European Economic and Social Committee

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Broad economic policy guidelines 2003-2005

Brussels, 11 December 2003

OPINION

of the European Economic and Social Committee

on the

Broad economic policy guidelines 2003-2005

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On 15 May 2003, the European Economic and Social Committee, acting under Article 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on the

Broad economic policy guidelines 2003-2005.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 26 November 2003. The rapporteur was **Mr Delapina**.

At its 404th plenary session of 10 and 11 December 2003 (meeting of 11 December), the Committee adopted the following opinion by 50 votes to five, with two abstentions:

1. **Summary**

1.1 This opinion follows on from the earlier work done on this issue and draws in particular on the EESC opinion adopted on 26 March 2003 on the broad economic policy guidelines (rapporteur: **Mr Vever**) prepared by the Committee in response to the Communication from the Commission on the implementation of the 2002 broad economic policy guidelines.

1.1.1 In that opinion, the Committee distinguished three problem areas: (i) the overall focus of the guidelines; (ii) their practical implementation and (iii) their incorporation into other policy areas.

1.1.2 The earlier opinion gave particular attention to the issue of practical implementation. Thus, the present opinion does not address that aspect in any further depth.

1.1.3 The earlier opinion also criticised the inadequate overall macroeconomic policy mix. One point made was that "in contrast to other regions of the world, the EU does not have a macroeconomic policy robust enough to jack up its growth potential, which would put it in a better position to tackle the economic downturn head-on, boost confidence and underpin internal demand".

1.1.4 The present opinion therefore seeks to focus on the EESC's earlier statements and proposals on the overall thrust of the macroeconomic policy mix. Focusing on that aspect in no way detracts from the importance attached to structural measures or to implementation at national level.

1.2 Economic growth in Europe has been at a disturbingly low level in the last three years, and the prospects for a quick, strong and sustained recovery are poor in the absence of effective domestic demand. Above all, the low level of investment gives cause for concern. Achieving the Lisbon targets by 2010 therefore seems unrealistic.

1.3 Despite their lack of success there has been no change for years in the basic thrust of the economic policy guidelines, which consist of a combination of stability-oriented macropolicies and cost-reducing measures on the supply side to increase flexibility. The theory that a policy of stability will suffice by itself to automatically generate growth has proved to be false. The shortage of demand cannot be overcome by increasing flexibility and lowering costs. A stability policy that is skewed to improving supply-side conditions has a restrictive effect. There are still no indications that macroeconomic policies in the EU are endeavouring to give growth a boost on their own.

1.4 Unlike the Commission and the Council, the EESC thinks that only by changing the basic thrust of economic policies and in particular macroeconomic policies will it be possible to eliminate within Europe the obstacles which are thwarting a sustained and more far-reaching economic recovery. The EU has to act from within if it is to steer the European economy back on the road to growth and full employment. This will require an active and coordinated economic policy which focuses on expansion and which takes account of macroeconomic interrelationships. As part of such balanced macroeconomic policies which have full employment as their declared objective, supply-side measures will be required to reduce costs and above all effective demand will have to be given a boost.

1.5 At the moment there is a particular need to strengthen investor and consumer confidence and this will require a credible economic policy. The credibility of economic policy suffers, however, if it fails to act in a situation such as the one obtaining over the last three years and continues to show restraint. A macroeconomic policy-mix which seeks to achieve growth and full employment by tackling the ongoing problem of weak demand and as a result also tackles the lack of confidence in economic operators, requires ….

1.5.1 … a stability-oriented but also growth-friendly reinterpretation of the Stability and Growth Pact aimed at increasing Member States' room for manoeuvre on taxation so that they can actively promote growth and employment;

1.5.2 … a pragmatic forward-looking monetary policy which – especially at times when there is no danger of inflation – also takes over responsibility for the development of the economy as a whole;

1.5.3 …. a suitable level of remuneration in keeping with productivity gains, and a high degree of (social) security so that the balance between competitiveness, demand and social cohesion is assured;

1.5.4 …. the appropriate coordination of these policy areas in a constructive and open dialogue.

1.6 Coordination of economic policy in the European Union has not been successful in addressing the current economic crisis. Some rules have proved to be too rigid and tailored too little to meeting practical challenges, and the interplay between the institutions also leaves something to be desired. Extensive reforms are on the agenda. These should above all provide scope for more flexible responses on the economic policy front which focus on the economic challenges of today. This is the only way in which Europe can extricate itself from the present growth and employment crisis. Given the strength that Europe has displayed in the past in combining social stability and innovation, the Committee is optimistic that the requisite reforms can be implemented successfully.

1.7 Because of the need for coordination, but also for other reasons, the 2003-2005 guidelines ought to have taken a close look at enlargement, which will drastically change the general environment in the current Member States, too. The Committee fails to understand why this was not done since the guidelines are designed to cover a three-year period.

1.8 Because of this omission alone, a minor revision or updating in the spring of 2004 will not suffice. The thorough overhaul that will be required should be used to make fundamental changes to the basic thrust of economic policy.

1.9 In presenting this own-initiative opinion the Committee is making a constructive contribution within the meaning of point 27 of the guidelines, which calls for a deeper analysis of economic developments and policy requirements.

2. Gist of the Council document

2.1 The broad economic policy guidelines have been prepared for the first time in conjunction with the employment policy guidelines ("guideline package"). The EESC described this procedure in detail in its opinion on the 2003 broad economic policy guidelines[1].

2.2 The broad economic policy guidelines are the key document for the policy coordination which marks the system of economic governance in the EU and its Member States.

2.3 The guidelines focus on economic policy's contribution over the next three years to attaining the goal set in Lisbon for the EU. The first part of the document sets out *general* guidelines which apply equally to all Member States. There is also a separate chapter on the special challenges facing the euro area. The second part contains *country-specific* guidelines for each of the 15 Member States.

2.3.1 In this opinion the EESC will consider the first part, which concerns all Member States and/or the countries of the euro area. These general guidelines are based on three pillars: growth- and stability-oriented macroeconomic policies, economic reforms to raise Europe's growth potential, and strengthening sustainability.

2.3.2 Pillar 1 (growth- and stability-oriented macroeconomic policies): in the guidelines the EU emphasises the importance of higher, sustainable growth rates. This requires sound macroeconomic conditions and a solid macroeconomic policy.

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1 OJ C 133, 6.6.2003

2.3.3 Pillar 2 (economic reforms to raise Europe's growth potential): better functioning and more competitive labour, product and capital markets are vital for a more flexible economy and higher potential growth.

2.3.4 Pillar 3 (strengthening sustainability): appropriate account must be taken of economic, social and environmental sustainability aspects in order to guarantee that the expected results are achieved in the longer term.

3. General comments

3.1 The Committee welcomes a series of improvements with regard to both the procedure for preparing the guidelines and their content.

3.1.1 The synchronisation with the employment policy guidelines, which has been called for on many occasions, is to be welcomed, for apart from labour market measures a successful employment policy requires in particular growth- and employment-oriented macroeconomic policies.

3.1.2 Also to be welcomed is the fact that the guidelines are now to be formally valid for three years, since a stable environment can be provided by a medium-term approach to economic policy. However, economic policy's ability to act in the short term must not be undermined.

3.1.3 The guidelines are also enhanced by the fact that the euro area is dealt with in a special section which refers to the specific challenges facing this area.

3.1.4 A further pleasing fact is that there is a section on sustainability which not only deals with matters relating to the funding of pension systems and environmental sustainability but also emphasises the importance of economic and social cohesion.

3.1.5 Section 4 of this opinion lists a large number of other points of detail on which the EESC agrees with the guidelines.

3.2 The Committee will, however, explain once again below that the general macroeconomic policy thrust on which the guidelines are based is not adequate for mastering the main challenges and providing more growth and employment[2]. The practical aspects – i.e. the shortcomings

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[2] Cf. for example:

OJ C 139, 11.5.2001, opinion on the 2000 broad economic policy guidelines (ECO/046)

OJ C 48, 21.2.2002, opinion on world economic changes: new economic challenges for the European Union (ECO/086)

OJ C 85, 8.4.2003, opinion on economic governance in the EU (ECO/095)

OJ C 133, 6.6.2003, opinion on the 2003 broad economic policy guidelines (ECO/103)

CESE 1069/2002, resolution addressed to the European Convention in implementing the guidelines – have already been dealt with in detail by the Committee in a separate opinion[3].

3.2.1 According to the European Commission's recent autumn forecasts, economic growth in Europe will be very low in 2003 for the third year in a row, falling well short of Europe's potential. As a result of the poor economic growth there will be a drop in employment in the euro area this year. The unemployment rate will be 8.9% in 2003 and increase to 9.1% in 2004, a rise of 1.1 percentage points over 2001.

3.2.2 The slump in domestic demand was the main reason for the sharp downturn in the business cycle in 2002. Consumers were much more reluctant to spend and above all corporate investments fell sharply in the face of poor sales prospects. In the meantime the confidence of private households and businesses has improved somewhat, but there is still no sign of a self-sustained cyclical upturn in 2004 either. With domestic demand continuing to be weak, there is a possibility of a slight export-driven recovery, but not of a return to potential growth yet. Such a return – along with a drop in the unemployment rate – is not expected by the Commission until 2005, but even then it will be extremely risk-laden.

3.2.3 Such weak economic growth in three consecutive years implies welfare losses roughly on the scale of the 1975, 1981 and 1993 recessions. However, unlike those "full-blown" recessions, the present "insidious" crisis is not attracting sufficient attention. The current economic crisis has a highly adverse effect on the labour market and public budgets. Rising unemployment, a shrinking labour supply and growing public deficits are, however, not merely short-term phenomena; they also have adverse effects in the long term.

3.2.4 Thus, the aim of turning Europe by 2010 into the world's most competitive and dynamic knowledge-based economy capable of sustainable economic growth with more and better jobs and greater social cohesion fades even further into the distance. To achieve this aim, annual growth rates of 3% will be necessary between now and 2010, but the current crisis, which has been going on for at least three years, has already made this impossible in the absence of an active economic policy. The GDP growth rates achieved so far have been totally inadequate for solving the EU's priority problems (such as consistently high unemployment, income and regional disparities, poverty and exclusion, and the precarious labour market).

3.2.5 This ought to have been an opportunity once again for revising the EU's overall economic policy strategy, i.e. the Member States' and the Community's economic policy guidelines, and switching to an expansionary course in individual policy areas. However, this has not been done, and instead the basic thrust remains unchanged, thereby accentuating the trend towards stagnation. The basic macroeconomic policy-mix for tackling the EU's main challenges has remained practically the same for years despite its unsuccessfulness.

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3 OJ C 133, 6.6.2003, opinion on the 2003 broad economic policy guidelines (ECO/103)

3.2.6 The Commission (COM(2003) 170 final: Commission recommendation of 8 April 2003 on the broad economic policy guidelines) and the Council of the European Union (recommendation of 26 June 2003 on the broad economic policy guidelines) are right to emphasise the importance of macroeconomic policies for the promotion of growth and employment, but they do not criticise the de facto abstinence of macroeconomic policies. They continue to opt for an economic policy model, mainly aimed at boosting economic growth with the aid of cost-cutting measures and greater flexibility. Such a macroeconomic model with its three component parts (monetary, fiscal and wage policy) remains restrictive in its approach. The general thrust of the economic policy recommendations offers no promise of success; it is imbalanced and inadequate, for it focuses on the supply side and fails to take account of the need for the balanced development of supply- and demand-side factors in the economy in order to be able to exploit its growth potential.

3.2.7 The Commission's and the Council's failure to recognise that this approach to economic policy has contributed, alongside geopolitical and exogenous factors, to the current weak growth is clear from the Commission's explanation of the causes (cf. The EU Economy 2002 Review and the Spring 2003 Economic Forecasts). The Commission quite rightly lists geopolitical tensions, uncertainties brought on by exogenous factors (stock markets, oil price) and structural rigidities as causes, but it does not recognise that Europe's weak growth is also attributable to the fact that Europe is the only region in the world not to have opted for expansive macroeconomic policies clearly geared to growth and instead is sitting back and waiting to be able to take part in the economic recovery in other regions of the world. The policy-mix which the Commission and the Council have been proposing for years now has proved to be incapable of generating enough domestic demand to stimulate the readiness to invest. For all the recommended supply-side measures for bringing about structural improvements remain ineffective if demand and market expectations do not rise accordingly.

3.2.8 One noteworthy fact in this connection is that the OECD definitely appears to regard the varying trends in demand in individual regions of the world as a reflex reaction to the different courses steered by macroeconomic policies, which in some regions have given demand a considerable boost (cf. OECD Economic Outlook No. 73, executive summary).

3.3 The Committee therefore calls for a more even policy-mix which establishes balance between supply- and demand-side factors and between microeconomic and macroeconomic factors. The macroeconomic policy thrust recommended by the Committee is set out in points 4.1 to 4.3 below. A growth initiative in the form of a joint European investment programme would be a sensible adjunct in this context. In addition, the proper implementation of the recommendations at national level should be demanded. At a microeconomic policy level there is a need in particular for businesses to adapt efficiently in terms of technology and competitiveness so as to be able to make better use of existing production potential and hence increase their productivity.

4. Specific comments

4.1 Monetary policy

4.1.1 The monetary policy guidelines are traditionally very meagre. They merely make the standard point that monetary policy is geared to price stability and – if this is not threatened – also supports general economic policy. It would seem that no clearer recommendations are made because the ECB could see its independence threatened.

4.1.2 The aim of monetary policy at all events should be to strike a balance between price stability, economic growth and employment. However, the policy-mix recommended by the Council fails to include a clear call to the ECB to also assume its responsibilities in relation to the real economy (growth and employment). It would make sense to oblige the ECB to target stability in the wider sense, i.e. not only monetary stability but also stability in terms of growth, employment and social cohesion. The European Economic and Social Committee has itself already demanded on several occasions that growth and full employment must also be monetary policy objectives (e.g. the Committee's resolution of 19 September 2002 addressed to the European Convention).

4.1.3 In order to retain the confidence of investors and consumers, a responsible and pragmatic monetary policy which also keeps an eye on real economic trends must send out credible signals even in the event of the threat of a downturn to show that it intends to take resolute counteraction. Even though it is necessary to take account of the differing environments when making international comparisons, it is a fact that such a monetary policy contributed in no small measure to the prolonged US economic boom in the Nineties. Since the summer of 2001 the ECB has failed to seize this opportunity. Even before the September 11 terrorist attacks, the economy was stagnating in all three major regions of the world. Whereas there was massive intervention on the monetary policy front outside Europe, the ECB reacted too late and too little. Not cutting interest rates until half a year after the start of a downturn is not helpful if the confidence of investors is to be bolstered.

4.1.4 With consumer and investor activity weak and the euro exchange rate high there is no general danger of inflation in Europe at the moment. This being so, the ECB's policy on interest rates seems to be unduly hesitant in 2003, too (cf. OECD Economic Outlook No. 73). Interest rates in Europe are comparatively high in global terms and attract capital flows, thereby contributing to a high euro exchange rate and – quite apart from causing a rise in prices - also reducing the export opportunities for Europe's businesses.

4.1.5 The Committee would also suggest that the ECB's inflation target should be overhauled. A target bracket (similar to the ones in the United Kingdom and Sweden) would allow more flexible adjustments to be made. If inflation rates in individual countries differ greatly, this could pose a threat of deflation in countries with very low price increases. However, this is something which must be avoided since otherwise monetary policy instruments would lose their effect.

4.1.6 The call made in the guidelines for improved and efficient macropolicy coordination must logically also include an obligation for monetary policy to be coordinated with other policymaking areas. It would be quite feasible to fully engage the ECB in a open, permanent dialogue about the economic situation and economic policy options without its independence being encroached upon in the process. It is necessary at all events to preserve the independence of the individual players involved in this coordination process.

4.2 **Budgetary policy**

4.2.1 In a monetary union it makes sense to coordinate Member States' budgetary policies if a stable trend in the economy and an improvement in the employment situation are the goals. However, recent events in the ongoing economic crisis point to the inadequacy of the present method used for coordinating budgetary policy under the Stability and Growth Pact.

4.2.2 However, the EESC thinks that if such coordination mechanisms are forever being discussed and called to question, considerable harm will be done to the economy. It would therefore urge that the outstanding issues surrounding the wording and interpretation of the Stability and Growth Pact be clarified as quickly as possible.

4.2.3 With regard to fiscal policy, the guidelines emphasise once again the importance of rapidly meeting the medium-term balanced budget requirement agreed on in the Stability and Growth Pact. Moves to balance public budgets at times of economic stagnation threaten, however, to culminate in a further dampening of economic growth and a rise in unemployment. The pursuit of such a fiscal policy fails to take sufficient account of the high and still mounting unemployment in the EU. A reduction in unemployment would go a long way towards securing the sustainability of public budgets.

4.2.4 Budgetary policy must also be clearly committed to the "growth and employment" targets. However, fiscal policy – not least because of self-imposed constraints - has tended to have a more procyclical effect, since the tendency to save has been particularly marked during downward phases.

4.2.5 In recent months a more flexible approach to the Stability and Growth Pact has been proposed by the Commission and adopted by the Council - inter alia in the guidelines. The Committee welcomes this. Particularly positive are: the affirmation supporting the full play of the automatic stabilisers; the avoidance of procyclical behaviour; and the emphasis on the role of debt ratios vis-à-vis new indebtedness.

4.2.6 The basic problem with the Pact (low GDP growth results in higher deficits; subsequent expenditure cuts curb demand and hence growth) still remains unresolved, however. Following the failing in the past to trim public deficits during periods of strong growth, the guidelines are now calling for a gradual reduction in the structural deficit of 0.5 percentage points per year as an interim solution in the countries of the euro area; such a reduction is, however, also counterproductive during a recession, since further demand is suppressed in line with the trend, thereby dampening the business cycle. Therefore the Committee would press for a further reinterpretation of the Pact, which allows fiscal policy to cater for differing economic situations.

4.2.7 It is frequently argued that the credibility of budgetary policy plays a key role in connection with the urgent need to strengthen investor and consumer confidence and that this credibility is under threat unless massive cuts are made in expenditure. In reply to this, the Committee would argue that the credibility of such a policy is bound to be enhanced if – at a time when demand is extremely weak – economic policy actively demonstrates its willingness to act in order to promote growth and employment. It is not plausible in the EESC's eyes for the international financial markets to welcome savings which deepen a crisis, and yet criticise a growth-oriented course.

4.2.8 Above all, it would be desirable for the policy of considering balances indiscriminately to be replaced by an approach which takes greater account of the structural and qualitative aspects of public budgets. An attempt should be made to make the structure of both revenue and expenditure more growth- and employment-intensive. Basically, public expenditure on large-scale investments which benefit several generations should also be spread over several generations for the sake of fairness. In practice, however, such proposals face numerous unsolved problems. These are partly of a technical nature (e.g. questions of definition and demarcation) and partly of a political nature. Therefore the EESC is currently considering the subject of budgetary policy and investment in an own-initiative opinion[4].

4.3 Wage policy

4.3.1 Wage policy's responsibility for overall economic developments was enhanced with the arrival of monetary union. Previously, exchange-rate adjustments were able to compensate for a misguided wage policy which did not reflect overall economic conditions. It is now no longer possible to make such corrections.

4.3.2 Since monetary policy and budgetary policy are not critically addressed to a sufficient degree in the guidelines, it follows that the guidelines impose a disproportionate responsibility for the overall development of the economy on wage policy. The importance of wage policy in the policy-mix would be reduced, however, if monetary and budgetary policy were to take on their proper role with regard to the whole system.

4.3.3 The Committee generally welcomes the call made in the guidelines for nominal wage increases to be consistent with productivity gains and inflation in the medium term. However, if the repeated call for wage moderation and restraint means that wage increases should be lower than the growth in productivity, the Committee cannot give its approval, since as a result the balance between supply- and demand-side factors would be destroyed.

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4 R/CESE 798/2003 rev., opinion on budgetary policy and type of investment (ECO/105) – rapporteur: **Ms Florio**

4.3.4 Seen simply as a supply-side factor, lower wage increases reduce the relative costs of the factor labour and can therefore boost employment. However, this overlooks the fact that wages are not only a supply-side cost factor but also have an effect on the demand side as the most important factor determining domestic demand. Considerable wage restraint therefore weakens overall demand and thus growth and employment, too. In overall economic terms, a policy of basing wage increases in the medium term on the overall gain in productivity throughout the national economy therefore guarantees that a balance is maintained between giving demand a sufficient boost and maintaining competitive prices. It is therefore consistent with the call for a responsible wage policy, which takes on responsibility for both the supply side *and* the demand side and hence for growth and price stability, too. The corresponding institutional prerequisites are naturally needed for this.

4.3.5 The parties negotiating collective wage agreements are vital participants in the macroeconomic dialogue and as such are involved in the process of coordinating economic policies (see 4.6.4 below). By analogy with the comments made in 4.1.6 on the ECB's independence, the Committee would emphasise that in wage negotiations the independence of the negotiating parties must be respected. The approach to wage policy described above can serve to show how, despite the negotiating parties preserving their autonomy in full, it would be possible to reach a certain understanding on fundamental interrelations and thus improve macropolicy coordination.

4.4 Economic reforms

4.4.1 Labour markets

4.4.1.1 The Committee emphasises the need for better use of human resources and a higher employment rate. The guidelines list a number of measures which can contribute. These include, in particular, promoting the quality of education and training, modernising the labour markets and work organisation, increasing mobility, reviewing the effects which taxes and benefits have as incentives, and developing social infrastructure, thereby, for example, allowing working parents to reconcile working and family life.

4.4.1.2 The EESC would stress that the social partners must be fully involved in these steps to modernise, which must maintain the social balance, take the fundamental interests of the labour force into account, and guarantee a high degree of social security. After all, social cohesion is one of the explicit objectives of EU policymaking.

4.4.1.3 The principles of wage policy have already been described above in 4.3.

4.4.2 Goods, services and capital markets

4.4.2.1 Increasing the EU's growth potential requires that productivity and business dynamism be given a further boost. A prerequisite for this is that the advantages of the internal market be exploited more consistently, e.g. by increasing the transposition rate for internal market directives.

4.4.2.2 Investment is the key to increasing productivity. Apart from growth-enhancing investment in physical capital, this means more investment in knowledge and skills, i.e. in human capital. Access to, and more widespread use of, new technologies should also be supported. In the field of European infrastructure investment, the EU level shoulders a major responsibility for driving key projects forward (e.g. trans-European networks).

4.4.2.3 In the services sector, the guidelines rightly call for a precise study of the effects which a full opening-up of markets may have. The importance of the services sector for creating added value and employment is much higher in the USA than in the EU. Many services which are provided via the markets in the USA are paid for out of budgets in Europe. However, there are also considerable differences in service provision breakdown within the EU. In Scandinavian countries a wide range of social services are provided by the public sector. A more precise analysis of the possibilities for expanding service provision in the EU must consider efficiency-related issues but above all must pay special attention to questions relating to general availability (universality) and the quality of services of general interest. The effects of the relatively uneven charges on the factors labour and capital should also be studied in greater detail.

4.4.2.4 A supportive environment for entrepreneurship and business start-ups is also needed. This includes a clear and as simple as possible regulatory environment and tax system and improved access to funding – something which is particularly important for SMEs.

4.4.2.5 A "business – or enterprise-friendly" climate is normally equated with better functioning markets, deregulation, liberalisation and more competition. The Committee underlines the need for reforms which must be aimed at making regulatory systems more efficient. However, the Committee cannot support a general indiscriminate call for State withdrawal and a general reduction in State intervention. It emphasises the important role of public intervention in areas such as research and development, structural policy, regional aid and environmental policy. In addition, growing liberalisation increases the need for independent and capable competition and regulatory bodies which make for an orderly transition and effective monitoring of the liberalised sectors on the basis of democratically formulated and generally applicable principles.

4.5 **Sustainability**

4.5.1 **Old age provision**

4.5.1.1 Increasing employment rates is the first point in the three-pronged strategy agreed on in Stockholm for meeting the challenges of an ageing society. The Committee would stress the urgency of this task, since every increase in the number of people paying into pension systems reduces the need for measures on the benefits side. In this context the Committee would refer to the importance of social infrastructure (cf. 4.4.1.1 above) and of retraining measures. The Committee welcomes the call made in the guidelines for the impact of immigration to be examined. Apart from economic aspects, it is necessary in this context to also analyse the effects on social cohesion in both the country of origin and the country of destination. The age of people entering the labour market is also important for the development of employment rates.

4.5.1.2 The government debt ratio is the second point in the Stockholm strategy. Here the Committee would refer to its view expressed above in 4.2.3 that the debt ratio is more important that new indebtedness.

4.5.1.3 The third point focused on in safeguarding pensions is the reform of pension systems. The Committee agrees with the guidelines that increasing the *effective* retirement age is a fundamentally sensible objective provided that this is voluntary and of benefit to individual workers. The implementing proposals must, however, bear in mind that there are no suitable jobs for many elderly persons who would like to work. Without sufficient jobs, the call for a higher effective retirement age would mean rising unemployment among the elderly and/or cuts in pensions. The same applies to the call for more flexible systems. With a view to enhancing the sustainability of pension systems, measures should be developed to help regularise precarious employment and undeclared work.

4.5.1.4 There is an urgent need in the longer term to raise the de facto age of retirement. So that this has no disadvantages for the parties concerned, special measures for older workers will be necessary. These include improvements in further training, greater flexibility in the organisation of working time, and improvements in health care. In this context the Committee would refer to a number of its opinions which address the problems of older workers[5].

4.5.2 **Economic and social cohesion**

4.5.2.1 The Committee unreservedly endorses the view expressed in the guidelines that jobs are the best protection against poverty and exclusion. Therefore, economic and social cohesion is a further reason why a general economic policy geared to growth and employment should be given top priority.

4.5.2.2 To support macroeconomic policies, there is a particular need in lagging regions for an improved education and training structure and investment in infrastructure and R&D. With regard to the reform of social protection systems and labour markets called for in the guidelines, the Committee would refer to its comments in 4.4.1.2 above.

5 OJ C 14,16.1.2001, opinion on older workers (SOC/039)

OJ C 48, 21.2.2002, opinion on economic growth, taxation and sustainability of pension rights in the EU (subcommittee)

OJ C 48, 21.2.2003, opinion on supporting national strategies for safe and sustainable pensions (SOC/085)

4.5.3 **Environmental sustainability**

4.5.3.1 The Committee underlines the need – and therefore endorses the efforts – to consider economic and environmental concerns together. With due regard for the Kyoto protocol, further efforts must be made to make more efficient use of energy and raw materials and to make greater use of renewable energy. The Committee would reaffirm that as a rule environmental objectives cannot be achieved without State intervention, since natural resources and the environment are "public property".

4.5.3.2 The Committee also endorses the efforts to apply the polluter-pays principle systematically and internalise external costs, i.e. prices should reflect the cost to society of extracting and using natural resources and their final disposal (including long-term permanent storage costs).

4.5.3.3 In addition, the Committee welcomes the fact that particularly in the transport sector the true cost is to be applied more. In this sector, too, intermodal distortions in demand are to be reduced by internalising external environmental costs.

4.6 **Economic policy coordination**

4.6.1 A coherent economic policy is needed at all levels if Europe is to be able to successfully master the numerous challenges in the global environment in which systems and locations for businesses compete. The basis must be provided by suitable Treaty provisions. A coordinated economic policy must be built up at European level on that basis to meet the requirements of an economic and monetary union. The Committee's detailed comments on the equally important role and responsibility of national policy are to be found in its March 2003 opinion on the implementation of the 2003 broad economic policy guidelines[6].

4.6.2 The Committee has already stressed on several occasions that the EU's economy suffers from the fact that even though it has been possible to introduce a monetary union successfully in 12 countries, these do not have a properly coordinated, let alone common economic policy. The EESC is commenting in this opinion on the economic policy guidelines. It therefore does not address the coordination or standardisation of economic policy, which extends beyond the scope of this document. Such matters include in particular the EU's economic constitution and institutional reform, which will have to be clarified at the current Intergovernmental Conference on the basis of the draft constitution presented by the Convention. On these matters, including the restoration of the Commission's right of proposal, the Committee would refer to numerous earlier opinions[7].

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6 OJ C 133, 6.6.2003, opinion on the 2003 broad economic policy guidelines (ECO/103)

7 OJ C 125, 27.5.2002, opinion on the ESC's contribution to the economic policy guidelines for the Member States and the Community in 2002 (ECO/088)

OJ C 221, 17.9.2002, opinion on the coordination of economic policies in the long term (ECO/089)

OJ C 85, 8.4.2003, opinion on economic governance in the EU (ECO/095)

4.6.3 A joint European investment programme for infrastructure projects, as proposed by the Italian Council presidency and taken up by the Commission and the Council, should be carefully discussed and examined as, if properly organised, this could be a major step towards strengthening Community economic policy.

4.6.4 The EESC expressly welcomes the call made in the guidelines for the various players to coordinate economic policy more closely. Both in connection with wage policy and in the chapter on the euro area, it is pleasing to note that the guidelines stress the importance of the macroeconomic dialogue (Cologne process) for promoting a more balanced economic development. The Committee calls on national governments to assume their full responsibilities vis-à-vis the European economy and to use the possibilities available to them for taking action, though naturally without encroaching on the independence of the individual players.

4.6.5 Another positive fact is that the guidelines emphasise the role of the social partners in this coordinating process. In the EESC's view the tripartite social summit held to prepare for Council meetings should also become a fully-fledged consultative forum for growth and employment.

4.6.6 The Committee would stress that better economic policy coordination basically concerns the whole of the European Union and is not only a requirement for the euro area.

4.6.7 In this context it seems surprising that though the guidelines cover a period of three years, they mention in only one single sentence the fact that ten new Member States are to accede to the EU in a few months. It is simply stated that these countries are being asked to conduct their policies along the lines of the guidelines and will be considered more closely in the updated guidelines in 2004. Since the general environment in the current Member States, too, will also be drastically changed in the wake of EU enlargement, the EESC considers this approach to be lacking in foresight.

4.6.8 Above all, economic policy coordination – which is already inadequate – will be made much more difficult by enlargement. This is because as a result of enlargement there will be a new need for coordination in two areas: firstly, within individual policymaking areas (for example, the internal coordination of wage policy) and secondly, between the three main macroeconomic policies, where the differences will increase appreciably as a result of enlargement.

4.6.9 There is an instrument for coordinating economic policies - the Stability and Growth Pact - but Committee warns against its unduly rigid interpretation, especially in the new Member States. After all, it is possible that the new Member States will attempt to meet the criteria for EMU membership as quickly as possible and in so doing will adhere closely to the criteria governing the Stability and Growth Pact. This could curb the investments that are required to make up for the great shortcomings in infrastructure and underdeveloped social systems.

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The President of the European Economic and Social Committee	The Secretary-General of the European Economic and Social Committee
Roger Briesch	**Patrick Venturini**