



European Economic and Social Committee

ECO/348
CCI/Major economic
policy reforms

Brussels, 22 May 2013

OPINION

of the

European Economic and Social Committee

on the

**Communication from the Commission to the European Parliament and the Council - Towards a
Deep and Genuine Economic and Monetary Union - The introduction of a Convergence and
Competitiveness Instrument**

COM(2013) 165 final

and the

**Communication from the Commission to the European Parliament and the Council - Towards a
Deep and Genuine Economic and Monetary Union - Ex ante coordination of plans for major
economic policy reforms**

COM(2013) 166 final

Rapporteur-General: **Mr Croughan**

On 14 May 2013 the European 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 and the Council - Towards a Deep and Genuine Economic and Monetary Union - The introduction of a Convergence and Competitiveness Instrument

COM(2013) 165 final

and the

Communication from the Commission to the European Parliament and the Council - Towards a Deep and Genuine Economic and Monetary Union - Ex ante coordination of plans for major economic policy reforms

COM(2013) 166 final.

On 16 April 2013 the Committee Bureau instructed the Section for Economic and Monetary Union and Economic and Social Cohesion to prepare the Committee's work on the subject.

Given the urgent nature of the work, the European Economic and Social Committee appointed Mr Croughan as rapporteur-general at its 490th plenary session, held on 22 and 23 May 2013 (meeting of 22 May 2013) and adopted the following opinion by 152 votes to 8 with 12 abstentions.

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1. Conclusions and recommendations

- 1.1 The Committee gives a guarded welcome to the two Communications from the Commission: *Towards a Deep and Genuine Economic and Monetary Union*, namely, *The introduction of a Convergence and Competitiveness Instrument (CCI)*¹ and *Ex ante coordination of plans for major economic policy reforms*². They continue the debate around two issues raised in *A Blueprint for a deep and genuine economic and monetary union: Launching a European Debate*³, namely, to complete the governance framework for economic policy coordination.
- 1.2 The Committee is disappointed that they provide little additional detail to the concepts already outlined in the blueprint, which therefore renders assessment difficult.
- 1.3 The Committee is concerned that a further complexity has been added to an already crowded agenda of economic governance instruments which include the Stability and Growth Pact

¹ COM(2013) 165 final.

² COM(2013) 166 final.

³ COM(2012) 777 final.

(SGP), the fiscal compact, the six-pack, the two-pack, Europe 2020, the European Semester, the Annual Growth Survey (AGS), the Alert Mechanism Reports (AMRs) the National Reform Programmes (NRPs), the Stability and Convergence Programmes (SCPs), the Country Specific Recommendations (CSRs), the Excessive Deficit Procedure (EDP), the Macroeconomic Imbalance Procedure (MIP), etc., with relatively little added value.

- 1.4 While recognising that these two proposals could be a help to Member States in difficulty, the Committee has a concern that their impact on restoring growth and capacity to the most needy areas may be hampered or delayed because the focus of concern is that the measures taken must **also** be to the benefit of the euro area as a whole.
- 1.5 The Committee is sceptical that Member States would agree to introducing a new financial instrument to fund the CCI and is unclear what added value it brings over existing structural funds.
- 1.6 The Committee questions how much substance the proposed ex ante coordination will add to the European Semester and what additional burden of bureaucracy it will entail.
- 1.7 The Committee is concerned that the filters used for ex ante coordination could interfere with a Member State taking reform measures because they change relative competitiveness in another Member State.
- 1.8 The Committee believes that spillovers through financial markets have no place in ex ante coordination; every effort should be directed instead at establishing a Banking Union.
- 1.9 The Committee believes proposals aimed at deepening EMU are crucially important to the future of the European Union; the Committee, therefore wishes to continue the debate and make proposals at a future date as developments evolve.

2. **Introduction of a Convergence and Competitiveness instrument (CCI)**

- 2.1 *Context:* In this Communication, the Commission proposes that a mutually agreed contractual arrangement and solidarity mechanism would be available for euro area Member States under stress that require national structural reforms for competitiveness and growth but whose lack of implementation would have an adverse spill over effect on other Member State of the euro area. It would be a dedicated system of financial support, which would initially be funded by the Multiannual Financial Framework (MFF) and eventually through a new fund/financial instrument based on Gross National Income (GNI), which would build up fiscal capacity.
- 2.2 The Committee finds it hard to judge the merits of the proposed CCI without any quantification of the proposed size or any assessment of the acceptability of such a fund to the Member States. The proposal that the fund would come, in the first instance, from the MFF, suggests it would be small and have little impact.

- 2.3 Given the great difficulty in negotiating the MFF 2014-2020, the Committee is sceptical that Member States would agree to the aim of introducing a new financial instrument to move towards greater fiscal capacity based on GNI in order to fund the CCI.
- 2.4 The Committee agrees there is merit in a mutually beneficial and accelerating convergence mechanism, but questions the necessity of introducing a new instrument, the CCI, when it is not clear how it adds value to the already existing structural fund supports such as the Cohesion Fund or European Social Fund (ESF).
- 2.5 The contractual nature of the proposed instrument seems little different from the contractual nature that already exists in the disbursement of structural funds. Some concrete examples of what kind of projects with spill-over effects would qualify and how they might differ from projects funded already under other funds are needed. The EESC is concerned that a failure to deliver on selected projects under the CCI may have other consequences on the funding of projects agreed in the NRP. It is important that this proposed instrument would add demonstrable value and not result in an added layer of bureaucracy.
- 2.6 The CCI is envisaged as an instrument for the euro area, where greater economic convergence is essential for the functioning of the euro area. Given the likely small size of the fund, the Committee suggests that it would have to be aimed specifically at those Member States in the euro area in difficulty, without excluding the possibility of supporting projects with a particularly positive cross-border impact. It would especially need to be targeted at those countries whose economic imbalances are judged to be a particular danger to the functioning of the euro area. It is not clear why Member States in an adjustment programme would be excluded from this form of support, as they are, demonstrably, the ones most in need of financial assistance.
- 2.7 If the European Semester functions as envisaged and the Country Specific Recommendations become the subject of national parliamentary debate, measures will need to be taken to ensure that a national government that signs a contractual agreement under this proposed CCI first debates it in parliament according to the practice in that Member State, just as any structural fund programme may be debated. The Commission might be invited to debate or address national/local bodies. Civil society, including the social partners, should also be involved in the discussions, as in other joint EU/national government projects. Enough time must be allowed for parliaments and civil society, including the social partners, to take part in the process.

3. **Ex ante coordination of plans for major economic policy reforms**

- 3.1 *Context:* In this communication, the Commission informs us that the concept of **ex ante coordination** of plans for major economic policy reforms was introduced in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The current

EU economic surveillance framework includes a process for economic policy coordination, it **does not provide a structured ex ante discussion and coordination** of major economic reform plans. This Communication is a contribution to the debate between stakeholders, especially the European Parliament, Member States, and the national parliaments on ways of implementing ex ante coordination.

- 3.2 The Committee is of the opinion that any meaningful improvement in the coordination of economic policy is desirable and in the euro area it is a necessity. As such the Committee welcomes the communication, while recognising coordination of individual Member State policies is a far distance from genuine economic governance. A problem in assessing the proposals is that the Communication does not provide sufficient detail on what constitutes "major economic policy reform". What is considered major, what is minor. The key reforms enumerated for consideration include almost every aspect of the Single Market, including financial and fiscal sustainability.
- 3.3 The Committee questions how this new initiative on coordinating major economic reforms will differ **in substance** from the European Semester components of National Reform Programmes (NRPs) and Country Specific Recommendations (CSRs). It must have demonstrable added value in what is an already crowded European Semester timetable. It would also be important from a transparency and simplicity perspective not to add another layer of oversight etc. The Committee believes this process must be incorporated into the European Semester and the NRPs, which need to be given more teeth; ex ante coordination could be a tangible way to achieve this.
- 3.4 The Committee accepts it may be beneficial under this new proposal, that following agreement with a Member State on its CSR, the Commission and Council could suggest modifications to the Member State's reform plans if it was expected that such implementation would impact adversely on Economic and Monetary Union or other Member States. However, **for democratic legitimacy**, the process respects national decision making powers and **the decision on the reform plan remains with the Member State itself**. The option – and the necessary time – should be provided for national parliaments and civil society, including the social partners, to be involved in the consultations. It must also be ensured that the final decision on implementing the reforms is adopted by the national parliament. The Committee is concerned that this nod to democratic legitimacy is more apparent than real as elsewhere in the Excessive Imbalance Procedure, sanctions can be applied where the Council concludes that a Member State has not taken the corrective action recommended.
- 3.5 The purpose of the ex ante coordination is to maximise positive spillovers of major economic reform plans of one Member State to other Member States and minimise negative ones. It proposes a system of three filters based on the main channels through which spillovers are transmitted. They give rise to some concerns for the Committee.

- 3.6 The first filter is trade and competitiveness. If a Member State takes successful reform measures to improve its own competitive position, then it is not excluded that this improvement will be to the detriment of other Member States. The Communication must spell out in detail under what conditions the Commission would intervene to dissuade a Member State from pursuing such measures. Also, is this only a one-sided approach? Would the Commission make recommendations to a Member State which in the past had taken measures to improve its competitiveness which now result in strong surpluses that are detrimental to the euro area?
- 3.7 The second filter concerning spillovers through financial markets, the Committee doubts has any place here. The Committee believes it would be far more effective if all available resources were directed to proceeding on schedule with implementing the establishment of a functioning Banking Union.
- 3.8 The third filter, that of political economy considerations and "domestic opposition to reform", requires explanation. The anticipated "mutual learning" and "exchange of best practice" – although valuable in themselves - are in danger of being as ineffective as the Lisbon Agenda.
- 3.9 The Committee believes it requires stronger argumentation that reforms covered in ex ante coordination should include areas where the EU does not have a competence. The defence offered for this, that the decision remains fully with the Member State, is shallow in the light of the MIP procedures mentioned above.
- 3.10 Within the framework of ex ante coordination, there should be a social dimension, especially directed towards the impacts of major economic reforms on the level of unemployment.

Brussels, 22 May 2013

The President
of the
European Economic and Social Committee

Henri Malosse
