

**Opinion of the Economic and Social Committee on the 'Contribution of the Economic and Social Committee in respect of the broad economic policy guidelines for the Member States and the Community for 2002'**

(2002/C 125/12)

On 29 November 2001, the Economic and Social Committee (ESC) decided to draw up an own-initiative opinion, in accordance with Rule 23 of its Rules of Procedure, on the 'Contribution of the European Economic and Social Committee in respect of the broad economic policy guidelines for the Member States and the Community for 2002'.

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 25 February 2002. The rapporteur was Mrs Konitzer.

At its 389th Plenary Session, held on 20 and 21 March 2002 (meeting of 20 March), the Committee adopted the following opinion by a unanimous vote.

**1. Purpose of the ESC's opinion**

The purpose of this opinion is to:

- provide input in support of the formulation by the Commission and the Council of the broad guidelines of economic policy for 2002;
- make a contribution to the public debate on the coordination of economic policy at EU level and the content of such a policy;
- promote the internal debate on this matter within the organisations and socio-economic groups represented on the ESC.

**2. Existing procedures for coordinating economic policy and the need to develop and streamline these procedures**

*2.1. The philosophy behind the Maastricht Treaty*

The chapter on economic policy (Articles 98 to 104) set out in the EC Treaty basically leaves responsibility for economic policy in the hands of the Member States. Economic policy is however regarded as a matter of common concern. National policies are to be coordinated so as to enable them to contribute to the realisation of the objectives of the Community, as defined in Article 2 of the EC Treaty<sup>(1)</sup>. 'The broad guidelines of the economic policies of the Member States and of the Community' constitute the Community's key economic policy document. This document takes the form of a (non-binding) recommendation of the Council, drawn up on the basis of a recommendation put forward by the Commission and the conclusions of the European Council. The Council informs the European Parliament of its recommendation. An intergovernmental process has been introduced for monitoring implementation of the broad guidelines. If infringements are identified, a further recommendation may be forwarded to

the Member State concerned; this recommendation may be published (by way of a sanction). Apart from the principle of ensuring an open market economy with free competition and promoting efficient allocation of resources, the only substantive economic policy objectives set out in the chapter of the EC Treaty on economic policy are the provisions relating to budgetary policy. These provisions<sup>(2)</sup> are designed to ensure that the budgetary policies remaining within the remit of the Member States do not jeopardise the monetary policy defined centrally by the European System of Central Banks (ESCB) with the aim of maintaining price stability. The Stability and Growth Pact backs up and consolidates these provisions within the framework of the European Economic and Monetary Union (EEMU).

2.2. The procedures and substantive goals set out in the Treaty have been expanded and developed in various ways:

- under the Treaty of Amsterdam a new title on employment was added to the EC Treaty; this title reintroduces the Community procedure in respect of employment policy guidelines. The Treaty of Maastricht no longer makes provision for the Community procedure in respect of the guidelines for economic policy (proposal by the Commission, which the Council may amend only by a unanimous vote but which it has to adopt by a qualified majority);
- the above measures were followed by the so-called 'processes', namely:
  - the Luxembourg Process dealing with labour market policy,
  - the Cardiff Process dealing with structural policy (in the goods and factor markets); and
  - the Cologne Process dealing with the macro-economic dialogue between decision-makers in the fields of monetary policy, budgetary policy and wage policy, aimed at improving the macro-economic policy mix in the EMU;

<sup>(1)</sup> Growth and employment are amongst the objectives listed in this article.

<sup>(2)</sup> Monetary measures may not be taken to finance government deficits: state bodies may not have privileged access to capital markets; Member States shall not be liable for the debts of other states or public bodies; excessive government deficits are to be avoided (Articles 101 to 104 of the EC Treaty).

- the above 'Processes' were backed up by the goals set out at the Lisbon European Council in respect of growth, technological progress and full employment;
- a further development has been the introduction of an opaque mix of consultations, arrangements in respect of non-mandatory opinions from the European Parliament, the ESC and the social partners, and endeavours by the Commission and the European Parliament to stimulate public debate on EU economic policy issues: cooperation between economic research institutes, Brussels Economic Forum;
- as regards government representatives, the important role played by the various committees (the Economic and Financial Committee, the Economic Policy Committee and the Employment Committee) has been further enhanced; this development has partly taken place at the expense of the role of the Commission as the body representing the interests of the Community; the impression has also been conveyed of rivalry, lack of transparency and problems over the membership of the committees;
- at Council level, an informal 'Eurogroup' has been set up to address the coordination of economic policy and the development of the policy mix in the EMU; the Eurogroup has however not been given decision-making powers under the Treaty.

### 2.3. *Appraisal of the treaty-based approach to general economic policy*

2.3.1. Euro notes and coins have now been introduced and a constitutional convention has been set up for the EU. Against this background and with a view to the impending enlargement of the EU, the question arises as to whether the procedure for drawing up the broad economic policy guidelines and monitoring their implementation has matched up to expectations and whether it can meet the challenges of the future.

2.3.2. On the positive side, it should be noted that it has been possible to establish the stability requirements for the successful realisation of EMU and that observance of the budgetary rules set out in the EC Treaty and the Stability and Growth Pact are helping to avoid negative spillovers affecting the fiscal policies of the partner states and the common monetary policy of the monetary union. The wages and incomes policy pursued by both sides of industry, which is not referred to in the EC Treaty, has also meshed with the stability requirements of monetary union better than many had expected. The monetary union as a whole has thus developed a policy mix which — in spite of the current cyclical weakness which is mainly the result of external factors — is more conducive to promoting growth and employment than would have been possible had the monetary union not been established.

2.3.3. Attention should, however, also be drawn to a series of negative factors. A number of key Member States have failed to take advantage of favourable economic conditions to press ahead sufficiently with budgetary consolidation to enable them to make full use of the automatic stabilisers or to pursue a forceful counter-cyclical policy when the economic situation became less favourable. This problem has been compounded by the fact in many states public investment and expenditure on training and maintaining human resources have been adversely affected by the budgetary consolidation measures; this is not only having a detrimental effect on internal demand at present but also threatens to pave the way for future bottlenecks in maintaining growth and a return to full employment. From an overall standpoint, the Community and the monetary union, have not yet managed to formulate a blueprint for an entirely consistent macro-economic policy, supported by a broad consensus, which would provide the monetary union with a policy mix of monetary, budgetary and wage-policy measures, that would — as far as possible — avoid the internal and external causes of inflationary overheating and counteract economic downturns. The aim of such a policy mix — backed up by an increase in productive capacity — would be to achieve as constant as possible growth in aggregate demand. Only against such a background can investment expand sufficiently — backed up by a high level of aggregate profitability — to make it possible for the Community to tap into its considerable potential for growth and employment in accordance with the objectives set out in Article 2 of the EC Treaty and defined by the Lisbon European Council.

### 2.4. *Proposals for improvement put forward by the ESC*

2.4.1. Since the establishment of monetary union, the EU has had an even greater input in determining basic economic policy data and the macro-economic policy mix. At EU level, too, economic policy is regarded as a public matter. Whilst pragmatic further development of the Maastricht approach appears to be complicated, inefficient and lacking in transparency, it does clearly demonstrate the scale of the action which needs to be carried out. The impending enlargement of the EU will escalate the need for action. The Convention set up at Laeken to address the further development of the Community could provide an opportunity to improve the provisions of the Treaty, following an in-depth debate.

2.4.2. The ESC wishes to put forward the following suggestions in connection with the formulation by the Commission of its recommendations for the 2002 broad economic policy guidelines and with a view to paving the way for the work of the Convention:

- a) in order to promote transparency, the Commission should submit, in connection with the broad economic policy guidelines for 2002, a systematic survey of all the procedures and consultations involved in the formulation of the guidelines and the monitoring of their implementation. Such a survey would also appear to be necessary for enhancing the efficiency of the procedures and simplifying them;

- b) the debate on the Commission's communication of 7 February 2001 on 'strengthening economic policy coordination within the euro-area' <sup>(1)</sup> should be intensified (see also the ESC Opinion on Economic policy coordination as a consequence of the EMU <sup>(2)</sup> and the European Parliament report drawn up by Mrs Pervenche Bérès <sup>(3)</sup>);
- c) an appraisal should be made, in particular, of how the coordination of economic policy could be improved through secondary legislation under Article 99(5) of the EC Treaty;
- d) regarding the work of the Convention, an appraisal should also be made of the amendments which it would appear advisable to make to the chapter on economic policy in the EC Treaty. An examination of the following points would appear to be of particular interest: the Community interest could be better taken into account by restoring the Commission's right to make proposals for the formulation of the broad economic policy guidelines (Article 99(2) of the EC Treaty); the involvement of the European Parliament, the ESC and the social partners in the procedures; the role and membership of the Committees needs to be better defined and there needs to be improved coordination between the Committees and between the various Council formations; the Eurogroup should be enshrined in the EC Treaty; a number of straightforward, tangible objectives should be set out in respect of the macro-economic policy mix and structural policies.

### 3. The economic situation, economic prospects and the challenges facing economic policy

#### 3.1. Role of the ESC

The EESC should put forward suggestions in areas which it considers particularly important or where it has a particular competence. The aim is not, however, to take over the task of the Commission and the Council of defining the broad guidelines for economic policy.

As regards the broad economic policy guidelines for 2002, the ESC wishes to confine its observations to the four problem areas set out below:

- an appraisal of the economic situation and prospects;
- contributions to fine-tuning and improving the macro-economic policy mix;
- proposals for tackling a number of key structural problems:
  - increasing private and public investment in the medium term as a prerequisite for growth and a return to full employment;

- the ageing population and the challenges which it poses to economic policy in the longer term.

#### 3.2. Appraisal of the economic situation and economic prospects

Whilst it is doubtless impossible to rule out mistakes when making forecasts, consideration must nonetheless be given to finding ways of:

- i) improving the quality of analyses; and
- ii) drawing economic policy conclusions more quickly against the background of a changing economic situation and changing economic prospects.

3.2.1. As regards point 3.2 (i), the Commission should ensure that the resources available for carrying out analyses and forecasting work are really adequate and that an in-depth and transparent dialogue takes place with the Central Bank, the Member States, international organisations (such as the OECD and the IMF) and, above all, with economic research institutes. The public debate on the economic situation and prospects and the establishment of an appropriate policy-mix in the EMU as a whole should be stepped up. This is also of considerable importance to the deliberations on wages and incomes policy of the two sides of industry, whose decisions have a considerable impact on the policy mix adopted in the EMU.

3.2.2. As regards point 3.2 (ii), it would not appear to be necessary to change the frequency with which the forecasts are issued (twice a year); a quarterly report on the development of the economic situation, for example, would, however, be beneficial. Improvements in the provision of information on short-term economic developments should not, however, trigger a fine-tuning budgetary policy. Under normal circumstances, budgetary policy should be conducted on the basis of medium-term criteria; there should, however, be sufficient room for manoeuvre to enable the automatic stabilisers to operate. The structural deficit should be reduced in accordance with the Stability and Growth Pact, whilst changes in the cyclical deficit should help to promote short-term economic stability. Monetary policy can react in a more sensitive way to changes in the overall economic situation, but account needs to be taken of the delayed impact of monetary policy instruments. The EMU is now on a learning curve as regards macro-economic policy; against this background, better research should be carried out into the experience gained in pursuing successful macro-economic management, above all as a result of the monetary policy pursued by the USA in the 1990s. This experience should be taken into account as far as possible. In addition to these questions relating to the policy mix for the monetary union as a whole, the specific economic situation of the individual Member States must of course also be taken into account. This is above all a task for those responsible for economic policy in the countries concerned, and here all areas of economic policy are involved.

<sup>(1)</sup> COM(2001) 82 final.

<sup>(2)</sup> OJ C 139, 11.5.2001, p. 60.

<sup>(3)</sup> A5-0307/2001.

3.2.3. The present situation (January 2002) appears to be characterised by stagnation against a background of lack of internal demand, slightly increasing unemployment and a lack of consumer and business confidence. The expectation of lower inflation has however clearly brought about a relaxation of the policy mix and key factors, such as the aggregate internal profitability and external cost competitiveness, remain relatively favourable. As areas outside the EU are also expected to experience an economic upturn in the run-up to 2003, the ESC takes the view that a return to a 3 % growth trend in 2003 is plausible, but presupposes the necessary political ambition and drive. This rate of growth would be supported by increasing internal and external demand; the necessary productive capacity would be available to an adequate extent.

### 3.3. *Contributions to fine-tuning and improving the macro-economic policy mix*

As things stand at present, macro-economic policy has the task of supporting the expected upturn and transforming it into a self-sustaining process of lasting growth which would make it possible to achieve the employment and productivity objectives set out at the Lisbon European Council.

In its opinion of November 2001<sup>(1)</sup> the ESC has already addressed the question of what form the interaction between the budgetary policies of the national governments, the wage policies of the social partners and the monetary policy of the European Central Bank should take in the monetary union in order to secure the most favourable possible policy mix for promoting growth and employment, whilst safeguarding stability. This is a matter of Community interest in the monetary union. In its capacity as representative of the Community interest, the Commission should, whilst respecting the autonomy of the individual players or groups of players concerned, define in concrete terms the contributions which should be made by the individual players in the short and medium-term. As a general rule, the better budgetary policy and wage policy take account of the conditions needed for stability and growth in the short and medium-term, the more effectively monetary policy will be able — whilst safeguarding its goal of ensuring stability — to support the general economic policy with a view to achieving growth and employment. The room for manoeuvre provided by such an approach should also be effectively exploited by monetary policy in accordance with the second sentence of Article 105(1) of the EC Treaty.

The link between (a) the macro-economic policy mix pursued in the monetary union, and (b) economic upturn and the long-term growth required for the attainment of the objectives set out at the Lisbon European Council, is an ideal subject to be addressed in the macro-economic dialogue (Cologne Process). As the body representing the Community interest, the Commission should submit a discussion paper on this matter for consideration as part of the macro-economic dialogue. The ESC, for its part, is ready to make a substantial contribution to the debate on this matter.

### 3.4. *Proposals put forward by the ESC for tackling a number of key structural problems*

#### 3.4.1. *Increasing private and public investment in the medium term as a prerequisite for growth and a return to full employment*

If the productivity and employment goals set out at the Lisbon European Council are to be achieved, there will have to be a sharp increase in GDP (which will have to be in excess of 3 % per year) over a relatively long period (approximately 10 years). This target clearly outstrips the past trend in productivity (barely 2 % per year, as an average for the EU). Such a level of growth can only be achieved if the aggregate level of investment gradually increases by several percentage points of GDP (e.g. from the current level of approximately 21 to 22 % to approximately 25 to 26 %; the level of investment rose by some 4 percentage points of GDP in the USA in the 1990s).

The level of business investment involved here would create the productive capacities and actual jobs which are necessary to bring about inflation-free growth; such investment would also integrate technological progress (productivity) into the economic process and represent an important demand factor with a view to the achievement of self-sustaining growth. It would be useful to estimate, as part of a process of 'macro-structural benchmarking', the levels of investment required for the EU as a whole, the monetary union and the Member States. An even more important step, however, would be to define the key determining factors for bringing about such an increase in investment; these factors concern rising demand and profitability and the achievement of a healthy balance between savings and investment. It is equally important to specify the implications of these factors for the development of public budgets, wage growth and the current account balance and to discuss these factors, as part of the macro-economic dialogue, with the players who determine the policy mix.

The share of public investment<sup>(2)</sup> in aggregate investment has suffered as a result of budgetary consolidation (the EC average is as follows: 1970: 4,2 % of GDP; 1980: 3,2 %; 2001: 2,3 %). There will need to be some increase in the level of public investment if we are to ensure smooth growth in future (particularly in the field of infrastructure). (As a rule of thumb, the level of public investment as a percentage of GDP should rise to, for example, a figure of the order of the target rate of growth, namely 3 %.) As the growth process will have to continue to be marked by budgetary consolidation for some time to come, reference values covering this field should be set out in the national multi-annual stability programmes. A similar course of action could also be adopted in respect of intangible investment in the field of education.

<sup>(1)</sup> OJ C 48, 21.2.2002: Opinion on world economic changes: new economic challenges for the European Union (ECO/086), pages 4, 5 and 6.

<sup>(2)</sup> The statistical questions which arise in the case of public investment as part of public-private partnerships should be specified.

3.4.2. The ageing population and the challenges which it poses to economic policy in the longer term

Economic policy will have to contend with challenges in the longer term linked to the ageing population; the broad economic policy guidelines for 2002 should take appropriate account of these challenges. The ESC has expressed its views on this matter on several occasions in the recent past <sup>(1)</sup>. It does therefore not appear to be necessary to address the individual points once again in this opinion. Furthermore, the Committee has been requested by Commission President Prodi <sup>(2)</sup> to draw up an exploratory opinion further examining the issue of pension reform. Attention should, however, be expressly drawn to the fact that an increase in the employment rate, as foreseen under the Lisbon strategy, would largely offset the increase in the proportion of older people in the population over the next 20 years. This fact highlights the importance, for

---

<sup>(1)</sup> See, for example, OJ C 48, 21.2.2002, OJ C 36, 8.2.2002, OJ C 14, 16.1.2001.

<sup>(2)</sup> In a letter dated 10 January 2002.

Brussels, 20 March 2002.

achieving balanced pension schemes, of implementing the Lisbon strategy, even though this will not resolve the long-term problem of an ageing population in the next 50 years.

#### 4. Conclusions

The broad economic policy guidelines for 2002 are being formulated at a time when the EU's constitutional convention is meeting and when euro notes and coins have been successfully introduced.

There is a discrepancy between the success of the monetary union, on the one hand, and the EU's failure up to now to exploit its tremendous potential for employment and growth. Consequently, economic policy procedures and the content of economic policy need to undergo thorough reappraisal. The impending enlargement of the EU also makes it urgently necessary to reconsider the procedures for coordinating economic policy. For these reasons, the ESC has put forward, in this opinion, a number of initial suggestions covering the coordination procedures and the content of economic policy.

*The President*  
*of the Economic and Social Committee*  
Göke FRERICHS

---