dialogue was launched by the European Council in Cologne in June 1999 in order to achieve a long-term growth and stability-oriented macroeconomic policy mix, i.e. smooth interaction between wage development, monetary and fiscal policy. Its goals are now more pertinent than ever: more growth and jobs while preserving price stability, using up production capacity and increasing potential growth ([22]). The EESC finds it regrettable that this tool has been watered down over the years and, since the onset of the crisis, has not been used to democratise the instruments of economic governance and to enhance awareness of ownership in the EMU common currency area.

([19]) *Contribution of the XLIX COSAC*, Dublin, June 2014.
([20]) EESC, Social impact of the new economic governance legislation, 2012 (OJ C 143, 22.5.2012, p. 23).
([21]) See footnote 14.
([22]) Resolution of the European Council on the European Employment Pact, Cologne European Council, 3/4 June 1999.

4.3.7. The EESC is convinced that MED in the euro area (MED-EURO) can make a decisive contribution to the democratic and social development of the EMU provided that the group of participants in the dialogue meets its requirements. Maintaining the capacity for dialogue within the MED-EURO requires a limit on the number of participants. In addition to the representatives of the social partners, the European Central Bank, the Eurogroup and the Commission (while fully preserving their autonomy and independence), the chair of the Committee on Economic and Monetary Affairs of the European Parliament should participate on an equal footing.

4.3.8. The EESC believes that MED-EURO should meet at least twice a year and become an integral part of the economic governance of the EMU. Its findings and conclusions should therefore be taken into account both when drawing up the Annual Growth Survey and in the scoreboard and country-specific recommendations. Within the overall context of monetary, budgetary and wage policy in the EMU, trust can be fostered and closer convergence can be achieved without jeopardising free collective bargaining. This could — by analogy with the 'Stability and Growth Pact' — lead to a higher degree of transparent commitment by all economic operators and act as a 'stability and jobs pact'. In this context, the EESC stresses the importance of smooth interaction between monetary and budgetary policy and wage development in order to ensure more growth and jobs, boosting confidence in monetary union.

4.3.9. This is a different approach from the five presidents' suggestion — similar to the Bruegel proposal — to establish national competition institutions in order to accompany wage-setting processes at national level. According to the five presidents' proposal, these national competition institutions should also be coordinated at European level. An early consultation of the social partners before putting together the report would have been wise, because the presidents' proposal has little chance of success in its current form.

4.3.10. Outlook: without undertaking fundamental institutional and political reforms, the EMU will always remain fragile. The Committee is extremely concerned about the stability of the EU, since the necessary reforms — with or without treaty change — always occur only at the last minute and under intense pressure. What is needed is to strengthen social, political and economic cohesion in the EU once again and to continue a coherent economic and monetary integration as a basis for a properly functioning EMU. Without bold members of parliament, politicians and social partners, who lead the discussion with civil society both nationally and at European level and who fight for the best solutions, a well-functioning EMU cannot succeed.

Brussels, 17 September 2015.

The President
of the European Economic and Social Committee
Henri MALOSSE