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Subject: Memorandum
Ministers of Employment and Social Affairs of the EPSCO Council
The Social Dimension of the Economic and Monetary Union

Delegations will find attached in Annex the above-mentioned Memorandum as attached to the letter sent by the Irish Presidency to the President of the European Council, on 15 May 2013.

The letter can be found in doc. 12115/13 INIT.

Memorandum

Ministers of Employment and Social Affairs of the EPSCO Council
THE SOCIAL DIMENSION OF THE ECONOMIC AND MONETARY UNION**1. Preamble**

The economic and social situation in Europe has significantly altered since the Lisbon European Council in 2000 established a better basis for sustaining the European social model through the exchange of experiences and good practices. Today, under the Treaty on Stability, Coordination and Governance, contracting Member States have committed themselves to reinforcing the coordination of economic policies and the improvement of the Eurozone's governance in order to achieve the EU's objectives for sustainable growth, employment, competitiveness and social cohesion. Achieving more balanced governance in the Economic and Monetary Union (EMU) is critical for the achievement of these objectives.

The social dimension of the EMU features in the Conclusions of the December 2012 European Council in the context of three other elements:

- *ex ante* coordination of major economic policy reforms;
- individual arrangements of a contractual nature for competitiveness and growth;
- solidarity mechanisms enhancing Member States' efforts towards the implementation of these agreements.

The discussions among EPSCO Ministers on the social dimension of the EMU preceded the presentation by the European Commission on 20 March 2013 of two new Communications on the next steps towards a deep and genuine EMU: a Communication on the *ex-ante* coordination of plans for major economic policy reforms and a Communication on the introduction of a Convergence and Competitiveness Instrument. Due to the time lag, these elements have not been included in this memorandum.

2. Comprehensive approach and interdependencies

The social dimension of a genuine EMU should be understood as improving the capacity of the EMU's rules, governance and policy instruments to ensure that economic efficiency and social equity are pursued at the same time in order to promote full employment, growth and social justice.

The European Union has limited competence in the social policy field. While the EU institutions may recommend, encourage, guide and coordinate, the actual responsibility in this field lies primarily with the Member States. Although divergence in employment and social policies does not necessarily constitute an economic problem for the Single Market, a currency union cannot be sustainable unless there is convergence in the socio-economic performance of the Member States. Severe employment and social problems in one Member State of a currency union will invariably have negative economic spill-overs and politically destabilising effects for the EMU as a whole. Furthermore, perceived inequalities within and between Member States may compound these latter effects.

The further development of the social dimension in the EMU is, accordingly, in line with the objectives of sustainable economic growth and making the EU more competitive. Its achievement should be approached in a holistic manner, embracing economic, financial and employment and social protection dimensions, including demographic challenges.

The crisis has demonstrated the inter-dependence of Member States, just as it has contributed to a deepening of social divergence within and between Member States. The unacceptable increase of poverty and social exclusion and the persistent high levels of unemployment are a sufficient indication that the current framework for the co-ordination of employment and social policies in the European Semester needs to better take account of the worsening social situation in the European Union and the emerging social imbalances. To this end, the social Open Method of Co-ordination, which is the primary tool for co-ordination of social policies, has a crucial role to play in social governance and should be strengthened.

A genuine improvement in social governance can be achieved by building upon the existing instruments of the European Semester process, as well as through an improved awareness of the potential social consequences of economic, fiscal and other policies. This can be pursued by:

- addressing imbalances through the Semester process so as to contribute **vertically** to improved national economic, employment and social policies;
- addressing thematic concerns through the Semester's multilateral surveillance process so as to provide important **horizontal** dimensions to enhanced governance arrangements;
- undertaking integrated impact assessments focussing on social and employment outcomes, where relevant, on EU policies and on measures taken to stabilize the economy of Member States. This will help to smooth social imbalances, ensure better planning and design of structural reforms and strengthen EMU cohesion, by emphasising interdependencies between economic, employment, social and other public policies;
- the development of specific policies around targeted goals of full employment, activation of, and participation by, citizens in the economy.

Pooling more financial, budget and economic sovereignty within the Eurozone will inevitably require a clearer framework for social governance. Member States facing similar challenges due to their common currency could commit to improving the coordination of employment and social policies in certain areas, while respecting the principle of subsidiarity. Employment policy, with better defined objectives and clearly established targets, needs to be better integrated into economic and budgetary policies. Employment conditions and social protection must no longer be considered as a mere adjustment variable.

The Lisbon Treaty (Article 9 TFEU) highlights the social dimension of the Union's economic policies by introducing a requirement on the Union to take into account social policy objectives, namely, 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.

Advancing structural reforms, securing the sustainability of public finances and embedding the social dimension of EMU area are all mutually reinforcing goals. A well designed social

dimension of the EMU would complement the competitiveness and growth agenda by enabling everyone, particularly young people, to take up employment, education or training and ensuring that all citizens benefit from adequate social protection when exposed to risks.

A strengthened social dimension of the EMU should enable Member States and the EU institutions to:

- address the very serious social consequences of the crisis, thereby assisting Member States in finding solutions, especially with regard to the unacceptable levels of youth unemployment as well as increasing poverty and social exclusion;
- balance the financial, economic and social consequences of structural reforms and budgetary consolidation measures in order to achieve a fair distribution of burdens;
- improve the quality of social policies in the Member States, taking into account specific national, regional and local circumstances, and facilitating the continuing exchange of experience and best practices.

3. Common objectives

Existing instruments need to be more effectively used, and adapted to new challenges. Together the Treaty provisions allow for enhanced co-operation in the social protection field and the European Employment Strategy provide an appropriate framework for strengthening policies. The Employment Guidelines, to be reviewed in 2014, should become a more transparent and user-friendly instrument.

A renewal and development of the European Employment Strategy (EES) can provide part of the foundations upon which the social dimension of the EMU can be strengthened. The EES has evolved within the integrated framework of the Europe 2020 Strategy, through rigorous monitoring of countries' progress on the implementation of their recommendations, increased peer pressure, and multilateral surveillance of the thematic priorities agreed in Council.

The Commission's Social Investment Package (February 2013) has advanced the idea of activating and enabling policies through targeted, conditional and more effective support. Those ideas should be taken into consideration in further work on the social dimension of the EMU.

Developing a comprehensible vision of a deeper and well-functioning EMU is not at odds with the diversity of social standards or the highly valued historical relationships within the Union. Nor is it inconsistent with divergence in the different administrative traditions and capacities across the Union. The challenge lies rather in the design and effective implementation of the right mix of comprehensive policy measures.

4. Ex-ante coordination and contractual arrangements

The six- and two-packs set a comprehensive framework for co-ordination of economic policies and of national budgets. This also includes co-ordination of the budgetary and fiscal parameters of employment and social policies. However, social policy reforms involve specific measures which cannot be fully captured by the current governance instruments of the European Semester. There is a need, accordingly, particularly in the euro area, for enhanced evaluation of policies and for better integration of economic, fiscal, employment and social policies while fully respecting subsidiarity.

The Commission's Blueprint had proposed *ex ante* coordination of major national economic policy reforms that could have significant spill-over effects on other Member States, particularly in the euro area. The multilateral surveillance mechanisms, as applied to National Reform Programmes, already contain an *ex ante* element that can be further developed within the mechanisms of Article 148 TFEU and the European Semester, under the authority of the EPSCO Council.

While some Ministers were supportive of contractual arrangements laying down some key labour market reform measures that a Member State might commit to undertake, it was acknowledged that there is a need for further clarification of the instruments involved and how they might be triggered. The scope of these contracts could, at least in the initial phase, be limited, for instance, to specific reform measures proposed by Member States and implemented in accordance with their national circumstances. Interest was expressed in enabling Member States that are not part of the euro area to enter into such contractual arrangements, especially where they focus on labour market reforms that are critical in preparing Member States to join the euro.

5. Institutional issues

The objectives of the Europe 2020 Strategy provide the overall framework for EU policies. The Annual Growth Survey should be more balanced in terms of these objectives and give stronger support to sustainable growth, employment and social cohesion.

The social dimension needs to be integrated as a core feature in the European Semester process. The attribution of cross-cutting issues, as well as shared competencies, should be handled through the conduct of joint committee meetings with a view to reaching shared assessments on the part of the different committees competent for social protection, employment, economic and finance issues. The result should ensure a balanced and holistic assessment whereby all policy elements can be adequately and appropriately covered. In this context, the Commission should attribute no less importance to social policies than to economic and financial issues when establishing the country-specific recommendations.

With a view to achieving policy coherence at EU level, existing procedures and processes need to be adapted, or further developed, to allow for better decision making. Mechanisms facilitating more effective interaction between the different Council formations involved in policy making and economic governance, notably ECOFIN and EPSCO, need to be developed especially as regards the adoption and review of the implementation of country specific recommendations. This should build upon closer working arrangements for economic policy coordination in the context of the European Semester on the part of their respective preparatory bodies: the Economic Finance Committee (EFC), the Economic Policy Committee (EPC), EMCO and the SPC. Such coordination is particularly relevant where several cross cutting issues (pensions, wages, tax wedge on labour, etc) may feature in a single country specific recommendation. The complexity of the challenges involved in the deepening of EMU requires a pooling of expertise and the alignment of shared competencies through a process of joint engagement in economic policy coordination.

At EU level the existing instruments (Employment Performance Monitor, Social Protection Performance Monitor, reviews and multi-lateral surveillance in the competent committees, Open Method of Coordination) should be used to identify important trends and monitor the on-going measures, not only at national level but also in a broader European perspective.

Multilateral surveillance and the Treaty based coordination of policies can be reinforced by developing a scoreboard, or equivalent instrument, of employment and social indicators. Such an instrument, along with in depth reviews on the part of EPSCO's preparatory bodies, could play a role equivalent to the Macroeconomic Imbalance Scoreboard, alerting EPSCO Ministers to the danger of serious employment and social imbalances arising that could threaten the stability of the EMU.

6. Social dialogue

A stronger role should be given to social partners who, depending upon national circumstances, may share responsibility on relevant policy issues such as wage setting and operation of vocational training systems. The social partners should also be supported at EU level in better understanding and availing of the options open to them where their inter-professional and sectoral dialogue may lead to contractual relations, including agreements.

The European social dialogue could be complemented through a fuller and more effective engagement of the social partners at EU level with the EPSCO Council's preparatory committees through the phases of the European Semester process. There is also scope for improving the opportunities for dialogue in relation to the Informal EPSCO as well as in the organisation and content of the meetings of the Tripartite Social Summit. At national level, the Employment Guidelines call upon the Member States to involve the social partners in the development and implementation of their national reform programmes. This can help to anchor the national reform process in the legitimacy and ownership provided by stronger social partner involvement.