Centrum für Europäische Politik

COMPLETING ECONOMIC AND MONETARY UNION 1: ECONOMIC UNION

cep**PolicyBrief** No. 2015-20

KEY ISSUES

Objective of the Measures: The five Presidents want to create an Economic Union. The Commission has submitted initial proposals for its implementation.

Affected parties: All citizens and companies

Pro: –

Contra: (1) National Competitiveness Boards will have no significant influence on the policy of those Member States that are not willing to undertake fundamental reforms.

(2) Coordination of the Boards by the Commission may either promote or hamper reforms depending on political expediency.

CONTENT

Title

Report of 22 June 2015 **Completing Europe's Economic and Monetary Union**, submitted by Jean-Claude Juncker, President of the European Commission in close cooperation with Donald Tusk, President of the European Council; Jeroen Dijsselbloem, President of the Eurogroup; Mario Draghi, President of the European Central Bank and Martin Schulz, President of the European Parliament;
Communication COM(2015) 600 of 21 October 2015: **Steps towards Completing Economic and Monetary Union;**
Recommendation COM(2015) 601 of 21 October 2015 for a Council Recommendation on the **Establishment of National Competitiveness Boards within the Euro Area**

Brief Summary

► **Context and Objective**

– In the Five Presidents' Report of June 2015, the Presidents propose the creation of four Unions:
  - an Economic Union (this cep**PolicyBrief**),
  - a Financial Union (see cep**PolicyBrief**),
  - a Fiscal Union (see cep**PolicyBrief**) and
  - a Political Union (see cep**PolicyBrief**).
– The objective is to strengthen "economic policy coordination, convergence and solidarity" in the eurozone (p. 2 Five Presidents' Report).
– The four Unions will be achieved in two stages (p. 5 Five Presidents' Report):
  - Measures under Stage 1 will be completed by 30 June 2017.
  - Measures under Stage 2 will be completed by 2025 at the latest. Some of these measures require "changes" to the current "EU legal framework".
– The Commission submitted the following documents in October 2015 aimed at setting out the details of Economic Union:
  - a Communication on all four Unions [COM(2015) 600] that also deals with the creation of the Economic Union and
  - a Recommendation for a Council Recommendation on the "Establishment of National Competitiveness Boards within the Euro Area" [COM(2015) 601].
– The following analysis deals with the proposals contained in the Five Presidents' Report regarding Economic Union and the accompanying Commission proposals. Economic Union includes, in particular, [p. 7 et seq. Five Presidents' Report, p. 3 et seq. Communication COM(2015) 600, Recommendation COM(2015) 601]
  - the creation of independent National Competitiveness Boards (Stage 1),
  - a stronger focus on the "challenges" for the eurozone in the European Semester (Stage 1),
  - a stronger focus on employment and social policy (Stage 1),
  - promoting convergence and national structural reforms (Stage 1) and
  - a more transparent application of the Stability and Growth Pact (Stage 1).

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- **Creation of independent National Competitiveness Boards**
  - In its recommendation for a - non-binding - Council Recommendation, the Commission suggests independent National Competitiveness Boards in all eurozone countries. Non-eurozone countries are also "encouraged" to introduce such Boards. [Nos. 1 and 2 COM(2015) 601]
  - The Boards will [Nos. 3, 7 and Recital 4 COM(2015) 601]
    - monitor the development of national competitiveness - "price and quality of goods and services" - relative to global competitors, whereby they will take particular account of wage dynamics, investment, innovation and the attractiveness of the country for businesses and investment,
    - consult relevant stakeholders such as the social partners,
    - monitor political measures on national competitiveness and evaluate them ex post and
    - formulate policy recommendations on the subject of competitiveness and on implementing country-specific recommendations.
  - The analyses and recommendations of the Boards [p. 10 COM(2015) 600]
    - will be taken into account in wage negotiations and
    - will not harmonise national wage setting systems.
  - The Boards will not aim to "interfere with the wage setting process" [p. 10 COM(2015) 600].
  - The analyses and recommendations will be published in an annual report [No. 5 COM(2015) 601].
  - In order to ensure the independence of the Boards, they will [No. 6 COM(2015) 601]
    - nominate members only on the basis of their experience and competence,
    - be independent from public authorities that deal with issues of competitiveness
    - be given adequate resources and "access to information".
  - The Commission will coordinate the Boards in order [No. 9 COM(2015) 601]
    - to facilitate consultation between the Boards and
    - to ensure that their work takes account of eurozone and EU objectives.

    Coordination by the Commission will take place "ahead" of the production of the annual reports.
  - The analyses and recommendations of the Boards will be used [No. 10 COM(2015 601]
    - in the analyses which the Commission prepares in the European Semester - an annual EU procedure to coordinate the economic and fiscal policies of the Member States - and
    - for the macroeconomic imbalance procedure.

- **Stronger focus on the "challenges" for the eurozone in the European Semester**
  - The European Semester [COM(2010) 367, see cep**PolicyBrief**] will be structured so that Council discussions and recommendations about the eurozone take place first, ahead of discussions about the individual eurozone countries. This will ensure that the country-specific recommendations reflect the recommendations for the eurozone [p. 4 COM(2015) 600].
  - In the Annual Growth Survey - marking the start of the European Semester - the Commission will therefore put specific focus on the key fiscal, economic, social and financial "priorities" for the eurozone [p. 4 COM(2015) 600].

- **Stronger focus on employment and social policy**
  - The Commission will place a stronger focus on employment and social issues by [p. 4 COM(2015) 600]
    - giving specific recommendations on both areas to the Member States,
    - carrying out social impact assessments for macroeconomic adjustment programmes,
    - consulting social partners during the European Semester and calling on Member States to allow social partners greater involvement in the preparation of national reform programmes, as well as by
    - expanding the MIP Scoreboard by adding indicators for activity rate, youth unemployment and long-term unemployment; the MIP Scoreboard is an early-warning system made up of eleven indicators identifying macroeconomic imbalances in and between Member States.
  - The Commission wants to increase the convergence of employment and social policy by developing "benchmarks" which the Member States will aim to achieve. The "benchmarks" will be based on the components of the "Flexicurity Concept" [COM(2007) 359, see cep**PolicyBrief**]. These are inter alia [p. 6 COM(2015) 600]:
    - flexible and reliable labour contracts, effective measures to reintegrate the unemployed into the labour market, inclusive social protection and education systems and
    - "enabling" labour taxation and strategies for lifelong learning.
  - The Commission also wants to develop a "pillar" of European social rights [p. 5 COM(2015) 600].

- **Promoting convergence and national structural reforms**
  - The Commission will carry out comparative examinations "across policy or thematic areas" from which it will derive "benchmarks" for the Member States. The benchmarks will be discussed in the Council and in the Eurogroup and thus foster a common understanding of the challenges and solutions [p. 6 COM(2015) 600].
  - The Commission wants to support the implementation of structural reforms by [p. 6 COM(2015) 600]
    - linking payments from the European Structural and Investment Funds to the implementation of country-specific recommendations,
    - rolling out technical assistance offers.

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- **More transparent application of the Stability and Growth Pact**
  – The Commission indicates that there will be a "clarification" about when an excessive deficit procedure will be brought against a Member State that fails to reduce its debt in accordance with the rules of the Stability and Growth Pact [p. 8 COM(2015) 600].
  – The Commission wants to change the Medium Term Budgetary Objectives of the Member States to ensure that debt reduction takes place according to the rules of the Stability and Growth Pact.
  The Medium Term Budgetary Objective is a rule for the permitted level of the structural deficit pursuant to the Stability and Growth Pact [Art. 2a Regulation (EC) No. 1466/97, see cep**Analysis**].

Policy Context

The Five Presidents' Report builds on the 2012 "Four Presidents' Report" (which did not yet include the EP President) on Economic and Monetary Union (see cep**PolicyBrief**) and on the Commission Communication on "A blueprint for a deep and genuine economic and monetary union [COM(2012) 777]. The Euro Summit of 24 October 2014 called on the Presidents to prepare "next steps on better economic governance" in the eurozone. In mid-2016, the Commission wants to set up an expert group to examine the "legal, economic and political preconditions" for the measures in Stage 2. In spring 2017, the Commission will submit a White Paper, prepared by the Presidents of the other EU institutions. The White Paper will assess the progress made in Stage 1 and outline the next steps - particularly the legal measures of Stage 2.

ASSESSMENT

Economic Impact Assessment

The euro crisis resulted, in particular, from the fact that some eurozone countries made excessive wage increases at the cost of their international competitiveness. **National Competitiveness Boards** may in theory help to make politicians and the public, in countries whose competitiveness has been eroded, more open to the necessary reforms. In practice, however, they **will have no significant influence on the policy of those Member States that are not willing to undertake fundamental reforms.** This has been shown by the experience with the national "Fiscal Policy Boards" (Art. 6 (1) b Directive 2011/85/EU) which, as independent bodies, oversee compliance with national budgetary rules.
In addition, national governments will exert influence on the analyses and recommendations of the Boards by their choice of staff. The fact that members can only be appointed on the basis of their experience and competence does nothing to change this.
The influence of the Boards on wage negotiations will be limited by the fact that the Boards should not aim to interfere with the wage setting process. They will therefore only have influence where the negotiating partners are guided by it voluntarily. The extent to which this will be the case depends on the standing which the Boards have in the eyes of the negotiating partners. This in turn depends on the individuals who are appointed to the Boards. The fact that Boards only publish their analyses and recommendations once a year, in the form of a report, further restricts their impact. The Boards should publish their analyses and recommendations - in addition to an annual report - immediately and in full.
The proposed **coordination of the** National Competitiveness **Boards by the Commission** leads one to expect that the Commission will exert influence on their recommendations. This **may promote or obstruct reforms depending on political expediency.** For the purpose of coordination, an independent body - like the European Fiscal Committee (see cep**Analysis** on Fiscal Union), that coordinates the work of the national fiscal councils - is appropriate.
Taking account of the work of the Boards in the European Semester and in relation to the macroeconomic imbalances is hardly likely to give them more weight because the Commission will only refer to such work where the content corresponds to its own ideas.
Social impact assessments for macroeconomic adjustment programmes must not be permitted to water down such adjustment programmes. A eurozone country only has to carry out an adjustment programme where it is facing such a major crisis that it requires financial aid from the European Stability Mechanism (ESM). In order to ensure that the aid can be repaid, the causes of the crisis must be removed. This always involves social hardships such as wage reductions. These are necessary and justified, however, because future crises are thereby avoided and thus also further social hardships of even greater severity.
Extending the Scoreboard by adding indicators for activity rate, youth unemployment and long-term unemployment is misguided. The Scoreboard serves to provide an early warning of imbalances which could plunge a Member State into an economic or fiscal crisis. Changes in the activity rate, youth unemployment and long-term unemployment do not constitute early warning signals because unemployment generally only rises after the onset of a crisis. Thus the unemployment rate in Spain was at an all-time low just before the crisis. Furthermore, changes in the unemployment rate form a component of the Scoreboard so employment aspects are already taken into account.
A pillar of European social rights may have the result of limiting entrepreneurial freedom. Entrepreneurial freedom gives rise to investment and innovation which in turn result in the creation of jobs. Limiting entrepreneurial freedom in favour of social rights can therefore increase unemployment.
The suspension of payments from the Structural and Investment Funds is only possible in the case of country-specific recommendations which are related to investments [Art. 23 (1) a in conjunction with Art. 2 No. 35

Regulation (EU) No. 1303/2013]. Where a Member State is, for example, recommended to undertake labour market reform, suspension for failure to implement the reform would not be possible as labour market reforms are not related to investments and thus do not fall within the remit of the European Structural Investment Funds. It is also doubtful whether the Commission will actually be willing to suspend payments. In addition, there is also a danger that, in the Council - which has to approve the Commission Recommendation - the Member States will reject suspension.

The scope for discretion must kept as small as possible when it comes to the "clarification" about when an excessive deficit procedure will be brought against a Member State that fails to reduce its debt in accordance with the rules of the Stability and Growth Pact. In no way should the debt reduction rule be deemed to have been complied with where a Member State has only complied with its Medium-term Budgetary Objective because the Commission has a broad scope for discretion when it comes to assessing whether a Member State has achieved its Medium-term Budgetary Objective. The debt reduction rule would thus virtually cease to be binding on Member States.

Legal Assessment

Legislative Competency

The Council can, on a proposal from the Commission, make non-binding recommendations to the Member States (Art. 292, sentence 1 - 3 TFEU). It is a matter for the Member States to decide whether to implement the recommendations. Recommendations by the Council do, however, give rise to a political obligation which, due to the principle of sincere cooperation, a Member State cannot avoid without reason (Art. 4 (3) TEU).

Establishing national Competitiveness Boards is covered by the power to set out economic policy guidelines for the eurozone countries (Art. 136 (1) b TFEU in conjunction with Art. 121 TFEU).

Stronger focus on the challenges for the eurozone in the European Semester can be based on the power to coordinate the economic policies of all Member States (Art. 121 TFEU).

The EU can take coordinating measures in the areas of employment policy (Art. 148 et seq. TFEU) and social policy (Art. 153 et seq. TFEU) in order to develop non-binding "benchmarks" for the Member States thereby increasing convergence in these areas.

The Commission may extend the indicators on the Scoreboard to identify macroeconomic imbalances. It should however explain its reasons and overall there should only be "a small number" of "macroeconomic and macrofinancial indicators" (Recital 12, Art. 4 (2) Regulation on the prevention and correction of macroeconomic imbalances (EU) No. 1176/2011, relating to macroeconomic surveillance see cep**Analysis**). The Commission will have to interpret whether "a small number" of "macroeconomic and macrofinancial indicators" exist.

Subsidiarity

Unproblematic, particularly since Council Recommendations are non-binding (Art. 288 TFEU). Furthermore, due to its cross-border nature, an Economic Union can only be realised at EU level.

Proportionality with respect to Member States

Unproblematic.

Compatibility with EU Law in other respects

Unproblematic.

Impact on German Law

Unproblematic.

Conclusion

National Competitiveness Boards will have no significant influence on the policy of those Member States that are not willing to undertake fundamental reforms. Coordination of the Boards by the Commission may either promote or hamper reforms depending on political expediency.