European Economic
and Social Committee

**ECO/503**
**Euro area economic policy 2020**

# OPINION

European Economic and Social Committee

**Recommendation for a Council recommendation on the economic policy of the euro area**
[COM(2019) 652 final]

Rapporteur: **Petr ZAHRADNÍK**

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| Consultation | European Commission, 06/02/2020 |
| Legal basis | Article 304 of the Treaty on the Functioning of the European Union |
| Section responsible | Economic and Monetary Union and Economic and Social Cohesion |
| Adopted in section | 04/02/2020 |
| Adopted at plenary | 19/02/2020 |
| Plenary session No | 550 |
| Outcome of vote (for/against/abstentions) | 129/10/17 |

## 1. Conclusions and recommendations

1.1 The EESC is concerned to note the euro area's economic downturn and the gradual end to a fall in unemployment, wedded to the persistent higher incidence of risk factors affecting economic performance.

1.2 However, it is the European Green Deal that the EESC sees as the backbone of the future EU and euro-area economic configuration – the potential start of a fundamental change and a turning point. Much will depend on how we deal with this change. If managed successfully, it could move Europe up a gear economically and socially; if not, its failure could fatally jeopardise the integrity of the EU.

1.3 An important marker of economic development – from both the traditional perspective and that of new elements in the European Green Deal – are the enduring geographical disparity and differences within the EU, which remain despite some relatively successful convergence over the past few years.

1.4 The EESC endorses the view that the European Green Deal could provide a platform for promoting common European added value, which is needed to help and expedite convergence.

1.5 The EESC notes that, notwithstanding persistent risk factors, particularly in some Member States, improvements have been seen in the state, stability and functioning of the financial sector in the euro area.

1.6 The EESC is convinced that the structural reforms and investments required by the European Green Deal could do much to further the economic prosperity of the euro area, including of those Member States whose growth potential is currently below average. This could help convergence within the euro area and the EU as a whole.

1.7 The EESC points out, as a matter of urgency, that meeting the European Green Deal goals will necessitate a healthy injection of funding, not all of which has yet been secured. In particular, we are concerned about the shortfall in proposed funding for the Just Transition Fund and Mechanism. National public and private resources will have to be enlisted and the mechanism provided for these to be allocated to meet the Green Deal goals.

1.8 The EESC stresses the continuing need for a cautiously aggressive fiscal policy in the coming period, especially with a view to the expected economic slowdown, while at the same time ensuring a balanced interplay between economic policy and the pillars on which the EMU is based. Adopting the "golden rule" for public investment would help to achieve these goals.

1.9 The EESC recommends that greater attention be given to tailoring the tax system to future needs, in terms both of encouraging more environmentally friendly behaviour from consumers and producers and of ensuring fair taxation that avoids exacerbating discrepancies in the level of income and wealth, as well as using legal requirements to prevent tax fraud, evasion and avoidance.

1.10 The EESC points out the need to strike the right balance between enabling financial innovation and setting rules for financial market supervision and regulation at a time when new kinds of financial platform are proliferating apace. The Committee points out the high importance of ensuring financial market stability. The Committee has, in fact, repeatedly drawn attention to hold-ups in implementing the remaining key elements that are essential to completion of the financial union.

## 2. Background

2.1 The performance of the euro area's economy is slowing down, unemployment has ceased to decline and, despite moderate growth, inflation remains low and below the inflation target.

2.2 The outlook for 2020 is associated with a higher incidence of risk factors and the resulting uncertainties. These risks may result in a longer period of weak growth and low inflation and wage growth and increasing income inequality over the coming years, unless there is a strong upturn in investment, especially in high-productivity sectors in which the euro area and the EU can compete globally.

2.3 Despite a favourable labour market, there was only a slow, moderate increase in real wages of below 1% in 2018 and 2019 – and even this remains very unevenly spread, with an imbalance in wealth distribution. In many cases, indeed, wage inequalities have risen, with real wages in some countries still lower than ten years ago. This helps swell the ranks of the working poor – those who find it difficult, despite being in work, to surmount the poverty threshold or who are at risk of social exclusion. Increasing real wages and cutting poverty are important in raising living standards and private consumption, with the benefits this has for production and growth.

2.4 The large current account surplus has decreased and the gap between the deficit and surplus Member States has narrowed slightly, primarily on account of weakening external demand. However, some Member States still have excessive surpluses. Measures to reduce them - through investments and wages - would help reverse the weak growth of the euro area.

2.5 The European Green Deal represents a fundamentally new element; it is perceived as a long-term opportunity that could already have an impact on sustainable economic growth in the short term. In the short and medium term, however, it will entail huge financial costs. Hugely important, too, will be the new instruments proposed: the Sustainable Europe Investment Plan and the Just Transition Fund.

2.6 The asymmetries in the euro area's economic development remain a challenge, caused by both the profound effects of the previous economic crisis and the diversity of structural problems in individual Member State economies, which prevent the economic potential in each Member State from being fully achieved. These asymmetries also lead to serious social consequences, in particular persistent poverty and social exclusion. Although there are currently about five million fewer people affected by these issues compared to 2012, the EESC is still entitled to ask whether, given the expected economic slowdown, there is a risk that this situation will recur, and whether the EU and the Member States are now better prepared to face this threat.

2.7 The situation, stability and functioning of the financial sector in the euro area have improved considerably since the crisis, yet risks persist and there are still areas that do not enjoy full health, particularly in the case of certain national financial systems.

## 3. General comments

3.1 The EESC notes that although the euro area is still in a period of economic growth, this is starting to weaken. At this stage, it is important to recognise that the EMU is based on a monetary and financial pillar, an economic pillar, a social pillar and a political pillar. In line with its previous opinions[1], the EESC recommends making sure these pillars are evenly balanced; neglecting or upsetting this balance could trigger dangerous disparities.

3.2 Nevertheless, the EESC feels that the European Green Deal can be seen as a fundamental parameter for the implementation of necessary structural reforms and deployment of the investment these entail. A symbiosis of the European Green Deal and structural reforms can significantly strengthen the conditions for long-term sustainable economic growth and eliminate negative social and environmental externalities along with certain other market failures – provided the UN's Sustainable Development Goals and the principles of the European Pillar of Social Rights are respected.

3.3 The EESC believes that these reforms are particularly important for those Member States whose growth potential is well below the euro area average. Robust investments targeted at productive sectors will enable them to bridge this gap in the coming decade.

3.4 The EESC strongly emphasises the importance of bearing in mind that without adequate and sustainable investments the euro area risks entering into a longer period of low potential growth and productivity, low wages, growing inequalities and unpredictable inflation.

3.5 The EESC notes that in the coming period the euro area will need to demonstrate a greater degree of accountability and sensitivity with regard to the impact of the economy on climate change. The scope and intensity of climate change currently constitute one of the most significant global systemic risks, which are known and well recognised.

3.6 The EESC believes that 2020 will most likely be a turning point, with a shift in the economic paradigm leading to the integration of environmental criteria that will form part of market decision-making. This will have far-reaching consequences far beyond 2020. This turning point is seen as crucial not only in terms of how the economic system operates, but also in terms of what economic policy is expected to deliver. The EESC warns that if this pivotal phase is mismanaged, the impact on the whole EU project could be extremely damaging. A consensus on this is therefore absolutely crucial and must be reached between a whole range of parties: between the European Commission and the Member States, for example, and between Member States themselves. This involves respecting marked regional differences and differences between the interests of various sections of civil society, and so on.

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1 OJ C 47, 11.2.2020, p.106; OJ C 353, 18.10.2019, p. 32.

3.7 The EESC therefore sees the European Green Deal and the main instruments implementing it – above all the Sustainable Europe Investment Plan and the Just Transition Fund – as an opportunity to respond to the challenges and needs that have arisen; its implementation will be an important test as to whether the interests of euro area members and the EU as a whole are coherent. In that regard, the Member States must not only defend their own needs, but also respect the needs of the other Members and seek a common position that will benefit everyone. This must involve taking account of the impact on individual segments of society, including by ensuring a fair distribution of the costs and benefits of climate policy between and within Member States.

3.8 The EESC draws attention to the fact that, given the huge challenge presented by the European Green Deal, the common resources available in the EU budget will no doubt be totally inadequate. It is therefore imperative to consider a new framework for financing common EU strategic needs that will also involve national public and private funds in this process. The EESC adds that opportunities for allocating these resources exist not only in exclusively "green areas" but also in areas that can make a significant contribution to achieving the aims of the European Green Deal, such as digital transformation, the development of network industries, and smart and sustainable transport infrastructure.

3.9 The EESC considers it essential that the investment strategies of both the euro area and the EU for the upcoming decade are carefully coordinated and that the interests of all relevant stakeholders are respected. From 2021 onwards, two new tools – the Budgetary Instrument for Convergence and Competitiveness and the InvestEU Programme[2] – will serve this purpose well, when accompanied effectively by traditional ways of managing the EU's budgetary resources, such as cohesion policy.

3.10 The 2008 economic crisis brought the process of economic convergence between the euro area countries to a halt. Generally speaking, recovery has been uneven: there are signs of recovery in central and eastern Europe, but not in the south. At the same time, the most successful countries from central, eastern and south-eastern Europe have overtaken or are catching up with some of the more traditional EU economies, and this process is likely to continue in the coming decade. However, the convergence needs to be stepped up, since significant differences between Member States persist. On this front, the EESC supports the sustainable and inclusive growth of the EU as a whole, reducing social and economic imbalances within and between Member States.

3.11 The EESC strongly emphasises the fact that the various components of economic policy need to be balanced. In particular, it is essential to use fiscal policy instruments as well, something the ECB has been calling for in recent years. The ECB is likely to continue to apply a pro-growth, accommodative monetary policy that aims not only to bring inflation closer to the inflation target, but also to maintain favourable growth conditions while ensuring financial stability. The EESC also recommends that the ECB's role as lender of last resort be consolidated.

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2 These matters were recently the focus of EESC opinions OJ C 47, 11.2.2020, p.106, OJ C 62, 15.2.2019, p. 131, OJ C 282, 20.8.2019, p. 20.

3.12 Improved fiscal discipline over the previous period makes it possible for a prudently aggressive fiscal policy to be applied in the near future, while also keeping in mind the effects of real economic slowdown in the coming years. There is now considerable room not only for investment, but also for further visibly strengthening the implementation of structural policy, with a view to increasing economic potential and eliminating persistent imbalances and manifestations of market failure, at the same time as ensuring fair working conditions and social protection. This means, for instance, supporting the functioning of effective institutions, an independent justice system that works, good public administration, solid foundations for tackling corruption, effective taxation systems, good education systems, market-conform tools to promote business, high standards in unemployment provision and strengthening the mechanisms for social dialogue, including collective bargaining.

3.13 The EESC is convinced that there is scope for further reflection on the relevance and sustainability of the existing parameters of the tax system. The euro area is characterised by a relatively high tax burden, which is also skewed towards labour taxation. At the same time, environmental and property taxes generally account for very little of the overall tax take. The EESC therefore notes the need to bring in forms of taxation that ease the tax burden on labour and raise it, for example, on speculation. It recommends introducing fair taxation arrangements, particularly in relation to new forms of the digital economy, where capital is concentrated more into the extraction of value than the production of goods and provision of services. In future, environmental taxes could be an important instrument for driving greener consumer and producer behaviour, without significantly affecting the conditions for economic growth. At the same time, the EESC notes that any changes in tax systems must avoid further aggravating the heavily skewed distribution of income and wealth. The EESC calls for efforts to be continued and strengthened in the fight against tax fraud, evasion and avoidance (aggressive tax planning), which would make the tax system more efficient. The EESC agrees with the European Commission that there should be closer coordination and collaboration between Member States in designing tax policy that helps to create fair conditions in the Single Market. The EESC also supports the European Commission in its efforts and deliberations to achieve consensus on the CCCTB and an overview of the allocation of profits between Member States. As stated in the previous opinion[3] and restated in the EESC publication *Taxation – The views of organised civil society*, the EESC states that taxation policy in general and combating tax fraud in particular must remain a priority for the next European Commission. In this line, the EESC endorses a debate on gradually shifting to QMV and the ordinary legislative procedure in tax matters, while recognising that all Member States must at all times have sufficient possibilities to participate in the decision-making process.

3.14 The EESC has repeatedly noted that the need to cultivate and improve the functioning of the Single Market, as well as to create and ensure conditions for fair competition and a quality business environment, remains fundamental. This problem can be addressed through activities and measures within the European Semester process.

3.15 The EESC is very aware that the enormous structural challenges of the European economy have inevitable social impacts and consequences. Guaranteeing and fostering the conditions for the

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3 OJ C 353, 18.10.2019, p. 90.

development of new professional skills, as well as establishing ways of moving between professions and ensuring effective and adequate social protection, are essential if these challenges are to be successfully overcome. The EESC feels that the European Pillar of Social Rights is an appropriate platform for this purpose and agrees with its provisions being incorporated into EU law.

3.16 The EESC draws attention to the mismatch between the speed of innovation in the financial sector and the ability of regulatory systems to adapt in the form of rules and protection. The traditional credit services sector seems to be very well safeguarded by increasingly stringent rules, though these necessitate high compliance costs, while the business environment would often need more flexible and accessible tools. In this sense, the Banking Union and the euro area are an important ecosystem, but we would nevertheless expect it to have more effective regulatory systems and rules to boost investment across the entire Single Market and to remove barriers so that financial markets and their operations were no longer largely constrained by national borders.

3.17 The EESC points out that, at the end of the second decade of the 21st century, the process of establishing a financial union (i.e. integrating the Banking Union with the Capital Markets Union) and an Economic and Monetary Union remains incomplete. The EESC welcomes the progress made in particular in the area of economic union, where the European Semester instrument and the continuous improvement of this instrument have undoubtedly proven worthwhile. At the same time, it notes with concern that, in the case of monetary union (both from the perspective of those Member States that are still outside the euro area, as well as with regard to progress on the euro area's external representation and administration), and in the case of financial union, no tangible progress has been made in recent months. The EESC welcomes the fact that the resilience and robustness of the euro area financial sector has increased and supports measures to mitigate remaining weaknesses. It calls for swift implementation of the European Deposit Insurance Scheme (EDIS) and welcomes the European Commission's communication on strengthening of the European supervisory and regulatory framework, including measures on money laundering.

3.18 With a view to also strengthening the EMU's political pillar, the EESC welcomes the European Commission's position on the involvement of the social partners in reforms covering employment and social and economic matters, which it sees as essential in strengthening ownership and support for the implementation of reforms. Above all, however, bringing the social partners and civil society as a whole on board is crucial to the balance between the financial, economic, social and political pillars of the EMU.

## 4. Specific comments

4.1 The EESC believes that the incorporation of a green dimension and its social ramifications into the economic system and day-to-day behaviour of economic actors and those making and delivering policy is inevitable.

4.2 The European Green Deal must be tied in with the social dimension. While we need to tackle the climate change challenge, we also have to promote inclusive growth, improve economic adaptability, curb inequalities, achieve fair working conditions for all workers, bolster education systems for training workers and address issues of poverty and social exclusion. The EESC welcomes the inclusion of the European Pillar of Social Rights and the SDGs in the European Semester process. However, this must be further formalised.

4.3 The EESC notes with keen interest the proposal to introduce the Sustainable Europe Investment Plan and the Just Transition Fund, appreciates the setting of goals for these and welcomes the measures proposed for them, such as the increase in spending from the EU budget on climate and environmental initiatives. It would add, nevertheless, that the Sustainable Europe Investment Plan will still not be sufficient. While the plan is expected to net investments of around EUR 100 billion a year, the European Commission's estimate of what is needed for reaching the EU's 2030 climate and energy targets stands at around EUR 260 billion of additional annual investment. In the light of this, the Just Transition Fund, in particular, as the core of the entire Just Transition Mechanism, should be beefed up. Forthcoming EESC opinions on these initiatives will present a more detailed evaluation.

4.4 The EESC proposes that the European Green Deal should be seen as a platform for advancing joint European added value, common needs and interests and co-investment, the proceeds of which will benefit the whole of the EU and the euro area, rather than just individual actors.

4.5 From the point of view of the successful implementation of the European Green Deal, it is very important to have a balanced approach across the EU and the euro area. The EESC considers this parameter essential in order to ensure favourable conditions for continued convergence and macroeconomic stability.

4.6 The EESC recognises that the prudent and procedurally unimpeachable functioning of national fiscal mechanisms is very important for fiscal sustainability. This could include for example, on the revenue side, the fairness and transparency of tax systems and tax compliance, and on the expenditure side, setting proper rules for public procurement and applying criteria to set out and measure the effectiveness and quality of public spending.

4.7 The EESC recommends that – as part of improving the functioning of the Single Market and its links with the European Semester through a targeted focus in the country-specific recommendations, consistency with the EU budget and strict adherence to the commitments resulting from the recommendations – a systematic assessment should be performed of the benefits of these activities in terms of achieving a fiscal capacity, boosting the competitiveness of Europe as a whole and improving environmental and social sustainability.

4.8 We should not be interested only in public debt, but also in the protection of public wealth. It is not only addressing climate change that requires significant resources. After a standstill in the volume of public investment, it is crucial to boost investment in public infrastructure (for example in digitalisation), which will not only support economic growth in the short term but also ensure longer-term production capacity for future prosperity and competitiveness. In line with the European Commission's arguments, fiscal policy requires complementarity with the ECB's monetary position. Adopting the fiscal policy "golden rule" for public investment could trigger and stimulate greater growth in public investment for this purpose, providing fiscal discipline is maintained.

4.9 To improve the elasticity and resilience of the euro area against economic shocks, an instrument should be introduced to help Member States deal with the fallout of such shocks and to make them even better prepared, on a preventive basis, for withstanding them. For this reason, the EESC welcomes both the proposed BICC instrument[4] and the agreement on the enhanced role of the European Stabilisation Mechanism (ESM). At the same time, the EESC warns of the risk of upsetting the balance between the key pillars (see above) on which the EMU is built. With regard to the management of stabilisation instruments, the EESC supports democratisation through greater involvement of the European Parliament and the social partners within the political pillar of the EMU, while respecting the principles of the European Pillar of Social Rights and the SDGs.

Brussels, 19 February 2020

Luca JAHIER
The president of the European Economic and Social Committee

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**N.B.:** Appendix overleaf

4 See EESC opinion OJ C 47, 11.2.2020, p.106.

**APPENDIX**
**to the**
**OPINION**
**of the European Economic and Social Committee**

The following paragraph of the section opinion was amended to reflect the amendment adopted by the assembly but received more than one quarter of the votes cast (Rule 59(4) of the Rules of Procedure):

3.13 The EESC is convinced that there is scope for further reflection on the relevance and sustainability of the existing parameters of the tax system. The euro area is characterised by a relatively high tax burden, which is also skewed towards labour taxation. At the same time, environmental and property taxes generally account for very little of the overall tax take. The EESC therefore notes the need to bring in forms of taxation that ease the tax burden on labour and raise it, for example, on speculation. It recommends introducing fair taxation arrangements, particularly in relation to new forms of the digital economy, where capital is concentrated more into the extraction of value than the production of goods and provision of services. In future, environmental taxes could be an important instrument for driving greener consumer and producer behaviour, without significantly affecting the conditions for economic growth. At the same time, the EESC notes that any changes in tax systems must avoid further aggravating the heavily skewed distribution of income and wealth. The EESC calls for efforts to be continued and strengthened in the fight against tax fraud, evasion and avoidance (aggressive tax planning), which would make the tax system more efficient. The EESC agrees with the European Commission that there should be closer coordination and collaboration between Member States in designing tax policy that helps to create fair conditions in the Single Market. The EESC also supports the European Commission in its efforts and deliberations to achieve consensus on the CCCTB and an overview of the allocation of profits between Member States. The EESC, supporting the Commission's initiative on qualified majority voting, considers it important that it be implemented gradually and that a broad consensus be reached on the conditions for its application.

**Outcome of the vote on the amendment:**

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| For: | 80 |
| Against: | 48 |
| Abstentions: | 21 |

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