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From: The Employment Committee and The Social Protection Committee
To: Permanent Representatives Committee/Council

Subject: Opinion of EMCO and SPC on Social Investment
- *Endorsement*

Delegations will find attached the above-mentioned Opinion with a view to its endorsement at the Council (EPSCO) session on 27 and 28 November 2023.



The Employment Committee The Social Protection Committee

Opinion of the Employment Committee and the Social Protection Committee on the value added of social investment and the role of the EPSCO Council *filière* in the governance of the European Semester

Introduction

1. **On 14 July 2023, in their informal meeting, the Employment and Social Affairs Ministers exchanged views on how social investment supports resilient economies and on the role of the European Pillar of Social Rights in the EU economic governance framework.** Several Ministers supported the view that well-designed reforms and investments based on a social investment approach, and in particular those that foster human capital, can also yield productivity gains and foster higher economic growth in addition to advancing social objectives, calling for further evidence-based reflections. Accordingly, as a follow-up to the discussion, the ministers of Spain and Belgium - the Member States holding the Presidency of the Council of the European Union between July 2023 and June 2024 - invited the Employment Committee (EMCO) and the Social Protection Committee (SPC) to prepare an Opinion on social investment and related reforms and the role of the EPSCO Council *filière* in the EU economic governance framework.

2. **On 9 November 2022, the Commission presented orientations for a reform of the EU economic governance. On 14 March 2023, these were followed by a set of conclusions adopted by the Council (ECOFIN) that identified areas of convergence of views among Member States.**¹ Against this background, the Commission put forward its legislative proposals on the economic governance review on 26 April 2023. According to these Commission proposals, all Member States should present *medium-term fiscal-structural plans* covering fiscal policy and reforms and investment commitments. Furthermore, the Commission proposes that the fiscal adjustment period could be extended “*by a maximum of 3 years if the Member State underpins its medium-term fiscal-structural plan with a set of verifiable and time-bound reforms and investment that, taken altogether: are growth-enhancing, support fiscal sustainability, address the common priorities of the Union, address relevant country-specific recommendations addressed to the Member State under the European Semester, and address the country-specific investment priorities without leading to cuts in other nationally financed public investment over the adjustment period in order to ensure a macroeconomic impact of investments and avoid crowding out of other investment priorities*”. In the Commission proposals, the common priorities of the Union are identified as the European Green Deal, the European Pillar of Social Rights, the Digital Decade Policy Programme 2030, and the Strategic Compass for Security and Defence.

¹ [Council Conclusions on orientations for a reform of the EU economic governance framework](#), adopted by the ECOFIN Council on 14 March 2023.

3. **This Opinion is part of the work to support Ministers in developing a coordinated approach on social investments and related reforms and the role of the EPSCO Council *filère* in the governance of the European Semester, without prejudice to the outcome of the interinstitutional negotiations on the legislative proposals presented by the Commission on 26 April 2023.**² In light of Art. 148 TFEU and the political commitment towards the implementation of the European Pillar of Social Rights, a timely analysis of the value added of social investment policies to foster sustainable and inclusive growth and socio-economic resilience can support the EPSCO Council *filère* in enhancing the coordination of economic, employment and social policies. Accordingly, a reflection on the overall employment and social governance in the European Semester may be warranted too, with particular reference to the role of the EPSCO Council *filère*.

² The legislative proposals are currently being negotiated in the ECOFIN *filère* of the Council and in the ECON and EMPL Committees of the European Parliament.

The value added of social investment policies

4. **Previous work undertaken by the Council – which could continue to be built upon – defined the social investment approach as designing labour market, skills and social policies to enhance individuals' current and future capabilities, with a focus on enabling them and developing their capacity to address socio-economic risks in a life-course perspective.**³ In particular, the Social Investment Package put forward by the Commission in 2013 had underlined how employment, skills and social policies can fulfil investment as well as protection and stabilisation needs, which can have mutually reinforcing functions. In the current socio-economic context, national reforms and investments based on the social investment approach, if adequately designed, can be vehicles for the implementation of the principles of the European Pillar of Social Rights proclaimed by the Council, the European Parliament and the Commission in 2017 to establish at the highest level the political commitment to a more inclusive and sustainable growth model in the Union, whereby economic and social progress are inextricably linked. In May 2021, the Porto Declaration, reaffirmed the goal of deepening the implementation of the Pillar, with due regard for respective competences and the principles of subsidiarity and proportionality, including in light of the accelerating green and digital transitions. In June 2021, the European Council welcomed the 2030 EU headline targets on employment, skills and poverty reduction put forward by the Commission in the Pillar Action Plan.

³ [Council Conclusions on *Towards social investment for growth and cohesion*](#), adopted by the EPSCO Council on 20-21 June 2013.

5. **While pursuing social progress and enhancing the wellbeing of people is inherently valuable *per se* and national contexts and needs differ, evidence suggests that social investment policies - if well-designed - can have a substantial positive impact on economic growth, productivity and competitiveness, thereby also supporting fiscal sustainability while promoting upward social convergence.** Whereas sound fiscal policy provides the necessary room for social investment policies, the latter can support sustainable and inclusive economic growth, thus yielding positive long-term effects on debt ratios, including by possibly mitigating the costs of inaction. This dynamic is even more evident in the short term during economic downturns such as the COVID-19 crisis, when adequate support measures (in particular via short-time work schemes) led to a faster-than-expected economic recovery with a lower drop in employment and income compared to previous crises.⁴ Conversely, during crises, pro-cyclical policies can translate into abrupt budgetary cuts that may exacerbate poverty and social inequalities, weaken the potential for productivity improvements, and limit future sustainable economic growth.

⁴ [Council Conclusions on the Annual Sustainable Growth Survey 2023 and Joint Employment Report](#), adopted by the EPSCO Council on 13 March 2023. More detailed analyses are presented in the 2023 and 2022 editions of the Joint Employment Report.

6. **In particular, recent discussions in EMCO and SPC highlighted that evidence-based policies strengthening skills, increasing labour market participation and preventing exclusion have a high potential to support stronger and more inclusive economic growth and raise productivity levels, and are key to accompanying the digital and green transitions.** Such policies might include reforms and investments aimed at addressing skills shortages and mismatches (via upskilling and reskilling, education and lifelong learning), unlocking the potential of under-represented groups (notably via effective active labour market policies, well-structured tax-and-benefits systems, and active inclusion policies), and broadening labour supply (through accessible and affordable quality childcare, health and long-term care services). Furthermore, certain social policies can serve a crucial role in macroeconomic stabilisation by substantially mitigating social risks and reducing possible increases in future social expenditures related to inaction (notably via short-time work schemes, well-functioning social safety nets such as unemployment benefit and assistance schemes, and adequate minimum income schemes).

7. **Nonetheless, while acknowledging the potential of social investment policies and despite recent methodological advancements, evaluating the actual economic and social returns⁵ of country-specific reforms and investments continues to present challenges that should be further addressed.** Such difficulties are related to the interplay between the features of policy design and other variables influencing such returns, including national specificities, as well as the impact manifested often over the medium to longer-term. Social investment returns depend on the types of policy measures in question and their design but also on contextual features (in terms of time and location), as well as other simultaneous policy interventions, that should be accounted for. The evaluation of micro and macroeconomic returns relies on various analytical methods possibly employed in the Member States (such as *ex-ante* and *ex-post* analyses, counterfactual impact evaluations, and cost-benefit analyses), also depending on the different levels of administrative capacity to carry out adequate evaluations. As long-term effects or influencing factors may be difficult to observe and could lead to imprecise or inaccurate conclusions, it is crucial to collect sufficient and reliable data and employ robust methodologies that can adequately capture these elements. In this context, enhancing the sharing of best practices among Member States can facilitate a more comprehensive understanding of how to better assess the economic and social returns to social investments, in light of common EU challenges. Mutual learning in the context of the EMCO and SPC activities can be particularly useful to identify investments and reforms that maximise positive effects on economic growth, employment, poverty risks and inequality.

⁵ Economic returns refer to financial benefits or gains at the individual, firm, or market level (at micro level), as well as changes to the overall economic growth, inflation rates, or employment rates of a country (at macro level). Social returns encompass non-financial benefits focusing on well-being, quality of life, and societal improvements, including improved health and education outcomes of individuals or groups.

The role of the EPSCO Council *filière* in the European Semester

8. **While the European Semester is set to remain the EU framework for coordinating fiscal, economic, employment and social policies - respecting national competencies and with a clear remit for the EPSCO Council *filière* under Art. 148 TFEU – depending on its outcome, the Economic Governance Review may have an impact on the way the EPSCO *filière* supports this process.** First, the Commission proposes a stronger interaction between fiscal policy and reforms and investments whereby labour market, skills and social policy measures – coordinated and monitored by the Council in the European Semester under Art. 148 TFEU⁶ – should be taken into account in the preparation of national *medium-term fiscal-structural plans* and monitored via the *annual progress reports* that Member States would submit thereafter (thus intended to replace the *National Reform Programmes*, which are currently used as Member States’ reporting vehicles on the implementation of the principles in the Pillar). Secondly, the Commission proposes that certain reform and investment commitments of Member States put forward in their *medium-term fiscal-structural plans* may be considered eligible to qualify for an extension of the fiscal adjustment period, provided that they meet, taken altogether, certain criteria.⁷

⁶ Art. 148 TFEU covers, in particular, the annual adoption of the Employment Guidelines, the Joint Employment Report and the Country-Specific Recommendations. The EPSCO Council also approves the employment and social aspects of the Euro Area Recommendation (in December), its conclusions on the Annual Sustainable Growth Survey (in March) and endorses an annual Horizontal Opinion on the European Semester prepared by EMCO and SPC and including the findings of their multilateral surveillance and review activities (in June).

⁷ As detailed in Paragraph 2, it is worth noting that in the Commission proposals of 26 April, the European Pillar of Social Rights features among the common EU priorities.

9. **The EPSCO Council *filière* should retain its coordinating and monitoring role on all matters related to labour market, skills and social policies, including in relation to the relevant content of all documents within the framework of the European Semester, according to the relevant Treaties provisions.** In line with the principles of proportionality and subsidiarity the multilateral nature of the European Semester must be fully preserved and the relevant Council *filières* must continue to be involved.
10. **According to the *Key Messages on the introduction of a Social Convergence Framework (SCF) in the European Semester adopted by EMCO and SPC in May 2023*⁸, while acknowledging different degrees of support among Member States regarding its introduction, a possible new SCF would be consistent with an integrated approach to policy surveillance in the Semester and contribute to stronger and more effective policy coordination.**
11. **Effective cooperation and joint reflections on the future of the European Semester with the ECOFIN *filière* of the Council are important.** Such joint reflections could include practical arrangements to govern the annual Semester cycle between the two *filières*, its annual timeline, the working methods of the advisory committees, as well as how to ensure an effective interaction between fiscal policy and structural reforms and investments aimed at addressing cross-cutting issues, including to support the implementation of the principles in the European Pillar of Social Rights, while promoting sound public finances.

⁸ [Key Messages on the introduction of a Social Convergence Framework in the European Semester](#), discussed by the EPSCO Council on 12 June 2023.

Invitation from the Spanish and Belgian Presidencies (July 2023)

Dear Emiliano, dear Rute,

Dear EMCO and SPC members,

The Presidency welcomed the fruitful debate on the relevance of social investment for the review of the EU Economic Governance, held during the latest informal EPSCO Council meeting in Madrid on 14th July. The discussion showed the high interest of the Ministers of Employment and Social Affairs in underlying the importance of social investments and determining their treatment under new possible EU fiscal rules. The views that emerged are of extreme interest.

Based on the conclusions of such first reflection, the Spanish Presidency - in close cooperation with the upcoming Belgian Presidency - believes that the debate should not stop but rather continue. To this end, the Spanish Presidency is organising a high-level conference on 15-16 October in Aranjuez and a further conference – in partnership with the upcoming Belgian Presidency - with expert academics between the end of October and early November in Brussels to discuss: 1) the micro and macro-economic returns of social investment; and 2) existing metrics to monitor and evaluate social investments' results.

The EPSCO Council meeting scheduled at the end of November 2023 will be the next occasion to take stock in the Council of the progress achieved both at the technical and political level. The overall objective is that the Employment and Social Affairs Ministers can take a coordinated approach on the role of social investment in the reformed EU economic governance. The end point of this exercise will be the joint EPSCO-ECOFIN Council meeting that will take place under the Belgian Presidency.

To this end, in view of the stocktaking envisaged at the EPSCO Council of November 2023, the Spanish Presidency – in agreement with the upcoming Belgian Presidency - would like to invite the Employment Committee and the Social Protection Committee to produce an Opinion on the treatment of social investment and related reforms under the reviewed Economic Governance and - building on the Social Convergence Framework – on the role of the EPSCO Council and its Committees in the new fiscal framework. The Presidency further invites the Committees to reflect on the potential of social investments on economic growth, macro-economic stabilization, and upward social convergence, considering the structural changes brought by the green and digital transition.

You, as Chairs of EMCO and SPC, are best placed to propose concrete steps and working methods for such work, taking into consideration the work programmes of your Committees and the lessons learnt from previous discussions on this subject. The Spanish Presidency will, based on the reported outcome of the Opinion, seek to clarify the level of support by Member States as regards the position of EPSCO on the ongoing Economic Governance Review.

The Spanish Presidency and the upcoming Belgian Presidency remain fully at your disposal to cooperate.