Integrating the European Pillar of Social Rights into the roadmap for deepening Europe’s Economic and Monetary Union
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Study

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### General information

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<tr>
<th>STUDY FOR</th>
<th>The European Economic and Social Committee (EESC)</th>
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<tr>
<td>REQUESTING SERVICE</td>
<td>The Workers’ Group Secretariat</td>
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<td>STUDY MANAGING SERVICE</td>
<td>Relations with Organized Civil Society and Forward Studies Unit - Information Centre and Studies</td>
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<td>DATE</td>
<td>12/04/2019</td>
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<td>MAIN CONTRACTOR</td>
<td>European Social Observatory (OSE)</td>
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### IDENTIFIERS

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<tr>
<th>STUDY</th>
<th>ISBN</th>
<th>doi</th>
</tr>
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<tbody>
<tr>
<td>print</td>
<td>QE-03-19-312-EN-C</td>
<td>978-92-830-4519-9</td>
</tr>
<tr>
<td>PDF</td>
<td>QE-03-19-312-EN-N</td>
<td>978-92-830-4520-5</td>
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Abstract

This study on behalf of the Workers’ Group of the European Economic and Social Committee explores the possibility of establishing three policy instruments to implement the European Pillar of Social Rights (EPSR) and rebalance the economic and social dimensions of the E(M)U. First, Member States should put their money where their mouth is and live up to the expectations raised by the EPSR, by (a) “socialising” the EU budget during the negotiations on the post-2020 Multiannual Financial Framework; and (b) creating a (social) budget for the Eurozone. Second, the report argues in favour of the set-up of an automatic macro-economic stabilization instrument for the EMU in the form of an equivalent European Unemployment Benefit Scheme. Thirdly, it proposes to launch a “Social Imbalances Procedure” (SImP) that would entail (a) identifying national social imbalances (“critical situations”) through a revisited Social Scoreboard; (b) the elaboration of Multi-annual National Action Plans, providing technical and/or financial support for implementing social investment, e.g. through the new Reform Support Programme; (c) a strictly conditional increase in the EU contribution in the ESF+ or the triggering of a “silver rule” for national social investment spending; and finally (d) monitoring of implementation through the European Semester Country Reports.
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Executive Summary

The aim of this study for the Workers’ Group of the European Economic and Social Committee is twofold: a) to analyse concrete proposals aiming at integrating the European Pillar of Social Rights (EPSR) into EU policies; and b) to provide policy-makers and stakeholders with specific recommendations to achieve such an objective. The study, which relies on qualitative research methods, discusses three policy initiatives: a) the possibility of ‘socialising’ the EU budget and creating a (social) budget for the EMU in the form of an equivalent European Unemployment Benefit Scheme (EUBS); and c) the possibility of striking a new balance between the economic and social dimensions of the EU by setting up a legally binding ‘Social Imbalances Procedure’ or a non-binding ‘Social Imbalances Framework’.

Towards a ‘socialisation’ of the EU budget

The starting point of the study is a comparison of the proposed post-2020 Multiannual Financial Framework (MFF) with the budget for the current period (2014-2020): we analyse both the current and proposed MFF in light of the principles of the European Pillar of Social Rights (EPSR), with a view to assessing their respective ‘social investment capacity’. Of the seven social programmes proposed in the post-2020 MFF, five already exist in the current financial framework. Indeed, the only newly proposed programme is ‘InvestEU’, which has a specific window dedicated to ‘Social Investment and Skills’.

When comparing the current MFF (without the UK revenue) to the proposed MFF post-2020 in constant prices, we observe that the ‘social component’ of the new MFF is slightly higher in absolute terms (+ €2.7 billion), but slightly lower in relative terms (13.35% rather than 13.75% of the total MFF budget). Looking at the specific programmes, we observe that the resources for the European Regional and Development Fund (ERDF), Erasmus+ and the European Globalisation Fund (EGF) increase (by respectively 2%, 92% and 16%) compared to the current allocation, while the resources for the European Social Fund + (ESF +), the European Maritime and Fisheries Fund (EMFF) and the European Agricultural Fund for Rural Development (EAFRD) decrease (by respectively 7%, 13% and 28%). We therefore argue that the Commission’s proposal for the post-2020 MFF has the benefit of ‘hanging on to what we had’ in terms of social spending, but it does not live up to the high expectations raised by the EPSR. In qualitative terms, we assess the ‘social investment-orientation’ of the proposed social expenditure in the MFF 2021-2027. We claim that an explicit investment in human capital emerges in the strengthening of Erasmus+ and the introduction of a new ‘Social Investment and Skills’ window in InvestEU. Equally positive is the increased investment in measures to tackle youth unemployment and severe material deprivation in the new ESF+. At the same time, the new EGF explicitly pursues the goal of supporting redundant workers with respect to job search,

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1 The ESF+ is a merger of five existing programmes: the European Social Fund, the Fund for European Aid to the most Deprived, the Youth Employment Initiative and finally the Employment and Social Innovation (EaSI) and Health programmes.
training and requalification. In terms of better targeting social needs and increasing policy coordination, the strengthened link between the Semester Country-specific Recommendations (CSRs) is, in principle, to be welcomed. Yet, some concerns emerge as regards the application of macroeconomic conditionalities to cohesion policy programmes.

The present report also discusses two initiatives which, if well designed, may help to implement the principles of the EPSR and boost social investments in the EU. First, there is the ‘Reform Support Programme’, proposed by the Commission as a new instrument to provide financial and technical support for reforms aimed at strengthening Member States’ resilience and accelerating the process of upward social and economic convergence between the Member States. However, while the Commission highlights that this programme could have a positive impact on the realisation of the EPSR, we find that the current proposal does not set any clear rules for pursuing social objectives with the new programme.

A second financial tool that may be used to implement the principles of the EPSR is a newly to be created budget for the Eurozone. The discussion on the topic has recently been relaunched by France and Germany in the so-called Meseberg Declaration (June 2018), which was presented at the Eurogroup of December of the same year. The rationale behind the idea is the need for higher levels of convergence and competitiveness in the Eurozone. To this end, the Eurozone budget would foster convergence and incentivize structural reforms by co-financing growth-enhancing public expenditure such as investments, research and development, innovation and human capital.

As a result of our analysis, we recommend the following measures, in order to achieve the ambition of a truly social budget for the E(M)U:

1. Increase the overall allocation of resources to the ESF+, adding a budgetary line on a ‘Children’s Initiative’ to finance a future Child Guarantee, in line with the European Parliament proposal.
2. Exempt all ESF+ spending from the application of macroeconomic conditionalities. Moreover, we recommend introducing an option to increase the EU contribution to the ESF+ when a country is experiencing a macroeconomic downturn.
3. In order to preserve the social objectives of the ERDF, EAFRD and EMFF, require that a minimum share of these ESI funds be allocated to the implementation of Common Provisions Regulation (CPR) policy objective ‘A more social Europe -delivering on the European Pillar of Social Rights’. This share should be at least equivalent to the current allocation in the MFF 2014-2020.
4. With the aim of strengthening the effectiveness of the European Globalisation Fund (EGF), allow regional initiatives also to apply for support from the Commission, with the involvement of the social partners. Moreover, we support the idea of transforming the EGF into a ‘European Transition Support Fund’ supporting EU workers in the transition from one job to another, with a significant increase of the budget in order to extend the coverage of possible beneficiaries.
5. In line with the European Parliament proposal, further increase the budget for Erasmus +, and identify specific measures to make the programme more inclusive and accessible.
6. Focus spending in the newly proposed Reform Support programme on social investments, with the aim of providing technical and financial support for social convergence within the EU. The spending in this programme should at least partly be targeted at the ‘critical situations’ identified in the Joint Employment Report, notably in the context of a newly to be established ‘Social Imbalances Procedure’ (SImP) (see Section 3).

A macro-economic stabilization instrument for the EMU: a European Unemployment Benefit Scheme

The idea of establishing an EU-wide macro-economic stabiliser in the form of a European Unemployment Benefit Scheme (EUBS) is not new, but may gain political momentum in the aftermath of the proclamation of the EPSR. From an economic perspective, a EUBS is an automatic institutional mechanism that provides counter-cyclical stabilization to the economy, while acting as a shock absorber in the event of asymmetric and/or symmetric shocks. From a social point of view, it would alleviate the burden of unemployment by providing income security and, at the same time, it would demonstrate European solidarity in a visible and tangible way to citizens. Such a scheme could act in two ways: either reinsuring (an ‘equivalent’ EUBS) or partially replacing (a ‘genuine’ EUBS) Member States’ unemployment schemes.

Four challenges could arise from the setting up of a EUBS. First, institutional moral hazard, i.e. the risk that the EUBS resources would flow permanently from certain countries (with low unemployment rates) to others (with high unemployment rates). Second, uncertainty concerning the fiscal rules to be adopted for a EUBS: either an annual fiscal balance, a fiscal balance over the economic cycle, or no fiscal balance at all. Third, the role of social partners in the new EUBS scheme needs to be made explicit, since their involvement in the design and management of the national unemployment insurance schemes varies significantly from country to country. Fourthly, the legal basis of a possible EUBS scheme would need to be examined, in terms of payments, financing and the minimum requirements.

Although these challenges make the path towards the introduction of a European Unemployment Benefits Scheme politically and technically complex, it would seem – drawing on our analysis of the political post-crisis debate over the idea of an EUBS – that a certain convergence of views on the proposal for a ‘re-insurance’ (or equivalent) EUBS is slowly emerging.

Against this background, we recommend the following:

1. Launching, in the short term, an interinstitutional dialogue, together with the social partners, on the options for an equivalent European Unemployment Benefit Scheme, based on a proposal from the European Commission.

2. Linking an equivalent European Unemployment Benefit Scheme to active measures to help people back into work. To this end, a future equivalent European Unemployment Benefit Scheme could be linked to the creation of a European Transition Support Fund (see Section 1).
Reconciling the economic and social dimension of the E(M)U: towards a ‘Social Imbalances Procedure’

A third initiative to enhance implementation of the European Pillar of Social Rights (EPSR) would be the creation of a ‘Social Imbalances Procedure’ (SImP). In our view, establishing such a SImP would be an important step towards rebalancing the social and economic dimensions of the EU.

In our proposal, a future Social Imbalances Procedure could consist of three stages.

The first stage would be the identification of ‘social imbalances’ in the Member States, for which we suggest considering five policy areas that are linked to the social rights approach of the EPSR: a) poverty and social exclusion; b) unemployment; c) education; d) healthcare; and e) housing. Excessive national (social) imbalances in these areas would be identified on the basis of the (possibly refined) indicators included in the Pillar’s Social Scoreboard, following the analysis provided in the annual Joint Employment Report. Countries displaying ‘critical situations’ in one or more of the five policy areas mentioned above would be encouraged by the European Commission to ask for the opening of the Social Imbalance Procedure. Member States can also decide, on their own initiative, to ask for the SImP to be applied.

The second stage would be to determine the actions to be undertaken by the Member States under the SImP with a view to addressing the social imbalances. In this respect, a Multi-annual national Action Plan (MAP) would be defined jointly between the Member States and the European Commission. At the EU level, the plan should be approved by the ECOFIN and EPSCO Council formations, following non-binding opinion from the European Economic and Social Committee. EU interventions to be included in the MAP would mainly consist of technical and financial support through the EU funds, requiring, for instance, the intervention of the Reform Support Programme, the re-focusing of Member States’ Operational Programmes or an increase of the EU co-financing rate for the ESI funds. Furthermore, the use of a ‘silver rule’ concerning expenditure in the policy domains under the SImP could be envisaged: this rule would allow temporary debt financing of additional investment. The silver rule should: (a) apply to social-investment-oriented initiatives; and (b) be conditional on the proposed national reforms being in line with the policy orientations and guidelines in the Country-specific Recommendations.

The third stage of the SImP would be for the Commission to monitor its implementation through the European Semester’s Country Reports. In case of repeated non-compliance of a Member State with the actions agreed in the MAP, the SImP would be closed and the Member State would lose the extra EU support provided through the procedure (e.g. the fiscal margins for manoeuvre allowed by the silver rule or the increased co-financing rate for the ESI funds).

The establishment of the SImP would imply a number of technical, political and legal challenges. The procedure, if it were to have the same legal weight as the MIP and the EDP, would need to be regulated by EU legislation or even be given Treaty status. Since the feasibility of such options is doubtful in the current political climate, the SImP could, for the time being, be replaced by a ‘Social Imbalances Framework’ (SImF). This Framework would have the same features as the SImP.
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(identification of social imbalances through the JER, definition of a MAP, monitoring of implementation in the context of the Semester) but would only be ‘politically’ (and thus not legally) binding.

Summing up, we recommend the following:

1. In order to rebalance the economic and social dimensions of the EU, a Social Imbalances Procedure (SImP) should be considered, based on two principles: solidarity and conditionality. The SImP would be structured in three stages: identification of social imbalances through the Joint Employment Report, definition of a Multi-annual national Action Plan and monitoring of implementation. It would entail EU support (both technical and financial) in exchange for the respect of EU guidelines in designing social investment reforms.

2. In order to set-up the SImP, the Pillar Scoreboard should be refined and strengthened. First, new and/or different indicators should be introduced in the domains of education, healthcare and housing exclusion. Second, the Scoreboard – which currently only looks at yearly changes – should be complemented with data on longer term trends.

3. The SImP should be enacted through legislation. As a second-best solution - which could be seen as an intermediate step towards a fully-fledged SImP – a ‘Social Imbalances Framework’ could be set up: this would be a ‘politically binding’ process aiming at detecting and correcting social imbalances, with the same features of the SImP.

Conclusion: the need for responsible and visible EU solidarity

This report explores the possibility of establishing three policy instruments aimed at implementing the EPSR and at rebalancing the economic and social dimensions of the E(M)U. Our proposals entail an increase of the EU budget devoted to social policy, more funds and targeted assistance for some Member States (e.g. those potentially eligible for the new SImP) and risk sharing (the EUBS). Most obstacles to the establishment and implementation of these initiatives are political in nature, as they require enhanced solidarity between the Member States. The political appetite for more solidarity is at least questionable.

Yet, at least three arguments call for enhanced solidarity at the EU level, thus justifying the initiatives proposed in the present study. First is the functionalist/economic argument. As shown by many observers, excessive social imbalances in some domains affect not only the Member State concerned but can also spill over into other Member States of the Eurozone, thereby threatening the sustainability of the EMU as a whole. In this respect, addressing such imbalances should be a matter of common concern, also in the self-interest of the Member States experiencing good social and economic situations. The second argument is normative, i.e. related to the EU commitment to promoting upward social convergence among the Member States, which has been one of the key drivers and success factors of the European project for several decades. The third argument is political and basically concerns the legitimacy of the European integration process. Without tangible forms of European solidarity, the legitimacy and sustainability of the European political system is at risk, as the recent national elections have clearly demonstrated. Solidarity can however not be
unconditional. It should be ‘responsible’: a balance should be reached between European support and national responsibility. This is, for instance, the principle on which we base the proposed Social Imbalances Procedure, in which EU support is conditional on respecting EU orientations. Finally, in order to increase the legitimacy of the Union, EU solidarity should not only be responsible but also visible at national level.
Study

1. Aim and structure of the study

The aim of this study for the Worker’s Group of the European Economic and Social Committee (EESC) is twofold: a) to analyse proposals aimed at integrating the European Pillar of Social Rights (EPSR) into EU policies; and b) to provide policy-makers and stakeholders with concrete recommendations to achieve this objective.

After setting the scene and positioning the present report in the debate on reconciling the economic and social dimensions of the EU (Section 2), the report focuses on the following three aspects:

1. the extent to which provisions in the proposed Multi-Annual Financial Framework (MFF) 2021 – 2027 are fit for the purpose of ‘socialising’ the EU budget, thus facilitating the implementation of the EPSR (Section 3). This section also discusses the possibility of establishing a (social) budget for the eurozone;
2. existing proposals for a macro-economic stabilization instrument for the EMU, in the form of a European Unemployment Benefit Scheme (Section 4); and
3. the possibility of establishing a ‘Social IMbalances Procedure’, or a lighter ‘Social Imbalance Framework’, aimed at counterbalancing existing monitoring processes in the areas of economic and fiscal policy (Section 5).

For each of the aspects above, the report describes the state of the art and the proposals already on the table, while considering their technical and political feasibility. The concluding Section 6 is followed by specific policy recommendations in Section 7.

This study uses qualitative research methods: a) analysis of the available scientific literature and of documents produced by policymakers and stakeholders; b) analysis of the transcripts and/or notes of 13 semi-structured interviews with key respondents, including representatives of various European Commission Directorates-General (DGs), the EU’s Social Protection Committee (SPC), the Employment Committee (EMCO) and various stakeholders (see Annex 1 for more details).

2. Setting the scene: reconciling the economic and social dimensions of the EU

2.1 The financial crisis and the end of output legitimacy

The European Economic Community has been characterised, since its creation, by an asymmetry of competences between the economic and social policy domains (Scharpf 2010). The focus of the...
European project was (and in many ways still is) the creation of a single market and, in order to achieve such an objective, significant competences were transferred to European level. By contrast, except for a limited number of policy areas linked to the functioning of the single market, social policy competences have remained firmly in the hands of the Member States (MS).

This said, the impact of the single market (and, later, of broader economic policies) on MS’ social policies have become increasingly visible over time. Market-making policies and the activist stance of the Court of Justice of the European Union have had important implications for domestic welfare states (Leibfried 2015), including in areas such as pensions and healthcare (Ferrera 2005). This asymmetry of competences and the risk of ‘clashes’ between EU economic policies and national welfare states notwithstanding, the EU has traditionally benefitted from a high degree of legitimacy due to the output it has produced: economic growth, better living standards for its citizens and an overall process of upward convergence between its MS.

The financial and economic crises in 2008 halted this process of upward convergence and its associated ‘output legitimacy’. Since then, the EU is no longer the ‘convergence machine’ it used to be. On the contrary, increasingly divergent patterns have emerged between Eastern and Western countries and Northern (creditor) and Southern (debtor) countries (Natali 2017). These dynamics have been particularly evident in the countries of the Economic and Monetary Union (EMU), which from its creation – according to many observers – suffered from a number of fundamental design-related limitations, especially when facing asymmetric shocks.

In order to address the crisis, the EU has, since 2010, undertaken important reforms of its macro-economic and fiscal policies, with a view to better coordinating MS’ action in these domains (Hodson 2015). Most of these decisions have been targeted at the countries of the Eurozone, whose economic and budgetary policies are now subject to more stringent surveillance, with the (so far theoretical) possibility of financial sanctions in case of non-compliance with EU prescriptions. First, the ‘corrective arm’ of the Excessive Deficit Procedure (EDP)\(^3\), set up by the Stability and Growth Pact (SGP), was reinforced, in particular through the so-called ‘Six Pack’. Second, following the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (better known as the ‘Fiscal compact’), all MS (with the exception of Croatia, the Czech Republic and the UK) have undertaken to transpose a balanced budget rule into national law\(^4\). Third, the Six Pack has introduced a ‘Macro-economic Imbalances Procedure’ (MIP) to prevent and eventually correct macroeconomic developments that adversely affect the proper functioning of the economy of the MS, of the EMU or of the EU as a whole (see Section 5).

Finally, in 2011, the ‘European Semester for economic policy coordination’ was introduced. This is an annual policy coordination cycle aimed at synchronizing and coordinating various instruments and

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3 The Excessive Deficit procedure is made up of both a preventive and corrective arm. It may be applied to MS: a) which have either breached or are at risk of breaching the deficit threshold of 3% of GDP or b) which have violated the debt rule by having a government debt level above 60% of GDP, not falling at a satisfactory pace. For euro-area Member States, financial sanctions are possible.

4 Other new measures concerning MS’ budget policies have been introduced through the so-called ‘Two-Pack’.
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procedures linked to the reformed Stability and Growth Pact (fiscal policies), with macro-economic policies (the MIP) and activities associated with the Europe 2020 Strategy. The latter involves thematic coordination aimed at fostering structural reforms in various policy domains, including social and employment policies. Consequently, macro-economic, fiscal and social policy are now under the same governance framework. Yet, although a progressive process of ‘socialisation’ of the Semester is on-going (Zeitlin and Vanhercke 2018), the asymmetry between the EU’s economic and social dimensions persists. For instance, looking at the Semester’s Country-specific Recommendations (CSRs), the weight of macro-economic, fiscal and social recommendations differs: while the CSRs in the two former policy domains are Treaty-based and legally binding, social CSRs are typically non-legally binding (Bekker 2015). In the Semester’s Annual Growth Surveys and Joint Employment Reports (JER), social considerations have continuously gained ground since 2011. Yet fiscal consolidation messages are still prevalent (Sabato and Corti 2018).

At the beginning of the crisis, the priority of the EU was to address financial and economic challenges by encouraging MS to implement fiscal consolidation policies, with only scarce consideration for their social implications. The social consequences of these choices have been particularly negative in some Eurozone countries, especially in those with higher public debt levels and which are more exposed to financial speculation. Indeed, unable to resort to monetary policy as a lever and confronted with the implementation of fiscal consolidation measures, these countries have used social policies as an ‘adjustment factor’, undertaking cuts to social budgets and weakening social and employment protection. In other words, EU economic and fiscal policies have actually ‘clashed’ with national welfare states, putting at risk the adequacy and effectiveness of the latter.

2.2 The debate on the social dimension of the EMU

Against this background of an enduring asymmetry between economic and social policy issues, awareness has slowly developed of the unsustainability of the status quo. The deterioration of the social situation in the EU has impacted not only on the living standards of its citizens but it has also led to questioning of the legitimacy of the EU as a political project, eventually leading to the risk of disintegration of both the Eurozone and the EU, as shown by ‘Brexit’.

Consequently, a debate on the social dimension of the EU and, in particular, of the EMU, has been launched, involving European institutions, stakeholders and the academic community. To start with, in October 2013, the European Commission (2013) published a Communication on ‘Strengthening the Social Dimension of the Economic and Monetary Union’, focussing in particular on three points:

1. a reinforced surveillance of employment and social challenges and policy coordination, basically through the European Semester. This has been achieved by the creation of a scoreboard of key indicators to be used in the Joint Employment Report, to follow employment and social developments, and by the inclusion of ‘auxiliary’ employment and social indicators in the MIP;
2. enhanced solidarity and action on employment and labour mobility, partly through a better use of EU financial instruments.
3. a strengthened social dialogue and greater inclusion of the social partners in the Semester process.

This initiative was followed, two years later, by the so-called ‘Five Presidents’ report’ (Juncker et al. 2015) stressing Europe’s ambition to earn a ‘Social triple A’. In the report, well-functioning and fair welfare systems in all euro area MS are considered as ‘an economic necessity’, i.e. a pre-condition for the EMU to succeed. This point was then recalled and further developed in the Commission Communication ‘On steps towards Completing Economic and Monetary Union’ (European Commission 2015a). Other provisions potentially relevant for the social dimension of the EMU are contained in the 2017 Commission Communication on ‘Further Steps Towards Completing Europe’s Economic and Monetary Union: A Roadmap’ (European Commission 2017a).

In this context, a number of proposals aimed at reinforcing the social dimension of the EMU have been made by EU institutions, social stakeholders and the academic community alike. These included the creation of a budget for the euro-area, the setting-up of a common stabilisation scheme and of effective arrangements for mainstreaming social policy objectives in EU macroeconomic and budgetary policies.

2.3  The European Pillar of Social Rights: a window of opportunity for ‘Social Europe’

The publication, in April 2017, of the European Pillar of Social Rights (European Commission 2017b), with its ambition to promote upward social convergence in EU MS, can be seen as a window of opportunity for relaunching the debate and advancing towards the objective of a stronger ‘Social Europe’ and, in particular, towards a more social EMU. Notably, as observed by stakeholders and EU institutions, the Pillar could be an opportunity to rebalance the economic and social dimensions of the EU (cf. EESC 2017). Indeed, for a number of reasons the EPSR appears stronger than previous EU social policy frameworks such as the Social Investment Package (Sabato and Corti 2018):

- first, the Pillar is part of a high-level, political debate on the future of the EU, launched after Brexit and in the wake of the 60th Anniversary of the Treaty of Rome. Social policies are among the key points of the Rome Declaration, a key element of the White paper on the future of Europe (European Commission 2017c) and the subject of a specific Commission Reflection paper on the social dimension of Europe (European Commission 2017d).
- second, the Pillar has a high degree of political legitimacy: it was proposed directly by the President of the Commission and it was solemnly proclaimed by the Commission, the Parliament and (unanimously) by the European Council in Gothenburg (November 2017).
- finally, due to the broad consultation process, the ownership of the Pillar by European social stakeholders (notably, the trade union movement and social non-governmental organizations (NGOs) is high, at least for now.

According to recent studies (Sabato et al. 2018), the Pillar has already had an influence on relaunching an ambitious EU ‘Social Agenda’ through social dialogue and EU legislation. Furthermore, it is already acting as a general framework for the substantive messages of the 2018 cycle of the European Semester – including in the Annual Growth Survey and the revised
Employment Guidelines in the Draft Joint Employment Report (ibid.). A further instrument for implementing the Pillar at the national level would obviously be the availability of enough (EU and national) funding (cf. EESC 2018a). This said, however, one important shortcoming is evident: it is difficult for the Pillar to influence the orientations of EU economic and fiscal policies so as to ensure that the Member States have enough financial leeway to implement the principles and rights of the EPSR (Sabato and Corti 2018). In other words, the jury about the Pillar’s capacity to reconcile the economic and social dimensions of the EU is still out.
3. What is needed for a genuine ‘socialisation’ of the EU budget?

3.1 Setting the scene

The post-2020 Multiannual Financial Framework (MFF) is currently under discussion (EU leaders aim for agreement on the MFF in autumn 2019). As always, the spending proposals for this seven-year period are a compromise between competing sets of demands and the process of approval will be further complicated by the UK’s decision to withdraw from the EU: the consequent loss of a net contributor to the EU budget is overshadowing the debate on the next MFF (Begg 2018).

In May 2018 the European Commission presented its proposals for the next Multiannual Financial Framework 2021-2027 (European Commission 2018e): €1,134,583 million in commitments and €1,104,805 million in payments (2018 prices). If one compares the current MFF for 2014-2020 with the MFF 2021-2027, the Commission’s approach seems to be one of ‘carrying on’ and, as a result ‘doing more with less’ (Andor 2018). On the one hand, the withdrawal of the UK has not led to a significant reduction in the size of the budget, as some MS would have liked: in a way, the MFF ‘carries on’. On the other hand, given the fact that the next EU budget is similar to the current level, the emergence of new priorities for the EU (e.g. immigration) implies that the new challenges will have to be addressed by reducing the resources for existing programmes (so ‘doing more with less’).

Among the Commission’s stated aims in the MFF 2021-2017 is the relaunch of the social dimension of the EU. The proclamation of the European Pillar of Social Rights created new momentum for advancing towards the objective of a stronger ‘Social Europe’. Against this background and given the expectations raised by the EPSR, the objective of this section is to analyse the ‘social’ dimension of the next MFF, and more particularly its social investment approach. In this respect, we opt for a narrow definition of the ‘social dimension’ of the EU budget, namely the total amount of resources allocated to programmes whose goal essentially consists in implementing the social and employment objectives of the EU, as outlined in the TFEU and in the principles enshrined within the EPSR.

To do so, we proceed as follows. First, we briefly present the social expenditure in the current MFF and assess the level of social investment funding within it. Second, we analyse the Commission’s proposals for the post-2020 budget as well as the debate on a possible budget for the Eurozone.

3.2 The current MFF: between structural investment and social investment-oriented programmes

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5. We claim that, in the EPSR, the notions of social rights and of social investment are closely linked, to the extent that some observers describe the approach of the EPSR as rights-based social investment (Sabato and Corti 2018): ‘the primary objective [of the Pillar] is the promotion of social rights but, when it comes to the actual measures and policy orientations through which these rights should be declined and made effective, the reference point is social investment’ (ibid.:61).

6. The authors of the present prefer to adopt a narrow definition of what they call the social dimension of the EU budget; other authors consider, for instance, the EU’s cohesion policies as a form of social policy by default. However, since some cohesion policy programmes do not pursue specific social objectives (e.g. the Cohesion Fund), we prefer to keep them separate.
3.2.1 Social policies by means of Structural and Investment Funds

EU social expenditure provides important contributions to social assistance and social investment programmes within some MS; in some cases, it also functions as an incentive for reforming employment and social policies and designing programmes that are more effective. Within the current MFF, the total EU budgetary resources allocated to the implementation of EU social and employment objectives amount to ca. € 152.4 billion (current prices), i.e. 13.4% of the total resources of the EU MFF 2014-2020 (including the UK).7

To pursue its social and employment objectives, the EU has traditionally relied on the European Structural and Investment (ESI) funds. Their objective is to reduce regional disparities across the EU and show European solidarity. ESI fund resources are allocated according to the thematic objectives defined in the Common Provisions Regulation (CPR). Within the current MFF, there are three social objectives: social inclusion, sustainable and quality employment, and educational and vocational training.

Among the ESI funds, the European Social Fund (ESF) is the main tool for promoting employment and social inclusion. Its aim is fourfold: a) promoting sustainable and quality employment and labour mobility; b) fostering social inclusion, combating poverty and discrimination; c) investing in education, training and vocational training, skills and life-long learning; and d) enhancing the institutional capacity of public authorities. Overall, the ESF supports social policies that facilitate skill development and investment in human capital throughout the life-course. To this end, for the 2014-2020 period, the ESF has a planned allocation of € 121 billion, of which 84 billion is EU funded and the rest is co-financed by Member States.

Other ESI funds with a specific allocation for ‘social’ objectives are the European Regional Development Fund (ERDF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). Notably, 11.4% of the ERDF resources (ca. € 22.7 billion) are allocated, for instance, to investing in health and social infrastructure, reducing health inequalities or promoting social inclusion. Other investment priorities include support for local employment initiatives and the development of infrastructure for employment services, education and training. Taken together, 15.2% of the EAFRD allocations (ca. € 15.2 billion) are intended to support activity, employment and incomes in rural areas and are adapted to the specific poverty and social exclusion risks found in these areas. Finally, the EMFF allocates 10.5% of its resources (€ 604 million) to employment and territorial cohesion, by, for instance, promoting job creation, and supporting employability and labour mobility, including diversification of activities. The total planned EU financing and national co-financing for the 2014-2020 period earmarked for the social objectives of the ERDF, EAFRD and EMFF amounts to almost € 51.5 billion, of which 38.5 billion is EU funded.

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7 In a virtual MFF 2014-2020 without the UK (see below for more details), the expenditure for social programmes amounts to € 148.8 billion (2018 prices), namely 15.75% of the virtual MFF.
This said, there are some clear limitations with respect to the use of the ESI funds to pursue the EU’s social objectives. First, these funds primarily follow a geographical cohesion approach. As explained above, the allocation of ESI funds is regulated by the Common Provision Regulation 2014-2020, which distributes resources to the EU regions (NUTS 2), based on two criteria: ‘Gross Domestic Product’ (GDP) and ‘Labour market, education, demographics’, the former accounting for 86%, the latter for 14%. Therefore, ESI funds’ allocation criteria only partially target social and employment trends and, consequently, sometimes fail to identify social disparities within the regions. For instance, they ignore the possibility that the same region can feature strong and robust economic activity (high GDP level) and have, simultaneously, significant difficulties in combating poverty.

The second limitation concerns a lack of flexibility. Operational programmes are multiannual and follow the programming period of the EU budget (i.e. 7 years). This can create problems when it comes to changing priorities over time, which requires timely intervention to address unexpected social needs. Some flexibility exists, since the Operational Programmes can be (at least to some extent) redirected every year. In general, however, one might argue that the goal of ESI funds is not to act as a countercyclical instrument, but rather as a long-term structural convergence programme.

The third limitation regards the link between the ESI funds and the European Semester, particularly through two features: ex-ante and macroeconomic conditionalities. Ex ante conditionalities consist in the Commission’s right to introduce reprogramming requests on the basis of the Country-specific Recommendations and/or the thematic objectives set out in Operational programmes (Huguenot-Noël et al. 2018). Macroeconomic conditionalities are ex post instruments. When a MS fails to take effective or corrective action in the context of the European Semester (Excessive Deficit Procedure, Excessive Imbalance Procedure) or fails to implement the measures required by a stability support programme, the Commission can propose to the Council that it suspend all or part of the commitments or payments to one or more of the programmes of a Member State.

Linking the ESI funds to the European Semester has raised several concerns with respect to the consequences for the EU social objectives. The first is a fear that linking the funds’ programming to the European Semester through ex-ante conditionalities might make the social objectives subordinate to the fiscal consolidation CSRs of the Semester. The second concern is that the application of macroeconomic conditionalities (i.e. suspensions of funding) would further deepen the social problems in a country.

The Commission has responded to these criticisms. First, it says, linking the programming of the ESI funds to the CSRs does not necessarily imply a subordination of social objectives to fiscal stability rules. With respect to macroeconomic conditionalities, it is clear that: a) they have never been used to suspend funding; and b) the complex and lengthy process that is required seems to have been designed so as to make its application as unlikely as possible. Even so, the existence per se of the possibility to suspend ESI funds, and especially the ESF, remains problematic.

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% indicates financial weight.
3.2.2. Social investment in the current Multiannual Financial Framework

The budgetary allocation to social and employment objectives within the current MFF is not limited to the ESI funds. In the wake of the financial crisis the EU proposed new tools to tackle the rising challenges. These include the Youth Employment Initiative (YEI), the Fund for European Aid to the most Deprived (FEAD), the European Globalization Adjustment Fund (EGF) and Erasmus+. The **Youth Employment Initiative** (YEI) is addressed to young people who are not in employment, education or training (‘NEET’) and who reside in the regions of the EU which are particularly affected by this challenge. The most frequently implemented measures are work-experience and qualification type activities, such as the provision of first job experience, traineeships and apprenticeships and high-quality vocational education training courses. The **Fund for European Aid to the most Deprived** (FEAD) aims to tackle the most severe forms of material deprivation by providing non-financial assistance to those most in need: food, clothing and other essential items, accompanied by advice and counselling to help beneficiaries to re-integrate into society. The FEAD finances stand-alone social inclusion activities, which are designed to strengthen skills and capacities, to help those living in deprivation to overcome their difficult circumstances.

**Erasmus+** is the EU's programme which supports education, training, youth and sport in Europe. Among other actions, Erasmus+ supports learning opportunities abroad for students in higher education and in vocational education and training, for education staff and for youth exchanges, and finance initiatives aimed at reducing early school leaving, tackling (youth) unemployment, and promoting adult learning for new skills. Finally, the **European Globalization Adjustment Fund** (EGF) is the EU programme aimed at providing support to workers made redundant because of major structural changes in world trade patterns, due to globalization or the negative effects of the global economic and financial crisis on employment. The EGF often provides an opportunity to ensure personalized measures that are tailored to the needs of individual redundant workers. This allows Member States to focus on vulnerable people, such as the lower-skilled or those with a migrant background, and to provide support with a better advisor-beneficiary ratio and/or over a longer period.

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9 There are two other programmes that are to be considered as social within the current MFF: Employment and Social Innovation and Health. The Health programme promotes health and disease prevention, contributes to innovative, efficient, sustainable health systems and facilitates better and safer healthcare. The EaSI is an umbrella programme that incorporates and extends the coverage of three existing programmes: PROGRESS (Programme for Employment and Social Solidarity), EURES (European Employment Service) and the Progress Microfinance Facility (PMF).

10 Over the period 2014-2020, the YEI received an EU allocation of € 8.8 billion.

11 Over the period 2014-2020, the programme was endowed with 3.8 billion euros from the EU budget (minimum national co-financing 15%, 0% for Member States under adjustment programme).

12 Over the period 2014-2020, Erasmus+ received an EU allocation of € 14.7 billion.

13 Every single project has to be looked at and considered by both the European Parliament and the Council. If they are approved by these bodies, the EU can co-fund projects up to 60%.

14 Over the period 2014-2020, the total allocation that can be used by the EGF is € 1.2 billion (ca. € 170 million per year).
Comparing to the abovementioned ESI funds, the YEI, Erasmus+, EGF and FEAD have a completely different approach to social objectives. First, they do not pursue a logic of regional cohesion, but instead target specific categories of the population, with the aim to address specific social needs (e.g. young unemployed, people at risk of poverty, dismissed workers etc.). In this regard, they are not aimed at promoting structural convergence and long-term reforms, but have a counter-cyclical function. Second, since they do not deal with structural reforms, the YEI, Erasmus+, EGF and FEAD are not regulated under the Common Provisions Regulation and therefore are not subject to the ex-ante and ex-post macroeconomic conditionalities. Finally, while the ESI funds indirectly support social investment measures, without being labelled as such, the YEI, Erasmus+, EGF and FEAD explicitly pursue different types of social investment functions. The EGF, in particular, supporting dismissed workers and offering them an activation programme to re-enter the labour market, fulfils both buffer and flow functions. Similarly, the YEI, offering training or educational opportunities to unemployed young people, has buffer and flow functions. Erasmus+, by investing in human capital development, though education and lifelong learning, has a stock function. Finally, the FEAD, the programme which aims to reduce severe poverty and promote social inclusion through food and material assistance and social inclusion measures, has a clear buffer function.

In sum, while ‘social investment’ elements can be found in the current MFF, these are clearly in embryonic form: irrespective of the EU’s discourse, there is no sign of a ‘social investment U-turn’. The budget of these dedicated ‘social’ programmes, compared to overall EU social expenditure, remains low and some concerns emerge regarding the inclusiveness and accessibility of the programmes. Moreover, they lack a logic of policy and institutional complementarity (Hemerijck 2019). The cornerstone of the social investment paradigm, in fact, is the idea of complementarity between interdependent policy provisions, which – working together within a multilevel governance structure – produce wellbeing returns both at the time of delivery and longitudinally over the life course (Hemerijck 2017). In the case of the FEAD, YEI, Erasmus+ and EGF, the level of policy complementarity is low, and the funds still tend to work in silos (e.g. providing material assistance, social inclusion measures and activation policies).

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15 Hemerijck (2017) identifies three functions of social investment: stocks (investing in lifelong human capital development (stock); flows (life-course transitions; and buffers (inclusive social protection systems).

16 In total the YEI, EGF, FEAD and Erasmus+ have a budget amounting to € 28 billion, which is one third of the European Social Fund.
3.3 An ‘EU budget for the future’: falling short of social ambitions

As discussed above, the arena in which the debate on the next MFF takes place is highly constrained, and the approach that seems to guide the Commission in the forthcoming negotiations is necessarily a prudent one. A quick look at the proposed social programmes and their size confirms this. Among the seven social programmes proposed in May 2018, five already exist in the current MFF\textsuperscript{17}. One, the ESF+, is a merger of five existing programmes: the ESF, the FEAD, the YEI, and finally the Employment and Social Innovation (EaSI) and Health programmes. InvestEU is a new EU investment programme, with a specific window dedicated to ‘Social Investment and Skills’.

If we look at the resources allocated for implementation of these programmes, they amount to €151.488 billion\textsuperscript{18} (13.35\% of the total proposed MFF), to which we should add €4 billion as a guarantee for the ‘Social Investment and Skills’ window within the new InvestEU programme\textsuperscript{19}. Comparing the budget for social programmes in the current MFF (without the UK revenue) to the proposed budget for the post-2020 MFF (in constant prices), we observe that, in the latter, the ‘social budget’ is slightly higher in absolute terms (+ €2.7 billion), but slightly lower in relative terms (13.35\% rather than 13.75\% of the total MFF budget). Looking in more detail, we observe that resources for the ERDF, Erasmus + and the EGF increase by, respectively, 2\%, 92\% and 16\% compared to the current allocation, while the resources for the ESF+, the EMFF and the EAFRD have fallen by, respectively, 7\%\textsuperscript{20}, 13\% and 28\% (see Annex 2).

The question, then, is to what extent the proposed social budget reflects the expectations raised by the European Pillar of Social Rights. When examining this point, we present separately the ESI funds and the other social programmes.

3.3.1 A virtuous triangle? The European Semester, ESI funds and the Pillar

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\textsuperscript{17} The European Regional and Development Fund, the European Maritime & Fisheries Fund, the Agricultural Fund for Rural Development, Erasmus + and the European Global Adjustment Fund

\textsuperscript{18} In order to allow a reliable comparison across years, we compared the size of the social programmes in the proposed EU27 MFF 2021-2027 with a virtual MFF 2014-2020 without the UK contribution. We considered amounts in constant prices, with a reference year 2018. The amounts presented in the virtual budget are estimated based on past expenditure (2014-2017) and the extrapolated share for years 2018-2020. The data have been taken from the official documents of the European Commission. In order to calculate the social resources under the ERDF, the EMFF and EAFRD in the next MFF, we assumed that the share of resources for the implementation of the EU social and employment objectives would be the same as in the current MFF.

\textsuperscript{19} In this comparison we do not consider the social window of InvestEU.

\textsuperscript{20} Although the proposed ESF+ has an allocation which is 7\% lower in real terms than the sum of the current programmes, the ESF+ has one action less: the whole thematic objective 11. As stressed by one of our interviewees: ‘The thematic objective 11 of the current ESF addresses public administration reforms in the areas outside the employment and social, such as the justice area, tax collection. A lot of these public procurement enhancements are not really social and employment. The reason of attributing these objectives to the ESF was that they can be considered as sort of HR issue. The problem is that no one feels ownership of these reforms, although they are in the ESF. In the new proposal funding public administration reform can be done through the Reform Support Programme and, therefore, this objective is not in the ESF+. In the current MFF, thematic objective 11 has €4.7 billion. This means that, even in real terms, the ESF stays more or less preserved within the cohesion envelope’ (Interview EMPL 2).
If we look at the Commission’s proposal for the ESI funds within the proposed Multiannual Financial Framework 2021 – 2027, we can see four novelties compared to the current budget: a) the creation of the European Social Fund +; b) the stronger link between the ESI funds and the European Semester; and c) the change in the allocation criteria in the Common Provisions Regulation; and d) the simplified rules to access ESI funds.

The creation of the **European Social Fund +** is the most obvious new feature in the Commission proposal. Its overall goal is twofold. On the one hand, it aims to streamline existing rules across different types of measures, simplifying funding management and increasing flexibility, so that the funds can be more responsive to the challenges identified in the economic governance cycle and to EU priorities. It also aims to help ‘create a more performing and resilient “Social Europe” and implement the European Pillar of Social Rights, as well the social and employment priorities endorsed by the European economic governance process’ (European Commission 2018b:2)\(^\text{21}\). Over the 2021-2027 period, the Commission proposed to allocate €89.688 billion in 2018 prices (€101.174 billion, in current prices), of which €88.646 billion will be under shared management and €1.042 billion for EaSI and Health. At least 25% of the funds are intended to be earmarked for promoting social inclusion and tackling poverty (including non-material assistance), at least 2% to material support targeting the most deprived and at least 10% to tackling youth unemployment.

The second important development concerns the reinforced link between the ESI funds and the European Semester. In the Common Provisions Regulation 2021-2027, the Commission proposed to strengthen the link between the funds and the Country-specific Recommendations. Notably, the CSRs will be considered both in the programming of the funds and design of the cohesion policy programmes at the beginning of the 2021-2027 period, and in the mid-term review of the programmes in 2024. Moreover, the use of the ESI funds will continue to be linked to respect of macroeconomic conditionalities. By making this link stronger, the objective of the Commission is to create synergies and to make sure that the Member States take real action regarding their EU commitments. Since the Country Reports and the CSRs identify the challenges that a MS needs to address, aligning the funds to the Semester makes it possible to align MS’ Operational Programmes to the specific needs of the country. As regards the social objectives, the link between the Semester and the European funds is made via the EPSR: together they constitute a policymaking triangle. More specifically, the Social Pillar is mainstreamed into the Semester through the Social Scoreboard, and it constitutes the reference framework for the social objectives of the new CPR (see Annex 3 for details). Therefore, the objective of the policy triangle European funds-European Semester-Social Pillar is twofold: (a) to better target the social needs of the Member States and consequently increase the added-value and leverage capacity of EU funding; and (b) to provide a framework that gives the Commission a legitimate role in steering the implementation of the principles of the European Pillar of Social Rights.

\(^{21}\) To do so, the ESF+ pursues four specific objectives: a) investing in education, training and life-long learning; b) enhancing the effectiveness of labour markets and promoting equal access to quality employment; c) fostering social inclusion and tackling poverty; and d) demonstrating solidarity with displaced workers and self-employed persons whose activity has ceased in the course of unexpected major restructuring events.
The third development concerns the allocation criteria under the proposed CPR 2021-2027. In this regard, the Commission proposes to include new indicators, such as ‘Climate change’ and ‘Reception and integration of migrants’ and to slightly modify the allocation criteria: ‘GDP (including GNI for Cohesion Fund)’ 81%, ‘Labour market, education, demographics’ 15%, ‘Climate change’ 1% and ‘Reception and integration of migrants’ 3%.

Finally, the fourth new feature relates to the simplified rules to access the EU funds. In the new CPR 2021-2027, the Commission proposed that the EU contribution could take the form of financing not linked to costs of the relevant operations, but rather based on either the fulfilment of conditions or the achievement of results. The objective is to simplify the highly complicated bureaucratic system that often impedes effective use of the European funds.

The question is, then, how the four changes identified above affect the social dimension of the ESI funds. Overall, stakeholders’ reactions to the Commission’s proposals have been cautious. Among the positive aspects that have been highlighted are: a) the introduction of more flexibility and simplification in the use of the funds, which should increase the absorption rate; b) the idea of merging ESF, YEI, FEAD, EaSI and Health under the same umbrella, which may have positive consequences since it can facilitate policy complementarity; c) the greater use of simplified cost options, a simplified delivery system and the involvement of local actors with the Management Authorities, which may improve the experience of new and small beneficiaries; and d) the introduction of new indicators in the allocation criteria of the ESI funds. However, stakeholders have also raised some concerns, especially regarding the newly proposed ESF+ and the strengthened link between the ESI funds and the Semester.

The European Parliament, in its Resolution on the ESF+, proposed an increase in the total financial envelope for the ESF+ for the period 2021-2027, up to 106.781 billion in 2018 prices (+11% compared to the virtual EU27 MFF 2014-2020). In addition, it proposed that at least 15% of the ESF+ resources under shared management should be allocated to tackling youth unemployment, and called for the minimum share of ESF+ resources allocated to promoting social inclusion to be raised from 25% to 30%. Finally, the Parliament proposed that an extra € 5.9 billion be granted to measures falling under the ‘European Child Guarantee’, which would be a new instrument aimed at encouraging equal access of children to free healthcare, free education, free childcare, decent housing and adequate nutrition for the eradication of child poverty and social exclusion.

In sum, the Commission’s proposal on the next MFF ESI funds has some positive aspects: simplification, better targeting of the country-specific social needs and alignment with the principles of the Social Pillar. Moreover, the idea of setting a minimum share of allocation for specific objectives within the ESF+ is a positive new idea that contributes to the targeting capacity of the fund, moving towards a more social investment-oriented approach. At the same time, while creating synergies and improving policy coordination between funds is to be welcomed, some concerns can be raised regarding the decision to integrate the entire YEI and FEAD into the ESF+, thus partially losing their counter-cyclical function. Another concern is the decision to maintain macroeconomic conditionalities. Although in the current regulation there is an exemption to this rule for basic material
assistance and social inclusion measures for the most deprived, a more ambitious proposal would be to exempt the entire ESF+ from these conditionalities. The last point that raises considerable concern is the overall reduction in the ESI funds, something which certainly does not meet the expectations vested in the European Pillar of Social Rights. This reduction in the funds will strongly affect the social expenditure capacity of the EAFRD and the EMFF. As observed above, in the MFF proposal for 2021-2027, the Commission decided to keep the same objectives for the EAFRD, the ERDF and the EMFF. At the same time, the Commission has already stressed that when implementing these funds, it will concentrate on the so-called ‘best-performing investments’, which involve support for SMEs, smart specialisation strategies, the low carbon economy, sustainable urban development, and regional co-operation. The exclusion of social objectives from the best performing investments, together with the general significant budgetary cuts to both the EMFF (-13%) and the EAFRD (-28%), should raise concern.

3.3.2 In addition to the ESI funds: Erasmus +, the European Globalization adjustment Fund and InvestEU

Besides the ESI funds, three other social programmes have been proposed by the Commission for the next MFF 2021-2027. Two already exist in the current MFF: Erasmus+, and the European Adjustment Globalization Fund. The third programme, InvestEU, is new.

The proposed Erasmus+ for the period 2021-2027 comes with a significantly increased budget compared to the current one (+92%), reaching € 26.368 billion (2018 prices) over seven years. Except for the introduction of some new actions, such as DiscoverEU and the European Student Card, however, Erasmus+ will keep the same basic structure, with three key actions: a) mobility; b) cooperation for innovation and the exchange of best practices; and c) support for policy development. The Commission proposal on the next European Globalization adjustment Fund (EGF), however, involves a number of changes for the period 2021-2027. First, the proposal widens the scope of the fund, by extending the list of eligible factors behind the redundancies, including, for instance, the transition to a low-carbon economy and the consequences of digitalization and automation. Second, the threshold for redundancies has been reduced to 250 workers made redundant or self-employed persons ceasing their activity over a four month-period. The exception for smaller labour markets is maintained. Third, the co-financing rate is aligned with the highest ESF+ co-financing rate granted to the respective Member State (between 50% and 85%). Fourth, with the aim to speed up the procedure, the European Parliament and the Council will be only partially involved in the adoption of the budgetary transfer, while the Commission would adopt the financial contribution by means of an implementing act. Fifth, the maximum amount that the EGF can use over the 2021-2027 period increases by 16%, from € 1,200 million to € 1,400 million (2018 prices). Sixth, the Commission has proposed introducing a common monitoring system, with output and result indicators, from 2021 onwards. The information provided will include data on the type and quality of jobs (e.g. permanent or non-permanent) and the qualifications gained by beneficiaries which improved their employability.

Overall, the Commission’s proposals on both Erasmus+ and the EGF are, in our opinion, to be welcomed. The decision to double the allocation for Erasmus+ is a clear investment in human capital
and fulfils the stock function of a social investment policy. At the same time, the slightly increased budget for the new EGF, the simplified rules to access the fund and the broadened scope of its action represent a step in the right direction and a strengthening of the buffer and flow functions of the EU social budget.

The European Parliament has proposed some changes to improve the Commission’s proposal on Erasmus+ and the EGF. For Erasmus+, the Parliament has called for the funding to be tripled and is proposing a detailed set of measures to lift all economic, social, cultural barriers and allow more people to take part in various learning mobility schemes. Moreover, the Parliament is also proposing measures aimed at increasing the synergies between Erasmus+ and the other European programmes, so that co-funding could be used either in addition to grants, to help with transport, living costs for disadvantaged learners, for the necessary adjustments, or to finance new projects. As regards the EGF, the Parliament suggests the following changes: a new name for the fund — the ‘European Transition Support Fund’; a flat co-financing rate of 70%; the reintroduction of the possibility to include NEETs; and the possibility for the fund, in exceptional circumstances, to be used to support socio-economic redeployment in depressed areas with unemployment rates equal or above 10%.

While the programmes analysed so far are already part of the current MFF, specific attention should be paid to the proposed new funding instrument, InvestEU, whose objective is to address market failures and investment gaps that hamper growth, and to help to reach EU policy goals such as sustainability, scientific excellence and social inclusion (see Annex 4 for further details). Among the policy areas supported by InvestEU, one is dedicated to ‘Social investment and skills’, with a budget of €4 billion (expected to result in total investment of €50 billion). There are two stated reasons for dedicating a specific window to social investment and skills. On the one hand, there is a social investment gap in Europe estimated at 142 billion per annum: €15 billion in education and lifelong learning, €70 billion in health and long-term care and €57 billion in affordable housing (Fransen et. al 2018). On the other hand, there is the marginal role played by the European Fund for Strategic Investment (EFSI) in addressing the shortfall in social investments: in December 2016, less than 4% of the EFSI had been used to finance social infrastructure and less than 1% had been invested in social services.

Overall, stakeholders have reacted positively to the Commission’s proposal to create a window in InvestEU for Social Investment and Skills. In a joint position paper, the European Association of Service providers for Persons with Disabilities (EASPD), Housing Europe, EuroHealthNet, FEANTSA, AGE Platform Europe and the Lifelong Learning Platform welcomed the new Commission initiative. However, to ensure that InvestEU is a success when implemented, these organisations see the need for four additional changes. First, the social sectors should be formally represented on the Steering Board, to identify local projects and build up effective instruments for social infrastructure investment. Second, all stakeholders, and not only investors, should be given the capacity to translate ideas for better services into viable and bankable projects for investors. Third, the Investment Guidelines should give priority to qualitative and innovative projects. Fourth, systematic use should be made of the flexibility rule in Investment Clause 2.2 in the Stability and Growth Pact, to help unlock social infrastructure investment in Europe.
The European Trade Union Confederation (ETUC) welcomed the proposal to create a new, fully integrated investment fund. In addition, the ETUC made some suggestions for improving the Commission proposal. First, it warned against the risks associated with public-private-partnerships and stressed the need to prioritise public investments. Second, it expressed strong concerns about the possibility of any direct or indirect shift of ESI funds-resources to EFSI or InvestEU. In this regard, instead of pushing for financialisation of ESI Funds, ETUC proposed a strengthening of the principle of partnership, to make EU support more visible at regional level.

Finally, in December 2018 the Economic and Monetary Affairs Committee of the European Parliament voted on its Resolution on the InvestEU programme. The proposals contained in the Resolution include the introduction of clearer objectives, such as increasing the EU employment rate and economic, territorial and social cohesion. Moreover, the Parliament proposes to increase the EU budget guarantee to €40.8 billion (current prices), in order to attract more than €698 billion of additional investment across the EU. In particular, it was proposed to increase the ‘social window’ from €4,000 million to €5,568 million.

To sum up, the creation of a Social Investment and Skills window in InvestEU is certainly a positive new feature of the proposed MFF. This instrument is in line with the social investment approach and will be complementary to policy provisions aimed at investing in human capital, education, childcare (stock), housing, social infrastructure (buffer) and training, reskilling, upskilling, long-term care (flow).

3.4 The Reform Support Programme and a possible budget for the Eurozone: boosting social investment through convergence?

In this subsection we analyse two initiatives that have been proposed – with much variation in their design and political feasibility – during the ongoing discussions on the next MFF: the Reform Support Programme (RSP) and the Eurozone budget.

The Reform Support Programme (RSP) is a new instrument, proposed by the Commission, designed to provide financial and technical support for reforms aimed at strengthening Member States’ resilience and accelerating the process of upward social and economic convergence among the Member States, both inside and outside the euro area. The RSP builds on the existing Structural Reform Support Service (SRSP), the EU programme in force for the period 2017-2020, with a total budget allocation of €142.8 million (transferred from ESIF). This programme offers technical support for the implementation of reforms within economic governance processes, adjustment programmes and Member States’ own reform priorities.

Contrary to the existing SRSP, the goal of the proposed RSP is to offer not only technical but also financial support to all Member States, for the pursuit and implementation of reforms and for the improvement of their administrative capacity. Moreover, the future RSP aims to provide support to those Member States wishing to join the Euro within a defined timeframe. According to the
Commission’s proposal, the RSP will have its own budget within the new MFF: €25 billion (current prices), distributed among Member States in line with their share of the total EU population. Finally, the RSP will provide technical assistance and financial support at the request of the Member States, which will not be required to co-finance and will be responsible for implementing the reforms. The RSP will cover the following policy areas: public financial and asset management, institutional and administrative capacities, the business environment, product, service and labour markets, education and training, sustainable development, public health and the financial sector.

The Reform Support Programme will be made up of three complementary instruments:

- **The Reform Delivery Tool** will provide financial support to key reforms identified in the context of the European Semester. A budget of €22 billion will be available to all Member States. After the Commission and a Member State identify a reform, implementation will take place within a timeframe of three years. The Commission will monitor the process and, in the end, will assess whether the reform has been satisfactorily implemented. Finally, a single payment will be made upon achievement of milestones and targets.

- **The Technical Support Instrument** will build upon the existing SRSP and will provide technical expertise to support Member States in designing and implementing reforms and improving their administrative capacity. It will have a budget of 840 million.

- **The Convergence Facility** will provide additional financial and technical support for Member States wishing to join the Euro within a defined timeframe. The proposed budget amounts to €2.16 billion.

Another instrument that has been discussed during the debate on the next MFF is a **budget for the Eurozone**. The idea is not contained in the Commission’s package for the MFF 2021-2027, but it has been supported by Germany and France, in their Meseberg Declaration, which was codified in an official document (November 2018) and then presented at the Eurogroup of December of the same year. The idea to create a separate Eurozone budget is certainly not new. It gained momentum in 2012, soon after the crisis, when President Van Rompuy explicitly called for appropriate fiscal capacity for the Eurozone as a proposal to be further explored. According to Rubio (2012), a Eurozone budget can fulfil three main functions: a) facilitating financial assistance to EMU countries in the case of asymmetric shocks (macroeconomic stabilization); b) boosting structural reforms in the Eurozone countries by providing them with financial incentives (convergence); and c) working as a fiscal backstop for a future EMU banking union. In this regard, the proposal for a Eurozone budget launched by France and Germany, following the Meseberg declaration, responds to the second function.

The rationale behind the proposal is the need for higher levels of convergence and competitiveness in the Eurozone. To this end, the Eurozone budget would foster convergence and incentivize structural reforms ‘by co-financing growth-enhancing public expenditures such as investments, research and development, innovation and human capital’ (Franco-German declaration 2018: 1). The reason for applying this budget only to the Euro area Member States is linked to the limited room for fiscal manoeuvre of these countries, which cannot rely on their own monetary policies and on exchange rate adjustment instruments. As regards its legal basis, the French-German text proposes articles 175(3)
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TFEU (specific actions outside the ESI funds), article 182 TFU (research and technological development), article 173 TFEU (competitiveness and industry) and article 136 TFEU (provisions specific to the Euro area Member States).

On the financing of the new Eurozone budget, the Franco-German declaration remains vague. It says that it 'would be primarily financed by external assigned revenues, possibly including the allocation of tax revenues (such as a Financial Transaction Tax) and European resources (such as the Reform delivery tool). The assigned revenues would consist of national contributions, collected and transferred regularly to the EU budget. This would be regulated through an Intergovernmental Agreement, with the Eurozone countries acting as contracting parties. The Agreement would define the national contributions and set a binding maximum amount' (Franco-German declaration 2018). In this regard, however, as stressed by Rubio (2012), having a Eurozone budget based on own resources would be better in order to avoid decisions on spending being diverted by conflicts between net recipients and net contributors. Moreover, a Eurozone budget based on own resources would guarantee that the Commission, and not the contributing MS, would decide on the allocation of the funds.

With respect to governance of the new instrument, France and Germany propose that the Eurozone budget would act under the strategic guidance of the Euro summit, provided by the Eurogroup on a yearly basis. The Commission would be in charge of approving the programmes for implementation of the Eurozone budget prepared by the Eurozone countries. In this respect, only Member States presenting programmes that pursue policies in accordance with their obligations under the European economic policy coordination framework (including fiscal rules) would receive the support from the Eurozone budget.

To conclude, the Reform Support Programme and the Eurozone budget are two interesting potential instruments to promote convergence in the E(M)U. At this stage, the question is whether they can be useful for promoting employment and social convergence. The Commission underlines that the Reform Support Programme could also have a positive impact on the realisation of the European Pillar of Social Rights. However, except for some references to the Pillar, the new proposed instrument does not set clear rules on how it intends to pursue its social objectives. Further precision on this point is warranted. Regarding the idea of a Eurozone budget, we have noted the limitations of the French-German declaration, especially with regard to the budgetary resources and the governance.

3.5 Conclusions

In this section we assessed the social dimension of the Commission’s proposal for the new Multiannual Financial Framework 2021-2027. We compared it to the social expenditure under the current MFF in both quantitative and qualitative terms. The objective of the research was to assess whether the Commission’s proposal was in line with the expectations raised by the European Pillar of Social Rights. In quantitative terms, since the Social Pillar is a key priority of the current Commission, we expected an increase in the allocation of resources to the proposed social programmes. In qualitative terms, we expected a social investment orientation for EU social
expenditure. To this end, we distinguished between two kinds of social expenditure within the EU budget.

On the one hand we have the European Structural and Investment funds, and, on the other hand, the social programmes not under the Common Provisions Regulation. In the case of the ESI funds, the approach adopted by the Commission for the next MFF, in terms of budgetary allocation, is ‘carry on’ and, as a result, ‘doing more with less’. While the overall budget of the ESF+, the ERDF, the EAFRD and the EMFF falls slightly in real terms, the primary objective of the Commission is to simplify the rules, make them more flexible and make the social objectives more prominent within the ESI funds. Moreover, by linking the ESI funds to the Semester and the Social Pillar, the Commission wants to a) strengthen the value-added of the EU’s contribution; b) create a leverage effect for EU social spending; and c) increase its capacity to steer national reforms. The budget for the EGF and Erasmus+ increase, and a new tool, the Social Investment and Skills window in InvestEU, has been proposed.

Finally, we described the newly proposed Reform Support Programme and the idea of a Eurozone budget as interesting proposals, which, if well designed, might turn into important tools to implement the principles of the European Pillar of Social Rights and boost social investments in the EU.

All in all, we argue that the Commission’s proposal for the post-2020 MFF has the benefit of ‘hanging on to what we had’ in terms of social spending, but it does not live up to the expectations raised by the Social Pillar. However, it represents a good foundation and first step towards a socialized budget.

4. A macro-economic stabilization instrument for the EMU: a European Unemployment Benefit Scheme

4.1 Rationale and design of a European Unemployment Benefit Scheme

In the aftermath of the Euro-crisis, there have been widespread calls for reform of the EMU. The global financial crisis of 2008 and the subsequent Eurozone crisis exposed the structural weaknesses of the EMU, most notably the lack of powerful automatic macroeconomic stabilizers. The latter would contribute to counter-cyclical policy, stabilization and smoothing of the cycle, as well as crisis default and prevention (Beblavý and Lenaerts 2017). At the same time, the crisis proved some of the pre-crisis beliefs to be wrong. The assumptions that national fiscal policies — in a centralized monetary system — could, by themselves, prevent economic shocks and mitigate their impact on employment and incomes, that current account imbalances could be addressed through capital and labour adjustments and that labour mobility and wage flexibility could serve as important mechanisms to absorb asymmetric shocks turned out to be ‘popular myths’ (Dullien 2017).

Against this background, the Five Presidents’ Report (Juncker et al. 2015) called for the creation of a common fiscal capacity, i.e. a set of common budgetary instruments including mechanisms to counter
adverse economic shocks, as one of the first steps to complete the EMU by 2025\textsuperscript{22}. In particular, the report stressed the need for a stabilization mechanism to facilitate the financial assistance to EMU countries in the case of asymmetric shocks. It outlined four criteria that any EMU stabilizer should meet. First, it should not lead to permanent transfer (risk of \textit{institutional moral hazard}\textsuperscript{23}). Second, it should not question the need for sound fiscal policy-making at national level. Third, it should be developed within the EU legal framework. Fourth, it should not be an instrument for crisis management (Juncker \textit{et al}. 2015).

One of the mechanisms that could serve as a stabilizer for the EMU is a ‘European Unemployment Benefit Scheme’ (EUBS). A EUBS is a supranational automatic institutional stabilization mechanism, which has two main purposes (Beblavý and Maselli 2014). From an economic perspective, it provides a counter-cyclical stabilizer to the economy, while acting as a shock absorber for both asymmetric and symmetric shocks. From a social point of view, while introducing a mechanism for long-term/permanent redistribution, it alleviates the pain of unemployment by providing income security and, at the same time, demonstrates European solidarity in a visible and tangible way to citizens. In so doing, a European Unemployment Benefit Scheme fulfils three functions (Beblavý and Lenaerts 2017). First, it achieves reallocation of resources across MS within a given period (‘geographical insurance’). Member States pool together resources according to some commonly accepted rule and then distribute them to those who may be in greater need. Second, it performs a reallocation of resources across time (‘intertemporal insurance’). This can be achieved through debt issuing or allowing a supranational fund to go into deficit in recession times while compensating in good times. Third, it enhances national unemployment benefit schemes through the introduction of common minimum standards, to improve their coverage and stabilization capacity, and possibly contribute to an upward convergence.

In order to fulfil its purposes, a European Unemployment Benefit Scheme can act in two ways: either \textit{partially replacing} or \textit{reinsuring} MS’ unemployment schemes. Following Beblavý and Lenaerts (2017), we call the first variant a ‘genuine’ EUBS and the second an ‘equivalent’ EUBS.

In a “genuine” EUBS, employers and employees directly finance the creation of a European fund, which continuously pays out benefits to unemployed people. This requires a certain harmonization of national unemployment benefit schemes and the introduction of common minimum standards. In such a scheme, the level of the unemployment benefits\textsuperscript{24} would be decided at the EU level and would be

\begin{footnotesize}
\begin{enumerate}
\item A common budgetary instrument can fulfill three main functions: stabilization, convergence and working as a fiscal backstop for a future EMU banking union. In this section, we look only at the first function.
\item We draw the definition of \textit{institutional moral hazard} from Vandenbroucke \textit{et al}. (2017). Given two levels of government (A and B) involved in the governance of a social risk, with A covering the social risk, which could in principle also be covered by B, the policies deliberately adopted by B can influence the incidence of that social risk in B and thus influence the cost to be covered by A. In the case of a European Unemployment Benefit Scheme, for instance, country B can deliberately adopt policies that further worsen its unemployment rate, while country A bears the costs of the risk taken by B.
\item There are two variants of benefit: basic or top-up. In the former case, the supranational fund pays out benefits to the eligible unemployed person for a predefined number of months. In the latter case, every eligible unemployed individual is guaranteed a minimum benefit (i.e. minimum amount, duration etc.). If the country guarantees this minimum the EUBS does not intervene; otherwise the EUBS covers the difference, supplementing national benefit.
\end{enumerate}
\end{footnotesize}
based on three parameters: reference wage, replacement rate and benefit cap. The first corresponds to the worker’s last gross wage, to which then a specific rate of replacement is applied. The cap sets the maximum level of the benefit, calculated on the basis of the national average wage. Eligibility criteria are also established at the EU level. These set the minimum number of (consecutive or nonconsecutive) months during which an employee should have worked over a reference period to be eligible for the benefit. Eligibility rules are highly important because they determine the coverage and stabilization capacity of the European Unemployment Benefit Scheme.

In an “equivalent” EUBS, MS transfer the amount needed from a European fund, financed by MS’ contributions, to those countries hit by a symmetric or asymmetric shock. In this case, an equivalent EUBS variant would leave Member States more flexibility in the implementation of their national unemployment benefit schemes, though a set of common standards is to be set. The activation of the supranational support to a MS is automatic and depends on a trigger indicator (e.g. short-term unemployment rate in every quarter) which has fixed thresholds agreed by MS (e.g. variation of the current short-term unemployment rate from an average of ten years).

4.1.1. The challenges of a European Unemployment Benefit Scheme

Evidently, the introduction of a possible automatic supranational redistributive mechanism – either the genuine or the equivalent variant – would not be problem-free, and raises various economic, political and practical challenges. The first challenge regards the above-mentioned institutional moral hazard, i.e. the risk that the EUBS fund’s resources would flow permanently from certain countries (with low unemployment) to others (with high unemployment). To avoid such a problem, two solutions are proposed. The first is to introduce a mechanism such as experience rating, or ‘claw back’, which ties the pay-in into the supranational fund to the likelihood to use it, taking into account either how often the fund has been used in the past (in an equivalent EUBS) or by linking the pay-in to a country’s past unemployment record (in a genuine EUBS). The second mechanism proposed to avoid permanent transfer is to use the short-term unemployment rate as an indicator: the trigger to activate the EUBS scheme would be the deviation from the average short-term unemployment rate. In this way, ‘every country would be likely to become a recipient of transfers at some point, and the incentives to avoid implementing policies yielding long-term economic growth would be limited because the transfers would not be long lasting’ (Beblavý et al. 2017: 19). Despite these proposals, however, some concerns persist as to the risk of permanent transfer. One issue that remains open is whether the past unemployment experience of a Member State at the moment in which an EUBS scheme is established should be taken into consideration.

The second challenge regards the fiscal rule to be adopted for a European Unemployment Benefit Scheme. As stressed by Beblavý and Maselli (2014), the new European unemployment fund can have either an annual balance, or no fiscal rule, or can be balanced over the economic cycle. In the first case, the new fund would not need to address borrowing capacity, but would not be able to respond to a combination of symmetric and asymmetric shocks. In the second case, the fund would have a strong anti-cyclical affect, but this would require strong political support from all Member States. The third
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case would mean a combination of countercyclical policy and overall constraints in the long-term, but would be technically complex to implement.

The third challenge regards the role of social partners in the new EUBS scheme, since their involvement in the design and management of the national unemployment benefit schemes varies significantly from country to country. In some countries, they are directly involved in the design of schemes (AT, BE, BG, DE, FI, FR, LU, NL, PT SI25); in others, they have a moderate role in the design (PL, RO, SE, HR, SE, DK, EE, IT, LT, LV, SK); in some countries, they are heavily involved in the management (BE, DK, FI, SE); finally, in others, they are partially involved in the management (AT, EE, IT, FR, LT, LV, PT, RO).

The fourth challenge concerns the legal basis of a possible EUBS, in terms of payments, financing and the minimum requirements. On payments, according to art. 122 (2) TFEU, the EU can provide financial assistance to a MS which is in difficulty because of exceptional circumstances beyond its control. Therefore, an automatic stabilizer would not respect the condition of ‘exceptional circumstances of the EU intervention’. According to article 175 (3) TFEU, the Parliament and the Council can adopt specific actions outside the EU funds in order to strengthen the EU’s economic, territorial and social cohesion. Such action, however, should not undermine the restrictions set in other legislation. In the case of social policy, MS have the right to define their national social security system. Against this background, a possible legal solution for payments under a European Unemployment Benefit Scheme could be article 352(1) TFEU, also known as the ‘flexibility clause’, according to which if there is no sufficient legal basis but a political action is to be taken in order to achieve a priority objective identified in the Treaties, a special unanimity procedure can be activated, with unanimous agreement in Council and consensus in the European Parliament.

Moving to the legal aspect of how to finance the European Unemployment benefit fund, there are two options. First, a new budget line could be created (art. 314 TFEU), raising additional revenue for the equivalent EUBS (art. 352(1) TFEU). Second, a specific budget could be created outside the EU for the EUBS fund, with its own legal basis. Both options would be difficult politically, given Member States’ reluctance to increase the EU budget or to introduce another budget outside the mechanism of the Treaties.

Finally, as regards the possibility of introducing legally binding European minimum standards, several concerns emerge as to the feasibility of such a proposal. In particular, in a genuine EUBS, the implementation of such a mechanism would be very demanding in terms of harmonization of local, regional and national schemes. For instance, as regards the personal scope of a EUBS, should the coverage be mandatory or voluntary? Should it include the self-employed? As regards the level of benefits, what will be the replacement rate, the reference wage and the cap? How could the new scheme be harmonized with flat-rate benefits which do not depend on previous earnings (e.g. in Ireland, Malta, the UK and Poland)? Finally, how should the new EUBS interact with the other branches of national social protection systems?

25 Countries listed in brackets: See Annex 8 for the official country abbreviations.
All these challenges make the path towards the introduction of a European Unemployment Benefit Scheme politically and technically complex. The next subsection briefly presents the main proposals to emerge from the long-lasting debate on a European stabilization mechanism related to unemployment.

4.2 Brief history of the academic debate on a European Unemployment Benefit Scheme

The idea of a European Unemployment Benefit Scheme is certainly not an invention of the post-crisis debate. It was proposed in the mid-1970s, when the debate on a Monetary Union started and the idea of a fiscal capacity for the euro area was analyzed as an instrument of stabilization and redistribution. Scholars have identified at least three different waves of the debate on a possible European Unemployment Benefit Scheme (Schmid 2019; Strauss 2016; Vandenbroucke 2016).

The first wave appeared in the mid-1970s. A Community initiative relating to unemployment was called for in the Marjolin Report (1975), which proposed the creation of a Community unemployment insurance fund. This would be an independent administrative body, managed together with the social partners and financed by employers’ and employees’ contributions. The aim of such an instrument was fourfold (Marjolin et al. 1975). First, it would reduce structural and regional imbalances through transfers of income from areas with low structural unemployment to areas with high structural unemployment. Second, it would guarantee unemployed persons in the Community a common minimum level of benefits. Third, it would introduce immediate regional flexibility, making it possible to tackle changes in regional developments and in the standard of living. Fourth, it would give a visible expression to Community solidarity. Given the complexity of the different national unemployment schemes, the Marjolin report suggested a gradual approach. In the short term, the Community fund would pay each unemployed person a fixed Community allowance, with national governments free to adjust at their discretion contributions paid under their national systems. In a second stage, the Community fund would pay both a fixed amount and a percentage of the last wage received in employment. Finally, in the long-term, it would be necessary to establish a standard Community system, in which action in the field of unemployment allowances would be accompanied by activation policies. Despite the broad agreement of all the members of the Marjolin group, 15 persons from various European nationalities, the plan did not materialize due to a lack of political will, the unfavorable economic events and an overall lack of understanding of the meaning of a European Monetary Union and the conditions which must be fulfilled to realize it.²⁶

A second wave of the debate on a European Unemployment Benefit Scheme started at the end of the 1980s, when the creation of the European Monetary Union became a real project. At this time, however, the earlier arguments were revisited. Notably, the redistributive and solidarity function of the EUUBS received less and less attention and the EUUBS was presented mainly only as an automatic stabilizer (Schmid 2019). In this phase, Majocchi and Rey (1993) developed the idea of a ‘conjunctural convergence facility’ financed by a contingency fund from ad hoc contributions by MS.

²⁶ Other reports were published afterwards, echoing its proposal. The most important are the MacDougal Report (1977), the Padoa-Schioppa Report (1987) and the Emerson Report (1990)
The mechanism would be activated in a discretionary form and the assistance would consists of grants and loans up to 1% of GDP of the recipient MS. 25% of the maximum aid should be automatically available for the concerned MS in order to overcome the time-lag problems associated with discretionary action. In the same year, Italianer and Vanheukelen (1993) proposed to establish an automatic stabilization mechanism based on the national deviations in the annual change of unemployment rate from the EMU average. The system would consist of transfers (up to a maximum of 2% of a country’s GDP) to MS’ governments, which could then decide how to spend the funds. The maximum estimated cost of the mechanism would be 0.2% of the Community GDP.

Once again, neither of the two proposals received political support, for a variety of reasons (Dullien 2017). First, there was the belief that fiscal rules alone (e.g. the Stability and Growth Pact) were sufficient to prevent an economic crisis. Second was the idea that insurance through markets in the euro area could have worked well. Third, there was a general conviction that shocks could not be so large that self-insurance would not be sufficient. Fourth was the belief that if we had more cross-border migration we would not need a transfer system. Fifth was the idea that a European Unemployment Benefit Scheme would provide negligible stability.

The outbreak of the financial crisis in 2008/2009, however, soon revealed the weaknesses of the European Monetary Union. As a response, after almost twenty years of quasi ‘silence’ on the topic27, a third wave of studies on a European Unemployment Benefit Scheme emerged. In particular, it was the European Commission, first Social Affairs Commissioner Laszlo Andor and later Commission President Juncker, which launched the debate on the need for automatic stabilization mechanisms in the EMU. Again, several scholars were involved in the debate (Sutherland and Figari 2013; Depla 2012; Enderlein et al. 2013; Dullien 2012, 2013; Beblavý and Maselli 2014; Beblavý, Gros and Maselli 2015).

In this phase, the German economist Sebastian Dullien, building on his earlier works (2007, 2008), proposed one of the most comprehensive architectures of a genuine European Unemployment Benefit Scheme (2012, 2013), in which unemployment benefits are transferred directly to the unemployed individuals and contributions are collected from employers and employees (who contribute an equal share). As above, a genuine EUBS would function continuously and would replace part of the existing national unemployment benefit programmes, while maintaining the possibility for Member States to top up the EU minimum level of protection. This would require identification of a minimum common denominator of European unemployment benefits, and a minimum harmonization of several aspects of national unemployment benefit schemes: duration, replacement rate, eligibility and capping. With regard to this aspect, Dullien proposed to pay all unemployed persons at least 50 percent of their last wage for a period lasting 9 months, from the start of the 4th month up to the 12th month, and capped at 150% of the national average wage. The aim of Dullien’s proposal was twofold. First, it was intended to stabilize national economies by ensuring a high coverage rate of unemployed people receiving benefits in all Member States, thus creating additional demand during economic downturns. Second, it

27 A notable exception were the two papers published by Sebastian Dullien in 2007 and 2008. In them the author proposed an European unemployment insurance scheme aimed at stabilizing symmetric or asymmetric fluctuation in the EU, by direct transfers to the short-term unemployed.
was to help national citizens in the various countries identify with Europe as an effective and visible actor of their social protection.

At around the same time, the Centre for European Policy Studies was the main promoter of the idea of an equivalent European Unemployment Benefit Scheme, as a mechanism providing additional funding to national unemployment benefit schemes experiencing difficult times; the aim was to enable a more aggressive counter-cyclical policy (Beblavý and Maselli 2014; Beblavý, Gros and Maselli 2015). The idea behind this proposal is that social protection systems should remain in the hands of Member States, while the EU should intervene only to ensure the macroeconomic capacity of national insurance schemes. The aim would be to prevent downwards spirals that could spill over into the whole EU, due to MS’ economic interdependencies. In this model, assistance is not continuous. Rather, the MS need to agree on a trigger, i.e. an indicator, and a threshold, which activate the equivalent EUBS when the value of the indicator exceeds the level set by the scheme. Beblavý and Maselli proposed as indicator the country’s short-term unemployment rate in every quarter, while the threshold is the sum of the 10-year moving average of the country’s short-term unemployment rate plus a percentage (0.1%, 1%, 2%). The payout is not a subsidy for the unemployed person, but for the national budget, equivalent to the sum of all unemployment benefits for a six-month period and not subject to any condition. The scheme would be funded by Member States contributions (0.1% GDP quarterly until 0.5% of EU GDP is accumulated). Experience rating and claw-back mechanisms link the pay-in to the effective use of the scheme, in order to avoid permanent transfer and moral hazard.

Finally, German Member of the European Parliament Jacob von Weizsäcker and Spanish MEP Jonas Fernandez, with the technical assistance of Sebastian Duillen and Daniel Pérez del Prado, recently proposed an interesting variant EUBS, which is a mix of self-insurance and reinsurance schemes (Duillen et al. 2018). In this case, each Member State would pay a contribution per year (0.1% GDP) into a common European Fund. This would then be partially paid into a national compartment specifically for each country, and partially into a common ‘stormy day’ compartment. The first compartment would pay out to subsidise the increased unemployment benefits in Member States experiencing a rise in unemployment over a set of reference values (0.2% above the average). If a country is hit by a large and severe asymmetric shock (namely a 2% point rise in unemployment), it would receive additional payments from the stormy day fund as re-insurance. Moreover, the creation of such a hybrid mechanism would go hand in hand with a revision of the Stability and Growth Pact. In good times, the fiscal consolidation rules would become tighter, while in bad times the net payments out of the system would not be counted for the purpose of the SGP, so that these extra funds would ease the overall fiscal constraints on a country in shock. Different compartments would be allowed to run a deficit in order to enhance the stabilization effect, and would be required to make higher contributions once their economies recovered.

Despite detailed economic analyses and long-standing discussions, no significant political steps towards an automatic stabilizer have been taken since the Five Presidents’ report. Although the European Commission explicitly included a proposal for a European Unemployment Benefit Scheme in its reflection paper on the Deepening of the European Monetary Union, it was not included in the December 2017 Commission roadmap for the reform of the EMU.
Against this background, we present in the following sections the political debate on the idea of a EUBS, and attempt to trace the conflict dynamics that have hampered the implementation of such a measure so far. In so doing, we aim to understand whether there is scope for the emergence of new political coalitions supporting a variant of EUBS.

4.3 The post-crisis EU political debate on the idea of a European Unemployment Benefit Scheme

At the academic level, the debate on the possibility of establishing a European Unemployment Benefit Scheme started already in the 70s. It was the outbreak of the economic and social crisis in 2008, however, that brought the topic onto the political ‘menu’. In the first years of the crisis, however, the European Unemployment Benefit Scheme was not immediately on the European agenda. The Commission’s priority was to create Stability Bonds (Eurobonds, i.e. common sovereign bonds issued by the eurozone Member States). The Commission, in November 2011, published a Green paper with a view to launching a broad public consultation on the concept and the feasibility of common issuance of sovereign bonds by the countries of the euro area, and to discuss the required conditions. Two weeks after the launch of the proposal for the creation of Stability Bonds, however, the German government raised several concerns and persuaded the Commission to abandon the Eurobond proposal. It was at that point, as stressed by one of our interviewees, that ‘a plan B was needed, since plan A failed. The plan B was the creation of a European Unemployment Benefit Scheme’ (Interview Acad 1).

At that time, an informal conference was organized in the European Parliament in February 2012, in the presence of the Commission (DG EMPL and DG ECFIN), in which prominent economists were invited to discuss the feasibility of a European Unemployment Benefit Scheme. Jacques Delpla, Sebastian Dullien and Holly Sutherland were invited to take part in the debate (Interview EMPL 2). Other intellectuals were involved in a second stage, such as Mathias Dolls, René Repasi, Henrik Enderlein and Pisany Ferry (Interview Acad 1). Two interesting political aspects emerged. The first was disagreement within the Commission as to the possibility of establishing such an instrument. While DG EMPL showed an immediate commitment to pursuing the proposal, with the direct involvement of Laszlo Andor, Commissioner for Employment, Social Affairs and Inclusion (2009-2014), DG ECFIN and Olli Rehn, Commissioner for Economic and Monetary Affairs and the Euro (2010-2014) were sceptical as to the feasibility and political desirability of a EUBS. The second interesting political element was the strong support from the European Parliament to the idea of a EUBS scheme, in particular from MEPs Pervenche Beres (S&D, FR), Pablo Zalba Bidegain (EPP, ES), Alejandro Cercas (S&D, ES) and Marije Cornelissen (Green, NL).

The contrast between Commission DGs emerged blatantly before the publication of the Commission’s Communication ‘A blueprint for a deep and genuine economic and monetary union. Launching a European Debate’. Commissioner Rehn was officially in charge of the document and did not include the proposal for a EUBS in the initial draft proposal. In reaction, Commissioner Andor sent a formal letter to the President of the European Commission, José Manuel Barroso, asking for the inclusion of
the EUBS as one of the proposals for reforming the Eurozone. In the end, Barroso agreed to put the proposal for a EUBS on the agenda for a deep and genuine EMU, because of the imminent publication of the Four Presidents’ Report. A few days after the publication of the Blueprint in November 2012, the President of the European Council, Herman Van Rompuy, in close collaboration with Barroso, Jean-Claude Juncker, then President of the Eurogroup and Mario Draghi, President of the European Central Bank, presented a report ‘Towards a genuine economic and monetary union’. This document endorsed the idea of a European Unemployment Benefit Scheme as a macroeconomic stabilizer for shock absorption in case of crisis.

In July 2013, the European Parliament organized a public hearing on the idea of a European Unemployment Benefit Scheme, and in October it produced a motion for a Resolution in which it pleaded for a Green Paper on automatic stabilizers in the Eurozone and, in particular, for a EUBS scheme (European Parliament 2013)28. Within the Parliament, a centre-left majority, made up of MEPs from the S&D, Green and GUE groups, together with a minority of EPP and ALDE MEPs mainly coming from southern European countries, started supporting the idea of EUBS (Interview EMPL 2).

The favourable ‘holding environment’ around the idea of a European Unemployment Benefit Scheme between the end of 2012 and the beginning of 2013, however, soon began to show cracks. Within the European Council, President Van Rompuy was alone in supporting the idea of an EUBS scheme. The German government, together with the Netherlands and Finland, strongly criticized the idea of an EUBS. The newly elected French socialist President, François Hollande, soon made it clear that EUBS was not one of his priorities, while the Italian government, although Prime Minister Monti was in favour, was too weak to influence the EU agenda, due to the approaching elections (February 2013). According to one of our interviewees (Interview Acad 1), within the Commission itself, the head of President Barroso’s cabinet, Johannes Laitenberger, strongly opposed the idea of EUBS. Despite this complex net of interactions between multiple actors, Commissioner Andor received authorization from Barroso to present a new Commission document on the social dimension of the Economic and Monetary Union.

This document was published in October 2013 and reiterated the need for a European Unemployment Benefit Scheme as a common instrument for macroeconomic stabilization, similar to the US unemployment re-insurance system (European Commission 2013). The publication of the Communication was accompanied by a conference, organized by Commissioner Andor and the Bertelsmann Stiftung chairman and chief executive officer Aart Jan de Geus, on the Economic and Monetary Union: in this, the idea of EUBS was again presented as a necessary tool to strengthen the EMU and make it more resilient29. One month after the publication of the Communication, the European Parliament voted on its resolution on ‘Strengthening the social dimension of the Economic and Monetary Union’ (European Parliament 2013), again supporting the call for an EUBS, with the same centre-left majority.

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28 The Parliament also financed the CEPS study as a pilot project on the EUBS.
29 The new Italian Prime Minister Enrico Letta as well as ECB Board Member Yves Mersch also took part in this conference.
At this stage, after the Communication on the social dimension of the EMU, the next step should have been the publication of a Green paper to stimulate discussion on the European Unemployment Benefit Scheme, with a view to making a legislative proposal at a later stage. However, the approaching European elections in May 2014, the end of the Commission’s mandate and the lack of support from the Presidency of the Commission, prevented the Commission taking any further steps in the direction of an EUBS.

This said, the political debate on the EUBS did not end in May 2014. On the contrary, it continued afterwards, especially thanks to the commitment of the new Italian government, whose Finance Minister, Pier Carlo Padoan, publicly expressed his support for the creation of a EUBS. The Eurozone, it was said, needs better institutional mechanisms to deal with macroeconomic shocks, which in a monetary union tend to hit the labour market more than other fields, bringing falls in employment and wages. One way to make the Eurozone more resilient was to introduce a cyclical unemployment benefit scheme (Interview IT PARL 1). In September 2014, two months after the last EPSCO Council led by Andor, in which EPSCO ministers called – without success – for a Green paper on an EMU unemployment benefit scheme, Padoan proposed the idea of an EUBS for the Eurozone during the informal ECOFIN meeting held in Milan under the Italian Presidency of the Council (Interview IT PARL 1). The reaction of the other ministers, except for Slovakia, Slovenia and Greece, was negative. There was particularly strong opposition from the northern countries, who feared that an EUBS would have led to a permanent transfer scheme and would have required a change in the Treaty. The Dutch financial Ministry explicitly claimed that the EUBS was not a necessary tool to reform the Eurozone, as were, for example, completion of the Banking Union and the Capital Market Union. More unexpected was the position adopted by France, which neither opposed nor supported the proposal (Interview IT PARL 1). Only one month earlier, the French Ministries of Finance and Economy had published a briefing paper supporting the establishment of a common basic unemployment benefit scheme, to consolidate the Eurozone, improve macroeconomic and financial stabilization and move towards enhanced coordination of labour market policies.

Despite the first negative reactions, the Italian interest in a EUBS continued. In 2016, the Italian Ministry of Finance and Economic affairs issued a political note on a ‘European unemployment benefit scheme’. This called for an insurance mechanism that would make it possible to reduce negative spillovers in the event of future crises, by building a consistent aggregate fiscal stance at euro level and ensuring that countries under fiscal constraints do not need to cut national unemployment schemes. The scheme would be financed from resources usually spent on a variety of national benefits, which would be partly pooled in a common European fund. The funding would come from state contributions as well as contributions from employers and employees. (Italian Ministry of Finance and Economics 2016). Finally, in August 2016, the Italian Ministry of Finance and Economics prepared three documents which presented the proposal for a EUBS, together with clarifications on the most controversial issues (risk of permanent transfer, legal basis and financing) and simulations for the period 1999-2015.
There were two reasons behind the decision to keep on with the idea of an EUBS for the Eurozone. The first was related to the perceived increasing consensus among the Member States on the need for automatic stabilizers in the Eurozone. In 2015, the French socialist Emmanuel Macron and German SPD minister Sigmund Gabriel signed a joint manifesto in several leading European newspapers entitled ‘Europe cannot wait any longer’. In it, they called for a tool for automatic stabilization and a budget for the Eurozone, to be activated in times of crisis. The second reason was linked to the Commission activism on the reform of the Eurozone. As claimed by Padoan himself, ‘in 2016 the climate was moving to more favourable ground and one of the elements of this issue was exactly the European Unemployment Benefit Scheme (...) The Commission was taking significant steps towards more common fiscal instruments’ (Interview IT PARL 1). The idea of the Italian government, therefore, was that a proposal for a EUBS scheme could have been accepted as part of a broader package of reforms of the Eurozone.

Despite, however, Juncker’s overall active support of the need to reform the governance of the Eurozone, no clear commitment was expressed in favour of setting up a European Unemployment Benefit Scheme. Except for the ‘Reflection Paper on the Deepening of the Economic and Monetary Union’, in which the idea of a ‘reinsurance fund’ for national unemployment schemes was mentioned (European Commission 2017e), the Commission never pushed strongly for an EUBS scheme. Pierre Moscovici himself, the French Commissioner for Economic and Financial Affairs, Taxation and Customs, who was in charge of the EMU reform package, barely supported the idea of an EUBS, either when he was Finance minister in France, or in his new position in the Commission. At this stage, the overall consensus on reforming the Eurozone seemed to be more focused on other tools, such as a Eurozone budget and European Finance Minister, rather than a European Unemployment Benefit Scheme.

A slightly different position was adopted by the European Parliament. In the parliamentary report on budgetary capacity for the Eurozone, written by French socialist Pervenche Beres and German Christian democrat Reimer Bőge, and adopted in February 2017, MEPs called for ‘an insurance mechanism that would work as a rainy-day fund, where member states’ contributions and disbursement would be calculated on the basis of some cyclically-sensitive economic indicator, such as the unemployment levels’. Notably, the Parliament mentioned both an EMU-wide basic unemployment benefit scheme and a re-insurance system for national unemployment schemes (European Parliament 2017).

In this period, for the first time, the idea of the EUBS was also discussed among the trade unions. During the Barroso Commission, in fact, the ETUC did not take an official position in the debate. When, in January 2013, Commissioner Laszlo Andor delivered a speech at the ETUC high-level conference ‘Celebrating the past, looking to the future’ in Madrid and relaunched the idea of a EUBS scheme, the reaction of the trade unions was lukewarm (Interview ETUC 2). The ETUC could not easily find common ground on this matter, to satisfy the different views of their members. There were two main reasons for the trade unions’ reluctance to get involved in this debate. On the one hand, some affiliates (especially in Scandinavian countries) felt that a EUBS would have undermined their involvement in the design and management of national unemployment benefit schemes, thus
weakening the relationship between unions and workers (Interview ETUC 1). On the other hand, many trade unions, especially in creditor countries (the German DGB in primis), were unwilling to support a scheme whereby their members would be seen as financing structurally higher unemployment in countries in the periphery of Europe (Interview ETUC 2). However, over the years the resistance of the ETUC progressively softened. At the end of 2016, the European Trade Union Institute organized the first debate on an EUBS. At that time, despite persisting reluctance from some national affiliates, the topic was no longer a taboo, especially thanks to the re-positioning of the German DGB. In particular, trade unions showed an increasing sympathy for an equivalent EUBS. However, this internal opening-up to the idea of EUBS was not reflected in an official position paper of the ETUC nor in a public endorsement of Padoan’s proposal.

Having said this, the failure of the Italian proposal, together with the Commission’s lack of ambition on the topic, again seemed to take the EUBS off the European agenda. Recently, however, France has again been speaking out in favour of a central fiscal capacity, a permanent, full-grown euro area budget as well as a common unemployment benefit scheme (French Ministry of Economy and Finance 2017). Similarly, the German Finance Minister Olaf Scholz has been calling for a Europe-wide unemployment benefit scheme: a ‘solidarity-based’ reinsurance fund, from which a euro area Member State could borrow when facing an economic crisis that leads to massive job losses (Scholz 2018). In June 2018, both countries signed the ‘Meseberg Declaration’ on ‘Renewing Europe’s promises of security and prosperity’ in which their leaders undertook to ‘examine the issue of a European Unemployment Stabilization Fund, for the case of severe economic crises, without transfers’ (Franco-German declaration 2018). The Fund’s function would be to stabilize the ‘social safety in the Eurozone’. The national unemployment benefit schemes need to be balanced over the cycle and to build up reserves in good times. In case of a severe economic crisis and job losses, the Fund would lend money to national social security systems (French- German roadmap for the Euro Area; The Ministerial agreement 2018).

Following the Meseberg Declaration, the French-German proposal was supposed to be discussed in the ECOFIN Council and in the Eurogroup meetings in December 2018. However, again, no formal proposal was made. As the President of the Eurogroup, Mario Centeno, explained after the Eurogroup meeting, there was ‘no common view on the need and design’ of a stabilization function, including the unemployment benefit scheme, ‘but technical discussions continue’ (Council of the EU 2018).

4.4 Conclusions

If we look at the ongoing debate on the possibility of creating an automatic stabilizer for the Eurozone, it seems, again, that the mountain will bring forth a mouse. Despite so much promise expressed during the post-crisis academic and political debate on a European Unemployment Benefit Scheme, little (if anything) will be delivered. Even the recent proposal for a European Investment Stabilization Function (see Annex 5) has encountered many obstacles: this is something different from the idea of European Unemployment Benefit Scheme, although both mechanisms share the same

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30 Trade unions reject any idea of a genuine EUBS.
Integrating the European Pillar of social rights into the roadmap for deepening Europe's Economic and Monetary Union

activation trigger (short-term unemployment rate change) and are aimed at bringing a stabilization effect.

Despite all these difficulties, however, the idea of setting up an EUBS is still in the European debate. This gives us hope that a compromise can be found, either in the short or in the long run, and tells us that the problems stem from the kind of EUBS that is proposed rather than from the idea of a EUBS scheme as such. Moreover, despite the lack of a political agreement, it is clear to most stakeholders and policy makers that the Eurozone, as it is nowadays, will not survive the next crisis unless a real common fiscal capacity is put forward. In this regard, as argued above, a European Unemployment Benefit Scheme is the only mechanism that, while promoting macroeconomic stabilization, is also addressing a social need. It alleviates the pain of unemployed people by providing them with income security and, at the same time, demonstrates European solidarity in a visible and tangible way. In this regard, and especially in light of the deep legitimacy crisis affecting the European Union, we believe that a EUBS, which acts both as a macroeconomic stabilizer and a social protection scheme, could be economically and politically the right response at the right time. Recent research by Vandenbroucke et al. (2018) shows that the majority of the EU population is in favour of an EUBS. Respondents generally prefer policy designs that are more generous, that require participating countries to offer education and training opportunities, that do not lead to tax increases, and that attach conditions to the unemployment benefit.

Against this background, we recommend that a new discussion be launched on the European Unemployment Benefit Scheme. In the short-term, we think that such a discussion could start from the latest proposal by MEP’s von Weizsäcker and Fernandez (cf. Dullien et al. 2018). We consider it the right compromise between all the schemes put forward so far and – politically and technically speaking – a feasible solution in the short term. Moreover, and most important, this proposal grasps the social rationale of a common unemployment initiative at the EU level: the need for solidarity among Member States. As stressed by Jacob von Weizsäcker and Jonas Fernandez: ‘Of course, it is possible to have a currency union without solidarity. But that would be akin to building a car without a suspension and with seats made out of steel. It would be possible but very uncomfortable since all the shock absorption would have to be done by the passengers’ spines’. However, in the long-term, we could imagine an even more ambitious proposal that not only re-insures national unemployment benefit schemes, but also links the income support to active measures to help people back into work, as recently proposed by South-West German Professor Günther Schmid (2019).

5. Reconciling the economic and social dimension of the E(M)U: towards a Social Imbalances Procedure

This section sketches the main elements and limitations of a possible Social Imbalances procedure (SImP), intended as a way to balance the economic and social dimensions of the euro-area and of the EU as a whole. Before doing so, we first provide an overview of the Macroeconomic imbalances procedure (MIP) – since the latter could provide a model for setting up the SImP – and we contrast it to the present tools for monitoring the social situation and trends in the EU.
5.1 The macroeconomic imbalances procedure

In Autumn 2011, in a context characterised by the financial and economic crisis, a Macroeconomic imbalance procedure was set up through the so-called Six Pack. The goal of the new procedure was to set out detailed rules for the detection, prevention and correction of excessive macroeconomic imbalances within the EU. According to art. 2.1 of Regulation 1176/2011, ‘imbalances’ means ‘any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential adversely to affect, the proper functioning of the economy of a Member State or of the economic and monetary union, or of the Union as a whole’. Such imbalances are deemed ‘excessive’ when they jeopardise or risk jeopardising the proper functioning of the economic and monetary union (Regulation 1176/2011, art. 2.2). Overall, the purpose of the MIP is to identify the ‘unsustainable trends’ in the macroeconomic performance of each MS (except those under an adjustment financial-assistance programme), with the aim to prevent and, if needs be, correct the potential negative economic and financial spill-over effects (negative externalities) which make the Union economy more vulnerable and are a threat to the smooth functioning of the EMU.

The MIP’s annual cycle starts with the Alert Mechanism Report (AMR), which is released as an annex to the Annual Growth Survey in the so-called European Semester Autumn Package. The aim of the AMR is to preserve accountability in the interpretation of the economic developments by policy-makers and commentators, by signalling when a value is worrisome. In so doing, the AMR uses a set of indicators as a tool to facilitate early identification and monitoring of imbalances that emerge in the short term or that arise due to structural and long-term trends. The current Scoreboard is made up of 14 headline indicators covering the most relevant points in relation to macroeconomic imbalances, competitiveness, and adjustment issues. In addition to these 14 indicators, there are 25 auxiliary indicators providing additional information, which are not linked to any threshold.

The set of indicators functions as an early warning mechanism: the ‘crossing of one or more indicative thresholds does not necessarily imply that macroeconomic imbalances are emerging’ (Recital 14, Reg. 1176/2011). This is important because it means that the MIP is not an ‘automatic’ procedure, also because the indicators used to monitor the macroeconomic performance of the MS are backward-looking, i.e. they refer to the economic reality of the years before issuance of the AMR (Gros and Giovannini 2014).

On the basis of the AMR, the Commission, after having discussed with the Council and the Eurogroup (Art. 3.5 Reg. 1176/2011), identifies the Member States for which an In-Depth Review (IDR) is needed to determine whether there are indeed imbalances which might develop into unsustainable trends. From 2015 the IDR has been included in the so-called Country Reports. These are the country specific documents, part of the so-called Winter Package released by the Commission every February, after informal consultation with each Member State, and following a formal hearing with the European Parliament and the European Central Bank. The Country Reports are important documents of the Semester because here the Commission argues to what extent a MS presents problems and has acted to tackle the imbalances identified in the previous Semester cycles. Moreover, it is in the CRs that the Commission takes a decision on the level of imbalances of each MS. Since 2016, there have been four levels: no imbalances, imbalances, excessive imbalances which require
monitoring and finally excessive imbalances which require the opening of the Excessive Imbalance Procedure (EIP).

At this stage, Member States are expected to prepare a reaction to the Country Report by publishing their National Reform Programmes (NRP) and Stability (Euro area) or Convergence (non-Euro area) Programmes. In the NRP, Member States explain how they addressed previous years’ Country-specific Recommendations and how they intend to address the challenges identified in the IDRs. In the Stability or Convergence programmes, Member States must include the country’s medium-term budgetary objective, and information as to how this will be achieved. Stability or convergence programmes also contain an analysis of the effects of changes in the main underlying economic assumptions on the country’s fiscal position.

Based on the analysis in the NRPs, in May the Commission proposes Recommendations to the Council for the countries with imbalances.

Simple imbalances trigger the so-called preventive arm of the MIP, when the recommendations are included in the CSRs. The proposed MIP CSRs are analysed in the Council committees (see below), notably in the Economic Policy Committee (EPC) and the Economic and Financial Committee (EFC). To amend the CSRs proposed by the Commission there is a formal procedure based on the ‘comply or explain’ rule. According to this rule, the Council is expected to follow the recommendations and proposals of the Commission or explain its position publicly. An amendment to the Commission’s text requires the support of a reinforced qualified majority in the Council, of at least 72% of the members of the Council, representing at least 65% of the population of these states. Officially, only the ministers can vote, but in practice, indicative votes are held already in the Council advisory committees (EPC, EMCO and the SPC). After the vote in the EPSCO and the ECOFIN, the CSRs are politically endorsed by the European Council in June. Finally, the ECOFIN Council is invited to formally adopt the texts in July. At this point, the MS concerned is expected to pursue the reforms indicated in the MIP recommendations, while the Commission is in charge of monitoring their implementation.

On the other hand, if the Commission considers that a MS is experiencing an excessive imbalance with the risk of negative spillover, and for which monitoring is not sufficient as an enforcement tool, it does not just propose MIP CSRs, but it can also suggest to the ECOFIN, according to Regulation 1176/2011, the activation of an Excessive Imbalance Procedure. The EIP is an enhanced surveillance mechanism, part of the so-called MIP corrective arm, whose aim is to ensure compliance with the macroeconomic imbalance procedure that can be activated only for countries identified with excessive imbalances. In this case, the Council, after consultation with the EFC (see below), may adopt by qualified majority vote, under the ‘comply or explain’ rule, a recommendation establishing the existence of an excessive imbalance and indicating the reforms to be taken to correct it.

A MS subject to the EIP must submit a Corrective Action Plan (CAP) to the ECOFIN setting out details of its policies designed to implement the Council’s recommendations. The CAP should include a timetable for implementing the measures envisaged. After a MS submits its CAP, it is the Council
that, on the basis of the Commission’s report, decides whether it is sufficient. In this case, if, upon a Commission recommendation, the Council considers the CAP sufficient, it ‘shall endorse the plan by way of recommendation listing the specific actions required and the deadlines for taking them and shall establish a timetable for surveillance’. The Commission is then in charge of monitoring the implementation of the CAP and producing a public report for each MS concerned. On the basis of this report, the Council assesses whether this country has taken the recommended corrective action.

However, if the CAP is not deemed sufficient, the MS gets a second chance. If it refuses to submit a second CAP or again the proposed CAP is insufficient, then the Commission can suggest a fine of up to 0.1% of its GDP to Council (this applies to the eurozone countries only). At this point, if the Council does not react, it means that it automatically accepts the Commission’s proposal. Otherwise, the Council can, by qualified majority (only Eurozone MS vote), reject or amend the recommendation within 10 days of its adoption by the Commission (Art. 3.3 Reg. 1174/2011). According to Art. 5.1 Reg. 1174/2011, the fines are assigned to the European Stability Mechanism.

5.2 Monitoring the social situation and trends in the EU

According to some observers (Zeitlin and Vanhercke 2018), the European Semester is an increasingly ‘evidence-based’ process in which actors have to justify their positions on the basis of solid evidence and data. This is a pre-condition which must be met in order to have an impact on the process. Against this backdrop, since 2010 a number of scoreboards have been elaborated by EU social actors (notably, DG EMPL, the EMCO and the SPC) in order to monitor the social situations and trends in the MS.

First, in 2010, the EMCO and the SPC developed a Europe 2020 Joint Assessment Framework (JAF) aimed at monitoring and assessing the implementation of national reforms under the Semester (Zeitlin and Vanhercke 2018). More specifically, the JAF covers the areas included in the Employment Guidelines, plus, since 2013, healthcare. The results of the JAF thus feed into the Employment and Social Protection Performance Monitors (EPM/ SPPM), including visual representation of MS’ performances against a set of indicators.

Second, in 2013, six auxiliary indicators concerning social and employment policies were added to the MIP scoreboard, with the aim to increase the visibility of social issues and to address/prevent the creation of social imbalances that could have affected the stability of the Eurozone. These are: i) unemployment rate, ii) youth unemployment rate, iii) the NEET rate, iv) gross household disposable income, v) at risk-of-poverty rate, and vi) an inequality indicator. Thereafter, in September 2015, the newly appointed Commission presented a proposal to include certain social and employment headline indicators in the MIP scoreboard, ‘with the aim of better reflecting employment and social developments’ (European Commission, 2015b) and better capturing new understanding of the social consequences of imbalances. To this end, the activity rate (% of population aged 15-64, change over 3 years), long-term unemployment (% of population aged 15-74, change over 3 years) and youth unemployment (% of population aged 15-24, change over 3 years) were added to the MIP headline indicators.
Third, in 2017, the Social Scoreboard related to the EPSR was elaborated. The Social Scoreboard is made up of 14 headline indicators and 21 secondary indicators, divided into 12 areas in which societal progress can be measured. While the decision to set up a Scoreboard linked to the EPSR should be welcomed, some shortcomings can be detected (Sabato and Corti 2018). In particular, first, the Scoreboard does not cover all the principles and rights of the Pillar. Second, it overlaps with the existing sets of social indicators used at European level, namely the indicators used for the Europe 2020 strategy, the Employment Performance Monitor, the Social Protection Performance Monitor and the headline/auxiliary social indicators in the MIP. This said, the fact that under pressure from the Commission President’s Cabinet and the Secretariat General - most of the Social Scoreboards’ headline indicators were immediately used in the Draft Joint Employment report 2018 probably implies that, as far as employment and social policies are concerned, the EPSR scoreboard has, at least for the Commission, priority over other social scoreboards. This said, the coexistence of different social scoreboards might be seen as problematic if compared to the unique sets of indicators of both the MIP and the EDP.

5.2.1 Two options to address social imbalances

Over the years, after the setting up of the MIP, it became clear that the asymmetry between the monitoring of social and employment trends and surveillance of macroeconomic developments was problematic. This is true for at least for three reasons. First, there is the de facto subordination of the social to the economic dimension of the E(M)U, with the consequence that fiscal consolidation could have been accompanied by a deterioration in social standards. Second, there is the risk that a deterioration of social standards and increase in social inequalities could have led to negative spill-over effects on the fiscal stability of the country, then affecting the stability of the whole E(M)U. Third, such developments can result in distrust and a consequent loss of credibility for the European project.

Against this background, two main positions emerge in response to the asymmetry between the social and the economic dimensions of the European Semester. One approach is to further integrate social and employment indicators in the Macroeconomic Imbalance Procedure, to increase the prominence of the former and address social imbalances that might undermine the stability of the E(M)U. On the other hand, a parallel monitoring system could be created for the detection and correction of social imbalances within the E(M)U. The former position has been the one adopted by the Commission, and reinforcing the role of social indicators in the MIP would probably be the most politically viable way forward. In this case, the social consequences of macro-economic choices should be better covered in the documents related to the MIP.

There are, however, two further considerations linked to this choice to reinforce the role of social indicators in the MIP. First, these indicators do not cover all the aspects of social policies included in the Semester and in the EPSR: new indicators would be needed, but this could overstretch the MIP Scoreboard. Second, there is a risk, if one merely includes a number of social indicators in a procedure whose primary aim is to detect and correct macroeconomic imbalances, that the social indicators are not duly considered and that social policies continue to be subordinated to the
achievement of macro-economic and fiscal objectives. This can lead to a situation in which social policies are used as adjustment factors to achieve these objectives (as happened during the first years of the crisis). For these reasons, in the following Section we explore the possibility of establishing a specific ‘Social Imbalances Procedure’ (SImP). As we will explain below, while being independent from the MIP, this new procedure should be in any case connected with EU and national macro-economic and budgetary policies.
5.3 Towards a Social Imbalances procedure

5.3.1 Defining social imbalances and defining the scope of the Social Imbalances procedure

The first challenge in setting up the SImP would be to define a social imbalance. A good starting point is the definition proposed by Vandenbroucke et al. (2013:5), i.e. excessive social imbalances as ‘[a] set of social problems that affect member states very differently (thus creating “imbalances”) but should be a matter of common concern for all Eurozone members’ insofar as they have negative spillover effects. Examples provided by the authors are youth unemployment and child poverty. This said, this definition, with its focus on the notion of spillover among Member States and on the eurozone, appears rather narrow. It does not consider adequately the economic, social and political effects that a deteriorated social situation has within the Member States, and then the implications for social cohesion within the countries. Furthermore, following Vandenbroucke et al. (2013), the term ‘social imbalances’ would only refer to a limited set of specific social problems, those likely to have spillover effects.

In this report, we use a broader definition of social imbalances, which does not take account of their possible spillover effect. In our understanding, social imbalances are primarily social problems that, given their social, economic, and political implications, threaten social cohesion within a Member State. Consequently, instead of adopting a ‘functionalist’ approach, we adopt a rights-based one (in line with the rationale of the EPSR), by referring to policy areas defined as rights in the EPSR and in other EU and international Declarations of Rights. Thus, to start with, one should consider the rights to live a life in dignity and to have a decent job. Consequently, the phenomena to be considered in the SImP would be high rates of unemployment and of poverty or social exclusion. Other policy domains which could be included in the definition of social imbalances are education and healthcare. Education, firstly, is fundamental to raising the quality of human capital, thus increasing employment opportunities and preventing unemployment and poverty. Second, and equally importantly, education has a function of forming citizens, thus having a beneficial effect on the functioning of democratic systems. As for healthcare, access to quality healthcare services has a clear fundamental role for citizens’ well-being. Another area of intervention of a possible SImP would be housing exclusion. Importantly, rights concerning housing, healthcare and education are included in the Universal Declaration of Human Rights (art. 25 and 26), in the Charter of Fundamental rights of the European Union (art. 14, 34, and 35), and in the European Pillar of Social Rights (principles 1, 16, and 19). The promotion of good health and well-being and access to quality education are also included in the United Nations’ Sustainable development goals (no. 3 and 4).

Of course, phenomena such as poverty and social exclusion and unemployment are multi-dimensional, with multiple causes. Thus, it would be unrealistic for the EU to intervene in all the aspects related to them. A choice is needed, concerning the division of tasks in the domain of social policies between the EU and the MS. Our proposal is that the EU should intervene, in addition to and
facilitating MSs’ efforts, in policy initiatives more strictly linked to the notion of social investment. Indeed, on the one hand, social investment is a notion sufficiently shared at the EU level and pushed by the European Commission (Ferrera 2015a), as shown by the adoption of the Social Investment Package in 2013. On the other hand, social investment is a key orientation of the EPSR. At least 8 rights and principles of the Pillar are directly linked to the notion of social investment (Principles 1, 2, 4, 9, 11, 17, 18, and 19), while the principles more directly linked to social protection also contain elements of social investment. This is, for instance, the case of the principles on unemployment benefits (principle 13) and of minimum income, with their focus on promoting reinsertion in the labour market, activation and access to enabling services, but it is also true of the principle concerning healthcare (Baeten et al. 2018).

Having defined the broad areas of intervention of a possible SImP, in the next section we will focus on its governance procedures, and look at national and EU actions in this context.

5.3.2 The Social Imbalances procedure: governance arrangements

Step 1. Identifying and understanding social imbalances

The first step of the SImP should be to identify the countries experiencing excessive social imbalances and the policy areas affected by these imbalances. For poverty and social exclusion and unemployment, solid indicators exist at the EU level and are included in the Social Scoreboard of the EPSR. Similarly, indicators linked to education and healthcare are present in the Pillar Scoreboard – early leavers from education and training and self-reported unmet need for medical care- though these appear rather narrow and should be enhanced in order to fully cover issues related to the quality, access and affordability of the healthcare and educational systems. Finally, there are no housing exclusion indicators among the Social Scoreboard’s headline indicators. In any case, although the Social Scoreboard has some limitations (see below), it is used as a basis for the annual Joint Employment reports (JER) published by the Commission and the Council. In that document, the situations in the MS in relation to a number of social policy issues (including those potentially covered by the SIMP) are assessed, distinguishing between ‘best performers’, ‘better than average’, ‘on average’, ‘good but to monitor’, ‘weak but improving’, ‘to watch’, and ‘critical situations’. Our proposal is that, based on the JER, the SImP would be limited to those countries experiencing critical situations in one or more of the five macro-areas identified in Section 5.2.1. Using this criterion and drawing from the Joint Employment report 2019 (European Commission 2018a), seven countries would potentially be eligible for a SImP (see Table 1).

Table 1. Countries potentially concerned by a SImP in 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>Critical situations</th>
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</thead>
<tbody>
<tr>
<td>Spain</td>
<td>- Early leavers from education and training</td>
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</table>

31 This said, we are fully aware that social investment is not a substitute for social spending and that, without strong social protection and redistributive systems, it would not be sufficient (Cantillon 2019; Vandenbroucke 2018). Yet, in our view, EU social-investment-oriented initiatives should complement social protection systems set up at the national level.
<table>
<thead>
<tr>
<th>Country</th>
<th>Issue</th>
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<tbody>
<tr>
<td>Romania</td>
<td>Early leavers from education and training</td>
</tr>
<tr>
<td>Greece</td>
<td>At risk of poverty or social exclusion rate</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>At risk of poverty or social exclusion rate</td>
</tr>
<tr>
<td>Italy</td>
<td>Early leavers from education and training</td>
</tr>
<tr>
<td>Latvia</td>
<td>Self-reported need for medical care</td>
</tr>
<tr>
<td>Lithuania</td>
<td>At risk of poverty or social exclusion rate</td>
</tr>
</tbody>
</table>

*Source: authors’ elaboration on European Commission (2018a: 21)*

Once the excessive social imbalances have been identified (i.e. after the publication of the JER), there would be two possible ways of opening a SIMP. First, the Commission could invite a MS to apply. Second, the MS concerned could submit a request to the European Commission to open a SIMP. In other words, unlike the MIP – an exclusively top-down process – the SIMP could also have a bottom-up element.

After the request, the next stage of the procedure should be to identify the main reasons behind the poor outcomes in the areas concerned. The Semester’s Country reports could be a good analytical basis for this exercise, even though more in-depth analysis may be needed. For instance, an in-depth review could be carried out, similar to that used in the MIP (attached to the Country Reports).

**Step 2. Defining interventions**

Once a MS applies for the SIMP, and after an in-depth analysis of the causes of the critical (social) situation at stake has been performed, the second step of the SIMP should be to define the actions needed in order to improve those situations: a Multi-annual national Action Plan (MAP) should be drafted, jointly by the national governments (who will hold the pen) and the European Commission. The Commission’s country desks and the Structural Reform Support Service should be involved in this exercise on the Commission side (see Section 3). As for the MS, in order to facilitate the implementation of the initiatives/reforms included in the plan, they should involve social partners and other stakeholders active in the area(s) covered by the SIMP in the elaboration of the MAP.

In drawing up the MAP, a delicate balance should be reached between the national government’s preferences, and the consistency of the initiatives proposed by national governments with the policy orientations defined at the EU level. Indeed, the MAP should contain: a) a list of initiatives/reforms to be implemented by the MS in the years to come (at least a three-year time span); and b) EU actions to support the implementation of those initiatives. Possible intervention of the EU should therefore be conditional on the respect of the social policy principles and orientations defined at the EU level through processes such as the Social OMC, the European Employment Strategy and the European

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32 The MAP has some similarities with the notion of ‘contractual arrangements’ between EU institutions and the Member States discussed at the EU level a few years ago (cf. Vandenbroucke with Vanherecke 2014; Ferrera 2015b).
Semester, and then further elaborated in policy documents such as the 2013 Social Investment Package\textsuperscript{33}.

When defining the initiatives to be included in the multi-annual plan, importantly (and in order to be credible), the MAP should also include an assessment of how macroeconomic and fiscal policies can help to achieve the social objectives identified, as well as indications of the available budgetary scope.

Various kinds of support can be provided by the EU, including:

a) \textit{Technical assistance} in defining the contents of the reforms needed (through the Structural Reform Support Service and the Commission country desks) and activation of the ‘learning instruments’ available at the EU level, including, for instance, various kinds of peer reviews.

b) \textit{Targeted financial support}. In this respect, first, the main instruments would be the ESI funds, in particular the new European Social Fund + and the EFRD: a set amount of their resources could be concentrated on the priorities and initiatives defined in the MAP and, in implementing initiatives foreseen in those documents, the co-financing rate of the ESI funds could be increased. Additionally, it would be important to use the EU funds earmarked for social innovation under the EaSI programme, in order to experiment, on a small scale, reforms in the policy domains concerned before up-scaling them to the national/regional level. Second, financial support could be also provided through the newly proposed Reform Support Programme. Third, a reinforced European Fund for Strategic Investment and the proposed Social Investment and Skills window could be used to enhance social investments in the MS under the SImP, in particular investment in social infrastructure. Furthermore, for the countries of the euro-zone, further resources could be provided from a possible euro-zone budget, if the latter included a quota for social policies (see Section 3).

c) Besides direct EU financial interventions, the so-called \textit{silver rule} could be applied (i.e. some social-investment related expenditure could be excluded from the calculation of the national deficit). This would facilitate the MS’s initiatives in the policy areas covered by the SImP. The latter option would be particularly important for the euro-zone countries, subject to particularly stringent budget requirements.

As already mentioned above, EU financial support should not concern financial transfers such as unemployment or minimum income benefits. Rather, it should be focussed on the implementation of policy initiatives more directly related to social investment, such as, for instance, activation measures and social infrastructure. Taking the form of technical assistance and direct or indirect financial support, the SImP – unlike the MIP – should be predicated on an incentive-based rather than a punitive logic.

If no agreement on the MAP is reached between the Commission and the MS, the SImP is closed and the MS would agree to do without extra support offered by the EU. Conversely, if agreement is reached, the MAP will be presented to the European Council which will assign a budgetary scope for implementation of the initiatives of the SImP.

\textsuperscript{33} Just to provide a few examples, minimum income initiatives should follow the principles of the 2008 Recommendation on the Active inclusion of people excluded from the labour market and of the Social Investment Package. Initiatives targeted at young people should follow the principles of the Youth Guarantee and include actions included there.
reached on the initiatives and reforms to be undertaken, the MAP should be scrutinised by the Council. In particular, it should be discussed and possibly amended by the relevant Council Committees and then approved, with a qualified majority, by the EPSCO and ECOFIN Council formations. The former Council formation should have the last word in the approval of the document. To ensure the involvement of stakeholders, the EESC and the Committee of the Regions should be asked to draft an Opinion on the MAP as agreed between the Commission and the MS, before it is discussed by the EPSCO and the ECOFIN.

Step 3. Monitoring system

In order to avoid excessive reporting and monitoring procedures, monitoring of the SImP should be conducted through the documents already produced in the framework of the European Semester. In particular, the Member States should report on progress in the initiatives/reforms identified in the MAP in a specific Annex to their NRPs, and the Commission should annually monitor the situation in the Country Reports and recommend further action through the CSRs.

This said, consistency should be ensured between the actions foreseen in the MAPs and the macro-economic and fiscal initiatives. Consequently, on the one hand, the Member States should explain, in a specific section of their Stability or Convergence programmes, how fiscal policies will facilitate the implementation of the initiatives/reforms foreseen in the MAP. On the other hand, the European Commission should explain, in a specific section of the Country Reports, the consistency between actions recommended in the macro-economic and budgetary domains and the possibility of implementing the initiatives/reforms contained in the MAPs (especially for countries subject to a MIP or an EDP).

Finally, every year, the European Commission should assess if and to what extent the MS is complying with the actions foreseen in the MAP. In case of serious and repeated non-compliances, and after asking the MS to urgently implement corrective actions, the Commission can autonomously decide to close the SImP. In this case, increased support from the Structural funds, exemptions deriving from a possible silver rule or extra support from the EMU budget (if set up) would be terminated.

Table 2. Key components of the SImP

<table>
<thead>
<tr>
<th>Step</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identifying and understanding social imbalances</td>
<td>EPSR Scoreboard – Joint Employment Report Country reports</td>
</tr>
<tr>
<td>2. Defining interventions</td>
<td>MAPs</td>
</tr>
<tr>
<td>3. Monitoring</td>
<td>Semester documents (Country Reports etc.)</td>
</tr>
</tbody>
</table>

5.4 A ‘Social Imbalances Framework’ as an intermediate step?
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Establishing a Social Imbalances procedure would mean overcoming a number of technical, political and legal obstacles.

The first obstacle to setting up a SImP would be of a technical nature. As mentioned in Section 5.1.2, not all the Social Scoreboard’s headline indicators in the 5 policy areas included in the SImP are comprehensive enough to properly describe the relevant phenomena (e.g. education and healthcare), and there are no headline indicators concerning housing. In Annex 6, we identify alternative healthcare and education indicators used in the various social scoreboards available at the EU level. Other potentially relevant indicators are contained in the dataset used to monitor the implementation of the Sustainable Development Goals. More in general, the Scoreboard – that currently looks only at yearly changes - should be complemented with longer term trends, like in the EPM and SPPM. Finally, data in the Scoreboard should go beyond general population figures, which may conceal diverging trends between population subgroups.

Second, politically-speaking, a procedure attributing more EU resources to some Member States would require an enhanced sense of solidarity between the MS and the political will to redefine national and EU competences and responsibilities in the domain of social policies, thus making a step forward in the integration process. However, in the current context, a political appeal for more solidarity and ‘more Europe’ is at least questionable. Furthermore, the setting up of a SImP would entail rethinking the role and function of economic, fiscal and social policies. During the crisis, the emphasis was on fiscal consolidation, with a view to relaunching growth and competitiveness. In such a context, social policies have often been considered as adjustment factors, helping to achieve the two key, economic objectives. The setting up of a SImP would require a reversal of this understanding, putting citizens’ social well-being at the centre and using macro-economic and fiscal policies as means to achieve such an objective. In other words, the order of priority between the sometimes-competing objectives of high-levels of growth and competitiveness, high social (and, possibly, environmental) standards should be rethought (cf. Vanhercke et al. 2018). If this is not done, a SImP could paradoxically be counterproductive, increasing the risk of a further subordination of social objectives to economic goals.

One political argument against a SImP could be the lack of democratic legitimacy of social policy decision-making at the EU level. This is often based on soft governance instruments that give a predominant role to technocratic institutions such as the Commission, without the involvement of the European Parliament. Consequently, the obligation for the Member States to follow EU orientations in defining actions/reforms in their MAPs could be challenged. However, in order to attenuate this risk, in our proposal, first, the MAP should be discussed with a vast array of national stakeholders and, second, a MS could withdraw from the SImP at any moment.

In addition to this, increasing EU competences in the domain of social policies would have important legal consequences. First, under the principle of subsidiarity, the bulk of competences for social policies are attributed to the MS. However, as explained in Section 2, the process of European integration, and in particular the EU macro-economic and fiscal policy reforms undertaken at the beginning of the crisis, have made it more difficult for MS to define social policy measures, especially
for the eurozone countries. As Maurizio Ferrera (2015b: 2) points out, with the establishment of the EMU the Union has made an unprecedented quantum leap as a political entity: ‘[i]t has acquired novel properties which operate at the systemic level and make it increasingly difficult to separate out what is determined by (and at) the national level and by/at the EMU level’. In order to take these developments into account, the principle of subsidiarity should be revised, allowing for an enhanced role of the EU in social policies.

Second, combating social exclusion, promoting social justice, social protection and social cohesion are among the objectives of the EU. Furthermore, the ‘horizontal social clause’ (Article 9, TFEU) states that ‘[i]n defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health’. This said, it is well known that the instruments available at the EU level in order to directly implement these provisions are limited. Against this background, giving a possible SImP the same status as the economic and budgetary procedures would require the enactment of EU regulation (as was the case for the MIP) or a Treaty change (the EDP, for instance, is a Treaty-based procedure).

Enacting new legislation on a possible SImP, or changing the Treaties, is a matter of political will, and the extent to which this would be possible in the short term is at least questionable. This considered, it would be possible to establish a softer version of a SImP than the one sketched above: a Social Imbalances Framework (SImF), defining guidelines on how to intervene in the event of social imbalances in the Member States. Such a framework would follow the steps described in Section 5.2, however, it would exclusively rely on political commitment. After all, the EPSR is not a legally binding document but, rather, a political framework whose implementation mainly relies on the willingness of EU institutions and of the MS. The Inter-institutional Proclamation of the Pillar should ensure a minimum level of political commitment in order to allow more incisive EU intervention in supporting Member States experiencing imbalances in key areas of the Pillar, even without a legal obligation. It should therefore be possible to create a non-binding instrument such as a Social Imbalances Framework. Admittedly, the SImF could be considered as a second-best solution: this framework would not be at the same legal level as the MIP and EDP and, thus, its activation would be highly discretionary. However, it might be more politically-feasible and it could be an intermediate step towards a fully-fledged SImP.

6. Conclusion: the need for responsible and visible EU solidarity

In this report we have explored the possibility of establishing three policy instruments aimed at implementing the EPSR and at rebalancing the economic and social dimensions of the E(M)U: a) a social budget for the EU and for the eurozone; b) a European Unemployment Benefit Scheme; and c) a Social Imbalances procedure. For each of them, we have identified the main features, their feasibility as well as the possible obstacles to their creation. Our proposals entail an increase of the EU budget devoted to social policy, more funds and targeted assistance for some MS (e.g. those potentially eligible for the SImP), and risk-sharing (the EUBS). Most of the obstacles to the establishment and implementation of these initiatives are political in nature, insofar as they entail an
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increase of the social policy competences of the EU and enhanced solidarity between the MS. The political appetite for more solidarity is at least questionable, as recently shown by the refugee and immigration crisis (Ghailani 2017), a phenomenon which has threatened to bring about a crisis not only in the process of EU integration but also in national liberal democracies (Krastev 2017).

Consequently, a generic call for solidarity would not be sufficient. Solidarity at the EU level should be ‘realistic’ (Burelli 2016), i.e. acceptable to the actors involved, especially the MS. In this respect, three arguments could justify enhanced EU solidarity to address burning national social issues.

The first argument is a functionalist/economic one. As seen in Section 5, excessive social imbalances in some domains affect not only the MS concerned but can also spill over into other MS, threatening the sustainability of the EMU as a whole (Vandenbroucke et al. 2013). Addressing such imbalances should therefore be a matter of common concern, also in the self-interest of the MS in good social and economic situations.

The second argument is normative, i.e. related to values. Combating social exclusion, promoting social justice, social protection and social cohesion are among the objectives of the EU, as stated in the Treaties. In other words, the EU is built (also) on the promise to promote social progress in the MS and not only to achieve economic growth and competitiveness. This ambition has been restated in the EPSR, with its call for upward social convergence. Not keeping this promise would be extremely risky since it would call (and already has called) into question the legitimacy of and support for the European project.

The third argument, strictly linked to the previous consideration, is political and basically concerns – again – the legitimacy of the European integration process. Since their origins, the function of national welfare states has been to ensure the legitimacy of and loyalty to national political systems, thus protecting the political order and ensuring the survival of the nation-state. The argument goes that, without tangible forms of European solidarity, the legitimacy and sustainability of the European political system is at risk, undermined by the growth of soverignist, anti-EU political parties claiming to defend citizens’ well-being against a Union more interested in protecting the interests of the better-off and of the markets. As Burelli (2016: 20) puts it, ‘[t]he aim of such realistic solidarity is to keep all the people together inside the Euro polity’. Such an objective is in the interest both of those countries experiencing critical social situations and of those which are better-off. For the latter group, the survival of the EU political system should be seen as a long-term interest (ibid.) and, as said, divergent social trends between the MS could put the stability of the European polity at risk.

In order to be realistic and acceptable, solidarity cannot be unconditional. It should be ‘responsible’: a balance should be reached between European support and national responsibility. As Maurizio Ferrera (2015b: 11) puts it, solidarity should be based on the pardon and promise maxim: EU support in restoring inclusive growth at the national level in exchange for a commitment towards responsible

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34 As Burelli (2016:7) puts it, ‘[…] realism inclines us to seek a notion of responsible solidarity whose consequences do not threaten itself or other important political goods’.
government. This is the principle on which we base the proposed SImp, in which EU support is given if EU orientations are followed when defining national reforms.

Finally, in order to increase the legitimacy of the Union, EU solidarity should not only be responsible but also visible at national level. As Ferrera (2018) convincingly argues, besides divergencies between states (e.g. creditor vs. debtor countries, Eastern vs. Western countries), a growing divide can be detected among EU citizens: the divide between ‘the movers’ and ‘the stayers’. The former are the citizens fully taking advantage of the rights linked to free movement, including social protection rights in other EU countries. For them, (social) Europe is a reality. The latter are unhappy with the opening of national borders resulting from the process of EU integration, and often perceive the EU as a distant entity forcing MS to implement policies against their interests. This picture is only in part correct: over the years, the EU has enacted progressive social legislation affecting the MS and has supported national welfare states through the Structural funds (thus positively impacting the living conditions of the stayers). Yet a significant proportion of EU citizens currently see only the disadvantages of the process of European integration, while feeling excluded from its advantages, a situation also aggravated by strategic behaviours of national governments.

To preserve the legitimacy of the EU in the eyes of these citizens, visible and tangible EU support to these segments of the population is needed. Our proposals, such as the EUBS or the SImp, are intended to provide such support.

35 Well known phenomena in EU studies are the so-called ‘blame shifting’ and ‘credit claiming’ strategies adopted by some governments, prone, on the one hand, to shift onto the EU the blame for unpopular reforms even when the latter are in line with their preferences and, on the other hand, always ready to take credit for popular initiatives even when these originate from the EU level.
7. **Policy recommendations**

In this Section, we list the main policy recommendations arising from the report.

**A social budget for the E(M)U**

1. The overall allocation of resources to the ESF+ should be increased, to introduce a budgetary line on a ‘Children’s Initiative’ to finance a Child Guarantee, in line with the proposal of the European Parliament.

2. In the current ESF regulation, basic material assistance and social inclusion measures for the most deprived are already exempted from having to meet macroeconomic conditions. We recommend introducing a provision exempting all ESF+ spending from the application of the macroeconomic conditionalities. Moreover, it should be possible to increase the EU contribution in the ESF+ when a country is experiencing a macroeconomic downturn.

3. In order to preserve the social objectives of the ERDF, EAFRD and EMFF, we recommend that a minimum share of these ESI funds be allocated to the implementation of CPR thematic objective 4, ‘Stronger Social Europe’, at least in line with the current allocation in the MFF 2014-2020.

4. With the aim of strengthening the effectiveness of the European Globalisation Fund, regional level actors should also be entitled to apply to the Commission for support, with the involvement of social partners. Moreover, we recommend that the EGF be transformed into a European Transition Fund, with a significant increase in the budget in order to extend the coverage of possible beneficiaries.

5. In line with the European Parliament proposal, we recommend a further increase in the budget for Erasmus+; specific measures should also be identified to make the programme more inclusive and accessible.

6. Spending in the Reform Support Programme should focus on social investments, to guarantee technical and financial support for social convergence within the EU. The spending in this programme should at least partly be targeted at the ‘critical situations’ identified in the Joint Employment Report, notably in the context of a new ‘Social Imbalances Procedure’ (SImP) (see below).

**The creation of a European Unemployment Benefit Scheme**

7. In the short term, an interinstitutional dialogue should be launched, together with social partners, on the options for an equivalent European Unemployment Benefit Scheme, based on a proposal from the European Commission.

8. This equivalent European Unemployment Benefit Scheme should be accompanied by active measures to help people back into work. To this end, a future equivalent European Unemployment Benefit Scheme could be linked to the creation of a European Transition Support Fund.

**A new balance between the economic and social dimensions of the EU**
9. In order to rebalance the economic and social dimensions of the EU, a Social Imbalances Procedure (SImP) should be considered, based on two principles: solidarity and conditionality. The SImP would be structured in three stages: identification of social imbalances through the Joint Employment Report, definition of a Multi-annual Action Plan and monitoring of implementation. It would entail EU support (both technical and financial) in exchange for the respect of EU guidelines in designing social investment reform.

10. In order to set-up the SImP, the Pillar Scoreboard should be refined and strengthened. First, new and/or different indicators should be introduced in the domains of education, healthcare and housing exclusion. Second, the Scoreboard – which currently looks only at yearly changes – should be complemented with data on longer term trends.

11. The SImP should be enacted through legislation. A second-best solution - which could be seen as an intermediate step towards a fully-fledged SImP – could be the setting up of a ‘Social Imbalances Framework’: a ‘politically binding’ process aimed at detecting and correcting social imbalances, with the same structure as the SImP.
References


Claeys G. (2018) ‘New EMU stabilisation tool within the MFF will have minimal impact without deeper EU budget reform’, Bruegel.


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### ANNEX 1. List of interviews

<table>
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<th>Code</th>
<th>Institution/Organisation</th>
<th>Date</th>
<th>Modality</th>
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<td>Social Protection Committee</td>
<td>15/01/2018</td>
<td>Face to face</td>
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<td>26/10/2018</td>
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<td>3</td>
<td>EMCO 1</td>
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<td>09/11/2018</td>
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<td>09/11/2018</td>
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<td>12/03/2019</td>
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<tr>
<td>13</td>
<td>ETUC 2</td>
<td>European Trade Union Confederation</td>
<td>12/03/2019</td>
<td>Face to face</td>
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ANNEX 2. Comparison of social programmes in the proposed MFF 2021-2027 and the virtual EU27 MFF 2014-2020 (2018 prices)

Table 1. Comparison of social programmes in the proposed MFF 2021-2027 and the virtual EU27 MFF 2014-2020 (2018 prices)

<table>
<thead>
<tr>
<th>Existing ‘Social’ Programmes</th>
<th>Virtual EU27 MFF 2014-2020</th>
<th>New ‘Social’ Programmes</th>
<th>EU27 MFF 2021-2027</th>
<th>Comparison (% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Social Fund</td>
<td>€ 82 751 million</td>
<td>European Social Fund</td>
<td>€ 89 688 million</td>
<td>- 7%</td>
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<tr>
<td>Youth Employment Initiative</td>
<td>€ 8 594 million</td>
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<td></td>
</tr>
<tr>
<td>Fund for European Aid most Deprived</td>
<td>€ 3 796 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment and Social Innovation</td>
<td>€ 697 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>€ 378 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Regional Development Fund</td>
<td>€ 196 564 million</td>
<td>European Regional and Development Fund</td>
<td>€ 200 629 million</td>
<td>+2%</td>
</tr>
<tr>
<td>Agricultural Fund for Rural Development</td>
<td>€ 96 712 million</td>
<td>Agricultural Fund for Rural Development</td>
<td>€ 70 037 million</td>
<td>- 28%</td>
</tr>
<tr>
<td>European Maritime &amp; Fisheries Fund</td>
<td>€ 6 243 million</td>
<td>European Maritime &amp; Fisheries Fund</td>
<td>€ 5 448 million</td>
<td>- 13%</td>
</tr>
<tr>
<td>Erasmus +</td>
<td>€ 13 699 million</td>
<td>Erasmus +</td>
<td>€ 26 368 million</td>
<td>+92%</td>
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<tr>
<td>European Global Adjustment Fund</td>
<td>€ 1 206 million</td>
<td>European Global Adjustment Fund</td>
<td>€ 1 400 million</td>
<td>+16%</td>
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<td>EFSI</td>
<td>€ 2 233 million</td>
<td>InvestEU Fund – ‘Social Investment and Skills’ Window</td>
<td>€ 4 000 million</td>
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<td>Progress Microfinance Facility</td>
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<td>Student Loan Guarantee Facility</td>
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<tr>
<td>Structural Reform Support Service</td>
<td>€ 143 million</td>
<td>Reform Support Programme</td>
<td>€ 22 181 million</td>
<td>New</td>
</tr>
</tbody>
</table>

Source: Authors’ own elaboration, based on data from the European Commission

Note: The table summarizes a comparison of the size of the social programmes in the current virtual MFF 2014-2020 and in the proposed MFF 2021-2027. For the European Regional Development Fund, the European Maritime & Fisheries Fund and the European Agricultural Fund for Regional Development, we present the total budget allocation instead of the specific amount within the three programmes allocated to the above-mentioned social and employment objectives. This is because in the proposed regulation 2021-2027 there is no specific indication of the share of resources that will be allocated to the implementation of the social thematic objective.
ANNEX 3. The Common Provisions Regulation 2021-2027

The current Common Provisions Regulation (CPR), as well as specific regulations for ESI funds, regulates the funds that underpin EU cohesion policy for the 2014-2020 period. For the next MFF 2021-2027, the European Commission proposed a new CPR (European Commission 2018f), which aims to reduce unnecessary administrative burdens for beneficiaries and managing bodies, increase the flexibility to adjust programme objectives and resources in the light of changing circumstances, and to align the programmes to EU priorities.

Among the innovations proposed by the European Commission, the first is a reduction of the number of policy objectives, from 11 in the 2014-2020 period, to five in the new regulation. These are:

1. a smarter Europe, through innovation, digitisation, economic transformation and support for small and medium-sized businesses;
2. a greener, carbon free Europe, implementing the Paris Agreement and investing in energy transition, renewables and the fight against climate change;
3. a more connected Europe, with strategic transport and digital networks;
4. a more Social Europe, delivering on the European Pillar of Social Rights and supporting quality employment, education, skills, social inclusion and equal access to healthcare;
5. a Europe closer to citizens, by supporting locally-led development strategies and sustainable urban development across the EU.

As regards the allocation of funding, the three sets of regions receiving funding in the current period will be retained in the MFF 2021-2027, with a slight change in the thresholds. The category of ‘less developed regions’ will include EU regions whose GDP/head is less than 75% of the average GDP of the EU-27. ‘Transition regions’ will include those regions with a GDP/head between 75 to 100% of EU average GDP (instead of 75% < GDP/head < 90%). Finally, the ‘more developed regions’ will include EU regions whose GDP is above 100% of EU average GDP. As regards the Cohesion Fund, the method does not change and Member States with a GNI/head < 90% of the average EU-27 will receive support.

In order to calculate the resources to be allocated to each region, the current CPR uses two indicators: ‘GDP (including GNI for the Cohesion Fund)’ and ‘Labour market, education, demographics’. The former accounts for 86%, while the latter for 14%. In the new CPR 2021-2027, the Commission proposes to include new indicators, such as ‘Climate change’ and ‘Reception and integration of migrants’, and to modify slightly the allocation criteria: ‘GDP (including GNI for Cohesion Fund)’ 81%, ‘Labour market, education, demographics’ 15%, ‘Climate change’ 1% and ‘Reception and integration of migrants’ 3%.

Moreover, since the EU budget will be reduced, the Commission proposes that the EU will also reduce its contribution to policy implementation as follows: 70% for the less developed regions,
outermost regions, Cohesion Fund and Interreg; 55% for the transition regions; and 40% for the most developed regions.

As regards the simplification and flexibility objectives, the Commission proposes to allow the transfer of money from one priority to another within an EU programme (maximum 5%) without the need for Commission approval, and to make ‘simplified cost options’ more widely available.

Finally, the Commission strengthens the link between the cohesion funds and the European Semester’s Country-specific recommendations (CSRs). The CSRs will be taken into account both in the programming of the funds and design of the cohesion policy programmes at the beginning of the 2021-2027 period, and in the mid-term review of the programmes in 2024. Moreover, it is confirmed that the use of the ESI funds will be linked to respect of macroeconomic conditionality. When a Member State fails to take effective action with respect to EU economic governance or fails to implement the measures required by a stability and support programme, the Commission will make a proposal to the Council to suspend all or part of the payments for one or more of its programmes.

ANNEX 4. The InvestEU Programme

The aim of InvestEU is to mobilize public and private investment in the EU, addressing market failures and investment gaps that hamper growth, and helping to reach EU policy goals such as sustainability, scientific excellence and social inclusion (European Commission 2018d). It brings together under one roof 15 EU financial instruments and one EU guarantee (EFSI), with the objective to achieve greater risk diversification with a more integrated governance, facilitate coordination of the EU’s investment support instrument in the next MFF and remove potential overlaps between seemingly similar instruments.

As a single investment scheme for internal EU policies, InvestEU is both a policy instrument and a delivery tool. In its first role, its objective is to support EU policy priorities by financing investment operations. As a delivery tool, InvestEU aims to implement budgetary guarantees for financial instruments more efficiently, increasing the visibility of EU action and enhancing the accountability framework applicable to those instruments.

The new programme consists of three different tools: the InvestEU Fund, the InvestEU Advisory Hub and the InvestEU Portal.

The Fund has a total budget guarantee of €38 billion, and aims to trigger 650 billion in investment. It supports four policy areas, each with its own budget: ‘Sustainable infrastructure’ (€ 11.5 billion); ‘Research, innovation and digitalization’ (€ 11.25 billion); Small and medium sized businesses’ (€ 11.25 billion); and ‘Social investment and skills’ (€ 4 billion). Flexibility measures have been introduced to enable the InvestEU Fund to quickly redeploy resources and develop new products, so that it can react to market changes and evolving policy priorities over time.
The Advisory Hub provides technical support and assistance to help with the preparation, development, structuring and implementation of projects, including capacity building. The Portal brings together investors and project promoters by providing an easily-accessible and user-friendly database.

**ANNEX 5. The European Investment Stabilization Function**

Since the beginning of its term, the Juncker Commission made clear its intention to complete the Economic and Monetary Union, especially by putting in place a common stabilization function for the euro area, which could complement the national budget stabilizers in the event of asymmetric shocks and allow smoother aggregate fiscal policies in unusual circumstances. The logic of such a stabilization function is to make the euro area able to deal with severe shocks affecting individual countries that cannot be tackled at national level alone and to do this before the shocks become crises and spread to other Member States, which can prove costlier to everyone (Juncker et al. 2015).

In the Five Presidents’ Report there was no precise reference to any kind of automatic stabilizer. It was two years later, in the Reflection paper on the Deepening the Economic and Monetary Union, published in May 2017 (European Commission 2017e), that the Commission explored three practical options for the creation of a euro area fiscal capacity. The first one was a European Investment Protection Scheme, to maintain a stable level of public investments in the event of an economic downturn. The second option was a European Unemployment Reinsurance Scheme to protect the stability of national social safety nets, when their uptake tends to increase in a downturn and the resources are constrained by the need to contain fiscal deficits. The third was a Rainy Day Fund to accumulate funds from Member States, that could later be triggered on a discretionary basis to cushion larger shocks.

Eight months later, in the Roadmap for deepening the EMU, published in December 2017, the second and third proposals were already discarded, while a new initiative on a stabilization function to protect public investments in case of asymmetric shock was announced, to be presented in the Commission’s proposal for the post-2020 Multiannual Financial Framework.

In May 2018, the Commission presented its legislative proposal for a European Investment Stabilization Function (EISF). It consists of a financial assistance instrument under the revised Financial Regulation (Reg. 2018/1046), which supports MS affected by a major asymmetric shock, providing loans and interest rate subsidies. All euro area Member States and those participating in the exchange rate mechanism II can join the programme, except for MS under adjustment programmes, as the latter already receive support from the European Stability Mechanism.

The budget for the new EISF is € 30 billion, which the Commission will be able to borrow on the financial markets to lend to the Member States in need. The back-to-back loan operation will be activated upon a request from the Member State (maximum once a year), which will have then to repay the loans to the Commission. Therefore, as long as the countries fulfil their obligation, the new instruments will not have any impact on the overall EU budget (Scheinert 2019).
Building on the strict criteria outlined in the Five Presidents’ Report, the new EISF also requires the Member State’s full compliance with the Stability and Growth Pact in order to be eligible to receive the loan support.

As for the trigger that activates the EISF, the Commission proposed a double unemployment indicator: first, the quarterly national unemployment rate exceeding the average and the change in unemployment rate in the country concerned over a period of 60 months; secondly, an increase of 1% in the quarterly national unemployment rate compared with the same quarter the previous year.

Beneficiary countries will be obliged to channel the loans into eligible public investment, in support of the policy objectives in the Common Provisions Regulation, and into social investment such as education and training. The objective is to maintain the level of public investment in a country on a par with its average over the last five years.

During the implementation period of the investment programmes, the Commission will monitor and evaluate the correct use of the aid. Moreover, although the maximum amount for a loan is calculated using mathematical formulae, the Commission will maintain a degree of discretion to depart from these strict rules.

According to the Commission, the new EISF will be complementary to the European Stability Mechanism (ESM), being unconditional and automatic. While the ESM requires a thorough economic analysis before its activation, which includes an in-depth debt sustainability review to ensure that the money will be paid back, the new EISF will be automatically activated through a country’s request and will not require an analysis of debt sustainability. Moreover, while the ESM is an intergovernmental instrument, which requires the unanimous agreement of its members to approve programmes, the EISF is an EU-level mechanism, which requires a simple majority in the Council to disburse the funds, on the basis of a Commission proposal.

Finally, together with the EISF, the Commission launched a European Stabilization Support Fund, which will pay the interest rate incurred. This Fund would be administrated by the Commission and created by an international agreement among MS, which should undertake to contribute to this Fund through direct transfer from their national budgets. Notably, each country’s contribution would be proportionate to the distribution of ECB earnings (seigniorage) to national central banks, and the total amount would be equal to € 600 million per year.

Soon after the publication of the proposal, which, contrary to the better regulation guidelines, was not accompanied by the usually mandatory 12 weeks open public consultation, a broad debate started among stakeholders. Scholars criticized the lack of ambition of the Commission’s proposal and stressed that the proposed EISF (€ 30 billion) is too small to tackle asymmetric shocks (Claeys 2018). Compared to the ESM’s lending capacity of € 500 billion, which itself might not have been enough to counter a self-fulfilling crisis on European sovereign debt markets, the firepower of the EISF appears limited. Moreover, Claeys (2018) criticized the overlapping objectives between the existing European
Financial Stability Mechanism (EFSM) and the new EIFS. Although the EISF will be more automatic – as long as a Member State complies with the Stability and Growth Pact rules – and unconditional, it still suffers from the same problem as the EFSM, namely its limited size due to the constraints put on the EU budget. Other criticisms concern the proposed Investment Stabilization Fund, which would pay the interest rate of the Member State applying for a loan from the EISF. Again, Claeys (2018) criticized the allocation of resources, totally insufficient in a crisis.

While scholars criticized the lack of ambition of the proposed European Investment Stabilization Function, the MS engaged immediately in a heated debate. France, Germany, Italy and Spain, which had already expressed themselves in favor of a more ambitious stabilizer mechanism, such as the European Unemployment Insurance scheme (see above), supported the Commission’s proposal. On the other hand, eight MS, led by the Dutch government under the so called ‘New Hanseatic League’, strongly opposed the proposal and criticized any demand for the creation of a new EU instrument to absorb asymmetric shocks (European Commission 2018a).

Finally, other stakeholders such as the European Central Bank and the European Parliament expressed their support for the proposal for a European Investment Stabilization Function and, more broadly, for the idea of a stabilization function and a fiscal capacity. The European Social and Economic Committee, while it sees the proposal for an EISF as an important step towards further EMU integration, ‘would prefer a well-crafted Union-wide insurance scheme that acts as an automatic stabilizer, to protect against shocks’ (EESC 2018b: 7). Similarly, the Committee of the Regions, while it welcomes the EISF, has reiterated its call to the European Commission to develop over time a fully-fledged insurance mechanism to cater for stabilization, with a borrowing capacity based on contributions from Member States (CoR 2018).
ANNEX 6. Alternative indicators in the areas of healthcare and education and training

Health

In 2018, 10% of the recommendations addressed to Member States under the MIP concerned health issues. However, no indicators are included in the MIP scoreboard for monitoring progress on health issues. Therefore, we suggest the addition of the following indicators:

- **Self-reported unmet need for medical care (%), by sex, age, detailed reason and income quintile**
- **Life expectancy at birth by age and sex**
- **Out-of-pocket expenditure on healthcare (% of total health expenditure)**
- **Share of individuals covered by NHS and access to healthcare**
- **General government expenditure by function: Health (% of GDP)**
- **Healthy life years at age 65: Women/Men Years**

### Self-reported unmet need for medical care (%), by sex, age, detailed reason and income quintile

**Definition**
The indicator shows the share of the population perceiving an unmet need for medical examination or treatment. Reasons include problems of access (not affordable, waiting list, too far to travel) or others.

**Properties**
Data are retrieved from EU statistics on Income and Living Conditions (EU SILC survey) and are available from 2004, yearly, in each EU 28 Member State, disaggregated by sex, age and reason.

**Criticisms**
Low comparability due to cultural differences between countries.

### Life expectancy at birth

**Definition**
This indicator shows the mean of years that a new-born child can expect to live if his/her life-course is subject to current mortality conditions.

**Properties**
Data are retrieved from Eurostat (Population statistics) and are available from 2002, yearly, in each EU 28 Member State, disaggregated by sex, age and NUTS2-region.

**Criticisms**
-

### Out-of-pocket expenditure on healthcare (% of total population)

**Definition**
Household out-of-pocket payment' means a direct payment for healthcare goods and services from the household primary income or savings, where the payment is made by the user at the time of the purchase of goods or the use of the services.

**Properties**
Data are retrieved from Eurostat (General and regional statistics) and are available from 2005, yearly, in each EU 28 Member State.

**Criticisms**
-

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36 We draw these indicators from already existing scoreboards (Social Scoreboard, SPPM, EPM), integrating them with the proposals made by Isituto per la Ricerca Sociale (2016) and by Galgóczi et al. (2017).
Education and Training

In 2018, 30% of the recommendations addressed to Member States under the MIP concerned education and training issues. As stressed in the report by Istituto per la Ricerca Sociale (2016), the NEET ratio and Youth Unemployment Rate can be considered as helpful indicators. However, we suggest the addition of the following indicators37:

- Early leavers from education and training, age group 18-24
- Percentage of the population with tertiary educational attainment level (disaggregated by sex, age group)
- Share of adult population with upper secondary or tertiary education, age group 25-64
- Percentage of adult population aged 25-64 participating in education and training
- Underachievement in education for 15-24-years-olds (PISA survey)
- Individuals who have basic or above basic overall digital skills (% of population aged 16-74)
- General government expenditure by function: Education (% of GDP)

<table>
<thead>
<tr>
<th>Early leavers from education and training, age group 18-24</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>An early leaver from education and training, previously named early school leaver, refers to a person aged 18 to 24 who has completed at most lower secondary education and is not involved in further education or training; the indicator 'early leavers from education and training' is expressed as a percentage of the people aged 18 to 24 meeting such criteria out of the total population aged 18 to 24. An early leaver from education and training is operationally defined as a person aged 18 to 24, whose highest level of education or training attained is at most lower secondary education. At most lower secondary education refers to ISCED (International Standard Classification of Education) 2011 level 0-2 for data from 2014 onwards and to ISCED 1997 level 0-3C short for data up to 2013; -who received no education or training (either formal or non-formal) in the four weeks preceding the survey.</td>
<td></td>
</tr>
</tbody>
</table>

| Properties | Data are retrieved from Eurostat (LFS survey) and are available from 2003 for each EU28 country, on a yearly basis, disaggregated by sex, age, NUTS2 regions, labour status. The indicator has excellent coverage of timeliness, periodicity and geographical domain. It also has excellent potential for disaggregation. |

| Criticisms | The indicator does not say much about the activity these persons are involved in, when they leave school. It should be disaggregated by sex and age. |

<table>
<thead>
<tr>
<th>Percentage of the population with tertiary educational attainment level (disaggregated by sex, age group)</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>The share of the population who have successfully completed university or university-like (tertiary-level) education with an education level ISCED 1997 (International Standard Classification Education)</td>
<td></td>
</tr>
</tbody>
</table>

| Properties | Data are retrieved from Eurostat (LFS survey) and are available from 2005 in each EU28 country, on a yearly basis, disaggregated by sex, age, nationality, country of birth, NUTS2 regions, labour status. The indicator has excellent coverage of timeliness, periodicity and geographical domain. It also has excellent potential for disaggregation. |

| Criticisms | - |

37 We have taken these indicators from already existing scoreboards (Social Scoreboard, SPPM, EPM), integrating them with the proposals made by Istituto per la Ricerca Sociale (2016) and by Galgóczi et al. (2017).
### Share of adult population with upper secondary or tertiary education, age group 25-64

<table>
<thead>
<tr>
<th>Definition</th>
<th>The indicator is defined as the percentage of people aged 25-64 who have successfully completed at least upper secondary. This educational attainment refers to ISCED 2011 level 3-8 for data from 2014 onwards and 1997 level 3-6 for data up to 2013.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Properties</td>
<td>Data are retrieved from Eurostat (LFS survey) and are available from 2005 in each EU28 country, on a yearly basis, disaggregated by sex, age, nationality, country of birth, NUTS2 regions, labour status. The indicator has excellent coverage of timeliness, periodicity and geographical domain. It also has excellent potential for disaggregation.</td>
</tr>
<tr>
<td>Criticisms</td>
<td>-</td>
</tr>
</tbody>
</table>

### Percentage of adult population aged population aged 25-64 participating in education and training

<table>
<thead>
<tr>
<th>Definition</th>
<th>Lifelong learning refers to persons aged 25 to 64 who stated that they received education or training in the four weeks preceding the survey (numerator). The denominator consists of the total population of the same age group, excluding those who did not answer the question “participation in education and training”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Properties</td>
<td>Data are retrieved from Eurostat (LFS survey) and are available from 2005 in each EU28 country, on a yearly basis, disaggregated by sex, age, nationality, country of birth, labour status. The indicator has excellent coverage of timeliness, periodicity and geographical domain. It also has excellent potential for disaggregation.</td>
</tr>
<tr>
<td>Criticisms</td>
<td>-</td>
</tr>
</tbody>
</table>

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### ANNEX 7. List of acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMR</td>
<td>Alert Mechanism Report</td>
</tr>
<tr>
<td>CAP</td>
<td>Corrective Action Plan</td>
</tr>
<tr>
<td>CPR</td>
<td>Common Provisions Regulation</td>
</tr>
<tr>
<td>CSR</td>
<td>Country-specific Recommendation</td>
</tr>
<tr>
<td>DG</td>
<td>Directorate-General (European Commission)</td>
</tr>
<tr>
<td>DG ECFIN</td>
<td>Directorate General for Economic and Financial Affairs</td>
</tr>
<tr>
<td>DG EMPL</td>
<td>Directorate General for Employment, Social Affairs and Inclusion</td>
</tr>
<tr>
<td>EAFRD</td>
<td>European Agricultural Fund for Rural Development</td>
</tr>
<tr>
<td>EaSI</td>
<td>Programme for Employment and Social Innovation</td>
</tr>
<tr>
<td>EDP</td>
<td>Excessive Deficit Procedure</td>
</tr>
<tr>
<td>EESC</td>
<td>European Economic and Social Committee</td>
</tr>
<tr>
<td>EFC</td>
<td>Economic and Financial Committee</td>
</tr>
<tr>
<td>EFSI</td>
<td>European Fund for Strategic Investment</td>
</tr>
<tr>
<td>EGF</td>
<td>European Globalization Adjustment Fund</td>
</tr>
<tr>
<td>EIP</td>
<td>Excessive Imbalance Procedure</td>
</tr>
<tr>
<td>EMCO</td>
<td>Employment Committee</td>
</tr>
<tr>
<td>EMFF</td>
<td>European Maritime &amp; Fisheries Fund</td>
</tr>
<tr>
<td>EMU</td>
<td>Economic and Monetary Union</td>
</tr>
</tbody>
</table>
Integrating the European Pillar of social rights into the roadmap for deepening Europe's Economic and Monetary Union

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>EPC</td>
<td>Economic Policy Committee</td>
</tr>
<tr>
<td>EPM</td>
<td>Employment Performance Monitor</td>
</tr>
<tr>
<td>EPSCO</td>
<td>Employment, Social Policy, Health and Consumer Affairs (Council formation)</td>
</tr>
<tr>
<td>EPSR</td>
<td>European Pillar of Social Rights</td>
</tr>
<tr>
<td>ERDF</td>
<td>European Regional Development Fund</td>
</tr>
<tr>
<td>ESF</td>
<td>European Social Fund</td>
</tr>
<tr>
<td>ESI</td>
<td>European Structural and Investment funds</td>
</tr>
<tr>
<td>ETUC</td>
<td>European Trade Union Confederation</td>
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<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EUBS</td>
<td>European Unemployment Benefit Scheme</td>
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<tr>
<td>FEAD</td>
<td>Fund for European Aid to the most Deprived</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
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<tr>
<td>IDR</td>
<td>In-Depth Review</td>
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<tr>
<td>JAF</td>
<td>Joint Assessment Framework</td>
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<tr>
<td>JER</td>
<td>Joint Employment Report</td>
</tr>
<tr>
<td>MAP</td>
<td>Multi-annual Action Plan</td>
</tr>
<tr>
<td>MFF</td>
<td>Multiannual Financial Framework</td>
</tr>
<tr>
<td>MIP</td>
<td>Macro-economic Imbalances Procedure</td>
</tr>
<tr>
<td>MS</td>
<td>Member State</td>
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<tr>
<td>NEET</td>
<td>Young people who are <em>Not</em> in Employment, Education or Training</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
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<tr>
<td>NRP</td>
<td>National Reform Programme</td>
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<tr>
<td>RSP</td>
<td>Reform Support Programme</td>
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<tr>
<td>SGP</td>
<td>Stability and Growth Pact</td>
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<tr>
<td>SImF</td>
<td>Social Imbalances Framework</td>
</tr>
<tr>
<td>SImP</td>
<td>Social Imbalances Procedure</td>
</tr>
<tr>
<td>SPC</td>
<td>Social Protection Committee</td>
</tr>
<tr>
<td>SPPM</td>
<td>Social Protection Performance Monitor</td>
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<tr>
<td>SRSP</td>
<td>Structural Reform Support Service</td>
</tr>
<tr>
<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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<tr>
<td>YEI</td>
<td>Youth Employment Initiative</td>
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</table>
ANNEX 8. Official country abbreviations

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>BE Belgium</td>
<td>2004 Enlargement</td>
</tr>
<tr>
<td>DK Denmark</td>
<td>CZ Czechia</td>
</tr>
<tr>
<td>DE Germany</td>
<td>EE Estonia</td>
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<tr>
<td>IE Ireland</td>
<td>CY Cyprus</td>
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<tr>
<td>EL Greece</td>
<td>LV Latvia</td>
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<td>ES Spain</td>
<td>LT Lithuania</td>
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<td>FR France</td>
<td>HU Hungary</td>
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<tr>
<td>IT Italy</td>
<td>MT Malta</td>
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<tr>
<td>LU Luxembourg</td>
<td>PL Poland</td>
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<tr>
<td>NL The Netherlands</td>
<td>SI Slovenia</td>
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<td>AT Austria</td>
<td>SK Slovakia</td>
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<td>PT Portugal</td>
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<tr>
<td>FI Finland</td>
<td>2007 Enlargement</td>
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<tr>
<td>SE Sweden</td>
<td>BG Bulgaria</td>
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<tr>
<td>UK United Kingdom</td>
<td>RO Romania</td>
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<tr>
<td></td>
<td>2013 Enlargement</td>
</tr>
<tr>
<td>HR Croatia</td>
<td></td>
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</tbody>
</table>