III

(Preparatory acts)

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

469TH PLENARY SESSION HELD ON 16 AND 17 FEBRUARY 2011

Opinion of the European Economic and Social Committee 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: Enhancing economic policy coordination for stability, growth and jobs — Tools for stronger EU economic governance'

COM(2010) 367 final

(2011/C 107/02)

Rapporteur: **Mr PALMIERI**

On 30 June 2010 the Commission decided to consult the European Economic and Social Committee, under Article 304 of the Treaty on the Functioning of the European Union, 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 – Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance

COM(2010) 367 final.

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 7 February 2011.

At its 469th plenary session, held on 16 and 17 February 2011 (meeting of 17 February 2011), the European Economic and Social Committee adopted the following opinion by 240 votes to two with 14 abstentions.

1. **Conclusions and recommendations**

1.1 The EESC is pleased that the European Commission has taken on board the need to further integrate European economic policy coordination, placing the need to strengthen EU economic governance on its agenda.

1.2 The EESC acknowledges that the current economic crisis has challenged the economic, social and even political resilience of the European Union (EU) in general and Economic and Monetary Union (EMU) in particular, revealing limited capacity for coordination between the Member States. This has been demonstrated by the emergency measures to contain the financial and real effects of the crisis and by the steps to redesign the overall architecture - and the architecture of the euro area in particular - in order to avoid being caught in the same trap in the near future. Furthermore, it is clear that the high public debt of some Member States, caused at least in part by extended bank bail-out operations, is an obstacle to public investment and the sustainability of welfare spending.

1.3 The EESC hopes that European economic governance will be strengthened ensuring equal attention to the need for stability and job-creating growth.

1.4 The EESC intends to help secure the broad consensus needed to effectively strengthen economic governance by highlighting, on the one hand, the limitations and risks inherent in the Commission's approach and, on the other hand, its strong potential.

1.5 The first step has to be to overcome the stalemate in which the EU is currently mired, caused by the tribulations of the European Constitution and the enlargement to 27 Member States all with very different histories and political visions, which makes it difficult to identify the common economic, social and environmental objectives on which economic governance must be based.

1.6 At the same time, the rules for the future must be based on a shared understanding of the past, particularly as regards the limitations of the existing coordination tools which have resulted in the ineffective implementation of the Stability and Growth Pact (SGP) and the failure to achieve the Lisbon goals.

1.7 Secondly, as regards timing, it has been decided to launch the European Semester (from 1 January 2011) without first establishing the rules and content and, in addition, without properly synchronising the proposals among the various institutional stakeholders.

1.8 The limited role of the institutions representing European citizens (the Parliament and the Committees) both in discussing and in implementing the new form of governance risks making public opinion view the reinforced rules (involving less policy discretion and more automatic application of rules) as a 'legitimacy deficit' in the EU's choices, in parallel with the loss of confidence in the EU identified by Eurobarometer surveys.

1.9 The EESC believes that the European Parliament is the lynchpin for asserting the democratic legitimacy of European economic policy coordination. The EESC therefore hopes that the European Parliament will play a key role in the process begun with the European Semester, monitoring and assessing the corrective measures planned by the Commission Communication.

1.10 Only by ensuring continued consistency between the objectives of growth and economic and social development set out in the Europe 2020 Strategy – which require levels of investment which may be incompatible with budgetary constraints – and the requirements of monetary and financial stability laid down in the SGP will it be possible to make budgetary constraints publicly acceptable.

1.11 To this end, it will be necessary to adopt an appropriate set of indicators which go beyond GDP and encompass social and environmental advances and losses and thus reflect the real concerns of the general public, by implementing the five actions planned under 'Beyond GDP'. These actions include environmental and social indicators, practically real-time information and accurate data on distribution and inequality, a European scoreboard for sustainable development and including environmental and social issues in national accounts.

1.12 In line with its role as consultative body, the EESC could help improve the functioning of the European semester, by holding a dedicated annual session to discuss recommendations and how to forge a consensus on reforms at national level, in the light of the social impact of the measures adopted. A debate of this kind could be held in the autumn, following the formal adoption of the recommendations by the Member States, and its conclusions would provide a basis for discussion with the national economic and social committees, the national parliaments and the European Parliament.

1.13 In particular, the increasing focus on bargaining between the social partners, especially in the eurozone where the Member States are no longer able to devalue their currency, has made the relations between trade unions and employers' organisations an integral part of the strategy outlined by the Commission. One solution could be more intensive and operational use of macroeconomic dialogue, leading to a joint assessment by governments and the social partners of the economic situation at EU level and the steps to be taken, in close coordination with the national social dialogue process.

1.14 Achieving real coordination of European economic policies requires a consensus on both the reference and projected macroeconomic frameworks. To this end, the Committee trusts that steps will be taken to ensure that the key information is available to Eurostat, thus enabling the Commission to draw up proposals with more accurate projections, and that active support is established between the other relevant bodies: the European Central Bank, the European Council, the European Parliament and national parliaments.

1.15 The EESC hopes that, at least for countries in the euro area, European economic policy coordination will be the first step towards a genuine common economic policy and the coordination of budget policies.

1.16 If closer economic policy coordination extends not only to fiscal and monetary policy, but also to tighter wage policy coordination in the euro area, then freedom in collective bargaining must be respected: government targets for collective bargaining, let alone government-decreed wage cuts, are unacceptable and must be rejected.

2. **Enhancing European economic governance in the Commission Communication** [1]

2.1 This Commission Communication further develops the ideas set out in the Communication on *Reinforcing economic policy coordination* [2] and the European Council's EUCO 13/10 guidelines, which follow the results achieved thus far by the VAN ROMPUY task force on economic governance.

2.2 The basis of the Commission document is implicit acknowledgment that the effects of the financial and economic crisis have placed pressure of various kinds on the economic and social resilience of the EU in general and EMU in particular, revealing poor European economic policy coordination.

2.3 In this context, the Communication sets itself the task of establishing a framework of measures to ensure better coordination of European economic policy among the 27 EU Member States and the 16 EMU countries in particular, for which specific rules are laid down. The aim is to integrate the Stability and Growth Pact and the Europe 2020 Strategy.

2.4 As part of the process of enhancing European economic governance, the Commission plans to achieve three basic goals:

2.4.1 The first goal is *strengthening coordination and surveillance of economic policy*, with the aim of:

— reducing national imbalances through stronger macroeconomic surveillance based on alert and sanction mechanisms;

— making national fiscal frameworks more homogeneous by specifying minimum requirements for domestic fiscal frameworks, and moving from annual to multi-annual budgetary planning;

— making the Stability and Growth Pact more effective, in particular by focusing on debt dynamic as well as deficits.

2.4.2 The second goal is to *introduce a system of corrective and preventive measures and sanctions*, applicable in the event of breaches by EU Member States.

2.4.3 The third and last goal is to *establish a European semester for ex-ante economic policy coordination*, also applying to the structural reforms and the growth-enhancing elements of the Europe 2020 Strategy.

(1) COM(2010) 367 final.
(2) COM(2010) 250 final.

2.5 The Commission transposed these goals into secondary legislation with the package presented on 29 September 2010 on the adoption of six communications [3] which comprise an exhaustive study of the practical means of achieving the goals. They will be considered in two EESC opinions, one on the reform of the SGP and the other on macroeconomic imbalances. Therefore, this opinion will restrict itself to a general consideration of the overall system of governance proposed by the Commission, without entering into the merits of the legislative package which will be dealt with specifically by the two opinions mentioned above.

3. **General comments**

3.1 The Commission's decision to launch a process of genuine enhancement of European economic policy coordination is to be welcomed. Indeed, many European (including the European Parliament) and non-European institutions have been calling for this for some time. In particular, the EESC has on several occasions reiterated the importance of further integrating EU governance in past opinions on this subject [4].

3.2 The financial and economic crisis has challenged the production, social and political resilience of the EU in general and EMU in particular [5].

3.3 The social and economic framework is subject to instability and uncertainty, and as a result needs effective organisation and properly functioning institutions. It is becoming increasingly clear that unless stakeholders in national economic policies work together, it will not be possible to steer all the Member States in one direction, given the challenges posed by industrial and financial globalisation and the profound technological changes currently taking place.

(3) COM(2010) 522 to 527; for details go to http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm
(4) EESC opinions on *Implications of the sovereign debt crisis for EU governance*, OJ C 51 of 17.02.2011, p.15; *Economic recovery: state of play and practical initiatives*, OJ C 48 of 15/.02.2011, p. 57; *Financial crisis: consequences for the real economy*, OJ C 255, 22.9.2010 p. 10; *Economic policies that contribute to the European industrial strategy*, OJ C 10, 15.1.2008 p. 106; *Broad economic policy guidelines and economic governance – The conditions for more coherence in economic policy-making in Europe*, OJ C 324, 30.12.2006 p. 49; *Strengthening economic governance – The reform of the Stability and Growth Pact*, OJ C 88, 11.4.2006 p. 68.
(5) As stated by the European Commissioner for Economic and Monetary Affairs, Olli REHN, at the European Parliament hearing on 5 July 2010: '*The crisis has revealed major systemic weakness in the current Economic and Monetary Union. To put it simply: we need stronger and better EU economic policy coordination. We also need a more rigorous implementation of the rules of the EMU. Rules don't matter if they are not followed*' (REHN O., *Reinforcing economic confidence in Europe*, speech to the ECON Committee of the European Parliament, Strasbourg, 5 July 2010).

3.4 In the absence of economic policy coordination, the crisis has already had a number of particularly serious economic and social consequences for the EU, in particular in terms of opportunities for growth and jobs. These consequences are very clearly described in the draft report on the financial, economic and social crisis submitted to the European Parliament by the rapporteur, Ms Pervenche BERÈS [6].

3.4.1 After inching up in 2008 (+0.5 %), the EU's Gross Domestic Product (GDP) fell sharply in 2009 (-4.2 %), and should slowly rise again in 2010 and 2011 (by an estimated 1 % and 1.7 % respectively). The drop was particularly serious in the three Baltic countries (at the end of 2011 Latvia's GDP will have fallen by 22 % since 2007) and Ireland, and, to a lesser extent, Italy, Greece and Finland. At the same time, Member States' exports – both to other Member States and out of the EU – fell by 12 % between 2007 and 2009, and by over 15 % in the case of Finland, Malta, Bulgaria, Sweden, Estonia and the United Kingdom [7].

3.4.2 Consequently, achievement of the Lisbon targets for the job market is now further off for most Member States: the employment rate fell from 65.4 % in 2007 to 64.6 % in 2009 in the EU, and by more than five percentage points in Estonia, Ireland, Spain and Latvia; over the same period the unemployment rate rose from 7.1 % to 8.9 % in the EU, and crossed the 10 % threshold in Spain (where it reached 18 %), Slovakia, Ireland and the three Baltic countries.

3.5 In this highly critical situation which calls for equally robust solutions, some concerns remain regarding the Commission's approach and timetable for enhancing European economic governance. These are factors which, in addition to hindering the – widest possible – adherence to the process launched in the Community institutions and among the public, could greatly obscure the actual goal of the proposed coordination.

3.6 Firstly, the EU's endeavours to enhance economic policy coordination require all the Member States to define together what is actually meant by '*economic governance*', along with careful evaluation of the reasons which have led over the past decade to both ineffective implementation of the SGP and failure to make sufficient progress towards achieving the Lisbon goals.

3.6.1 On the one hand, the term 'governance' suggests a decentralised institutional structure where, instead of a single centre of power as in individual Member States, several governmental and non-governmental bodies work together to achieve shared aims. However, the EU is at an impasse thanks to the tribulations of the European Constitution and enlargement to 27 Member States which have widely varying political visions and histories. Hence the need for the EU institutions and the Member States to agree on new economic, social and environmental goals. However, it is proving difficult to define these goals after the major endeavours of the eighties and nineties to establish the Single Market and introduce the euro.

3.6.2 On the other hand, the setting of rules for the future does not seem to be based on a shared understanding of the past. It is worth establishing whether the shortcomings of the SGP derive from initial errors in the design or the constraints built into EMU at times of severe crises, or to inappropriate political choices during its implementation, or, lastly, to different visions of the goals and related strategies to be pursued (low inflation, economic and employment growth, the role of the euro as a reserve currency, etc.) [8]. Rules of conduct for the Member States have been in place under previous versions of the SGP for more than a decade; these, however, have not prevented critical situations occurring frequently and repeatedly.

3.6.3 At the same time, the failure to achieve most of the Liston targets – even leaving aside the economic crisis – raises major questions about the choice of indicators and their ability to effectively encapsulate the process of increasing competitiveness and dynamism.

3.7 Secondly, as regards the timetable, it has been decided to launch the European semester – on 1 January 2011 – without first establishing the rules and substance of the process. And, moreover, without genuinely synchronising the proposals of the various institutional bodies concerned: the Commission, the European Parliament, the VAN ROMPUY Task Force on economic governance, the European Central Bank (ECB), the EESC and the Committee of the Regions. The discussion process should end with approval by Parliament only by summer 2011 at the earliest.

(6) European Parliament, Draft report on the financial, economic and social crisis: recommendations concerning measures and initiatives to be taken (mid-term report). Special Committee on the Financial, Economic and Social Crisis. Rapporteur: Pervenche BERÈS. 6 May 2010.

(7) Data taken from the Eurostat database consulted in September 2010 and set out in tables 1 and 2 of the Appendix.

(8) The president of the European Council himself, Mr Herman VAN ROMPUY, acknowledged this institutional 'handicap' on 20 September 2010: '… we have to live with the dilemma of having a monetary union without a developed budgetary union. Since the euro was introduced the European institutions have been responsible for monetary policy, while the Member States remain in charge of their budgetary policy and coordinate their economic policy. That creates tensions. Hence the sometimes tortuous decisions I mentioned. You might deplore a design fault, the "euro's original sin" according to some. I prefer to call it a structural handicap. But at the time – the negotiations on the Maastricht Treaty, between Germany and France in particular – a choice had to be made. Without that original sin, the euro would not even have been born.' VAN ROMPUY H., 'Not renationalisation of European politics, but europeanisation of national politics', address given at the invitation of *Notre Europe* in the *Grand Amphi*, Sciences-Po, Paris (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/116691.pdf).

3.8 In the highly critical situation which occurred in spring 2010, the Commission was clearly more concerned with getting out of the crisis quickly – under the gaze of the world financial markets and the public – than with the medium-to-long-term effectiveness of the response, in production, social and political terms as well as financial terms.

3.9 According to the Commission, in order to overcome the crisis more stringent rules and clearer penalties are needed, with less policy discretion and more automatic application of rules. However, no set of rules can address severe crises effectively, as these crises are almost always caused by extraordinary, unforeseeable events which experts are unable to predict and to which pre-established rules are unable to provide a response. The utopia of 'government by rules' – which exonerates politics from making choices – would be hard to achieve and, on the contrary, even dangerous, in that it gives a deceptive sense of security, of being protected from any source of uncertainty ([9]). In addition, this kind of approach entails two risks, which must be carefully assessed.

3.9.1 The first is the danger of underestimating the benefits of the Community approach, which involves the institutions that are most representative of the European public, over the intergovernmental approach, where decisions are taken essentially by the Council, and Parliament and the Committees have a limited role. The only exception is the participation in the European semester of the European Parliament, to which the Commission will submit the annual growth analysis in January, with a view to launching the debate on the direction coordination should take.

3.9.1.1 Prevalence of the intergovernmental approach could lead to the same underestimation of the European citizenship deficit as has already occurred with the Lisbon Strategy. It would challenge EU economic, social and political resilience in the same way as the global crisis, and could cause resurgence of the illusion that national sovereignty can be recouped by rejecting the euro (and even the EU itself) in order to launch national development free of constraints and European technocrats, which is in practice unlikely to occur. It is no coincidence that a close observer of the European Union - Charles KUPCHAN ([10]) - warned of the danger of '*renationalisation*' of the European project in an article published on 29 August 2010 in the Washington Post: '*Europe is experiencing a renationalisation of political life, with countries clawing back the sovereignty they once willingly sacrificed in pursuit of a collective ideal*' ([11]).

3.9.1.2 The European public seem to reflect this lack of confidence, not so much in the Community institutions as such, as in the value of being part of the EU. According to Eurobarometer ([12]) surveys – between spring 2007 and 2010 – the proportion of Europeans who see their country's membership of the EU as beneficial fell from 57 % to 49 %, with more people seeing it as detrimental (now 18 %) and more people not sure (29 %). At the same time, the percentage of people who think their country has benefited overall from EU membership fell from 59 % to 53 %, with the number of people saying that there have not been benefits rising to 35 %.

3.9.2 The second risk is adopting a traditional approach to resolving issues, based on tight financial policy above all else to the detriment of growth, social equity and combating environmental decline, despite the fact that innovative, convincing arguments are now widely acknowledged ([13]).

3.9.2.1 The relationships between public spending, economic performance and social goals are more complex than the over-simplified theory of a trade-off between equity and efficiency would have us believe. Well-designed welfare and environmental regulation systems help boost efficiency and competitiveness as well, such that they can be considered a factor of production contributing to stability and economic dynamics in post-industrial economies.

3.9.2.2 That is even more true in the period of crisis that European economies are currently experiencing. In the European Recovery Plan ([14]) the Commission acknowledged both the need to '*lessen the human cost of the economic downturn and its impact on the most vulnerable*', and the fact that the crisis should be seen as an opportunity to '*speed up the shift towards a low-carbon economy*', implementing a strategy '*which will encourage new technologies, create new "green-collar" jobs and open up new opportunities in fast-growing world markets*'.

(9) VEROLA N., *L'Europa e la crisi: squilibri finanziari ed equilibri costituzionali* [Europe and the crisis, financial imbalances and constitutional balances], Paper for ASTRID, 2010, available on-line http://www.astrid-online.it/Riforma-de/Studi-e-ri/VEROLA—L-Europa-e-la-crisi—squilibri-finanziari-ed-equilibri-costituzionali.pdf(only Italian).

(10) Director of European Studies at the Council on Foreign Relations and a professor at Georgetown University.

(11) KUPCHAN, C., *As nationalism rises, will the European Union fall*, Washington Post, 29 August 2010. Refer also to the essay on taxation and representation by P. DE GRAUWE, *Why a tougher Stability and Growth Pact is a bad idea*, VoxEU.org, available online at http://www.voxeu.com/index.php?q=node/5615.

(12) Eurobarometer 73 – First results, data set out in figures 1 and 2 of the Appendix.

(13) On environmental sustainability, see DALY H., *Beyond Growth: The Economics of Sustainable Development*, 1996. On welfare and equity, see BEGG I., FERRERA M., HODSON D., MADSEN P., MATSAGANIS M., SACCHI S., SCHELKE W., *The Cost of Non Social Policy: Literature Review*, Report to the European Commission, Brussels, 2003. On the human development paradigm, see SEN A., *Inequality Re-examined*, 1992; and SEN A., *Development as Freedom*, 1999.

(14) COM(2008) 800 final. *A European Economic Recovery Plan*, p. 5.

3.9.2.3 In addition, it should be pointed out that the crisis originated in the private, not the public sector, and was caused by imbalances between global expansion of goods and services supply and slower growth in consumer purchasing power ([15]). Much of the deterioration in Member States' budgets in terms of GDP was simply the result of emergency measures following the fall in national revenue (denominator) and the increase in public spending to save the financial and production system and implement automatic stabilisers to contain the potentially drastic effects of the crisis (numerator) ([16]). FITOUSSI wrote correctly that Europe's budgetary problems are less the result of governments' discretionary actions than of the inevitable consequences for public finances of the impoverishment of society ([17]).

4. **Specific comments**

4.1 Owing to inadequate clarity regarding both the meaning of '*economic governance*' and the basic objectives on which it is based, coupled with confusion regarding the limits of the SGP and the Lisbon Strategy, a strategy must be identified on which the Member States and the EU institutions can agree. This strategy will need to do more than merely lay down rules and procedures and instead get to grips with practical policies – particularly in the fragile aftermath of an economic crisis – in order to improve the living standards of European citizens, raise the employment rate (including disadvantaged groups such as disabled people and ethnic minorities) and boost the competitiveness of European industry (including small and medium enterprises and the social economy).

4.2 Although vital, accounting alone will not be enough to verify that revenue and expenditure balance. Mid to long term measures will be needed to boost Europeans' faith in and expectations of the EU, combining the necessary budgetary rigour with the equally important ability to come up with and implement projects for economic and social development. There must be a growing awareness across Europe of the European Union as a political entity with the will to coordinate national policies to achieve a common goal, and as an active player on the global stage.

4.3 A more self-aware Europe is dependent on the institutions representing citizens and the social partners – the Parliament and the Committees – having a stronger role and being better able to grasp the developments taking place, so that the coordination mapped out by the Commission can gain strong democratic credentials and the popular support needed if it is to be implemented properly.

4.4 Currently however, the Parliament would appear to have a modest role in the European Semester, limited to the initial discussion phase and the initial direction taken by the process of coordination, whereas it could be more active and effective if it coordinated its activities with those of the national parliaments which must discuss and approve national budgets. The Parliament could play an essential role in defining which form of economic governance the EU should pursue and guaranteeing the democratic legitimacy of preventive and corrective measures, including financial penalties levied on Member States.

4.5 In this context, the EESC – in line with its role as consultative body to the European institutions – could help reinforce European economic governance by holding a dedicated annual session to discuss recommendations and how to forge a consensus on reforms at national level, in the light of the social impact of the measures adopted. The added value of the EESC is that its members include representatives of organisations which at national level can swing social consensus for economic policies; this could enable the EESC to make a strong contribution to ensuring that not only political leaders but also and especially citizens of Member States take an interest and assume responsibility.

4.5.1 A debate of this kind could be held in the autumn, following the formal adoption of the recommendations for the Member States, and its conclusions would provide a basis for discussion with national economic and social councils, the national parliaments and the European Parliament, thus enabling the strategies adopted to be assessed and then disseminated and promoted at national level.

4.6 The backing of the Parliament and the Committees would reduce the risk that growth and economic and social development might take second place to monetary and financial stability, thereby ensuring that the SGP and the Europe 2020 Strategy pull together. Although economic stability, particularly in times of crisis, is needed for growth and to maintain the living standards of European citizens, greater stability should not be sought at the cost of people's income and rights. Pursuing both the reform of economic governance and the Europe 2020 Strategy should thus help to make budgetary constraints more publicly acceptable.

([15]) ILO-IMF, The Challenges of Growth, Employment and Social Cohesion, Discussion document for the joint ILO-IMF conference, Oslo, 13 September 2010, pp. 67-73.

([16]) The total public debt in the euro area went from 72 % in 1999 to 67 % in 2007 (Figure 3 of the Appendix) and in the same period, the indebtedness of households and the financial sector increased (Figure 4 of the Appendix). Public sector debt rose from 2008 (Figure 5 of the Appendix), when governments bailed out the banking system and endured the effects of a recession (reduction in GDP and drop in tax receipts).

([17]) FITOUSSI J.P., *Crise et démocratie, le paradoxe européen*, Le Monde, 16 October 2010. See also DE GRAUWE P., *What kind of governance for the eurozone?*, CEPS Policy Brief, No. 214, September 2010.

4.6.1 Currently, although the Commission would seem to be carefully keeping the two strategies on an equal footing, there is considerable scepticism as to whether it intends to amalgamate them when they are completely distinct. The social dimension is being sidelined in favour of productivity and flexibility, which are held to increase the competitiveness of European industry.

4.6.2 The fundamental assumption is that macroeconomic surveillance – together with thematic surveillance of the structural reforms requested by the Commission – creates a climate which supports sustainable economic growth, benefiting both the Europe 2020 Strategy and the SGP. However, over a decade's experience of the single currency (during which euro area countries could no longer devalue their currency) has failed to show clearly that disparities in competitiveness within the EU and EMU can be reduced in a timely fashion.

4.7 The Europe 2020 Strategy seems to be moving in the right direction to improve competitiveness in terms of quality, planning initiatives in the fields of knowledge, innovation and environmental sustainability. However, there is a growing contradiction between the goals of the Europe 2020 Strategy and reinforcing the SGP, particularly in the economic and social climate of Europe which is still slowly exiting the crisis.

4.7.1 Appropriate investment is needed if the ambitious goals of the Europe 2020 Strategy are to be met (smart growth based on knowledge and innovation, sustainable growth which is more efficient, green and competitive; and inclusive growth comprising social and territorial cohesion through employment, with particular focus on disadvantaged workers). However these initiatives require a hike in public spending, either through a direct outlay or incentives (including fiscal incentives) encouraging private action, and could prove incompatible with the budgetary constraints which the Commission intends to tighten in order to comply with the SGP and improve economic governance.

4.7.2 Furthermore, still with regard to GDP, while it is undeniable that healthy public accounts and a healthy euro are the basis for long-term development policies, the rules of accounting alone cannot guarantee that Member States' finances will develop satisfactorily in the long run. In fact according to the principle of 'budgetary neutrality' put forward by STIGLITZ, SEN and FITOUSSI [18], the value of the national accounts aggregates should not vary in line with institutional, economic, social and political differences between countries; for the purpose of comparison the situations must be kept as uniform as possible. In other words, in order to assess the long-term sustainability of public accounts, it is not enough to monitor deficit and debt on a yearly basis; future prospects must be taken into account including those of private markets, primarily financial, housing and welfare markets, which in situations of crisis and emergency can have a strong impact on the stability of Member States' public finances, for example through bailouts of financial institutions and large companies.

4.7.3 Moreover, focusing on competitive imbalances requires constant monitoring of the labour unit cost dynamic, which in turn entails increasing attention on bargaining between the social partners, particularly in the euro area where the Member States no longer have the option of devaluation. The relations between trade unions and employers' associations should therefore be an integral part of the strategy outlined by the Commission, but the Commission's communication fails to address this point.

4.7.3.1 One solution could be more intensive and operational use of macroeconomic dialogue, leading to a joint assessment by governments and the social partners of the economic situation at EU level and the steps to be taken, in close coordination with the national social dialogue process. Improving the quality of this dialogue would enable the social partners to play their part effectively, alongside the European Central Bank, the Commission and the Council, thereby bringing Community dynamics in line with national ones [19].

4.8 All 27 Member States would have to unanimously approve both the reference and projected macroeconomic frameworks before European economic policies could really be coordinated. These frameworks would be the basis for the economic and fiscal policies chosen by the Member States and communicated during the European Semester. Eurostat's analyses, the European Commission's proposals, the European Central Bank's supporting role and the reactions of the European Council and the European Parliament would all play a key role.

[18] STIGLITZ J.E., SEN A., FITOUSSI J.P., Report by the Commission on the Measurement of Economic Performance and Social Progress, Report to the President of the French Republic, Paris, 2009 (p. 22-23).

[19] WATT A., *Economic Governance in Europe: A Change of Course only after ramming the Ice*, Social Europe Journal, 30 July 2010, available online http://www.social-europe.eu/2010/07/economic-governance-in-europe-a-change-of-course-only-after-ramming-the-ice/

4.9 Owing to the strong links between economic, social and environmental objectives, more comprehensive indicators than just GDP growth are needed. It is worth pointing out that the Commission communication significantly entitled *GDP and beyond - Measuring progress in a changing world* ([20]) does in fact call for new indicators '*that concisely incorporate social and environmental achievements (such as improved social cohesion, accessibility and affordability of basic goods and services, education, public health and air quality) and losses (e.g., increasing poverty, more crime, depleting natural resources*' and that therefore '*meet citizens' concerns*'.

4.10 The following five key actions for going beyond GDP must be properly implemented if governance is to be reinforced ensuring that it is effective and achieves its goals: (i) using environmental and social indicators; (ii) obtaining near real-time information for decision-making; (iii) more accurate reporting on distribution and inequalities; (iv) developing a European Sustainable Development Scoreboard; and (v) extending national accounts to environmental and social issues.

4.11 The ongoing process of reinforcing European economic governance will certainly prove to be complex, as demonstrated by past experiences in the EU. This is in fact a feature of the EU itself. It is undeniable, as pointed out by an Italian journalist, that Europe suffers from greater uncertainty than does the US, so that from its very inception it has been a journey in search of a destination ([21]); now however, this journey needs a specific, clear destination on which all European citizens, their parliaments and national and European institutions can agree. This is the only way to achieve the goals that the European Union set for itself when it was taking its first steps.

Brussels, 17 February 2011.

The President
of the European Economic and Social Committee
Staffan NILSSON

([20]) COM(2009) 433 final, p. 3-4.

([21]) C. BASTASIN, *Questo secolo può essere ancora europeo* (This century can still be European), Il Sole 24 ore, 2 September 2010.

APPENDIX

to the Opinion of the European Economic and Social Committee

The following amendment was rejected by the plenary session but received at least one-quarter of the votes cast:

Point 4.7.3.1 - Amendment 1 tabled by Mr Pálenik

Insert a new point 4.7.4 as follows after point 4.7.3.1:

4.7.4. *In its closer examination of public debt and fiscal sustainability, the European Commission focuses, among other things, on implicit commitments, especially those associated with population ageing. A more tangible methodology has to be worked out to address this issue, bearing in mind those countries that have opted for reform based on funded pension schemes.*

Reason

The third part of the Commission proposal refers to taking account of implicit commitments. However, the proposal would be more useful if it explained in detail what this would involve and how it would be achieved in practice.

Outcome of the vote:

For:	69
Against:	160
Abstentions:	19