European Economic and Social Committee

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Annual Growth Survey 2019 (additional opinion)

OPINION

European Economic and Social Committee

Annual Growth Survey 2019 (additional opinion)
(COM(2018) 478 final)

Rapporteur: **Anne DEMELENNE**

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Preamble

This opinion is part of a package of two follow-up opinions, one on the Annual Growth Survey (COM(2018) 770 final) and one on the Recommendation on the economic policy of the euro area (COM(2018) 759 final). The aim is to update and elaborate on previous EESC proposals[1]*, taking into account the latest developments and economic forecasts for the EU and the euro area, as well as the various reports and recommendations published within the current European semester. The package provides EU civil society's comprehensive economic, social and environmental policy input into the next cycle of the European semester, which will be launched in November 2019. The EESC calls on the European Commission and the Council to make use of this input in the upcoming Autumn Semester Package and the ensuing inter-institutional decision-making process.*

1. Conclusions and recommendations

1.1 This opinion of the EESC is a supplement to the opinion of the EESC on the 2019 Annual Growth Survey. It takes into account the country-specific recommendations[2], CSRs, the European Commission's communication on the European Semester and the respective Council recommendations. It covers selected economic and social issues concerning the European Semester 2019 in more depth.

1.2 The investment gap in the European Union is not closed as of yet. There is still a need for public and private investment as well as expenditure on training and education (starting from early childhood education) to improve the competitiveness of the European business sector. The country-specific recommendations have a welcome focus on investment this year. Special attention must be paid to productive investments and investment in social infrastructure to prioritise sustainable growth, and in enabling the implementation of the social pillar.

1.3 The structural reform effort of Member States needs to increase. In particular, regarding the current account surplus countries, the low compliance of Member States with the Macroeconomic Imbalance Procedure needs to be addressed for the sake of economic and political stability in the European Union and the euro area. The EESC regrets that an imbalance exists between broad unspecific recommendations with regard to important areas such as investment, the social field, and climate change, and the concrete numerical policy goals derived from the fiscal rules.

1.4 The current environment of very low interest rates has freed up funds in national budgets as a result of lower interest expenditure on government bonds. Member States should use these funds to expand their physical, digital and environmental investment expenditure as well as expenditure on training, skills and qualifications that should be regarded as investment in people and not as costs.

1.5 As regards the field of social CSRs, the larger role of the European Pillar of Social Rights and the social scoreboard is welcome. The Committee encourages the Commission to proceed with and

1 EESC opinions on the Annual Growth Survey 2019, OJ C 190, 5.6.2019, p. 24 and on Euro area economic policy (2019), OJ C 159, 10.5.2019, p. 49.

2 COM(2019) 500 final.

develop it during the next cycles of the European Semester. Should an economic downswing occur in the next years, it is important that positive social policy goals play a central role in the European Semester and are on an equal footing with other macroeconomic and fiscal goals.

1.6 Climate change has become a central issue during the last year and can be reflected more in the Semester. Recommendations for next year's cycle should contain more CSRs to combat the existential threat of climate change, if not even at least one per Member State.

1.7 Taxation needs to favour productive investment and spending in the real economy. Tax revenue should be shifted to sources other than those related to work and sustainable consumption.

1.7.1 The financialisation of parts of the European economy has put an undue burden on companies and employees alike that create employment, produce value added, and increase the real capital stock. The EESC asks the Commission to investigate the possibility of using the European Semester to promote overall stakeholder value rather than only shareholder value.

1.7.2 Various Member States have received recommendations on strengthening social dialogue in this year's country-specific recommendations. To further the involvement of the social partners, minimum standards should be introduced concerning the consultation of the national social partners by national governments at various stages during the European Semester.

1.7.3 Commission policy on public assets should be guided by the principle that the privatisation of public assets should exclude those of strategic importance and better provided by the public sector, and not occur at a net loss to the state by selling in bad economic times.

2. Background: the priorities of the European Commission in the European Semester 2019 and in the country-specific recommendations

2.1 According to the European Commission, Member States have made at least some progress with 40% of the CSRs addressed to them. With a multi-annual view, more than two thirds of CSRs have seen "some progress"[3]. While implementation is strong on financial services, progress has also been observed with regard to the promotion of job creation with permanent contracts and in addressing labour market segmentation. However, implementation remains limited and too slow in key areas necessary for the correction of macroeconomic imbalances[4].

2.2 The country-specific recommendations 2019 build on the findings of the 2019 Country Reports and include a stronger focus on investment with at least one investment-related recommendation for each Member State.

2.3 As regards the macroeconomic outlook, uncertainty has not decreased. The expected exit of the United Kingdom from the European Union and global "trade wars" caused by the United States still remain firmly on the table as downside risks to economic growth and employment in the near

3 COM(2019) 500 final, p. 3-4.

4 Efstathiou, K. and Wolff, G. (2018), "Is the European Semester effective and useful?".

future. Despite a low aggregate unemployment rate when viewed against the last two decades, several countries have not reached the employment levels from before the crisis. The GDP growth rate in the European Union is expected to be a meagre 1.4% in the EU this year and 1.2% in the euro area[5]. As the Governing Council of the European Central Bank[6] has pointed out, inflation in the euro area is still not sufficient to meet its target (of a level close to, but below, 2% in the medium term) and fiscal policy will therefore need to play its part in sustaining euro area and European Union growth.

3. General comments on the recommendations of the European Commission

3.1 *Investment*

The EESC welcomes and strongly supports the special focus of the European Commission on increasing investment in this year's country reports and CSRs. In the past, the Committee has repeatedly called on Member States and the European Commission to place a stronger emphasis on increasing public and private investment and is glad to see one of its recommendations put into practice. In line with this, investment needs to be productive and sustainable, while speculative financial and real estate investment should be avoided.

3.1.1 The investment targets as CSRs are not very concrete, in line with the practice by the Commission to set broad goals. However, this still leaves an imbalance because the fiscal targets are very concrete following the treaty prescriptions. It remains unclear how investment goals can be achieved in countries that are tightly bound by requirements of the Stability and Growth Pact. As in previous opinions, the EESC therefore recommends that investment be given a more prominent role by introducing a golden rule into the European fiscal framework[7].

3.1.2 The European Semester needs a stronger emphasis on sustainable growth guided by the UN 2030 Sustainable Development Goals, which is reflected in the EESC's demand for an Annual Sustainable Growth Survey[8]. Infrastructure investment needs to be made green and social, focusing on renewable energy just as the new Commission is considering. This should be reflected in the European Semester even more. Inspired by the welcome emphasis on investment in the CSRs this year, the EESC proposes that the European Commission and the Council evaluate whether the CSRs should contain at least one concrete ambitious goal per Member State to substantially reduce greenhouse gas emissions until the potentially catastrophic climate challenge is resolved. In that context, the EESC welcomes the fact that the ECB has invested in green bonds in its private sector asset purchase programme (APP) and is of the view that the ECB should continue and extend this commitment when it restarts its net purchases and during the reinvestment phase of its programme.

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5 European Economic Forecast. Summer 2019, European Commission.

6 Mario Draghi, president of the ECB, press conference - introductory statement, Frankfurt am Main, 12 September 2019.

7 EESC opinion on the Annual Growth Survey 2019, point 3.9.8, OJ C 190, 5.6.2019, p. 24.

8 EESC opinion on the Annual Growth Survey 2019, point 1.7, OJ C 190, 5.6.2019, p. 24.

3.1.3 Regarding concrete investment needs, the EESC asks the European Commission and the Member States to come up with a concrete plan to increase public and private investment to cover gaps that have been identified in important areas for assuring Europe's economic and social future and maintaining competitiveness in relation to China and the United States, such as investment in information technology and artificial intelligence (research, development, including IT infrastructure). Investment should also be understood to include necessary spending on education, vocational training, skills enhancement and mobility, plus support for energy-saving in industry and transport, e.g. development and utilisation of the railway network. Support for such spending should be enhanced through the use of Structural Funds. This would help competitiveness and overcome the shortage of an adequately skilled labour force, which is recognised across the EU as one of the obstacles to investment[9].

3.1.4 The Committee believes that there is room for more concrete goals and strategic priorities when it comes to reaching the broad goals of the European Council. While the EU 2020 indicators were too cursory, the broad priorities agreed to by the Council need to be made concrete and extended to other policy areas. The EESC therefore asks the Council and the Commission to develop a long-term strategy for 2030 which should be reflected in the CSRs of 2020[10]. This long-term strategy should include a vision for an economy of well-being in the European Union that includes higher investment in productive activities, better education, qualifications, skills and training, social protection, health, energy savings and affordable housing, and favouring gender equality.

3.2 *Current account imbalances*

3.2.1 The Committee welcomes the focus of the European Commission on current account surplus countries as a major macroeconomic problem of the euro area and the European Union. While former current account deficit countries have eliminated their deficits, current account surplus countries remain unwilling to take significant policy action to increase domestic demand, such as an increase in public investment, higher wages, higher government spending or lower taxes, in order to reduce their surpluses. Lower taxes are best implemented by shifting away from labour taxation and VAT to other sources of tax revenue. However, any potential reduction in the tax wedge on labour should not concern social security contributions as they serve as an important financial element for health care, pensions, accident insurance, unemployment and other social protection purposes.

3.2.2 Given the persistent unwillingness of current account surplus countries to appropriately expand their own domestic demand, current account deficit countries suffer from a lack of demand. The macroeconomic imbalance procedure (MIP) manages to highlight the problem, but is toothless when it comes to enforcement. Therefore, the implementation of CSRs is particularly weak for MIP recommendations[11]. The EESC calls on the European Council to coordinate a macroeconomic strategy in order to achieve an increase of domestic demand in current account

9 EIB Investment Report 2018/2019: retooling Europe's economy.

10 As laid out in the EESC opinion on the European semester and cohesion policy – towards a new European strategy post-2020. OJ 353, 18.10.2019, p. 39 .

11 "What drives national implementation of EU policy recommendations?", Bruegel working paper, issue 04.

surplus countries, resulting in the reduction of national current account surpluses that make up the euro area current account surplus. Within this strategy, current account surplus countries must credibly commit to reducing their surpluses in a permanent and sustainable way.

3.2.3 As the concrete form of a euro area budget instrument has been taking shape in recent negotiations, it has become obvious that the European Council has failed to agree on a meaningful euro area budget with a stabilisation function. The EESC is concerned that the macroeconomic framework is inadequate at the European level to deal with a future crisis, should the downside risks to economic growth materialise. The EESC asks the European Council to prepare an effective fiscal policy response by Member States to a potential recession together with a monetary policy response by the European Central Bank.

3.3 *Fiscal policy, public debt, and taxes*

3.3.1 The re-evaluation of government bond risk during the crisis of the euro area has introduced an additional factor of divergence. Governments with lower growth rates and higher initial debt must pay higher interest rates on their public debt, based on at times quite inappropriate financial market estimations of their fiscal situation. Attempting to rebuild fiscal buffers prematurely, or in less metaphoric words cutting spending and increasing taxes, as suggested by the Commission for Member States with higher debt, risks again curbing positive private sector dynamics and the still weak growth in some Member States. Setting required fiscal adjustment effort paths for countries with less fiscal space, but only recommendations for countries with more fiscal space, risks the overall euro area fiscal stance not being expansive enough to rein in the large euro area current account surplus.

3.3.2 In view of the re-evaluation of the role of public debt in times of low interest rates that is taking place among prominent experts on the matter[12], the EESC encourages the European Council to reflect on whether the existing fiscal framework has handicapped the necessary public investment as well as government spending for productivity-increasing purposes such as education, improving skills, life-long learning, health care and social protection[13]. As the ECB has demonstrated with its September package, it will stick to its course of very low interest rates for the foreseeable future. This has already resulted, in recent years, in lower interest expenditure by governments. The EESC asks Member States to use these available funds for increased investment.

3.3.3 The European Commission's output gap measures that are used to determine the appropriate fiscal stance are increasingly viewed as too pro-cyclical by experts[14]. Instead of independently measuring the maximum potential production of an economy through the number of unemployed and the lack of capital, the European Commission's measure relies too much on past

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12 Olivier Blanchard, "Public Debt and Low Interest Rates"https://www.aeaweb.org/webcasts/2019/aea-presidential-address-public-debt-and-low-interest-rates, January 2019, and the German debate on the value of the national debt brake started by Michael Hüther, IW Policy Paper 3/19.

13 "Germany's even larger than expected fiscal surpluses: Is there a link with the constitutional debt brake?", Bruegel.

14 "The campaign against 'nonsense' output gaps", Bruegel.

performance[15]. As a result, anti-cyclical fiscal policy in good and in bad times is made impossible when countries follow the rules of the Stability and Growth Pact. The EESC recommends that the European Commission together with Member States evaluate their procedure to calculate output gaps in light of these findings.

3.3.4 For countries that have not been able to profit from economic growth in recent years as much as one would expect, a lack of aggregate demand together with an unfavourable shift in the productive structure of the economy as regards exports have contributed to their weakness in growth. The EESC encourages the European Commission and the European Council to take into account industrial strategy and industrial policy considerations in the European Union for the next cycle of the European Semester.

3.3.5 As outlined in previous EESC opinions, aggressive tax planning and tax evasion must be prevented by Member States with a focus on tax justice and the financing of government spending.

3.3.6 The financialisation of the economy has given an undue influence to a select few financial actors over major corporations and the public sector seeking short-term profits and bonuses over the long-term needs of certain companies, their employees, and the regions in which they operate[16]. The EESC asks the Commission to investigate the possibility of using the European Semester to promote stakeholder value over shareholder value. Where applicable in Member States, the tax system should be reoriented towards promoting real physical, digital, and sustainable investment as well as investment in people, disincentivising purely financial and speculative purposes. In particular, distortions in the tax system that unduly promote and financially reward the idea of shareholder value should be pointed out and recommended for reform as a CSR.

3.4 *European Pillar of Social Rights*

3.4.1 The EESC welcomes and supports the shift in policy recommendations towards an emphasis on social dialogue, education, skills and training, health, and social protection. The Committee encourages the Commission to proceed with and develop it during the next cycles of the European Semester, particularly on the topic of sufficient minimum wages negotiated in a responsible way by the social partners ensured by law and national collective bargaining agreements.

3.4.2 The Committee welcomes the fact that the European Commission has paid special attention to how Member States deliver on the dimensions of the European Pillar of Social Rights (EPSR). The Committee recognises the particular added value created by the introduction of the Social Scoreboard indicators which highlight social developments and convergence among the EU Member States as a necessary balance to the traditional focus on economic and finance matters. The EESC encourages the Commission to continue with and develop the weight of the Pillar within the country-specific recommendations as well as consider exploring new Social Scoreboard indicators, for instance new indicators regarding collective bargaining.

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15 "Why Hysteria Over the Italian Budget Is Wrong-Headed".

16 Eric Vatteville in the journal *Management & Avenir* 2008/4 (No 18), p. 88-103.

3.4.3 The much slower convergence of salaries across countries than anticipated by European leaders and the Commission has led to stronger migration flows towards countries and regions with more jobs and higher salaries. In principle, this flow of workers towards regions that fare better economically is a key adjustment mechanism within the European Monetary Union. Due to the slow convergence in wages and living conditions, however, migration flows have been stronger than expected. At times, countries have lost a sizeable share of their working-age population to emigration, which may pose a problem for these countries in the medium run should the emigrants not return. Faster real convergence of salaries and living conditions is therefore needed among countries within both the European Union and the European Monetary Union. The EESC asks the Commission to closely report on the state of real convergence and to adapt their policy recommendations to Member States and the Union as a whole to ensure real convergence.

3.4.4 In the introduction to the Annual Growth Survey 2019, the European Commission praises the fact that growth has resumed in all Member States. Positive GDP growth rates, however, do not necessarily translate to upward social convergence. One tool to achieve the latter is collective bargaining. Therefore, the Committee asks the Commission to broaden the Social Scoreboard indicators to include measures of collective bargaining.

3.4.5 Implementing recommendations resulting from the EPSR requires adequate financing. It remains unclear how the goals of the European Pillar of Social Rights can be achieved, especially in Member States that are tightly bound by requirements of the Stability and Growth Pact. The EESC recommends that the European Commission and the Council, developing proposals from a previous EESC opinion[17], make efforts to ensure that resources are available, including the use of European Structural and Investment Funds and other EU resources, alongside inputs from private and public sources at national levels. More public investment within Member States can be facilitated by reference to a Golden Rule for public investment with a social objective, which would allow more flexibility in budget rules. Reductions in the EU budget should also be opposed when they would mean less resources for achieving the aims of the European Pillar of Social Rights. The European Union's plan for investment, supported by the European Fund for Strategic Investments (EFSI) should also be improved, following the criticisms from the European Court of Auditors in January 2019, which pointed to exaggeration in its claimed effects on investment levels[18].

3.5 With regard to the content of CSRs in the social field and taking a broader view since the inception of the Semester, Member States with low growth and higher public debt have been prescribed recommendations that encourage social devaluation[19]. Macroeconomic goals have generally taken priority[20]. In view of an uncertain economic outlook, the EESC urges the European Council to ensure that positive social policy goals receive a higher and therefore equal priority in the next years, even in times of economic crisis.

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17 JO C 262, 25.7.2018, p. 1.

18 Special Report No 03/2019 – European Fund for Strategic Investments: Action needed to make EFSI a full success.

19 Copeland and Daly (2018). The European Semester and EU Social Policy.

20 Degrye and Pochet (2018). European social dynamics: a quantitative approach.

3.5.1 Ensuring a good quality of employment remains a challenge. Forms of non-standard employment, such as temporary work, short-hour jobs, subcontracting or platform work, have expanded over the past ten years in several Member States. While workers' abilities and educational attainments have increased, the quality of jobs offered has been declining in a number of countries. This is illustrated by increasing levels in some countries of those forced to take temporary or part-time contracts because of the absence of full-time, permanent jobs, as recorded by Eurostat[21]. In some cases, these forms of employment may be welcomed by employees, but that is often not the case and new forms of employment also raise questions over provision of life-long learning to temporary and insecure workers. The EESC asks Member States to adopt timely labour protection and social security protection measures, in a European framework, to adapt to emerging forms of employment and an increasingly insecure world of work.

3.5.2 The social economy plays an increasingly important role in the economy[22]. Due to their diversity (cooperatives, mutuals, associations, foundations, social enterprises) they have large potential to contribute to boosting economic and employment growth in Europe and to strongly contribute to social cohesion in the European Union. Unfortunately, the Union has not developed an appropriate legal framework to exploit this potential within the internal market. The EESC asks the Commission to include this topic in their agenda for next term.

3.5.3 More government and company spending on education may help to avoid unemployment in the current and future digital society, industry and services society demanding highly-qualified personnel. The EESC asks Member States to make use of European funds for reskilling their workforce for the digital age.

3.5.4 Where justified in the national context, a qualitative reorientation towards a high quality vocational education away from tertiary education can be useful. An overly narrow focus on tertiary degree attainment as in the Social Scoreboard education indicators may inaccurately distort the overall picture. The EESC asks the Commission and Member States to reflect whether educational success can be measured in a better way in the social scoreboard by taking this fact into account.

3.6 *Social partner involvement*

3.6.1 The EESC welcomes the Commission's intention to deepen the dialogue with social partners and civil society including solidarity institutions, NGOs, universities, and consumer organisations, to further encourage the implementation of country-specific recommendations, including visits to Member States and bilateral and multilateral discussions.

3.6.2 In this regard, the regular informal exchange and flow of information can be improved. While supplying social partners with necessary preliminary information before major meetings to ensure a productive exchange during meetings is strong on labour market and social inclusion issues,

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21 Eurostat database, "lfsa_eppgai" and "lfsa_etgar".

22 The social economy institutions and enterprises in Europe constitute over 2.8 million organisations, employing 13.6 million people and accounting for 8% of EU GDP.

this is not the case for budgetary and fiscal issues. The EESC encourages the Commission to engage in deeper timely and meaningful dialogue with social partners outside of the formally required formal procedures.

3.6.3 Timely and meaningful involvement of the social partners in the EU Semester can be improved, as the European Commission has rightly observed[23]. While the Semester works well on the European level and in some Member States, this cannot be said to be true for all of them. The EESC welcomes the recommendations to various Member States on strengthening social dialogue in the country-specific recommendations and encourages the Member States to implement them.

3.6.4 Timely access to meaningful information and timely consultations, serious government commitment, and the capacity of social partners are issues that have hampered social partner consultations within the Semester on the national level. The EESC recommends the introduction of minimum standards concerning the consultation of national social partners by national governments at various stages during the European Semester. This includes explaining whether and why governments have deviated from the proposals of social partners. Social partner involvement must also be secured during any follow-up that evaluates the implementation of the proposals.

4. Specific recommendations

4.1 As regards the discussion in the Council on the appropriateness of widening the scope of the European Semester to cover social and economic cohesion issues, the EESC strongly supports the decision to include these issues in the Semester[24]. The EESC encourages the European Commission and Member States to continue and expand on this path for the next years, which should then also include a response to the climate challenge. The EESC also commends the European Council for calling upon Member States to draw on the Social Scoreboard, the Employment Performance Monitor, and the Social Protection Performance Monitor to guide their convergence efforts.

4.2 *Accommodation*

4.2.1 In some Member States, house prices have risen in the past years. Rents in some major and medium cities have become so high that they are taking up a strongly increasing share of income. While not the only influence, this is linked to low interest rates as monetary policy works most immediately through the housing market. The ECB's key interest rates will remain at their current levels (or at lower levels) until there has been a sustained convergence of inflation to its target (of a level sufficiently close to, but below, 2% within its projection horizon)[25]. Moreover, rising rents aggravate the problem of homelessness. The lack of data makes it difficult to closely track the evolution of the homeless in the European Union. The EESC calls on the Member States and the European Commission to improve data collection on the homeless with the goal of better

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23 Joint Employment Report from the Commission and the Council, p. 11.

24 Council Conclusions on the 2019 Annual Growth Survey and Joint Employment Report, 15 March 2019, p. 7.

25 Mario Draghi, president of the ECB, press conference - introductory statement, Frankfurt am Main, 12 September 2019.

monitoring the number, distribution, and living conditions of the homeless population in the Union.

4.2.2 To improve the energy and climate balance of housing and other buildings, changes to the tax system as well as other government incentives in Member States can be used to provide better incentives for energy-efficient refitting and new construction.

4.3 *Other reforms*

4.3.1 For several countries, individual reforms mentioned in the CSRs contain the danger of deteriorating social and economic inequality. Pension reforms must not lead to poverty in old age.

4.3.2 The privatisation of public assets should exclude those of strategic importance and better provided by the public sector, and not occur at a net loss to the state by selling in bad economic times. In principle, essential public services are most efficiently provided by the state due to the absence of a required profit that drives up cost. In cases when the quality and financing of public services does not correspond to the standards that citizens desire, the administrative capacity of providing these services effectively should be improved and the necessary financial resources to do so need to be provided. This does not preclude the possibility that individual countries may come to the conclusion to allow public-private partnerships (PPPs) tailor-made for specific services in a specific contemporaneous situation. In doing so, these PPPs must serve the public interest. Particularly in monopoly or oligopoly markets, they must not be used by special interest groups to extract rents by charging higher than necessary prices or foregoing necessary investments to keep up quality.

4.3.3 A well-designed industrial policy that serves the needs of the country can increase growth, productivity, well-being, and employment. The EESC emphasises the need for a broad discussion and concrete action on an industrial strategy at the European and Member State levels underpinned by sufficient financial resources that goes beyond a simple adaptation of European competition law to allow more mergers between multinationals.

Brussels, 30 October 2019

Luca JAHIER
The president of the European Economic and Social Committee

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