

Informal meeting of Ministers of Employment, Social Affairs and Gender Equality

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**European Convention Center
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Session 1: The social dimension in EU's governance framework

Background note



The social dimension in EU's governance framework

The crisis left a heritage in terms of unemployment and poverty in the European Union (EU). Europe's ambition should be to earn a '**social triple A**' and to preserve the **European social model** as a matter of common interest for all Member States (MS). Shared social objectives¹ and coordinated social policies have a crucial role in defining the European identity and the value added of the European project, while promoting growth and competitiveness on the basis of **common social objectives**. Putting the social dimension at the centre of the agenda constitutes a key condition for further steps in the process of integration and democratic consensus, also moving towards the EU 2020 targets on employment and on fighting poverty and social exclusion.

Deepening the social dimension of the Union

Europe is facing major social problems illustrated in historically high levels of unemployment, increasing inequalities, poverty and material deprivation with widening divergences across Member States. Youth unemployment and child poverty are two examples which reflect inadequate investment in human capital on a large-scale. Many MS are already experiencing a concrete risk of a generational gap, leading to a lost generation even after the recovery, with immeasurable losses in human capital and growth potential. These challenges adversely impact some countries more than others, resulting in social and economic polarisation in the EU. They should be acknowledged as a set of interrelated social problems which undermine the long-term growth potential, political stability and social cohesion of the Union as a whole. This calls for effective and immediate action. Europe should address this social emergency with one voice, adopting far-reaching initiatives which ensure long-term vision and give European citizens reasons to believe that EU integration is a source of opportunities.

Social imbalances are a threat to the EU as much as the economic imbalances, since social divergences undermine the political credibility of the European project as well as the longer-term growth and competitiveness potential of the EU. Within the Union, the objectives of a high and sustainable economic growth with a dynamic investment climate and high employment are only achievable if a process of convergence between the various economies, including in terms of the social situations of citizens, is occurring. The existing governance system is not yet flexible enough to tackle all potential future crises and shocks as it should, nor is it yet sufficiently elaborated for generating higher competitiveness, structural convergence among its members, sustainable growth and at the same time guaranteeing social cohesion. The current economic, financial and fiscal framework needs adjustments, as it lacks procedures and mechanisms to also enhance the Union's social dimension and take proper account of the EU social objectives.

¹ See paper by Bennett and Ruxton on common social values in the European Union with a focus on social inclusion and social protection (June 2015)

Over the medium to long-term, more ambition is needed in order to achieve a genuine and fully functioning Economic and Monetary Union (EMU)² while in the meantime the accountability and **democratic legitimacy of the EMU** should be further strengthened by mainstreaming the social dimension in the governance framework. It is key to ensure that this framework includes a proper and streamlined approach of employment and social policies within the EPSCO Council formation, particularly in the euro area, while recognizing the specificities of these policies at EU level, in full respect of the legal basis and the Treaty delineation, and respecting national competences. To improve the process of decision-making and increase its effectiveness and legitimisation, a **sectorial Eurogroup** on social and employment issues should play a coordinating role in cross-examining performance and pursuing best practices.

Question for discussion:

What are the MS' views on deepening the social dimension of the Union while considering social imbalances and also based on a sectorial approach of the governance framework of the EMU?

Enhancing the social dimension within the European Semester

The European Semester has proven to be the policy lever that underpins the main institutional architecture for the **governance framework of the EU**. Social and employment issues enter the Semester procedure, including the Macroeconomic Imbalances Procedure (MIP) and the Stability and Growth Pact (SGP), through the Integrated Guidelines. The starting point is Article 3 of the Treaty of the European Union (TEU): *"(...) It [The Union] shall combat social exclusion and discrimination, and shall promote social (...) protection, equality between women and men, solidarity between generations and protection of the rights of the child. It shall promote economic, social and territorial cohesion, and solidarity among Member States. (...)."*

Deepening the social dimension within the Union should be interpreted as promoting common social objectives in line with article 3 TEU. Also, article 9 of the TFEU states that *"In defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health."* Thus the **Horizontal Social Clause** should be included in the realm of the governance framework of EU economic, financial and fiscal policies and for instance in the design of macroeconomic adjustment programmes. Major structural reforms and budgetary policies should be sequenced to minimise adverse social effects and the assessment of the social and

² Five Presidents' report on Completing Europe's Economic and Monetary Union (June 2015).

unemployment consequences of structural reforms within the Semester process would be a concrete way of ensuring a real and effective social dimension to governance framework.

The European Council stated in its conclusions of 27 and 28 June 2013 that the **social dimension of the EMU** should be strengthened, notably by using appropriate social and employment indicators within the European Semester, while also ensuring a better coordination of employment and social policies in full respect of national competences. This was further emphasized and supported in the European Council conclusions of 24 and 25 October 2013, which stated that the coordination of economic, employment and social policies will be further enhanced in line with existing procedures while fully respecting national competences.

The governance framework needs to adjust to the specificity of social and employment policies and take into account the explicit Treaty provisions applicable to them. The social policy dimension of the Semester process should thus be further enhanced under the lead of the EPSCO Council formation through a more structured use of the already existing instruments, including the Scoreboard on key employment and social indicators³, common **Trends to Watch** and regular discussions on the policy options to the identified challenges and progress towards the common social objectives of the Union. This framework should also be used on its full potential to prevent and correct social imbalances as well as to foster reforms and monitor progress in euro area towards **commonly agreed social standards**.

Question for discussion:

What are the MS' views on enhancing the social dimension within the European Semester in the light of Trends to Watch, considering further the Horizontal Social Clause and fostering agreed social standards within the euro area?

Building on the Open Method of Coordination as the policy mechanism for promoting the social dimension

The EU approach to social policy is based on the social **Open Method of Coordination** (OMC) which includes applying joint monitoring instruments and using mutually established evaluation arrangements in the implementation of common objectives agreed by Council. In this framework MS have the main responsibility for delivering and for implementing structural reforms and modernising the social protection schemes and labour markets, whereas the Council preparatory bodies and the European Commission (EC) support and monitor the progress. This process of

³ Scoreboard on key employment and social indicators – adopted by the EPSCO Council on 9 December 2013 – to be considered jointly with the Social Protection Performance Monitor (SPPM) and the Employment Performance Monitor (EPM) based on the Joint Assessment Framework (JAF).

policy exchange and mutual learning also allows MS for defining own policies to achieve the objectives.

The OMC framework includes a regular reporting by MS on developments and performance in social and employment policies and reforms which are assessed jointly by the EC and Council advisory committees, building on consensual views among MS on social outcomes and policy objectives delivering on them. Furthermore ex ante thematic reviews and implementation reviews conducted by the EPCSO Council preparatory committees have proven to be an innovative development for a better coordination of plans for major reforms. This form of assessment in the context of the OMC is a best practice at the EU level and should thus be considered as a significant leverage for a deep and genuine social EMU.

The Council decisions of 11 May 2015 task preparatory committees to contribute to all aspects of the European Semester within their mandates and to report to the EPSCO Council. Thus **social OMC based impact assessment** should cover the preventive arm of the MIP and related in-depth reviews as well as the corrective arm for which “*The corrective action plan shall take into account the economic and social impact of the policy actions*”. The social OMC should also apply in the context of the SGP and for **promoting and evaluating social investment policies** in the Union.

Guaranteeing the consideration of the social dimension in the EU’s governance framework is a question tied to the identity of the EU itself. Such a **genuine governance**, building on the existing tools at the disposal of the Union, is essential for the implementation of social sustainable reforms which will make the Union, and especially the EMU, more shock-resilient, performant and prosperous in the long run.

Question for discussion:

What are the MS’ views on building on the OMC, including social impact assessment, for promoting the social dimension of the Union and the EMU?

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