



European Economic and Social Committee

ECO/201
Strengthening the euro
area

Brussels, 26 September 2007

OPINION

of the

European Economic and Social Committee

on

The EU Economy: 2006 Review - Strengthening the euro area: key policy priorities

COM(2006) 714 final – SEC(2006) 1490

On 11 January 2007 the Commission decided to consult the European Economic and Social Committee, under Article 262 of the Treaty establishing the European Community, on

The EU Economy: 2006 Review - Strengthening the euro area: key policy priorities
COM(2006) 714 final – SEC(2006) 1490.

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 4 September 2007. The rapporteur was Mr Burani and the co-rapporteur was Mr Derruine.

At its 438th plenary session, on 26 September 2007, the European Economic and Social Committee adopted the following opinion by 133 votes to two, with five abstentions.

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1. **Conclusions and recommendations**

- 1.1 The Committee broadly supports the Commission document, but nevertheless wishes to add a few comments, including some already expressed before, even before the adoption of the euro. The Commission expresses various veiled criticisms of certain aspects of Member States policies. The EESC agrees with the substance of this but recalls that governments are often faced with unavoidable domestic political demands or external events (energy crises, war situations, etc.) that are beyond their control.
- 1.2 The long-term sustainability of budgetary policies is problematic when there is a lack of policy continuity from new governments coming to power over time. The same can be said for structural reforms, which can be influenced considerably depending on the subjective leanings of the government in office. In view of the above, the EESC agrees with the Commission on the need for structural reforms to be completed with the necessary policy continuity.
- 1.3 The flexibility of the markets for goods and services is one aspect of economic policy where governments have to seek the agreement of the social partners. Liberalisation, which has had varying degrees of success in the various countries and sectors, should be carried out with caution, taking into account the specific circumstances of each country and sector.
- 1.4 The integration of the financial markets, already achieved to a large degree for corporate services, poses more problems for the retail markets. Furthermore, most of the obstacles are of an objective nature (differences in language, the nature of services, etc.). These are

problems that cannot be resolved through legislation or regulations, but rather by the market, where possible. The existing rules should be sufficient to progress with integration. At most, standards will be needed to ensure optimum protection for consumer interests and, where necessary, market vigilance.

- 1.5 Wage bargaining should, as the Commission demands, take into account the implications of monetary union. The EESC hopes it will be possible to achieve convergence among economic, monetary and employment policies by means of joint Eurogroup and Employment Council meetings. Convergence, if only in principle, could contribute over time to genuine harmonisation of the various policies.
- 1.6 The Commission's recommendation to take greater account of the international dimension mirrors a criticism made by the EESC even before the euro was adopted. The emergence of the Asian countries should not be seen as a threat, but rather as a challenge to rise to in terms of competitiveness and innovation.
- 1.7 The euro area should be championed by individual governments. They should abstain from blaming the euro for national economic problems while failing to mention the benefits of having adopted the single currency. It would also be helpful if the countries that did not join the euro at the start gave clear indications of their future intentions, not only to inform the euro area public, but also to ensure that future euro policies are framed in the knowledge of which and how many economies will be included.
- 1.8 The EESC points out that the importance the euro has acquired as an international currency should strengthen its application for a seat on the International Monetary Fund. This would not involve taking the place of one of the current members, but rather adding a member. The objection that the IMF statutes do not permit this appears shaky and a mere pretext.
- 1.9 One rather controversial idea, offered with the sole aim of testing the waters for future possible consideration, is that of a European stabilisation fund, to be fed by tax surpluses in favourable periods, to finance projects of Community interest.
- 1.10 In general, the Committee finds the Commission report acceptable, but would point out that, like the many other documents on the euro, it fails to do justice to the importance of the political dimension of the single currency. The importance of the euro and its consequences and prospects go way beyond mere economic, financial or social implications. The true cement holding the Union together is the fact that it has chosen to pool the interests of different countries within a common currency.

2. **Introduction**

- 2.1 The Commission has published a communication on the state of the EU economy in 2006, focusing in particular on political priorities for strengthening the euro area. This document is

based on another entitled "Adjustment Dynamics in the Euro area – Experiences and Challenges"¹, which as usual is valuable for providing a more in-depth analysis.

- 2.2 It is now customary for the EESC to comment on the Commission's annual document with an own-initiative opinion². With this opinion, the Committee intends to reaffirm views and recommendations it has already made known. These will be referred to in the present opinion when appropriate. It also wishes to contribute to the debate on the functioning of the EMU, introducing new elements, such as a joint Council of euro-area finance and employment ministers and a tentative proposal to establish a European stabilisation fund.
- 2.3 Meanwhile, looking back at the history of the establishment of the single currency, one cannot help noting that several measures adopted or recommended recently by the Commission can be matched to comments made by the EESC in its 1997 opinion³ regarding the **rigidity of some of the founding principles** of the Stability and Growth Pact. It was pointed out then that the nature of the economic climate and national policies had not been given due consideration when setting and applying the reference parameters. The EESC's suggestions were not accepted then, but their validity has been borne out by time.⁴
- 2.4 The lack of realism early on is now reflected in the **criticisms** - justifiable but foreseeable from the outset - that are now being made of the Eurogroup countries' **economic policies**: national budgets ought to be drawn up on the basis of **common macroeconomic hypotheses**. The wishes of the presidency, expressed at the Eurogroup ministers' meeting on 6 November 2006, have not been acted upon: national budgets are still far from being based on the necessary **economic policy coordination**.
- 2.5 It must also be understood that it is exceedingly difficult to coordinate economic policies when countries have differing socio-economic situations and differing if not divergent political objectives. Just to have **convergent** policies would be a major improvement. Convergence depends on a multitude of factors, but mainly on **employment**, the scale and nature of which is the result of a whole web of other policies.
- 2.5.1 Two **integrated strategies** at least are provided by the broad economic policy guidelines and the European employment strategy guidelines. A **broad degree of convergence**, at least in an attempt to reach harmonisation over time, could be achieved by organising a joint Eurogroup and Employment and Social Affairs Council meeting involving Eurogroup ministers only.

1 Provisional document – part of the "EU Economy Review" series, published by the DG for economic and financial affairs.

2 See Appendix for list of recent opinions on the broad economic policy guidelines.

3 Opinion on arrangements for stage three of economic and monetary union, OJ C 287 of 22.09.1997, p. 74.

4 The EESC suggested for instance that the "convergence criteria, particularly those on government deficit and debt, should be reviewed regularly e.g. every ten years". This suggestion was rejected, but events have shown the need to adopt a revised stability and growth pact, even earlier than the ten years proposed by the EESC.

The ideas generated by such a meeting could provide valuable pointers for the annual spring Council meeting.

3. **The Commission document**

3.1 The communication's three admirably neat sections set out past experience, specific considerations and the Commission's recommendations. The Commission avoids repeating tacitly accepted truths and principles that over the years have become part and parcel of the economic policy guidelines.

3.2 **Taking stock of the experience of the early years of the euro**

3.2.1 The Commission looks back at the debates that preceded the euro's launch in 1999. The fundamental issue was "how the participating countries would **adjust to shocks and differences in competitiveness** in a context of low labour mobility, incomplete integration of product and services markets and the retention of national budgetary autonomy". These questions remain today, but the pessimists who predicted that monetary union would be short-lived have been proved wrong.

3.2.2 The **success stories**, or at least the positive proof provided by the euro, cannot be denied: **the currency is strong and stable**; it has reacted well to common external and internal shocks and has battled effectively against inflation. The Member States have enjoyed "the most favourable financing conditions ever". In addition, the EESC would add that a number of the euro area countries have been spared the inflation that their national currencies would certainly have suffered as a result of worsening economic and budgetary conditions. The euro, the world's second currency, has shielded Member States from the monetary and financial shocks that would otherwise have hindered growth, done away with jobs and destroyed the trust of economic operators.

3.2.3 However, the success stories are contrasted by certain perennial problems. In many cases, individual economies have had trouble adjusting to developments in their own countries, with widely differing results. These divergences have been reflected in **inflation and growth rates**. The adjustments resulting from the slow-down in the economies should have enabled faster growth trends in the medium term, following an initial loss in competitiveness. This did not happen, however, or at least only happened to a degree. "More generally," the Commission concludes, "the euro area has not yet been able to achieve high growth and employment over a sustained period". The EESC will comment on this statement below.

3.2.4 The Commission also recognises that the difficulties adjusting are not only or mainly the result of delays in implementing fiscal and structural reforms: they may also be due to the regime imposed by the monetary union rules.

- 3.2.5 In the early years of EMU, **real effective exchange rates** showed imbalances and fluctuations. For some Member States this was compounded by a sharp fall in interest rates and "a relaxation of credit constraints on households following an improved access to credit in the more integrated financial market", with direct effects on the consumption of durable and non-durable goods. For durable goods (real estate) in particular, certain economies experienced large-scale investment abroad, which served to increase current account deficits.
- 3.2.6 One general statement made by the Commission, based on the example of the Netherlands, refers to the "hazards in designing **fiscal policies in 'good times'**". In the Netherlands, a strongly favourable economy at the beginning of the decade had pro-cyclical effects on the labour and financial markets and, ultimately, on fiscal policy. External conditions generated a sudden downturn which in turn necessitated the adoption of drastic containment countermeasures.
- 3.2.7 **Prices and wages** are a further factor at play here: at national level they adjusted too slowly to cyclical changes, despite a general background of wage moderation, which meanwhile contributed to declining unemployment. Poor growth in productivity put the burden of real depreciation on prices and wages but mainly on the latter. These phenomena interact at international level to generate changes in demand and also repercussions on competitiveness.
- 3.2.8 Lastly, there were widely differing results with **nominal and real convergence**, which could be instructive if analysed in a critical and objective way. The Commission states that the differing trends were "partly" the reflection of different national policies. The EESC would note here that the global and European economic situation generally had similar effects on all the countries, whereas any differences recorded were largely the result of national policies. The examples of Spain, Italy, Portugal and Ireland, mentioned by the Commission, offer glaring proof that, under favourable economic conditions, the results of thrifty and spendthrift fiscal policies are totally different.
- 3.3 **Action needed to ensure the smooth-running of the euro area**
- 3.3.1 This chapter deserves special attention as the **five "specific policy considerations"** that follow constitute, or rather coincide with, the **Commission's priorities for the coming years**.
- 3.3.2 **Consideration 1: Budgetary policies must be run even more prudently.** In essence, the measures to adopt coincide with those that were approved for the reformed stability and growth pact, and they should by now have been taken on board by governments, and not only by those in the euro area. Hence the recommendation to take the **long-term sustainability of budgetary policies** into account – something which may seem obvious, but is clearly not always observed when annual plans are drawn up.
- 3.3.3 **Consideration 2: Markets for goods and services must become more flexible.** The Commission speaks of "*greater downwards price flexibility*", something that is impossible to

obtain when prices are rigid. In such situations there is resistance to adjusting nominal wages, as this would generate greater reductions in real wages. It is also necessary to encourage a **reallocation of resources among companies and among sectors**. All this - price flexibility and the redistribution of resources - depends on the creation of open and competitive markets. It may also be necessary to review fiscal and spending policies (or certain aspects of them), both at EU level and nationally and regionally.

- 3.3.4 **Consideration 3: Financial market integration needs to be accelerated.** Major progress has been made in this area, but according to the Commission there is still a long way to go to tap the full potential of the financial markets in the euro area. Greater integration could reduce the impact of economic shocks on incomes and on national credit markets. The Financial Services Action Plan and ongoing initiatives should deliver significant results.
- 3.3.5 **Consideration 4: Wage setting must internalise the implications of monetary union.** The social partners involved in the wage bargaining process must have access to the information they need to calculate whether wage trends are appropriate and to be able to assess the implications for adjustment processes. A wage policy that is in line with development plans should help to avoid significant "overshooting" in intra-euro area real effective exchange rates.
- 3.3.6 **Consideration 5: The global dimension must be taken into account.** This aspect needs to be considered "in a more systematic way". Economic policies at euro-area and national levels have often underestimated this aspect, despite its great importance when it comes to determining economic policy. The impact of the euro, or of its exchange rates, on other players in the world economy must be carefully assessed, as trade, finance and economic policy strategies depend on it.

3.4 **The way ahead to a stronger euro area**

- 3.4.1 In this chapter, the Commission sets out the **measures that are needed to strengthen and complete monetary union**, a priority that in the current international context is becoming a matter of urgency. One sentence in particular should be highlighted: "*Recent divergences have to some degree reflected initial developments that affected member economies in the run-up to the euro area's creation in 1999.*" This holds the explanation, at least in part, for the divergences in growth and policy that have marked the last nine years.
- 3.4.2 The "**way ahead**" set out by the Commission is summed up here by the headings listed below. Their content is largely self-evident and there are also vast numbers of documents on the individual subjects. The way ahead will involve:
- a. accelerating structural reforms and fostering integration;
 - b. further strengthening fiscal positions and improving the quality of national budgets;
 - c. reinforcing coordination within and outside the euro area;

- d. promoting the enlargement of the euro area;
- e. getting closer to the citizens.

The EESC will comment on these individual points later.

4. The EESC's comments

4.1 Consideration 1: Budgetary policies must be run even more prudently.

- 4.1.1 The Committee agrees with the Commission's thinly veiled criticisms of the policies of certain Member States who sometimes seem more interested in presenting annual plans that are in line with the convergence criteria than in adopting a strategy to strengthen their fiscal positions. These criticisms should also be viewed in the light of opinions expressed by the Committee well before the single currency was adopted⁵: **no government is totally at liberty to adopt its own appropriate budgetary policy**, free of *constraints and influences*.
- 4.1.2 In addition to the **constraints** imposed by the convergence rules - which are supposedly already written into an "appropriate" budgetary policy - there are others of an **internal and external nature**. Of those of an internal nature it is sufficient to mention structural constraints and those relating to structural reforms that have yet to be implemented. The external constraints include general trends in the global economy and in particular **energy costs**; the effects of this factor differ enormously from one country to another, but it is never considered among the causes for divergent economic policies. It has to be admitted that countries that are totally or almost totally dependent on energy supplies from abroad are in a very different position from those that have a smaller deficit or, in a few cases, that are net exporters of energy.
- 4.1.3 The Committee also notes that in the past, structural reforms, as listed in point 4.1.6 below, have not always yielded the desired results. What is needed, therefore, is better coordination of the reforms, within each country and at Community level, as well as consistency with macroeconomic policies designed to support competitiveness and employment. This has not always been the case in the past; disappointing growth trends - found in almost all countries - highlight the way in which in some countries growth has been almost an "independent variable" in the reforms.
- 4.1.4 The recommendation to take **the long-term sustainability of budgetary policies into account** (see point 3.3.2) deserves special comment. These policies are always a combination of economic/social considerations and political leanings. Looking at the history of the euro area countries over the last 10 years, it is clear that very few have witnessed "political stability". In all the countries, governments of differing political leanings have taken turns at

⁵ "Governments are not always able to conduct their economies as they would like to, and (...) forecasts - even the most authoritative - can prove to be wrong": 1997 opinion cited in Footnote 3.

the helm, as is moreover normal and desirable in a democratic system. However, this alternation makes it difficult to draw up long-term sustainability plans⁶, as their reliability will depend on the stability of governments over time, as well as on various other external factors.

- 4.1.5 One specific aspect of the structural reforms in certain countries concerns the level of government debt, which is notably higher than the parameter set by the Maastricht criteria (60% of GDP) and which is not showing significant improvement year-on-year. In the Committee's view, reducing this debt by using the budget surplus of a few good years or a one-shot operation is not enough. What is needed is greater efficiency in public spending or, if this proves inadequate, a radical review of its structure.
- 4.1.6 The Commission's "way ahead" as mentioned in point 3.4.2a) (accelerating structural reforms) is therefore fraught with difficulties and will be highly susceptible to political trends. Structural reforms (pensions, health, public administration, liberalisation, energy) have a major social impact and the social partners play a key role, in ways that differ from country to country. No government can adopt measures, whether rational or not, that are not acceptable to the public. Recent history shows that structural reforms are often the fruit of **compromise between diverse and sometimes divergent demands**: reforms that seem "rational" at one step removed must take account of real and unavoidable prerogatives.
- 4.1.7 The Committee recognises the importance of carrying through well thought-out reforms with good coordination between the Member States. However, some reforms may raise concern among households, causing them to act prudently and increase their savings levels. Although, to date, the growth in savings rates appears negligible when expressed in percentage points, this is not so when it is expressed in absolute terms. Between 2001 and 2005 savings increased by less than one percentage point, but this represents a sum of nearly EUR 50 billion subtracted from consumer spending⁷. For some, this is a positive sign, as an increase in consumer spending that is lower than the increase in savings could also mean increased consumer confidence in the future of the economy. Others however draw attention to foreign investment, lamenting the fact that it exceeds investment in Europe. These different points of view may find common ground in the fact that the increase in foreign investment in Europe is definitely one of the positive effects of globalisation.

4.2 **Consideration 2: Markets for goods and services must become more flexible.**

- 4.2.1 The Commission stresses that budgets must be "more supportive of active adjustment" in the **flexibility of markets for goods and services**. Flexibility here means "**downwards price flexibility**" in contrast to the experience of the early years of the euro area. One way of

⁶ "Given the fluidity of the political and socio-economic scene at European *and above all at world level*, it might be better to talk about *programme declarations* rather than programmes; such declarations would be binding only insofar as they correspond to real economic developments": see opinion cited in Footnote 3.

⁷ Source: AMECO, the DG ECFIN database.

achieving this would be to make prices less rigid and encourage a better allocation of resources between companies and between sectors: this would encourage a **wage policy** more in line with the need to maintain appropriate wage levels and reduce the social costs of the cyclical adjustment process.

4.2.2 The Commission's reasoning is probably correct, but the EESC wonders whether it can realistically be applied to all situations and all countries. The integration of national markets (see second part of point 3.4.2a) can be encouraged in part by a government policy of incentives, but **wage policy depends to a large degree on consultation and bargaining between the social partners**. *Price flexibility in a free market regime is not therefore always or everywhere independent of government provisions*. In practice it is subject to various parties - government, business leaders and workers - coming to an agreement. The same could possibly be said about the reallocation of resources between companies and sectors, which can certainly be encouraged by fiscal or regulatory measures, but in the end depends on market opportunities and agreements between both sides of industry.

4.2.3 Liberalisation deserves specific mention, as it can lead to a redistribution of resources between companies. Despite formal adherence to the principle, in practice liberalisation is understood and carried out in different ways and to varying degrees from country to country, depending on differing and sometimes divergent national political orientations. The impact of these measures on prices (quality is another issue) and on competition is open to debate, leading to the conclusion that they have not always or in all cases delivered the desired results. To conclude, price flexibility and wage policy trends also depend on the possibility to privatise. Meanwhile, liberalisation must be conducted when the market allows and the resulting competition must bring real consumer benefits.

4.3 **Consideration 3: Financial market integration needs to be accelerated.**

4.3.1 The **Financial Services Action Plan** launched three years ago has yielded good results (the Commission speaks of "important progress") in terms both of payment systems and of the financial, securities and corporate banking services markets. In these sectors, financial integration can be said to be at an advanced stage. The steps still to be taken concern supervisory measures, voting rights and company mergers: all necessary measures, but ones whose absence poses no real obstacle to the integration already in place.

4.3.2 A separate issue is the problem raised by the Commission regarding the **retail market for credit and financial services** in general. The Commission states that: "Greater financial integration can smooth the impact of economic shocks on incomes and on national credit markets." This statement is certainly well-founded; but whether it is really feasible remains open to discussion. For *financial products*, integration at Community level is a given: no one is against the idea of a citizen of any country being able to buy or sell securities in any other country. With regard to *financial services – credit in particular* – the situation is more complex: **integration at European level is not an easily reachable goal in the short term**.

- 4.3.3 Financial services along with insurance services are unusual in that they carry a *risk for the seller*: the feasibility of each transaction depends on the reliability of the client. This makes it necessary to obtain information in a country other than that of the seller and thus to draw up a contract that includes procedures to govern any possible litigation or insolvency. On the national market, none of this poses a problem, but integration at Community level with the same rules implies the use of different languages, and acceptance of the authority of the laws - and possibly the courts - of the buyer's country. These conditions generate costs, complications and obstacles that are difficult to overcome with legislative or regulatory provisions. The answer, and what is done in practice, is to open sales branches in the buyers' country or countries: in this case, it is not a matter of market integration but rather of enlarging the internal market in accordance with the principle of the freedom of establishment. The benefit is to strengthen competition on national markets and give the consumer more choice.
- 4.3.4 The further integration of *retail* financial markets is not therefore possible in the short term with legislative initiatives or incentives: the efforts of the Commission and the Member States should focus on reasonable rather than impracticable objectives.
- 4.3.5 To conclude, the EESC agrees with the Commission's recommendations on the need to *accelerate* the integration of the financial markets as a means of better distributing financial resources, directing them to the places they are most needed. However, it would also stress that the existing rules (and the additional rules under discussion) are sufficient to secure integration on the basis of market laws. Rules are needed, if at all, to secure better and more uniform protection for consumer interests.
- 4.4 **Consideration 4: Wage setting must internalise the implications of monetary union.**
- 4.4.1 The Committee is surprised by the Commission's suggestion that the social partners do not have "the necessary information concerning the challenges and the implications of different lines of action", and that they therefore are conducting an irrational wage policy. This view does not compute with the Commission's own position taken in a study⁸, where it states that "during the period 1999-2005 nominal wage developments in the euro area have been consistent with the goal of price stability(...), thus indicating negative real unit labour cost growth of -0.4%. (...) Evidence shows that brightening economic conditions have not translated into accelerating wage growth so far; meaning that unit labour cost developments have remained consistent with price stability and employment-friendly growth. (...) On average, producers have been able to maintain profit margins despite strong non-labour input cost pressures and heightened international competition".

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European Commission, "The contribution of labour cost development to price stability and competitiveness adjustment in the euro area", Quarterly Report on the Euro Area, volume 6, No 1, 2007. (Document available in English only).

- 4.4.2 The Committee gave its views on this issue in an opinion in 2003⁹, and they are still as valid today. It pointed out that while wages are a factor in competitiveness, they also feed demand on the internal market. The EESC stressed that medium-term growth should keep in step with increasing productivity, so as to strike a balance between sufficient growth in demand and competitive prices.
- 4.4.3 In this respect, the EESC recalls the conclusions of the January 2007 Employment Council and those of the February 2007 Eurogroup on the need to establish decent wage conditions and distribute the fruits of growth more effectively.
- 4.4.4 The Committee would reiterate its longstanding stance on the need to bolster macro-economic dialogue so as to improve coordination and synergies between the various macro-economic policy strands (monetary, budgetary and wage-related). The lack of coordination here serves to harden the Committee's belief that a system for joint meetings between the Eurogroup and the Employment Council is becoming a necessity rather than simply useful (see point 2.5.1).
- 4.4.5 Whilst the Commission expresses its dissatisfaction with the trends in economic growth and employment, it strangely does not see this as a reason to rethink the direction of the macroeconomic policies and the recommended policy mix it has pursued to date. Whilst the structure of budgetary and monetary policy remains unchanged, the wage-setting policy should not be the only one being requested to be in line with the requirements of the monetary union. Such a policy would transfer to the social partners the responsibility for compensating for the mistakes in other policy areas.
- 4.5 **Consideration 5: The global dimension must be taken into account.**
- 4.5.1 The EESC totally agrees with the Commission's self-evident comments on the need to take the **international dimension** into account. If there is one comment to make, it is that the Commission and the Council themselves underestimated this factor when drafting the original text of the stability and growth pact, despite the EESC's recommendations, which highlighted the **risky nature of long-term plans** in the light of **unpredictable political developments** on the world stage. It goes without saying that the events of the last decade have borne this out, and the next decade looks set to be even more unpredictable. The value of taking the global dimension into account when making medium- to long-term plans is therefore somewhat theoretical.
- 4.5.2 As for annual plans, it is obvious that all Member States, whether euro area members or not, are affected by global trade conditions, particularly in relation to **oil** and growing **competition from the Asian powers**. Countries whose dependence on oil is relatively minor feel the price cycle less intensely. The others, however, are heavily affected by economic shocks, with a resulting impact on internal prices and competitiveness.

⁹ See EESC opinion on the *Broad economic policy guidelines 2003-2005*, OJ C 80 of 30.03.2004, p.120.

4.5.3 Similarly, the emergence of the Asian countries is opening **new markets for the more competitive European countries**, while damaging the position of those who have paid less attention to competitiveness and innovation. In the Committee's opinion, too much credence has been given to the theory that a lack of competitiveness is the result of **euro exchange rates** faced with Asian currencies and the dollar. The problem is largely structural and should be the subject of a radical policy rethink by governments and social partners.

5. Other ways ahead

5.1 A number of the "ways ahead" have already been discussed in connection with the various "considerations". The Committee will now look at other aspects dealt with by the Commission.

5.2 The Committee takes the view that the Commission should not address EMU from a purely economic angle forgetting the political dimension. The monetary area is not an end in itself but is one element in a wider civil society project, which is about "wanting to live together". There is no shortage of past examples of monetary areas that were doomed to implode because the countries involved made no progress towards integration¹⁰. "Euro changeover should not be tackled and projected as simply a technical currency change but as a major conversion with significant economic, monetary and social effects"¹¹. This is a message to remember at a time when the 27 Member States are in the process of revising the Treaty to find a way out of an institutional crisis whose many different roots include widespread economic and social unease.

5.3 One point worthy of comment is "**promoting the (...) euro area**" (see point 3.4.2.d)). The Commission lists the benefits to countries that are already part of the Eurogroup and to new members; however the latter appear to include only "countries preparing to join the euro", clearly the countries that most recently joined the EU. No comment is made however about the **continued absence** of the countries who were already members of the EU when the euro was adopted and who used an opt-out clause: a subject ripe for review. While very much hoping that these countries will rethink their decisions, the EESC believes that a comment from the Commission would help to clarify whether **the hypothesis that the opt-out countries might join should be abandoned definitively**. Clarity on this point is one of a number of factors that could help to determine future euro-related strategies. Meanwhile, it is

¹⁰ The Latin Monetary Union (1861-1920) failed partly owing to the lack of fiscal discipline between its members (Italy, France, Switzerland, Belgium and Greece). The monetary union formed in 1873 linking Sweden (which at the time was in a "Personal Union" with Norway) and Denmark failed when the political context changed. In contrast, the German customs union of the 19th century, which grew into a monetary union, was a success owing to the political unification of the country in 1871. Monetary success and political integration therefore go hand in hand, as monetary unions are founded on a high degree of economic policy coordination and therefore on a certain degree of centralisation.

¹¹ European Parliament resolution on the enlargement of the euro zone (2006/2103(INI)), 1 June 2006.

hard to see how the medium- to long-term plans of countries outside the Eurogroup can avoid taking into account the possibility or the desire to adopt the single currency.

- 5.4 The Committee wishes to send out a strong message to the EMU countries, to encourage them in their efforts to uphold the Maastricht criteria and promote policy convergence so as to arrive at real convergence. It is totally unacceptable that certain countries are clearly adopting relaxed policies without the justification of exceptional circumstances. This behaviour damages their credibility among the other Member States, and by association undermines the credibility of the EU as a whole.
- 5.5 Lastly, the call to move "**closer to the citizens**" is one that is repeated so often that it has become a *leitmotiv*. Nevertheless, it is a crucially important issue that brings into play the direct responsibility of **individual governments**. The advantages brought by the euro are there for all to see. The fact is that at national level, price stability, easier access to credit and other benefits are often claimed by governments to be their own achievements. However, when talk is of the shortcomings (real or imagined), in particular rising prices, even in cases where the adoption of the new currency was not the cause, it is the euro that gets the blame. In politics, it is in no one's interests to give credit to others, and everyone seeks ways of blaming others for problems..

6. **Further comments by the EESC**

- 6.1 In addition to its considerations on the Commission document, the EESC wishes to submit two additional comments for further discussion.
- 6.2 The **dynamic of euro** exchange rates has been mentioned as a cause of imbalances in Europe's competitiveness vis-à-vis other countries, the Asian countries in particular. Inasmuch as this aspect may be one of a number of causes (and not the main one, as stated in point 4.5.3) the Committee believes that the request for the euro area to be **allocated a seat on the International Monetary Fund** should be made again more forcefully. It was proposed in the past that a seat might be exchanged for those of the Member State participants on the IMF, but none of them seems prepared to leave in order to make room for the euro. Although the ideal solution would be **an additional seat for the euro** on the IMF, coordination between the Member State representatives might be a more realistic short-term prospect. It is hard to understand why a currency with a fundamental role in international trade should not be represented. The objection that the IMF's statutes do not allow it appears rather weak: the effort required to change a statute would appear minimal compared with the glaring anomaly of one of the world's main currencies not being able to play a part in managing world monetary policy.

6.3 The Committee is highly sceptical about the idea of a European stabilisation fund to reduce the discrepancies in the growth rate between Member States¹². If there is to be a serious discussion about this idea, it certainly needs to be fleshed out further.

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Brussels, 26 September 2007

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Dimitris Dimitriadis

Patrick Venturini

N.B.: Appendix overleaf.

¹²

This fund would be financed by all Member States out of a proportion of the fiscal surplus accumulated when the economy is doing well, and would fund projects that the Council and the European Parliament have determined to be priorities and in the Community interest. The main objection to this is that it entails fiscal discipline being punished, creating a negative incentive.

APPENDIX

List of recent opinions on the broad economic policy guidelines:

- **Broad economic policy guidelines and economic governance - The conditions for more coherence in economic policy-making in Europe**, OJ C 324 of 30.12.2006, p. 49
 - **Broad Economic Policy Guidelines (2005-2008)**, OJ C 88 of 11.04.2006, p. 76
 - **The new Member States and the broad economic policy guidelines**, OJ C 234 of 22.09.2005, p. 60
 - **Better economic governance in the EU**, OJ C 74 of 23.03.05, p. 23
 - **Broad economic policy guidelines 2003-2005**, OJ C 80 of 30.03.2004, p.120
 - **2003 broad economic policy guidelines**, OJ C 133 of 6.06.2003 63
 - **Contribution of the Economic and Social Committee in respect of the broad economic policy guidelines for the Member States and the Community for 2002**, OJ C 125 of 27.05.2002, p.56
 - **Broad Economic Policy Guidelines 2001**, OJ C 221 of 7.08.2001, p.177.
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