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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT AND THE COUNCIL**

**STRENGTHENING THE SOCIAL DIMENSION OF THE ECONOMIC AND  
MONETARY UNION**

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**1. INTRODUCTION**

On 28 November 2012, the European Commission adopted a blueprint<sup>1</sup> for a deep and genuine economic and monetary union (EMU), setting out a vision for a strong and stable architecture for the political, fiscal and economic components of EMU. The December 2012 European Council supported the development of the social dimension of the EMU, including social dialogue.

To this end, the June 2013 European Council recalled that the social dimension should be strengthened and emphasised the importance of better monitoring and of taking account of the social and labour market situation in the EMU, notably by using appropriate employment and social indicators as part of the ‘European Semester’ process for economic policy coordination. It also pointed to the need to improve coordination of employment and social policies, while fully respecting national competences, and to the role of the social partners and social dialogue, at both EU and national levels. The European Parliament also expressed its views on priorities for achieving a genuine EMU, in particular recommending a social pact for Europe.<sup>2</sup>

This Communication on strengthening the social dimension is a further contribution from the Commission to the debate on deepening EMU, bearing in mind that the general social agenda is a matter for the 28 Member States. It should also be noted that employment and social policies fall very largely under the national competence of the Member States. What the Commission proposes is a number of initiatives to strengthen the social dimension of EMU with a particular focus on three points:

- i. Reinforced surveillance of employment and social challenges and policy coordination;
- ii. Enhanced solidarity and action on employment and labour mobility;
- iii. Strengthened social dialogue.

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<sup>1</sup> Communication from the Commission ‘A Blueprint for a deep and genuine economic and monetary union. Launching a European debate’. 28/12/2012. COM(2012) 777.

<sup>2</sup> EP own-initiative report ‘Towards a genuine Economic and Monetary Union’ presented on 18/10/2012 (‘Thyssen Report’).

## **2. STRENGTHENING THE SOCIAL DIMENSION OF THE EMU**

### **2.1 The overall social dimension of the Europe 2020 strategy**

In defining and implementing its policies and activities, the EU is obliged, under the Treaties, to 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 (Article 9 TFEU).

The adoption of the Europe 2020 strategy put social policy at the core of EU economic strategy for the first time. With Europe 2020, the EU set headline targets for raising the employment rate, reducing early school leaving, increasing the proportion of completing tertiary education or equivalent and lifting at least 20 million people out of poverty. These are the heart of its strategy for smart, sustainable and inclusive growth. The targets are already shaping social policies in the EU. Key policies adopted and measures taken at EU level are being implemented, for example the Employment Package presented in April 2012, the December 2012 Youth Employment Package, and the February 2013 Social Investment Package.

When setting priorities for action at national and EU levels in its Annual Growth Survey (AGS), the Commission wants to ensure that Member States align their budgets and policies to ensure, in particular, high levels of employment and social cohesion. Once a year when reviewing the economic and social progress of each of the EU Member States in the European Semester process and making country-specific recommendations to guide national policies, the Commission pinpoints major economic and social challenges for the EU and for the euro area. The European Semester therefore provides the proper framework for steering and monitoring Member States' economic and social reforms. In addition, the Open Method of Coordination on social protection and social inclusion has contributed to steering structural reforms in social policy areas.

The crisis revealed the untenable path of economic policies in certain Member States, and also exposed structural weaknesses in Europe's economy and in EU-level governance. The response to the crisis focused strongly on necessary structural reforms, specifically for Member States receiving financial assistance (the 'programme countries'), and more widely through country-specific recommendations for others.

The economic crisis has made it harder to meet the Europe 2020 targets: employment has suffered in most Member States and disparities in the employment and social situations of Member States have been growing. Some 26.6 million people were unemployed in the EU-28 in July 2013, including over 19.2 million in the euro area. Nearly a quarter of economically active young people in Europe are unemployed: 23.4% (5.6 million) in the EU-28 in July 2013 and 24% (3.5 million) in the euro area. Poverty and social exclusion have been on the rise since 2009, especially in Member States in southern and eastern Europe. In some countries, the correction of imbalances has been accompanied by falling output, rising unemployment and a fall in disposable incomes, while others have so far shown at least some resilience. The latter tend to have better-functioning labour markets and more robust welfare systems, and to have benefited from structural reform undertaken well before the crisis.<sup>3</sup>

Nonetheless, progress has been made under very challenging conditions. The reinforcement of the EU's economic governance and measures taken to facilitate country-level adjustment are

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<sup>3</sup> European Commission, Employment and Social Developments in Europe 2012.

proving to be effective, and are laying the foundations for catalysing and supporting economy recovery and job creation. To tackle the challenges that still lie ahead, it is important to strengthen the social dimension of EMU to get a better insight into social policies and developments.

## **2.2 The social dimension of EMU**

For EMU to work properly, its governance structures need to be completed to be able to prevent and correct lasting disparities that might threaten the financial and economic stability of the monetary union as a whole, our prosperity, and ultimately our social market economy. The ability to make real economic adjustments is crucial in a monetary union. The crisis revealed gaps in the functioning of the monetary union, although major steps have been taken to reinforce the EU's economic governance. A very high economic and social price has been paid, since too often the necessary reforms have been delayed because of political circumstances. Structural reforms supporting employment, competitiveness and greater socio-economic opportunities may take effect with considerable time lags and often seem difficult to undertake in an economic downturn, while in an upturn there may be no sense of urgency. Yet failure to undertake the required measures may result in negative spillover effects and deterioration in the economic fundamentals of the monetary union as a whole. It is in the collective interest of the monetary union to ensure that structural reforms addressing employment and social challenges are properly implemented, and Member States need to support each other to that end.

Unemployment and social problems mean a loss of income for significant parts of the population or for society as a whole. They also hold back competitiveness and the growth potential of the economies concerned, because present and future human capital is underutilised or lacks investment. Persistent unemployment and social inequalities can also weaken political and public support and can affect the stability of governments and their capacity to make sound policies. Without collective action to ensure that employment and social challenges are tackled in a timely and effective manner, long-lasting disparities may develop.

The 'social dimension of EMU' relates to the ability of economic governance mechanisms and policy instruments to identify, take into account and address problematic developments and challenges related to employment and social policies in the EMU. Strengthening the social dimension should help all Member States achieve their growth and employment potential, improve social cohesion and prevent increasing disparities, in line with the Treaties and the Europe 2020 strategy.

Progress is needed along the following fronts:

- enhancing capacity to monitor employment and social developments in EMU to better coordinate a timely and adequate policy response;
- mobilising EU action and funding to tackle unemployment (including youth unemployment) and social distress in an effective and sustainable way;
- combining the steps taken on responsibility and economic discipline with more solidarity and financial support;
- reducing existing barriers to cross-border labour mobility in the EU;
- strengthening the role of social dialogue in developing euro-area-wide and national strategies, through appropriate involvement of the social partners.

### **3. REINFORCING SURVEILLANCE OF EMPLOYMENT AND SOCIAL CHALLENGES AND STRENGTHENING POLICY COORDINATION**

The EU policy response to the crisis involved strengthening the EMU's economic governance and multilateral surveillance, notably in the euro area. This was done within the framework of the European Semester process of economic policy coordination. A new surveillance mechanism designed to prevent macroeconomic imbalances, with provision for enforcement, was introduced with the adoption of Regulation No 1176/2011.

As the Commission Blueprint points out, the EMU has been overhauled, but the work is not yet complete. Although employment and welfare systems are primarily the responsibility of Member States, building a genuine EMU with a social dimension means developing or strengthening employment and social policy instruments and mechanisms within the existing governance framework.

Progress is needed on incorporating the social dimension in surveillance of the macroeconomic imbalances. It is also needed more generally in the European Semester of economic policy coordination, and can be done by strengthening the existing framework for coordination of employment and social policies. Better catering for the social dimension in surveillance of macroeconomic imbalances would help to improve the design of the policies recommended to countries undergoing macroeconomic adjustment.

Moreover, it is important to detect major adverse employment and social developments at an early stage, and to enhance coordination and monitoring of employment and social policies. This would ensure effective policy responses and foster convergence in these fields. Mutual learning, exchange of best practice and benchmarking based on stronger surveillance would help to promote convergence.

#### **3.1 Reinforcing the monitoring of employment and social developments as part of macroeconomic surveillance**

The macroeconomic imbalances procedure (MIP) was introduced in 2011 to give EMU a surveillance mechanism for preventing and correcting serious imbalances, together with means of enforcing it. The MIP covers a wide range of issues, ranging from external sustainability, through competitiveness, credit and indebtedness, to asset prices and financial stability. Attention to each of these issues is instrumental to the overarching objective of ensuring macroeconomic stability. In particular, it can help prevent 'boom and bust' cycles while managing 'bust' phases in which loss of confidence in financial markets, capital flight, and widespread deleveraging are coupled with depressed economic activity and social distress.

As shown by the recent experience of a number of euro area countries, harmful macroeconomic imbalances related partly to the build-up of private and public indebtedness and sustained competitiveness losses pose severe risks to a country's growth and employment prospects and welfare. Therefore, it is crucial to spot potential risks early on and prevent the emergence of harmful macroeconomic imbalances.

Social issues have so far not appeared explicitly in the implementation of the MIP. Making such a link more explicit would be advantageous in several respects. It would allow better understanding of the risks of such imbalances in terms of unemployment, poverty and wider social consequences. It would also contribute to better understanding of social developments during adjustment processes. Such improved knowledge would ultimately help to identify policy measures to correct imbalances while minimising their social consequences.

The MIP consists of a series of steps. It starts with the annual Alert Mechanism Report (AMR) and a scoreboard of indicators. This is followed by specific in-depth reviews on countries identified as potentially at risk of imbalances at the AMR stage, and leads to country-specific recommendations and, possibly, to corrective action plans for countries with excessive imbalances. The social implications of imbalances should be better integrated in the current framework for surveillance of macroeconomic imbalances by reinforcing the overall MIP analysis with indicators on employment and social issues.

**In the Alert Mechanism Report**, unemployment already appears among the headline indicators. To better reflect the social implications of macroeconomic imbalances, a limited number of auxiliary employment and social indicators could be added. For the 2014 European Semester the following additional auxiliary indicators could be introduced (see the indicative table in the annex):

- i. participation rate;
- ii. the long-term unemployment ratio;
- iii. the youth unemployment rate (complemented by the proportion of young people who are not in employment, education or training (NEET));
- iv. the ‘at risk of poverty and social exclusion’ rate (complemented by the three sub-indicators: the at-risk-of-poverty rate, the severe material deprivation rate, the proportion of persons living in households with low work intensity).

The Commission, the European Parliament and the Council will cooperate on selecting these indicators.

The **In-Depth Reviews** and other relevant policy documents should regularly contain a section discussing employment and social developments in the country under analysis, making use of a wider range of social indicators and analytical tools than those contained in the scoreboard of the AMR. This would help to clarify the inter-linkages between mounting imbalances and social developments and would thus help with the formulation of policy approaches.

### **3.2 Developing a key employment and social indicators scoreboard and strengthening coordination of employment and social policies**

As set out in the Commission’s Blueprint, coordination and surveillance of employment and social policies should be reinforced within EMU governance, and convergence in these areas should be promoted.

Since its adoption 15 years ago, the European Employment Strategy has provided a framework for coordinating job creation policies, similar to the framework for economic policy, and with the same aim of converging towards jointly set, verifiable, regularly updated targets.<sup>4</sup> The Europe 2020 strategy has a strong emphasis on employment and social dimensions and contains specific goals for employment and poverty reduction. The draft Joint Employment Report, published as part of the Commission’s Annual Growth Survey analyses employment and social challenges as well as the Member States’ policy responses, and it serves as a basis for further analysis, surveillance and coordination throughout the European

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<sup>4</sup> See Presidency Conclusions of the Extraordinary European Council Meeting on Employment, Luxembourg, 20-21 November 1997, § 3.

Semester.<sup>5</sup> Overall, the Europe 2020 strategy delivers an effective system of economic governance which has been set up to coordinate policy actions between the EU and national levels.

At the EPSCO Council, ministers have already expressed their willingness<sup>6</sup> to further develop the current monitoring tools<sup>7</sup> and reinforce multilateral surveillance and policy coordination with a scoreboard of employment and social indicators.

The Commission proposes to create a **scoreboard of key indicators to be used in its draft Joint Employment Report to follow employment and social developments**. It should serve as an analytical tool allowing better and earlier identification of major employment and social problems, especially any that risk generating effects beyond national borders.<sup>8</sup> This scoreboard would consist of a limited number of key indicators focusing on employment and social trends that can severely undermine employment, social cohesion and human capital, and have negative effects on the growth and competitiveness of a Member State. It would be incorporated into the draft Joint Employment Report in order to provide a more focused basis for reinforced multilateral surveillance of employment and social policies, helping to identify developments that warrant stronger employment and social policy responses.<sup>9</sup> The following headline indicators (see the indicative table in the annex) could help detect negative trends at a reasonably early stage and help anticipate further deterioration:

- i. unemployment level and changes;
- ii. NEET rate (young people not in education, employment or training) and youth unemployment rate;
- iii. real gross disposable income of households;
- iv. at-risk-of-poverty rate of working age population;
- v. inequalities (S80/S20 ratio).

The reading of the scoreboard should not be mechanical and a more detailed interpretation of it should build on existing tools (the Employment Performance Monitor (EPM),<sup>10</sup> the Social Protection Performance Monitor (SPPM),<sup>11</sup> the Joint Assessment Framework (JAF)<sup>12</sup> and agreed datasets like the European Labour Force Survey and EU Statistics on Income and Living Conditions.

The employment and social indicators for the scoreboard should capture the key phenomena for each country and identify the most serious problems and developments at an early stage

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<sup>5</sup> See Regulation 1466/97, as amended by Regulation 1175/2011, in particular section 1-a on the European Semester for economic policy coordination.

<sup>6</sup> Letter from the Council Presidency to the President of the European Council on the 'Social Dimension of the EMU', 15 May 2013.

<sup>7</sup> The Employment Policy Monitor (EPM) and the Social Protection Performance Monitor (SPPM).

<sup>8</sup> A full overview is provided in annex. There will be no additional reporting obligation on Member States.

<sup>9</sup> The Joint Employment Report, provided for in Article 148(1) TFEU, is subject to adoption by the Council and addressed to the European Council. The term 'Joint' refers to an agreement between the Commission and the Council, with the corresponding dataset extensively used in the European Semester.

<sup>10</sup> The EPM is a joint Commission/Member State-agreed report with the ultimate aim of identifying commonly agreed key employment challenges for each Member State. This is done by comparing performance both statically against peers (benchmarking) and within the Member State over time. The EPM provides a summary of the assessment produced by the JAF in 10 domains related to the labour market.

<sup>11</sup> The SPPM was endorsed by the Council in October 2012 as a method of monitoring the social situation of Member States in the EU.

<sup>12</sup> The JAF is a database of key labour market and social indicators used to monitor labour market and social developments in the Member States and progress towards headline targets. It is an analytical tool based on a set of commonly agreed indicators in 11 policy domains.

and before the country diverges too strongly from its past performance or from the rest of the EU. By helping to detect key employment and social challenges in the EU and to ensure a timely policy response, the scoreboard would also help with meeting the Europe 2020 targets.

With a view to better monitoring and taking account of the labour market and social situation, the specific scoreboard of employment and social indicators should be agreed in discussions between the Commission and the Council, and be ready in time for the 2014 European Semester. Once the Council has adopted it, the draft Joint Employment Report containing the proposed scoreboard will be addressed to the European Council as part of the AGS. The scoreboard would be discussed with the European Parliament and also with social partners.

Together with reinforcement of the monitoring of employment and social developments in the context of the Macroeconomic Imbalances Procedure, as described in section 3.1, the scoreboard of key employment and social indicators will help better integrate employment and social concerns in the overall policy landscape. It would feed into the Council's and Committees' work ahead of the spring European Council.

### **3.3 Stronger coordination of employment and social policies within the European Semester**

It is important to ensure stronger coordination of employment and social policies within the European Semester. This requires a clear, common analysis of key factors, highlighting the most pressing measures and reforms to be adopted.

The Joint Assessment Framework, the Employment Performance Monitor and the Social Protection Performance Monitor are the three tools currently used to identify country-specific challenges and to compare and rank performance among Member States. The ultimate aim of these comprehensive tools is to identify and commonly agree on a set of key labour market and social challenges that Member States face on their progress towards the Europe 2020 objectives. The scoreboard would not represent a re-statement of the Europe 2020 policy ambition, but would rather aim to detect developments in the socioeconomic situation across the EU that require closer monitoring. Its purpose and character would be complementary to those of these monitoring tools.

Benchmarking and performance assessment are already provided through the existing tools and should be supported and further built upon, also within the work of the Employment and Social Protection Committees. The Employment Performance Monitor shows benchmarking of Member States' performance giving a visual representation against statistically identified best performers, while the Social Protection Performance Monitor contains a dashboard of 20 key social indicators aiming to give a well-rounded picture of the main changes in the social situation in Europe and lead to identifying 'key social trends to watch'.

Policy guidance developed on the basis of best performance and taking the form of detailed guidelines or Council recommendations — as in the case of the Youth Guarantee — can help to spread best practice and to focus the efforts of governments and stakeholders on tackling challenges relevant for the EU as a whole. Moving towards best practice and benchmarks can support the creation of more dynamic labour markets, and facilitate job-rich growth.

The scope of best practice promotion through stronger policy coordination could include such areas as the quality of active labour market policies, reforms tackling labour market segmentation, and the development of human capital. In the area of public employment services, the replication of good practice will be promoted through a Public Employment

Services (PES) Network. With its recent proposal on enhanced cooperation between PESs,<sup>13</sup> the Commission proposed a general framework for benchmarking and mutual learning that would allow meaningful comparison of PES' performance.

Good performance from welfare services, enabling and empowering people to participate in the economy and access social services, is also important to maintain healthy economic fundamentals throughout the EU. In this regard, there is still scope for reinforcing the exchange of best practice in social policies through the open method of coordination.

It is important that these tools complement the new scoreboard for employment and social policies. Therefore the Commission will discuss, with the European Parliament and the Council, ways of further strengthening coordination of policies in the employment and social areas by using these tools on a complementary basis as part of the European Semester.

#### **4. RESPONSIBILITY, SOLIDARITY AND ENHANCED ACTION ON EMPLOYMENT AND LABOUR MOBILITY**

##### **4.1 Greater solidarity with reinforced financial instruments**

The economic crisis has increased inequalities and the risk of long-term exclusion while placing severe constraints on public spending. As a result, the Member States face the challenge of setting priorities for social investment and modernising welfare services. This means improving their active inclusion strategies and making more efficient and more effective use of social budgets. On 20 February 2013, the Commission put forward a Social Investment Package aimed at providing guidance to Member States on increasing the efficiency, effectiveness and adequacy of their social protection systems, with a focus on social investment.

In developing a truly social dimension, the scope of the EU budget must be fully exploited to develop the social dimension of EMU. For the period 2014-20, resources and programmes have been boosted. The European Structural and Investment Funds will continue to drive Member States' implementation of necessary reforms and modernisation of social policies. The European Social Fund (ESF) will continue to play a major role, and greater targeting of EU funds to sound employment and social policies, when preparing 2014-20 partnership agreements and operational programmes, can be a powerful growth stimulus in several Member States.

The new Programme for Employment and Social Innovation can help spread innovative and cost-efficient employment and social policy measures across Member States, and the Fund for European Aid to the Most Deprived will provide material assistance to people in greatest need. The European Globalisation Adjustment Fund will continue to be an instrument of European solidarity with workers suffering from large-scale layoffs resulting from changes in global and regional trade patterns.

The Youth Employment Initiative (YEI) was designed to help Member States implement the Youth Guarantee in regions with youth unemployment rates over 25%. The June European Council decided that the €3 billion budget line dedicated to the YEI should be frontloaded in 2014-15, supported by matching contributions from ESF programmes of at least €3 billion. The YEI is evidence of the high political commitment to collectively tackle a key employment and social challenge that disproportionately affects certain countries and regions

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<sup>13</sup> On 17 June 2013, the Commission presented a proposal for a Decision on enhanced cooperation between PESs which will allow for a meaningful comparison of their performance, using evidence-based benchmarking.

but has a negative impact on the EU as a whole. As a matter of urgency, the Commission is currently supporting Member States in drawing up their Youth Guarantee Implementation Plans, and expects to receive their complete versions and financial programming proposals by the end of 2013.

#### **4.2 Stepping up action on employment and labour mobility**

A crucial aspect of the social dimension of EMU is to put in place employment policies that improve the resilience of the labour market, preserve employment and competitiveness and support the creation of new jobs to replace those lost through economic restructuring. As emphasised in the 2012 Employment Package,<sup>14</sup> this requires support measures on both the supply and demand sides of the labour market. Member States should swiftly implement their National Job Plans, taking into account the relevant country-specific recommendations.

One of the most urgent employment challenges is to help young people join the labour market and maintain their potential despite the adverse economic context. Europe has taken action on this by agreeing that every Member State should put in place a Youth Guarantee scheme and by setting aside resources to help implement this key structural reform, via the Youth Employment Initiative. Rapid progress in this area is crucial for maintaining a healthy growth potential in all countries and for restoring socio-economic convergence in the EU.

Furthermore, it is well established that the flexibility of factor markets is vital for a well-functioning monetary union. Although capital has been highly mobile, labour markets have often remained highly segmented. To ensure a fast match between labour demand and supply across Europe and to maximise employment potential, it is particularly important to improve people's ability to move for work within and beyond their national borders. The free movement of workers is one of the cornerstones of the EU and its Single Market. In EMU, labour mobility can to some extent also act as an adjustment mechanism in times of asymmetric changes.

However, cross-border mobility within the European Union is still low. Only 2.6% of the EU population has moved to live in a different Member State. In the euro area, less than 4% of the working age population are nationals of a different Member State. However, 10% of EU citizens have already worked in another Member State and 17% envisage working or living in another Member State in the future. The current low level of labour mobility can be explained by a number of factors, some of which are cultural and social (linguistic and cultural barriers, housing markets, family ties). Others are related to the exercise of rights conferred by EU law and the inadequacy of support for intra-EU mobility (different social security and taxation systems, different professional qualifications, and legal or administrative barriers).

The EU has already addressed some of these persistent barriers. It has established an EU system to recognise professional qualifications and an EU system to coordinate social security benefits, ensuring that mobile workers do not lose their acquired rights when they make a decision to cross borders. The Commission is pursuing its work in relation to the activities of regulated professions, with a view to enhancing the freedom of establishment in the services sector<sup>15</sup>.

The recent Commission proposal for a Directive on measures facilitating the exercise of rights in the context of freedom of movement for workers<sup>16</sup> aims to empower mobile workers by

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<sup>14</sup> COM(2012) 173 final.

<sup>15</sup> Communication from the Commission "Evaluating access to regulated professions". 02/10/2013.

<sup>16</sup> COM(2013) 236 final.

ensuring that they can receive advice, information and support in the host country and by giving them a genuine means of redress in the event of discrimination.

However, looking for a job in another EU Member State is still complicated and administratively burdensome and it can also have a negative impact on a person's social security rights. In its EU Citizenship Report, the Commission urged Member States to make full use of the current rules in allowing jobseekers to receive their unemployment benefits for up to six months while looking for a job in another Member State.<sup>17</sup> The Commission plans to present proposals in 2014 to review the unemployment chapter of Regulations (EC) No 883/2004 and No 987/2009 with a view to simplifying procedures for granting unemployment benefits in cross-border situations and making the provisions more efficient.

At the same time, the Commission and the Member States need to do more to ensure transnational matching between labour supply and demand, in particular by upgrading the EURES network into a pan-European recruitment, matching and placement service. In 2013, the Commission will table a proposal aiming to improve the processing of vacancies and applications for employment, mobility support services for job seekers and employers and to improve the overall coordination and governance of mobility strategies between Member States. Moreover, it is crucial to tackle skills mismatches to better anticipate the skills needed in the labour market. This is the purpose of the recently launched EU Skills Panorama.

#### **4.3 Deepening the EMU: combining substantial ambition with appropriate sequencing**

The current EMU architecture is based on decentralised national fiscal policies under a rules-based framework. The stabilisation function of fiscal policy is carried out at national level, within the limits of the rules of the Treaties and the Stability and Growth Pact. National automatic stabilisers (lower tax revenues and higher social expenditure during downturns) have been allowed, under certain conditions, to play an important shock-absorption role, given the relatively large size of welfare services. But welfare policies (in particular benefit systems) are by and large national responsibility under the Treaty, which implies that the design, efficiency and functioning of automatic stabilisers is a national responsibility and varies across Member States.

The Commission's Blueprint for a Deep and Genuine EMU provides a comprehensive vision conducive to a strong and stable architecture in the financial, fiscal, economic and political domains. It is also relevant for the development of the social dimension of the EMU. The blueprint sets out the actions the Commission believes must be taken in the short, medium and long term. On this path, steps towards more responsibility and economic discipline should be taken in parallel with more solidarity and financial support. Some of the required steps can be adopted within the limits of the current Treaties. Others will require modifying the current Treaties and giving new competences to the EU.

To develop the social dimension of the EMU, the following aspects set out in the blueprint are particularly important.

In the short term, the Commission has proposed creating an instrument within the EU economic governance framework and the EU budget, separate from the Multiannual Financial Framework, to support rebalancing, adjustment and thereby growth. This is the initial step towards establishing a stronger fiscal capacity alongside more deeply integrated policy coordination mechanisms. The existing framework should be strengthened by improving

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<sup>17</sup> COM(2013) 269 final.

ex ante coordination of major reform projects and by creating a ‘Convergence and Competitiveness Instrument’ (CCI) to provide a framework for commitments to and support for the timely implementation of structural reforms.

Financial support would be granted for reform packages that are agreed and important both for the Member State in question and for the good functioning of EMU. The use of financial support would be defined as part of the contractual arrangement concluded between the Member States concerned and the Commission. The ‘Convergence and Competitiveness Instrument (CCI)’ would combine deepening integration of economic policy with financial support, mirroring the principle of combining more responsibility with more solidarity.

This instrument could be established under secondary law.

Building on the CCI, the fiscal capacity could be progressively boosted to provide sufficient resources to support major structural reforms, even for a large economy under distress.

Finally, in the long term, based on progressive pooling of sovereignty and thus responsibility and solidarity competencies at European level, it should become possible to establish an autonomous euro area budget providing the euro area with a fiscal capacity to support Member States absorb shocks. The central budget would provide for an EMU-level stabilisation tool to support adjustment to asymmetric shocks, increase economic integration and convergence and avoid setting-up long-term transfer flows. Overall, a shared instrument could deliver net gains in stabilising power, compared with current arrangements. The size of this fiscal capacity would ultimately depend on the depth of integration desired and on the willingness to enact accompanying political changes.

A common instrument for macroeconomic stabilisation could provide an insurance system to pool the risks of economic shocks across Member States, thereby reducing the fluctuations in national incomes.

In its simplest formulation, a stabilisation scheme to absorb asymmetric shocks could require monetary net payments that are negative in good times and positive in bad times. For example, a simple scheme could determine net contributions/payments by countries as a function of their output gap (relative to the average). Such a system would need to be financially neutral in the medium term for each country, and it would also depend on country size.

Alternatively, the scheme could be based on earmarking payments from the fund for a defined purpose, with counter-cyclical effects (similar to the US unemployment benefit system, where a federal fund reimburses 50% of unemployment benefits exceeding a standard duration, up to a given maximum, conditional on unemployment being at a certain level and rising). The scheme could operate in such a way to avoid ‘permanent transfers’ across countries. In other words, they should be designed to avoid that, over a long period of time, any country is a net loser or gainer from the scheme.

Such measures would require a substantial Treaty change, since, at present, the EU does not have the competence to adopt them, either for the euro area or for the EU as a whole. The EU cannot engage the budgetary responsibilities of its Member States. The EU’s current competences are limited, as regards employment, to incentive measures designed to encourage cooperation between Member States and to support their action, excluding any harmonisation (see Article 149 TFEU). As regards social security and social protection, its competence is limited to adopting directives setting minimum requirements for Member States’ systems whose fundamental principles and financial equilibrium are set by Member States (see Article 153 TFEU). Given the current framework of competences and the system

of own resources of the Treaties, the flexibility clause of Article 352 cannot be used either, as the establishment of macroeconomic stabilisation systems would exceed the general framework of the current Treaties and thus amount to amending the Treaties without following the requisite procedures. In other words, this final stage would require a fundamental overhaul of the Treaties, which would also have to be accompanied — as detailed in the blueprint — by commensurate political integration, ensuring democratic legitimacy and accountability.

## 5. STRENGTHENING SOCIAL DIALOGUE

The EU-level social dialogue plays an essential role in advancing our social market economy, producing benefits for employers, workers, and for the economy and society as a whole. When strengthening economic governance, it is critical to involve the social partners in policy debates and decision-making processes. This is not only to increase the ownership of policies and to ensure meaningful implementation, but also to enhance the effectiveness of policy coordination at euro area level. It is therefore vital that we invest in strengthening social dialogue at both European and national levels.

Social partners play an important role at national level in setting labour market rules and wages. They have a strong influence in other structural policies through tripartite consultations, such as in the area of social security. On wage setting in particular, there are diverse industrial relations in the EU and the Member States decide how to organise wage bargaining. Social partners are also key players when it comes to implementing measures such as apprenticeships or effective lifelong learning.

There is scope for improving the mechanisms to involve the social partners in the coordination of economic and employment policies at EU level.

### 5.1 Making the best use of existing *fora*

At EU level, the social partners take part in a biannual macroeconomic dialogue (MED) and they hold twice-yearly exchanges of views at the highest political level in the tripartite social summit (TSS).<sup>18</sup> Both the macroeconomic dialogue and the tripartite social summit are key opportunities to involve the social partners in the European Semester process.

The Commission is convinced that it is possible to involve the social partners even more in EU and EMU governance while fully respecting their autonomy. More could be done to make use of the synergy and complementarity between different *fora*, particularly to promote consistency and avoid parallel processes. Reporting and follow-up should be made more systematic to ensure greater transparency and communication and the composition of the *fora* could be streamlined. The potential of the bipartite social dialogue should be further exploited, and the level of representation of national social partners should be upgraded in all *fora*, in particular in the Social Dialogue Committee.

The existing *fora* have proved their worth. New forms of dialogue should only be considered after a shared assessment of their need.

The **macroeconomic dialogue** is a high level forum for exchanging views between the Council, the Commission, the European Central Bank and the social partner representations at EU level. It was set up with the specific goal of fostering a regular dialogue on

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<sup>18</sup> The TSS has met since 1997, but it was formally set up in 2003 (Decision 2003/174/EC), and is now integrated in the Lisbon Treaty. The MED was established in 1999 on the basis of Presidency conclusions (Cologne European Council).

macroeconomic policy making in the euro area. The MED has a two-layer structure, political and technical. The political dialogue is organised by the Member State holding the rotating presidency of the Council (and attended by the two subsequent presidencies), and it is preceded by a technical preparatory meeting.<sup>19</sup>

The **tripartite social summit** for Growth and Employment is enshrined in Article 152 TFEU as an integral component of social dialogue at EU level. The task of the tripartite social summit is to ensure the highest social dialogue between the Presidency of the Council (and the two subsequent presidencies), the Commission and employers' and workers' representatives. The summit takes place within the context of cross-industry dialogue. Its agenda therefore includes issues affecting all economic sectors and EU workers.

Employment and social policies are also regularly discussed at informal meetings between the EPSCO Council and the EU social partners, twice a year. In addition, the Treaty provides for a consultation mechanism between the Committees and the EU social partners (Articles 150 and 160 TFEU).

## 5.2 Consultation during the European Semester process

There is a broad consensus among the EU institutions on the need to better involve the social partners in European governance, in particular in the European Semester process. While the autonomy of social partners and the diversity of national practices must be respected (in line with Articles 152 and 153(5) TFEU), the involvement of social partners in framing and implementing economic and employment policies needs to be commensurate with the developments in monitoring and coordination mechanisms if reinforced EMU governance is to be effective and inclusive. National-level consultations with the social partners play an important role, in particular during the adoption of national reform programmes and implementation of country-specific recommendations. This consultation is crucial to labour market issues, but also to overall economic and social issues and policies.

There is certainly room to make better use of current European social dialogue mechanisms in order to timely and efficiently consult the social partners at key steps of the decision-making process at European level. In order to be effective, consultations must also involve the national social partners' organisations. This can only work if Member States also improve, in line with national traditions, the involvement of their social partners in the discussion, design and implementation of on-going reforms, following their national traditions. It will be up to national governments, in accordance with their rules and practices, to define the arrangements for discussing the country-specific recommendations with social partners. The Commission will nevertheless encourage the Member States to discuss implementation of the country-specific recommendations and all relevant reforms with social partners and to annex their opinions to the national reform programmes.

The Commission proposes to improve the current consultation process as follows:

The Commission will meet the EU social partners before it adopts the Annual Growth Survey, in the framework of the **Social Dialogue Committee**, in order to obtain their views on the upcoming priorities and their feedback on the outcome of the previous European Semester process. The main messages arising from this consultation will be shared with the Council at the October tripartite social summit. The Commission will annex to its Industrial Relations Report the joint written opinions from social partners, previously discussed and agreed between the parties.

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<sup>19</sup> The framework is set out by the Economic Policy Committee (EPC).

Following its adoption, the Commission will organise a debate on the Annual Growth Survey and the Joint Employment Report with the EU social partners and their national affiliates, also in the context of the Social Dialogue Committee. The objective is to promote a better mutual understanding of expectations and concerns. The debate will be organised around the scoreboard of key employment and social developments included in that report, the key themes of economic and social reforms, their employment and social dimensions and their coordination. If appropriate, the debate will also include an exchange of views on issues of direct relevance to the social partners, such as wages or collective bargaining systems. The opinions received from the social partners will be disseminated as appropriate. This consultation will complement the exchange of views between the Committees (EMCO and SPC) and the EU social partners' secretariats, and will therefore help to prepare the tripartite social summit scheduled for March.

**Tripartite social summit** will remain the highest level meeting between the Commission, the Council and the European social partners to discuss growth and employment policies. The March tripartite social summit will focus on the European Semester. Its debates will be prepared by the EPSCO Council. The high level political dialogues should be preceded by a technical preparatory meeting, to be organised by the social dialogue committee. The Commission will propose revising the decision that created the tripartite social summit to align it to the new institutional framework established by the Lisbon Treaty and its integrated growth and employment strategy.

The current set up for holding thematic dialogues under the EMCO and the SPC Committees should be developed and streamlined. The consultation process could be complemented by *ad hoc* meetings or by making working arrangements to better involve social partners in discussions on relevant policy issues, taking into account their specific responsibility and potential sensitivity for social partners (e.g. youth employment, wages, pension and health care reforms).

Building on its report on Industrial Relations in Europe and on the work of the European Industrial Relations Observatory within Eurofound, the Commission will also continue to promote monitoring of social dialogue developments throughout the EU.

## 6. CONCLUSION

The recent changes to strengthen EU economic governance aim to reinforce the EMU, address some of the initial weaknesses of its design and make it more competitive and able to promote growth. In the Commission's view, developing the social dimension of EMU is an essential part of this process. This means developing the ability of current economic governance mechanisms and policy instruments to take into account and address challenges related to employment and social policies in the EU, helping all Member States to achieve their growth and employment potential and improve social cohesion in line with EU objectives.

A well-functioning monetary union requires flexible markets and appropriate institutions to address the social situation and provide adequate national safety nets.

There is scope to strengthen the social dimension of EMU by better coordinating and monitoring employment and social policies and developments as part of the European Semester process, mobilising and targeting action and funds to better address social distress, removing the barriers to cross-border labour mobility within the EU and boosting the role of social dialogue.

The Commission looks forward to working with the other EU institutions, the Member States and the social partners to achieve rapid progress in this area.

## Annex: Indicative table for the scoreboard of key employment and social indicators

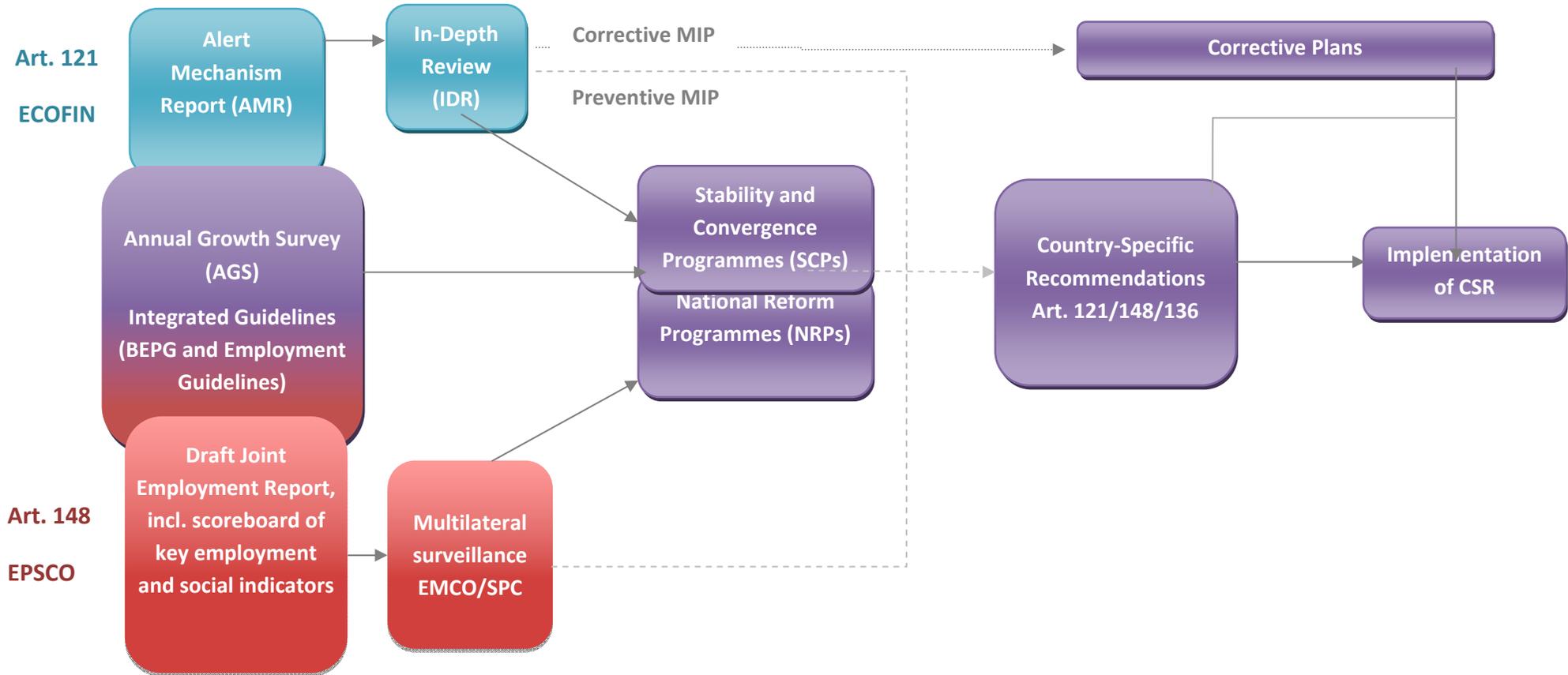
(to be analysed in the draft Joint Employment Report for the 2014 European Semester)

INDICATORS	Unemployment rate (%)	NEET (%) (Not in employment, education and training rate) and Youth employment rate	Change in Real gross disposable income of households (GDHI)	At-risk-of-poverty rate -18-64 (%)	Inequality (S80/S20 ratio)					
Target population	Active population	Youth (18-24)	Total population	Working age population	Total population					
Data source and change	LFS (annual change)	LFS (annual change)	National accounts	EU-SILC (annual change)	EU-SILC					
Rationale for indicator	General labour market developments; loss of output and productivity; competitiveness; social cohesion	Loss of employability and productivity; skills relevance; performance of education and labour market institutions; competitiveness; social cohesion	Aggregate demand; adequacy of labour market incomes; effectiveness of replacement income schemes	General poverty developments (focus on real incomes of poor people); social cohesion; erosion of human capital	Labour market segmentation and precariousness; equality of opportunity; aggregate demand and social cohesion					
EPM, SPPM and JAF would be used to support the reading of headline indicators	<p><b>Detailed reading of the scoreboard would be based on the Employment Performance Monitor (EPM), Social Protection Performance Monitor (SPPM) and Joint Assessment Framework in their entirety.</b></p> <p><i>For illustrative purposes, some examples of indicators are listed below that show how the EPM, SPPM and JAF would support the interpretation of the main indicators:</i></p> <table border="1"> <tbody> <tr> <td>Long-term unemployment share; Employment rate (m/w, by age, skill level); Involuntary part time / temporary employment ; Job vacancy rate (average over 3 years); Other indicators on ALMP coverage</td> <td>Youth unemployment rate; NEETs broken down by age 15-18,18-19, 20-24; Employment rate of young people; Early school leavers</td> <td>Contribution of work income (employees and self-employed) to GDHI; Real unit labour costs; Household saving rate; Household debt to income ratio, Coverage rates of unemployment benefits</td> <td>Anchored at-risk-of-poverty rate (%); Depth of poverty, At-risk of poverty gap ; Other dimensions of poverty: In-work poverty, jobless households; Severe material deprivation, AROPE by age (child poverty, working-age poverty, elderly poverty)</td> <td>Indicators of segmentation (Involuntary temporary/part-time employment, labour market transitions (by type of contract or pay level; etc. )); Indicators of other inequalities in the LM (Literacy score gap (PISA)), Gender pay gap, Earnings inequality (excl. people out of work)</td> </tr> </tbody> </table>					Long-term unemployment share; Employment rate (m/w, by age, skill level); Involuntary part time / temporary employment ; Job vacancy rate (average over 3 years); Other indicators on ALMP coverage	Youth unemployment rate; NEETs broken down by age 15-18,18-19, 20-24; Employment rate of young people; Early school leavers	Contribution of work income (employees and self-employed) to GDHI; Real unit labour costs; Household saving rate; Household debt to income ratio, Coverage rates of unemployment benefits	Anchored at-risk-of-poverty rate (%); Depth of poverty, At-risk of poverty gap ; Other dimensions of poverty: In-work poverty, jobless households; Severe material deprivation, AROPE by age (child poverty, working-age poverty, elderly poverty)	Indicators of segmentation (Involuntary temporary/part-time employment, labour market transitions (by type of contract or pay level; etc. )); Indicators of other inequalities in the LM (Literacy score gap (PISA)), Gender pay gap, Earnings inequality (excl. people out of work)
Long-term unemployment share; Employment rate (m/w, by age, skill level); Involuntary part time / temporary employment ; Job vacancy rate (average over 3 years); Other indicators on ALMP coverage	Youth unemployment rate; NEETs broken down by age 15-18,18-19, 20-24; Employment rate of young people; Early school leavers	Contribution of work income (employees and self-employed) to GDHI; Real unit labour costs; Household saving rate; Household debt to income ratio, Coverage rates of unemployment benefits	Anchored at-risk-of-poverty rate (%); Depth of poverty, At-risk of poverty gap ; Other dimensions of poverty: In-work poverty, jobless households; Severe material deprivation, AROPE by age (child poverty, working-age poverty, elderly poverty)	Indicators of segmentation (Involuntary temporary/part-time employment, labour market transitions (by type of contract or pay level; etc. )); Indicators of other inequalities in the LM (Literacy score gap (PISA)), Gender pay gap, Earnings inequality (excl. people out of work)						

**Annex: Indicative table of the additional auxiliary employment and social indicators in the AMR**

<b>INDICATORS</b>	<b>Participation rate (%)</b>	<b>Long-term unemployment ratio (%)</b>	<b>Youth unemployment rate (%)</b>	<b>At risk of poverty and social exclusion (AROPE) rate (%)</b>
Target population	Working age population (15-64 year)	Active population	Active population in same age group (15-24 years old)	Total population
Data source/change	Eurostat, LFS/level and evolution over time	Eurostat, LFS/ level and evolution over time	Eurostat, LFS/ level and evolution over time	Eurostat, SILC/ level and evolution over time
Rationale for the indicator	Complements the rate of unemployment as it indicates underlying flows from activity to inactivity and vice versa. It allows to look at structural disincentives not to seek work as well as ‘discouragement effects’ of prolonged unemployment, undeclared labour, informal sector employment and agricultural underemployment.	Points to structural problems in the labour market, e.g. qualification mismatch, insider-outsider problems. It indicates reduced prospects of re-employment and the increased risk of becoming trapped in joblessness.	Gives a measure of the difficulties encountered by early and possibly low-qualified entrants in the labour market; experiencing a prolonged period of unemployment early in one’s career can have long-lasting consequences in terms of future earnings prospects and attachment to the labour market.	Aggregate indicator that captures different dimensions of poverty
Complementary indicators	n.a.	n.a.	NEET (rate of young individuals who are not in employment, education or training over total population aged 15-24)	Components: at risk of poverty rate (AROP) that captures relative poverty, severe material deprivation rate that captures absolute poverty, persons living in households with low work intensity

## Strengthening the monitoring and surveillance of employment and social challenges within the European Semester



**October:** Tripartite Social Summit, Autumn European Council

**November:** Macroeconomic Dialogue; Commission publishes AGS, AMR, draft JER

**February/March:** ECOFIN & EPSCO, Macroeconomic Dialogue, Tripartite Social Summit, Spring European Council

**April:** Finalisation of SCPs & NRPs (with involvement of national social partners)

**May/June:** Commission proposes CSRs; discussion in the Council's Committees, EPSCO & ECOFIN

**June/July:** European Council endorses and Council adopts CSRs