No. 72
September 2021

EUROPEAN POLICY BRIEF

A revised European Semester under centralised management: the risk of overlooking social policy

Marcel Muraille

By adopting a €750 billion recovery plan, European leaders intend to avoid a repeat of the controversial management of the Eurozone crisis and the lack of public investment it engendered. The European Commission has set up a new coordination process to steer public investments and reforms foreseen by the national recovery plans, leaving the fully fledged European Semester aside for an indefinite period. In its current form, however, the management of the recovery package does not offer as many social guarantees as the former Semester did. To mitigate its weak social safeguards, the European Commission must strengthen the role of social affairs actors in its monitoring process.

The present policy brief assesses past and present social developments in the framework of the European Semester, and the lessons to be learned from them. Although this paper focuses on the dynamics within the European Commission, it should be noted that similar tensions between social and economic affairs actors also arise within the Council.

INTRODUCTION

In the aftermath of the Eurozone crisis, the EU entered a new phase of economic governance characterized by objectives, surveillance, and enforceability. This initiated an annual coordination cycle, called the European Semester, aimed at improving national compliance with the Stability and Growth Pact and to curb macroeconomic imbalances. In its early years, the prevalence of fiscal discipline injunctions in the Semester had frequently crystallised tensions between its economic component and the Union's social aspirations, which were relegated to the status of macroeconomic indicators. To mitigate the erosion of the EU loss of legitimacy in this field, a new balance had to be struck. In this respect, the role of the European Commission (EC) has been of vital importance due to its extensive oversight authority over the coordination cycle. Asymmetries remain, but since the mid-2010s, economic performances and the EU social dimension have been increasingly acknowledged as the two sides of the same coin. These transformations have relied heavily on the activist role of social entrepreneurs in the EC, involvement of social affairs actors, and flexible governance processes.

Following years of incremental changes, the fiscal rules and the European Semester were recently put on hold to respond to the challenges posed by the pandemic outbreak. In parallel, the spirit of the Semester is still alive and well under the Recovery and Resilience Facility (RRF), the main instrument of the EU's €672.5 billion recovery fund, as they are closely aligned in a number of major respects (i.e. challenges and priorities, the timing, upcoming assessments).[1] This new process has nevertheless reshuffled the balance of power between economic and social affairs actors in the EU economic governance. In its current form, the programming of the RRF runs the risk of overlooking social policy by neglecting social safeguards and sidelining actors in charge of social affairs.

The Barroso II Commission and Social Europe as a market-making project

Under the Barroso II Commission, Social Europe was systematically downgraded as a market-making project.[2] Budgetary concerns took precedence at that time while social Country Specific Recommendations (CSRs), ranging from pensions reforms and activation policies to wage moderation, were subordinated to the imperatives of economic competitiveness and fiscal discipline.[3] The EC and the Council exerted considerable influence on how Member States should frame their structural reforms, which constituted an ongoing source of tensions, in particular among conservative-corporatist welfare states. In Belgium, for instance, the 2011 recommendation on reforming automatic wage indexation sparked a fierce outrage from the Prime Minister who called for the due respect of Belgian sovereignty.[4]

President Barroso did not share the same expansive vision for social policy as his Commissioner for Employment and Social Affairs, László Andor. For Andor, social policy must become a market-correcting project, which means it could generate market-distorting effects if it aims at the greater good of a more inclusive society.[5] Despite his marginalization on economic governance within the College of Commissioners, Andor triggered an initial phase of socialization of the Semester by increasing social affairs actors' involvement.[6] At that time, DG ECFIN and the ECOFIN Council steered the Semester based on the respect of sound fiscal discipline, labour market deregulation and welfare retrenchment. An initial concession obtained by the Commissioner for Social Affairs was his ability to bring back the Social Protection Committee, an advisory body of the EPSCO Council formation, into the reviewing process of the CSRs and the National Reform Programmes as of 2013.[7] Above all, he reconfigured DG EMPL as a counterweight to the strategic relationship existing between the EC's Secretariat-General (SEC-GEN) and DG ECFIN. Under the impulsion of Commissioner Andor, DG EMPL country teams started overseeing the initial drafting of social CSRs. These Units strove for a narrative in which the reduction of poverty and social exclusion would be perceived as 'cost neutral', an important breakthrough in rebalancing the role of the state and the market in the framework of the European Semester.

Juncker and the social 'Triple A' for Europe

The Juncker Commission held different cultural views on the notion of sound fiscal policy than its predecessor. Pierre Moscovici, then Commissioner for Economic and Monetary affairs, moved away from the rigidity previously imposed on fiscal rules compliance: deviations were allowed as long as Member States undertook structural reforms.[8] This occurred in parallel with a long and iterative process of flexibilization of the fiscal framework, which recently culminated with the activation of the General Escape Clause in the aftermath of the COVID-19 crisis. The year 2015 marked a turning point with a new working method under the auspices of the Juncker Commission which intended to be less intrusive than its predecessor in all matters and revamped the European Semester accordingly. Gradual socialization of the Semester took place as social objectives and actors became more prominent in the drafting and reviewing of the CSRs.

The socialization of the European Semester remained mainly the consequence of a centralisation of power in the hands of the EC's president and his entrepreneurial activity to promote a 'social Triple A' for Europe.[9]

Juncker devoted much effort to the proclamation and the promotion of the European Pillar of Social Rights (EPSRs), a single conceptual framework that gathers 20 principles under three areas, and which is transposed either to legislation or through policy coordination. This gave a clear new direction to the EU social policy by trading governance of convergence and harmonization, or inputs, for the promotion of a rights-based approach to social policy.[10]

Juncker made explicit use of his Cabinet and the SEC-GEN to mainstream his social activism in the European Semester. He attached great importance to developing the autonomy of DG EMPL beyond the influence of DG ECFIN by giving the final say to the former in any dispute around the drafting of employment-related CSRs. Similarly, he transferred the 'Labour Market Policy' and 'Training and Skills' Units, respectively from DG ECFIN and DG EAC, to DG EMPL. However, the most ground-breaking innovation of the Juncker Commission in the Semester was the introduction of a new monitoring tool, the Social Scoreboard, which featured 35 indicators that "screen employment and social performances of participating Member States".[11] These indicators were aimed at steering national reforms and public investments. In practical terms, the Social Scoreboard gave leverage to DG EMPL to claim more social considerations in the CSRs and reallocated the tasks between DG EMPL and DG ECFIN. Although asymmetries still exist between the 'social' and the 'economic' component of the Semester, the Juncker Commission left a strong footprint by giving more visibility for social and employment issues.

THE VDL COMMISSION : REDISCOVERING THE VIRTUES OF PUBLIC INVESTMENT

The Von der Leyen Commission fully embraced the EPSRs as a truly programmatic document and marked a paradigm shift in EU social policy by announcing a series of far-reaching initiatives.[12] This includes the EPSRs Action Plan but, more importantly, the initiative on adequate minimum wages which truly reflects a willingness to develop a socially regulated capitalism in the EU.[13] In the meantime, the COVID-19 outbreak and the efforts to mitigate its consequences heavily disrupted the socioeconomic agenda of the newly appointed Commission. The EU's € 672.5 billion COVID-19 Recovery and Resilience Facility led to significant transformations. From a fiscal and economic standpoint, it stands in stark contrast to the controversial austerity programmes that followed the EU sovereign debt crisis as boosting public investments is no longer contested. In institutional terms, the European Semester country reports and non-budgetary CSRs were suspended for the year 2021 and it is uncertain whether it will ever return to its previous form. The reforms it used to trigger are currently steered by the RRF through the implementation of national Recovery and Resilience Programmes (RRPs).

The governance of the RRF has been intrinsically aligned with the European Semester process, mainly since National Reform Programmes under the Semester and national Recovery and Resilience Programmes are now submitted within a single document. This is a mutually beneficial relation on paper. On the one hand, the Semester serves as a common framework for RRPs as they must reflect country-specific challenges identified in the 2019 and 2020 CSRs. The RRF, on the other hand, provides financial incentive for the implementation of the CSRs. Thus, importantly, the recovery package could compensate the former lack of carrots under the Semester and, eventually, provide a systemic approach between investments and structural reforms. It can be expected that the political focus will remain on the achievement of an effective implementation of the RRPs over the next three years, as disbursements are expected to be made until the end of 2023.[14]

HAVE SOCIAL AFFAIRS ACTORS BEEN SIDELINED?

Although the Council has the final say on its approval and payments, the RRF is under the direct management of the EC, which retains control over the disbursements, steers the direction of the RRPs, and monitors them.[15] Needless to say, new responsibilities urged for an overhaul of the EC bureaucratic structure. Hence, the Recovery and Resilience Task Force (RECOVER) was established in August 2020 to oversee the coordination and implementation of the RRF. Its mandate also includes the supervision of the European Semester.

At the top of this new centralised management, RECOVER directly reports to the EC's president through a steering board that aims at providing political guidance. It is chaired by President Von der Leyen and composed of the three executive vice-presidents and the Commissioner for Economy, Paolo Gentiloni. A first striking observation is the non-participation of Commissioner Nicolas Schmit, which might be detrimental to the balance between the economic and social portfolio. The promotion of social rights is thus carried by executive vice-president Valdis Dombrovskis in his role of coordinator of all work related to the economy and financial affairs. The wide-ranging nature of his portfolio tends to minimize social rights and social investments as secondary objectives. For many, a guarantee of last resort appears in the figure of President Von der Leyen herself. Appointed German minister of family affairs between 2005-2009, then German minister of labour and social affairs (2009-2013), Ursula von der Leyen illustrated herself as the social conscience of the CDU over the first and the second Merkel cabinets.[16]

This new architecture runs the risk of calling into question the previously secured role of social affairs actors in the Semester configuration. In the programming of the RRF, DG EMPL was asked to provide recommendations for reforms and investments, but it no longer has the final say on their formulation. DG EMPL's country teams providing technical support for the evaluation of RRPs can nevertheless rely on its staff expertise, as they have acquired solid experience by monitoring Member States policy reforms for years. But once compared with the Semester, DG EMPL's influence is back to square one with a role largely limited to the RRPs consultation process, just like many other EC services. Furthermore, civil society actors and social partners were involved in a very diverse and unequal fashion across the different member states.[17] The problem is likely to persist throughout the ongoing implementation of the national plans.

This is a blow for stakeholders from the social affairs field (trade unions, civil society organizations, social affairs services of the EC) that have worked hard to encourage the EU to make the Semester 'more social' over the last decade, despite moderate success.[18] Nevertheless, this should hardly come as a surprise given the absence of binding social objectives in the EU recovery plan. While the guiding text around the RRF does actively support reforms related to the twin transition (national authorities must reach the minimum expenditure benchmarks of respectively 37% to the green transition and 20% to the digital economy), it strictly refers to the EU Social Pillar as a compass and does not provide any safeguards or targets that would ensure a certain number of reforms and funds dedicated to social investments. A fact that has been widely criticized in the European Parliament. So far, the RRF process has strictly reinforced the role of EC services with clear targets, namely DGs in charge of the green transition and the digital economy. When it comes to pursuing social objectives, the RRF regulation only foresees a single flagship: 'Reskill and upskill'. This translates the too strong emphasis on the supply-side approach of social policy. As argued by Laura Rayner: "social investment must be about more than just employment"[19].

CONCLUSION

The debate on the reform of the fiscal rules and the European Semester should resume in 2022, the year before the supposed deactivation of the General Escape Clause. The contours of the future EU economic governance remain a grey area as it is unclear whether the Semester and the RRPs will operate as two separate entities or will be part of a single comprehensive agenda. In any case, the return of the Stability and Growth Pact risks aggravating the current social pitfalls of the EU economic governance. Against this background, it appears necessary to ensure that, whatever form this governance takes, the budgetary, economic and social balances achieved under the Juncker Commission are preserved. There is no fair recovery or twin transition as long as social stakeholders are not able to establish safeguards on the deep implications these transformations will have on our social fabric.

Marcel Muraille joined the Egmont Institute in 2020 as a research fellow. His research interests are the social dimension of the EU, the European Semester and Migration Policy. ***He is grateful to the many insightful comments received from EC officials.***

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