# Opinion of the Economic and Social Committee (28 November 2001)

**Caption:** Example of an own-initiative opinion of the Economic and Social Committee.

**Source:** Official Journal of the European Communities (OJEC). 21.02.2002, No C 48. [s.l.].

# Opinion of the Economic and Social Committee on ‘World Economic Changes: New Economic Challenges for the European Union’ (28 November 2001)

At its plenary session of 28-29 November 2001 the Economic and Social Committee, acting under the third paragraph of Rule 23 of its Rules of Procedure, decided to draw up an Opinion on ‘World Economic Changes: New Economic Challenges for the European Union’.

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 12 November 2001. The rapporteur was Mrs Konitzer.

At its 386th plenary session of 28 and 29 November 2001, (meeting of 28 November), the Economic and Social Committee adopted the following opinion with 46 votes in favour and three abstentions.

**1. Background**

1.1 In 2000 the economic trend in the EU was more favourable than for more than a decade. GDP growth was just below 3 ½ %. Employment rose strongly (1,7 %), so that by comparison with the previous year unemployment fell by a full percentage point to 8,3 % of the active population. Thus, following a peak of 11,1 % (1994), the level prevailing before the 1992/93 recession had effectively once again been reached. Despite high oil prices inflation was only a little over 2 % and the external economic balance seemed assured.

1.2. This favourable trend could be ascribed both to ongoing structural policy efforts to improve the operation of the markets for goods and services as well as those for labour and capital and to significant progress in promoting the macroeconomic conditions for growth and employment made since the last recession, and particularly in the run-up to economic and monetary union ([1]).

1.3. However, hopes that this favourable trend would continue uninterrupted for a number of years, which was necessary to solve the EU's employment problem, were dashed in the course of 2001.

1.4. In fact it became clear in the autumn of 2001 that GDP growth in the EU would stall in the third quarter or even be negative, and that economic growth for the year as a whole would be well below 2 % ([2]). That also meant that the unemployment rate would not fall any further and might even rise again in 2001 and 2002.

1.5. The causes of this negative trend lie mainly outside the Community; their scale and the extent of the EU's dependence on world economic trends were underestimated. The following main factors should be highlighted: reduced purchasing power in the EU as a result of higher oil prices (compounded by the dollar exchange rate) and sharply rising food prices in the short term, falling export demand as a result of the sharp economic slowdown in the USA and synchronised worldwide economic downturns. The attacks of 11 September 2001 accentuate these effects not only through their direct impact in the USA and worldwide (airlines, tourism, insurance, higher spending on security), but also as a result of their negative impact on the confidence of firms and consumers, which could deteriorate further as a result of unpredictable events in connection with the campaign against terrorism.

1.6. It is crucial for the European economies that they now overcome as quickly as possible this phase of weakness, accompanied by a loss of confidence, and embark on the road towards higher long-term growth, the objective set by the European Council in the strategy agreed in Lisbon in spring 2000.

**2. Opportunities and limits of economic policy**

2.1. The factors described above are in principle only temporary and do not negate the basic progress made in the 1990s in putting the European economy back on a sound footing. But clearly the achievement of the goal of full employment has once again receded somewhat into the distance.

2.2. We need to ask, therefore, how economic policy can help us come to grips more rapidly with the current difficulties. Asking this question does not mean harbouring the illusion that economic policy can fully compensate for every external shock or that growth and employment can be created by fiat. Nor does it mean calling into question structural policy efforts and the basic orientation of macroeconomic policy towards price stability and the maintenance of the basic economic equilibria. The aim, rather, is to establish:

— how the macroeconomic policy mix can best be adapted to the new situation and

— whether the procedures for coordinating economic policy worldwide and within the EU and the euro area can be improved with a view to achieving the optimum policy mix.

**3. A macroeconomic policy mix better suited to the new situation**

3.1. In the current situation the most important thing is to boost domestic and international demand against a background of growing spare capacity, without however generating price and cost inflation and without calling into question the essential medium-term consolidation of public-sector budgets needed to ensure sustainable growth (and thus full employment). It is important that the economic policy approach be based on a clear analysis of the world economy and of the situation of the European economy and of the monetary union, and that the approach should be credible in terms of its orientation and scale, so that the confidence of consumers and firms in future economic development can be rapidly re-established.

3.2. The scope available to each individual area of macroeconomic policy (monetary policy, public finances and wage policy) is rather limited.

3.2.1. Monetary policy can be relaxed in order to support general economic policy (Article 105(1) of the EC Treaty) if inflationary expectations fall. This has to some extent already happened, with some degree of international coordination. What further steps may become necessary depends to a high degree on an assessment of the conduct of fiscal and wages policy.

3.2.2. The hard-won medium-term credibility of fiscal policy must not be compromised. This is important, inter alia, with a view to the trend of long-term interest rates and a balanced relationship between saving and investment in the process of medium-term economic growth which is essential for the achievement of the goal of full employment. Complying with this condition does not, however, rule out the possibility that in the current situation, which doubtless varies from one country to another, the automatic stabilisers can make a certain contribution to stabilising the economic trend in the Community and particularly in the monetary union. This contribution could to a certain extent be complemented by higher infrastructure investment (possibly by means of public-private partnership) and reductions in levies, both of which must however be compatible with the goal of medium-term growth. There is, however, another obstacle to the contribution of fiscal policy to the overall economic policy mix in the Community and the monetary union: for well thought-out reasons fiscal policy, unlike monetary policy, is not centralised in the Community and monetary union, but remains a matter for national governments. The contribution of fiscal policy to the monetary union's policy mix involves the Community interest, however, which, the ESC feels, is not being made sufficiently clear in the current situation.

3.2.3. The scope available to the social partners' wages policy in the framework of the overall policy mix is also limited. In accordance with procedures which vary from one country and one sector to another the social partners simultaneously decide on overall economic cost and wage trends. This has a decisive effect on overall economic competitiveness and profitability and on the trend of consumer demand. Despite the establishment of a macroeconomic dialogue (Cologne process) insufficient account is taken of the impact of this factor on the macroeconomic policy mix of the Community and the monetary union. There is a need both for better organisation of the macroeconomic dialogue at Council level and for clearer articulation of the Community interest.

3.3. The relaxed macroeconomic policy mix which is needed in the Community and the monetary union in order to tackle current economic weakness requires both clearer articulation of the Community interest and a reasonable measure of reciprocal confidence in the predictability and rational conduct of the monetary, fiscal and wages policy players. This raises important questions relating to the nature and effectiveness of the coordination of economic policy.

**4. Nature and effectiveness of the coordination of economic policy in the Community and the monetary union**

4.1. Despite progress in restoring the health of the Community economy and despite the many coordination procedures and processes, some of them bureaucratic, the Community has a basic problem in laying down the appropriate macroeconomic policy mix and adapting this to changing internal and external conditions. It can be demonstrated that the 1992/1993 recession was to a great extent the result of errors in drawing up the policy mix (misassessment of the 1987 stock market crash, overheating 1988/1989, mistakes in the financing of German reunification), and that the policy mix was inadequately adapted, or adapted too late, during the economic slowdowns of 1995/1996 (Mexican crisis, insufficiently credible fiscal policies in a number of Member States, currency turbulence) and 1999 (Asian and Russian crises). In the USA, on the other hand, monetary and fiscal policy was adjusted and is being adjusted more rapidly and better to the prevailing situation. This is one of the main reasons why during the 1990s economic growth in the EU lagged well behind that of the USA.

4.2. In view of the renewed worldwide economic slowdown efforts should be made to avoid, as far as possible, the mistakes of the past. The realisation of monetary union and the resulting elimination of internal currency turbulence are certainly helpful in this regard. And yet distinct shortcomings persist, despite the many procedures and bodies, particularly in the following areas:

(a) The analysis and forecasting of economic trends geared to the needs of the monetary union and public discussion of the economic policy options arising as a result for the Community and the monetary union leave room for improvement.

(b) The role of the European Commission in drawing up comprehensive proposals for economic policy in general and the macroeconomic policy mix in particular, which are determined not by national or sectional interests or ideologies but purely by the Community interest with a view to the optimum economic trend in the monetary union, must be strengthened. This applies in particular to the contribution of fiscal and wages policy to the macroeconomic policy mix, with due respect for the sovereignty of the Member States and the autonomy of the social partners.

(c) The dialogue between the policy mix actors should be better institutionalised and made more transparent. This applies both to the regular meetings of the Presidents of the ECB and the Eurogroup and the responsible member of the Commission, and to the macroeconomic dialogue, which also leaves room for improvement. In both groups the role of the Commission representative should be strengthened as representative of the Community interest. The European Economic and Social Committee is able to make a substantial contribution to the macroeconomic dialogue and should be appropriately consulted.

**5. The next steps**

The European Economic and Social Committee considers that:

(a) over the next few weeks the Commission should submit specific proposals, going beyond the declaration of the Ghent European Council, as to how the economic policy and macroeconomic policy mix of the Community and the monetary union should be adapted to the changed world economic situation; this should make it clear what contribution is expected from individual players;

(b) discussion in the Council and in public of the Communication from the Commission of 7 February 2001 on Strengthening economic policy coordination within the euro area ([3]) should resume to ensure that pragmatic but effective improvements are made in this area as soon as possible;

(c) in the near future a discussion should take place of ways of increasing the effectiveness of the provisions of the Treaties relating to economic policy and the articulation of the Community economic interest in the process of adapting the Treaties with a view to enlargement.

Brussels, 28 November 2001.

*The President of the Economic and Social Committee*
Göke FRERICHS

( [1]) See also: OJ C 139, 11.5.2001, p. 51 (ECO/041), OJ C 139, 11.5.2001, p. 60 (ECO/042), OJ C 139, 11.5.2001, p. 72 (ECO/046), OJ C 139, 11.5.2001, p. 79 (ECO/054), OJ C 221, 7.8.2001, p. 177 (ECO/065).
( [2]) The European Commission's new forecasts will be published on 21 November 2001.
( [3]) COM(2001) 82 final.