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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee (part 2)/Council
Subject: Social investments and reforms for resilient economies - Investing in
people to boost productivity and growth prospects

Delegations will find attached a note prepared by the Presidency in view of the policy debate at the ECOFIN Council meeting of 12 March 2024 entitled 'Social investment and reforms for resilient economies' to which also Employment and Social Affairs Ministers have been invited.

SOCIAL INVESTMENTS AND REFORMS FOR RESILIENT ECONOMIES

- Investing in people to boost productivity and growth prospects -

Socio-economic context

The EU is dealing with a considerable competitiveness challenge, not just in how we compete globally, but also in strengthening our internal market. While productivity is the main driver of competitiveness and growth, average productivity growth has stagnated in the EU over the last decade, alongside persisting challenges in terms of cost of living¹. Following the economic rebound experienced after the COVID-19 crisis, in 2023 economic growth was held back and the EU economy entered 2024 on a weaker footing than expected. However, the EU labour market remains strong, with the employment rate having reached its all-time high at 75.4% in 2023.

Despite the overall positive outcomes, labour markets are facing historically high labour and skills shortages. Such shortages constitute bottlenecks to the productivity and growth potential, as well as to the green and digital transformation of the economy. Reforms and investments are needed to make sure that labour and skills shortages and mismatches are adequately addressed, all along the transition towards a digital and carbon-neutral EU economy².

¹ See 2024 Annual Sustainable Growth Survey.

² See 2024 Joint Employment Report.

Addressing the competitiveness challenge is a top priority for the Belgian Presidency and will likely remain a key focus for the next strategic agenda. Labour and skills shortages negatively affect productivity thus hampering competitiveness and Europe's future economic growth prospects. The green and digital transformation of the EU economy induces very important up- and re-skilling needs and challenges for the workforce in terms of quality jobs and working conditions, in order to remain fit for the labour market of the future. Persisting inequalities and territorial disparities, also in relation to access to services of general interest, quality education and skills development, however, continue to prevent certain population groups from developing their full potential. At the same time, Europe's rapidly ageing population is set to lead to a significantly smaller labour force in the years to come, with negative implications also in terms of labour and skills supply, while the EU lags behind other geographic areas in its capacity to attract highly skilled workers from third countries. All this calls for innovative approaches to policies that recognise investing in people as a key asset for Europe.

Against this background, on 28 November 2023, the Council in EPSCO formation endorsed the [Opinion](#)³ of the Employment Committee and the Social Protection Committee on the value added of social investment and the role of the EPSCO Council *filère* in the governance of the European Semester. Social investment is defined as public spending related to investments and reforms⁴ that, on top of pursuing social objectives, are expected to produce returns in terms of economic growth through their impact on human capital and productivity, including via stronger innovative capacity and absorption of new technologies, and/or labour supply⁵. Thus, social investment includes:

- **Lifelong learning and up- and re-skilling** of the adult population, which support a better matching between skills demand and supply, with positive implications for labour market integration and growth potential.

³ Doc. ST 15418/2/23.

⁴ In the domain of skills, employment and inclusion policies.

⁵ The qualification of social spending as investment is done therefore based on its growth impact, which is the object of interest of this note. In so doing, the objective is to identify those social measures that directly contribute to economic growth. This does not imply that other types of spending are less valuable.

- **Education**, in particular **quality and affordable early childhood education and care**, which help provide a strong basis for further learning later in life for all children, while facilitating the labour market participation of their parents, notably boosting female employment.
- **Active labour market policies**, which facilitate entry into the labour market as well as job matches and quality jobs and support job transitions (easing structural adjustments in the economy), thereby fostering inclusive and sustainable growth.
- Policies to prevent illness related to work and **integrate in the labour market persons with disabilities and/or workers after an episode of illness**.
- Reforms to **reduce labour market segmentation** and reforms of **tax-and-benefit systems** to incentivise labour market participation and quality jobs.

Measuring the economic returns of social reforms and investments

While acknowledging the potential of certain social reforms and investments for economic growth, there is a need to better investigate how to best evaluate such returns, which depend on their specific design and on the context of implementation. The quantification of these returns requires solid analytical tools, administrative data and robust methodologies (such as ex-ante and ex-post analyses, counterfactual impact evaluations and cost-benefit analyses), with Member States currently not always having the administrative capacity to conduct them. **Adequate monitoring and evaluating systems, as well as detailed, robust and accessible data, are instrumental to track the efficiency and effectiveness of social reforms and investments.**

Also to promote an exchange of best practices and mutual learning, Belgium and Spain, holding the Presidency of the Council of the European Union between July 2023 and June 2024, **launched an Informal Working Group on Social Investment (IWGSI) to improve the common understanding of the impact of social reforms and investments on economic growth and social cohesion**⁶. Two main workstreams were discussed at the IWGSI:

- The first one delved into the empirical evidence of micro and macro returns of social reforms and investments. Under this workstream, the IWGSI focused on active labour market policies, early childhood education and care and the provision of services;
- The second one focused on the efficiency and effectiveness of these policies. In particular, the discussions focused on the use and availability of impact assessment tools, on statistical capacity, and on data governance and availability.

Relevance for the European Semester

Sustainable and inclusive economic growth, job creation, financial stability and sound public finances are at the core of the European Semester. Reducing debt ratios and deficits to prudent levels while paying due attention to employment and social objectives and strengthening social and economic resilience and upward convergence are key objectives of the EU. **Ensuring the good design and understanding the potential impact of social reforms and investments on economic growth, fiscal sustainability and social fairness is therefore crucial to shape future economic, employment and social policies in an integrated way, and to make optimal use of public resources, with a view to enhancing the productive capacity of our economies.**

⁶ Representatives of all EU countries ultimately participated in the IWGSI discussions, together with representatives of the European Commission, the European Parliament's Committee on Employment and Social Affairs and European Social Partners. The chairs of the Employment Committee and the Social Protection Committee were invited to join from the beginning, while the president and chair of the Economic and Financial Committee and the Economic Policy Committee were invited from December 2023 onwards. A synthesis of the key findings of the IWGSI can be found here: <https://employment.belgium.be/en/joint-meeting-ecofin-and-epsco-ministers>.

Questions to the Ministers:

1. How do you see the positive effects of social reforms and investments on economic growth and on fiscal sustainability? What recent employment and social reforms in your Member State proved to contribute to higher growth potential?
 2. How can the cooperation between the ECOFIN and EPSCO *filières* be further enhanced to better assess the impact of social investments and reforms on economic growth, fiscal sustainability and social cohesion in the European Semester context?
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