European Economic and Social Committee

ECO/475
Euro area economic policy 2018
(Additional opinion)

OPINION

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[COM(2017) 770 final]

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Legal basis	Rule 29(a) of the Implementing Provisions of the Rules of Procedure
Section responsible	Economic and Monetary Union and Economic and Social Cohesion
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1. Conclusions and recommendations

1.1 The EESC agrees with the aims of the Council Recommendation and with some of its proposals. However, it expresses its disagreement with the proposal for the aggregate fiscal stance of the euro area to be neutral, as well as with the way that the recommendation on salaries is formulated. It thus reiterates the points it made in its earlier opinion on the Commission's proposal for a Recommendation[1].

1.2 The economic policy of the euro area should be designed as part of a project to reform the EMU that will overcome the shortcomings in terms of structure and functioning that have plagued it since its inception, and which should aim for greater integration and more democratic governance. The EESC expresses its concern about the paralysis that the reform process is currently experiencing, the lack of commitment on the part of many governments and some governments' hostility, as well as the lack of strong political leadership to overcome these issues.

1.3 The EESC believes that the Council's recommendations should be set out as part of a general economic policy strategy that uses the 2030 Agenda, the SDGs and the implementation of the Paris Agreement on climate change as points of reference. This strategy should prepare European society to embark on fair transitions towards a green and digital economic model.

1.4 The internal reasons for establishing a moderately positive fiscal stance are, in the EESC's view: the end of the ECB's expansionary monetary policy; the fact that the EU suffers from a worrying investment deficit, in particular with regard to public investment, which jeopardises its economic and social future; the fact that this investment deficit contributes, in turn, to very low growth figures for productivity; and the fact that major states in the euro area still have excessive current account surpluses.

1.5 Some of the euro area Member States with higher surpluses do not invest: they are accumulating negative annual rates of net public capital formation. The EESC believes that greater investment spending in these countries is an economic policy necessity, not only for them, but for the euro area and the EU as a whole.

1.6 For the EESC, the appropriate combination of monetary and fiscal policies to strengthen the growth of the euro area, which has been demanded in recent years by the ECB, the IMF and the OECD, is also justified by the foreseeable effects of the trade protectionism and the instability generated by global geopolitical risks.

1.7 Social and political motives must also be included in this call for a greater fiscal effort: the EU and the Member States must make a greater commitment to the fight against poverty and inequality and to increased social cohesion, in particular by providing adequate funding for the implementation of the European Pillar of Social Rights. If the EU and the Member States do not

[1] EESC opinion on the *Recommendation for a Council Recommendation on the economic policy of the euro area*, OJ C 197, 8.6.2018, p. 33.

do this, it is the EESC's view that the political crises we are experiencing will intensify and nationalist and anti-European tendencies will grow, endangering the very existence of the EU.

1.8 The recommendation to raise wages, if strictly applied, would only affect a small number of countries. The EESC considers that the effort to limit unit labour costs should not come from reducing or freezing wages, but from an increase in productivity brought about by greater investment, more innovation and better training of workers. In any case, wage levels need to be determined by the social partners through collective bargaining. The European Semester should propose legislative changes that would reinforce this collective bargaining in those states in which it has been weakened as a result of the crisis, and re-introduce it in places where it does not exist in spite of the provisions of Article 28 of the EU Charter of Fundamental Rights. Likewise, additional measures must be taken to raise the lowest wages.

1.9 Creating quality jobs should be an economic policy priority. The EESC believes that reducing the precariousness (low wages and prevalence of temporary contracts) suffered by young people in particular should also be among the European Semester's priority recommendations.

1.10 The creation of favourable environments for business investment and innovation should be promoted, in particular when dealing with the digitalisation of economic activities.

1.11 Facilitating the financing of businesses should be another of the priorities of economic policy. The EESC reiterates that the Banking Union and the Capital Markets Union are very important when it comes to financing economic activity, and expresses its concern about the delays and obstacles that the development of the Banking Union is encountering, including the volume of bad debts in some Member States.

1.12 The EESC believes that the European authorities should commit themselves effectively to the fight against misappropriation of public funds, tax fraud and aggressive tax planning, money laundering, tax havens and unfair tax competition between Member States. This is not only a requirement in terms of political ethics and compliance with laws; it is also a stabilising factor for public finances.

2. Council and Commission positions

2.1 Unlike in 2017, the Council recommendation on the economic policy of the euro area[2] (23 January 2018) does not differ substantially from the Commission proposal (22 November 2017)[3]. After agreeing that the overall fiscal stance for 2018 should be broadly neutral, the Council adds that the improving economic conditions should be used to build fiscal buffers.

2.2 In the other recommendations, the Council and the Commission agree that Member States should prioritise reforms that increase productivity and growth potential, improve the business environment, innovation and investment, and help to create quality jobs, reducing inequality.

2 Council recommendation on the economic policy of the euro area.

3 See COM(2017) 770 final.

Member States with large current account surpluses should promote wage growth, while those with deficits or high external debt should contain growth in unit labour costs. Finally, there is a call for work to continue to complete the Banking Union. The 2018 country-specific recommendations underline the EU's favourable economic situation, which, according to the Commission, should serve to reinforce the structural improvements achieved over recent years and complete the correction of macroeconomic imbalances in the majority of Member States.

2.3 The specific recommendations concern the European Pillar of Social Rights, higher quality employment and collective bargaining, and social dialogue and salary increases. Also the reform of public administrations, including measures against corruption, and of business environments, as well as improving relations between both spheres and the financing of businesses. While defending the neutral fiscal stance, it recommends reforming the pension and health systems in order to cope with the ageing population.

3. General and specific comments

Economic policy strategy and reform of the EMU

3.1 The EESC reiterates the need for a general economic policy strategy that takes into account international agreements, environmental sustainability objectives, the reduction of energy dependency, the digital revolution, and other global challenges. The EESC appreciates the Commission's initiatives in these areas but, as it stated in its opinion on the *Economic and monetary union package*[4], it feels that there is no economic strategy at European level that covers them, nor sufficient resources to finance them.

3.2 The EESC expresses its concern that the reform of the EMU is being diluted by the lack of political leadership, by the delay in adopting resolutions and by the lack of commitment on the part of many governments in the euro area; this increases the risk that the EU may not be ready for the next recession.

3.3 An economic policy that favours sustainable growth must be based as much on promoting a business environment that is favourable to investment and improving productivity as it is on fostering social cohesion, particularly through measures that contribute to the eradication of poverty and the reduction of social inequalities.

3.4 The EESC calls on the Commission to ensure the implementation of the European Pillar of Social Rights and to follow the recommendations of the EESC opinion on Funding the European Pillar of Social Rights[5], and regrets that the Council's recommendations and the Commission's 2021-2027 MFF proposal make no reference to this. Likewise, the

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4 OJ C 262, 25/07/2018, p. 28.

5 OJ C 262, 25.7.2018, p. 1.

recommendations of the high level group on investing in social care and support[6] should be taken into account.

3.5 The EESC believes that the annual recommendations on the economic policy orientation for the euro area should be set out as part of a general economic policy strategy that uses the 2030 Agenda, the SDGs and compliance with the Paris Agreement on climate change as points of reference. Economic policy must foster the construction of a sustainable European economic model, which reduces energy dependence through the use of clean and renewable energy, and which incorporates the effects of the digital revolution, ensuring fair transitions for workers.

The Council's recommendation: reasons for a moderately positive fiscal stance

3.6 The EESC reiterates the conclusions of its opinion on the *Recommendation for a Council Recommendation on the economic policy of the euro area*[7], in which the EESC expressed its agreement with the objectives of the proposed Commission recommendation and with many of its proposals, and also mentioned its disagreement with the broadly neutral fiscal stance recommended for the euro area. The EESC repeats its call for a positive aggregate fiscal stance in the euro area, mainly based on a fiscal expansion of countries with balance of payments surpluses and debt levels that are sustainable in the long term.

3.7 The EESC believes that this approach would help to overcome the negative legacy resulting from the prolonged and excessive consolidation measures that were applied in some Member States. Member States with current account surpluses should implement measures that encourage investment and sustainable social spending, and that support domestic demand and growth potential, thus facilitating rebalancing.

3.8 The EESC recognises there are limitations to a meaningful fiscal policy at the level of the EU because of the limited nature of the economic union that relies mainly on the coordination of economic policies of its constituent states compared with the full monetary union. In particular, the EESC draws attention to the fact that, to date, the Commission and the Council have paid little attention to the asymmetric nature of the European Semester process, which focuses solely on ensuring that remedial action is taken in Member States with deficit balances. The Commission and the Council should propose measures that would prevent both excessive deficits and surpluses.

The investment gap in the euro area

3.9 Another reason to question the neutral fiscal stance is the investment gap in the euro area. A return to pre-crisis levels has not been achieved. Public investment has decreased from an essentially stable level of 3.2% of GDP (in 1997-2007, and between 2009 and 2013), to a level of 2.6% of GDP in 2017 and 2018[8]. This gap is one of the most negative factors in the economic

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6 *Investing in Social Care & Support. A European Imperative*, November 2017.

7 OJ C 197, 8.6.2018, p. 33.

8 European Economic Forecast, spring 2018. Statistical annex, p. 165.

situation and represents a serious handicap for the future of Europe's economy and societies. As a result, the EESC reiterates its request[9] that the financial "golden rule" be applied, in other words that investment expenditure should not be counted for the purposes of compliance with the SGP deficit targets, bearing in mind the sustainability of public finances in the long term. The EESC draws attention to the fact that spending money on productive investment may also contribute to this sustainability.

3.10 It is important to underline that this investment gap is also found in Member States that ought to contribute to a more active European fiscal policy. A significant example might be public investment in Germany. The German public investment was 2.1%[10] of its GDP between 2013 and 2017, one of the lowest rates in the euro area. Its net rate of public capital formation (taking into account the depreciation of the capital stock) was negative (-0.08%) in the same period, as it was in 2003-2007 (-0.11%), and was only +0.06% in 2008-2012. Meanwhile, the net rate of private capital formation, which was between 6% and 8% of GDP in the 1990s, fell from 3.2% to 2.2% of GDP between 2008 and 2017. At the same time, Germany financed investments in other countries. Its balance of payments surplus – 8.0% of GDP in 2017 – is forecast to reach 7.9% in 2018 and 7.6% in 2019. The recommendations of the Council and the Commission should send an important signal and help to remedy the low domestic investment level in Germany. Improved credibility in the sustainability of economic policies should promote public and private investments also in other countries experiencing current account surpluses[11].

3.11 The EESC calls on the Commission and the Council, taking into account Article 3 of the Treaty on European Union, to treat the growth of investment rates as a priority aim of the euro area's economic policy guidelines, until they return to pre-crisis levels. This growth should be geared towards a model of sustainable development in its three dimensions: economic, social and environmental.

Economic growth and risk factors

3.12 According to the Commission's summer economic forecast[12], growth prospects point to continued growth, with some slowing down: 2.4% (2017), 2.1% (2018) and 2.0% (2019) in the euro area and 2.6% (2017), 2.3% (2018) and 2.1% (2019) in the EU27. In the rest of the world, minus the EU, growth is expected to be 3.9% in 2017, 4.2% in 2018 and 4.1% in 2019. The flexibility in the implementation of the SGP introduced by the Commission in January 2015[13] by means of the "investment clause" and the "structural reform clause" has doubtless helped to bring about these positive effects. The recent assessment of the results in the Commission

9 Made in its opinion on the *Recommendation for a Council Recommendation on the economic policy of the euro area*, OJ C 197, 8.6.2018, p. 33, and previous opinions.

10 This and all following investment data is taken from: A. Roth and G. Wolff, *Understanding (the lack of) German public investment*, Bruegel Foundation, blog post, 6 June 2018.

11 Such is the case of the Netherlands, Ireland, Malta and Slovenia in the euro area, as well as Denmark outside the euro area.

12 European Economic Forecast, summer 2018.

13 See the Commission Communication on *Making the best use of the flexibility within the existing rules of the Stability and Growth Pact*, COM(2015) 12 final.

Communication on "The review of the flexibility under the Stability and Growth Pact" indicates this[14].

3.13 The expansionary monetary policy is coming to an end. Quantitative easing will end in December when the ECB stops buying assets. As of summer 2019, following the assessment of the medium-term inflation outlook, the reference interest rates may begin to rise. The ECB president, Mario Draghi, has been insisting for several years that fiscal policy, together with appropriate structural reforms, should aid monetary policy in order to strengthen recovery and achieve the inflation targets. As have the IMF, the OECD, and many academic circles. With regard to fiscal policy, this request has not been taken on board by European policy-makers. Now that monetary policy is retreating, a more active fiscal policy in the euro area is all the more necessary.

3.14 There are other economic and social factors, and internal political imbalances, as well as economic risk factors and global geopolitical uncertainties, which should also encourage the use of fiscal policy to strengthen growth and to overcome the consequences of the crisis, which are still being felt in many European countries. What the EESC is proposing helps to better ensure medium-term financial sustainability and to reduce the imbalance of excessive surpluses.

3.15 In order to overcome and counteract the political instability and the centrifugal forces that have been growing within the EU since the crisis and questioning its very existence, there is a need for robust projects to reform the EMU and the EU involving more integration with more democracy and a stronger social dimension; there is also a need to strengthen growth by means of budgetary and fiscal policies, with a model that promotes the reduction of inequality in income distribution. This is possible without calling into question the future sustainability of public finances. A strategy to complete the EMU should also be launched, incorporating all EU Member States that are not constitutionally exempt.

3.16 Outbreaks of global geopolitical instability (some of them in the EU's neighbourhood), and the deterioration in transatlantic relations in relation to trade, the environment and foreign, security and defence policy brought about by the decisions of the current American administration, prompt the EESC to underline the importance of ensuring that the EU has a strong economy that supports its political leadership in the world. A trade war on several fronts, coinciding with a rise in economic and political nationalism, would create a high-risk economic and geopolitical scenario. The EU should try to avoid this and, if necessary, be prepared to deal with it.

3.17 Despite the rise in the price of oil and raw materials, inflation in the euro area is forecast to remain stable at around 1.7% between 2017 and 2019 (summer forecast), with core inflation (1.1%) far from the inflation target. In the EESC's view, these are new reasons to argue against withdrawing from expansionary monetary policy while taking a neutral fiscal stance, not to mention a negative one, as the European Fiscal Board is advocating for 2019[15].

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14 See COM(2018) 335 final.

15 European Fiscal Board, *Assessment of the fiscal stance appropriate for the euro area in 2019*, 18 June 2018.

Wages, employment and collective bargaining

3.18 In 2017, the average real rise in wages was only 0.2% over the previous year in the 19 euro area countries. In seven of them, wages fell. The forecast is for 0.9% in 2018 and 0.3% in 2019[16]. Real unit labour costs in the euro area are forecast to fall in the three years studied: 0.3%, 0.1% and 0.6%. On the other hand, real productivity per occupied person, which rose 0.8% in 2017, will return to 1% in both 2018 and 2019[17].

3.19 The unemployment rate in the euro area was 9.1% in 2017, which was still higher than before the crisis – 8.4% (2004-2008). The gap between Member States is very large: in 2017, the unemployment rate ranged from 3.8% in Germany to 21.5% in Greece. The youth unemployment rate remains very high – above 15% – with major disparities, and extremely high rates in Greece (43.2%), Spain (35%) and Italy (32.5%). The rate of temporary employment continues to grow: an average of 12.2%, in 2017, compared to 11.5% in 2012. Part-time work is also increasing: 19.4% in 2017, compared to 17.5% in 2007[18].

3.20 Despite the economic recovery, in many countries there is a discrepancy between previously existing jobs and newer ones, which are more precarious and offer lower wages. This gap is also generational: it particularly affects young people, as well as many workers in the digital economy whose work depends on online platforms. The recommendations made by the Council and the European Semester have revealed their concern about improving the quality of employment. The EESC calls for concrete plans and measures to ensure that this is a priority. The participation of the social partners in the adoption of the necessary measures, by means of social dialogue and collective bargaining, is essential. Likewise, it is essential that measures are taken enabling the lowest wages to be significantly increased. The participation of civil society organisations in improving workers' social and living conditions should also be encouraged.

3.21 The Council's recommendation on the rise in wages, if rigidly applied, would only affect a small number of countries and could lead to additional divergences between them as well as to an increase in inequalities. The EESC considers that the increase in productivity brought about by greater investment, more innovation and better training of workers should improve the competitiveness of the weaker European economies, as opposed to internal devaluations which, moreover, have undesirable social consequences. The increase in wages also contributes to the growth of domestic demand and promotes fiscal balance through increased tax revenues.

3.22 In any case, wage levels need to be determined by the social partners through collective bargaining. Legislation may also contribute to this in certain Member States, at least as far as minimum wages are concerned. The European Semester should encourage Member States to adopt measures that strengthen collective bargaining, based on the autonomy of the social partners as well as on social dialogue, particularly in those Member States where these have

16 European Economic Forecast, spring 2018. Statistical annex, p. 172.

17 Ibid., pp. 172-174, and Eurostat.

18 Ibid., p. 171, and Eurostat.

been weakened by crisis management policies, or where this right does not currently exist, in spite of the provisions of Article 28 of the EU Charter of Fundamental Rights.

Productivity, business environment and financing of private investment

3.23 The EESC is concerned by the decrease in the EU productivity growth rate over the last few decades. A recent OECD study[19] shows that the average growth rate in output per hour worked in the EU was 0.6% in 2007-2016 – a steady fall from the 2.2% it reached in 1990-2000. This was below the average rate for the OECD (0.8%), and far below non-OECD countries (5.0%) during the same period. Presenting the study[20], the Secretary-General of the OECD, Ángel Gurría, said that productivity growth required more capital investment in RDI and in education and vocational training, in addition to good regulation and governance. The EESC fully agrees with this opinion.

3.24 In the same study, the OECD emphasises that the EU budget is small and has been decreasing in relation to European GNI since 1993[21]. The EESC is very concerned to find that this trend would continue if the post-2020 MFF is adopted as proposed by the Commission, making it more difficult to act to achieve upwards economic and social convergence among European countries. As noted in its opinion on the *Reflection Paper on the Deepening of the Economic and Monetary Union*[22], the fact that an agreement has yet to be reached with regard to completing the EMU along the lines explored in the Future of Europe reflection papers is having a negative impact on this situation.

3.25 The EESC agrees with the Council's recommendation on productivity growth and the role that investment in RDI plays in this regard, as well as the country-specific recommendations that refer to improving public administrations and business environments.

3.26 Business investment needs to be encouraged in order to promote growth. The EESC reiterates the importance of quickly completing the Capital Markets Union and finalising the process to establish the Banking Union. The EESC is concerned about the delays that the Banking Union is experiencing – as a common protection mechanism, using the ESM, has still not been provided for the Single Resolution Fund – and about the obstacles being encountered in the effort to set up a European deposit insurance scheme (EDIS), which go beyond the justified fears that the large number of non-performing loans in some countries can cause[23].

19 2018 OECD Economic Surveys of the Euro Area and the EU. Presentation/summary, 19 June 2018, p. 21.

20 Brussels, 19 June 2018, Bruegel Foundation.

21 Ibid., OECD, pp. 25-30.

22 OJ C 81, 2.3.2018, p. 124.

23 The EESC's position on this can be found in its opinion on the *Non-performing loans package*, OJ C 367, 10.10.2018, p. 43.

The fight against tax crime and in favour of fair taxation

3.27 It is very difficult to guarantee the sustainability of public finances and to implement strong social and investment policies while the current levels of tax fraud and avoidance, money laundering by tax havens and unfair tax competition between EU states persist. In the IMF's publication *Finance & Development*, an important article[24] showed that around 40% of global FDI – some USD 12 trillion – is "phantom investment": i.e. it consists of financial investment passing through empty corporate shells with no real activity. The use of intermediaries, or pass-through entities, does not in itself imply tax avoidance, but it certainly implies more opportunities for tax avoidance and even tax evasion. The article also states that 9.8% of global wealth is in tax havens.

3.28 The EESC reiterates the need to urgently implement additional effective measures against misappropriation of public funds, tax evasion, money laundering, tax havens and unfair tax competition, starting with the implementation of the fifth Directive against money laundering and terrorist financing[25] and drawing up a single consistent and reliable list of real tax havens worldwide to which appropriate sanctions are applied.

3.29 Effective measures should also be taken to combat aggressive tax planning practised by multinational companies, particularly in the digital economy. This crucial fight must be able to blend the broad thrust of global measures with other measures that can be applied in the EU. At the same time, appropriate tax harmonisation in the euro area and in the EU needs to be progressively developed.

Brussels, 17 October 2018

Luca JAHIER
The president of the European Economic and Social Committee

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24 J. Damgaard, T. Elkjaer and N. Johannesen, *Piercing The Veil: Some $12 trillion worldwide is just phantom corporate investment*, Finance & Development, 10 June 2018.

25 Directive (EU) 2018/843, OJ L 156, 19.6.2018, p. 43.