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

(COM(2020) 746 final)

(2021/C 123/03)

Rapporteur: **Judith VORBACH**

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Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
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1. **Conclusions and recommendations**

1.1 The EU has entered the deepest recession in its history. Uncertainty prevails, and severe risks must be allowed for. The pandemic crisis is also likely to exacerbate imbalances and inequalities. In light of this, the EESC welcomes the Commission's recommendations. The EESC also advocates an economic policy approach to support recovery, increase investment, further integrate the single market, ensure fair working conditions, and deepen the EMU. The EESC strongly supports the Next Generation EU package and urges that the necessary agreements be reached as soon as possible.

1.2 The recovery will only be successful if it is accompanied by a restructuring of our economy and society. Rebuilding confidence is key so as to stabilise demand. Fiscal rules should be shifted towards a more prosperity-oriented economic governance, including a golden rule, and should not take effect again until unemployment falls significantly. The impact of the crisis on inequality and socio-economic insecurity should be more carefully considered. Both the business and the social environment should be improved. Better involvement of social partners and civil society in climate policy and the national recovery and resilience plans is called for, as well as decisive reform of tax policies in order to tackle economic, social and environmental challenges. The Banking and Capital Market Unions must be completed, while prioritising financial market stability.

2. **Background**

The Commission recommends that euro area Member States take action to:

2.1 Ensure a policy stance which supports recovery: fiscal policies should remain supportive throughout 2021. When conditions allow, phase out support in a way that mitigates the social and labour-market impact of the crisis, ensure debt sustainability. Improve public financial management and focus public expenditure on recovery and resilience needs.

2.2 Implement reforms that strengthen productivity and employment, increase investment to support a recovery consistent with fair green and digital transitions. Further integrate the single market. Ensure active labour market policies, fair working conditions and involvement of the social partners in policy-making. Address tax challenges arising from digitalisation, combat aggressive tax planning and support carbon pricing and environmental taxation.

2.3 Strengthen national institutional frameworks: frontload reforms to ensure the use of EU funds, strengthen administrative effectiveness, reduce the administrative burden for firms, put in place effective frameworks to counter fraud, corruption and money laundering. Improve insolvency frameworks, non-performing exposures and allocation of capital.

2.4 Ensure macro-financial stability: maintain credit channels to the economy and measures to support viable companies. Keep sound banking sector balance sheets, including by continuing to address non-performing loans.

2.5 Make progress on deepening the EMU to increase resilience. This will contribute to the international role of the euro and promote Europe's economic interests globally.

3. **General comments**

3.1 The dismal outlook of the Spring 2020 Economic Forecast, according to which in 2020 'the EU has entered the deepest economic recession in its history' has been borne out. The COVID-19 crisis has produced a series of demand- and supply-side shocks that translate into an expected decline in GDP of 7,8 % in 2020. The labour market situation has also deteriorated, although due to ambitious policy measures — such as short-time work schemes — the economic slump is not fully reflected in unemployment rates. We nevertheless face a drop in total hours worked and a decline in activity rates as discouraged workers have left the labour market.

3.2 The recovery in 2021 is projected to be slower than expected. Considerable uncertainty predominates. The EESC stresses the importance of anticipating a set of severe risks, including a double-dip recession, mass unemployment, bankruptcies, financial market instability, deflation, and the negative effects of uncertainty on consumption and investment itself. The pandemic crisis is also likely to exacerbate existing problems, for example the low level of investment, widening divergences across Member States and regions, inequalities within societies, and political tensions. Moreover, developments in 2021 could translate into negative long-term effects, while tackling the climate crisis will still be an urgent issue.

3.3 In light of this, the EESC welcomes the Commission's package of recommendations. Many of the considerations expressed in the EESC's additional opinion on *Euro area economic policy 2020* ([1]) are reflected in them. Moreover, the recovery will only be successful if it is accompanied by a restructuring of our economy and society in order to achieve a more integrated, more democratic and socially better-developed Union. In 2021, the key responsibilities of economic policy-makers will be to create an environment conducive to sustainable and inclusive growth. It is therefore essential to rebuild confidence.

3.4 The EESC strongly supports the robust response at EU level to combat the crisis, including the Recovery and Resilience Facility. There is an urgent need for solidarity to enable a quick and effective recovery. European businesses, workers and civil society require resources to weather the crisis. Therefore, the recovery plan should neither be called into question nor its implementation delayed. All the necessary agreements should be reached as soon as possible.

4. **Specific comments**

4.1 The EESC welcomes the Commission's recommendation to ensure a policy stance that supports recovery. Phasing out supportive measures too early would dwarf the effects of EU measures to combat the crisis. Governments should be able to deploy the necessary measures irrespective of their current debt level. The best way to achieve sustainable public finances is to safeguard sustainable and inclusive growth. Supporting productivity could accelerate deficit reduction in the upcoming years ([2]). To prevent a return to old fiscal rules and manage a shift towards a prosperity-focused economic governance ([3]), the EESC urges that the review process be resumed as soon as possible. Modernised fiscal rules should in any case not take effect until unemployment falls significantly.

4.2 The EESC welcomes the Commission's recommendation to enhance the level of private and public investment. To achieve a recovery in the short run, strengthen competitiveness, remain a global economic power and safeguard a social and environmental basis for the well-being of future generations, there is an urgent need to switch to sustainable and green investment, investment in infrastructure and healthcare and/or investment that creates higher productivity. Spending on reskilling of workers should also be considered an investment. The EESC points to its recommendation to adopt a 'golden rule'.

([1]) OJ C 10, 11.1.2021, p. 79.
([2]) The National Bank of Belgium estimates that the one-off deficit in 2020 that is crisis-related has a potential one-off effect of - 4,6 % of GDP.
([3]) OJ C 429, 11.12.2020, p. 227.

4.3 The pandemic is increasing inequalities and social exclusion. Many women, migrants, disabled or young people are bearing the brunt of the crisis. Those who were vulnerable before the crisis are likely to be hit hardest. But many employees with high-quality jobs also feel at risk of deteriorating working conditions, incomes or unemployment. The EESC calls for combating inequality to become a priority in all envisaged recovery measures. The impact of the crisis on social exclusion but also on rising socio-economic insecurity, which affects a substantial part of the population, has to be more carefully considered. The benefits of the recovery should be equally distributed. This is also critical to strengthening confidence and stabilising demand.

4.4 Further integration of the single market should remain a top priority. This also includes implementing the principles of the European Pillar of Social Rights. Improvement of the business and the social environment must go hand in hand. The EESC points to the Commission working document on *Delivering on the UN's Sustainable Development Goals*, which notes: '… the SDGs will keep the EU focused on a sustainable growth path compatible with planetary boundaries, on wellbeing, inclusion and equity. This recognises that the economy must work for the people and the planet'. Initiatives for a more social Europe include — amongst many others — a proposal for a directive on adequate minimum wages and an action plan to implement the European Pillar of Social Rights. The EESC has also adopted opinions on a European framework directive on a minimum income ([4]) and European minimum standards in the field of unemployment insurance ([5]).

4.5 Also welcome are the Commission's recommendations on the labour market, including fostering fair working conditions, ensuring involvement of the social partners in policy-making and strengthening social dialogue and collective bargaining. The EESC calls for higher standards in relation to involving the social partners and civil society in climate policy. Structural change to achieve a carbon-free economy could be supported by a social dialogue between the regions and social partners concerned in order to safeguard the social aspects. It will also be crucial to ensure civil society involvement in drawing up and implementing the national plans for the Recovery and Resilience Facility, which is also expected to be monitored by the Semester process.

4.6 Effective frameworks are needed to combat tax evasion, aggressive tax planning, money laundering and corruption. The EESC calls for decisive reform of tax policies in order to tackle economic, social and environmental challenges. This includes shifting the tax burden away from labour to tax bases that are less detrimental to labour supply taking into account the related distributional impact and avoiding regressive effects. The EESC also asks for urgent action on QMV under the terms recommended in its previous opinions ([6]). The concept of minimum effective taxation of corporate profits and its possible application should be explored. Finally, the EESC calls for substantial progress on introducing new own resources as outlined in the recovery plan.

4.7 The EESC agrees with the Commission that the Banking and Capital Market Unions should be completed, with financial market stability being a priority. In the banking sector, dividend payouts are now — mainly voluntarily — limited. The possibility of continuing these limits and reintroducing outright suspension of payouts during the period of recovery should be considered for banks which are benefiting from several public support measures. This would reduce the risk of financial market instability and could also improve banks' expected returns.

Brussels, 27 January 2021.

The President
of the European Economic and Social Committee
Christa SCHWENG

([4]) OJ C 190, 5.6.2019, p. 1.
([5]) OJ C 97, 24.3.2020, p. 32.
([6]) OJ C 353, 18.10.2019, p. 90, OJ C 364, 28.10.2020, p. 29.