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European Union

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NOTE

From: Hungarian delegation
To: Council

Subject: Competitiveness aspects of the European Pillar of Social Rights
- Information from the Hungarian delegation

Delegations will find attached a note from the Hungarian delegation on the above-mentioned subject with a view to the AOB item on the agenda of the Competitiveness Council on 28 November 2016.

HU AOB item on European Pillar of Social Rights

COMPET Council on 28 November 2016

Hungary requested the addition of an item on the “European Pillar of Social Rights” (hereinafter: Social Pillar) under Any Other Business at the Competitiveness Council on 28 November 2016 as we think that it is a complex issue and all relevant Council configurations should be consulted.

In his 2015 State of the Union speech President Juncker announced that he „*want to develop a European Pillar of Social Rights, which takes account of the changing realities of the world of work and which can serve as a compass for the renewed convergence within the euro area*” to achieve a ‘social triple-A- status’. As part of the work undertaken for a deeper and fairer Economic and Monetary Union (EMU), the European Commission published a Communication on the first, preliminary outline of a ‘European Pillar of Social Rights’ on 8 March 2016 and launched broad public consultation which ends at the end of December. All stakeholders including EU institutions are actively involved in this process. The Employment and Social Affairs Committee of the European Parliament is preparing its own opinion in this regard. Within the Council the **Employment Committee (EMCO)** and the **Social Protection Committee (SPC)** have prepared a joint opinion which was generally endorsed by the EPSCO Council on 13 October 2016. Besides a policy debate is planned for the next meeting of the EPSCO Council on 8 December 2016.

According to the Commission’s intention the aim of the Social Pillar is to complement the EU ”social acquis” and to identify a number of essential principles common to euro area Member States in order to guide policies in a number of fields considered to be essential for well-functioning and fair labour markets and social protection systems. According to the communication, once established, the Pillar would become the reference framework to screen the employment and social performance of participating Member States with a view to ensure their “*upward convergence*”.

The majority of social rights outlined in the communication, concerns either the employees' rights which should be ensured predominantly by the employers, or social rights to be ensured by the governments, thus at the end of the day, to be borne by the taxpayers. Therefore, the cost of "upward convergence" should be practically funded by taxpayers and the businesses, at the cost of productivity and decreasing competitiveness. Therefore, Hungary is convinced that the Pillar has such a significant competitiveness and budgetary aspects, that the rationale for the initiative should be assessed also in the context of the economic and competitiveness policies and not in a one-sided manner. We consider that **this issue should be put on the agenda of the Competitiveness Council already at this phase and during the future negotiations** focusing on the scope and the added-value of the initiative and its interlinkages with the current economic governance framework.

During the past few years, **Hungary** laid down the foundations of national convergence, which led to substantial **economic growth, raising employment and sustainable wage development** in compliance with the EU rules regarding responsible fiscal discipline. Based on this experience, we firmly believe that this **natural convergence will boost competitiveness**, and it is not the application of the "upwards convergence" theory which would guarantee the prosperity of EU citizens. Hungary is convinced that **poverty, social exclusion and inequalities should be tackled by tailor-made structural reforms promoting inclusive growth, that take into account the different starting points of each Member State, and not by imposing mandatory social standards**. In our view successful structural policies (by promoting job creation and enhancing the business environment) are more effective policy solutions to support inclusive growth. Inclusion should mean bringing people back to the labour market, increasing participation rate, upgrading or transforming skills, opening up more channels to working opportunities. The financial crisis has indeed produced long-lasting challenges, far reaching social consequences which should be addressed. We need to re-evaluate the European social model, whether it still fosters or, on the contrary, hinders inclusive growth and competitiveness, and thereby the fulfilment of the EU 2020 headline targets

In our view, a sort of artificial standardisation of social rights across countries may undermine **the competitiveness of converging economies creating obstacles to their convergence. In addition this process would decrease the overall competitiveness of the EU** by making the unit labour cost too high, without realizing equivalent efficiency gains elsewhere. Improving competitiveness and productivity of the EU is a key policy priority, however the proposed approach of the European Pillar of Social Rights, if not tested against commonly agreed key economic policy objectives, may lead to the opposite direction. This was also underscored at the meeting of the **Economic Policy Committee** on 20 September, where the majority of the remarks were rather sceptical about the initiative. Member States stressed the importance of respecting national competence and of maintaining the flexible adjustment of economies to shocks. In addition, in many Member States the lack of flexible labour market is identified as a barrier to competitiveness. Inequalities are basically deriving from unemployment. The best way to ensure inclusive and sustainable growth is applying structural policies addressing better business opportunities, maintaining and creating jobs, adapting and improving the skills of the labour force..

Besides the economic policy considerations, we have two fundamental legal concerns:

- Most of the policy areas involved by this initiative **fall primarily within the national competences** of the Member States. Therefore, according to the principles of subsidiarity and the conferral of competences laid down by the Treaties, these policies must remain in the competences of the Member States.
- Furthermore, the **European Council** Conclusions of October and December 2013 should serve as a basis for further debates which declare that the participation in the deepening of the social dimension is **voluntary for those outside the single currency**, and the deepening shall be fully compatible with the Single Market in all aspects.. Hungary supports all measures which reinforce the stability of the euro area, including deepening of the EMU. However, it is important that emphasise again in line with the **European Council** conclusions from 2013, that any further measures to enhance the social dimension in the euro are should be fully compatible with the Single Market in all aspects.

We believe that an appropriate Social Pillar could contribute to recover the negative influences of the economic crisis as well as to become better adaptive to the recognised social and economic challenges. We must find a common understanding which is progressive, strengthen the unity of the EU and does not divide its Member States. Hungary finds it necessary to analyse in a better and deeper way the current social situation in Europe, incorporating the competitiveness and other economic and structural aspects to the assessment. Identifying good practices and increasing the role of mutual learning by enhancing and fine tuning of current tools would be the way forward.
