European Movement Ireland

The Economy

Why are we discussing this?

The EU says: "The coronavirus pandemic is an unprecedented challenge for European and global economies. It has had a direct impact on individuals, families and businesses, particularly small- and medium-sized businesses, which form the backbone of our economy. EU countries need to work together to ensure that our unique social market economy allows businesses to thrive, while protecting those in need."

But what do you think?

What are the key issues?

Internal Market: The internal market refers to the single market within the EU's territory. The aim is to have an area without internal frontiers or regulatory obstacles in which the free movement of goods, persons, services and capital is ensured in accordance with the articles of the Treaties.

Free movement of goods

- With the creation of the internal market, customs duties and quantitative restrictions were eliminated.
- The free movement of goods relies on the principles of mutual recognition of national technical rules, the removal of physical and technical barriers, and standardisation.
- In 2008, a new legislative framework was adopted boosting the free movement of goods by means of the EU's market surveillance system and the CE mark.

Free movement of capital

- Restrictions on capital movements and payments, between EU countries as well as between EU countries and with non-EU countries have been prohibited since 2004, as a result of the Maastricht Treaty. However, there are some exceptions that are primarily linked to taxation and public policy considerations.
- The free movement of capital contributes to economic growth by enabling capital to be invested efficiently and promotes the use of the euro as an international currency.

Freedom of establishment and to provide services

- The freedom of establishment and the freedom to provide services guarantee mobility of businesses and professionals within the EU.

Free movement of workers

- This covers aspects such as the rights of movement and residence for workers, the rights of entry and residence for family members, and it entails the abolition of any discrimination based on nationality as regards employment, remuneration and other conditions of work and employment. Restrictions may apply for the public service.

Economic and Monetary Union (EMU) refers to the close coordination of the economic policies of the Member States at European level, with 18 European Union (EU) countries having gone further in adopting the euro as their currency. Under this policy, Member States are committed to avoid excessive budget deficits through adherence to the Stability and Growth Pact.

Economic Governance: The European Union (EU) has introduced a set of rules that aim to detect, prevent and correct problematic economic trends, such as excessive government deficits or public-debt levels, which can stunt growth and put economies at risk. The EU's economic governance framework revolves around the European Semester and its economic policy coordination system. The European Semester allows EU countries to discuss their economic and budget plans and monitor progress at specific times throughout the year. It seeks to ensure that:

- there are clear rules
- national policies are better coordinated year-round
- there is regular monitoring

- the emergence of potentially harmful macroeconomic imbalances can be identified early on
- sanctions are enforced when countries fail to comply with the rules.

Following the economic and financial crisis of 2008-2010, the EU beefed up its economic governance rules. In early 2020, the Commission presented a review of the effectiveness of EU economic governance and launched a debate on its future in view of the EU's evolving priorities. The review examines how effective the economic surveillance framework has been in achieving three key objectives:

- ensuring sustainable government finances and economic growth, as well as avoiding macroeconomic imbalances
- enabling closer coordination of economic policies
- promoting convergence in EU countries' economic performance

Digital Transition: An important issue for the EU economy is digitalisation. Digitalisation **transforms** patterns of production and consumption, of productivity and efficiency and of economic development. For example, during the pandemic, digital tools allowed people to work remotely, shop online and for business and commerce to adapt to public health restrictions.

Green Transition: A central issue for the EU economy post-COVID is the advancement of the green transition encapsulated in the **European Green Deal.** This depends on the implementation of economic proposals including the **Circular Economy**, the **Blue Economy** and the **European Industrial Strategy**.

Employment: COVID-19 has seriously **impacted** employment levels in the EU. In 2020, the EU implemented initiatives intended to protect employment, including the **Support to mitigate Unemployment Risks in an Emergency (SURE) Instrument** and the **European Guarantee Fund (EGF)**. The purpose of the **SURE Instrument** provides support for short-term work schemes and similar measures that preserve employment and sustain incomes, while the purpose of the EGF is to ensure that enterprises are able to retain and recruit employees. Post-COVID, EU economic policy will have to ensure that the conditions are created for increased employment.

Trade: The EU's common commercial or trade policy is one of the linchpins of its relations with the rest of the world. On behalf of all EU countries, the European Commission handles trade issues, such as negotiating trade agreements with non-EU countries. The EU is active in the World Trade Organisation. It supports the abolition of trade and customs barriers. To defend its market, it has a battery of tools such as anti-dumping and anti-subsidy measures, the Trade Barriers Regulation and safeguard measures.

Tax: The EU has no powers to levy or collect taxes — these powers rest with EU Member States. The main focus of EU tax policy is the smooth operation of its single market, i.e. ensuring that cross-border economic activity is not impeded by tax barriers and that distortions of competition are avoided. It seeks to ensure that citizens and businesses do not experience difficulties in regard to double taxation, distortion of competition, claiming tax refunds and obtaining information on tax rules in relation to other Member States.

EU harmonisation efforts have predominantly concentrated on taxes levied on goods and services (indirect taxes, such as value added tax (VAT) and excise duties levied on energy products, electricity, alcohol and manufactured tobacco) rather than taxes on incomes or profits (direct taxes). Nevertheless, some progress has been made on measures to deal with tax evasion on savings and mutual assistance between tax administrations.

Specific rules regarding taxation are laid down in Articles 110 to 113 of the Treaty on the Functioning of the EU. Adopting harmonised legislation on taxation requires the unanimous agreement of all Member States in the Council, which has tended to act as a brake on the adoption of common rules.

Agriculture: The Common Agricultural Policy (CAP) is an area in which competence is shared between the European Union (EU) and EU countries. According to Article 39 of the Treaty on the Functioning of the European Union, the CAP aims to:

- increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour;
- ensure a fair standard of living for farmers;
- stabilise markets;
- assure the availability of supplies;
- ensure reasonable prices for consumers.

With the European Agricultural Guarantee Fund (EAGF), the CAP funds direct payments to farmers and measures to regulate agricultural markets. The European Agricultural Fund for Rural Development (EAFRD) finances EU countries' rural development programmes.

What has the EU been doing?

The legal framework for EU economic and monetary policy is found primarily in **Article 3** of the **Treaty on European Union (TEU)** and in a list of articles in the **Treaty on the Functioning of the European Union (TFEU)**. Economic development was the impetus for the foundation of the **European Economic Community (EEC)** and **economic integration** has remained at its heart. In 1957, the EEC - established by the Treaty of Rome - created the 'common market' to facilitate free trade and the free movement of people and capital.

The **Single European Act (SEA)** - enacted in 1987 - established a time-frame for the completion of the 'common market' and extended the EEC's administrative and legislative powers. The **Act** expanded the EEC's involvement in several policy sectors, particularly social policy. It was the first legal framework to specifically identify **social cohesion** as an EU objective in itself. In 1993, the **European Single Market** was established.

In 1993, the **Treaty of Maastricht** introduced the **Economic and Monetary Union (EMU)**. A landmark in European economic integration, the EMU established a **common monetary policy** and provided for a **common currency**. Managed by the **European Central Bank (ECB)**, the common monetary policy deepened cohesion in the EU economy. The **Stability and Growth Pact (SGP)** was agreed within the **Treaty of Amsterdam** in 1997. It introduced a set of rules intended to ensure fiscal discipline across the EMU.

In 2000, the **European Council** developed a programme for economic development. Consisting of three pillars - an economic pillar, a social pillar and an environmental pillar - the **Lisbon Strategy** outlined the development objectives for the EU economy. Emphasising the importance of a knowledge-based economy founded on **competition and innovation**, the **Strategy** included initiatives on employment and education. Implementation of the Strategy depended on the development of information and communication technology (ICT) literacy and on mobilising labour potential. In 2015 the European Commission adopted the **Digital Single Market** strategy to build Europe's digital economy.

The EU sovereign debt crisis which too hold in 2010, shattered economies across Europe. It exposed severe shortcomings in the Economic and Monetary Union's architecture. In summary, some Member States, including Ireland, were financing current spending with borrowed money. This became unsustainable. The results were exacerbated by how the Euro was structured including "a single monetary policy for countries with widely divergent macroeconomic conditions; the absence of fiscal policy coordination among Euro Member States; fragmented financial regulation; and the lack of a credible no-bailout commitment. Ultimately, these factors worked together to bring the Eurozone close to collapse."

In the aftermath of the crisis EU leaders pledged to strengthen Economic and Monetary Union, including by improving its governance framework. A permanent support (or bailout) mechanism for Member States in distress, the **European Stability Mechanism (ESM)** was created.

In 2012, the Commission published a blueprint entitled **Towards a Genuine Economic and Monetary Union** In 2015, the Presidents of the European Commission, European Council, Eurogroup, ECB and European Parliament published a report on **Completing Europe's Economic and Monetary Union**. It outlined a reform plan aimed at achieving a genuine economic, financial, fiscal and political union in three stages (to be completed by 2025 at the latest). However, progress has been slow.

The economic crisis that followed the emergence of COVID-19 in Europe led to further changes. For example, in March 2020, the EU suspended some rules under the **Stability and Growth Pact** to allow Member States to increase public spending and debt.

Looking to the future

A central component of emerging EU economic policy is the **Next Generation EU** recovery programme which was introduced 2020 in response to COVID-19. One of the central instruments included is the **Recovery and Resilience Facility (RRF)** which will provide EU governments €672.5 billion in loans and grants for public investments and reforms. These **investments and reforms** are expected to focus on the green and digital transitions, along with job creation. The funds will be raised (ie borrowed) on the financial markets.

The **Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU)** financing instrument provides €47.5 billion in funding for regional and local EU economies. The funding is directed primarily at protecting and creating employment, at expanding education, and at social and healthcare services.

In 2021, the EU adopted the 2021-2027 **programme** for the EU Internal Market. Intended to expand the efficiency of the Internal Market and to empower and protect EU consumers, the **programme** is focused on facilitating Europe's post-COVID recovery. The €4.2 billion budget includes funding for the enforcement of Single Market rules through the **Single Market Enforcement Task Force (SMET)** and the introduction of the **Startup Europe** initiative.

A further initiative connected to the development of the Internal Market is the **SME Strategy**. Introduced in 2020, it is designed to help develop small and medium-sized enterprises (SMEs) in the EU economy. In addition to assisting SMEs with **digitalisation**, the Strategy is set to reduce **regulatory barriers** and expand **market access**.

A further area of development in EU economic policy depends on environmentalism and digitalisation. While the **twin transitions** - the green transition and the digital transition - are well integrated in existing EU economic policy, the EU has introduced additional environmental and digital economic initiatives.

The central aim of the **EU Green Deal** is to transform the EU's economy into one which is environmentally sustainable. It contains commitments for a climate neutral EU economy by 2050 and a 55% reduction of greenhouse gas emissions from 1990 levels by 2030. The Green Deal impacts many EU policy areas and has implications on the provision of finance, financial reporting, the transport and energy sectors and more. The Commission's proposals in 2020 included a communication on the **Sustainable Europe Investment Plan** and a proposal for a regulation establishing the **Just Transition Fund**.

The **Digital Europe Programme (DIGITAL)** - agreed in 2021 - is designed to generate economic growth driven by digitalisation. It aims to accelerate Europe's economic recovery by investing in areas including **artificial intelligence**, **cybersecurity**, **supercomputing** and **digital skills**.

The green and digital transitions underpinned the **European Industrial Strategy,** presented in March 2020. Updated, following the Covid-19 pandemic, the strategy emphasises the role of SMEs in the EU economy and includes actions to support SME's and start-ups. It also prioritises the concept of **Strategic Autonomy** which is "about reducing the EU's dependence on others, for example for critical materials and technologies, food, infrastructure and security".

From workers' rights to supports for job creation, **employment policy** is a persistent element of EU social and economic policy. Several EU programmes support employment creation in Member States. For example, the European Social Fund (ESF) promotes employment and social inclusion by assisting people find work and integrating disadvantaged people into society. The Youth Employment Initiative (YEI) to targets young people aged 15-24 who are not in work, education or training. European Globalisation Adjustment Fund (EGF) supports people who have lost their jobs due to structural changes in world trade patterns.

The EU seven year budget, officially known as the **Multi-Annual financial Framework (MFF)**, and the **Next Generation EU** recovery programme commit a **combined** €1.8 trillion of funding to be invested over the coming years. Alongside the green and digital transition, the funding will support, among other things, research and innovation and modernising traditional policies such as cohesion and the common agricultural policy, to maximise their contribution to the Union's priorities. It **seeks** "to support the recovery while investing in the EU's regions, farmers, companies, researchers, students, citizens in general as well as our neighbouring countries."

Questions for Consideration

1. How can the EU support the economic recovery required following Covid-19?
2. What should be the priorities in terms of greening and digitising Europe's economy?
3. Should the EU have more or less economic powers in certain areas?
4. How can we ensure Europe's future economic development is fair and evenly spread?
5. What activities can the EU undertake to support job creation?

More Information

Listen:

1. "Without good governance EU recovery could fail". Guntram Wolff, Director of Bruegel and Luis Garicano MEP discuss how to ensure that the EU borrowing mechanism would successfully boost economic recovery. Available here.
2. "Building a bridge towards economic recovery". From the European Central Bank's podcast series, its Chief Economist, Philip R. Lane (from Ireland) talks about how will the Covid-19 vaccine and economic recovery, to what is the role of the ECB's monetary policy? The episode, from December 2020, is available here.

Read:

1. "Setting Europe's economic recovery in motion: a first look at national plans." From the Bruegel think tank and available here.
2. "Monetary Policy During the Pandemic: Fit for Purpose?" From the European Parliament's think tank and available here.
3. "What If the EU's Economic Recovery Plan Fails?" From Carnegie Europe and available here.

Watch:

1. "In Conversation with Eurogroup President Paschal Donohoe." This European Movement Ireland event can be accessed here.