

Opinion of the European Economic and Social Committee on the ‘Proposal for a Regulation of the European Parliament and of the Council on enforcement measures to correct excessive macroeconomic imbalances in the euro area’

COM(2010) 525 final — 2010/0279 (COD)

and the ‘Proposal for a Regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances’

COM(2010) 527 final — 2010/0281 (COD)

(2011/C 218/09)

Rapporteur: **Mr PALMIERI**

On 1 December 2010 the Council of the European Union decided to consult the European Economic and Social Committee, under Articles 136 and 121(6) of the Treaty on the Functioning of the European Union, on the:

Proposal for a Regulation of the European Parliament and of the Council on enforcement measures to correct excessive macroeconomic imbalances in the euro area

(COM(2010) 525 final — 2010/0279 (COD)) and the

Proposal for a Regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances

(COM(2010) 527 final — 2010/0281 (COD)).

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 8 April 2011.

At its 471st plenary session, held on 4 and 5 May 2011 (meeting of 5 May), the European Economic and Social Committee adopted the following opinion by 189 votes to two with 11 abstentions.

1. Conclusions and recommendations

1.1 The European Economic and Social Committee (EESC) welcomes the fact that the European Commission has, as part of the move to strengthen European economic governance, taken on board the need to devote greater attention to macroeconomic imbalances, in the same way as to public budget deficits, as factors for economic, financial and social instability in the economies of the European Union (EU) Member States.

1.2 The EESC acknowledges that the current economic crisis has challenged the economic, social and even political resilience of the EU in general and Economic and Monetary Union (EMU) in particular. In order to prevent crisis, it has become clear that that it is not enough to take the purely quantitative aspects of a country's growth into consideration – the quality of this growth also needs to be evaluated, that is to say, the macroeconomic factors underlying the sustainability or otherwise of the process need to be identified.

1.3 The EESC hopes that the strengthening of European economic governance will focus equally on the need for stability and for growth that produces new jobs.

1.4 For this reason, the EESC hopes that the strengthening of economic governance, the keystone of EU economic, social and

cohesion policies, will effectively help to achieve the objectives laid down by the Europe 2020 strategy and the new European cohesion policy.

1.5 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.

1.6 If, as emphasised by the Commission⁽¹⁾, continuing macroeconomic imbalances within the Member States are attributable to competitiveness factors and if competitiveness is, in accordance with the Commission's own definition, understood as ‘the ability of the economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis’⁽²⁾, then it follows that, as the EESC underlines, a fuller range of economic, financial and social causes needs to be looked at in order to assess these imbalances.

⁽¹⁾ European Commission – DG ECFIN, *The impact of the global crisis on competitiveness and current account divergences in the euro area*, Quarterly Report on the Euro Area, No 1/2010.

⁽²⁾ COM(2002) 714 final.

1.7 The EESC therefore considers that the scoreboard for assessing imbalances should be made up of economic, financial and social indicators. Here, the EESC would point to the need to look at the imbalances arising from wide and widening inequalities of distribution within the Member States, which were among the causes of the recent economic and financial crisis ⁽³⁾.

1.8 Macroeconomic differences are not only the result of the currency union, but also of the creation of the single market. The distribution of labour across borders is based on the different competitive advantages and disadvantages in the different markets. The intended measures should not therefore seek to iron out all possible differences when these arise from internal market dynamics and do not have negative effects.

1.9 Where the evaluation of macroeconomic imbalances is concerned, the EESC underlines the need to frame an accurate and fair assessment of both price and non-price competitiveness factors.

1.10 The EESC hopes that the debate on the indicators to be included in the Commission's planned scoreboard will be broadened to embrace, both nationally and Europe-wide, a wide range of official stakeholders and bodies representing civil society, including the EESC itself and the Committee of the Regions.

1.11 The EESC believes that the scoreboard proposed by the Commission as part of the alert mechanism must essentially be considered as a tool for an initial evaluation, on account of the inherent technical problems of this approach (setting the alert thresholds, the 'weighting' to be given to the various sources of imbalance, relevant timeframe). Consequently, it will, in any case, have to be followed by a more wide-reaching and detailed economic evaluation of the imbalances in the Member State in question.

1.12 The EESC warns that the link between identifying imbalances, applying corrective measures and restoring a balance reasonably rapidly cannot be taken for granted. A number of factors can prolong the process: (a) the complex connections between macroeconomic objectives and instruments; (b) indirect control over these instruments by policy makers; and (c) the possible ineffectiveness of the sanction scheme proposed for the EMU countries.

1.13 The EESC points to the risk that any restrictive rebalancing measures could have the effect of fuelling procyclical

policies, intensifying and prolonging the current phase of economic contraction. The economic policy mix prescribed to individual Member States on the grounds of the need to address internal imbalances might even prove to be unsuitable for the EU as a whole.

1.14 The EESC is convinced that, with respect to measures to prevent macroeconomic imbalances – essentially linked to excessive private sector exposure to debt – the supervisory and control capacity that can be deployed by the European Central Bank (ECB), the European System of Central Banks, the European Systemic Risk Board and the European Banking Authority has been underestimated. As one aspect of coordination between these bodies, the EESC therefore calls for the groundwork to be laid to ensure effective direct or indirect surveillance of the banking system, accompanied by timely interventions to regulate credit: the (regulatory) criteria for such interventions will need to be duly defined.

1.15 The EESC emphasises that the legislative package to prevent and correct macroeconomic balances lacks any discussion of the EU budget. The occurrence of asymmetric shocks in the euro area Member States means that tools to rebalance the macroeconomic system must be used. In this context, the EESC advocates assessing the potential of a more flexible and better-resourced Community budget system than at present. This would enable the necessary transfers to be made between areas benefiting from shocks to those adversely affected, by means of either automatic stabilisers, or pan-European investment project financing (e.g. through issuing eurobonds) ⁽⁴⁾.

1.16 The EESC stresses that effective coordination of European economic policies – capable of gaining strong democratic credentials with the European public – necessarily entails a stronger role for the European Parliament (EP), the EESC and the Committee of the Regions, in other words the institutions representing citizens, the social partners and civil society ⁽⁵⁾.

1.17 The EESC believes that the EP may be crucial to building consensus on the macroeconomic reference framework, the prioritisation of problems to be addressed and the choice of economic policies to be implemented. Here, the EP would take on the key role as the forum for agreement – together with the other European institutions – on a common

⁽³⁾ 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).

⁽⁴⁾ Monti M., *A New Strategy for the Single Market. At the Service of Europe's Economy and Society*, Report to the President of the European Commission, May 2010. Delors J., Fernandes S., Mermet E., *Le semestre européen: un essai à transformer*. Notre Europe, Les Brefs, n. 22 February 2011. Amato A., Baldwin R., Gros D., Micossi S., Padoa-Schioppa C., *A new political deal for Eurozone sustainable growth: An open letter to the President of the European Council*, VoxEU.org, December 2010, available on-line at www.voxeu.org/index.php?q=node/5893.

⁽⁵⁾ Points 1.15 to 1.18 put forward the same recommendations as set out in opinion ECO/282 on *Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance*, OJ 2011/C 107/02 p. 7.

strategy that does more than merely lay down rules and procedures and instead gets to grips with practical policies in order to boost the confidence and expectations of Europe's citizens.

1.18 The EESC welcomes the European Council conclusions of 24-25 March 2011, according to which 'close cooperation' will be maintained with the EESC on implementing the European Semester 'in order to ensure wide ownership'. It declares its readiness to collaborate across the board and hopes that the Council will enter into discussions with the EESC as soon as possible.

1.19 As a forum for civil dialogue, the EESC could hold a dedicated annual session (in the autumn) to discuss recommendations for the Member States, organising a debate with the relevant national economic and social councils, national parliaments and the EP, thus enabling the strategies adopted to be assessed and then disseminated and promoted at national level.

1.20 The EESC hopes that more intensive use will progressively be made of macroeconomic dialogue (MED), so as not to leave the prevention and correction of macroeconomic imbalances to the Commission and Member States governments alone. MED could become an instrument for governments and the social partners to jointly assess the economic situation at EU level and to agree on the steps to be taken, in close coordination with the national social dialogue and consultation processes, thereby bringing overall EU dynamics into line with Member State ones.

2. The measures to correct internal macroeconomic imbalances proposed by the Commission in communications COM(2010) 525 and 527 final

2.1 On 30 June 2010 the Commission presented a communication on *Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance* ⁽⁶⁾. The Commission's purpose with this communication was to further develop the ideas set out in its communication on *Reinforcing economic policy coordination* ⁽⁷⁾.

2.2 In the light of the international financial crisis, the Commission and the Van Rompuy task force have acknowledged that compliance with the parameters laid down by the Stability and Growth Pact (SGP) – subsequently beefed up under the reform of governance – is not sufficient to ensure EMU stability. Moreover, the existence of macroeconomic imbalances within the EU Member States risks damaging the European economic system as a whole, contributing to both the deterioration of both public finances and increased strains on the financial markets.

2.3 Against this backdrop, on 29 September 2010 the Commission presented a legislative package of six proposals ⁽⁸⁾ aimed at providing a legislative framework to prevent and correct imbalances in the Member States regarding both budgets (in relation to the SGP) ⁽⁹⁾ and macroeconomic aspects. The present opinion concerns the Commission's proposal on surveillance of macroeconomic imbalances, based on COM(2010) 525 and 527 final on the procedure for excessive imbalances in the Member States, with sanctions for the EMU countries only, and the alert system for all the Member States, respectively.

2.3.1 The alert system for all the Member States consists of:

- regular assessment of the risks arising from economic imbalances in each Member State, based on a scoreboard made up of economic indicators and indicative thresholds;
- identification by the Commission, on the basis of an economic rather than mechanical reading of the scoreboard, of those Member States where risks of imbalances are considered to exist, in order to assess their real severity;
- an in-depth review of the general economic situation in any Member State displaying a particularly negative scoreboard;
- in the event of a real risk, a possible recommendation from the Commission to the Member State in question to correct the imbalance, in the framework of the other policy recommendations made in the European semester (Article 121(2) TFEU);
- in the event of a serious risk of imbalance, or – in the euro area – if such an imbalance may spread to other Member States, jeopardising the proper functioning of the EMU, possible opening of an excessive imbalance procedure (Article 121(4) TFEU).

2.3.2 Under the excessive imbalance procedure, the Member State is obliged to present a corrective action plan to the EU Council. If the corrective measures are judged to be sufficient, the procedure is placed in abeyance while the corrective plan is implemented, but the Member State must report periodically to the Ecofin Council. The procedure is only closed once the Council, on the basis of a recommendation from the Commission, decides that the imbalance has been sufficiently reduced no longer to be considered excessive.

⁽⁶⁾ COM(2010) 367 final – c.f. EESC opinion on *Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance*, OJ 2011/C 107/02 p. 7.

⁽⁷⁾ COM(2010) 250 final.

⁽⁸⁾ For details, see:

http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm

⁽⁹⁾ EESC opinion on *Budgetary surveillance in the euro area* (See page 46 of this Official Journal).

2.3.3 For the EMU countries only, failure to take action regarding excessive imbalances will result in fines (maximum 0,1 % of GDP) when the Member State concerned has failed twice in a row to submit a sufficient corrective action plan, or to implement the planned measures, according to set deadlines.

2.4 The key tool for activating the macroeconomic imbalances alert mechanism is the scoreboard proposed by the Commission, backed up by an in-depth analysis of the Member State's economic situation. It has the following features:

- i) a small number of indicators to highlight imbalances and competitiveness problems;
- ii) alert thresholds which, if passed, trigger analysis;
- iii) differentiated thresholds depending on whether or not the Member State belongs to the euro area;
- iv) it is 'evolutionary', as the composition of the indicators is intended to evolve over time in keeping with changes in the sources of imbalance.

2.4.1 The Commission's initial work on the choice of indicators for the scoreboard ⁽¹⁰⁾ suggests that the following, the first three of which concern the external position and the last four the internal situation, will be among them:

- **current account balance as a share of GDP**, reflecting the net lending/borrowing situation with regard to the rest of the world;
- **net foreign financial asset position as a share of GDP**, representing the stock counterpart to the current account;
- **change in the real effective exchange rate** based on unit labour costs, summing up the country's competitiveness (with differentiated thresholds for the euro area);
- **change in real house prices**, in order to assess speculative bubbles, or as an alternative, **change in the value added in the construction sector** as a percentage of total value added;
- **private sector debt to GDP ratio**, to gauge private sector vulnerability to changes in the business cycle, inflation and the interest rate;

⁽¹⁰⁾ European Commission – DG ECFIN, *A structured framework to prevent and correct macroeconomic imbalances: operationalising the alert mechanism and A structured surveillance procedure to prevent and correct harmful macroeconomic imbalances: an explanation of the Commission's proposal of 29 September 2010*, Note for the Economic Policy Committee and the Alternates of the Economic and Financial Committee, 11 November 2010.

— **change in private sector credit**, representing the stock counterpart to changes in private sector indebtedness;

— **public sector debt as a share of GDP**, a traditional indicator of the state of Member State finances.

3. The persistence of disparities in competitiveness within the euro area

3.1 The presence of internal macroeconomic imbalances within Member States is linked to the persistent gaps between aggregate supply and demand in the Member States, leading to systematic surpluses or deficits in a given economy's overall saving. This stems from a wide range of factors that influence aggregate supply and demand, and tends to have a negative influence on the functioning of Member State economies, EMU and the EU as a whole.

3.2 The new attention with which the Commission believes macroeconomic imbalances within the Member States – together with public budget deficit – should be viewed as factors for economic and financial instability for the EU as a whole is therefore to be welcomed.

3.3 After more than a decade during which the Commission had set balanced public budgets as the sole object of EMU surveillance, an approach has been introduced that allows for an assessment of national performance that is certainly more complete and covers all the Member States. It is increasingly clear that it is not enough to take the purely quantitative aspects of a country's growth into consideration – the quality of growth itself also needs to be evaluated, that is to say, the macroeconomic factors underlying the sustainability or otherwise of the process need to be identified.

3.4 It was mistakenly believed that setting up the EMU would ensure that disparities in competitiveness between the Member States would be temporary. Experience with the euro has shown not only that these divergences are tenacious, but also that they undermine the foundations of the EMU itself, creating positions that are hard to maintain, as currently illustrated by the financial crisis over recent months.

3.4.1 More specifically, over the ten years preceding the economic crisis a persistent gap in productivity – reflected in the real effective exchange rate – and in competitiveness (export performance) has emerged between euro area countries (figures 1 and 2 in appendix) ⁽¹¹⁾. The significance of this situation lies not so much in its appearance, but in its duration, since in previous cases (the 1970s and 80s), the divergences were rapidly reversed by realigning the nominal exchange rates of the countries concerned.

⁽¹¹⁾ European Commission – DG ECFIN, *Surveillance of Intra-Euro-Area Competitiveness and Imbalances*, European Economy, No 1/2010.

3.4.2 These divergences have had an impact on the Member States' trade balances. Germany's trade balance and that of the group of 'peripheral' countries comprising Portugal, Ireland, Italy, Greece and Spain have taken opposite courses; the deficits seem to match the surpluses⁽¹²⁾ (figures 3 and 4 in appendix). This dynamic has shown no sign of being temporary; indeed, the divergences have tended to widen since the creation of the EMU, although the 2008 crisis seems to have reduced them.

3.4.3 The continuing divergences in competitiveness and exports are generally reflected in the current account position and the net foreign asset position (figures 5 and 6 in appendix), generating situations that are difficult for some euro area Member States to sustain over the medium term.

4. Key points of the proposed action

4.1 Faced with such a difficult context, demanding equally robust solutions, a number of doubts however remain concerning the Commission's approach and, consequently, the risks it could incur.

4.2 If, as emphasised by the Commission⁽¹³⁾, continuing internal macroeconomic imbalances are attributable to competitiveness factors and if competitiveness is, in accordance with the Commission's own definition, understood as 'the ability of the economy to provide its population with high and rising standards of living and high rates of employment on a sustainable basis'⁽¹⁴⁾, then the EESC believes that consideration should be given to a wide range of underlying economic, financial and social causes of these macroeconomic imbalances, and consequently of indicators to be built into the scoreboard in order to identify potential macroeconomic imbalances.

4.2.1 Competitiveness factors include both price-related factors (reflected in the real effective exchange rate) and equally important non-price factors. These latter encompass features such as product differentiation, technological content, product quality, the quality of product-related services (after-sales), etc. This series of elements is decisive in determining an economy's competitiveness and, although they cannot easily be quantified by a single indicator, an effort needs to be made to identify variables that can indicate their level and evolution within EMU Member States.

4.2.2 The Commission's initial work on the choice of indicators suggests an underestimation of the impact of the

wide and growing inequalities between Member States on the creation of imbalances, over a lengthy period (at least the last twenty years), marked by glaring inequalities in distribution and remuneration. This refers in particular to their role in triggering the economic and financial crisis, on account of the imbalances between the global expansion of supply of goods and services and the declining purchasing power of consumers⁽¹⁵⁾.

4.2.3 The set of indicators to be included in the scoreboard should be capable of picking out factors that might generate imbalances in aggregate supply and demand arising from macroeconomic, financial or social circumstances. It would, for example, be helpful for the scoreboard to include both the GINI index, which reveals particularly high levels in the Mediterranean and English-speaking countries⁽¹⁶⁾ and the difference between a country's current and potential output (output gap). This would make it possible to take into account its economic cycle.

4.2.4 The debate on the indicators to be included in the Commission's planned scoreboard should therefore be broadened to embrace, both nationally and Europe-wide, the widest possible range of official stakeholders and bodies representing civil society, including the EESC and the Committee of the Regions.

4.3 Moreover, the link the Commission's approach makes between fiscal governance and macroeconomic governance appears weak and with little scientific basis. While there are indeed valid reasons for keeping the EMU Member States' fiscal policy under observation⁽¹⁷⁾, with regard to internal macroeconomic imbalances the reasons and coordination methods appear far more controversial, although the surveillance procedure reflects specific needs⁽¹⁸⁾.

4.3.1 In view of the numerous reasons for imbalance, the factors to be jointly monitored are numerous (foreign trade, production costs, inequalities of distribution, price and non-price related productivity factors, speculative construction and financial bubbles, etc.) and they also interact with cultural and social factors outside the economic system (for example, consumers' and savers' preferences and habits). In addition to the difficulty in identifying and selecting these factors, problems

⁽¹²⁾ Altomonte C., Marzinotto B., *Monitoring Macroeconomic Imbalances in Europe: Proposal for a Refined Analytical Framework*, Note for the European Parliament's Committee on Economic and Monetary Affairs, September 2010.

⁽¹³⁾ European Commission – DG ECFIN, *The impact of the global crisis on competitiveness and current account divergences in the euro area*, Quarterly Report on the Euro Area, No 1/2010.

⁽¹⁴⁾ COM(2002) 714 final, *Communication on Industrial Policy in an Enlarged Europe* (p. 2).

⁽¹⁵⁾ ILO-IMF, *The Challenges of Growth, Employment and Social Cohesion*, discussions document for the joint ILO-IMF conference, Oslo, 13 September 2010 (p. 67-73).

⁽¹⁶⁾ OECD, *Growing Unequal? Income Distribution and Poverty in OECD Countries*, October 2008.

⁽¹⁷⁾ Arising from the negative spillover that high-debt countries within a monetary union can cause for better-behaved countries by means of the common interest rate. De Grauwe P., *Economics of Monetary Union*, Oxford University Press, 2009, chapter 10.

⁽¹⁸⁾ Tabellini G., *Reforming the Stability Pact: Focus on financial supervision*, VoxEU.org, October 2010, available on-line at www.voxeu.org/index.php?q=node/5622.

also arise regarding both how to set the alert thresholds and the 'weighting' to be given to the various sources of imbalance ⁽¹⁹⁾.

4.3.2 This is compounded by the fact that the link between identifying imbalances (by means of the alert thresholds), applying corrective measures and rapidly restoring a balance reasonably rapidly cannot be taken for granted. It is far from certain that action to restore the macroeconomic balance will succeed in identifying the most appropriate economic policy responses. Wrong decisions could in fact fuel procyclical policies, intensifying and prolonging the current economic contraction phase through restrictive measures, whereas demand-boosting, expansionist action might be needed. The economic policy mix prescribed to individual Member States on the grounds of the need to address internal imbalances might even prove to be unsuitable for the EU as a whole.

4.3.3 The indicators that seem to have the Commission's preference for surveillance purposes – especially prices and pay, and therefore competitiveness – depend primarily on actors located outside the public sphere (companies and trade unions) and consequently come under economic policy control only indirectly and with a time lag, by means of incentives, regulation of competition, and social dialogue. This makes these variables virtually impervious to automatic mechanisms or early intervention, which explains why the Commission highlights the need for flexibility in applying the new rules, and for the rules to continue to evolve.

4.4 Moreover, the legislative package lacks any proper discussion of monetary and credit policy. This is a more fertile area in which to seek greater coordination in terms of financial supervision and control of excessive debt accumulation (and of the corresponding credit) in the private sector ⁽²⁰⁾, on which the EESC has previously put forward proposals ⁽²¹⁾. There is no mention of the role in terms of economic stability that – in keeping with the statutory independence it quite rightly enjoys – the European Central Bank (ECB) could play, together with the system of national central banks and the newly-established European Systemic Risk Board and the European Banking Authority.

4.4.1 These bodies appear at least potentially capable of ushering in a more prudent and vigilant European credit

surveillance policy than in the past, when unsuitable rules and practices failed to prevent excess and consequently triggered crises in a number of Member States, threatening the stability of EMU as a whole. It should be borne in mind that countries that are now in difficulty, such as Ireland and Spain, had complied with SGP constraints up until 2007, with balanced budgets and low public sector debt, while expanding credit supply, fuelling the property boom – and that this over-expansion of credit did not alarm the EU monetary authorities. These problems are also connected with the role of the rating agencies, and in particular with the impact of their decisions on Member State public finances, on which the EESC has already voiced its concern ⁽²²⁾.

4.4.2 We therefore consider that specific supervisory and regulatory powers should be attributed to the EU to prevent excessive credit growth in the Member States, particularly where granting mortgages is concerned ⁽²³⁾. In an integrated financial area – such as EMU – it would be better for supervisory and regulatory powers to be invested in a third body rather than national authorities. Competences and powers could be attributed to the new European financial authorities so they could effectively carry out direct or indirect surveillance of the banking sector and take steps to regulate credit: the (regulatory) criteria for such steps will need to be duly defined.

4.5 Lastly, the legislative package also lacks a discussion of the Community budget. The possible occurrence of asymmetric shocks in the euro area Member States, i.e. variations in supply and demand that are positive in some countries and negative in others, as they are unable to manipulate either exchange or interest rates ⁽²⁴⁾, means that other tools to adjust the economic system must be used. Apart from prices and salaries, which generally offer little flexibility, economic theory holds that the only effective instrument in such situations is the existence of a more flexible and better-resourced budget system than at present. This would enable the necessary transfers to be made between areas benefiting from shocks to those adversely affected, by means of either automatic stabilisers, or pan-European investment project financing (e.g. through issuing eurobonds) ⁽²⁵⁾.

⁽¹⁹⁾ Belke A., *Reinforcing EU Governance in Times of Crisis: The Commission Proposal and beyond*, Deutsches Institut für Wirtschaftsforschung – DIW Discussion Papers, Berlin, November 2010.

⁽²⁰⁾ De Grauwe P., *Why a tougher Stability and Growth Pact is a bad idea*, VoxEU.org, October 2010, available on-line at <http://www.voxeu.org/index.php?q=node/5615>. Giavazzi F., Spaventa L., *The European Commission's proposals: Empty and useless*, VoxEU.org, October 2010, available on-line at www.voxeu.org/index.php?q=node/5680. Tabellini G., *Reforming the Stability Pact: Focus on financial supervision*, VoxEU.org, October 2010, available on-line at www.voxeu.org/index.php?q=node/5622.

⁽²¹⁾ EESC opinion on *The implications of the sovereign debt crisis for EU governance*, OJ 2011/C 51/03 p. 15.

⁽²²⁾ EESC opinions on *Rating Agencies*, OJ 2009/C 277/25 p. 117 and *Credit rating agencies*, OJ 2011/C 54/12 p. 37.

⁽²³⁾ Spaventa L., *How to prevent excessive current account imbalances*, EuroIntelligence, September 2010, available on-line at [www.eurointelligence.com/index.php?id=581&tx_ttnews\[tt_news\]=2909&tx_ttnews\[backPid\]=901&cHash=b44c8f9ae0](http://www.eurointelligence.com/index.php?id=581&tx_ttnews[tt_news]=2909&tx_ttnews[backPid]=901&cHash=b44c8f9ae0).

⁽²⁴⁾ If the positive and negative variations balance out across a monetary union, then the union's central bank will have no reason to intervene in monetary policy (cf. De Grauwe P., *Economics of Monetary Union*, op. cit., chapter 1).

⁽²⁵⁾ Monti M., *A New Strategy for the Single Market. At the Service of Europe's Economy and Society*, Report to the President of the European Commission, May 2010. Delors J., Fernandes S., Mermet E., *Le semestre européen: un essai à transformer*. Notre Europe, Les Brefs, n. 22, February 2011. Amato A., Baldwin R., Gros D., Micossi S., Padoan P., *A new political deal for Eurozone sustainable growth: An open letter to the President of the European Council*, VoxEU.org, December 2010, available on-line at www.voxeu.org/index.php?q=node/5893.

4.6 In order to help achieve a balance between incentives and sanctions in correcting excessive macroeconomic imbalances in the euro area, the EESC advocates that fines imposed should not be distributed between Member States according to the size of their GNI, as the Commission proposes, but should go into the European Stability Mechanism.

4.7 In the present opinion, the EESC would repeat ⁽²⁶⁾ that rules and automatic procedures run the risk not only of being ineffective in terms of preventing severe crises, as these almost always follow on from extraordinary, unforeseeable events, but also of making the situation worse. Firstly, they may erode confidence in the EU institutions which, in the eyes of the European public, are shying away from political choices and relying on the 'Brussels technocrats', as illustrated by Eurobarometer surveys ⁽²⁷⁾. Further, they encapsulate a traditional approach to resolving issues that considers questions of growth, social equity and environmental deterioration to be of secondary importance, thereby running the risk of nipping the ambitions of the EU 2020 strategy in the bud.

4.8 The same short-termism that affected financial affairs, and which seemed to have been singled out as an underlying factor in the crisis, now appears to be guiding European policy ⁽²⁸⁾. Instant reactions prevail – both within the EU institutions and at intergovernmental levels ⁽²⁹⁾ – to critical situations where rapid decision-making is required, or in response to public opinion trends in the most crucial Member States, that politicians eye with concern, especially during the on-going round of elections.

5. Potential of action against macroeconomic imbalances

5.1 Effective coordination of European economic policies, that is impervious to electoral factors and sudden shifts in public opinion hinges on a stronger role for the European Parliament (EP), the Committee of the Regions and the EESC – in other words, the institutions representing citizens and civil society. This is where the coordination mapped out by the Commission can gain strong democratic credentials for its preventive and corrective procedures, and consequently ensure the wide popular support needed if it is to be implemented effectively.

5.2 In particular, the EP plays only a secondary role in the European semester as currently conceived, being limited to the initial discussion phase and the initial direction taken by the coordination process. In fact, it could play a more useful and

more effective role if it was coordinated with the work of the national parliaments when they discuss and approve the budgets of the individual Member States. The EP could have a decisive effect in terms of adherence to the macroeconomic reference framework, the prioritisation of problems to be addressed and the choice of economic policies to be implemented. It could become a forum for agreeing on a common strategy that is not restricted to laying down formal procedures and rules, but goes into the detail of practical policies to boost the trust and expectations of Europe's citizens.

5.3 Focusing on competitive imbalances entails increasing attention on bargaining between governments, the social partners and civil society, particularly in the euro area, where the Member States no longer have the option of adjusting the exchange rate. Relations between governments, the partners for social dialogue (trade unions and employers' associations) and civil society should therefore be an integral part of the strategy outlined by the Commission.

5.4 In this context, the EESC – in line with its role as a consultative body to the European institutions – can help reinforce EU economic governance, specifically in its capacity as a forum that is able to foster dialogue between representative civil society organisations. The added value of the EESC is precisely that its members include representatives of organisations which can – following careful evaluation – help sustain a consensus for economic policies in the Member States. This enables the EESC to make a significant contribution to ensuring that not only political leaders but also and especially citizens of the Member States and EU's productive, social and civil fabric take an interest and assume responsibility.

5.4.1 The EESC could hold 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 ⁽³⁰⁾. A debate of this kind could be envisaged 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 councils, the national parliaments and the EP, thereby enabling the strategies adopted to be assessed, and for them to be disseminated and support for them to be assured at national level.

5.5 More intensive and operational use of macroeconomic dialogue should also be encouraged. By improving the quality of this dialogue, it would become an instrument for governments and the social partners to jointly assess the economic situation at EU level and to agree on the steps to be taken, in close coordination with the national social dialogue and consultation processes, thereby making EU dynamics consistent with their national counterparts, in a socially acceptable way.

⁽²⁶⁾ As argued in EESC opinion on *Enhancing economic policy coordination*, OJ 2011/C 107/02 p. 7.

⁽²⁷⁾ This erosion in confidence concerns less the Community institutions as such than the benefits of EU membership. Data from Eurobarometer 73 – First results, questions QA9a and QA10a.

⁽²⁸⁾ Monti M., *Europe must buck short-term tendencies*, Financial Times, 13 December 2010.

⁽²⁹⁾ For example, the competitiveness pact proposed by the French and German governments on 4 February 2011.

⁽³⁰⁾ As argued in EESC opinion, OJ C 107, 6.4.2011, p. 7.

5.5.1 Preventing and correcting imbalances cannot be left to the Commission and Member State governments alone ⁽³¹⁾. The process of salary and price formation is a crucial element in the broader mechanism for monitoring macroeconomic imbalances: in consequence, any political action on this front must take into account Article 153(5) of the Treaty on the Functioning of the European Union and involve the social partners at both national and European levels. Against this backdrop, MED can be strengthened at European level by means of a stable structure and organisation, and can be

better pursued at national level with social dialogue and the appropriate institutions. National governments should support and encourage businesses and trade unions to take part in these bodies and the types of collective bargaining that take place within them. In view of the complexity of correcting imbalances by means of national reforms and delays in doing so, strengthening MED could provide a more efficient, speedier and better-coordinated instrument for maintaining consistency between macroeconomic issues and the dynamics of the labour market.

Brussels, 5 May 2011.

*The President
of the European Economic and Social Committee*
Staffan NILSSON

⁽³¹⁾ Watt A., *Economic Governance in Europe: A Change of Course only after Ramming the Ice*, Social Europe Journal, 30 July 2010, available on-line at www.social-europe.eu/2010/07/economic-governance-in-europe-a-change-of-course-only-after-ramming-the-ice. Watt A., *European economic governance: what reforms are to be expected and what are needed?*, paper for European Alternatives, 2010, available on-line at www.euroalter.com/wp-content/uploads/2010/11/Watt-ENG.pdf.