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National Competitiveness Boards: Set-up and characteristics

Note for the attention of EPC

1. BACKGROUND AND PURPOSE

This issue note is aimed at supporting the EPC discussion on the Commission recommendation for a Council recommendation for a system of National Competitiveness Boards (NCBs)... The EPC decided to first discuss different aspects related to the substance of competitiveness and productivity developments in Member States, and in a second step, to address the details of how the Council would recommend the creation of the proposed system of NCBs. The Secretariat of the EPC invited DG ECFIN to provide respective issues notes to support the discussion.

The first note, discussed in the January EPC, focussed on the economic rationale for raising productivity, boosting competitiveness, and supporting the implementation of reforms as major challenges for the EU and the euro area Member States. These challenges fall within the scope of the proposed analytical mandate in the Commission recommendation. Overall, the discussion in the EPC indicated a broad agreement that these are key challenges which require additional efforts.

The discussion on the first note also showed that members would like to further discuss the institutional and operational aspects of the creation of NCBs. Questions raised related inter alia to the flexibility of the institutional set up, how existing institutions fit in and how the system of NCBs would operate in practice at the national level and how they could interact with the EU level.

With a view to help shaping consensus towards a Council recommendation, this second note is meant to feed the debate on the proposed set-up and the necessary requirements for NCBs. It highlights and explains the key principles and elements of guidance provided in the Commission's recommendation. The rest of the note is structured as follows. Section 2 discusses the set-up of NCBs. Section 3 elaborates on the requirements for NCBs including the notion of independence, unbiasedness and their implications.

2. SETTING UP COMPETITIVENESS BOARDS

The Commission recommendation aims at providing sufficient flexibility in setting up NCBs. The text of the recommendation permits the setting up of NCBs with different possible modalities such as: (i) creation of a new institution; (ii) appointment of an existing organisation, and modifying its mandate if needed; and (iii) a collaboration between existing institutions.

Article 4 states that "each Member State should identify one competitiveness board, which could in turn rely on different existing bodies". The aim of the Article is to ensure that in each Member State there is a single recognisable NCB. A single identifiable contact point is necessary for the effective operation of a network across participating countries and at euro-area/EU level. The article also permits NCBs to operate using the existing web of bodies and institutions that carry out relevant economic and policy analysis (*see Box 1*). This permits leeway in the practical setting up of the operations of NCBs. It means that there is no requirement that all relevant activities are centralised in a single encompassing institution. It

also means that, in case more than one institution exists in a Member State that could be eligible to participate (see points below on requirements for NCBs), there can be different ways to arrange the operations for such existing bodies, provided that there is a clear identification of one NCB. In case no existing bodies qualify to participate in the NCB, several options are open, including the transformation of existing bodies or the setting up of a new body.

The statutory regime of NCBs needs to be grounded in law or administrative acts. The government of each Member State is responsible for the setting up of an NCB. As stated in Article 6 a, the NCBs' shall be characterised by a "statutory regime grounded in national laws, regulations or binding administrative provisions". This is necessary for the unambiguous identification of the NCB and for the specification of a number of requirements that NCBs need to fulfil. It is also important to have permanent bodies in order to build credibility over time. It is useful here to draw a parallel with the set-up of fiscal councils which have also been grounded in national law in a rather flexible manner (*see Box 2*).

Box 1: Examples of existing authorities dealing with competitiveness-related matters

Most Member States in the Euro area have already established institutions monitoring competitiveness which could be used as a basis to set up their NCB

- Many Member States have set up independent economic councils which are in charge of monitoring economic developments and provide inputs for policy making.
- The magnitude and influence of these bodies in the policy-making process differs greatly. In particular, a number of them fulfil purely ad-hoc tasks, sometimes focusing solely on a very narrow scope (e.g. wage developments) and only a few of them provide regular analysis on competitiveness and productivity developments.
- A few Member States require these bodies to consult with stakeholders and social partners, particularly when dealing with wage matters.

1. Examples of offices for economic analysis or groups of experts dealing with competitiveness

In **the Netherlands**, the *Bureau for Economic Policy Analysis* (CPB) is an agency that belongs to the ministry of Economic Affairs and that carries out independent economic research and provides policy recommendations. Its main focus is not necessarily competitiveness as such. The CPB represents an independent institution contributing to the economic decision-making process of politicians and policymakers.

In **Belgium**, the *Federal Planning Bureau* (BFP) is a public institute that carries out economic forecasts and research aimed at shedding light on policy decisions. This is also the case, to some extent, of the **German** research institutions in charge of analysing the state of the German and world economy (IFO, IfW, IWH, RWI) and the **Austrian** Institute of Economic Research (WIFO).

In **France**, the *Council of Economic Analysis* (CAE) is an independent, non-partisan advisory body that reports to the Prime Minister. Its members belong to the academic community and are chosen by the Prime minister. To bring further knowledge, some economists from the business sector may join in to contribute to specific projects. A permanent staff mainly made of professors or researchers provides the analytical support.

In **Germany**, the *Council of Economic Experts* is an academic body advising German policy makers on questions of economic policy. It is composed of five members (the "Five Sages") who mostly belong to the academic world. The Council is supported by a Scientific Staff (13 persons).

2. Examples of systems or bodies involving stakeholders

In **Ireland**, a *National Competitiveness Council* (NCC) reports on key competitiveness issues and offers policy recommendations to enhance competitiveness. Its members include both experts and social partners' representatives. Each year, the NCC publishes a benchmark for Ireland (Ireland's Competitiveness Scorecard) based on statistical indicators. Built on these data, the NCC publishes another report, the Competitiveness Challenge report, which identifies issues and provides recommendations. The NCC takes a broad definition of competitiveness referring to the 'ability of firms to compete in markets', and encompassing a large range of factors including education and training, entrepreneurship and innovation, technological infrastructures, taxation.

In **Belgium** and **France**, the *Conseil Central de l'Economie* (CCE) and the *groupe d'experts indépendants sur le SMIC* represent entities that directly involve social partners but their scope is narrow, limited to wage developments and minimum wage respectively.¹

France provides another example of entities that directly reflect stakeholders' views. The *Economic, Social and Environmental Council* (CESE) consists of more than 200 counsellors appointed by organisations that represent all the facets of the civil society: employees, firms, agriculture, doctors, students etc. This council writes reports on any kind of topics (incl. annual report on French economy, Europe 2020 strategy) and issues opinions that are the outcome of a vote.

3. CHARACTERISTICS OF COMPETITIVENESS BOARDS

The Commission recommendation specifies a number of required characteristics for NCBs. These requirements are aimed at ensuring the fulfilment of the ultimate goal of a European system of NCBs, i.e., improved policy making at national level and at EU level through increased national ownership and analytical expertise. Article 6 outlines a number of minimum requirements regarding the characteristics of NCBs.

NCBs are required to be independent and unbiased. Recital 6 in the Recommendation helps to clarify the meaning of independent and unbiased: "...independent from the ministries or public authorities that deal with competitiveness-related issues.... unbiased, in the sense that they should not convey only or mainly views of specific groups of stakeholders". The recital also elaborates on the rationale for this requirement: "...such independence and unbiasedness requirements are aimed at ensuring that the advisory role of competitiveness boards adequately reflects expert judgement formulated in the general interest." These

¹ In Belgium, the CCE reports on the evolution of the Belgian competitiveness relative to its three main trading partners (Germany, France and the Netherlands). The members of this body are appointed upon recommendation of organisations that represent both the employers' side (banks, SMEs, etc.) and the employees' side (trade unions, consumer associations). The technical reports provided by the CCE are then used by social partners during negotiations to fix a wage norm. In France, the *groupe d'experts indépendants sur le SMIC* is in charge of analysing and providing views on the minimum wage. This group of eight experts is composed of researchers, professors and some administration's representatives. Each year, it provides a report based on multiple consultations with social partners, collecting their views on the minimum wage and its desired evolution. The group can also rely on analyses provided by the public administration. The annual report then feeds into the negotiations organised by the 'national commission of collective bargaining'.

requirements are also essential to ensure that NCBs have the necessary credibility to influence the economic debate and policy making.

A number of provisions would help to ensure independence and unbiasedness. Such provisions would be included in the legislation or administrative acts defining the NCB statute.

- NCBs should not take ... "instructions from any public authorities dealing with competitiveness-related issues or from any other public or private body" (Article 6 b). This concerns the various activities, both in the analytical sphere (NCBs need to be free to choose topics of analysis, analytical approaches, etc.) and regarding policy recommendations.
- NCBs should also have "the capacity to communicate publicly in a timely manner" (Article 6c). This is a condition for the NCBs to play a role in the national and international debates on productivity in an active way both on analytical terms and from a policy viewpoint.
- Independence and unbiasedness is also related to the procedure for the nomination of their members, which should be based on "experience and competence" (Article 6d). The aim of the recommendation is to ensure that the governance of NCBs is inspired by non-partisan professionalism.
- Independence can work in practice only if "adequate resources and appropriate access to information to carry out their mandate" (Article 6 e).

The Recommendation foresees that NCBs consult relevant stakeholders in their activities. The aim of this requirement (Article 7) is to make sure that the expert judgement of NCBs is corroborated by a rich and regular dialogue with the main economic actors and that their views are heard. The Recommendation makes an explicit reference to social partners, as NCBs are expected to analyse competitiveness developments, including for what concerns labour costs, and "informing the wage setting processes" (Article 3b). Which social partners would be consulted and through which modalities would depend on the specific wage setting system and on the organisation of collective bargaining prevailing in each Member State.

Article 7 also states that NCBs should not convey mainly the views of a particular group of stakeholders. Such requirement is a necessary corollary to the requisite of unbiasedness (Article 6 b), but it implies also that NCBs should engage in consultations with a sufficiently comprehensive set of stakeholders and that their analysis and recommendations are sufficiently balanced not to systematically reflect the views of a particular group only. The experience from existing institutions monitoring competitiveness in member States suggests that the relationship with stakeholders can follow several models, including consultation on an ad-hoc basis, or required consultation at regular intervals with no obligation to incorporate views.

Requirements are also aimed at ensuring that the NCBs are able to meet their mandate in terms of analytical capacity (Article 5, 6e). NCBs should be able to participate in the national and international debates on productivity in an active way. To this purpose, they

should be endowed with the necessary resources to carry out analysis and acquire in-depth knowledge of national specificities and practices. The Recommendation does not specify that analysis and research is expected to be carried out exclusively in-house. Part of the analytical work of the NCB could be commissioned to external bodies (public or private research institutes, academia,...) or carried out in cooperation with public institutions (e.g., Central Banks, Ministries) in respect of the autonomy principle. The analytical capabilities of NCBs depend also on the access to relevant information. In this respect, their statute could guarantee access to relevant information for the formulation of analysis and policy recommendations in the competitiveness domain that is available to public authorities.

Box 2: The independent fiscal institutions – Set up and experience

The recommendation by the Commission to set up NCBs bears some similarity, in the economic policy sphere, with the efforts to set up independent fiscal institutions (IFIs). In both cases, the institutions seek to improve national ownership to improve policy implementation. Moreover, some of the requirements, and notably the independence, are shared by both types of institutions. It is thus useful to highlight the main features and results achieved by IFIs.

Mandate: In order to reinforce the EU economic governance, the six-pack introduced the requirement to set up independent fiscal institutions. The mandate of these institutions, which was further expanded with the two-pack and the Fiscal Compact, is to monitor the compliance with national fiscal rules. In particular, the TSCG introduces a correction mechanism according to which national authorities have to comply or explain why they depart from national fiscal rules, as monitored by the IFIs.

Institutional set-up: In order to reflect the diversity of national frameworks, and notably the fact that in most Member States some institutions were already monitoring fiscal developments, the legal requirements at the EU level focused on essential features geared to the preservation of the independence of IFIs. In particular, no structural template for IFIs was imposed. As part of the European Semester, the Commission reviewed the institutions put in place in the various Member States and, in some instances, the Council issued a country-specific recommendation to set up or strengthen the institution (e.g. for Poland and Slovenia in 2015).

Influence on policy making: IFIs have a clear impact on the credibility of national fiscal rules by ensuring that deviations are acknowledged and explained by the government. They participate in a more transparent fiscal policy by ensuring that sufficient information is provided on the government's budgetary strategy. Finally, IFIs can reinforce the relevance of existing checks and balances embedded into the budgetary process (Parliament, Constitutional Courts, Court of auditors, EU authorities, and eventually the public at large) by providing a credible and independent assessment of the budgetary strategy.