

## The European (Social) Union is in need of a ‘Social Imbalances Procedure’

By Francesco Corti, Sebastiano Sabato and Bart Vanhercke

**F**ranc Vandenbroucke and Maurizio Ferrera’s call for a public forum debate on a future ‘European Social Union’ (ESU) has already stimulated a vivid and rich discussion. On the one hand, challenging ideas have been put forward: how to interpret the role of the ESU ([Bogoeski 2019](#), [Vandenbroucke 2018](#)); how to conceptualize the idea of the ESU and how it relates to the European Pillar of Social Rights (EPSR) ([Ferrera 2018](#), [Hemerijck 2019](#)); and why the Economic and Monetary Union (EMU) needs a social dimension ([Andor 2018](#); [Watt 2019](#)). On the other hand, analyses have focused on the implementation of the Social Pillar ([Garben 2019](#); [De la Porte 2019](#)) and on possible proposals to be developed within the framework of the EPSR ([Cantillon 2019](#); [Matsaganis 2018](#); [Saraceno 2019](#)).

**Within the overall debate, the idea of a European Social Union has been often presented as a counterpart to the Economic and Monetary Union.** In this regard, [Costamagna](#) (2019) rightly pointed out that, especially in the aftermath of the financial crisis and the adoption of the new economic governance of the Eurozone, the social dimension of the EMU has been progressively subordinated to the economic one. A case in point is the creation of the European Semester, a new hybrid meta-coordination framework. While apparently sharing some characteristics with the ‘soft governance’ approach of the Open Method of Coordination (OMC), the Semester shows a more prescriptive nature (Dawson 2018). The adoption of recommendations that are ‘country-specific’, the (at least theoretical) threat of financial penalties, the ‘back and forth’ scrutiny and intervention in the management of national budgets, intensified peer pressure and altered voting procedures represent rather important novelties that have profoundly altered the relationship between the EU institutions and national social policies (Vesan et al. 2019). Although across the years, the Semester has been partially ‘socialised’ (Zeitlin & Vanhercke 2018), this has not tackled the persisting asymmetry between economic and social goals within the Semester.

*We believe the time is ripe for the EU to place social and economic imbalances on an equal footing. To this end, we propose the establishment of a tool aimed at flagging and correcting social imbalances within Member States.*

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**Against this background, the aim of this contribution is to briefly investigate the subordination of the social to the economic dimension within the Semester** and then propose the creation of a new mechanism to rebalance the relationship between the 'economic' and the 'social', thus giving substance to the idea of the ESU and one of the key objectives of the European Pillar of Social Rights.

### **The economic and social dimension within the European Semester**

**Since 2011, the economic, employment and social policies of the Member States of the European Union (EU) have been monitored and coordinated through the so-called European Semester.** This broad process has enabled EU institutions to take on an increasingly important role in analysing and steering national policies. However, while the monitoring of macroeconomic and fiscal performance is embedded in a surveillance mechanism (dubbed the 'Macroeconomic Imbalance Procedure'), made up of both a soft 'preventive' and hard 'corrective' arm, the supervision of employment and social policy takes place through a soft coordination mechanism.

**Over the years, the asymmetry between the surveillance of macroeconomic policies and coordination of social and employment policies has become problematic, for at least three reasons.** First, the *de facto* subordination of the social to the economic dimension of the E(M)U means that fiscal consolidation often goes hand in hand with a deterioration in social standards. Second, a deterioration in social standards and increase in social inequalities in one E(M)U country can have negative spill-over effects on fiscal stability in other countries; this could, in turn, undermine the stability of the E(M)U. Third, this asymmetry contributes to the loss of credibility of the European project.

*In line with the European Pillar of Social Rights and the Charter of Fundamental Rights of the European Union, we suggest to start with five priority social policy areas where social imbalances could be identified and corrected: education, healthcare, housing, poverty and social exclusion, and unemployment.*

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Against this background, **the European Commission has prudently tried to address the balance between the economic and the social dimensions of the European Semester**, leading to its slow but certain ‘socialisation’ in recent years. As explained by Andor (2018), the European Commission proposed the addition of social and employment indicators to the Macroeconomic Imbalance Procedure in its 2013 Communication on ‘Strengthening the Social Dimension of the EMU’. This was seemingly done with a view to giving social issues more prominence and preventing the creation of social imbalances that could affect the stability of the Eurozone. Similarly, in September 2015, the newly appointed Juncker Commission proposed including other social and employment indicators in the MIP Scoreboard, with the aim of better reflecting employment and social developments and better capturing the social consequences of macroeconomic imbalances.

While including social indicators in the MIP has undoubtedly helped to increase the political visibility of these issues and to draw policymakers’ attention to the social implications of the macroeconomic surveillance mechanism, **some have argued that with the inclusion of social indicators in the MIP, there is a risk that social policies could be further subordinated to the achievement of macro-economic and fiscal objectives**, with social policies becoming merely an adjustment factor to achieve these objectives (see Costamagna 2019).

What can be done then, to strike a better balance between the EU’s economic and social strands?

### **The proposal for a ‘Social Imbalances Procedure’**

**In October 2014, Commission President Jean-Claude Juncker called for a social ‘triple A rating’ for Europe, which he deemed ‘as important as an economic and financial triple A rating’**. The same concept was reiterated in the Five Presidents’ report on Completing Europe’s Economic and Monetary Union in June 2015. It was partially made operational in 2017, with the launch (April) and proclamation (November) of the European Pillar of Social Rights (EPSR).

Despite the solemn interinstitutional proclamation of the EPSR and the introduction of a new ‘Social Scoreboard’ to the Semester, to monitor the employment and social performances of the Member States, **several challenges remain to be tackled in order to resolve the social crisis that still affects the EU**.

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There is still a range of problems which require a response. **These include high unemployment rates among young people; education or training (NEET) and alarming youth unemployment rates, especially in Southern European regions;** persistent inequality in access to childcare, education, training and lifelong learning opportunities; and a high level of poverty and social exclusion rates across the EU. As Fransen *et al.* (2018) have stressed, the EU suffers from a social investment gap estimated at €142 billion per year: €15 billion in education and lifelong learning, €70 billion in health and long-term care and €57 billion in affordable housing.

*The third stage of the Social Imbalances Procedure would consist of monitoring the implementation of the national Multi-annual Action Plan. This would be done through the Semester, notably in the European Commission's Country Reports.*

In view of these formidable challenges, monitoring social and employment performances and calling on Member States to reform (in the context of the European Semester) is simply not enough. **We believe the time is ripe for the EU to place social and economic imbalances on an equal footing. To this end, we propose the establishment of a tool aimed at flagging and correcting social imbalances within Member States.** We call this mechanism, which is partially a repackaging and relabelling of existing practices within the Semester, the 'Social Imbalances Procedure' (SImp).

The aim of this procedure is to ensure that social and employment imbalances that a) have the potential to erode social cohesion within a Member State or b) could have negative spill-over effects on other Member States are detected at an early stage and corrected properly. **In line with the European Pillar of Social Rights and the Charter of Fundamental Rights of the European Union, we suggest to start with five priority social policy areas where social imbalances could be identified and corrected:** a) education, b) healthcare, c) housing, d) poverty and social exclusion, and e) unemployment.

Our proposal is that the EU should intervene, in addition to and facilitating Member States' efforts, through policy initiatives more strictly linked to the notion of social investment.

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In our proposal, a future Social Imbalances Procedure could consist of three stages. **The first stage would be the identification of social imbalances.** To do this, the SImP would use the (possibly refined) indicators included in the Pillar’s Social Scoreboard, in accordance with the analysis provided in the annual Joint Employment Report. Countries displaying ‘critical situations’ (i.e. excessive social imbalances) in one or more of the five policy areas mentioned above would be encouraged by the European Commission to request the Social Imbalance Procedure. Member States could also decide, on their own initiative, to ask for the SImP to be applied.

**The second stage of the SImP would be to define the actions needed in order to improve these situations.** A Multi-annual Action Plan (MAP) should be drafted jointly by the national government and the European Commission. This plan would contain a list of initiatives/reforms to be implemented by the Member State in the years to come (over at least a three-year time span) and EU actions to support the implementation of these initiatives. We suggest that the EU interventions could take three possible forms: a) **technical support** in defining the contents of the national reforms to be implemented — the existing Structural Reform Support Service (the SRSS coordinates and provides tailor-made technical support to EU countries, in cooperation with the relevant Commission services) is a good example of this; b) **financial support** through the newly proposed Reform Delivery Tool, the re-focusing of Member States’ Operational Programmes or an increase in the EU co-financing rate for the ESI funds. Financial support should be focussed on the implementation of policy initiatives more directly related to social investment (e.g. ALMP and social infrastructure); and, arguably more ambitious, c) a **‘silver rule’ to exempt human capital social investments from the Stability and Growth Pact rules**, in line with the provisions of the Country-specific Recommendations (as proposed by [Hemerijck 2019](#)).

*There are functional, normative and political reasons why a Social Imbalance Procedure of this type is a desirable tool for tackling the asymmetry between the economic and social dimensions of the E(M)U.*

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the Semester, notably in the European Commission's Country Reports. In case of repeated non-compliance of a Member State either with the actions agreed in the MAP or with the fiscal rules defined in the SGP, the SImP would be closed and the Member State would lose the extra EU support provided through the procedure.

### **Three reasons for a Social Imbalances Procedure: functional, normative and political**

**We believe that a Social Imbalance Procedure of this type is a feasible and desirable tool for tackling the above-mentioned asymmetry between the economic and social dimensions of the E(M)U.** There are three reasons for this. **The first is functional** and concerns the fact that excessive social imbalances affect not only the MS concerned, but can also spill over into other Member States, threatening the sustainability of the EMU as a whole. In this respect, addressing such imbalances should be a matter of common concern, one that is also in the self-interest of the Member States in good social and economic situations (see Vandembroucke 2018). **The second is normative** and refers to the EU's commitment to implement the principles enshrined both in the Treaties and in the European Pillar of Social Rights, which explicitly refer to upward social convergence as one of the key goals of the Union (see also Ferrera 2018). **The third is political** and concerns the legitimacy of the European integration process. In the aftermath of the Euro crisis, the EU has been largely perceived as a champion of austerity measures and social retrenchment policies. This has led to public distrust of the European project and has helped populist and Eurosceptic movements to take root in several EU countries. The legitimacy and sustainability of the European political system itself is at risk.

**The time has come for the EU to act upon the promises it made when adopting a European Pillar of Social Rights.** The launch of a Social Imbalances Procedure would pave the way for Europe to be serious about delivering its social ambitions and could represent an important step in the direction of a European Social Union.

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Discussion Paper 074.

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