IMK
Macroeconomic Policy Institute

The IMK is an institute of the Hans-Böckler-Stiftung

STUDY

Nr. 75 • January 2022 • Hans-Böckler-Stiftung

THE LIGHTS OF PORTO: THE EU SOCIAL SEASON AND ITS AFTERMATH

László Andor[1],

ABSTRACT

The Spring of 2021 was a good season for Social Europe, with the European Commission coming forward with an Action Plan to implement the European Pillar of Social Rights, and the Portuguese Presidency of the Council staging an informal summit (i.e. a high level conference with heads of state and government) in Porto about strengthening the social dimension of the EU. In this paper, we look back to these key actions and analyse them in context, in particular to appreciate the significance of new European employment and social targets and their potential in the post-Covid decade. It also discusses the concrete aftermath of the social season under Portuguese Presidency in the second half of 2021 and into 2022.

[1] Former EU Commissioner and IMK Senior Research Fellow, email laszlo.andor@feps-europe.eu.

The lights of Porto:
The EU social season and its aftermath

László Andor

Introduction

The Spring of 2021 was a good season for Social Europe, with the European Commission coming forward with an Action Plan to implement the European Pillar of Social Rights, and the Portuguese Presidency of the Council staging an informal summit (i.e. a high level conference with heads of state and government) in Porto about strengthening the social dimension of the EU. In this paper, we look back to these key actions and analyse them in context, in particular to appreciate the significance of new European employment and social targets and their potential in the post-Covid decade. It also discusses the concrete aftermath of the social season under Portuguese Presidency in the second half of 2021 and into 2022.

EU crisis response: the road to Porto

In 2020 the leaders of the European Union proved that a crisis reponse very different to that to the 2010-3 eurozone crisis is possible. Next Generation EU (NGEU), a giant *ad hoc* funding instrument was agreed within a few months following the outbreak of the pandemic, representing genuine solidarity. The creation of the Recovery and Resilience Facility (RRF) under the umbrella of NGEU – 338 billion in non-repayable support and up to €386 billion in conditional loans – broke through previously strongly defended red lines (Ryner 2021). Depending on its successful implementation, the RRF may well become the first practical step on the road to a permanent central fiscal capacity at the EU level.

Among EU decision makers it was understood from the first days of the pandemic crisis that the medical and economic crisis response has to cover the social policy dimension as well. This made the commitment of the European Commission to follow-up on the 2017 European Pillar of Social Rights (EPSR) and deliver an Action Plan for its implementation particularly timely. The Council presidency prepared by the Socialist government of Portugal for the first half of 2021 benefited from positive expectations, the only complication being the limitations resulting from the 3rd wave of the pandemic on holding physical conferences. Nevertheless, the social summit scheduled for May 2021 was destined to enjoy great attention from citizens and stakeholders.

The informal summit in Porto, Portugal, on 7 - 8 May was the first time EU prime ministers met face to face since the start of the pandemic; altogether 24 out of 27 presidents and prime ministers participated. The social summit was meant to be a follow-up to the 2017 Gothenburg summit, which was organised to proclaim and give visibility to the European Pillar of Social Rights[1] (EPSR). Ahead of Porto, the European Commission put forward an Action Plan aiming at effective implementation of the EPSR to ensure that participants did not simply discuss general principles or wishes but concrete initiatives and practical steps.

The Porto social summit aimed at turning the EPSR principles into actions that will have concrete results for citizens, in accordance with the motto of the Portuguese Presidency of the Council of the EU: "Time to deliver"**.** The meeting of heads of state and government in Porto took place in parallel with a top-level meeting of the social partners and other labour market organisations (Lindahl 2021). The summit ended in a declaration which confirms the social pillar's importance in the Union.

The first Social Summit took place 20 years before Porto in Luxembourg, and the heads of state and government held three informal conferences at the time of the euro area crisis focusing on youth employment. It is however important to draw attention to the fact that these events have always been organised as informal summits, i.e. outside the regular schedule of formal European Council meetings in Brussels. With the exception of Luxembourg

[1] The European Pillar of Social Rights (EPSR) is a document made up of 20 non-binding principles to guide the construction of a „stronger, fairer and more inclusive Europe that is filled with opportunities". It was a product of a process driven by Jean-Claude Juncker's cabinet, with strong contribution from the European Parliament, and proclaimed by the three institutions of the Union – Council, Commission and Parliament. The EPSR is reminiscent of the 1989 Community Charter of the Fundamental Social Rights of Workers, adopted on 9 December 1989 by a declaration of all Member States, with the exception of the United Kingdom. The Charter is considered to have established the major principles on which the European labour law model is based, and also shaped the development of what was called the European social model in the following decade.

and Porto, they have also been disconnected from the agenda of the rotating presidency[2] of the EU Council as well. On the other hand, it can be argued that they are primarily of significance for domestic political processes, including elections[3].

Table 1. Informal social summits of EU heads of state and government

Date	*Venue*	*Topic*
1997 November	Luxembourg	Alleviating unemployment
2013 July	Berlin	Youth employment
2013 November	Paris	Youth employment (+ posted workers)
2014 October	Milan	Youth employment
2017 November	Gothenburg	European Pillar of Social Rights
2021 May	Porto	EPSR Action Plan

While these informal summits wanted to send a strong message to Europeans about the imporance of the social dimension of the European Union, it is also important to note that ahead of Porto, 11 member state governments had issued a declaration[4] clarifying that they did not wish to see a shift of competences in the field of social policy to the EU level (Herszenhorn 2021). In other words, the declarative and ceremonial nature of such conferences cannot provide a clear picture about the strength of overall EU commitment to various goals and tools of a common social policy.

Action and action yesterday

Following a consultation that had been launched almost immediately after the new EU Commission under Ursula von der Leyen entered office, the Action Plan for the implementation of the EPSR was presented on 4th March 2021. This plan is designed to frame and organise the actions to be taken by the Commission in order to effectively implement the EPSR principles, as requested by the European leaders in the Strategic Agenda for 2019-2024, agreed at the European Council in June 2019.

[2] In case of Italy, the social summit did take place during the 2014 Council presidency, but this is rather a coincidence. The informal summits on youth employment were based on a Franco-German deal following the election of Francois Hollande, and at the Paris meeting, Italian prime minister Enrico Letta expressed his wish to host a similar event in Rome too. However, following the replacement of Letta by Matteo Renzi, the date shifted to the second half of 2014 and the venue became Milan, where Council conferences under the Italian presidency were held.

[3] The informal Berlin summit took place 11 weeks before the 2013 Bundestag elections. The informal Paris summit took place six months before the 2014 EP elections. The informal Gothenburg summit took place 9 months before the 2018 Swedish general elections. The Luxembourg Social Summit took place less than one year before the next general election of the country.

[4] The statement was endorsed by Austria, Bulgaria, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Malta, the Netherlands and Sweden. This group includes all members of the so-called Frugal Four — Austria, Denmark, the Netherlands and Sweden — that formed an important alliance in 2020, pushing to limit increases in the EU budget and curtail the amount of joint debt used to finance a pandemic rescue and recovery fund.

The Action Plan is a response to the demand created and maintained by the social policy community after the proclamation of the EPSR which had been deliberately produced as a declarative and somewhat theoretical document, without intention on the side of the Juncker Commission to follow-up with practical steps within the time frame available. But the creation of the 2021 Action Plan was further encouraged by fresh Eurobarometer findings[5], suggesting that nearly nine in ten Europeans (88%) say that a social Europe is important to them personally, and at the same time over seven in ten respondents (71%) believe that a lack of social rights is a serious problem right now (Eurobarometer 2020).

Apart from the Commission's own initiatives, the Action Plan also "encourages" other players, namely the Member States, to implement measures in their areas of competence. Besides, it also proposes three goals to be reached in Europe by 2030**.** These goals reflect the common ambition of the European Commission and the Member States, and update the goals of the Europe 2020 Strategy. The creators of the Action Plan anticipate further discussions and a medium-term assessment of the effectiveness of the measures proposed. Therefore the document is expected to be reviewed in 2025, i.e. following the 2024 European Parliament election and the establishment of the new Commission at the end of that year.

Looking at the content of the Action Plan, it appears as a catalog of activity areas of the employment and social policy directorate general of the European Commission, while reaching out to areas of education, health and anti-discrimination which are supervised by commissioners other than the one for Jobs and Social Rights. Initiatives like minimum wage coordination and child guarantee represent a high ambition that goes beyond the usual EU social policy toolkit and – as explained below – carry the promise of being a real game changer in their respective fields. An EU platform to combat homelessness would bring the EU into an active role in an area where its contribution has so far remained analytical.

However, even if the list of actions is long, the absence of some important items raised concerns. For example, the European Trade Union Confederation (ETUC) in their reaction to the Action Plan highlighted the absence of unemployment reinsurance which has been an explicit promise of the von der Leyen Commission since 2019. Similarly, from a trade union perspective, Hochscheidt (2021) critiques the too narrow focus of the new scoreboard. In his view, adding new indicators to the scoreboard would be essential: coverage of collective agreements and union density in the member states would be crucial to signal a real paradigm shift. Regrettably, the Action Plan contains no details on how the scoreboard will be revised or who will be involved.

Moreover, two thirds of the actions listed in the EPSR Action Plan fall into either 2020 or the first quarter of 2021, i.e. they have already taken place before the Porto summit (see ANNEX). In other words, the role of the Porto summit was less to launch fresh thinking or open up to new initiatives, than to gather political support for the policies that had already been put forward by the von der Leyen Commission.

While leaders gathering in Porto enjoyed the political limelight, in the following months social questions quickly shifted downwards in the Brussels policy pyramid. The Slovenian presidency

[5] According to the 2020 November—December Eurobarometer focusing on social questions, social Europe is important for over two-thirds of respondents in every Member State of the EU. More than four in ten Europeans consider that four elements are among the most important for the EU's economic and social development: equal opportunities and access to the labour market (46%), fair working conditions (45%), access to quality health care and the standard of living of people in the EU (41% for both elements).

of the Council did not pretend for a second that a strong social agenda would be part of their plans. And the Commission President Ursula von der Leyen did not find it important enough to mention the Action Plan in her September 2021 speech on the State of the Union. The only social policy item that appeared in the SotEU speech was a hitherto unknown youth mobility scheme called ALMA[6]. This shift could have given the impression that "social" is a seasonal matter for Brussels, and observers might be foregiven for thinking that the engine of Social Europe was running out of steam again.

Nevertheless, the fourth quarter of 2021 saw a timely implementation of the Action Plan. In both Council and European Parliament, a breakthrough was achieved with the directive on adequate minimum wages. And, in December 2021, the Commission came forward with a set of measures to improve the working conditions in platform work and to support the sustainable growth of digital labour platforms in the EU, as well as a social economy action plan.

Reanimating Social Europe

The EPSR, the Action Plan and the Porto summit have all energised debates on Social Europe, comforting the stakeholder community and also raising some expectations. The Conference on the Future of Europe (CoFoE) launched just 2 days after Porto, provides further opportunities to express wishes and policy proposals for strengthening the social dimension of the EU. The book that probably captures this spirit best is the one written by Colin Crouch, Emeritus Professor at the University of Warwick, under the title *„Social Europe: A Manifesto"*. Crouch does not simply argue for a Social Europe in a conventional way. Some of the totemic issues of the social policy debate in the European Parliament, like the posting of workers, are completely absent from his book.

Crouch outlines his vision for no less than a Social Union, with due references to Frank Vandenbroucke and Anton Hemerijck, who pioneered this concept (together with Maurizio Ferrera and others). He invokes Karl Polanyi to underpin the suggestion that "moves to extend markets need to be accompanied by moves in social policy" (Crouch 2020: 47). He also integrates into the vision of the Social Union the actions combating environmental damage and climate change, and those necessary to tackle the challenges of digital transformation[7].

From the perspectives of Crouch, Ferrera, Vandenbroucke or Hemerijck, the Social Union represents a qualitative leap from the EU construct in which social policy is an appendix to the main body of economic integration and governance. And, although this is a small book, Crouch does not remain at the level of generalities but goes into a detailed explanation on what the EU would need to change in addition to what it has already done in this field. Putting the social investment welfare state (SIWS) in the focus represents a paradigm shift, or even a conversion, in the field of European social policy. Together with Vandenbroucke, Crouch also

[6] ALMA (Aim, Learn, Master, Achieve) is a promise to help young people find their way to the job market, especially the most disadvantaged NEETs aged 18-30 who are vulnerable with regard to their chances of accessing work or training for specific reasons like disability, long-term unemployment, insufficient school performance/vocational skills, or migration background. It will offer participants 1./ a supervised stay abroad for a period of 2 to 6 months in another EU Member State, and 2./ a comprehensive project cycle implying coaching and counselling at every step. By providing opportunities to improve skills, knowledge and experience and to create new connections across Europe, the ultimate aim of ALMA is to better integrate young people into society and help them find their place in the job market. See Brzozovsi (2021).

[7] See the introduction of the Social Europe Manifesto on "reconciling the future of work in a rapidly changing economy with workers' needs for secure lives" (Crouch 2020: ix)

makes the case for a partial Europeanisation of social insurance, exactly to solve once and for all the problem of social dumping.

The coronavirus pandemic, with which Europe has been struggling since Spring 2020, is an additional reason to push for more European solidarity and stronger safety nets. This can be a new chapter in the history of the EU. In some interpretations (see Crouch 2020 but also Vanhercke et.al. eds 2021) the standard narrative of Social Europe is framed in a story of resurrection, which is disconnected from historical accuracy. There was, supposedly, a golden age, at the times of Jacques Delors (1985-95), after which (the idea of) Social Europe died, and now it is somehow coming back from the dead. But this story of resurrection is as much a myth as reality.

No doubt, Jacques Delors was not only rhetorically strong on the social dimension, when he defended his vision against the neoconservative attacks on deeper EU integration by UK Prime Minister Margaret Thatcher. Delors elevated social dialogue to the EU level, reformed Cohesion Policy to be able to counter-balance the Single Market, and launched a cycle of social legislation to prevent a race to the bottom. But it was the same Delors who left behind the Maastricht model of the Economic and Monetary Union (EMU), i.e. a monetary union without either fiscal union, or common financial sector regulation, or lender of last resort. This model started to undermine the fiscal base of the welfare state on the Eurozone periphery at the time of the euro area crisis. This dangerous potential of the badly designed EMU was only partially exposed in the late 1990s, in the only period of EU history when the centre-left dominated European politics, and also the European Council. The then leaders brought in the Lisbon Strategy, which confirmed the European commitment to Social Europe, but aimed at delivering a remedy without questioning the macroeconomic framework of Maastricht. However, a lasting solution to put Social Europe on a stable economic footing requires a more fundamental reform of the EU's macroeconomic policy structures.

The connection between social policy objectives and broader macroeconomic governance is highlighted by the European Policy Centre, which chose to focus a major project on the questions of economic governance and the need to boost social investment in particular. According to Rayner (2021), the promotion of social investment depends on:

1. altering the pace of fiscal consolidation to be in line with economic growth;
2. reassessing the accounting procedure for public investments, which can, in the long run, distinguish government investment from current government spending and improve the quality of public finances overall;
3. establish a so-called Future Investment Fund, whereby public investment would be excluded from the calculations of both headline and structural deficits;
4. reforming the European Semester in a way that prioritises social outcomes alongside fiscal and public administration reforms;
5. prioritise what matters to citizens - even if it challenges the existing economic orthodoxy.

In other words, to a great extent social outcomes continue to depend on decisions and developments outside the scope of the EPSR or the 2021 Action Plan. What has to be added to Rayner's list is the question of inflation, which returned to Europe in the second half of 2021 as a major question of economic policy and living standards at the same time.

The politics of minimum wage coordination

The Action Plan and the Porto summit bore witness to the fact that the minimum wage coordination initiative remains high on the Commission (and the Commissioner's) agenda despite triggering doubts and even straight-forward opposition at the time of presenting it. Formalising the ambition to introduce an EU directive, in October 2019, set the bar very high, but the rationale was well explained: without more forceful EU action neither overall wage dynamics nor regional and gender disparities could be expected to improve.

In his manifesto on Social Europe, Colin Crouch clearly explains that "there needs to be a Europe-wide component to minimum-wage strategies (adjusted of course for local costs of living) to prevent unfair competition from, and exploitation of workers within, the poorer countries of the union. The experience of countries with well-organised schemes is that they do not cause unemployment." (Crouch 2020: 42) If this is not convincing enough, Crouch goes further: "at present the still very powerful unions of the Nordic countries are the main obstacles to a European minimum wage. It is essential that they understand the importance of maintaining wage levels in countries without strong unions; otherwise, low wages in these will eventually undermine their own strength." (Crouch 2020: 42)

However, even if the proposal makes a lot of sense from the perspective of the countries where wage growth has been either slow or volatile, there is a small number of countries resisting the proposal. Indeed, the Nordics more generally express unease or even opposition to the common European social agenda, and specifically initiatives aiming at more EU competences on employment or social policies. And in Porto the issue was discussed but not mentioned in the final document, to the Nordics' relief (Lindahl 2021).

From a Swedish trade union perspective, Bender and Kjellberg (2021) outline the reasons for opposition to the EU role in minimum wage coordination. They identify five risks, namely:

- A minimum wage sanctioned by the EU and the Swedish parliament might be viewed as legitimate for employers aiming to lower their labour costs.
- More companies than today would consider not signing substitute agreements or joining an employer association. Such a development might deal a fatal blow to the Swedish industrial-relations model based on high affiliation among unions *and* employers.
- A statutory minimum wage below collectively bargained levels might contribute to the emergence of 'yellow' or 'company' unions (representing the interests of the employer, rather than the employees), amenable to signing collective agreements at the statutory minimum rate.
- Jeopardising member recruitment and so Sweden's traditional high union density.
- If unions have insufficient resources or are not allowed to supervise companies without collective agreements, this task falls upon the government—which, again, would be a clear departure from the Swedish model.

At the end of the day, the question is whether a minimum wage coordination directive can be fine tuned in a way to avoid the negative dynamics Nordic trade unions fear. It was too early to make such an attempt in Porto. The Spring of 2021 saw less intensive disputes on the question of minimum wage also because Germany, a most influential member state, entered its domestic election season. Germany itself only introduced a statutory minimum wage from

2015, but shortly after started to favour EU coordination in this field, which is an example of a rare sea change of position on a critical aspect of the European policy.

The debates on the directive on adequate minimum wages in the European Union intensified in the last quarter of 2021 (following the Bundestag elections in Germany), and reached a constructive conclusion in both Council and Parliament. In fact, the directive received an enormous boost from the European Parliament, which voted in favour of a very ambitious version previously adopted by its Employment Committee, and signalled its readiness to engage negotiations with the Council, which is the co-legislative body. With a massive majority in favour of the directive (for: 443, against: 192, abstentions: 58), the EP strengthened[8] even further what the Commission had proposed initially (Andor 2021c). And a few weeks later the Council also managed to adopt a „general approach", which paves the way for negotiations between Parliament and member states, possibly leading to the adoption of the directive as soon as spring 2022. The only dissent, for very different reasons, came from Denmark and Hungary. A potentially pivotal piece of the EU's social dimension was ready to enter the legislative endgame. Finalising the directive is a key task for the French presidency of the EU Council, in office in the first half of 2022.

The welcome return of social targets

The Action Plan released on 3 March 2021 proposes three headline targets in order to better monitor the progress towards the goals set out in the 2017 European Pillar of Social Rights (EPSR). The first headline target proposes that the employment rate of those aged 20-64 be increased to 78 per cent, from 72.5 per cent in 2020. In line with this, the gender employment gap should be halved, and the share of young people not in employment, education or training (NEETs) be reduced to 9 per cent, from 12.6 per cent in 2019. These new targets would need to be reached by 2030.

The inclusion of headline targets in the EPSR Action Plan represents an unexpected return to the concept of long-term targets which formed a central part of the unimaginatively titled Europe 2020 Strategy launched in 2010 by the Commission headed by Jose Manuel Barroso. Under Europe 2020, the idea was that the European Union would pursue smart, sustainable and inclusive growth after the Great Recession (of 2009), and by 2020 some specific targets would be reached (including a 75 percent employment rate and the reduction of poverty and exclusion by at least 20 million people).

Europe 2020 was meant to succeed the more famous 'Lisbon Strategy', which was not a success on all counts. But in 2010, the overall objectives were not questioned, and the intention was to create something that points in the same direction but with greater clout. It was introduced as the only game in town ten years ago but became progressively sidelined during the euro area crisis and the subsequent recovery period.

[8] For collective bargaining coverage that puts a country above the proposed mechanism, the EP defined 80 per cent of collective bargaining coverage rather than the 70 per cent originally proposed by the Commission. Member states will be obliged to develop a national action plan, with concrete measures and a clear timeline to reach this target. Trade unions will be responsible for collective bargaining and not, as the commission had very vaguely proposed, 'workers' organisations'. Joining a union and collectively bargaining will be confirmed as a fundamental right.

Table 2. Comparison of long-term targets (2010—2021)

Target / Document	*Europe 2020 Strategy (2010)*	*EPSR Action Plan (2021)*
Employment rate	Reaching 75 % (in 20-64 yr age group)	Reaching 78 % (and halve gender employment gap)
Poverty reduction	By at least 20 million	By at least 15 million (incl 5 million children)
Education	Reducing the early school leaver rate from 15% to fewer than 10%, whilst increasing the percentage of the population aged 30-34 who have completed their tertiary education from 31% to at least 40% by 2020	At least 60 % of adults attending training courses every year; 80 % of adults to have at least basic digital skills; lowering school dropout rates

Aiming to revive the employment and social agenda in the EU through concrete targets can only be evaluated as a valuable move. The 2020-1 pandemic has led to major distortions on the labour market and added to the public debt burden. Tapping into the job growth potential of countries long mocked for their "inactivity traps" could bring welcome welfare and fiscal gains. Besides, the Commission's plan to achieve this goal suggests a come-back to the conception of 'social policy as a productive factor' which the EU institutions promoted at the time of the Amsterdam Treaty and the 2013 Social Investment Package. The proposed minimum standards on adequate minimum wages and new rules on working conditions of platform workers show indeed that, at long last, social protection is no longer seen as a drag for jobs and competitiveness.

This perspective shift from the Commission, and now supported by the heads of state and government in Porto, is most welcome. Contrary to long-held beliefs, there is now extensive evidence, increasingly recognised, that *expanding* social provisions in the form of gender empowerment, active labour market policies, or life-long training, boosts employment growth. Germany's unexpected turn towards 'active family policy' facilitating the return of women to the labour market is a good example. Following a decade of reforms from 2000 to 2007, the female employment rate surged from 64 per cent in 2005 to 76 per cent in 2018[9] while it remained 'frozen' at lower levels in other major EU economies such as France or Italy, where reform had stalled (Hemerijck and Huguenot-Noël, 2021).

The frontiers of employment growth

While the return to long-term targets is a welcome move, the way the targets are formulated and presented represents the spectre of double reductionism which has been haunting EU employment policy ever since its creation: the solution of social problems is often reduced to employment (having a job), and the solution to the employment problem is reduced to skills (i.e. the supply side of the labour market). Both Europe 2020 and the EPSR were running against this double reductionism, but apparently it is not something that could be proclaimed

[9] These policies represent quantitative improvement, though they are seen somewhat critically on the German left because of issues with the quality of female employment.

dead. Much of the criticism[10] towards the Action Plan has therefore been targeting the excessive focus on employment and the superiority of quantitative as opposed to qualitative objectives.

In one of the new 'headline targets', the Commission opted to set a focus on human capacity: At least 60 per cent of all adults should participate in training every year (up from 37 per cent in 2016), bringing the share of adults with basic digital skills up to 80 per cent. While this target is surely well-intentioned, the attention dedicated to this dimension alone questions why other critical aspects related to human capital development, including care arrangements, working time, work-life balance, or social dialogue did not attract such a degree of political ownership – be it through similar targets or, at least, in the updated Social Scoreboard. Additionally, focusing on increasing workers' participation in trainings alone risks shifting all the responsibility in job creation to the supply-side (and to employees). To correct this, the Commission should first detail how it intends to help enhance the quality of public employment services in order to improve the 'matching' of individuals' working aspirations with existing and new work opportunities.

On the other hand, adopting a life-cycle approach to learning has never been more relevant. The Commission should indeed specify how it aims to support the build-up of life-long learning capacities and stimulus systems in member states, building on existing (and successful!) targeted schemes such as the Youth Guarantee or by generalising promising national schemes such as the individual learning account (ILAs), recently launched in France (Fernandes and Kerneis, 2020).

Hochscheidt (2021) considers the recommendation on Effective Active Support for Employment (published along with the Action Plan) to be one of the most promising proposals of the package, together with a proposed reform of EU competition law to protect collective agreements for some groups of self-employed, notably formally self-employed platform workers. Also proposed are reform of European public-procurement guidelines, to foster innovation and socially-responsible procurement, and exploration of a 'European Social Security Pass'. The latter could allow for digital interactions between mobile citizens and national authorities, to improve the portability of social-security entitlements.

The employment developments since the launch of the Lisbon Strategy have demonstrated the potential of long-term policy coordination. However, they also reveal a picture of growing divergence across EU countries. This snapshot points to obvious shortcomings of an aggregate target for the EU as a whole. In the next phase, countries already performing well relatively to their neighbours should be asked to make a reasonable contribution to the common target. More importantly though, the EU as a whole should acknowledge that its highest (job) growth potential largely lies at its periphery. Achieving this objective should push EU resources to be most effectively targeted to specific challenges such as youth unemployment in Spain, female participation in Italy, or Roma exclusion in Bulgaria.

[10] The umbrella organisation of EU level social NGOs (SOLIDAR (2021) regrets „the heavy focus on employment that we believe not to be sufficiently nuanced". Although in the context of Covid-19 and the effects it has had also on the labour market a strategy for (re)creating jobs is needed, the Action Plan misses the mark by not emphasising the importance of high-quality jobs, with decent wages, working conditions and job security. In fact, the Commission states that temporary, and thus insecure, employment will be part of the recovery.

In search of a more employment-friendly growth model

The late Europe 2020 Strategy embedded the long-term targets in a vision for "smart, sustainable and inclusive growth". The EPSR Action Plan is surprisingly quiet on how a *reformed* EU growth model should contribute to the long-term development goals it is calling for. True, the Action Plan refers to the Resilience and Recovery Facility and hints at (long-awaited) developments linked to EU's industrial policy. Yet, most salient questions remain unanswered – or actually barely raised: How could a review of the EU's fiscal rules more effectively support governments' efforts to boost employment growth? How could political guidance be improved to better inform the ECB's expected contribution to the secondary objectives of "full employment and social progress"?

In a rush to turn the EPSR into a practical as opposed to theoretical initiative, the EU institutions set new development targets for the Union without reviewing the most obvious means at their disposal to support progress towards these objectives. For a sustainable Social Europe to emerge, the assessment of the relationship between economic governance and social policy should have been the starting point. If the macroeconomic model is prone to imbalances and pro-cyclical interventions, social policy will only have a limited capacity to compensate for the mistakes of economic governance. This is the elephant in the room. In the Economic and Monetary Union (EMU), promoting employment and equity at the same time requires a comprehensive macroeconomic policy mix including fiscal policy (beyond welfare spending), monetary and industrial policy. Not least because the EU's legal and financial means to support national employment policies are limited, constrained by the limited size of the EU budget[11].

Yet this reality should not serve as a disclaimer to downplay the important role of the *nature* of the EMU framework in favouring or hindering national developments strategies. The EMU fiscal rules were designed in the 1990s so as to incentivise EU member states to move away from demand-side management and look to the export-led growth model, independently from whether or not the long-term economic structures of various countries allowed for such a macroeconomic shift. Accordingly, it should come as no surprise that employment rates grew faster in 'coordinated market economies', such as Austria, Germany or the Netherlands, where regimes of wage coordination, incremental innovation, and para-public skill formation systems were already in place. By contrast, adaptation to the EMU framework clearly proved more challenging for the 'mixed-market economies' of France, Italy or Spain, which usually relied on fiscal policy and monetary devaluation to re-establish their competitiveness or tackle unemployment.

The pandemic is set to reinforce divergence across EU countries. Against that background, it is high time for the EU's policy framework to more strongly refocus on the EU's once unquestionable ambition of fostering convergence on socioeconomic outcomes, be they employment, life-long learning or poverty reduction (Andor 2020). For a viable recovery and a transition to a more sustainable economic model, the inherited fiscal rules of the EU must be reformed—if they are not to remain sidelined for a very long time. Of the old rules, the 60 per

[11] In recent decades, the total size of the EU Multiannual Financial Framework has remained around 1 per cent of the overall European GNI. The constraint here is not legal though, but rather political. As it has been mentioned before, NGEU (and the RRF in particular) represents a break away from the "glass ceiling", but at this moment without clarity about the means of raising EU revenue to repay common debt, or certainty about the continuation beyond the post-Covid recovery.

cent debt/GDP ceiling appears most out of synch with reality and we need to ensure no government seeks to enforce it, through austerity, in the foreseeable future.

The problem that has been looking for a solution for some time is the uneven fiscal capacity within the euro area (Andor 2021b). The crisis of a decade ago saw financial fragmentation and deepening asymmetry but the instrument invented to deal with these—the Macroeconomic Imbalances Procedure (MIP)— suffers from structural weaknesses and did not even come close to tackling the challenge. As then, investment in peripheral countries is at risk of remaining depressed while there is no way to boost investment in surplus countries. The aggregate macroeconomic outcome is therefore suboptimal. Unless the inherited EMU model is reformed, with the investment capacity of European countries so constrained Europe puts itself into a long-term competitive disadvantage *vis-à-vis* the United States and others.

Stepping up the effort on poverty reduction

In the Action Plan, the Commission further sheds light on a number of existing and new initiatives aimed at improving social cohesion in the EU. The main initiative in this respect lies in the 'headline target' that the number of people at risk of poverty or social exclusion[12] be reduced by at least 15 million by 2030, out of which 5 million should be children.

Though the poverty reduction target of the Europe 2020 strategy was not reached, demonstrating the limited power of the EU to effectively act in this area, dropping such an objective was not a politically acceptable option for the Commission. In 2019, an estimated 22.5 per cent of children (aged less than 18 years) in the EU-27 were at risk of poverty or social exclusion, compared with 21.5 per cent of working-age adults (aged 18-64 years) and 18.6 per cent of older people (aged 65 years and over). Setting a specific target for children is hence precious, yet we also know that poverty is far from being only a material issue. A reformed Social Scoreboard should therefore integrate more multidimensional indicators of child poverty, including access to education, health, nutrition, housing, or primary care.

Regrettably, the poverty target is the least ambitious of the three targets proposed by the Commission. This is not only puzzling with regards to the Europe 2020 Strategy where the EU strove towards a reduction by 20 million, against 15 million today. More concerning is the contrast between levels of ambitions set on the employment and the poverty targets. In 2018, one in ten employed people aged above 18 years in the EU were found to be at risk of poverty, bringing the number of 'working poor' to 20 million. While this issue has clearly gained in salience in EU policymaking, there are risks that high employment targets unmatched by sufficiently high poverty reduction targets put insufficient pressure on governments to effectively address this issue.

Here again, the next phase should aim to target country-specific issues – be it insufficient minimum wage coverage in Hungary, youth discrimination in access to benefits in France or the Netherlands, limited unemployment benefits in Germany – and identify where lie the

[12] The EPSR Action Plan continues to use the „poverty target" (AROPE) introduced in 2010 for the Europe 2020 strategy. It refers to a composite of three indicators: monetary poverty (those living on income below 60 per cent of the median income), those living in households with low work intensity, and material deprivation. People are considered to be „at risk of poverty or social exclusion" if they fall into at least one of these categories.

‘blind spots’ of the recovery plans enacted in the wake of the pandemic (Andor and Huguenot-Noël 2021).

Although lacking ambition, the poverty reduction agenda can nevertheless be seen as full of *potential*. The Commission’s proposal to establish minimum standards across the EU on minimum wages, first announced in October 2020, clearly illustrates this, although individual countries’ resistance may stand on the way. While countries such as France and Germany see this as a means to reduce risks of social dumping from their Central and Eastern European neighbours, right-wing governments in the latter have expressed concerns about it slowing down socio-economic catching up.

At the same time, repeated mentions to the proposal being made “in full respect of national traditions and the autonomy of social partners” reveals an attempt to address Nordic countries’ concern of a competency grab in this area. In this context, the Commission’s proposal to reinforce *coordination* across EU countries is undoubtedly a brave move to strike a balanced compromise between EU governments. More importantly, its relevance should not be undermined in an environment where the Covid-19 pandemic could lead to the kind of race to the bottom on social standards observed, for example, in the wake of the Great Recession.

Finally, the revised ‘Social Scoreboard’, used as a key monitoring tool in the European Semester, could also positively contribute to rebalancing coordination in favour of social indicators in a process otherwise overly concerned with macroeconomic stability. The new scoreboard indeed reveals growing awareness of the need for indicators linked to the *quality* of employment, such as people at-risk-of-poverty-in-work, involuntary temporary employees, or transitions rates from temporary to permanent contracts – all of which should be more actively monitored in the context of the Recovery and Resilience Plans. Although a positive initiative overall, next steps should now focus on improving the levels of disaggregation, providing, for example, additional data on the socioeconomic structures of populations with access to specific social services – as recently proposed by Antonucci and Corti (2020).

Overshadowed by the United States?

Today, the lack of a more comprehensive approach from the Union as a whole remains in stark contrast with fiscal and monetary developments recently observed in the United States. The ambition and initial policies of President Joe Biden to improve employment conditions and tackle poverty in the US are regularly compared to Franklin D. Roosevelt, the towering political leader from New York who introduced the New Deal in 1933 and drove the US out of the Great Depression in the following years (Greenhouse 2021).

The experience of recent decades in times of crises exposed the colossal fiscal capacity of the United States (“Big Bazooka”). It was nevertheless assumed that while the US can act in a timelier and more forceful fashion at the macro level, the EU member states are mindful about preserving the European Social Model and safeguard a myriad of micro level policies and institutions (social dialogue, public employment services, vocational training schemes etc.) that foster social cohesion and prevent the worst outcomes happening.

Make no mistake, in 2020 the pandemic shock also triggered a major innovation at EU level: the establishment of the SURE facility to support short-time work arrangements and help avoiding unnecessary job losses at mass scale, followed by the game changing RRF (enhancing the EU fiscal capacity by about 80 %, allowing for a basic counter-cyclical intervention as well as cross-country transfers). At the same time, with the entry of President Joe Biden, the US also started to experience a major reform and investment program addressing not only the Covid-recession but also the consequences of policy failures in previous decades.

The Biden administration placed emphasis on addressing the structural causes of poverty and inequality, rather than simply redressing individual shortcomings. A case in point is the newly implemented child tax credit, which provides families with children a monthly cash benefit of up to USD 300 per month over the next year. Most families with children will now qualify for this benefit, and it is estimated that child poverty[13] can be cut by up to 45 percent as a result.

Another Biden initiative is the effort to raise the minimum wage to USD 15 per hour. Far too many Americans are working at jobs that simply don't get them out of poverty. In a recent analysis using Census Bureau data, Steve Fazzari and Mark Rank found that for Americans between the ages of 25 and 59 currently in the labor force, 31 percent were working at a job that paid less than USD 16.50 an hour (Rank 2021). By increasing the minimum wage to a livable wage and indexing it to future rates of inflation, millions of workers will be lifted out of poverty.

Besides, in the Summer of 2021, a paradigm shift with regard to employment growth was taking place in the US. In the wake of the Covid-19 pandemic, President Biden enacted the USD 1.9 trillion American Jobs Plan, while Treasury Secretary Janet Yellen called for a minimum tax levy on corporations around the world[14]. In August 2020, the Federal Reserve Chairman Jerome Powell had stressed the need to find new pathways to address *shortfalls* of employment from its maximum level.

Judging by the European Commission Action Plan alone, this debate would not seem to have crossed the Atlantic yet. Rather, EU institutions seem to remain trapped in a "Janus-faced" position, like the Roman god looking both at the past and the future. In some circles, ordoliberal ideas engrained in the EMU structures originating from the 1980's still appear to be alive. Aiming to write a new page by setting *development* targets by the European Commission is a wise move. But more powerful tools will be needed to achieve them, and to empower the EU with a capacity of collective action that would resemble the US federal level. A revamped fiscal rulebook and economic governance framework are crucial first steps.

Conclusions

The Social Summit in Porto organised by the Portuguese Council Presidency on 7-8 May 2021 provided an opportunity to demonstrate the commitment of political leaders, but also to give fresh impetus for a more fundamental discussion between EU member states on how to reach the employment, human capital and poverty reduction targets proposed by the Commission. It was an occasion for EU Heads of State or Government, EU institutions, social partners and other key stakeholders to renew their commitment to implement the EU Social Pillar proclaimed in 2017.

---

[13] Various forms of child allowance have long been in place in most European countries but this is completely novel to the United States. It recognizes the importance of economic support in the raising of children.

[14] New initiatives among the G7 (and subsequently the G20) originating from Yellen for a minimum level of corporate tax co-ordination, if this works out also in practice, may play an important role in protecting the tax base and keeping deficits and so debts under control also in EU context.

Importantly, the EPSR Action Plan was released in the midst of the third wave of the Covid-19 pandemic. Setting concrete and ambitious targets on employment, skills, and poverty reduction to be reached by 2030 should also help lift spirits among the policy community. Indeed, the return to long-term targets and this specific new "social rulebook" represents a welcome initiative from the EU to set itself long-term development goals beyond the economic recovery that is under way in 2021. Yet setting a new ambition without the necessary means may risk backfiring. In order to act as a game-changer, the Action Plan should set a greater emphasis on tapping Europe's job growth potential where it lies, move beyond a supply-side approach on employment promotion, and commit to higher ambitions on the quality of employment as well as poverty reduction.

It is of great significance that the EU in 2021 brought back the idea of long-term targets for social development, but the lack of sufficient preparation and consultation became apparent during the initial discussions on the Action Plan. Many stakeholders are weary of the approach that gives priority to the quantity as opposed to the quality of jobs, reaching the employment target requires a revision of EMU rules and other aspects of economic governance. Improving GDP growth figures and a feeling that the economy is bouncing back may create a perception that things are moving back to normal and no major reform is required, which highlights why a public debate about the need to correct the flaws of the EU business model is so warranted.

EU leaders and especially Commissioner Nicolas Schmit and the Portuguese presidency of the Council can be proud of the 2021 Spring social season, but some aspects of the process leave serious questions behind. The poverty reduction target reveals no high ambition in the fields of welfare states and social investment, which is an issue that needs to be more closely connected with the reflections on macroeconomic governance. Without some of these critical breakthroughs, it is going to be difficult to prove the results of the EPSR Action Plan, let alone moving towards the new ideals developing under the umbrella of the Social Union concept.

The uncertainty remaining with regards to how the fourth wave of the pandemic will unfold should encourage EU leaders to take a step back and better link targets to the evolution of the much-needed debate on the review of the EU's economic governance framework. These discussions should start by clarifying positions on the EU's growth strategy including through the introduction of new processes, discussing what would be an appropriate fiscal stance for the EU as a whole – thereby considering how this could help tap the EU's employment growth potential where it is the highest. Only once such agreement is reached will targets make proper sense. Finally, the EU's new social rulebook embedded in the Action Plan, should be able to constructively contribute to the audacious "Future of Europe" debate.

Significantly, ahead of the social summit in Porto (and the start of CoFoE), Chancellor Angela Merkel and other EU leaders voiced their openness to the idea of Treaty change. The federal government coalition that entered office in December 2021 under the leadership of Olaf Scholz expressed an even greater ambition to move the EU towards a federal type of integration. A resulting decisive move towards a higher level of integration can capitalize on the 2021 social season by attaining more concretely defined social standards, reinforced safety nets and eventually a *de facto* solidarity among EU member states and societies.

ANNEX. EPSR Action Plan timeline

Period	*Action*
2020	European Gender Equality Strategy Industrial Strategy and SME Strategy Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) Revised Multi-Annual Financial Framework 2021-2027 Recovery and Resilience Facility and REACT-EU European Skills Agenda for Sustainable Competitiveness, Social Fairness and Resilience Council Recommendation for Vocational Education and Training Youth Employment Support, accompanied by Reinforced Youth Guarantee European Education Area Digital Education Action Plan (2021-2027) Anti-Racism Action Plan EU Roma Strategic Framework on Equality, Inclusion and Participation, accompanied by a Council Recommendation on Roma Equality, Inclusion and Participation Renovation Wave Pact for Skills Action Plan on Integration and Inclusion LGBTIQ Equality Strategy Proposal for a Directive on Adequate Minimum Wages Pharmaceuticals Strategy
First quarter of 2021	Green Paper on Ageing Europe's Beating Cancer Plan First-stage consultation of EU social partners on platform work Action Plan on the European Pillar of Social Rights Proposal for a Revision of the Social Scoreboard New Disability Rights Strategy Binding Pay Transparency Measures Effective Active Support to Employment Updating the new Industrial Strategy for Europe Strategy on the Rights of the Child, accompanied by European Child Guarantee Joint Report on the Application of the Employment Equality Directive and the Race Equality Directive Renewed Sustainable Finance Strategy European Health Data Space Guidance Notices on Public Procurement of Innovation and on Socially Responsible Public Procurement
Second quarter of 2021	Follow-up to the White Paper on Artificial Intelligence A Trusted and Secure European E-ID New Occupational Safety and Health Strategy European Platform on Combating Homelessness Communication on Decent Work Worldwide
Third quarter of 2021	Skills and Talent Package, including a Revision of Long-Term Residence and Review of the Single Permit Directives, as well as setting out options for an EU Talent Pool
Fourth quarter of 2021	Action Plan for the Social Economy Individual Learning Accounts and Micro-Credentials Framework Extension and Adaption of the Joint Employment Report Affordable Housing Initiative Initiative on Collective Bargaining for the Self-employed
2023	First EU Report on Access to Essential Services European Social Security Pass (ESSPASS)
2024	First evaluation of the European Labour Authority
2025	Review of the Action Plan on the European Pillar of Social Rights

References

Andor László and Robin Huguenot-Noel (2021) The Janus Face of Europe's New Social Rulebook, *VoxEU* 5th May https://voxeu.org/article/janus-face-europe-s-new-social-rulebook

Andor László (2020). Europe in 2020. *Progressive Post* https://progressivepost.eu/spotlights/europe-in-2020

Andor László (2021) *A European Social Union* in. Rodrigues ed. 2021 pp 63-68

Andor László (2021b) Dedramatising debt, *Social Europe* 28th July https://socialeurope.eu/dedramatising-debt

Andor László (2021c) Minimum wage – the endgame, *Progressive Post* https://progressivepost.eu/minimum-wage-the-endgame/

Antonucci, Lorenza and Francesco Corti (2020). Inequalities in the European Semester. *FEPS Policy Study*. Foundation of European Progressive Studies (FEPS). Brussels.

Bender, German and Anders Kjellberg (2021) A minimum-wage directive could undermine the Nordic model, in. *Social Europe* 13th July https://socialeurope.eu/a-minimum-wage-directive-could-undermine-the-nordic-model

Brzozowski, Alexandra (2021) ALMA, the EU's new programme to help young people find work abroad https://www.euractiv.com/section/politics/news/alma-the-eus-new-programme-to-help-young-people-find-work-abroad/

Crouch, Colin (2020) *Social Europe: A Manifesto*. Berlin: Social Europe Publishing

European Commission (2021). The European Pillar of Social Rights: turning principles into actions: https://ec.europa.eu/social/main.jsp?langId=en&catId=1226&furtherNews=yes&newsId=9939

Eurobarometer (2021). Special Eurobarometer 509: Social issues: https://www.europedirectpyrenees.eu/wp-content/uploads/ebs_509_en_rapport.pdf

European Commission (2021) Commission proposals to improve the working conditions of people working through digital labour platforms: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_6605

European Commission (2021) Social Economy Action Plan: https://ec.europa.eu/social/main.jsp?catId=1537&langId=en

European Commission (2021). Communication: European Pillar of Social Rights Action Plan: https://ec.europa.eu/social/BlobServlet?docId=23696&langId=en

European Commission (2021). Commission Recommendation on an effective active support to employment following the COVID-19 crisis (EASE): https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_971

European Commission (2021). Digital Education Action Plan (2021-2027): https://ec.europa.eu/education/education-in-the-eu/digital-education-action-plan_en

European Commission (2020). European Education Area: https://ec.europa.eu/education/education-in-the-eu/european-education-area_en

European Commission (2020). European Skills Agenda: https://ec.europa.eu/esf/main.jsp?catId=62&langId=en

Fernandes, Sofia and Klervi Kerneis (2020). *Towards an individual right to adult learning for all Europeans.* Notre Europe Institut Jacques Delors and Foundation for European Progressive Studies. Available at: https://www.feps-europe.eu/resources/publications/766-com_publications.publications.htm

Greenhouse, Steven (2021) America's most pro-union president ever? *IPS Journal* 6th August https://www.ips-journal.eu/work-and-digitalisation/americas-most-pro-union-president-ever-5340/

Hemerijck, Anton and Robin Huguenot-Noël (2021) *Resilient Welfare States in the European Union: In Search of Capacitating Solidarity.* Newcastle: Agenda Publishing

Herszenhorn, David M. (2021) Ahead of EU summit, 11 countries tell Brussels to back off on social policy, *Politico* 22nd April https://www.politico.eu/article/porto-summit-11-eu-countries-national-authority/

Hochscheidt, Lukas (2021) Social pillar Action Plan—longer on aspiration, *Social Europe* 9th March https://socialeurope.eu/social-pillar-action-plan-longer-on-aspiration

Lindahl, Björn (2021) The social pillar strengthened after EU Porto summit, in. *Nordic Labour Journal* 10th May http://www.nordiclabourjournal.org/nyheter/news-2021/article.2021-05-10.8881364719

Rank, Mark R. (2021) Fighting poverty, the Biden way, *The Hill* 12th August https://thehill.com/opinion/finance/567587-fighting-poverty-the-biden-way

Rodrigues, Maria Joao (2021) *Our European Future: Charting a Progressive Course in the World*, FEPS—LPP

Rayner, Laura (2021) *Rethinking EU economic governance: Social investment*, European Policy Center, Policy Brief https://www.epc.eu/en/Publications/Rethinking-EU-economic-governance-Social-investment~44b7cc

SOLIDAR (2019). Briefing paper 93: Implementing the European Pillar of Social Rights: Briefing paper 93: Implementing the European Pillar of Social Rights | Solidar

SOLIDAR (2021). Briefing paper 98: Action Plan on the European Pillar of Social Rights: Briefing Paper 98 - Action Plan on the European Pillar of Social Rights | Solidar

Vanhercke, Bart, Slavina Spasova and Boris Fronteddu eds. (2021) *Social policy in the European Union: state of play 2020: Facing the pandemic,* Brussels: ETUI

Imprint

Publisher
Macroeconomic Policy Institute (IMK) of Hans-Böckler-Foundation, Georg-Glock-Str. 18,
40474 Düsseldorf, Germany, phone +49 211 7778-312, email imk-publikationen@boeckler.de

IMK Study is an irregular online publication series available at:
https://www.imk-boeckler.de/de/imk-studies-15380.htm

The views expressed in this paper do not necessarily reflect those of the IMK or the Hans-Böckler-Foundation.

ISSN 1861-2180