

Informal meeting of Ministers for Employment and Social Affairs of the euro area

5 October 2015

Luxembourg

Background note



A contribution for the informal meeting of Ministers for Employment and Social Affairs of the euro area

Despite significant socio-economic convergence that has occurred during the two last decades, inequalities have been growing between and within Member States, particularly in the euro area, since the onset of the crisis. This, among other factors, has also had an impact on the current decline in the support of the citizens for the European integration project. These trends represent a difficult political context for the European social agenda and the “*social triple A*” ranking aimed for Europe by the Juncker Commission.

Political arguments for an enhanced social dimension are even more legitimate within the Economic and Monetary Union (EMU) with an enhanced economic governance structure. An increased social divergence within the EMU will undermine the political **legitimacy** of the project, in which the Euro represents a precious public good shared by more than 335 millions of citizens.

This divergence might also threaten the EMU construction process and undermine its stability as highlighted in the Five Presidents’ Report, which considers that the completion of Europe’s Economic and Monetary Union should aim at economic, financial, fiscal and political unions over the long-run. This process will not be achieved if Member States do **not share at least a mutual trust in their social models, ensure that their social protection mechanisms are adequate and efficient and have a common objective for upward social convergence.**

Beyond political considerations, **functional arguments** justify the urgency of a debate that addresses the nature and the extent of the social dimension that Member States would like to confer to the EMU. At national level, tools for macroeconomic policy become relatively scarce, in order to address asymmetric macroeconomic shocks. Member States are no longer able to compensate a loss in competitiveness through the traditional exchange rate channel, and therefore need to operate adjustments in their labour market and social protection variables. The crisis has confirmed that being in a monetary union implies accepting a trade-off between flexibility and symmetry. The reduced flexibility means that the EMU needs more symmetry and thereby convergence. Given the current situation, it would be reasonable to claim that the symmetry necessary for the smooth functioning of the EMU requires an **upward social convergence**. In other terms, the increased risk of **social divergence** will be inherent to the EMU and its **sustainability**, if no genuine reflection on **common social standards** and their implementation is triggered.

In addition, there are important legal considerations. Reinforced economic coordination, as laid down in EU legislation, has important implications for policies with a significant budgetary impact, such as social protection policies. Economic convergence, at the heart of economic coordination, does not automatically lead to upward structural or social convergence. In order for social convergence to take place, **appropriate coordination of employment and social policies and/or outcomes needs to be embedded in the process**, which takes into account the fact that EU-level legislative provisions for the coordination of employment and social policies are very different from the ones for economic coordination.

The work of the **Ministers for Employment and Social Affairs of the euro area** can **provide the appropriate framework** for coordination of employment and social policies at the Euro level, in respect of the Treaty provisions and granting the required flexibility for euro area Member States in the implementation of national policies.

The welfare and the prosperity of the citizens are the desired outcomes of implementing a genuine social dimension. Therefore, **reinforced governance** should follow up this dimension **in less a sporadic way**. **Euro Summits** gather the Heads of State or Government of the euro area. These summits should represent an opportunity to discuss all the important challenges faced by the EMU, including those related to the formulation and the implementation of social and employment policies in the euro area. The expertise and recommendations of the Commission, the Council and the European Central Bank should be put at the disposal of such summits.

In this vein, and as suggested by the French-German statement of 29 May 2013 and called for by a number of delegations in the informal meeting of the Employment and Social Affairs Ministers of 16 and 17 July 2015 in Luxembourg, these **summits should build on the work conducted by the Eurogroup, as well as of Ministers of the euro area responsible for employment and social affairs**, within specific ministerial platforms. This would allow having a comprehensive and multi-level spectrum of the EMU governance, which aims to reach a twofold objective:

- On the one hand, it is crucial to continue to ensure compliance to the strict and enhanced framework of economic and budgetary policies, necessary for the stability and the smooth functioning of the EMU *stricto-sensu*, as stipulated in the Treaties and the Stability and Growth Pact. The work undertaken by the Eurogroup is fundamental in this respect;
- On the other hand, it is essential to **pursue the implementation of structural reforms aiming to modernise welfare systems and to improve the functioning of labour markets**. However, it is also of paramount importance to guarantee that the social and employment policies are not “downgraded” to mere “adjustment variables”, following asymmetric macroeconomic shocks. The challenge is real, considering the increased risk of social dumping and the associated race to the bottom, specifically in the EMU.

Considering the abovementioned arguments,

- a) do Ministers agree to follow up regularly the development of social and employment policies specific to the euro area, within a dedicated structure of Ministers for Employment and Social Affairs of the euro area? If so, do they agree to report to Euro Summits on euro area challenges related to employment and social policies, and what would be the political nature of such a contribution?***

The provisions of the Five Presidents' Report:

The European Semester has significantly reinforced the coordination of economic policies. Several improvements to this process have been integrated this year for simplification and in order to reach a clearer vision of the priorities. Further to that, on the operational front, the Five

Presidents' Report brings an additional novelty. In order to better integrate the euro area and the national levels, it proposes to **structure the semester into two successive stages** distinguishing between a European phase (November of year “n-1” to February “n”) and a national phase (March to July “n”).

The **first stage would be dedicated to evaluating the situation of the euro area as a whole**. The Commission’s Annual Growth Survey (AGS) would be the basis for the discussion and would build on a number of thematic reports, such as the **Alert Mechanism Report (AMR)**, and a new **Joint Employment and Social Report (JESR)**. **These reports deliver a global overview of the euro area challenges**. In the perspective of reinforcing the institutional architecture, as well as the democratic legitimacy of the EMU, the Report mentions a central steer by the Eurogroup as well as a reinforcement of its presidency over the short term (until 2017).

The Report also recognises that for EMU to succeed, labour markets and welfare systems need to function well and in a fair manner in all euro area Member States. **Pursuing best practices and benchmarking could be used to foster upwards convergence**. Benchmarks would consist of a package of policy measures, which should contribute to the achievement of a numerical target, relative to the situation of each Member State. The Youth Guarantee and the proposed Council Recommendation on the integration of the long-term unemployed into the labour market are examples of benchmarks.

In the **second stage** (from 2017), the convergence process should become more binding. Common high-level standards would be defined in EU legislation. **Significant and sustained convergence** should be a condition for access to a shock absorption mechanism to be set up by the euro area in stage 3 (2025 at the latest).

On the operational level,

- b) do Ministers agree that a meeting of Ministers for Employment and Social Affairs of the euro area would bring added value when discussing the euro area view on the AGS, AMR, JESR and, following a specific proposal, of the euro area recommendation? If so, what should the contribution of the Ministers for Employment and Social Affairs of the euro area be?*
- c) how do Ministers see the formalisation of the process towards upwards convergence? Which benchmarks do Ministers consider as most important?*
- d) how to ensure a smooth and transparent linkage to non-euro area Member States?*

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