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COVER NOTE

from: Presidency
to: Permanent Representatives Committee (Part I) / Council (EPSCO)
Subject: The social dimension of the EMU
- *Policy debate*

Delegations will find attached a Presidency note on the above subject, in view of the policy debate at the EPSCO Council on 15 October 2013.

The Social Dimension of the EMU

Presidency steering note

Economic and social conditions in Europe have been profoundly altered by the economic downturn and lasting financial crisis. The adverse developments over the past years have led to substantial employment and social imbalances, notably within the euro area, and revealed the structural weaknesses in EU-level governance. Sustainable economic and political development of Europe based on, *inter alia*, a highly competitive social market economy aiming at full employment and social progress¹ requires constant adaptations. The question of whether existing EU instruments are sufficient to work for the Economic and Monetary Union (EMU) has to be considered.

Deteriorating labour market and social conditions in many Member States - coupled with the risk of spill-over effects from employment and social imbalances within the common currency area - have stirred discussions on *the social dimension of the EMU* and the need for better coordination not only of economic policies but of employment and social policies as well. Preliminary exchanges of views took place at various levels (ministerial and committee levels) during the first half of this year.

The process

The June European Council clearly stressed that *the social dimension of the EMU should be strengthened* and identified some elements of such strengthening. The European Council conclusions refer to better monitoring via appropriate social and employment indicators within the European Semester as a first step to be taken, and to ensuring better coordination of employment and social policies. Social partners should have a key role in their areas of competence. Heads of State and Government agreed to discuss, *inter alia*, the social dimension of the EMU at their session in October.

¹ Article 3, TFEU.

The Ministers responsible for employment and social affairs addressed the issue at the informal EPSCO Council in Vilnius. Further to initial discussions on the subject during the first half of 2013, the Presidency will report to the President of the European Council on the main elements of the EPSCO debate with a view to the October European Council. Moreover, on 24 October the social dimension of the EMU will be discussed at the Tripartite Social Summit. Debates on the topic of "*Completing the Economic and Monetary Union*" will continue over the coming months in different fora and at various levels, leading up to decisions to be taken at the December European Council.

Monitoring and coordination

Major employment and social imbalances have negative impacts on the economic performance of a given Member State as well as of the euro area as a whole, and could thus represent problems for the long-term sustainability of the monetary union. A reinforced surveillance of employment and social developments and challenges could complement and reinforce the existing governance framework, by allowing for the early identification of major employment and social imbalances that might threaten the stability of the EMU.

Based on technical input from the Commission services, the Employment Committee (EMCO) and the Social Protection Committee (SPC) have been working on a possible scoreboard of key employment and social indicators, which would build on the existing monitoring frameworks used in the context of the European Semester - namely, the Employment Performance Monitor (EPM), the Social Protection Performance Monitor (SSPM) and the Joint Assessment framework (JAF). Such a scoreboard, fully integrated into the European Semester process, would be interpreted in the light of more detailed contextual information given by these existing frameworks, and could facilitate the systematic detection and anticipation of key employment and social challenges. This would, in turn, allow these key challenges to be addressed in a timely manner and the emergence of employment and social imbalances to be prevented.

In this regard, the Commission Communication of 2 October² proposed the following set of five headline indicators for the scoreboard, which would be integrated in the draft Joint Employment Report:

1. unemployment level and changes;
2. NEET (*young people not in education, employment or training*) rate and youth unemployment rate;
3. real gross disposable income of households;
4. at-risk-of-poverty rate of working age population;
5. inequalities (S80/S20 ratio).

Such indicators should help catch any potentially dangerous developments early on and allow for the identification of major employment and social problems that need to be addressed because of their severity and/or because they risk undermining the proper functioning of the monetary union.

The scoreboard would complement the existing identification of challenges that Member States face in their progress towards the Europe 2020 objectives. It would also help to better link employment and social aspects to overall policy considerations.

In addition, a limited number of auxiliary employment and social indicators could be added to the Alert Mechanism Report (AMR) in order to better reflect the social implications of macroeconomic imbalances in the current Macroeconomic Imbalances Procedure (MIP).

Coordination of employment and social policies takes place within the framework of the European Semester process. The Semester process has changed the coordination of national economic policies from ex-post to ex-ante, affecting employment and social policies via the ex-ante coordination of the budgetary and fiscal parameters of such policies. The SPC is currently undertaking work on ex-ante coordination of major social policy reforms and will present the state-of-play of its activities to the EPSCO Council.

² Doc 14102/13

Social Dialogue

A strengthened role for social partners, at the national and European level, would contribute to a stronger acceptability of economic and social policies reforms. In this regard, the October Communication from the Commission outlined key aspects around which the social dialogue could be strengthened. The full use of existing procedures, such as debates held ahead and after the Annual Growth Survey or the meeting before the March Tripartite Social Summit, in addition to a thorough discussion with the social partners in the context of the Country-Specific Recommendations, should further involve the social partners in the process and thus strengthen the social dialogue.

Against this background and with a view to the discussions at the European Council, Ministers are invited to consider the following issues for discussion:

- 1. Do Member States agree with the proposal on the scoreboard of key employment and social indicators? How could these indicators contribute to overall policy development within the framework of the European Semester?*

- 2. Do Member States see a need to add a limited number of auxiliary employment and social indicators to the Alert Mechanism Report (of the MIP) with a view to better reflecting the social implications of macroeconomic imbalances?*

- 3. Which of the proposed mechanisms to strengthen the social dialogue could be the most efficient and might be further developed? How could the social dialogue at EU and national levels be better linked?*