

A Social Imbalances Procedure for the EU

Added value, strategic options
and obstacles

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and Anne-Catherine Guio

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and obstacles**

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Policy implications

- A Social Imbalances Procedure (SIP) would help to strengthen the social policy toolbox of the European Union (EU). Such an instrument appears particularly urgent in view of the formidable social challenges and uncertainties related to the recovery from the Covid-19 crisis and the need to correct macroeconomic and budgetary imbalances, to the green and digital transitions, to the consequences of the war in Ukraine and of growing geopolitical tensions.
- A SIP would enable earlier identification and closer monitoring of social imbalances jeopardising the social objectives of the EU, a more in-depth analysis of the causes of and the possible solutions to those imbalances, and it would provide additional means to address them.
- Two main options for the scope of the SIP could be explored, linking the procedure: i) to the whole set of headline indicators included in the Social Scoreboard of the European Pillar of Social Rights; or ii) to the achievement of the EU social targets agreed during the Porto Social Summit. These options would use different benchmarks to identify social imbalances and methodologies to measure them.
- In terms of governance procedures, a SIP could have three basic stages: i) detection and assessment of social imbalances; ii) definition of actions to be taken at the national level; and iii) arrangements for monitoring implementation. It would be particularly important for a broad array of institutional and societal actors to be involved in the SIP and to set up arrangements ensuring complementarity and integration between the future SIP and existing EU macroeconomic and fiscal procedures.
- The SIP should be endowed with a ‘supportive arm’, to provide extra support to Member States experiencing situations of particularly severe social imbalances. Support from the EU could take the form of enhanced technical assistance and/or targeted financial support.

Introduction

This paper¹ discusses the possibility of strengthening the social toolbox of the European Union (EU) by introducing a *Social Imbalances Procedure* (SIP), the added value of such an instrument, and key issues to be reflected on for its operationalisation.

At the beginning of the 2010s, as a reaction to the financial and economic crisis, the EU strengthened its existing instruments for the coordination and surveillance of Member States' fiscal policies (including the Excessive Deficit Procedure – EDP) and introduced new instruments (the Macroeconomic Imbalance Procedure – MIP). Discussions on the possibility of creating an equivalent instrument in the social domain took place already at that time, but this idea largely remained under the radar, only occasionally resurfacing in political debates in the European Parliament (Milotay 2020: 12) and in research circles (Sabato et al. 2019).

More recently, a debate on the SIP has developed at the EU level, following the proposal – put forward as a ‘non-paper’ – by Belgium and Spain in spring 2021. These countries proposed to equip the Social Scoreboard of the European Pillar of Social Rights (EPSR) with ‘an alert mechanism that triggers a more in-depth follow-up and discussions at committee and ministerial level, based on the approach for macro-economic imbalances [...]’ (Belgian and Spanish Governments, 2021). This proposal – developed further by the two countries in several policy notes – was initially discussed during a meeting of the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council formation in October 2021 and flagged by the European Commission in its proposal for the Joint Employment Report 2022 (European Commission 2021). In January 2022, the French Presidency of the Council gave a mandate to the Employment Committee (EMCO) and the Social Protection Committee (SPC) to explore the possibility of introducing a SIP, with a view to preparing a joint opinion of the EPSCO advisory committees by May 2022. Such an opinion would then be included in a Presidency note, to be submitted to the EPSCO Council meeting of June 2022.

The French Presidency asked the EMCO and the SPC (and their respective indicators sub-groups) to discuss the Belgo-Spanish proposal, focussing on a

1. This paper draws on and updates a working paper recently published by the European Trade Union Institute (Sabato et al. 2022). We refer the reader to the full ETUI working paper for a more in-depth discussion of the arguments and the concrete policy proposals put forward. The authors wish to thank Borys Biedroń (OSE research intern) for his thoughtful comments and suggestions.

number of key topics such as the added value of a possible SIP, a definition of social imbalances, governance arrangements for the instrument and its integration into the European Semester. In the meanwhile, the debate on the SIP has broadened beyond the institutional arena, with the European Trade Union Confederation (ETUC) recently adopting a Resolution on the topic (ETUC 2022).

This paper aims at contributing to this debate, providing policymakers and stakeholders involved with food for thought about the key issues and challenges related to the establishment of a SIP.

Why a Social Imbalances Procedure?

The initial focus of the European Semester (hereafter, ‘the Semester’), launched in 2011, was on macroeconomic and fiscal objectives, essentially encouraging Member States to implement fiscal consolidation policies, with only scarce consideration for their social implications. Since 2013, however, the Semester has gradually developed a stronger social dimension, in both its substantive outcomes and its procedural aspects. This process of ‘socialisation’ of the Semester (Zeitlin and Vanhercke 2018) has been facilitated by the launch of several initiatives and tools in the social domain, including, more recently, the European Pillar of Social Rights and its Social Scoreboard.

However, the traditional asymmetry between the economic and the social dimensions of the European integration process persists. The former dimension was strengthened during the Great Recession and relies on binding coordination and surveillance procedures based on legislation, such as the MIP and fiscal policies under the Stability and Growth Pact (SGP) (Bokhorst 2019, Howarth and Verdun 2020). Conversely, the EU social governance toolbox contains no procedures of comparable stringency, not even to ensure the implementation of its main reference framework: the European Pillar of Social Rights. While the binding frameworks of the MIP and the EDP do not mean that implementation is hierarchical and rigid, nor that they automatically promote neoliberal and austerity-oriented policies (Bokhorst 2019), they have proved strong enough to enhance EU influence on national social and employment policies, often leading to the subordination of social goals to the imperatives of economic competitiveness and fiscal discipline at the EU level.

Reinforcing the EU social policy toolbox appears necessary and urgent in view of the formidable economic and social challenges and the uncertainties related to the recovery from the Covid-19 crisis, to the green and digital transitions, to the consequences of the war in Ukraine and of growing geopolitical tensions. In this context, an institutionalised instrument to identify, prevent and address social imbalances within the Member States and in the EU as a whole is needed, to ensure that EU and national policies contribute to achieving the objectives of upward social convergence and reducing inequalities, and are fully consistent with the principles of competitive sustainability at the heart of the European Green Deal (EGD).

While the Member States hold the main responsibility for their social policies, four arguments suggest that multiple and persistent social imbalances within a Member State should be seen as a matter of common concern, thus justifying

further action at the EU level. The first argument is normative: social imbalances in the Member States hamper the achievement of key social objectives of the Union as stated in the Treaties. The second argument is functional: properly addressing social imbalances is necessary because the proper functioning of the Single Market and of the Economic and Monetary Union is not possible without simultaneously promoting a certain degree of (upward) social convergence in the Member States. The third argument is technical: an EU instrument identifying and addressing social imbalances would improve the quality and consistency of EU policymaking, also considering that, in some cases, social imbalances within a Member State could be affected (worsened or improved) by decisions taken at the EU level. The fourth argument is political: the deterioration of the social situation in the Member States may threaten the political legitimacy of the European project, as the latter is based on the promise of achieving high social standards and upward social convergence.

What would be the scope of a Social Imbalances Procedure?

'Social imbalances' could be understood as social problems and trends that, given their social, economic, and political implications, threaten social cohesion within a Member State. An accumulation of imbalances in various social policy domains and/or persistent negative trends in specific domains may indicate that a country is experiencing excessive social imbalances.

To operationalise the SIP, it is necessary to identify the concrete social problems and policy areas potentially included in the notion of social imbalances to be targeted by the procedure, and to define possible thresholds and benchmarks for assessing these imbalances, as well as the methodology through which social imbalances would be measured. In taking these decisions, technical, political and normative considerations all come into play. The starting point should be the principles already included in the European Pillar of Social Rights and the headline indicators in its Social Scoreboard. Two main options for a possible SIP can be identified.

In the first option, the SIP would cover the *whole set of headline indicators* included in the Social Scoreboard. The benchmark used to identify social imbalances would be the notion of upward social convergence in a broad sense, relying on the methodology currently used by the EMCO and the SPC to evaluate the situation and developments in the Member States. The risk of social imbalances for each country would be determined using clearly agreed criteria including: i) the number of worrying performances detected in the current year; and ii) the year-on-year evolution of these performances.

In the second option, the SIP would be focused on the *achievement of the EU social targets* agreed during the Porto Social Summit, while the other headline indicators would be used to complement and deepen the analysis. In both options, a future SIP should consider both levels of and trends in the indicators considered. Indeed, the SIP should concern *both* countries with traditionally poor performances in the social realm and countries demonstrating good or average performances, but with a deteriorating trend. Trends should be statistically significant, substantive and robust over time.

These two options appear to be the most pragmatic ones if the objective is to launch the SIP in time for its usage during the 2023 European Semester cycle. Nevertheless, other solutions are worth exploring in the future, including linking the SIP more explicitly to the social challenges of the green and digital transitions. In line with the notion of a 'just transition' as framed in the European Green

Deal, the SIP could indeed support a ‘social guarantee’ for the green transition (Gough 2021), ensuring that fundamental social rights and citizens’ needs are not compromised (but rather enhanced) during the transition. However, both political considerations and issues related to the availability of indicators measuring the social impact of the green transition would make the realisation of this alternative option difficult at this stage.

How to implement a Social Imbalances Procedure?

We argue that a SIP should include three stages: i) the detection and assessment of social imbalances; ii) the definition of actions to be taken at the national level (including a ‘supportive arm’); and iii) the arrangements for monitoring implementation. In operationalising these stages, attention should be paid to a number of aspects, including: i) the role to be attributed to the various institutional and societal actors at both the EU and national levels; ii) the need to link the SIP to existing governance processes (notably, the Semester) so as to avoid duplication and an additional burden on EU and national administrations; iii) the relationship between the SIP and existing procedures in the macroeconomic and fiscal domains; iv) the logic of the procedure; and v) the legal basis for the SIP.

Detection and assessment

The Belgian-Spanish proposal currently being debated at the institutional level envisages a key role for the European Commission’s Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL), the EPSCO Council formation and its two advisory Committees. These institutional actors would be required to integrate the SIP into the Semester’s Joint Employment Report (JER) and into the Country Reports (in the form of ‘Social In-Depth Reviews’).

However, we believe that two further aspects would be key for setting up a strong and effective SIP. First, it would be crucial to involve institutional actors such as the European Parliament, the European Economic and Social Committee, and the Committee of the Regions. These institutions could be asked to formulate Opinions and/or Reports concerning analyses of countries at risk of social imbalances. Besides institutional actors, clear procedures for the involvement, at this key stage, of EU and national social partners and civil society organisations should be established in the framework of the Semester (see also ETUC 2022). Second, arrangements to strengthen complementarity and integration between the future SIP and existing macroeconomic and fiscal procedures should be further specified. Crucially, key stages of the SIP should run in parallel with the MIP and the procedures related to the SGP, and the main documents of the SIP should be based on formats facilitating comparisons and cross-analyses with corresponding documents of the MIP and SGP.

Defining actions

When defining national actions to be taken to address social imbalances, in our proposal a key role would be played by national authorities and by the European Commission and the Council, in the framework of the European Semester. The Commission and the Council would provide guidance through Country-specific Recommendations (CSRs) explicitly linked to the SIP, while the Member States found in situations of social imbalances could be asked to report on their actions in specific sections of their National Reform Programmes (NRP). In doing so, to increase the transparency and ownership of the process, the Commission and national governments should involve a wide array of national actors in the discussion around possible measures, including national social partners. In this respect, some social partners organisations have already expressed their willingness to be closely involved in the procedure. For instance, in their recent Resolution on the SIP, the ETUC (2022) has proposed that, if national social partners reach an agreement on policy options and actions to address specific imbalances highlighted by the SIP, European social partner organisations would bring such an agreement to the attention of the Commission and the EPSCO advisory committees, and that the Commission may decide to include those agreements in the proposals for CSRs to be examined by the Council.

The 'supportive arm'

A more stringent set of procedures and initiatives linked to the SIP could be envisaged, entailing extra support from the EU. Such a 'supportive arm' of the SIP would be incentive-based (rather than punitive), based on cooperation with the Member States (i.e. voluntary), open and transparent (involving a broad array of national and EU actors). The supportive arm would be applied to Member States experiencing situations of particularly severe social imbalances ('excessive imbalances'). In these cases, actions needed to assess social imbalances would be defined in specific national Multi-annual Action Plans (MAP), agreed between the national government and the European Commission, through a process duly involving national Parliaments, the social partners and other stakeholders active in the area(s) covered by the SIP. The MAP should then be scrutinised by EMCO and SPC and eventually discussed and approved by the EPSCO Council formation. National MAPs should contain: i) a list of medium-term actions (reforms and investments); ii) concrete milestones and targets for the implementation of these actions; and iii) EU support for the implementation of these actions. The latter may include, first, *enhanced technical assistance* to the Member State concerned, to be provided through the various kinds of peer reviews and thematic reviews organised by the Commission and the Council Committees or directly by DG EMPL and its Country Desks. Second, *targeted financial support* from the EU, through the European Structural and Investment Funds or through the Recovery and Resilience Facility.

Monitoring

Finally, the monitoring of the implementation of the SIP would be conducted through the European Semester. In our proposal, the Member States should report on their actions to address social imbalances in a specific annex to their NRPs, possibly including opinions from the social partners and other relevant stakeholders. The Commission should annually monitor the situation through the Country Reports and recommend further actions, if needed, through the CSRs. For countries having submitted a Multi-annual Action Plan, enhanced monitoring could be envisaged.

Conclusions

The EU and its Member States are confronted with formidable economic and social challenges as well as geopolitical uncertainties. In this context, EU and national policymakers are taking crucial decisions, affecting the direction of the Union in the years to come. It is key that these decisions are consistent with the notion of competitive sustainability at the heart of the European Green Deal, based on the ambition to achieve a development model combining the objectives of environmental sustainability, productivity growth, fairness and macroeconomic stability. It is equally important that these decisions should be consistent with the Union's social objectives, distributing in a fair way the related opportunities and costs, and contributing to achieving upward social convergence and reducing inequalities.

This paper argues that setting up a Social Imbalances Procedure would be a significant step towards strengthening the governance toolbox for EU social policies. A SIP would enable earlier identification and closer monitoring of social imbalances jeopardising the social objectives of the EU, a more in-depth analysis of the causes of and the possible solutions to those imbalances, and would provide additional means to address them. Institutional, political and social actors interested in strengthening the social dimension of the EU should exploit the current window of opportunity to create such an instrument in time for the 2023 European Semester.

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