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## REPORT

on the state of the European economy – preparatory report with a view to the  
Commission recommendation on broad economic policy guidelines  
(2002/2014(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Bruno Trentin



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## PROCEDURAL PAGE

At the sitting of 17 January 2002 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 economic situation in Europe – preparatory report with a view to the Commission recommendation on broad economic policy guidelines.

The Committee on Economic and Monetary Affairs had appointed Bruno Trentin rapporteur at its meeting of 21 November 2002.

It considered the draft report at its meetings of 3 December 2001, 7 January 2002, 22 January 2002, 20 February 2002 and 26 February 2002.

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

The following were present for the vote: Christa Randzio-Plath chairman; Philippe A.R. Herzog, vice-chairman; John Purvis, vice-chairman; Bruno Trentin, rapporteur; Generoso Andria, Hans Udo Bullmann, Harald Ettl (for Bernhard Rapkay), Marie-Hélène Gillig, (for Helena Torres Marques, pursuant to Rule 153(2)), Robert Goebbels, Lisbeth Grönfeldt Bergman, Christopher Huhne, Othmar Karas, Piia-Noora Kauppi, Christoph Werner Konrad, Werner Langen (for Ingo Friedrich), Alain Lipietz, Astrid Lulling, Jules Maaten, (for Carles-Alfred Gasòliba i Böhm, pursuant to Rule 153(2)), Thomas Mann (for Hans-Peter Mayer), Ioannis Marinos, Helmuth Markov (for Armonia Bordes), Miquel Mayol i Raynal, Fernando Pérez Royo, Alexander Radwan, Herman Schmid (for Ioannis Patakis), Olle Schmidt, Peter William Skinner, Ieke van den Burg (for Pervenche Berès) and Theresa Villiers.

The report was tabled on 27 February 2002.

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 – preparatory report with a view to the Commission recommendation on broad economic policy guidelines (2002/2014(INI))**

*The European Parliament,*

- having regard to the Commission communication on making a European area of lifelong learning a reality (COM(2001) 678) and the Green Paper submitted by the Commission on 18 July 2001 entitled 'Promoting a European Framework for Corporate Social Responsibility' (COM(2002) 366),
- having regard to the proposal for a Council decision on guidelines for Member States' employment policies for the year 2002 (COM(2001) 511), submitted by the Commission on 12 September 2001,
- having regard to the draft employment report 2001 (COM(2001) 438) submitted by the Commission on 12 September 2001,
- having regard to Commission's information note on the economy in 2001 of 20 November 2001,
- having regard to the Commission's autumn 2001 forecasts for the period 2001-2002,
- having regard to the Commission communication to the Spring European Council in Barcelona on the Lisbon Strategy – Making change happen (COM(2002) 14),
- having regard to the Commission communication on structural indicators (COM(2001) 619),
- having regard to the conclusions of the Lisbon European Council of 23 and 24 March 2000,
- having regard to the conclusions of the Göteborg European Council of 15 and 16 June 2001,
- having regard to the resolution<sup>1</sup> on the Spring Summit 2002: the Lisbon process and the path to be followed<sup>1</sup>,
- having regard to the final report of 24 January 2002 submitted by the TEPSA panel of experts to the Committee on Economic and Monetary Affairs on the broad economic guidelines for 2001 and 2002,
- having regard to the report from the Commission – economic reform: report on the functioning of Community product and capital markets (COM(2001) 736),
- having regard to Rule 163 of the Rules of Procedure,

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<sup>1</sup> See report A5-0030/2002 included on the agenda for 27 February 2002.

- having regard to the report of the Committee on Economic and Monetary Affairs (A5-0062/2002),
- A. whereas the downturn in economic growth and the increase in unemployment seem likely to result in genuine recession in some countries of the European Union,
- B. whereas this downturn in growth substantially has its origins in the United States recession, which began before the tragic events of 11 September 2001, and in the zero growth in world trade during 2001,
- C. whereas the downturn in growth in the European Union has resulted in an increase in unemployment for the first time since 1997,
- D. stressing that in all probability the decision to establish a European monetary union averted a series of much more damaging effects by the US recession on Europe,
- E. noting that the recession in the United States has been accompanied by extensive corporate restructuring and reorganisation and the launch of a new cycle of technological and organisational investment, with substantial support from the federal government,
- F. whereas, moreover, it is not possible to rely entirely on a United States recovery in order to overcome the European economic downturn, since it is far from certain how long this will take; whereas, if Europe's economies are to recover, national economic and social policies will have to be coordinated in such a way as to give a boost to selective sectors so as to generate economic growth and increase long-term employment,
- G. stressing the need for monetary union to counteract inflationary trends and, with this in view, highlighting the value of coordinated efforts to secure energy supplies through long-term agreements with producer countries, based on programmable quantities and stable prices, invoiced in euros as far as possible,
- H. reasserting the binding nature of the Stability and Growth Pact, and, in particular, the 3% threshold for national budget deficits,
- I. stressing therefore that a counter-cyclical economic and social policy mix respecting budgetary constraints must inevitably be based on highly selective objectives that take into account the complex nature of the world recession,
- J. whereas these budgetary constraints make it imperative that economic and social policies be coordinated at European level so as to create positive synergies for the European economies as a whole,
- 1. Considers that the priorities for a policy mix at European level at the present juncture should involve reducing labour costs, particularly for the lowest paid workers, through reductions in taxes and social security contributions, while at the same time ensuring that pensions and health services are fully maintained for those entitled to them and, in particular, speeding up the attainment of the Lisbon objectives as regards public and private investment; considers that, in order to achieve these objectives, the relevant

structural reforms of the labour, financial and energy markets are needed, particularly as regards education and research and development policies, as well as the development of communications and new technologies;

2. Stresses that the full employment strategy adopted by the Lisbon European Council means that absolute priority in the deployment of public resources must be given to substantially increasing public and private investment in research and innovation for products and processes, as well as intra-European exchange of knowledge and researchers between the various research centres, and the development and application of new products and services, with emphasis on the applications and interconnections made possible by new technologies, in order to create a European area of research and innovation, which will be symbolised by the European patent;
3. Reaffirms the relevance of the global strategy established in Lisbon in 2000 and the annual Spring European Council in providing the most effective and coherent policy guidance for the annual framing of the broad economic policy guidelines, and hence for increasing the capacity for sustainable growth and employment in Europe; calls, therefore, for the framing of the forthcoming broad economic policy guidelines to take the conclusions of the Barcelona European Council fully into consideration;
4. Considers that incentives for the promotion of these research policies should be offered on the demand side as well as the supply side; research and development centres should be encouraged to adapt to the demands of the market; in this way, the knowledge obtained by allocating resources to research and development can be applied and turned to account for the benefit of consumers;
5. Stresses that this strategy will involve introducing national and European education and learning systems able to guarantee lifelong learning for all citizens, particularly workers, so that job flexibility and mobility become an integral part of a policy of employability, involving continuous education, vocational adjustment and vocational re-training, for young people, women and older workers, as well as immigrant workers and the unemployed, since it is this kind of structural reform of the labour market which can ensure a fresh balance between flexibility and security;
6. Points out that this job flexibility and mobility can be developed through active social policies that will encourage both voluntary career breaks and reintegration through education and training into the labour market. To achieve this, employment measures must be introduced to enable both workers and companies to benefit from reductions in the working day for training purposes without supporting new fiscal costs for the new employed;
7. Points out that, if these mobility policies are to prove successful, the resources allocated for promoting the learning of the languages used in Europe must be increased, so that cultural barriers and difficulties in adapting to unfamiliar environments can be kept to a minimum and so as to provide a genuine driving force for European social integration;
8. Considers that it will be easier to ensure that pensions are sustainable if the retirement age is raised for those workers who wish to remain in active employment. Similarly, greater efforts should be made to provide jobs for those groups worst affected by

unemployment, such as young people, the long-term unemployed, women and those over the age of 45, by encouraging firms to continue employing older workers;

9. Reiterates that attaining the Lisbon objectives as regards efficiency, knowledge, social cohesion and full employment will entail a major commitment on the part of the Union's governments, coordinated at European level, to develop integrated telecommunications and transport infrastructures and services, leading to the creation of integrated networks, in order to boost the European Union's competitiveness;
10. Considers that regional economic activity has an important part to play in attaining these objectives, and should therefore be further developed and consolidated;
11. Considers that small and medium-sized businesses, in particular, should be encouraged with the aim of creating jobs, R&D potential and regional economic activity;
12. Considers in this connection that the liberalisation of general interest services such as energy and transport should be pursued with the aim of improving efficiency and competitiveness, with due regard for their universal character and irrespective of whether they are privately or publicly owned; with this in view, the Member States should apply a rigorous competition policy to prevent dominant positions or market distortions which harm the interests of consumers, who should be given the possibility of choosing their service provider;
13. Believes that if these objectives are to be met, economic, social and environmental policies must be coordinated at all levels, with social policies treated as an important factor in sustainable development and social cohesion, while seeking to ensure that the European Parliament and all other fora do not treat these two sectors separately; proposes therefore that, in addition to the debate on the report analysing the progress made in meeting the Lisbon objectives which the Commission is to submit every six months at Parliament's request, a joint meeting should be held between the Committee on Economic and Monetary Affairs and the Committee on Employment and Social Affairs to analyse the current situation and propose specific short-term measures to achieve the objectives set out in the two reports;
14. Agrees that more effective coordination of economic and social policies is needed in good time, particularly among the governments of the euro zone, so as to ensure that decisions taken by individual governments are more effective and consistent;
15. Points to the need for the Commission to play an active part in proposing and promoting open forms of cooperation of the kind envisaged by the Lisbon European Council in the crucial sectors of research and innovation, lifelong learning and the development of integrated infrastructure and service networks, while not leaving it to individual governments to determine benchmarks in the various spheres of activity, but rather indicating which experiments have been most successful and should therefore become general objectives;
16. Believes similarly that the Commission should promote initial open forms of cooperation in seeking to identify common objectives for tackling the problem of Europe's ageing population and the low activity rate among women and older workers, so as to provide the bases and incentives for increasing the employment rate of the



population through an active ageing policy designed to enable older workers to extend their working lives under decent conditions, since these measures are a precondition for any reform of social security systems;

17. Calls once again for the European Parliament to be fully involved in the further development and implementation of the European Union's broad economic policy guidelines; the positions of the Council and Parliament should carry equal weight in the annual adoption of the economic policy guidelines; Parliament should likewise be appropriately involved in the annual assessment of the implementation by the Member States of the economic policy guidelines;
18. Stresses the need for decision-making processes in the European Union to be more transparent and for national parliaments to be more closely involved in decisions taken by the European Parliament; it would be easier to achieve this objective if Parliament's decisions on economic and social matters and, in particular, on the broad economic policy guidelines, were formally transmitted in good time to the competent committees of the national parliaments and if regular meetings were introduced between the committees responsible for economic and monetary affairs and for employment and social affairs and representatives from the competent committees of the Member States' parliaments;
19. Draws the attention of the committee responsible for economic and monetary affairs to the importance of establishing a timetable enabling it to examine the economic and social policies of the national governments in sufficient time to avoid being confronted with decisions that have already been taken and are difficult to alter;
20. Instructs its President to forward this resolution to the Commission and Council and to the governments and parliaments of the Member States.

## EXPLANATORY STATEMENT

Europe has experienced a downturn in its rate of growth during 2001, clearly as a result of the economic recession in the United States and, more generally, the growing interdependence among economies caused by the increasing pace of globalisation. The lack of growth in world trade during 2001 is a clear indication of this interdependency, which is greater than the volume of trade between Europe and the United States might suggest.

The forecasts for the timescale of a recovery in the American economy have been revised many times and at present hopes are pinned on the second half of 2002. Similar uncertainty has surrounded the periodically revised forecasts regarding the downturn in growth in the European Union, although in Europe there has not yet been the same mobilisation of resources as in the United States to promote a recovery in investments and to boost consumption, including the use of direct state aid. Accordingly, forecasts of a resumption of growth in Europe during the second half of 2002 should still be treated with caution. It does not seem possible for the American economy to act once again as a motor for growth for the rest of the industrialised world. In addition, there are many signs (restructuring, mergers, specialisations) to suggest that in the United States we are not only witnessing a temporary halt in a long period of growth, but are experiencing a recession during which industrial strategies will be adjusted and reorganised, with extensive social implications and the probable launch of a new cycle of investment, following the bursting of the financial bubble linked to new technology and organisational investment. Given the muted response of European economies, a new gap could be opening up between Europe and the United States in terms of competitiveness.

A strategy of waiting for American recovery and its automatic impact on EU economies, where European economic policies are seen merely as a continuation of those followed in 2001, albeit adjusted to meet budgetary constraints, would therefore seem to be a risky course of action. Indeed, now that conditions have been utterly transformed, they might even play a 'procyclical' role.

It is therefore necessary to map out a coordinated strategy for the economy and social policies of the countries of the Euro zone and the European Union which can effectively counteract the trend towards recession, particularly in the investment sector, where the current stagnation is still nowhere near the levels reached in the 1980s. The aim is not to call into question the terms of the Stability and Growth Pact, particularly at a time of such uncertainty. Indeed, a policy of this kind could prove an incentive for individual EU governments to adopt divergent approaches. The 3% limit on budget deficits should not be exceeded and should remain a cornerstone of policy to ensure financial recovery and combat inflation in the monetary union; however, the timescale for achieving a budget in balance or in surplus may be extended because of the duration of the recession.

Constant vigilance is therefore required as regards inflation rates, which could be more easily reduced by joint action by the governments of the Euro zone to reach long-term agreements with oil and gas producers, together with a highly selective approach when taking decisions on the distribution of public spending.

Action in the field of taxation and social contributions from individual incomes should focus

on reducing labour costs, particularly for lower-paid workers. However, efforts to stimulate the economy should focus on public and private investment and on swifter attainment of the objectives and structural reforms which form part of the Lisbon strategy, but on which progress is lagging in some Union countries. At the same time, the process of integrating financial services should be speeded up.

The aim is therefore to increase public and private investment in the following sectors:

1. research and innovation;
2. policies to develop and promote lifelong learning to ensure that mobility and flexibility are an integral part of a strategy of employability, based on education, adjustment and vocational retraining;
3. creation of infrastructures capable of meeting the new requirements of integrated systems of enterprises, such as the establishment of a European telecommunications network or the dissemination of services to provide information, vocational guidance, refresher courses and retraining for the long-term unemployed.

In this connection, the process of competitive liberalisation of general interest services should be pursued in the energy, gas and transport sectors, while safeguarding their universal character, with or without privatisation.

Bearing in mind the budgetary constraints in particular, decisions of this kind must be coordinated if they are to be effective, first and foremost in the Euro zone. Economic government of the monetary union would permit a transparent dialogue with the Central Bank whose independence should be reinforced and safeguarded. However, this independence cannot signify passive acceptance of a monopoly - albeit an indirect one - over economy policy decision-making at European level. This dialogue must allow scope for assessing whether margins are available for a further reduction in interest rates.

Decisions and initiatives relating to coordination methods should not be left solely to individual states.

The Commission should play a vital role in proposing and promoting open forms of cooperation, such as those provided for by the Lisbon Summit, in the field of research, innovation and lifelong learning; the establishment of an integrated services network, for example in the field of telecommunications; the harmonisation of strategies on active ageing, a vital prerequisite for a reform of pension systems which does not penalise employees and self-employed workers. It should also sponsor a special session of the European Social Dialogue on framework rules for an agreement between the social partners and national and local governments on national learning and on framework rules to promote agreements at regional level on the social management of restructuring processes, drawing on the work done by the European observatory on industrial change in Dublin.

Finally, detailed consideration should be given to the suggestions from TEPSA designed to encourage transparency and broader participation in the decision-making process for economic and social policy (policy mix) at European level, both through more systematic involvement of national parliaments and closer coordination between the Committee on Economic and Monetary Affairs and the Committee on Employment and Social Affairs, as well as through more timely information on the budget policies of national governments, to

ensure that their consistency with the broad economic policy guidelines proposed by the Commission can be assessed before individual governments take decisions which cannot subsequently be altered.