EU Communication

SOCIAL AND EMPLOYMENT-POLICY DIMENSION OF THE EMU

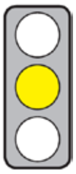
cep**PolicyBrief** No. 2014-16

Centrum für Europäische Politik

KEY ISSUES

Objective of the Communication: The Commission wants to ensure early recognition and removal of persistent social inequalities in the Member States of the Economic and Monetary Union.

Affected parties: All citizens, social partners.



Pro: (1) An autonomous budget for the eurozone may facilitate the absorption of asymmetric shocks.

(2) The "instrument for macroeconomic stabilisation" may reduce the burden which a shock places on employees.

Contra: (1) An autonomous budget reduces the incentive for euro states to deliver a flexible labour market. If a euro state with a low GDP per head becomes a net payer, the eurozone budget will come up against an acceptance problem.

(2) The "instrument for macroeconomic stabilisation" reduces the incentive for euro states to deliver a flexible labour market.

(3) Agreements in which the Member States make a commitment to the Commission to undertake social policy reforms formulated by the Commission are unlawful under primary law.

CONTENT

Title

Communication COM(2013) 690 of 2 October 2013: **Strengthening the Social Dimension of the Economic and Monetary Union**

Brief Summary

► **Background**

– The Commission wants to ensure early recognition and removal of "problematic" economic developments in the Member States because persistent social inequalities could jeopardise the financial and economic stability of the Economic and Monetary Union (EMU).

– All Member States are part of the EMU whose main objective is the enhancement of the internal market by way of a single currency with a high degree of price stability. The Commission therefore directs its Communication to all Member States including those that are not part of the eurozone.

– The Commission regards the following measures as particularly urgent:
  - better surveillance and coordination of social and employment policy developments in the EMU;
  - deepening the EMU;
  - mobilising EU funding to tackle unemployment;
  - improving employment services and employee mobility;
  - greater involvement of the social partners.

► **Better monitoring and coordination of social and employment policy developments in the EMU**

– The Commission wants to extend the reports and recommendations, which are prepared for the individual EU Member States as part of macroeconomic surveillance (see cep**Analysis**), to include trends in employment and social policy.

– The Commission also wants to extend the existing social and employment policy surveillance instruments – the Employment Policy Monitor and the Social Protection Performance Monitor – to include a scoreboard showing "key" social and employment policy indicators. For this it proposes, in particular, key indicators identifying the social and employment policy problems which can impact on other Member States.
The results obtained from this scoreboard will be channelled into the "Draft Joint Employment Report" which forms part of the Annual Growth Survey and is the basis for further analysis, surveillance and coordination throughout the European Semester (COM(2011) 400; see cep**PolicyBrief**).

– The Commission wants to increase the spread of best practice.

► **Deepening the EMU**

– The Commission calls for social policy to be given greater consideration in the EMU and for this purpose wants social competences to be transferred to the EU. The Commission makes it clear that this will require modification of the EU treaties.

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– It proposes a "Convergence and Competitiveness Instrument" (p. 11): it wants to conclude agreements with the euro states in which they contractually undertake to carry out structural reforms for which they will receive ear-marked financial support from the EU (already referred to in Communication COM(2013) 165; see **cepPolicyBrief**).
  – Funding is to take place via a "fiscal capacity" (already referred to in Communication COM(2013) 165; see **cepPolicyBrief**) which, as ear-marked external revenue, is part of the EU budget but not part of the Multiannual Financial Framework. The fiscal capacity is to be progressively boosted so that it will be able to support major structural reforms, even in a large economy in crisis.
  – The Commission wants to absorb "asymmetric shocks" (p. 11) in the eurozone and/or the EMU. "Shock" refers to cyclical as well as structural problems. It calls for
    - an autonomous budget for the eurozone and
    - an "instrument for macroeconomic stabilisation".
  – In the long term – assuming sovereign powers are transferred to the EU –, the Commission wants an "autonomous budget" to be set up especially for the eurozone. The money contained therein is to absorb asymmetric shocks in the eurozone and avoid long-term transfer flows.
  – The Commission also wants a general "instrument for macroeconomic stabilisation" to be set up in the short term for the whole EMU. This would pool the risks of "asymmetric shocks" across all Member States (p. 11). A Member State "affected by a shock" will receive money. This will be ear-marked and have counter-cyclical effects. The Commission outlines two models:
    - Model 1: Whether a Member State is affected by a "shock" depends on the extent to which the output gap, of the Member State concerned, differs from the average output gap of all Member States.
      The output gap is the difference between the actual gross domestic product of a country and the potential gross domestic product possible.
    - Model 2: Whether a Member State is affected by a shock depends on the trend in unemployment.

    To be specific, the Commission wants to ensure that, over a long period of time, no Member State is a net loser or gainer from the scheme -.

► **Mobilising funds to tackle unemployment**

The Commission again declares its willingness to earmark payments from the EU budget, particularly EU funds, in order to support what in its view are necessary reforms and modernisation of social policy by Member States (p. 8).

► **Improving employment services and employee mobility**

– 2.6% of EU citizens currently live in a different Member State to that of their origin. In the eurozone the figure is 4%. 10 % of EU citizens have already worked in another Member State.
– Employee mobility will also contribute more to absorbing asymmetric shocks in the eurozone.
– The Commission therefore wants to improve cross-border employee mobility. It has therefore already proposed:
  - a Directive to improve the freedom of movement for workers [COM(2013) 236; see **cepPolicyBrief**] and
  - a Resolution on improving the efficiency of employment services by introducing a benchmarking system for employment services [COM(2013) 430; s. **cepPolicyBrief**].
– In 2014, it will propose a Regulation to improve recruitment.
– Since 2012, the EU Skills Panorama, EUSP has been trying, as a supplementary measure, to match up the short and medium term skills supply with demand and identify those professions with the highest rates of growth as well as those in which there are a large number of vacancies.
– The Commission calls on Member States to grant all job seekers, irrespective of their Member State of origin, up to six months "unemployment benefit" while they are seeking work.
– In 2014, the Commission wants to review the rules on granting unemployment benefit in cross-border cases. This concerns the Regulation on the Coordination of Social Security Systems [Regulation (EC) No. 883/2004] and the accompanying implementation regulations [(EC) No. 987/2009].

► **Greater involvement of the social partners**

– The Commission would like the social partners to be more involved via the Social Dialogue Committee, by
  - exchanging views on wages and collective bargaining systems;
  - consultation on the results of the previous European Semester;
  - consultation on future measures;
  - debate on the Employment Report.
– The Member States will improve the involvement of the social partners when implementing the country-specific recommendations.

Statement on Subsidiarity by the Commission

Taking account of the social dimension and the development of social and employment policy instruments at EU level is, according to the Commission, absolutely necessary for building a "genuine" EMU "although employment and social policy are primarily the responsibility of Member States" (p. 4).

Policy Context

It has already been decided that, for 2014-2015, 3 billion euro will come directly from the EU budget and an additional 3 billion euro will be made available from the European Social Fund for employment initiatives for young people. This will support the Member States in the implementation of the Youth Guarantee [COM(2012) 729, see cep**PolicyBrief**].

Options for Influencing the Political Process

Directorates General:	DG Employment and Social Affairs (leading)
Committees of the European Parliament:	Employment (leading), Rapporteur TBA (Group, Country); Economy
Federal Ministries:	Economy (leading)
Committees of the German Bundestag:	Affairs of the European Union (leading); Economy; Labour and Social Affairs; Budget

ASSESSMENT

Economic Impact Assessment

The social and employment policy problems confronting, in particular, a large number of euro countries could lead to a radicalisation of the individuals affected which could in turn jeopardise the stability of the EMU. Early identification and removal of such problems may help to prevent this. Surveillance of the social and employment policy trends in the Member States - both by extending the reports and recommendations carried out as part of macroeconomic surveillance and by augmenting the existing employment and social policy monitoring instruments to include a scoreboard with key indicators - is, however, of limited value in this regard. Social and employment policy problems do not generally show up during the onset of macroeconomic imbalances. The property boom in Spain, for example, even resulted in lowering the Spanish level of unemployment. The decline in the competitiveness of southern European euro countries also came about over a period of years without leading directly to a rise in unemployment, in fact continuing for as long as foreign lenders went on granting the loans which this necessitated, without applying risk premiums. Only when the macroeconomic imbalance comes to light, i.e. the property bubble bursts or the lack of competitiveness becomes obvious, do the actual social and employment problems of the relevant country become apparent. By then, however, it is no longer possible to avert these problems.
The proposed clarification of social and employment policy trends to be carried out as part of macroeconomic surveillance, in fact risks diminishing the impact of the surveillance by diverting it from its true purpose. Its purpose is to ensure the early identification of macroeconomic imbalances and the speedy removal of excessive imbalances. Since this also avoids social and employment policy problems it is unnecessary to allow the clarification of social and employment policy trends to be otherwise incorporated into macroeconomic surveillance.
Augmenting the existing employment and social policy monitoring instruments to include a scoreboard with key indicators on social and employment policy will result in these aspects being allotted more attention in the Annual Growth Survey. However, it is doubtful whether this will have any concrete effect on the policy of the Member States because the Commission's Annual Growth Survey only provides the Member States with non-binding recommendations.
The proposed instrument for restoring convergence and competitiveness, on the one hand reduces the liability of the individual euro states for their policy thereby reducing the incentive for reform. On the other hand, it allows the other euro countries, who are also liable, to have - limited - influence over the policies of countries that are at risk [COM(2013) 165; see cep**PolicyBrief**].
The "autonomous" budget for the eurozone, which is proposed for the long term, **may, on the one hand, facilitate the absorption of asymmetric shocks**, because it stabilises demand in the affected euro state. This is of particular importance because the euro states can no longer absorb shocks by devaluing their currencies. In the euro states it is therefore the production factors - apart from investors, in particular the employees - which have to bear the brunt of such shocks. The extent to which an economy is able to do this depends on the flexibility of the labour market. The more flexible the labour market, the more likely it is that the economy will be able to absorb a shock without it giving rise to persistent unemployment. **On the other hand, payments from an "autonomous" eurozone budget will reduce the necessity for ensuring that the labour market remains as flexible as possible. Such a budget may result in euro states** failing to improve the flexibility of the labour market or even **further reducing flexibility.**
In addition, it is arguable that a eurozone budget would, in the long term, still turn into a transfer system. When a euro state with a very high level of GDP per head - such as the Netherlands - is affected by a shock and the euro states with low GDP per head - such as Estonia or Portugal - become net payers, the eurozone budget will come up against an acceptance problem, if not before. As a result, the actual purpose of the budget - the absorption of shocks - may be pushed into the background and equality considerations come to the fore.
The same applies to the "instrument for macroeconomic stabilisation" which is proposed for the short term. **The payments** that a Member State, affected by a shock, is to receive, **on the one hand**, stabilise demand and thereby **facilitate shock absorption, on the other hand, compromise labour market flexibility.**

With respect to the two models, it is the case that: Linking payments to the output gap is problematic because there is a substantial time lag before the output gap can be identified with sufficient certainty. In order to absorb a shock, however, it has to be caught quickly. In addition, evaluating the output gap is controversial because there are several ways of doing this.

Linking payments to the trend in unemployment levels may result in a state, in order to receive higher payments, **failing to provide financial support for short-time work** because short-time workers do not count as unemployed. There is also the danger that Member States, with inflexible and over-regulated labour markets and inefficient employment services, will be rewarded - at least in the short term.

Improving cross-border employment services facilitates the absorption of asymmetric shocks because it is easier for employees, who become unemployed as a result of the shock, to look for a new job in another Member State. The measures proposed by the Commission are all appropriate for increasing cross-border mobility.

The greater involvement of the social partners may help to improve the national implementation of economic and employment policy strategies passed at European level because the social partners have considerable influence on national labour market rules and wages. On the one hand, this may improve the feasibility of structural reforms, but on the other hand promote the introduction of wage agreements with an adverse effect on productivity, particularly in competitive countries. Ultimately, the effect of greater involvement therefore depends on the actual strategies.

Legal Assessment

Legislative Competency

The Commission recognises that social policy is largely a matter for the Member States and that it cannot adopt any binding requirements with regard to social policy. Nevertheless, it is asking the Member States to implement the social policy which it considers to be correct: It **only wants to provide Member States with financial support if they commit, by way of agreements, to implementing reforms formulated by the Commission. Such agreements are**, however, **in breach of the European Treaties.**

The EU can conclude international treaties but expressly only with non-EU states and international organisations (Art. 217 TFEU). In addition, such agreements cannot exceed the competences conferred under the treaties (Declaration No. 24 to the Lisbon Treaty). Ultimately, therefore, they can only be based on the flexibility clause (Art. 352 TFEU). Then, however, they would be subject once again to the very contractual restrictions in the area of social policy which the Commission is trying to avoid, in particular the exclusion of the power to determine the fundamental principles of the welfare systems and to set wages (Art. 153 (4) and (5) TFEU), because the restrictions on content, procedure and instruments must also be complied with when applying Art. 352 TFEU.

As regards the adaptation of the Regulations on the Coordination of the Social Security Systems, competence lies with the EU (Art. 153 TFEU).

As long as the EU does not try to influence wage calculation, the inclusion of the social partners is unproblematic. The EU has no competence with regard to wage calculation (Art. 153 (4) TFEU).

Subsidiarity

Unproblematic.

Proportionality

Unproblematic.

Compatibility with EU Law in other Respects

Unproblematic.

Impact on German Law

Unproblematic.

Conclusion

Both an autonomous budget for the eurozone and an "instrument for macroeconomic stabilisation" may, on the one hand, facilitate the absorption of asymmetric shocks, but on the other hand, further reduce the flexibility of the labour markets in the eurozone or the EMU. In addition, it is arguable that a eurozone budget would, in the long term, still turn into a transfer system. In particular, linking the "instrument" to the trend in unemployment levels may result in a state failing to provide financial support for short-time work. Agreements in which the Member States make a commitment to the Commission to undertake social policy reforms formulated by the Commission are in breach of the European Treaties.