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1st March 2001

## REPORT

on the state of the European economy, report preparatory to the Commission recommendation on the broad economic policy guidelines (2001/2008(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Karl von Wogau



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## PROCEDURAL PAGE

At the sitting of 1st March 2001 the President of Parliament announced that the Committee on Economic and Monetary Affairs had been authorised to draw up an own-initiative report, pursuant to Rule 163 of the Rules of Procedure on the state of the European economy, report preparatory to the Commission recommendation on the broad economic policy guidelines.

The Committee on Economic and Monetary Affairs had appointed Karl von Wogau rapporteur at its meeting of 6 November 2000.

The committee considered the draft report at its meeting of 9 January 2001, 24 January 2001, 6 February 2001 and 27 February 2001.

At the latter meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: Christa Randzio-Plath, chair; William Abitbol, José Manuel García-Margallo y Marfil and Philippe A.R. Herzog, vice-chairmen; Karl von Wogau, rapporteur; Richard A. Balfe, Luis Berenguer Fuster, Pervenche Berès, Hans Blokland, Hans Udo Bullmann, Benedetto Della Vedova, Jonathan Evans, Carles-Alfred Gasòliba i Böhm, Robert Goebbels, Lisbeth Grönfeldt Bergman, Ian Stewart Hudghton (for Pierre Jonckheer), Christopher Huhne, Liam Hyland, Giorgos Katiforis, Piiä-Noora Kauppi, Christoph Werner Konrad, Wilfried Kuckelkorn (for Simon Francis Murphy), Jean Lambert (for Gorka Knörr Borràs pursuant to Rule 153(2)), Astrid Lulling, Jules Maaten (for Karin Riis-Jørgensen), Thomas Mann (for Othmar Karas), Mario Mantovani (for Amalia Sartori pursuant to Rule 153(2)), Karla M.H. Peijs (for Marianne L.P. Thyssen), Fernando Pérez Royo, Alexander Radwan, Bernhard Rapkay, Olle Schmidt, Peter William Skinner, Helena Torres Marques, Bruno Trentin and Theresa Villiers.

The report was tabled on 1st March 2001.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

## MOTION FOR A RESOLUTION

### **European Parliament resolution on the state of the European economy, report preparatory to the Commission recommendation on the broad economic policy guidelines (2001/2008(INI))**

*The European Parliament,*

- having regard to the Commission's Autumn 2000 Forecasts for 2000-2002,
- having regard to Rule 163 of its Rules of Procedure,
- having regard to the report of the Committee on Economic and Monetary Affairs (A5-0082/2001),
- A. whereas the main economic indicators of the European Union economy, from the average GDP growth to the employment rate, continue to show positive trends, although not as good as estimated,
- B. whereas the economic situation in the European Union remains the best in the last ten years as the forecasts for growth remain around 3%, despite a slowdown compared to the growth rate of 3.4 % for 2000, mainly caused by the abrupt increase of oil prices,
- C. whereas, for the second year, the annual growth rate of the Harmonised Index of Consumer Prices (HICP) in the Euro area will go beyond the 2% limit fixed by the European Central Bank (2.4 % in 2000 and an estimated 2.2% in 2001), mainly because of the important rise of imports, fuelled by the oil prices and by the exchange rate of the Euro,
- D. whereas the Commission's autumn forecast shows a decrease in investments for the current year from 5.3% to 4.9% of the GDP,
- E. whereas the current pace of employment growth gave rise in 2000 to the creation of 2.6 million jobs, even if its speed will decrease in the incoming years so that unemployment is expected to continue to decline and fall under 8% by the end of 2002,
- F. whereas present demographic trends make suitable reforms of social security systems in efficient and safe way necessary, taking into account medium-term economic developments and the protection of the employment of older workers as well the increase in the number of people in employment, inter alia by providing incentives for older workers to opt to extend their working lives,
- G. whereas prospects for further growth and additional job creation and a better activity rate will be fostered by promoting public and private investments in the fields of new technologies and education, through the implementation of an appropriate legal and fiscal framework,
- H. whereas the introduction of the Euro coins and notes on January 2002 in twelve Member States will create a European Home Market, this being defined as market with a single currency,
- I. whereas there is increasing evidence of slowing down of the United States economy, which could in the medium term reduce exports from the European Union and influence its growth rate, due also to the higher external value of the Euro;

- J. whereas the impact of the "new economy" and more particularly of the information and communication technologies (ICTs) on Union's economic growth is positive although difficult to quantify in terms of productivity,
1. Considers that the economic and monetary policy of the European Union and its Member States should be guided by the principles of a Social Market Economy;
  2. Considers that freedom and democracy, competition, price stability and sustainable growth, subsidiarity, solidarity, private property and a functioning legal framework are the main elements of this economic system;
  3. Notes that competition in free and open markets within a proper legal framework, which takes into account social and environmental issues, leads to positive social results;
  4. Demands that all necessary steps be taken so that the inflation rate can be kept below two percent in the second half of this year;
  5. Believes that price stability and non inflationary and ecologically sustainable growth leading to full employment within a reasonable time should remain the main objective of the European Union Economic and Monetary Policy;
  6. Is of the opinion that policy should be geared, on the one hand, towards stable and more diverse energy supplies and, on the other, towards reducing energy requirements and energy dependence;
  7. Considers that a balanced liberalisation of telecommunications, mail, energy and railways has to be continued;
  8. Asks for the improvement of the conditions for the promotion of investments, also through a trans-European network policy;
  9. Asks for the speeding-up of the implementation of an appropriate legislative and administrative framework for ICTs related investments in order to give a substantial contribution to the productivity rate;
  10. Calls on the Member States to ensure that education and training are adequately tailored to the demands of the international knowledge economy;
  11. Calls for structural reforms on the markets for goods, services, capital and labour to be speeded up and intensified in order to increase production potential and productivity in the EU and, at the same time, to permit a policy mix to help offset the impact of possible negative demand on the part of the USA on the EU's internal market through an increase in domestic demand;
  12. Insists on the need to adapt the present social security systems with a view to ensuring they perform safely and effectively and removing obstacles to the free movement of workers;
  13. Calls for a policy aiming to provide the European economy with the necessary human resources and labour supply, with consistent investments in the field of education and of new technologies, which will require exceptional and concerted efforts on the part of the European Union, the Member States, undertakings and workers to achieve, partly on the basis of the new climate of cooperation between schools, universities and undertakings, the setting up and operation of a system of education and training for workers in every type of employment, irrespective of age, throughout their working lives;

14. Calls for a more flexible labour market since this can make an important contribution towards improving the competitive position of weak regions and sectors in particular;
15. Notes with approval progress towards real convergence among the economies of the Member-States and instructs the Commission to spare no effort towards further improvements in this crucial area;
16. Instructs its President to transmit the present resolution to the Council, the Commission, the governments and the parliaments of Member States.

## EXPLANATORY STATEMENT

2001 will be the last year before the achievement of a true European Union Home market. Actually, by the end of this year the national currencies of twelve Member States will be definitively replaced by the Euro, thus completing a process which started in the 1950s with the creation of the Customs Union and the introduction of free movement for persons, capital and services, and in the 1980s with the completion of the Internal Market.

The current situation and the outlook for the next years are quite optimistic: the European Union is facing the most favourable economic situation for a decade. For the current year all forecasts show positive trends as far as GDP growth is concerned, although it might be less impressive than in the past year. Substantial job creation, the steady decline of the unemployment rate, tax cuts, high private consumption, improved public finances constitute relevant aspects of this positive situation.

On the other hand, despite core inflation remaining low, the average price level will face pressure in the same way as in the last part of 2000, which is partly due to the increase of oil prices, but also a consequence of the still undervalued Euro. Indeed all the major economic forecasts point at an increase of around 2.4% in the HICP for the current year in the Euro area.

Quite recent, although expected for a long time, is the important slow-down of the US economy. The question is to which extent the substantial reduction in GDP growth of the United States might undermine the positive trends of the European Union economy by reducing its exports following lower consumption and worsened terms of trade vis-à-vis the US dollar. Some analysts predict a reduction of 0.4% in the GDP growth of the European Union for each percentage point fall in the US GDP. Secondly, another threat comes from the current demographic trend which will put increased pressure on the financing of social security schemes as far as health care and retirement pensions are concerned.

Hence additional measures are needed in order to maintain a high level of economic growth and to allow the European economy to become the locomotive of the world economy in the present decade, the same way the US economy did in the 1990s.

It is well known that the EU economy suffers from over-regulation, expensive social benefits as well as fragmented capital markets. In order to continue to foster a non inflationary and ecologically sustainable growth, it is therefore vital to go ahead with the process of liberalisation of services, to improve the conditions for investment, to provide the necessary human resources through training, and to speed-up the implementation of an appropriate legislative and administrative framework for information and telecommunications technologies, which are at the heart of the third industrial revolution and which highly contributed to the extremely positive results reached by the US economy in the past years.

All these measures should be taken with a view to establish a Social Market Economy for the European Union which is based on the guidance of market forces and restricted by sound competition rules thus allowing for a fair distribution of wealth created by the economic activity.