

ETUC Resolution on the Social Imbalances Procedure for the EU

Adopted at the virtual Executive Committee Meeting of 16-17 March 2022

Context

In a 'non-paper' published ahead of the Porto Social Summit of May 2021, the Belgian and Spanish governments proposed an EU instrument addressing social imbalances: a form of social alert mechanism that triggers a more in-depth follow-up and discussion at committee and ministerial level, in order to enact policies able to reach social progress, meaning improving living and working conditions of all Europeans. This proposal was then explained by the Belgian and Spanish ministers during the 15 October 2021 EPSCO Council, collecting the support of ministries from several Member States.

The European Commission is ready to support the process, as stated in the proposal for the Joint Employment Report 2022. Whereby the EC is inviting the EPSCO Council's advisory committees to reflect on a proposal for a Social Imbalances Procedure (SIP) based on Article 148 of the TFEU, in the context of the European Semester.

Finally, the French Presidency of the Council provided a mandate to EMCO and SPC to work on the technical aspects of the procedure, since the pandemic has amplified social and economic divergences and there is the need to tackle these in the context of the European Semester

The European Trade Union Confederation (ETUC) followed with great attention the debate concerning the proposal for a SIP, and encouraged all relevant actors to elaborate an ambitious procedure, with a strong social partners' involvement.

A new EU socio-economic governance

The possibility to establish mechanisms that tackle social imbalances is, indeed, an ETUC long-standing demand, and thus it is welcomed.

Having regard to the European Pillar of Social Rights (EPSR) and its Social Scoreboard, the Action Plan implementing the EPSR (including the updated Social Scoreboard) and the Porto Social Summit Commitments, considering the continuous demand for an upward social convergence, the ETUC believes the time is ripe for introducing in a renewed Semester such a mechanism. This mechanism would identify, prevent and address the social imbalances that could negatively affect the working and living conditions of a country, and in turn having a spill over effect on the Euro Area and, in general, on the whole EU.

Moreover, the ETUC is convinced that the EPSR is one of the main EU policy frameworks, and that it will play a crucial role in the recovery phase. The proposal for a SIP goes in the right direction so as to entrust the EPSR, and its Social Scoreboard, with a more prominent role in the EU socio-economic governance. Finally, it would also continue the process of "socialisation" of the EU Semester, after the introduction of social orientation (2013), the proclamation of the EPSR (2017), and the adoption of the EPSR Action Plan (2021).

A SIP would certainly strengthen the social dimension of the EU if it rebalances the role of EU institutional actors in a renewed Semester process; if it highlights potentially worrisome social trends, urging more in-depth discussions on the causes and possible solutions, and give a higher profile to the CSRs related to the EPSR, with the aim to

pursue a progressive social agenda, also through a more efficient allocation of investments financed through the RRF or nationally financed ones.

In the view of the ETUC, the SIP is meant to be a supplementary instrument to reach an upward social convergence in the EU. Under no circumstances should the SIP increase pressure on Member States to implement structural reforms that are detrimental to the social performance or the welfare of Member States. In general, developing a social dimension of the EU Semester also means reinforcing EU minimum standards to achieve genuine upward convergence through the coordination of the economic and social policies of the EU. The setting of EU minimum standards is urgent as in reality not all Member States seem to be able to remove excessive imbalances or deter social dumping practices.

ETUC input for the SIP

ETUC encourages the EPSCO's advisory committees (EMCO and SPC), the Commission and the Council of the EU to design a SIP that gives more relevance to social issues, social dialogue and job creation. The SIP should deepen the analysis of the causes of inequalities, poverty, and labour vulnerability. This is why we consider integrating the SIP within the EU Semester a proposal that boosts upward convergence of working conditions.

The ETUC proposes the following elements for the SIP:

Identifying social imbalances.

“Social imbalances” could be defined as situations that, departing from the principles and rights set in the EPSR, and its implementing acts, and tracked through the Social Scoreboard, threaten social cohesion within a Member State or at EU level.

An “Excessive Social Imbalances Procedure” should be established to rebalance the economic and social dimension of the economic governance. The identification of social imbalances should lead to:

- country specific recommendations, for national imbalances;
- revisiting the Employment Guidelines and issuing Euro Area Recommendations to address structural issues (i.e. employment policies), to address social imbalances at EU level.

This can be done through the definition of Medium-Term Social benchmarks, set at EU level in agreement with social partners, to be defined in National Plans.

To identify and measure social imbalances, the most likely and realistic framework is the European Pillar of Social Rights, and its Social Scoreboard, since they have been adopted and proclaimed by all Member States during the last two EU Social Summits. In particular, the procedure could start by using the updated set of headline indicators of the EPSR Social Scoreboard, which assesses Member States' performances.

The risk of social imbalances for each country would be determined on the basis of:

- the number of concerning/deteriorating performances that are detected in a year (i.e. critical situations / to watch); and;
- the year-on-year evolution of these performances. This would allow the inclusion in the SIP of countries showing good or average performances but with deteriorating trends, also with the aim of reaching a social upward convergence.

In addition to imbalances affecting specific countries, the SIP could also identify, and potentially deal with, EU-level and/or Euro area imbalances.

Addressing social imbalances: the supportive arm

First of all, when a Member State is found to have social imbalances, the EU institutions should demand to identify and report on actions aimed at correcting those imbalances, in a specific section of the National Reform Programme. In case of social imbalances that are “excessive”, a stricter procedure could be envisaged, activating an extra support from the EU.

As the “corrective arm” of the Macroeconomic Imbalances Procedure, has shown that it is unlikely to lead to the sanctioning of countries whose policy responses to imbalances are weak, the SIP should contain additional tools based on incentives aimed at supporting the Member States in addressing excessive social imbalances. A “supportive arm” will require the EU to intervene and help a Member State to correct the excessive imbalances identified. This process would be subject to a multilateral surveillance procedure, hence based on cooperation with the countries, and transparent (high-level debates, discussion and in-depth analysis need to involve social partners, national parliament, etc...allowing them to influence the process).

The enhanced support from the EU may consist of:

- targeted EU financial support, to be provided through, for example, the European Structural and Investment Funds (ESIF). For instance, a major rate of financing (or lower rate of co-financing) could be granted to some countries to correct excessive imbalance. Furthermore, any such financial support through European funds needs to be linked to result-based programmes to meet, gradually, the targets of the EPSR Action Plan, according to a roadmap agreed with social partners;
- Technical assistance in defining the content of the reforms and quantifying the investments needed to address the imbalances, for instance by requiring assistance to the Technical Support Instrument (TSI) - only if the TSI provides support itself and not externalizing to consulting company;
- an investment rule for public investments, where net public investments should be financed by debt; in other words, excluded from balanced-budget rules.

Role of Social Dialogue and involvement of Social Partners in the SIP

It is crucial that the political high-level dialogues among EU institutions and Member states about social imbalances require to involve social partners, in order to increase ownership of the outcomes of the SIP and the implementation of the initiatives and reforms proposed to address the imbalances. Moreover, it will increase the transparency of the process and making it more democratic.

Since the SIP would be based on the European Pillar of Social Rights and the Social Scoreboard, hence addressing living and working conditions of Europeans, the involvement of social partners in the procedure is of paramount importance. The SIP should include measures that encourage social partners to engage in dialogues that aim at resolving social imbalances.

Therefore, the ETUC demands that Social Partners are given a pivotal role in the SIP, either for detecting and identifying social challenges; and/or preventing and correcting social imbalances.

Based on articles 150, 151 (2), 152 (1) TFEU, and principle 8 of the EPSR, national social partners should be part of a dialogue to identify policy options and actions that remove such imbalances when the SIP highlights such a situation. If an agreement is reached at national level among representative social partners, the agreement is brought to the attention of the European Commission and the EPSCO’s Advisory committees (especially EMCO) by the European Social Partners.

Thus, having heard EMCO, SPC, and the European Social Partners, the European Commission shall submit the agreement to the attention of the Council of the EU under the form of a proposal for a Country Specific Recommendation.

FOR INFORMATION

Way forward

At the end of January 2022, the Presidency of the Council of the EU provided the EPSCO Advisory Committees, EMCO and SPC, with a formal mandate to start working on the operational and formal aspects of the Social Imbalance Procedure.

The objective is to have the SIP fully operational for the start of the next EU Semester cycle (November 2022). It means establishing the mechanism via Council Conclusion in June, at latest. This step may also help to embed the SIP in the future EU Economic Governance framework.

The ETUC is ready to cooperate with the European Commission, EPSCO, EMCO and SPC to develop a procedure that is effective, viable and that utilises all the potential of social partners at EU and national level.

Finally, it is also fundamental to introduce the SIP to continue tackling the asymmetry between social and economic policies at the EU level, that so far has been attenuated but not resolved. Indeed, the EU's 'social governance' still appears much weaker not only when compared to macro-economic and fiscal governance (Treaty-based procedures, hence binding) but also to environmental governance (strictly linked to the green transition), as the latter is increasingly based on binding targets, legislation and dedicated funding (e.g. in the RRF).

Nevertheless, it is vital to ensure that environmental priorities are also properly taken into account within in the economic governance, as these elements, alongside social priorities, contribute to rebalancing the framework of rules toward social and environmental justice. The ETUC will explore the possibility to propose an environmental imbalance procedure, in connection with the social and economic imbalance procedures.

Summary of the BE-ES proposal for a SIP

The general aim would be, in line with the Macroeconomic Imbalance Procedure (MIP), to identify, prevent and address the emergence of potentially harmful social imbalances that could adversely affect the employment situation and living conditions in a particular EU Member States, the euro area, or the EU as a whole.

The SIP can be introduced without a specific legislation, and it can be entirely based on the existing procedures of art. 148 TFEU and the European Semester. No corrective arm would be set up. The SIP could be established through Council Conclusions. Moreover, no new reports or instruments would be needed: the procedure would be entirely based on existing methodologies, reports and procedures such as the Social Scoreboard, the Joint Employment Report and the Country Reviews.

The two EPSCO's advisory Committees and the Commission could work together to develop the criteria and the detailed procedure for identifying an "imbalance" (e.g. a number of critical situations, a number of situations to monitor...) for a country. Such criteria should take into account national starting positions, and reflect the divergences in all Member States from the common targets and from the overarching objective of upward social convergence. A SIP could also deal with imbalances that transcend individual Member States and identify EU-level imbalances.

In practice, and taking inspiration from the MIP method, the Commission would include a list of countries that it considers to be at risk of a "Social Imbalance" in the Joint Employment Reports. Subsequently, it would devote specific attention to these countries in the Country Reports, in the form of a "Social In-Depth Review" (in line with the "In-

Depth Reviews” in the AMR). Once identified which Member States are considered to be in a situation of “Social Imbalance”, the Council would be invited to discuss these countries. It could then also discuss how these countries can be assisted. Finally, the CSRs would include recommendations that are explicitly aimed to address the social imbalance, inviting Member States to correct the situation.

Fiscal and macroeconomic recommendations should not hamper the correction of social imbalances identified. On the contrary, they should be supported by adequate investments and appropriate financial resources for the policy response. MIP and SIP would be two clear complementary procedures one to identify macro-economic imbalances, and another one to identify social imbalances.