

EUROPEAN PARLIAMENT

1999



2004

Session document

FINAL
A5-0051/2003

21 February 2003

REPORT

on the state of the European economy – preparatory report with a view to the
Commission recommendation on broad economic policy guidelines
((2002/2287 (INI))

Committee on Economic and Monetary Affairs

Rapporteur: José Manuel García-Margallo y Marfil

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PROCEDURAL PAGE

At the sitting of 13 February 2003 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 – preparatory report with a view to the Commission recommendation on broad economic policy guidelines, and the Committee on Employment and Social Affairs and the Committee on Industry, External Trade, Research and Energy to table an opinion.

The Committee on Economic and Monetary Affairs had appointed José Manuel García-Margallo y Marfil rapporteur at its meeting of 27 November 2002.

The committee considered the draft report at its meetings of 13 December 2002, 20 January 2003, 27 January 2003, 28 January 2003, 18 February and 19 February 2003.

At the latter it adopted the motion for a resolution by 35 votes to 5, with 0 abstentions.

The following were present for the vote: Christa Randzio-Plath, chair; José Manuel García-Margallo y Marfil, vice-chairman and rapporteur; Philippe A.R. Herzog and John Purvis, vice-chairmen; Hans Blokland, Armonia Bordes, Jean-Louis Bourlanges (for Brice Hortefeux), Renato Brunetta, Hans Udo Bullmann, Bert Doorn (for Generoso Andria), Manuel António dos Santos (for a full member to be nominated), Harald Ettl (for Pervenche Berès), Jonathan Evans, Hélène Flautre (for Alain Lipietz pursuant to Rule 153(2)), Carles-Alfred Gasòliba i Böhm, Robert Goebbels, Lisbeth Grönfeldt Bergman, Mary Honeyball, Christopher Huhne, Othmar Karas, Piia-Noora Kauppi, Christoph Werner Konrad, Wilfried Kuckelkorn (for Giorgos Katiforis), Jean Lambert (for Miquel Mayol i Raynal pursuant to Rule 153(2)), Werner Langen (for Ioannis Marinos), Astrid Lulling, Thomas Mann (Ingo Friedrich), David W. Martin, Hans-Peter Mayer, Fernando Pérez Royo, Mikko Pesälä (for Karin Riis-Jørgensen), Alexander Radwan, Bernhard Rapkay, Herman Schmid (for Ioannis Patakis), Olle Schmidt, Peter William Skinner, Charles Tannock (for Mónica Ridruejo), Bruno Trentin, Ieke van den Burg (for Helena Torres Marques) and Theresa Villiers.

The Committee on Employment and Social Affairs and the Committee on Industry, External Trade, Research and Energy decided on 12 February 2003 not to deliver an opinion.

The report was tabled on 21 February 2003.

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 (2002/2287 (INI))

The European Parliament,

- having regard to the Communication from the Commission on the Implementation of the 2002 Broad Economic Policy Guidelines (COM(2003) 4),
- having regard to the Communication from the Commission on the EU Economy: 2002 Review - Summary and main conclusions (COM(2002) 712),
- having regard to the Commission's autumn 2002 forecasts for the period 2002-2003¹,
- having regard to the Commission communication to the Spring European Council in Barcelona on the Lisbon Strategy – Making change happen (COM(2002) 14), and its resolution of 28 February 2002 thereon²,
- having regard to the Commission communication to the Spring European Council on 21 March 2003 (COM(2003) 5),
- having regard to the Commission communication on structural indicators (COM(2002) 551),
- having regard to the conclusions of the Lisbon European Council of 23 and 24 March 2000 and of the Göteborg European Council of 15 and 16 June 2001,
- having regard to the Commission communication to the Council and the European Parliament to the Spring European Council in Stockholm on the Lisbon Strategy of 23/24 March 2001 (COM(2001) 140)³,
- having regard to its resolution of 28 February 2002 on the Spring Summit 2002: the Lisbon process and the path to be followed⁴,
- having regard to the Commission communication on the future of the European Employment Strategy (EES) "A strategy for full employment and better jobs for all" (COM(2003) 6),
- having regard to the final draft report of 20 January 2003 submitted by the TEPSA panel of experts to its committee responsible on the broad economic guidelines for 2003,
- having regard to the report from the Commission – economic reform: report on the

¹ No 5/2002 European Economy, ISSN 0379-0991.

² P5_TA(2002) 0079.

³ not published in OJ

⁴ P5_TA(2002) 0081.

functioning of Community product and capital markets (COM(2002) 743),

- having regard to Rule 163 of the Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs (A5-0051/2003),
- A. whereas the ultimate objective of the economic and social policy framework of the European Union is to reach higher non-inflationary growth, full employment, especially for the sections of the population most susceptible to unemployment (women, young people and older workers), to contribute to sustainable development and to increase social cohesion,
- B. whereas in Europe the recovery from the world economic downturn has been slow, with no clear acceleration of economic growth in 2002 and still uncertain prospects for the near future; whereas the current slowdown poses a new challenge to policy-makers in that it has particular characteristics of its own, combining deceleration of growth with relative price stability, at a time when Europe has just adopted a common currency,
- C. whereas a key cause of the EU's slow recovery is the rigidity of the European economy, which prevents it from reacting swiftly to external shocks; whereas policy-makers should look closer within the EU and focus on common policies, as well as on the individual economies of Member States and on the reasons for the wide dispersion in macroeconomic performances between them,
- D. whereas the new international situation has highlighted the importance of the reform agenda adopted in Lisbon and Göteborg in 2000 and 2001; whereas it is disappointing to note that the pace of further reform in 2002 has remained quite slow; whereas levels of public and private investment in the EU are very low, as well as productivity growth,
- E. whereas the EU's unemployment problem, rather than being cyclical, is more complex and structural in nature, and has been aggravated by the downturn in growth,
- F. whereas though Europe currently enjoys relative price stability, it still has persistently high core inflation, especially on account of the services sector, energy and fresh food prices;
- G. whereas economic policy coordination aimed at reaching the objectives -as defined in Article 2- of the European Union is an obligation for Member States (articles 98 and 99 TCE), the current economic and social policy procedures are not sufficient to deal with the challenges posed to the European economy; whereas, the growing economic interdependence in the Euro zone calls for stronger ex-ante economic and employment policy co-ordination; whereas the existence of the Euro and its single monetary policy have highlighted the lack of a unified and clear European economic policy,
1. Calls for European leaders and policy-makers to reinvigorate the economic policy debate on the Broad Economic Policy Guidelines with more creativity and proactive policies which must be compatible with rules of the Stability and Growth Pact, in order

to create a climate of confidence in the European economy; believes this is necessary to boost economic growth, which must be geared to the main economic policy objective of job creation, in order to counteract the ever-growing trend in Europe towards lower employment rates and ageing populations; to this aim, regards generating new activities and supporting public and private investment as priorities;

2. Asks European leaders at the upcoming Spring Economic Council to avoid vague and complacent terminology and to call for the speeding up and effective implementation of the Lisbon strategy in Europe, by reaffirming the relevance of the balanced and global strategy established in Lisbon and in Göteborg in 2000, and enlarged in Stockholm in 2001, including structural reforms, public and private investments, environmental protection and the improvement of the European economic and social model;
3. Considers that any short-term demand policies aimed at recovering activity (interest rate changes and fiscal adjustments) should: firstly, not put into question macroeconomic stability in order to give economic and social actors renewed confidence; secondly, not erode European competitiveness in a globalised market; thirdly, these policies must be compatible with the reduction of public debt and the increase in public savings in order to finance public investments necessary to accelerate economic growth and address the challenge that ageing populations represent to the European social model;
4. Welcomes the procedural changes introduced by the Commission to economic and employment policy co-ordination, by making the Broad Economic Policy Guidelines (BEPGs) mid-term oriented, the European Employment Guidelines (EEGs) mutually supportive and integrating the sustainable development strategy; believes this should be further enhanced by aggregating fiscal policies and supply policies, together with pensions reform in a way consistent with monetary policy; believes that all these processes should be integrated and used as a preliminary framework on which to base the adoption of the EU and national budgets; finally, believes that this process must include both social partners and the acceding Member States;
5. Stresses that the strict vigilance of the European Central Bank (ECB) needs to be maintained in view of persistent high core inflation, especially in the services sector; supports the linkage of wage and productivity increases as a means of controlling inflationary pressures; considers that liberalisation of markets, underpinned by measures to increase transparency of prices, together with structural reforms aimed at enhancing productivity, will decrease inflationary pressures, eventually giving further room for manoeuvre to the ECB, in particular if the exchange rate of the euro damages European exports;
6. Stresses Parliament's commitment to the Stability and Growth Pact (SGP) and supports its intelligent and flexible application in the ways proposed by the Commission, in particular the stronger emphasis on overall debt levels of individual Member States, taking into account public investment requirements -especially when those investments are considered by the Commission coherent with the Lisbon and Stockholm strategy, and, for that reason, of common interest; notes with disappointment that recently several Member States with still high structural deficits have not progressed towards budgetary positions of close to balance or in surplus, thwarting the correct functioning of automatic stabilisers; believes that Council and Commission failed their duty during the

years of economic bonanza before the downturn, by not warning Member States in time about inappropriate fiscal policies;

7. Believes that to increase employment rates and productivity, it is necessary to accelerate structural reforms in order to eliminate the rigidities which have been obstructing economic development, and in this context it would be necessary to previously identify these rigidities (as was done in the 1984 White Paper on the Internal Market); in addition, it believes that strong political willpower is needed to implement these reforms as they invariably first require sacrifices and only later on do they produce benefits; therefore, stresses that social dialogue is one of the keys to the success of the reforms, which must encourage the economic players and the social partners to accept their responsibility to prevent the exacerbation of inequalities, promote positive mobility and combat exclusion;
8. Believes that high levels of public and private investment are the key to productivity growth and full employment and therefore calls for a quick implementation of technological developments and new technologies; therefore, considers necessary to substantially increase the resources in the EU and national budgets to education and training, high-technology industries such as ICT (Information and Communications Technologies) and environmental-friendly production, R&D (Research and Development) as well as in infrastructures, trans-European network industries and private-public partnerships, in order to achieve quantitative targets in each of these areas; considers, moreover, that tax benefits for expenses and investments in these activities should be increased; highlights the importance of adopting the European patent;
9. Highlights the importance of fostering Europe's productive, manufacturing and industrial base and points out that an economic model based exclusively on services should not be the future choice for Europe's economy; emphasizes the importance of screening new legislation through impact assessment and asks the Commission to widen the list of pilot measures for which triple evaluation (economic, employment, environmental impacts) is already envisaged in 2003 and include also the coming Commission's proposals on chemical policy and transport infrastructure pricing; underlines also the importance of an integrated approach when implementing different measures in the EU-climate change policy, in order to safeguard the international competitiveness of energy intensive industry in Europe;
10. Given the considerable vulnerability of Europe's economy to the volatility of petrol prices and the pending question of when reserves will be depleted, Europe should make renewable energy a priority policy and not only invest in renewable energies, but use even more the existing and future results of this research in order to take the lead in the next industrial revolution in this sector, along the lines of what the US did with the IT sector;
11. Points out that the Lisbon targets will only be reached if a culture of entrepreneurship is fostered in Europe; with this in mind, considers that the importance of Small and Medium Enterprises (SMEs) is vital to growth and employment; firstly, asks for measures to facilitate the quick setting-up of new companies by using new technologies and allowing tax deferral schemes; secondly, calls for a simplification of the regulatory

environment; thirdly, calls for ways to reduce the cost of capital for SMEs and to facilitate access to venture capital; points out that developments regarding capital requirements in the context of the Basle II negotiations should be monitored closely and encourages the European Investment Fund to step up its efforts as far as credit guarantee schemes are concerned; furthermore encourages the states to make genuine efforts to implement the promises made in the SME - Charter;

12. Believes that proper and timely transposition of EU directives is essential to the advancement of the Internal Market and that the current infringement procedures lack enough coercive power; therefore, calls on the Commission to increase pressure on Member States which are failing to fully transpose important directives;
13. Believes that further progress in achieving a more dynamic and integrated Internal Market is needed; calls on Member States to further liberalise services of general interest and network industries, where the market share of incumbents remains high and competition is still insufficient: these include postal services, telecommunications, gas and electricity, rail and air transport, and broadcasting; stresses that the universality, high quality, and reasonable pricing of public services of general interest need to be guaranteed, by the Community institutions at local, regional and national levels; considers that interconnectivity of networks between Member States is particularly important in view of the enlargement of the EU; welcomes the initiative for a Green Paper on services of general economic interest (SGEI) and hopes that the debate will make it possible to formulate and launch a Community strategy for SGEI, which is essential if the Lisbon objectives are to be achieved;
14. Calls for the full and timely implementation of both the Financial Services Action Plan (FSAP) and the Risk Capital Action Plan (RCAP); calls for the development of venture capital markets and asks for the role of the European Investment Fund (EIF) to be enhanced; believes that in a context of increasing financial market integration in Europe, there is the need for further co-ordination of national supervisory authorities, which might eventually lead to a single European supervisor;
15. Stresses that the financial market has, at the same time, serious deficiencies in terms of meeting the funding requirements of SMEs, regional development and network infrastructures; calls, consequently, for the formulation at European level of a financing policy tailored to meet such requirements;
16. Stresses that the crisis on the stock markets highlights deficiencies in business management which also affect the European Union, and calls for the adoption of an ambitious Community plan on the basis of the Winter report with regard to company law and business management;
17. Calls for significant efforts to be made to raise employment rates, especially for women, disabled and older workers, by the following actions: firstly, tax incentives for enterprises which hire these targeted groups, such as deductions on income taxes linked to job creation and reduction of taxes on labour (including social contributions), in particular for low income workers - this should be balanced by an increase in indirect taxation if budgetary stability were to be put at risk; secondly, an increase in the effective retirement age through voluntary decisions by workers, supported by an

increase of expectations in pension levels and by incentives for enterprises who do not reduce employment of older workers ; thirdly, the promotion of all aspects of quality of work including health and safety at work; finally calls for the setting-up of regional and local employment strategies;

18. Calls for higher labour mobility within the EU, by means of increasing incentives to move from one Member State to another, reducing bureaucracy, facilitating the obtention of social security payments across Europe, recognising diplomas, professional experience and qualifications and contributions to pension schemes; believes that special attention should be given to education, on-the-job training, life-long learning and skills-improvement, in particular language skills;
19. Asks to speed up the process of removal of tax regulations that distort competition; stresses the need to implement the recently adopted savings tax package; calls on the Commission and Council to foster the process of convergence of the VAT (to make possible the country-of-origin principle) and energy taxation; calls for measures to provide companies with a consolidated corporate tax base for their EU-wide activities; finally, calls for agreement on common principles for the taxation of complementary pension funds in Europe;
20. Believes that in a context of increased flexibility of Europe's market economy, there is the need for an equivalent measure of corporate social responsibility (CSR) on the part of the private sector in order to preserve the European social model; proposes that the Commission should set up and develop a CSR 'scorecard' system;
21. Calls for appropriate international representation of the Euro area in international and multilateral institutions; calls for commodities and energy supplies to be invoiced in Euros as far as possible in order to give more certainty to commercial transactions and avoid the double volatility of the price of the commodity and the exchange rate;
22. Calls once again for the European Parliament to be fully involved in the development and implementation of the EU's broad economic policy guidelines; the positions of the Council and the Parliament should carry equal weight in the annual adoption of the BEPGs on the basis of a proposal by the Commission; stresses the need for national parliaments to be more closely involved in the process;
23. Instructs its President to forward this resolution to the Commission and Council and to the governments and parliaments of the Member States and the social partners.

EXPLANATORY STATEMENT

The recovery in Europe from the world economic downturn has been slow in 2002. The near future is also still uncertain and EU policy-makers need to make bold moves to come out of the crisis, in particular by looking closer within the Union, focusing on common policies and addressing the rigidities of the European economy. The current situation has highlighted the importance of the 2000 Lisbon reform agenda and the need to accelerate it. The Spring Economic Council on 21 March 2003 is a good opportunity to reinvigorate the process, and create a climate of confidence in the European economy.

A particularly important problem is that Europe has low levels of public and private investment, as well as low productivity growth. Inflation levels are stable but there is still persistently high core inflation. In addition, Europe's unemployment problem has been aggravated by the crisis. Finally, Europe faces a long-term challenge to its public finances in light of the ever-growing trend towards lower employment rates and ageing populations.

Therefore, any short-term demand policies aimed at recovering activity should not put into question macroeconomic stability and should not detract resources from the reduction of public debt, which is necessary to address this challenge of ageing populations and the respect of the European social model. Thus, the European Parliament is committed to the Stability and Growth Pact (SGP) and supports its intelligent and flexible application in the ways proposed by the Commission.

In this context, and bearing in mind the strong and growing economic interdependence in the Euro zone, it is time to reassess economic policy co-ordination. The efforts made by the Commission in terms of the streamlining of the Broad Economic Policy Guidelines (BEPGs) are welcome, but more needs to be done to integrate other processes into the framework and use this unified procedure as a basis to adopt EU and national budgets.

Regarding inflation control, the European Central Bank (ECB) needs to maintain its strict monetary vigilance, together with the respect of linking wage and productivity increases. Liberalisation of markets, underpinned by measures to increase transparency of prices, together with structural reforms aimed at enhancing productivity, could decrease inflationary pressures and eventually give further room for manoeuvre to the ECB in terms of a possible relaxation of monetary policy.

Increase in investment in the EU is particularly necessary in terms of a coherent European industrial policy for ambitious Europe-wide joint-projects, and with regards to investment in human capital and R&D (Research and Development). Entrepreneurship needs to be fostered and Small and Medium Enterprises (SMEs) need to be helped and incentivated.

Structural reforms need strong political willpower. Member States need to further liberalise services of general interest and network industries, such as postal services, telecommunications, gas and electricity, rail and air transport, and broadcasting. Interconnectivity of networks between Member States is crucial, particularly in view of the enlargement of the EU.

Financial services and venture capital markets can contribute greatly to economic growth, and thus the Financial Services Action Plan (FSAP) and the Risk Capital Action Plan (RCAP) need to be fully implemented.

In terms of labour markets, the key question is raising employment rates, especially for women and older workers. This needs to be done by an increase in the effective retirement age, tax incentives for enterprises, and the setting-up of regional and local employment strategies. Higher labour mobility and skills-improvement are also crucial.

Tax regulations that distort competition must be removed. The recently adopted savings tax package has to be effectively implemented and there is the need for a process of convergence of a series of other taxes -VAT, energy taxation, corporate tax, taxation on pensions funds.

In this context of increased flexibility of Europe's market economy, an equivalent measure of corporate social responsibility (CSR) on the part of the private sector is also a necessity.

Finally, it seems appropriate that the Euro area is properly represented in international and multilateral institutions, and the question of quoting commodities and energy supplies in Euros needs to be considered.