

## Box 6

# The creation of competitiveness boards in the context of striving towards a genuine economic union

**On 21 October 2015 the European Commission adopted a communication on strengthening the EU governance framework<sup>1</sup> to follow up on the short-term proposals made in the Five Presidents' Report.<sup>2</sup>** This box focuses on the proposals that specifically relate to strengthening economic union. Economic union aims to ensure that national economic policies, through implementing necessary structural measures, are geared towards increasing the resilience of national economies and supporting the smooth functioning of Economic and Monetary Union (EMU) as a whole.<sup>3</sup> In its communication, the Commission announced improvements to how the European Semester process of policy coordination is applied; it also proposed a Council recommendation for the creation of national competitiveness boards in all euro area member countries.<sup>4</sup>

**The Commission intends to make the manner in which the European Semester is applied more transparent and to reinforce the “euro area dimension” of the process, with a view to promoting policies which ensure the smooth functioning of EMU.** In practice, it seems this will largely be reflected by more weight being given to the euro area recommendation which will be issued by the Council as guidance alongside the Annual Growth Survey for the country-specific recommendations, which are published later in the process. The Commission also announced that it will gradually suggest benchmarks across policy areas to foster the implementation of structural reforms at the national level, supporting convergence towards more resilient economic structures. In addition, it will strive to improve the implementation of the Macroeconomic Imbalance Procedure through greater transparency and appropriately following up any excessive imbalances that are identified. In this respect, the Commission has announced that it will publish a compendium which will explain in detail how the procedure is applied. Finally, the implementation of structural reforms will be promoted through better use of EU structural funds and technical assistance from the Commission services. Changes to the European Semester are already being implemented, starting with the recent publication of the euro area recommendation as suggested by the Commission, the Alert Mechanism Report and the Annual Growth Survey 2016. The proposed Council recommendation for the creation of competitiveness boards will need to be examined by the Council in the coming months, which offers some scope for the Commission proposal to be clarified and strengthened.

<sup>1</sup> European Commission, “On Steps Towards Completing Economic and Monetary Union”, 21 October 2015.

<sup>2</sup> The report, “Completing Europe’s Economic and Monetary Union”, is available at [http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report\\_en.pdf](http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf)

<sup>3</sup> With regard to financial, fiscal and political union, see the box entitled “Creation of a European Fiscal Board”, *Economic Bulletin*, Issue 7, ECB, 2015.

<sup>4</sup> Non-euro area EU countries are also encouraged to set up similar bodies.

**The proposed Council recommendation reflects the need for a renewed impetus for reforms, which are vital in a monetary union to strengthen economic resilience and ensure adequate capacity for economic adjustment.** The recent crisis has demonstrated that adverse competitiveness developments and structural rigidities increase countries' vulnerability and limit their ability to adapt to shocks. The EU's economic governance framework, however, has so far not induced sufficient implementation of national structural reforms. It was in this spirit that the Five Presidents' Report called for the establishment of competitiveness boards in all euro area countries, as the Commission is now proposing.

**National competitiveness boards can help improve the national ownership of structural reforms in the area of competitiveness.** To this end, the proposed Council recommendation aims to increase independent policy expertise at the national level and reinforce the policy dialogue between the EU and euro area member countries. For this to be effective, the Commission suggests ensuring that competitiveness boards are functionally independent and equipped with a broad mandate. According to the proposed Council recommendation, competitiveness boards should follow a comprehensive notion of competitiveness, covering cost and price dynamics as well as non-price factors. The latter in particular capture productivity drivers and considerations related to innovation and the attractiveness of the economy to businesses more generally.<sup>5</sup> Competitiveness boards would be tasked with conveying the relevant information to stakeholders involved in the wage-setting processes at the national level, while not interfering in the process itself. As regards their organisational setup, the proposed Council recommendation foresees that they should be independent from the government. Competitiveness boards should carry out their activities on a continuous basis, publishing their analysis and advice in an annual report. The proposed Council recommendation also clarifies that existing national bodies could take on the role of competitiveness board as long as they fulfil the requirements in terms of mandate and organisational setup.

**The proposed Council recommendation foresees that the Commission will coordinate the activities of the competitiveness boards.** Such coordination aims to support euro area-wide objectives; the Commission would consider input from the system of competitiveness boards, in the context of their annual reporting, when deciding on the steps to be taken under the governance framework.

**Some aspects could be reviewed to strengthen further the proposed Council recommendation.** As suggested by the Commission, the national competitiveness boards could indeed facilitate a better understanding of competitiveness developments and produce new impetus for implementing structural reforms, on the condition that they have a broad mandate and are fully independent. The Commission recommendation for the creation of competitiveness boards includes several important safeguards as regards their independence. However, currently it does not explicitly require the competitiveness boards to be able to communicate publicly beyond the publication of an annual report, even though this would be an essential element of their independence and commitment to transparency. It will

---

<sup>5</sup> The recommendation remains open as to the range of data to be analysed. Depending on the type of analysis, such data could cover aggregate economy, sectoral or, where needed, firm-level data.

also need to be ensured that national competitiveness boards have full discretion as to which stakeholders they communicate with, at what time and how frequently, so they are able to react to national developments and initiatives proposed by national authorities and thereby have an impact on national debates. The legal basis and experience gained through setting up national fiscal councils serves as an important yardstick in this respect.

**In addition, on the concept of a euro area network of national competitiveness boards the proposed Council recommendation remains somewhat vague.** It will need to be ensured that such a network, as suggested in the Five Presidents' Report, is able to exchange best practices and deliver independent views on steps to be taken in the context of the EU macroeconomic governance framework.

**Overall, competitiveness boards could provide new impetus to the implementation of structural reforms in euro area countries, but the appropriate setup, both at the national and euro area levels, will be essential.**

In addition, more far-reaching steps will be crucial to facilitating a genuine economic union. The Commission's proposals are a first step towards further improving the governance framework. However, one should not lose sight of the medium and long-term dimensions of completing EMU. A new process of convergence towards more resilient economic structures should be embarked upon, accompanied by a further sharing of sovereignty over economic and fiscal policies. This should include a gradual move from rules-based coordination towards joint decision-making.