

# EUROPEAN DIGEST – INTERNATIONAL DIGEST

BY

**CECILE BARBIER**

European Social Observatory (OSE), Brussels

Latvia succeeded Italy to the six-month presidency of the Council of the European Union (EU) on 1 January 2015. According to the Latvian Presidency, the “main task” for a “competitive Europe” is to facilitate investment, by finalising the Juncker plan and an investment programme proposed by the president of the European Commission in November 2014, just before the beginning of the European semester. Introduced as part of the flexibilisation of the regulations in the Stability and Growth Pact, the sums allocated by the Member States to the new European Fund for Strategic Investments (EFSI) could be taken into account during assessments of compliance with budgetary regulations performed by the European Commission during the European Semester. 2014 ended with the unfavourable opinion of the Court of Justice of the European Union regarding the Union’s compliance with the European Convention on Human Rights.

At the beginning of this year, the International Monetary Fund (IMF) issued pessimistic forecasts for global growth, which has been declining for ten years. The Organisation for Economic Co-operation and Development (OECD), based on extensive studies, estimated that the growing inequalities observed in many countries would impede economic growth.

Two events, of differing kinds, marked the beginning of 2015. The first event, which had been long expected and demanded by international organisations such as the IMF and international financial authorities, was the presentation, on 22 January 2015, of a programme of “extended purchases” by the European Central Bank (ECB), presented as European-style “quantitative easing”. The second event was the historic victory of the radical left-wing party, Syriza, at the end of the legislative elections held on 25 January. Formed in record time, the government of Alexis Tsipras includes ministers from a right-wing nationalist party, who are known for being opposed to austerity measures. This is the first government which is opposed to the control of the application of austerity measures by the Troika, which is the “informal” organisation comprised of representatives from the European Commission, the ECB and the IMF.

## 1. THE INSTITUTIONAL DEBATE

---

### 1.1. EUROPEAN SEMESTER

On 28 November 2014, the European Commission published documents opening the 2015 European Semester, defined as *“an integrated system that ensures that there are clearer rules, better coordination of national policies throughout the year, regular follow-ups and the possibility of swifter sanctions for non-compliance. This helps Member States to deliver on their budgetary and reform commitments, while making the Economic and Monetary Union more robust”*. Furthermore, the Commission included the Investment Plan, which is at the heart of their expectations in terms of job creation. The annual growth survey (AGS), which recognises the extent of the ECB’s actions, demonstrates the main three foundations favoured by the European Commission: a “boost to investment”, a renewed commitment to “structural reforms” and measures promoting “fiscal responsibility”.

The fourth Alert Mechanism Report (AMR) concludes that the macro-economic imbalance continues to be a “serious problem” and emphasises the need for “determined, extensive and coordinated political action”. Based on the economic reading of the scoreboard for the Macroeconomic Imbalance Procedure (MIP), the Commission found that “in-depth reviews” are necessary in 16 Member States to analyze the accumulation and correction of imbalances as well as associated risks in more detail.

In 2014, the Commission noted the existence of “excessive imbalances” in three countries, namely Croatia, Italy and Slovenia. In 2015, the “in-depth review” will involve examining developments in these imbalances. The Commission identified “imbalances requiring the adoption of decisive measures” in four countries, namely Ireland, Spain, France and Hungary. In these cases, the reviews will focus on assessing risks associated with the persistence of these imbalances.

Belgium was among the Member States where the existence of “imbalances” was observed in 2014. The other Member States were Bulgaria, Germany, the Netherlands, Finland, Sweden and the United Kingdom. In these countries, “in-depth reviews” would make it possible to identify those countries where imbalances are persistent and countries where imbalances have been corrected. If the Commission thinks that a macro-economic imbalance exists or could occur, the Commission will present suitable recommendations, as part of the preventive section of the MIP. The Member State concerned will then be invited to correct the imbalance or to prevent it from occurring. These recommendations have been presented as part of the European Semester and are part of the country-based recommendation packet (May/June).

The Commission recalled that no fine may be applied as part of the preventive section of the MIP. As for the corrective section, meaning when an excessive deficit procedure (EDP) is initiated, financial sanctions (which may reach 0.1% of GDP) can be imposed for euro area Members States which continue to fail to provide a “sufficient corrective action plan” or “to take the agreed action”. This could be the case for France and Belgium. Belgium overcame the excessive deficit procedure (EDP) in June 2014 but is again at risk being subject to this procedure, while France is still covered by a procedure launched in 2009. In 2013, Belgium avoided financial sanctions as a result of the fact that the EDP launched in 2009 was initiated before the new decision-making procedure based on the revision of the Stability and Growth Pact came into force, or more specifically, before the introduction of reverse qualified majority voting (RQMV) as part of the “Six Pack”.

Two countries, Portugal and Romania, will, for the first time, be subject to an “in-depth review”. Portugal re-integrated the framework for “ordinary surveillance procedures”, since the completion of their “economic adjustment programme” in the middle of 2014. Given that Romania is not a member of the euro zone, it falls under an “adjustment programme” as part of financial assistance granted “as a precaution”. In the case of the two countries which are still subject to “financial assistance” (Greece and Cyprus), surveillance of the imbalances and monitoring of corrective measures taken are performed as part of their “economic adjustment programme”. In the case of Greece, the Commission wrote that *“current financial assistance should be provided between now and the end of 2014, in accordance with agreements which may be entered into”*. Greece would then implement MIP “ordinary surveillance procedures” (*“the end of the on-going financial assistance, which is expected by end-2014, depending on the arrangements to be eventually agreed”*.)

#### References:

Annual Growth Survey 2015, COM (2014) 902, 28 November 2014.

Draft Joint Report on Employment, COM (2014) 906, 28 November 2014.

Alert Mechanism Report 2015, COM (2014) 904, 28 November 2014.

Fourth Alert Mechanism Report on macroeconomic imbalances in EU Member States, MEMO-14-2231, 28 November 2015:

[http://europa.eu/rapid/press-release\\_MEMO-14-2231\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-2231_en.htm).

## 1.2. ECONOMIC GOVERNANCE: CLARIFICATION OF THE REGULATIONS FOR THE STABILITY AND GROWTH PACT

In June 2014, the findings of the European Council provided that *“structural reforms that enhance growth and improve fiscal sustainability should be given particular attention, including through an appropriate assessment of fiscal measures and structural reforms, while ma-*

*king best use of the flexibility that is built into the existing Stability and Growth Pact rules”.* After the Juncker Commission took office (1 November 2014), clarifications regarding the implementation of the flexibility offered by the Stability Pact attempted to take into account the contributions of the Member States to the future European Fund for Strategic Investment (EFSI). Presented at the beginning of January 2015, the EFSI should support investment, especially in high bandwidth and energy networks, as well as in companies with less than 3000 employees. The proposal also establishes a European platform for investment consulting which will assist with the selection, preparation and development of projects throughout the Union. Finally, a European reserve for investment projects will allow investors to stay more easily informed regarding existing and future projects.

Presented on 21 January 2015, the new “flexibilities” introduced as part of the application of the Stability Pact constitute neither a review of the regulations nor do they offer any real innovation. They clarify the implementation of regulations which are difficult to apply since the double review of the Stability and Growth Pact, in force since 2011 (Six Pack) and 2013 (Two Pack), and include the method by which contributions from the Member States to the future EFSI may or may not be taken into account.

References:

European Council conclusions, 27 June 2014, EUCO 79/14:  
[http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/en/ec/143478.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/143478.pdf).  
Delivery of 315 billion EUR Investment Plan on track: Commission presents law for the European Fund for Strategic Investments, IP-15-3222, 13 January 2015 and COM (2015) 10:  
[http://europa.eu/rapid/press-release\\_IP-15-3222\\_en.htm](http://europa.eu/rapid/press-release_IP-15-3222_en.htm).  
Stability and Growth Pact: Commission issues guidance to encourage structural reforms and investment. Strasbourg, 13 January 2015 and COM(2015) 12:  
[http://europa.eu/rapid/press-release\\_IP-15-3220\\_en.htm](http://europa.eu/rapid/press-release_IP-15-3220_en.htm).

### **1.3. JOB CREATION AND THE SOCIAL SITUATION IN THE EUROPEAN UNION**

The fourth edition of the 2014 report on job creation and the social situation in Europe presents a detailed analysis of the problems and concerns of the European Union and the Member States in this regard. Presented on 15 January 2015 by the European Commission, the report presents findings which are very similar to those of previous editions. The crisis, in addition to weak recovery and fragile growth, has worsened the majority of structural challenges which already existed in the Union and continues to seriously affect the life of many citizens of the EU. According to the European Commission, “*countries providing high quality jobs and effective social protection as well as investment in human capital*” have been in a better position to

withstand the economic crisis. Consequently, the report emphasised the need for investment in “human capital” (acquisition and preservation of desired skills by workers), as well as in quality jobs and work organisation, highlighting the pivotal need to re-establish socio-economic convergences between Member States.

References:

Employment and Social Developments: Annual Review highlights key factors behind resilience to crisis, 15 January 2015:  
[http://europa.eu/rapid/press-release\\_IP-15-3321\\_fr.htm](http://europa.eu/rapid/press-release_IP-15-3321_fr.htm).

#### 1.4. “QUANTITATIVE EASING” OF THE ECB IN ORDER TO REBOOT GROWTH?

Following the comments made by the president of the ECB in July 2012, implying that the ECB would do everything they could to save the euro (“whatever it takes”), expectations of the monetary institution have not stopped increasing. Presented in September 2012, the Outright Monetary Transaction (OMT) is a virtual programme to buyback sovereign securities without any limits other than compliance with associated conditions. At the time, this announcement immediately calmed financial markets and diminished speculation on European sovereign debt securities, without the programme even ever having been activated. Since then, faced with increasingly poor economic circumstances, several international organisations, such as the IMF and the OECD, had called upon the ECB to move from words to action to “reboot growth”. The ECB has ceased entertaining doubts as regards their communication policy for financial markets, which were expecting a form of “quantitative easing”, namely announcement of a private debt and sovereign debt buyback programme, similar to the action taken by other central banks since 2008.

Given that the European Union is not a constitutionally founded Federal State but a legal order based on treaties negotiated by Member States and ratified in accordance with practices in force at a national level, any ECB act must respect regulations in European treaties. However, in Germany, the legality of the OMT has and continues to be disputed. Following a complaint brought before the German Constitutional Court, this Court, in February 2014, stated that the OMT programme was contrary to German basic law as well as European treaties. For the first time in its history, the Court decided to ask the opinion of the Court of Justice of the European Union. On 14 January 2015, the advocate general at the Court of Justice issued his opinion. Contrary to the rationale of the German Constitutional Court, the opinion considered that the OMT is an “unconventional” monetary policy operation which is compatible with European treaties. There are two conditions posed by the advocate general. The first requires that the ECB “*refrains from any direct involvement in the financial assistance programs to which the OMT program is linked*”. In short, the advocate general suggested that the ECB abstain from any involvement in “assistan-

ce programmes” to the Member States. The second condition provides the compatibility for a programme with European treaties “*in the event of the program being implemented, the timing of its implementation is such as to permit the actual formation of a market price in respect of the government bonds*”. It remains to be seen what the content of the future ruling of the Court will be as regards the role of the ECB in the Troika, an informal organisation whose role is also reinforced by the Two Pack. The Court of Justice must issue a ruling within four to six months following publication of the opinion of the advocate general (in July 2015 at the latest).

The opinion of the advocate general opened the way to the announcement of new actions by the ECB, presented as “quantitative easing” in the press. A quantitative easing operation is a technique to which Central Banks resort when the other monetary policy instruments, mainly changes in key interest rates, are exhausted as a result of the fact that the rates are too low, which is the case in the euro zone since the decreases in June and September 2014.

As the financial markets had anticipated, the ECB announced an “extensive programme of asset purchases”, effective from March 2015 to the end of September 2016, for the sum of 60 billion EUR per month of securities purchased in the private and public sector, which is a total budget of 1,140 billion EUR. In March 2015, “*the Eurosystem will start to purchase euro-denominated investment-grade securities issued by euro area governments and agencies and European institutions in the secondary market. The purchases of securities issued by euro area governments and agencies will be based on the Eurosystem (NCBs’ shares in the ECB’s capital key. Some additional eligibility criteria will be applied in the case of countries under an EU/IMF adjustment programme*”. These measures have been presented to combat deflation. These operations will be conducted by the National Central Banks (NCB), holding 80% and 20% for the ECB. Up to 20% of the debt bought back will, as a result, be pooled. For the remaining 80%, the risk will be borne by the national central banks, based on their contribution to ECB capital. Only “good quality” securities referred to as “investment grade” will be involved. This would seem to exclude securities which issued by countries such as Greece, which is verging on the “Default” (D) category. Greece could not benefit from “quantitative easing”, even though it contributed 2.03%, or 22 million EUR, to the capital of the ECB. Additional conditions will be provided subsequently.

According to the president of the ECB, the principle of the purchase programme was unanimously accepted by members of the Governing Council. The decision to make the announcement on this day was supported by a “large majority” and the distribution of risks between the ECB and NCBs is based on the consensus (“*consensus means that everybody could either agree or not object. The large majority means that a lot of people agreed and a few people objected*”). These interpretations are all the

more interesting because since Lithuania's adoption of the single currency (1 January 2015) the voting methods within the Governing Council have changed due to a complex rotation system, taking into account the financial weight of the governors in the ECB.

References:

Court of Justice of the European Union Opinion of the advocate general Cruz Villalón delivered on 14 January 2015, (1) Case C62/14:

[http://curia.europa.eu/juris/document/document\\_print.jsf?doclang=EN&text=&pageIndex=0&part=1&mode=lst&docid=161370&occ=first&dir=&cid=206006](http://curia.europa.eu/juris/document/document_print.jsf?doclang=EN&text=&pageIndex=0&part=1&mode=lst&docid=161370&occ=first&dir=&cid=206006).

Mario Draghi, President of the ECB, Frankfurt am Main, 22 January 2015:

<http://www.ecb.europa.eu/press/pressconf/2015/html/is150122.en.html>.

## 2. FUNDAMENTAL RIGHTS/EUROPEAN CONVENTION ON HUMAN RIGHTS

### 2.1. THE COURT OF JUSTICE AGAINST THE ADHERENCE OF THE EU TO THE EUROPEAN CONVENTION ON HUMAN RIGHTS

The 28 States in the EU are members of the Council of Europe, totalling 47 countries. They all adhered individually to the European Convention on Human Rights (ECHR), which allows any national to bring a case before the European Court of Human Rights in Strasbourg. For the second time, the EU Court of Justice (ECJ) has closed the door to the EU's adherence to the ECHR. In a prior opinion dating from 1996, the Court of Luxembourg (ECJ) had considered that article 235 EC [currently article 352 of the Treaty on the Functioning of the European Union (TFEU)] was not a legal basis which would allow this adherence, and necessitated a review of the treaties. The 2009 treaty of Lisbon contains the legal basis required, namely article 6 par. 2 of the Treaty on European Union (TEU) according to which *“The Union shall accede to the European Convention for the Protection of Human Rights and Fundamental Freedoms”*. An agreement of this kind was entered into in April 2013 between the European Commission and the Council of Europe. In response to a question asked by the Commission of the ECJ regarding the compatibility of this agreement with European treaties, the Court responded in the negative. The Court considers that *“The approach adopted in the agreement envisaged, which is to treat the EU as a State and to give it a role identical in every respect to that of any other Contracting Party, specifically disregards the intrinsic nature of the EU and, in particular, fails to take into consideration the fact that the Member States have, by reason of their membership of the EU, accepted that relations between them as regards the matters covered by the transfer of powers from the Member States to the EU are governed by EU law to the exclusion, if EU law so requires, of any other law”*. The Court also noted that *“there is no provision in the agreement envisaged to ensure”* “coordination” between the

ECHR and the European Charter of Fundamental Rights. This opinion dampened the efforts of promoters of dialogue between the two main European organisations, the European Union and the Council of Europe, and the promoters of external control of the European Union by the European Court of Human Rights.

It is true that the United Kingdom's position is increasingly reflective of the position of the British eurosceptics from the United Kingdom Independence Party (UKIP), whose main campaign argument is based on the UK's withdrawal from the EU. This topic has been addressed by the Prime Minister David Cameron, who promised that, if he is re-elected in May 2015, he will organise a referendum, in 2017, regarding whether or not the UK should stay in a reformed EU. David Cameron does not intend only to settle "the question of the EU", but also the question of the European Court of Human Rights. If he is re-elected, he has promised to revoke the 1998 "Human Rights Act", which requires all British courts to apply case law from the Court of Strasbourg "wherever possible". This law respects the sovereignty of the Westminster Parliament by providing that, in case of an incompatibility between British law and the provisions of the Court of Strasbourg, judges can issue a "declaration of incompatibility". In this case, there is an incentive for Parliament to change the law, but this law can theoretically remain in its current condition. Anyway, revocation of the "Human Rights Act" would defeat the purpose of the United Kingdom's adherence to the ECHR.

References:

Opinion of the Court - Adhesion of the Community to the Convention for the Protection of Human Rights and Fundamental Freedoms. Opinion 2/94. 28 March 1996: [http://eur-lex.europa.eu/resource.html?uri=cellar:3645916a-61ba-4ad5-84e1-57767433f326.0002.02/DOC\\_1&format=PDF](http://eur-lex.europa.eu/resource.html?uri=cellar:3645916a-61ba-4ad5-84e1-57767433f326.0002.02/DOC_1&format=PDF).

Opinion pursuant to Article 218(11) TFEU - Draft international agreement - Accession of the European Union to the European Convention for the Protection of Human Rights and Fundamental Freedoms - Compatibility of the draft agreement with the EU and FEU Treaties, Opinion 2/13. 18 December 2014: <http://curia.europa.eu/juris/document/document.jsf?text=&docid=160882&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=1473>.

---

### **3. TREATY REFORM/FUTURE OF THE EUROPEAN UNION**

#### **3.1. TOWARDS A RENEWED EUROPEAN INSTITUTIONAL ORDER**

Following the result of the legislative elections in Greece and the victory of the radical left-wing party, Syriza, a national government is, for the first time, opposed to the austerity measures and their control by the Troika. The government intends to return the level of minimum social benefits to the level they were prior to reduction,

in accordance with draconian austerity measures. In short, this would mean, for example, that the minimum wage would be returned to 751 EUR, compared with 580 currently. Addressing the retirement age and pension reform is also among the government's priorities, as far as social protection is concerned. The government is also committed to revolutionising the tax system in Greece. It remains to be seen how the new Greek government will negotiate with the other members of European institutions, who all defend the implementation of austerity measures, which they continue to consider as “expansionist”.

In order to establish “*concrete measures making it possible to strengthen the coordination of economic policies, convergence and solidarity*”, participants in the euro zone summit of 24 October 2014 had requested that works launched in 2012 by the report prepared by the four presidents be continued (European Council, European Commission, the Eurogroup and the ECB). As part of the unique institutional structure that is the Economic and Monetary Union and with a view to renewing the technique of entrusting reflection to the presidents of European institutions, participants invited “*the president of the Commission, in close collaboration with the president of the summit and euro zone (who is also the president of the European council), the president of the Eurogroup and the president of the Central European Bank, to prepare new initiatives aimed at improving economic governance in the euro zone.*” In December 2014, the European Council confirmed this approach, specifying that “the Member States will be closely involved in the preparatory works”. The presence of the president of the ECB confirms the importance of an institution which, in theory, is independent but whose mark, both in terms of the design and application of regulations and treaties, is incomparable on a global scale. This presence is assumed by the ECB's president who, in an opinion piece published at the beginning of January 2015, appealed for a “*renewed institutional order*”.

#### References:

Euro Zone summit, 24 October 2014:

[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/fr/ec/145454.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/fr/ec/145454.pdf).

Findings of the European Council, 18 December 2014:

[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/fr/ec/146417.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/fr/ec/146417.pdf).

Stability and Prosperity in Monetary Union, Opinion piece by Mario Draghi, President of the ECB, for Project Syndicate, 2 January 2015:

<http://www.ecb.europa.eu/press/inter/date/2015/html/sp150102.en.html>.

## 4. THE VOICE OF INTERNATIONAL ORGANISATIONS

---

### 4.1. DAVOS WORLD ECONOMIC FORUM

At the end of December 2014, the OECD published a study regarding the relationship between income inequalities and growth. According to the study, as of 1985, inequality has increased in the majority of OECD countries (17 out of 22), and economic growth has been diminished as a result of these inequalities, especially by an inter-generational mechanism (children from poor households invest less in their education, proportional to growth in inequalities). This study was based on the “human capital” theory.

The day before the World Economic Forum in Davos, from 21 to 24 January 2015, the IMF reported that there had been a decrease in growth in the global economy, despite the fall in petrol prices and growth recovery in the American economy. According to the IMF, global growth should accelerate slightly in 2015-2016, rising from 3.3% in 2014 to 3.5% in 2015 and to 3.7% in 2016. This forecast is down from the forecast in the 2014 edition of the report by 0.3 points.

Prior to the Davos Forum, the NGO Oxfam made public a new study revealing the extent of inequalities in the distribution of wealth throughout the planet. The cumulated wealth of the richest 1% on the planet will soon exceed the wealth of the remaining 99%. According to Oxfam, *“the proportion of global wealth owned by the richest 1% increased from 44% in 2009 to 48% in 2014, and will exceed 50% in 2016”*. *“In short, 80% of the world population has to make do with only 5.5% of the wealth”*.

Participating in a panel on the “future of Europe” organised in Davos, the financier and billionaire George Soros warned that the monetary policy referred to as “quantitative easing” could cause a speculative bubble. He tells the panel that “It will benefit the owners of assets. Wages will remain under pressure, through competition and unemployment. This will reinforce a major concern between rich and poor. It will have political consequences”.

References:

Trends in Income Inequality and its Impact on Economic Growth, OECD Social, Employment and Migration Working Papers, No. 163, OECD Publishing:  
<http://www.oecd-ilibrary.org/docserver/download/5jxrjncwvxv6j.pdf?expires=1422620837&id=id&accname=guest&checksum=6B33F7E0ED84175C-82D6276E7A6826B2>.

Wealth: having it all and wanting more, 19 January 2015:

[http://www.oxfam.org/sites/www.oxfam.org/files/file\\_attachments/ib-wealth-having-all-wanting-more-190115-en.pdf](http://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/ib-wealth-having-all-wanting-more-190115-en.pdf).

World Economic Outlook Update, IMF Survey Magazine in the News, 22 January 2015:  
<http://www.imf.org/external/pubs/ft/survey/so/2015/NEW012015A.htm>.  
Davos: WPP boss says economic equality does not bring prosperity, The Guardian,  
23 January 2015:  
<http://www.theguardian.com/business/2015/jan/23/davos-wpp-martin-sorrell-equality-prosperity>.

*(Translation)*

---