Opinion of the European Economic and Social Committee on the 'Recommendation for a Council recommendation on the economic policy of the euro area'

(COM(2016) 726 final)

and on the

'Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions — Towards a positive fiscal stance for the euro area'

(COM(2016) 727 final)

(2017/C 173/06)

Rapporteur: **Javier DOZ ORRIT**

Co-rapporteur: **Petr ZAHRADNÍK**

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(for/against/abstentions)	

1. **Conclusions and recommendations**

1.1. The EESC appreciates the European Commission's effort to apply an economic policy that focuses on supporting the strong, sustainable, balanced and inclusive growth of the euro area as well as a balanced mix of monetary, fiscal and structural instruments in order to achieve this, including a positive fiscal stance.

1.2. The EESC therefore welcomes the European Commission's recommendation for a positive fiscal stance for the euro area that also respects the long-term fiscal sustainability objectives.

1.3. The EESC would like to encourage the European Commission to take full advantage of its role as guardian of the EU Treaties, with their commitment, among other things, to enhancing well-being, social progress and social justice on the one hand, and economic prosperity and competitiveness on the other hand, as well as its recently increased powers in interpreting fiscal rules flexibly in order to allow for significant increases in public investment which, under specified conditions, should not be taken into account when calculating the deficit targets of the Stability and Growth Pact (SGP).

1.4. The EESC welcomes the emphasis on increasing investment and building on the existing Investment Plan. This must be adequately funded so as to lead to a significant increase in EIB lending compared to recent years. Governance structures should ensure that funds are adequately directed towards countries in which investment has fallen particularly severely. These measures must be combined with adequate structural reforms that promote growth, employment and social cohesion.

1.5. The EESC welcomes the European Commission's call for a symmetrical adjustment of current account deficits within the euro area. This should be shared both by Member States with deficits and those with surpluses. Member States should decide how to make these adjustments, in accordance with the common general orientation.

1.6. Emphasis should be given to structural reforms that can stimulate demand and growth even in the short-term, while avoiding those that are likely to undermine growth by increasing job and income insecurity. The structural reforms adopted should have the potential to bring about tangible improvements to business conditions, reduce barriers to investment and contribute to the completion of the EU single market in all of its aspects.

1.7. Productivity growth should be a priority objective of structural reforms. These should ensure the fair distribution of any productivity gains in order to ensure stronger demand and supply-side improvements.

1.8. Restoring and increasing growth in productivity and GDP should be viewed as the key means of restoring health in the economies suffering from the highest levels of indebtedness.

1.9. Reforms that support the creation of high quality (i.e. stable, fairly paid) jobs should be prioritised.

1.10. The EESC stresses that strengthening and promoting social and civil society dialogues both at the national and the euro area level is of paramount importance for agreeing and successfully implementing the policies that are necessary for recovery and long-term economic sustainability.

1.11. Effective measures against money laundering, tax offenses, the use of tax havens and unfair tax competition between Member States will also help to achieve the objectives of the SGP.

1.12. The EESC supports the creation of a European Deposit Insurance Scheme and calls for the creation of a common backstop for the Single Resolution Fund of the banking union to be speeded up. Decisive steps should be taken to solve the problem of non-performing loans, while at the same time protecting consumers' rights and respecting the relevant principles of the European Pillar of Social Rights.

1.13. The EESC supports the initiatives to complete the Economic and Monetary Union, including a strong European Pillar of Social Rights, more fiscal flexibility and a fiscal capacity for the euro area, notably by promoting the establishment of a Euro Treasury, which should ultimately issue common bonds, under strong democratic and political control.

1.14. The EESC calls for the further improvement of the European Semester with a reinforced coordination role of the European Commission in it and a clear commitment of the Member States to implement the policies they agree on at Council level, thus avoiding uncertainty and creating a conducive investment environment.

2. **Background**

2.1. Following the Five Presidents' Report, there is a commitment under the European Semester to strengthen the integration between the euro area and the national levels. As in 2016, the 2017 Annual Growth Survey is accompanied by a recommendation for a Council Recommendation on the economic policy of the euro area. The aim is to offer an opportunity for an early and focused discussion about the euro area as a whole, ahead of country-specific discussions, so that common challenges are fully reflected in country-specific actions.

2.2. For the 2017 European Semester, the Commission presented the following five recommendations on the economic policy of the euro area:

— Pursue policies supporting growth and convergence and remove bottlenecks to investment and job creation. Countries with current account deficits or high external debt should seek to raise productivity, while countries with current account surpluses should increase domestic demand and investment;

— Deliver an overall positive fiscal stance that supports reforms and strengthens recovery. Combine differentiated national efforts to secure both long-term fiscal sustainability and macroeconomic stabilisation. Improve the composition of public finances;

— Implement reforms promoting job creation, social fairness and convergence, and shift taxes away from labour, in particular for low-income jobs;

— Agree on a European Deposit Insurance Scheme (EDIS) and start work on the common backstop for the Single Resolution Fund. Address risks to the viability of the banking sector and promote the orderly deleveraging of high private debt;

— Accelerate the completion of Europe's Economic and Monetary Union, including by implementing the remaining actions under stage 1 of the Five Presidents' Report.

2.3. A new feature of the European Semester 2017 is the Communication 'Towards a positive fiscal stance for the euro area'. In this document the Commission stresses the need for a positive fiscal stance, also seeing a window of opportunity for achieving it. In order to deliver such a fiscal stance, the euro area must adopt a more collective approach that takes account of the differences in situations across countries. The Commission recommends a fiscal expansion of up to 0,5 % of GDP in 2017 for the euro area as a whole, having set out a band between 0,3 % and 0,8 % to allow for differentiation among countries with different risks in terms of their macroeconomic stability and fiscal sustainability.

3. **General comments**

3.1. The EESC takes a positive view of the European Commission's call for an overall positive fiscal stance in the euro area. However, the EESC is also concerned that limiting fiscal expansion to the two or three Member States that currently have fiscal space according to the EU fiscal rules is unlikely to deliver the overall fiscal stance that is proposed. It is vital to strengthen economic growth in the euro area and in the EU in this period of political crisis and of uncertainty fuelled by Brexit and the policies of the new U.S. government, particularly protectionist trade policies. Fiscal expansion and a greater increase in public and private investment will boost domestic demand, which is a crucial factor for robust growth. This will also be supported by structural reforms that aim to increase productivity, enhance conditions for developing business activities and eliminate barriers to investment.

3.2. This shift in the European Commission's assessment of the economic situation in the euro area is in line with the EESC's previous opinion on the economic policy of the euro area ([1]), which argued for the active use of fiscal policies to support the recovery of the euro area as a whole. The positive fiscal stance proposed by the European Commission is modest but — provided it is combined with the effective use of the Investment Plan and the EFSI — it could help overcome the deeper problems of slow growth, partial stagnation and continuing divergences in levels of economic performance across the euro area countries.

3.3. The EESC notes that a positive fiscal stance for the euro area as a whole should be regarded as a short- or medium-term instrument which must be compatible with long-term fiscal sustainability. At the current juncture, the GDP deficit and debt targets should be applied flexibly, taking into account the goals and purposes of the EU in general and of the EMU and the Stability and Growth Pact, as mentioned in Articles 119 and 120 TFEU.

3.4. The EESC calls on the European Commission to live up to its role as the guardian of the EU Treaties, in particular Article 3 TEU which sets out the objectives of advancing well-being, cohesion and social justice, and acknowledges that the specific numerical limits imposed by the SGP and its rigid implementation are neither appropriate nor necessary under the current circumstances of stagnation and historically low interest rates, a conclusion that is shared, among others, by the OECD. Advancing well-being, cohesion and social justice is fully compatible with economic and productivity growth.

3.5. The EESC proposes that the Golden Rule is adopted in the implementation of the SGP, whereby public investment that will contribute to improving growth potential and economic competitiveness should not be taken into account in the deficit targets of the SGP. The EESC reiterates the comments it made in its opinions on the Investment Plan for Europe, on the European Fund for Strategic Investments (EFSI) and on the extension of its duration ([2]): higher public investment is necessary for stimulating growth in the short and long-run, and the latter is a necessary condition for public budget consolidation.

([1]) OJ C 177, 18.5.2016, p. 41.
([2]) OJ C 268, 14.8.2015, p. 27, and OJ C 75, 10.3.2017, p. 57.

3.6. The EESC warns that failure to steer economic policies towards promoting the general objectives of the EU and the EMU, including in the forthcoming White Paper on the Future of Europe, may fail to stem the rise of anti-EU and anti-EMU sentiment. This could be particularly problematic given the current challenges posed by, among other things, geopolitical developments in the EU's neighbourhood, the waves of refugees and migrants, and climate change. Only a united and economically strong Europe with strong popular support could succeed in transforming such challenges into opportunities. The European institutions, in collaboration with civil society committed to the European project, should strive to transmit to all Europeans, through appropriate means, all the positive things that the EU is supposed to do for them in the fields of politics and the economy.

3.7. An instrument that can contribute to restoring growth and reducing divergences should be the Investment Plan for Europe. The level of funding so far has meant that it can only maintain past levels of credits from the EIB with a strong bias towards investment in countries in the least difficulty. This should be addressed with urgency, ensuring enough flexibility in the Stability and Growth Pact in relation to the necessary public investment and thereby enabling investment levels in energy transition, education and skills, infrastructure and EFSI-funded projects to increase decisively across the whole euro area, while encouraging investment in innovative private sector projects.

3.8. Tax policy, with progressive taxation, is a key element in promoting social fairness. In this context, an optimal, appropriate and growth-stimulating fiscal system is of the utmost importance. Reducing taxation on the lowest incomes can both contribute to macroeconomic stability and act as a greater incentive to paid employment. Nevertheless any tax reductions should be accompanied by alternative tax sources to ensure that budget deficits are avoided.

3.9. The EESC welcomes the European Commission's call on Member States with current account deficits and high external debt to focus on improving their productivity growth. In this context, it notes that fair redistribution of income and wealth deriving from productivity gains should increase equality and have a positive impact on domestic and aggregate demand in the euro area. It is important to stimulate domestic demand as a necessary condition for supporting growth and overcoming the crisis.

3.10. The EESC believes that priority in structural reforms should go to those reforms that enhance productivity growth but also strengthen job security and the social protection system within the framework of appropriate business conditions. No euro area country can compete in the modern world on the basis of low wages and casualised employment. The emphasis should be on reforms that combine negotiated flexibility with security so as to enhance, and create incentives for enhancing, skills and innovation. Labour market reforms should promote greater stability in employment, which will help improve both the supply and the demand side of the euro area economy, even in the short term.

3.11. The EESC stresses once more ([3]) that the current malaise of the euro area has been due to weak demand, itself the outcome of fiscal policies and asymmetric current account balance adjustment (based mostly on labour costs) pursued in previous years during the greatest post-war recession, and not due to Member States' insufficient reform efforts. The Committee underlines again that structural reforms aiming at the supply side of the economies will not go far in stimulating investment and growth unless an expansionary fiscal stance in the euro area is adopted and sustained until recovery is well under way.

3.12. The EESC regrets that during the crisis, social and civil society dialogues have been compromised if not completely side-lined in the Member States, particularly those where financial support had to be provided, and which underwent large-scale social and labour market reforms. Some headline indicators reflecting the European Pillar of Social Rights in a balance between social partners should be recommended for inclusion in the European Semester paradigm. The EESC notes that, at present, procedures for social dialogue are not guaranteed in the EU and in many Member States, preventing the social partners from taking part effectively in the European Semester process.

([3]) OJ C 177, 18.5.2016, p. 41.

3.13. The EESC believes moreover that economic policy coordination under the European Semester should be improved and the role of the European Commission in it reinforced. To add credibility to the process, Member States should duly fulfil their commitments taken in Council meetings.

4. **Specific comments**

4.1. The EESC supports the European Commission's initiatives to complete the banking union, namely by establishing a common deposit insurance scheme and a common backstop for the Single Resolution Fund. These steps are essential in order to relieve the burden on national government budgets associated with ensuring the public good of banking system stability. They are all the more important in view of the fact that progression towards a political union remains off the agenda for the time being.

4.2. The EESC also notes that the issue of banks' non-performing loans is of paramount importance for complementing policies that aim to relaunch growth. Steps should be taken promptly in order to address the problem, while at the same time taking into account considerations of consumer protection.

4.3. Fiscal fraud and tax evasion are leading to a significant decline in public revenue, which has a very negative impact on the fulfilment of the SGP objectives and the capacity to increase public investment. In particular, tax havens are essential for large-scale tax evasion operations and their related crimes (e.g. money laundering). Putting an end to the use of tax havens should be a priority. The EESC calls on all EU and euro area institutions to adopt and implement directives to this end without delay.

4.4. Unfair tax competition between Member States impairs the tax collection capacity of a number of Member States and, therefore, their ability to meet SGP objectives. The EESC believes that the EU authorities should take reasonable and balanced steps to end unfair tax competition practices, following recommendations from the OECD and the IMF.

4.5. While recognising the enormous effort to further strengthen and develop the euro that is required at this time and will be required in the near future in order to provide lasting prosperity and stability for the euro area, the EESC believes that the following objectives, among others, are desirable:

— Establishing a unified external representation of the euro area in international fora (International Monetary Fund, OECD, etc.) ([4]);

— Developing fiscal flexibility and a fiscal capacity for the euro area, including the possibility of issuing euro bonds through potential institutional steps such as the creation of a common euro area treasury ([5]);

— Strengthening the European Pillar of Social Rights through proper social dialogue and by involving the social partners in all legislative initiatives ([6]);

— Creating a specific process of macroeconomic dialogue for the euro area as suggested in previous EESC opinions ([7]);

— Strengthening democratic control over EU policies ([8]).

Brussels, 22 February 2017.

The President
of the European Economic and Social Committee
Georges DASSIS

([4]) OJ C 177, 18.5.2016, p. 16.
([5]) OJ C 451, 16.12.2014, p. 10, OJ C 268, 14.8.2015, p. 33, and OJ C 332, 8.10.2015, p. 8.
([6]) OJ C 451, 16.12.2014, p. 10, and EESC opinion on *a European Pillar of Social Rights* (OJ C 125, 21.4.2017, p. 10).
([7]) OJ C 13, 15.1.2016, p. 33, and OJ C 177, 18.5.2016, p. 35.
([8]) OJ C 332, 8.10.2015, p. 8.