DEVELOPMENTS OF SOCIAL EUROPE

EUROPEAN DIGEST – INTERNATIONAL DIGEST

BY THE EUROPEAN SOCIAL OBSERVATORY*

The Lithuanian presidency of the Council of the European Union brought 2013 to a close. The Employment and Social Policy Council of 9 and 10 December adopted the scoreboard proposed by the European Commission. The question of whether a 'social dimension' should be added to the Economic and Monetary Union appears to have replaced that on the conclusion of 'contractual arrangements' which may take the form of Convergence and Competitiveness Instruments (CCI) associated with 'solidarity mechanisms'. In terms of international institutions, inequality is addressed within economic forums, such as Davos, which should not affect the level of priority given to structural reforms through the G20 and the OECD.

1. DEBATE WITHIN THE INSTITUTIONS

1.1. THE EUROPEAN SEMESTER: ANNUAL GROWTH SURVEY WELCOMED BY THE EPSCO COUNCIL

The Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) of 9 and 10 December 2013 studied the proposals by the Commission for the European Semester 2014. The Member States welcomed the Commission's proposal to continue with the political priorities set out in the Annual Growth Survey (AGS). The Council press release states, *"It was recognised that the employment situation remains worrying and that economic growth needs to be job-rich for the fragile recovery to have tangible effects on the labour market. Focus on particular groups such as youth was further highlighted."* The EPSCO Council of 9 and 10 December adopted the scoreboard of social indicators proposed by the Commission (October 2013) and, more in general, the Chapter 3 of the joint employment report (containing the scoreboard). The scoreboard will be used in the European Semester government cycle for 2014.

In order to strengthen the implementation of structural reforms, the European Commission paved the way for Convergence and Competitiveness Instruments (CCI) in March 2013. Subsequently, Germany requested a feasibility study of the

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contractual arrangements between the national and European institutions with a view to strengthening the commitment of the Member States to the implementation of the reforms. The arrangements are also part of the CDU/CSU and SPD coalition agreement in November 2013. The agreement emphasises that *"We are advocating for the states in the eurozone to conclude binding, enforceable and democratically legitimate reforms"* in order to achieve competitiveness objectives. Despite intense work, the European Council of December put off addressing this thorny issue to October 2014. From the perspective of the European Council *"Member State reforms must be facilitated and supported in areas of particular importance with regard to growth, competitiveness and employment and which are critical to the proper functioning of the EMU overall. Partnerships based on contractual arrangements arising out of mutual agreements and associated solidarity mechanisms should contribute to facilitate and support appropriate policies before major economic difficulties emerge".*

According to the Conclusions of the European Council *"Work will be pursued based on the following main features*:

- *A 'mutually agreed contractual arrangement' is defined as an undertaking by the Member States, which constitutes a partnership between the Member States, the Commission and the Council. The National Reform Programme submitted by each Member State in the context of the European Semester will be the basis for the mutually agreed contractual arrangements, also taking into account the Country Specific Recommendations. Mutually agreed contractual arrangements will be tailored to the needs of each individual Member State and will focus on a limited number of key levers for sustainable growth, competitiveness and job creation. The economic policy objectives and measures included in the mutually agreed contractual arrangements should be designed by the Member States, in accordance with their institutional and constitutional arrangements, and should ensure full national ownership through appropriate involvement of national parliaments, social partners, and other relevant stakeholders. They should be discussed and mutually agreed with the Commission, before being submitted to the Council for approval. The Commission will be responsible for keeping track of the agreed implementation of the mutually agreed contractual arrangements on the basis of jointly agreed timelines.*
- *On the associated solidarity mechanisms, work will be carried forward to further explore all options regarding the exact nature (e.g. loans, grants, guarantees), institutional form and volume of support while ensuring that these mechanisms do not entail obligations for the Member States not participating in the system of mutually agreed contractual arrangements and associated solidarity mechanisms; they should not become an income equalisation tool nor have an impact on the Multi-annual Financial Framework; they should respect the budgetary sovereignty of the Member States. Any financial support agreement associated with mutually agreed contractual arrangements will have a legally binding nature. The President of the EIB [European Investment Bank] will be associated to this work."*

On 21 January 2014, the European Commission published its 2013 Employment and Social Developments in Europe Review. The report shows that a quarter of Europeans are at risk of poverty or social exclusion, and that long-term unemployment, as well as the number of insecure jobs, are constantly increasing. Presenting the report, László Andor, European Commissioner for Employment, Social Affairs and Inclusion emphasised that: *"We need to pay attention not only to job creation, but also to the quality of jobs, in order to achieve a sustainable recovery that will not only reduce unemployment but also poverty."*

References:
3280th Council meeting Employment, Social Policy, Health and Consumer AffaIrs, 9 and 10 December 2013:
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/lsa/139998.pdf
European Council 19/20 December 2013, Conclusions, EUDO 217/13, Point 34 and Point 36:
http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/140245.pdf
Employment and Social Developments: Annual Review highlights need to address risks of in-work poverty IP/14/43 – 21 January 2014:
http://europa.eu/rapid/press-release_IP-14-43_en.htm

1.2. ECONOMIC AND SOCIAL GOVERNANCE: PERSPECTIVE OF THE ECOFIN COUNCIL

The Economic and Financial Affairs (ECOFIN) Council of 18 February 2014 reaffirmed its credo that *"fiscal consolidation and restoring lending to the economy need to go hand-in-hand with well-designed structural reforms aimed at promoting sustainable growth and jobs, competitiveness and a sustained correction of macroeconomic imbalances, through productivity increases and strengthening the adjustment capacity of Member States' economies"*. The Council also stressed that *"a more coordinated approach to reforms at Member State and EU levels could provide positive synergies both in economic terms and by creating political momentum facilitating reforms, in line with recent steps taken to enhance the European Semester process and EU economic governance"* and therefore, *"priority should be given to the implementation of structural reforms that can encourage much needed sustainable investment and to the strengthening of the internal market, notably through competitiveness and competition-enhancing reforms in product and services markets, including increasing competition and infrastructure reforms in product and services markets, including increasing competition and infrastructure investment in network industries, and a more diligent implementation of the Services Directive and ambitious opening up of services sectors, including regulated professions by removing unjustified barriers"*. The Council welcomed the Commission's 2014 Single Market Report.

With regard to the macroeconomic imbalance procedure, the Council noted *"the Commission's decision to include auxiliary social indicators in the AMR and to provide an analysis of employment and social aspects in the IDRs."* The ECOFIN Council also noted that the *"auxiliary social indicators will have the sole purpose of allowing a broader understanding of social developments, should carefully preserve the nature of the procedure, while maintaining transparency and consistency among all existing indicators; to ensure this, further technical discussions with Member States, aimed at examining the set of auxiliary social indicators and their use are needed"*.

Reference:
3294th Council meeting Economic and Financial Affairs, 18 February 2014:
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/141063.pdf

1.3. THE EUROPEAN SEMESTER: IMPLEMENTATION OF THE SIX PACK AND TWO PACK

On 5 March 2014, the European Commission published its conclusions on the in-depth evaluations of the economies of the 17 Member States identified as showing signs of 'macroeconomic imbalances'. The 16 states identified in November 2013, plus Ireland that recently exited the economic adjustment programme were covered in the assessment. In the same document, the Commission sets out the evaluation of those Member States with regard to the correction of their budgetary deficits and updates the opinions formulated in 2013 on the budget plans.

The Commission considers that 14 Member States are experiencing imbalances: Belgium, Bulgaria, Germany, Ireland, Spain, France, Croatia, Italy, Hungary, The Netherlands, Slovenia, Finland, Sweden and the United Kingdom. Croatia, Italy and Slovenia were deemed to be experiencing excessive imbalances.

According to the Commission, the Member States are experiencing various types of imbalances and excessive imbalances. The individual in-depth evaluations constitute a basis for dialogue with the Member States as they prepare their national reform programmes or their stability and convergence programmes (medium-term budgetary plans). Such programmes have to be presented to the Commission at the end of April 2014 and will be evaluated at the beginning of June, when the Commission will present an updated set of recommendations for each country at the closing stage of the European Semester. The Commission will also determine whether additional measures are required for the Member States with excessive imbalances.

Economic adjustment programme countries (Greece, Cyprus, Portugal and Romania) are not covered by the macroeconomic imbalance procedure, as they are already subject to surveillance under these programmes.

On the same day, the European Commission published a document 'Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth'. It can be considered as a rarity that the text addresses the issue of inequality: *"While GDP and wealth have continued to increase overall, inequality has risen in Europe – as in other developed countries – since the mid-1980s. There are now wide inequalities in the distribution of income in the EU: on average, the top 20% earned 5.1 times as much income as the bottom 20% in 2012. This ratio varied significantly across the EU, from 3.4 in Slovenia and 3.5 in Czech Republic to more than 6.0 in Greece, Romania, Latvia and Bulgaria, peaking at 7.2 in Spain. The crisis is expected to have led to a further rise in inequality and to have constrained redistributive systems even more. The issue of distributional fairness, in turn, increases the difficulty of addressing the challenges faced by Europe's economies."*

In its conclusions the Commission stressed that: *"The economic governance of the EU, implemented annually through the European Semester, was considerably strengthened in recent years and is a potentially powerful instrument for pursuing the post-crisis priorities that will be needed to meet the objectives of the Europe 2020 strategy, providing a basis on which future policy can be built at both EU and national levels."* It is worth noting that the Commission did not question either the economic governance framework nor the budgetary framework.

References:
Commission concludes in-depth reviews to identify macroeconomic imbalances and assesses progress in fiscal consolidation, IP/14/216, 5 June 2014:
http://europa.eu/rapid/press-release_IP-14-216_en.htm
Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth, COM (2014) 130, 5 March 2014, p. 11 and p. 25:
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2014:0130FIN:EN:PDF

2. REVISION OF THE TREATIES

2.1. REVISION OF THE TREATIES

On 12 December 2013, the European Parliament adopted a resolution on *'Constitutional problems of a multitier governance in the European Union'*. The resolution advocates greater differentiated integration as well as changes to the Treaties by a European Convention. With regard to issues specific to Member States of the eurozone, the resolution stresses that *"internal rules of the European Parliament offer a sufficient margin of manoeuvre to organise specific forms of differentiation on the basis of political agreement within and among the political groups in order to provide for appropriate scrutiny of the EMU"*; recalls that Article 3(4) TEU states that *"the Union* *shall establish an economic and monetary union whose currency is the euro"*, and that Protocol 14 on the Eurogroup refers to "*the need to lay down special provisions for enhanced dialogue between the Member States whose currency is the euro, pending the euro becoming the currency of all Member States"*; points out that, *"if this supposedly transitory situation is to last, an appropriate accountability mechanism for the current euro area and the Member States committed to joining must be considered within Parliament"*. With regard to economic governance, the Parliament called for the introduction of reversed majority voting to the European Treaties. The Parliament takes the view that *"reversed qualified majority voting in the Fiscal Compact more as a political declaration than an effective decision making instrument, and calls therefore for the integration of the RQM into the Treaties, especially in Articles 121, 126 and 136, in such a way that the proposals or recommendations submitted by the Commission may enter into force if no objection has been expressed by the Parliament or the Council within a certain predefined period, in order to ensure fully-fledged legal certainty".*

It should also be mentioned that on 10 December 2013, on the international human rights day, the Belgian Human Rights League (LDH) and the *Centrale Nationale des Employés* (National Workers Centre - CNE) decided to introduce an action for annulment on the federal agreement concerning the Treaty on Stability, Governance and Cooperation (TSGC), with the moral support of the European Human Rights Association. Eventually, the European Ombudsman, Emily O'Reilly, has condemned the Council of the European Union due to its maladministration for refusal in providing promptly legal information on the Fiscal Treaty. The documents were requested two years ago in January 2012. According to the Ombudsman, "*the Council of the EU wrongly rejected the complainant's request for access to the legal opinion of its Legal Service concerning the role of the Court of Justice in the context of the Fiscal Compact Treaty*". The Ombudsman decided to close the case but she concluded that "*By failing to justify why it cannot grant full access to the requested document, the Council has committed an instance of maladministration*". In her letter sent to the secretariat of the Council, Emily O'Reilly wrote she expressed her will to receive an evaluation on how institutions and bodies have reacted to her conclusions.

References:

European Parliament resolution of 12 December 2013 on constitutional problems of a multitier governance in the European Union, points 31 and 63:
http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2013-0598+0+DOC+XML+V0//EN

'La LDH et la CNE déposent un recours contre le traité budgétaire', 10 December 2013:
http://www.liguedh.be/2012/1891-la-ldh-et-la-cne-deposent-un-recours-contre-le-traite-budgetaire

Decision of the European Ombudsman closing her inquiry into complaint 167/2013/RT against the Council of the European Union:
http://www.ombudsman.europa.eu/en/cases/decision.faces/en/53191/html.bookmark

2.2. IMPLEMENTATION OF THE FISCAL COMPACT

From 20 to 22 January 2014, the European Parliament Economic and Monetary Affairs Committee, in cooperation with the Greek Presidency of the Council, organised the European Parliamentary Week, which coincided with the Interparliamentary Conference on Economic Governance. This conference aimed at strengthening cooperation between Parliaments within the European Union on issues in relation to the Treaty on Stability Cooperation and Governance (TSCG). The latter was organised as a follow-up to the Inaugural Conference in Vilnius (Lithuania) in October 2013. Over the three days conference, the European Semester procedures were placed under review, along with the consequences of the adjustment programmes negotiated between the countries in receipt of financial assistance and the Troika (European Commission, European Central Bank and the International Monetary Fund). The idea of introducing procedure's rules for the Interparliamentary Conference on Economic Governance has been dropped. It is true that in the European Parliament resolution on the constitutional issues in a multi-level governance appeared sceptical about a possible creation of new institutions. Referring to the provisions of the European Treaties on relations with national Parliaments, the EP expresses the view that *"it is important to intensify cooperation with national parliaments, on the basis of Article 9 of Protocol No 1 annexed to the Treaties, and welcomes the agreement on the establishment of an interparliamentary conference in discussing budgetary and economic policies; it stresses nevertheless that this cooperation should not be seen as establishing a new joint parliamentary body, which would be both ineffective and illegitimate from a democratic and constitutional point of view, and reaffirms that there is no substitute for a formal strengthening of the full legitimacy of the European Parliament, as a parliamentary body at Union level, with a view to reinforcing the democratic governance of the EMU".*

References:
Website of the Greek Presidency of the Council:
http://www.gr2014parliament.eu/Media/PressReleases/TabId/928/ArtMID/2667/ArticleID/1095/Parliamentary-Conference-on-EU-Economic-Governance.aspx
European Parliament resolution of 12 December 2013 on constitutional problems of a multitier governance in the European Union, point 32:
http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2013-0598+0+DOC+XML+V0//EN

3. EU SOCIAL LEGISLATION

3.1. IMPLEMENTING DIRECTIVE ON POSTED WORKERS

Following the political agreement reached in the EPSCO Council in December 2013 on the Implementing Directive for the Posted Workers Directive, the Permanent Representatives Committee (COREPER) approved a negotiated text on 5 March 2014 following the trilogues organised between the representatives of the European Parliament, the Council and the Commission. The European Trade Union Confederation (ETUC) criticised the text. According to the Secretary General of the ETUC, Bernadette Ségol: *"Measures to be taken by member states to combat abuse and under-payment of posted workers should not be subject to free market rules. The current text does not guarantee that. Rules applying to posted workers falling outside the scope of the directive are not clear either."* Inside the European Parliament, the Employment and Social Affairs Committee is expected to approve the text in March while the Parliament will aprove it in the first reading, in April during the plenary session. The Council will then formally adopt the Directive at a later stage.

References:
Posted Workers Directive, 5 March 2014:
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/lsa/141363.pdf
Provisional deal on posting of workers will not put an end to social dumping, 5 March 2014:
http://www.etuc.org/press/provisional-deal-posting-workers-will-not-put-end-social-dumping#.UxniiYUpodU

3.2. ADOPTION OF FUND FOR AID TO THE MOST DEPRIVED

Following the informal agreement of November 2013, the European Parliament adopted the European Fund for the Most Deprived Persons, which will remain in place for 2014-2020. With a budget of 3.6 billion EUR, the Fund will replace the European Programme for Aid to the Most Deprived Persons, although some have argued for its abolition, as social assistance falls within the remit of the States, not the European Union. The informal agreement between the Council and the Commission was adopted with 592 votes in favour and 61 against, with 31 abstentions. Unlike the MDP programme, the newly created fund will support the Member States and their partner organisations to provide food, as well as clothes and other basic items for the most deprived persons. Thus, *"national authorities and partner organisations can use the Fund in a way best suited to their own situation and traditions"*, according to a press release from Laszlo Andor, the programmes taking advantage of these funds must include *"active social inclusion measures to help people to get out of poverty"*. The text adopted by the European Parliament provides for a cofinancing rate of 85% of the eligible expenditure, and up to 95% for the Member States affected by the crisis.

References:
European Parliament legislative resolution of 25 February 2014 on the proposal for a regulation of the European Parliament and of the Council on the Fund for European Aid to the Most Deprived (and consolidated text):
http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2014-0124+0+DOC+XML+V0//EN

Commissioner Andor welcomes European Parliament's approval of proposed new Fund for European Aid to the Most Deprived, STATEMENT/14/22, 25/02/2014:
http://europa.eu/rapid/press-release_STATEMENT-14-22_en.htm

4. PERSPECTIVE OF INTERNATIONAL ORGANISATIONS

4.1. INTERNATIONAL LABOUR ORGANISATION (ILO) REPORT ON GLOBAL EMPLOYMENT TRENDS 2014

The International Labour Organisation Report on Global Employment Trends 2014 indicates that employment growth remains weak, while unemployment levels continue to rise, particularly among young people, and many discouraged workers are outside the labour market.

At the current rate, according to the report, 200 million additional jobs will be created from now to 2018. The labour market will be unable to accommodate the growing number of new entrants to the labour market. *"What is urgently needed is a policy re-think. Stronger efforts are needed to accelerate employment creation and to support the enterprises that create jobs",* according to Guy Ryder, Director-General of the ILO. Currently, some 74.5 million men and women under the age of 25 are unemployed, a global youth unemployment rate of over 13 per cent in 2013, and over twice the overall global unemployment rate. The report goes on stating that global recovery in labour markets is being held back by a deficit of aggregate demand. According to ILO, in many developed economies harsh reductions in public spending and hikes in income and consumption taxes weigh heavily on private businesses and households.

Reference:
Global employment trends 2014 - Risk of a jobless recovery?:
http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_234107.pdf

4.2. THE INTERNATIONAL MONETARY FUND (IMF) AND THE ISSUE OF TAX INEQUALITIES

During the General Assembly in October 2013, the IMF expressed concern at the 'spectacular rise' in the level of wealth among the richest '1%' and expressed confidence that high incomes could be taxed further. In order to reduce public deficits within the eurozone, the possibility of a 10% tax was mentioned but was subsequently abandoned in the face of criticism from certain business circles.

In a report published in February 2014, IMF economists state: *"It would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable."* According to the report, social inequalities may 'jeopardise growth', by preventing access to education and health and contributing to political and economic instability. The IMF experts did not hesitate to criticise the dominant economic view that the redistribution of wealth through taxes and social welfare discourages private initiatives, which in turn, would negatively impact economic activity. The study, which does not reflect the official position of the IMF, questions the austerity plans for Funds which have been criticised for not having taken social inequalities into account and having – in some cases – reinforced them.
Reference:
Redistribution, inequality and growth, Jonathan Ostry e.a., IMF, February 2014: http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf

4.3. THE G20 DAVOS FORUM: THE GROWTH OBJECTIVE OF THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)

The aggravation of global inequalities was also identified as a major risk in the report of the World Economic Forum (WEF), first published at the Davos Forum on 22 to 25 January 2014. According to over 700 global experts that contributed to the World Economic Forum's Global Risks 2014. *"The chronic gap between the incomes of the richest and poorest citizens is seen as the risk that is most likely to cause serious damage globally in the coming decade",* the report substains also that unemployment, climate change and cyberattacks are the next most likely risks to *"cause systemic shock on a global scale"*. In Davos, the Australian Prime Minister, Tony Abbott (Liberal), presented his programme, based on the conviction that the global economy should create 30 million jobs to return to the pre-crisis level. To achieve this goal, free trade must be strengthened. According to the report by the Australian Presidency of the G20, *"Many countries have relied heavily on fiscal and monetary policies to bolster their economies, particularly in the aftermath of the global financial crisis. Coordinating policies to maximise growth and minimise unintended effects will remain a central role of the G20 in 2014. But we also need new approaches to ensure growth is sustained in the years ahead. It is the only way to bolster confidence and create employment opportunities. And it's the only lasting way to lift people out of poverty and build national prosperity. Achieving this will not be easy. The key is for governments to enable the private sector to drive economic activity. Only private enterprise can deliver the sustainable growth in investment, trade and job creation that the world needs"*.

In the run up to the G20 finance ministers' meeting on 22 and 23 February 2014, the OECD published the report 'Going for Growth', which sets out potential reforms for the regulation of the goods and labour markets, education and training, taxes and services, as well as trade, investment and innovation policies. According to the Secretary General of the OECD, Angel Gurría, the analysis contained in 'Going for Growth' underpins the wider contribution by the OECD under the G20 for strong, sustainable and balanced growth.

References:
World Economic Forum Annual Meeting 2014 The Reshaping of the World: Consequences for Society, Politics and Business, Davos-Klosters, Switzerland 22-25 January 2014:
http://www3.weforum.org/docs/AM14/WEF_AM14_Public_Report.pdf
G20 2014: Overview of Australia's Presidency, December 2013:
https://www.g20.org/sites/default/files/g20_resources/library/2014%20Brisbane/G20Australia2014conceptpaper.pdf
Going for Growth, OECD, February 2014:
http://www.oecd.org/eco/growth/going-for-growth-2014-executive-summary.pdf

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