



ECONOMIC POLICY COMMITTEE

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The Five Presidents Report: Member State views and Questionnaire

1. Introduction

The five presidents' report (5PR) contained a number of proposals with direct relevance to the EPC, notably relating to issues around structural reforms and changes to the European Semester. The report put emphasis on promoting convergence, jobs and growth. It is argued that more needs be done to support improvements in competitiveness taking into account existing surveillance procedures under the European Semester and within the Macroeconomic Imbalance Procedure (MIP). The structure of the European Semester is also proposed to be restructured in two successive stages distinguishing more clearly between a “European moment” and a “national moment”, in order to at an earlier stage outline priorities for the euro area as a whole.

As for this first EPC discussion on the 5PR, the focus would be to try to identify future work streams and to discuss the initial reactions on the parts of the Report that can have bearing on EPC work. Further, the specific proposal on independent Competitiveness Authorities (described in further detail below) will be discussed.

2. Competitiveness Authorities: rationale and main objective

Against this background, one prominent proposal outlined for the first stage within the report is a recommendation to establish a euro area system of independent Competitiveness Authorities (CAs) in order to help deliver the objective of a stronger coordination and surveillance of economic and competitiveness policies within the European Semester. The aim is to help prevent economic divergence and increase ownership of the necessary reforms at the national level. CAs would be independent entities while the Commission would play a coordinating role. They would assess competitiveness developments and policies, but also to provide policy advice and help governments implement reforms taking into account national specificities, established practices and relevant national stakeholders such as social partners.

This note tries to both identify some relevant issues and endeavours to promote discussion within the committee in order to take stock of what is the state of play with existing institutions that could be considered as CAs in Member States. This would simply require MS, in their feed back to the Commission presentation also provide some experience with CAs, if any. A written feed-back on national experience could also be arranged.

Rationale and main objectives

The introduction of independent Competitiveness Authorities as an instrument to foster structural reforms in the euro area and EU was a prominent element of the 5 PR (box 1). These aim at monitoring competitiveness developments and policies (tracking performance), help strengthen the implementation of policy recommendations within the context of the European Semester and assisting governments to implement reforms related to competitiveness. Their objective being to:

- **Enhance the euro area macro surveillance on competitiveness** to help support the objectives of European Semester.
- **Strengthen EU level assessment and national implementation** and in so doing, help improve the enforcement of the Council recommendations and support ownership by and within Member States.
- **Provide national policymakers with independent expertise on how to achieve competitiveness objectives.** They could help policymakers operationalise measures aimed at boosting competitiveness while fully taking into account the national specificities (e.g. the wage bargaining framework and social dialogue).

Box 1: the recommendation of the 5 presidents report

The 5PR recommends establishing a euro area system of independent Competitiveness Authorities. In general:

- Such national authorities would be in charge of tracking performance and policies in the field of competitiveness, in particular wage /productivity developments.
- The Commission would be in charge of the coordination of these national bodies within a euro area system of Competitiveness Authorities.
- The Commission should then take into account the outcome of this coordination when deciding on steps under the European Semester (AGS, MIP including the activation of the Excessive Imbalance Procedure).

More specifically:

- Based on a common template, each Member State should decide the exact set-up of its national Competitiveness Authority, but they should be democratically accountable and operationally independent.
- The mandate would be to assess whether wages are evolving in line with productivity and compare with developments in other euro area countries and in the main comparable trading partners.
- In addition, these bodies could be mandated to assess progress made with economic reforms to enhance competitiveness more generally.

As regards the relationship between these authorities and the national wage bargaining system:

- Competitiveness Authorities are not meant to impinge on the prerogatives and responsibilities of social partners, and on national preferences and legal traditions in this field.
- The autonomy of the social partners will be fully respected and the aim will not be to harmonise practices and institutions in charge of wage formation across borders.
- Nevertheless, national actors should use the opinions of the Authorities as guidance during wage setting negotiations.

This would enrich the national debate, increase ownership of the economic assessment and policy needs and help to prevent economic divergence.

3. Elements for discussion on the mandate for Competitiveness Authorities

There are several possibilities regarding the areas of interest covered by the Competitiveness Authorities. The scope could be limited to wage developments and

alignment with productivity, or the activities of the CAs could concern a comprehensive notion of competitiveness i.e. wage dynamics and their alignment with productivity, but also non-wage costs and productivity drivers in general, non-price competitiveness as well as dynamic considerations related to innovation and the attractiveness of the economy to businesses should deserve attention. In particular, with a scope limited to wage developments and alignment with productivity, important objectives could remain out of the scope of CAs, as many economies have already undertaken a significant adjustment of their cost competitiveness. Furthermore, wage setting frameworks differ substantially across countries, which could limit the effectiveness of a system of CAs focused on wage setting. Particularly relevant also is that a surveillance system focused exclusively on wage developments will need to find a high level of acceptance amongst social partners.

4. Setting up Competitiveness Authorities

National bodies with an aim closely linked to the monitoring of competitiveness and policy recommendations already exist in some Member States, but with a scope that varies significantly. To name but a few:

- In Belgium and France, some institutions have a narrow scope, limited to wage developments (*Conseil Central de l'Economie*) and minimum wages (*groupe d'experts indépendants sur le SMIC*) respectively.
- In Denmark, a commission has on several occasions received a mandate to analyse the determinants of slow productivity and provide wide-ranging recommendations. This was not a permanent establishment.
- In the Netherlands (*Bureau for Economic Policy Analysis – CPB*), France (*Council of Economic Analysis – CAE*), Germany (*Council of Economic Experts, IFO, IfW, IWH, RWT*), Austria (*WIFO*), Belgium (*Federal Planning Bureau – BFP*) public institutes provide economic advice and policy recommendations but they are not focused on competitiveness as such.
- In addition, in France, 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. This council writes reports on any kind of topics and issues opinions that are the outcome of a vote.
- In Ireland, the *National Competitiveness Council* (NCC) reports on key competitiveness issues and offers policy recommendations.

The setting-up of the CAs would therefore need to take into account the role of existing authorities and bodies with a similar aim.

5. Competitiveness Authorities and the European semester

A further consideration is how a system of CAs could play an active role both at national level and EU level in the context of the European Semester. The newly created bodies could mainly play an independent advisory role and also facilitate policy implementation by smoothing the dialogue among governments and social partners at a national and supra-national level, with enforcement mechanisms remaining at EU level. A number of options are possible in this context:

Annual reports published ahead of the European semester: In the 5PR, a foreseen input from the system of Competitiveness Authorities is a report on competitiveness developments to inform the Commission analysis in the AGS and euro area recommendations. This could include cost competitiveness projections, and discuss implications at euro-area level. Such reports could also analyse policy progress at Member State level, providing a basis for assessing reform implementation by the Commission.

Coordination by the Commission: The Commission should coordinate the activities of CAs with a view to ensuring the euro area wide objectives ahead of the production of the annual report. Regular contacts should also be envisaged during fact-finding missions or monitoring missions in the context of the MIP.

Accountability and transparency could be enforced by making public the CAs' annual reports but also the minutes of the different meetings with the Commission.

Questions for discussion

1) How can the EPC best contribute to the work on the proposals of the Five Presidents Report?

2) What are your views on the proposals that could have bearing on the EPC work: European semester, MIP?

Competitiveness Authorities:

3) In terms of the establishment of Competitiveness Authorities, do such or similar authorities already exist in your Member State? If so, what are their mandate, legal status and composition? What is their impact on policy?

4) What should the main mandate of the euro-area system of competitiveness authorities be?

5) What role would they have in EU economic policy coordination, notably in the European Semester?