
The Structure of Euro Plus Pact. A Path for Measuring It's Adoption

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Abstract

The Euro Plus Pact was established in March 2011 according to the Open Method of Coordination (OMC). More specifically, it was published as part of the 24-25 March Summit conclusions, while the European Council of 9/12/2011 proceeded to the specification of the program pillars for each country. Its main objective was to strengthen the coordination of the European competitiveness and convergence economic policies. The Euro Plus Pact is based on four key pillars of equal importance, which are specified in different indexes and means of achievement. The first strategic pillar is fostering competitiveness, the second one is fostering employment, the third one is contributing further to the sustainability of public finances and the fourth one is reinforcing financial stability. The scientific findings demonstrate that the EU has shown little interest in implementing the Euro Plus Pact, while the literature about it is relatively poor with the only references being in relation to the first strategic pillar, which is promoting competitiveness by reducing unit labor costs. Regarding this strategic pillar, the EU institutions have no oversight on its implementation. The present paper analyzes all the Euro Plus Pact strategic pillars, the indexes and the means of achievement related to each strategic pillar and proposes a comprehensive scoreboard for the assessment of each country's response rate to the pact objectives. The scoreboard consists of more than 30 indexes that reflect the progress of each country in comparison to the Euro Plus Pact goals. The implementation of this scoreboard could be a useful tool for European policy-makers and decision-makers on economic governance issues both at national and EU level.

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INTRODUCTION

The Euro Plus Pact, as well as the reforms that are aiming to assist in the stabilisation and convergence of the EU member states' economies (Estella, 2018). Since 2010 the economic governance within the EU has changed radically, and a multitude of new rules and reforms have been instituted (De Grauwe, 2018). The set of measures introduced by the Six Pack, Two Pact, Euro Plus Pact and the Fiscal Compact all introduce reforms in the preventive as well as the corrective aspect of the Stability and Growth Pact (SGP) (Commission, 2014). At the same time they introduce the macroeconomic instabilities process, the excessive macroeconomic instabilities process, the automatic fiscal stabiliser, debt-cutter, and the informal Euro Summit, while they increase significantly the role of the EU Commission (Becker, et al., 2016). All these reforms aim towards the coordination of the economic policies in order to avoid another potential economic crisis in the future (European Commission, 2011).

According to the author, the Euro Plus Pact stands out from the rest of the reforms since it doesn't introduce any regulation or directive, nor does it constitute a part of the reforms in any previous regulatory framework.

The conclusions 11 and 12 of the Euro Summit 24/25 March 2011, that belong to the chapter titled "Providing a new quality of economic policy coordination: the Euro Plus Pact" state the following: *"The Euro Plus Pact as agreed by the euro area Heads of State or government and joined by Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania (see annex I) will further strengthen the economic pillar of EMU and achieve a new quality of economic policy coordination, with the objective of improving competitiveness and thereby leading to a higher degree of convergence reinforcing our social market economy. The Pact remains open for other Member States to join. The Pact will fully respect the integrity of the Single Market. The Member States that have signed up to the Pact are committed, on the basis of the indicators and principles it contains, to announce a set of concrete actions to be achieved*

within the next twelve months. A number of Member States have already announced first commitments. All participating Member States will present their commitments as soon as possible and in any event on time for their inclusion in their Stability or Convergence Programmes and National Reform Programmes to be submitted in April and for their assessment at the June European Council." Essentially, they describe exactly the Pact, while the Pact itself is attached to the ANNEX I of the conclusions.

The pact was established in order to increase the coordination of the economic arm of the Economic and Monetary Union (EMU) and boost the competitiveness of the member states' economies (European Commission - EPSC, 2015). The goal of the EMU is to reach a higher degree of economic convergence between the member states' economies (Gabrisch & Staehr, 2014). Despite the fact though that these policies fall under the surveillance of the national governments instead of the Union, the policies that received the main focus during the period of economic adjustment are the ones that are not part of the strict core of the EMU policies, such as labour laws and pension reforms (Barnard, 2012).

The problem then is that there is a lack of an evaluation control for the implementation of the goals and rules that are dictated by the Pact. At the same time, if we examine the literature and the reports of the European regulatory bodies, it turns out that the Pact does not comprise a part of the continuous evaluation of the European Institutions neither is there a mention of its implementation.

With this paper, we attempt to create a scoreboard with which we can measure the response to the Euro Plus Pact with quantifiable and objective indexes. This paper has scientific value as there been no attempt so far to evaluate the response of the states to the goals of the Pact, while it comprises a tool to policy making and setting of goals. The added value of this paper is the addition of indexes that measure the goals of the Pact but are not captured within the Pact itself.

First Key Pillar: Fostering Competitiveness

The first key pillar of the Pact is related to the improvement of competitiveness within the EU (Collignon & Esposito, 2013). With regards to this first goal, there is a great deal of emphasis given to the value of the index of unit labour cost (ULC)¹, which must be evaluated in total, but it can also be done on a per sector basis² (Mertsina & Jänes, 2012). This specific goal can be achieved by re-examining the method of determining the wage and the negotiation process, by taking care that the wage agreements in the public sector support the efforts undertaken in the private sector (taking also into account the psychological effect that the wages in the public sector have), the opening of sheltered sectors, specific efforts to improve education systems and promote R&D, innovation and infrastructure, as well as measures for improving the business environment.

The basic indexes with which we can evaluate the improvement of competitiveness according to the Euro Plus Pact is firstly the unit labour cost but also the wage cost index.

Of course, an additional but very important index is the Ballance of Payments (BoP) (OECD, 2011a) and (Comunale & Hessel, 2014). The continuous deficits in BoP, in conjunction with the deficits in the monetary result of the government lead to a loss of competitiveness (Decramer, et al., 2014).

An additional index is the yearly assessment that the World Bank performs, as well as the Global Competitiveness Report that is published yearly by the World Economic

Forum. The report titled “Doing Business Annual Report” scores the data in the following table.

World Bank Criteria

Time required to start a business
 Dealing with construction permits
 Getting electricity
 Registering Property
 Getting Credit
 Protecting Minority Investors
 Paying taxes
 Enforcing Contracts
 Trading Across Borders
 Resolving Insolvency

An additional index for measuring competitiveness is the Business Confidence Index (BCI), which according to OECD “provides information on future developments and be used to monitor output growth and to anticipate turning points in economic activity”.

Besides the indexes previously mentioned, two additional indexes that can measure competitiveness of a country’s economy is R&D expenditures expressed as GDP percentage, as well as the economic growth measured as GDP percentage, but also the R&D expenditures in billions of dollars per year (Matsumura, Matsushima, & Cato, 2013).

Some additional indexes are the size of the Public Investment Program (OECD, 2014), but also the size of Foreign Direct Investments in a country (Gugler & Brunner, 2007) and (Anastassopoulos, 2007).

Finally, the International Investment Rank could be a criterion for measuring the competitiveness of each country.

The following table presents a synopsis of the ten indexes with which the response of a country’s economy can be measured with regards to the First Pillar of the Pact.

Indexes with regards to competitiveness

Unitary Labor Cost
 Wage Cost Index
 Ballance of Payments
 World Bank Report (Doing business annual

¹ Big and continuous increases in ULC can lead to loss of competitiveness (Ark & Monnikhof, 2000), (Ark, Stuivenwold, & Ypma, Unit labour costs, 2005).

² The competitiveness of a product can be categorized in price competitiveness and structural competitiveness (non price competitiveness). According to general consensus, there is more emphasis given to structural competitiveness nowadays rather than the price competitiveness, at least with regards to developed economies.

report)
 BCI Index
 R&D Expenditure as % GDP
 R&D Expenditure in billions USD \$
 Public Investment Program
 Foreign Direct Investments
 International Investment Rank

Second Pillar: Fostering Employment

With regards to the Second Pillar, which is the promotion of employment, there are three indexes determined. These are: long term unemployment, youth unemployment and labor force participation rate. These indexes can be improved by the promotion of flexicurity in employment relations (Wilthagen & Tros, 2004), the promotion of lifelong learning (Green, 2002) as well as reforms in the tax policies of labor, such as the reduction of tax rates so that work can become more attractive (European Commission, 2018) (OECD, 2011b).

The first three indexes with which we can measure the employment improvement have been mentioned previously. Besides these, there are some additional indexes with which we can measure the response in this pillar.

Three additional indexes are the labor taxation (Kalyva, et al., 2018) the index of youth unemployment (Mroz & Savage, 2006), and the total number of hours worked. For example, it's very different to create 3 new part time job positions (3 positions X 4 hours = 12 total hours) with the creation of 2 full time job positions (2 positions X 8 hours = 16 total hours).

Indexes with regards to employment
 Unemployment Rate
 Long Term Unemployment
 Labor Force Participation Rate
 Labor Taxation
 Youth Unemployment
 Hours worked

Third Pillar: Enhance the sustainability of public finances

The third pillar, the contributions to enhancing the sustainability of public finances can be monitored through indexes that examine

the course of the sustainability of pension funds (Barrell, et al., 2009), the healthcare and social benefits (Merola & Sutherland, 2013) but also with the institution of fiscal rules such as the “debt cutter” (Darvas, et al., 2018).

Essentially the indexes in this pillar can be split in three groups. The first group relates to indexes that evaluate the course of pension programs' sustainability. In this group we can include five indexes. The first one is the *pension replacement rate*, the second one is the net pension fund wealth, the third one is the ratio of workers to pensioners, the fourth one is the transfers of the general government to the social security funds and the fifth one is the public expenditure on pensions as a GDP percentage.

The second group of indexes is concerned with the sustainability and the rationalization of expenditures with regards to healthcare and social services (Lora & Olivera, 2007). In this group belong the public expenditure for healthcare, parametrical public expenditure measured in USD, and the public social spending.

Finally, in the third group of indexes that are related to the establishment of national fiscal regulations we can make use of eight indexes in order to evaluate the named adjustment (Shah, 2017), (Sávai & Kiss, 2018). The first one is the gross financing needs (GFN) (Alcidi & Gros, 2018a) and (Alcidi & Gross, 2018b), the second one is the public debt as GDP percentage (IMF, 2015), the third one is the fiscal result of the general government (Koehler & König, 2014), the fourth one is the public debt expressed in absolute numbers, such as e.g. billion USD, the fifth one is the interest rate of the 10-year bond (De Grauwe & Ji, 2012), the sixth one is the net current debt present value, the seventh one is the weighted average interest rate of public debt and the final one is the weighted-average maturity of public debt (Andritzky, et al., 2019).

The following table represents the 16 indexes of the third pillar of the Pact.

Indexes related to sustainability of public finances
 Percentage of pension recovery
 Net Pension Fund Wealth

Tatio of workers to pensioners
 Transfers of the general government to the social security providers
 Public expenditure on pensions as a GDP percentage
 Public expenditure for healthcare
 Drug related public expenditure
 Public social spending
 Gross Financing Needs (GFN)
 Public debt as GDP %
 Fiscal result of the general government
 Public Debt in billions USD
 Interest rate of 10-year bond
 Debt Net Present Value
 Weighted Average Interest Rate of Public Debt
 Weighted Average maturity of Public Debt

Fourth Pillar: Financial stability

Finally, with regards to the fourth pillar, despite the fact that there are no evaluation indexes mentioned, there are policies proposed: the adoption of banking sector resolution laws, performance of regular stress tests and the monitoring of the evolution of the private debt of banks, households and business outside the financial sector. The author, in the context of quantifying the evaluation, chose 8 indexes with which the response in the current pillar can be measured. The first one is the number of yearly stress tests performed, the second one is the percentage of Non-Performance Loans (NPL) in relation to total borrowing (ECB, 2017), the third one is the dependence of banks on the Emergency Liquidity Assistance (ELA) mechanism of the ECB, the fourth one is the rate of bank deposits, the fifth one is the rate of change of funding, the sixth one is the net volume of savings, the seventh one is the course of the bank stocks, which can be extracted from the stock market index of the sector and the last one is the volume of NPL in billion dollars.

Indexes with regards to financial stability
 Number of yearly stress tests performed
 NPL % of total borrowing
 Dependence on ELA
 Bank deposits in billions USD
 Rate of change of funding (issuing of new loans)
 Net savings

Bank stocks
 NPL in billion dollars
 Total assets of Banks

Assessment

The assessment of the response to the Pact will be carried out with the following methodology. The response in each pillar is examined independently, this means that for every pillar there is a specific rating, and in the end all these ratings are added together, and a final result is then extracted. More specifically, if an index has an improvement over the last year then one unit is added, and conversely if a specific index has decreased over the last year a unit is subtracted. Even more specifically, if the increase is within 0 – 3 % exactly 1 unit is added, if the increase is from 3 – 5% 1.2 units are added, and if the increase is more than 5% then 1.5 units are added. In the decrease the same number of units are subtracted respectively. Then, since each pillar has a different number of indexes, the total sum of each pillar is divided by the number of indexes that evaluate the response in each pillar. Finally, the four individual results are added together and comprise the final result. The limit values of the index can be from - 6 till + 6.

CONCLUSION

In conclusion, we can say that the Euro Plus Pact does not focus in one economic aspect, but includes all of the economic activities, that is the public macroeconomic figures, the financial sector, the employment, but also the competitiveness of a country. So, the evaluation of the implementation of the Pact's goals, can comprise a complete index for the course of a state's economy. The 40 indexes that are selected show a concrete image of the course of a state's economy, while the comparative evaluation between each state can show the degree of convergence and economic integration of the EU. Monitoring this indicator could help avoiding new budgetary or financial macroeconomic imbalances, while also highlighting progress in the competitiveness of

EU countries. It is therefore necessary for the EU to create an annual report on compliance with the objectives of the Euro Plus Pact, with accountable results.

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