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**NOTE**

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From: Presidency  
To: Permanent Representatives Committee/Council  
Subject: Social governance in an inclusive Europe - the way forward  
- Policy debate

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Delegations will find attached a Presidency policy brief on the above mentioned subject, with a view to the Council (EPSCO) meeting on 5 October 2015.

## **Social governance in an inclusive Europe - the way forward**

### *Policy debate*

#### Presidency note

The Five Presidents' Report adopted in June 2015 highlights the need to complete Economic and Monetary Union (EMU) by building on several levels, aiming simultaneously at economic, financial, fiscal and political unions. The goal is to create **a deeper EMU which is fairer to the general public** and which would also be attractive to Member States wishing to join, entry conditions permitting. The Report recommends the following stages as a roadmap towards achieving such union:

- **Stage 1 (July 2015 to June 2017)**: In the immediate future, EMU will make the most of the **instruments currently available**, endeavouring to **make the best possible use of the existing Treaties**, which will entail a convergence towards enhanced practices and performance in the European Union.
- **Stage 2 (July 2017 to 2025)**: EMU will benefit from **more far-reaching measures** to complete its economic and institutional architecture. This stage of the convergence process could be made **more binding** by agreeing **common benchmarks** that could be given a **legal nature**.

As part of this process, the Report announces a number of **horizontal governance measures** which are essential for building a prosperous EMU. Within the remit of the Employment, Social Policy, Health and Consumers Council (EPSCO), some of the measures should be addressed and analysed:

## 1. Greater coordination of EMU economic policies: the role of the EPSCO Council

The European Semester has significantly strengthened economic policy coordination. The process has been fine-tuned to streamline it and give a clearer focus on priorities. The Report does, however, introduce some new improvements. To integrate the national and euro area levels more closely, the Report suggests reorganising the Semester in **two consecutive stages, a European one followed by a national one.**

### ○ The European stage (November of year n-1 to February of year n)

This stage would be devoted to assessing the situation in the euro area as a whole. The Commission's Annual Growth Survey (AGS) would be the basis for this discussion and would draw on a number of thematic reports, such as the Alert Mechanism Report (AMR) and a **Joint Employment and Social Report**. Together, these reports would give a complete picture of euro area challenges. The Commission would present a **dedicated recommendation for action within the euro area**, as well as a list of Member States which it considers may warrant 'in-depth reviews', according to the Macroeconomic Imbalance Procedure (MIP). According to the Report, **the Eurogroup could already, in this stage, play a coordinating role when performances are being reviewed, tapping the full potential of the MIP.**

### ○ The national stage (March to July of year n)

The performances and policies of the Member States would be reviewed and assessed in the light of priorities set in the AGS. This stage would start with the publication of the Commission's Country Reports, which summarise Member States' challenges and performance, and would end with the adoption of Country-Specific Recommendations which should clearly take into account the euro area dimension agreed in the first stage.

In view of the changes to be made in the next Semester, and subject to what the actual timeline will be for them to be implemented, *Ministers are requested to consider the following aspects:*

- (a) *At a practical level, what contribution would the Member States like to make to the drafting of the Joint Employment and Social Report, and what are their views on the role the Report should play in the revamped Semester?*

2. **A stronger Macroeconomic Imbalance Procedure (MIP)**

The MIP was created at the height of the crisis. It is part of the European Semester, the annual cycle of surveillance of national and EU economic policies. Its aim is to detect and correct imbalances before they become excessive. **The report recommends using the MIP to its full potential**, through action on two fronts:

- (i) strengthening its corrective arm; and  
(ii) taking account of imbalances related to the euro area.

As regards more specifically the first component, the MIP should be used not just to detect imbalances but also to encourage **the implementation of structural reforms** through the European Semester. The report recommends that **its corrective arm should be used forcefully, triggered as soon as excessive imbalances are identified and used to monitor reform implementation.**

In the light of current discussions on taking employment indicators into account and monitoring social developments, in particular in the AMR scoreboard,

- (b) *How do Member States perceive this strengthening of the social component of the MIP and of its corrective arm? To what extent should the MIP take into account the national specificities of social and employment policies and their monitoring at EU level?*

### 3. A stronger focus on employment and social performance

One of the political guidelines set by the Juncker Commission is to achieve a **'social triple A'** for Europe and to develop a **'European pillar of social rights'**<sup>1</sup>. The report stresses that labour markets and welfare systems need to function well and in a fair manner in all Member States, in particular in the euro area. Hence, employment and social concerns must feature highly in the European Semester. Unemployment, especially **long term unemployment**, is one of the main drivers of inequality and social exclusion. Efficient labour markets are essential, in that they promote a high level of employment and are able to absorb shocks without generating excessive levels of unemployment. These markets contribute to the smooth functioning of EMU as well as to a more inclusive EU.

The report states that there is no single approach to follow in this area, while highlighting that **the challenges are often similar across Member States**: getting more people of all ages into work; striking the right balance between flexible and secure labour contracts; avoiding the divide between 'insiders' with high protection and wages and 'outsiders'; shifting taxes away from labour; delivering tailored support for the unemployed to re-enter the labour market; and improving education and lifelong learning.

According to the report, beyond labour markets, it is important to ensure that every individual has access to **adequate education** and to an **effective social protection system**, including by means of a 'social protection floor'. Populations are ageing rapidly and major reforms are needed to ensure that pension and health systems can serve their intended purpose. The report specifies that these reforms should **include aligning the retirement age with life expectancy**, and **better coordination of social security systems**.

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<sup>1</sup> Jean-Claude Juncker, State of the Union address 2015, Strasbourg, 9 September 2015.

To secure EMU's long-term success, the report states that **a further step should be taken** towards a deeper integration of national labour markets, by facilitating geographic and professional mobility. **A formalisation of the convergence process** in line with the time-frame set for the completion of a deepened EMU (stage 2) could be envisaged. To this end, the report proposes the **definition of specific standards and indicators**, which require careful analysis and might possibly have to be **integrated into EU legislation in the medium term**. For example, **standards** could be developed along the various pillars underlying the 'flexicurity' concept.

Finally, and in line with the aforementioned aim of strengthening the MIP, the report does not rule out the possibility that the Country-Specific Recommendations and **a stronger MIP could serve as tools for Member States, in particular euro area Member States, to achieve these common standards**. This would be **a necessary condition for access to a future shock absorption mechanism** to be set up at euro area level, with a view to **fiscal union in the long term**<sup>2</sup>.

- (c) *What are the views of Member States on the governance arrangements recommended by the report, through the European Semester and a strengthened MIP, to foster convergence towards the best employment and social performance in the euro area in the short and medium term?*
- (d) *How do Member States envisage the formalisation of the convergence process, in particular for employment and social policies, through the definition and monitoring of standards and their possible integration into Union legislation in the medium and long term? What interaction, if any, would Member States like to see between these standards and the Europe 2020 strategy targets?*

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<sup>2</sup> Five Presidents' Report: Completing Europe's Economic and Monetary Union, p. 9.