A 'Social Imbalances Procedure' for the EU: towards operationalisation

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Abstract

In view of the formidable challenges ahead related to recovery from the Covid-19 crisis and to the green and digital transitions, the EU social governance toolbox should urgently be strengthened. This paper discusses the conditions for and added value of setting up an EU Social Imbalances Procedure (SIP), which would be a significant step in this direction. It would contribute to ensuring that EU and Member States' policies are organised (more) consistently with the notion of competitive sustainability; it would also contribute to achieving upward social convergence and reducing inequalities. After identifying normative, functional, technical and political arguments that support the creation of a Social Imbalances Procedure, the paper develops two main options for its operationalisation. In the first option, the SIP would cover the whole set of headline indicators currently included in the Social Scoreboard of the European Pillar of Social Rights, while in the second option it would be closely linked to the achievement of the EU social targets agreed upon in 2021. In terms of governance arrangements, the paper envisages a three-stage process: (i) the detection and assessment of social imbalances; (ii) the definition of actions to be taken at the national level (including an EU 'supportive arm'); and (iii) the arrangements to be put in place for monitoring implementation of the Social Imbalances Procedure.

Executive summary

This working paper discusses the possibility of setting up an *EU Social Imbalances Procedure (SIP)*, the added value of such an instrument, and how it could be made operational. A debate on this topic is taking place at the EU level, following a proposal put forward by Spain and Belgium in spring 2021.

This working paper argues that reinforcing the governance toolbox for EU social policies is necessary and urgent in view of the formidable social challenges and uncertainties related to recovery from the Covid-19 crisis and to the green and digital transitions. In such a context, social considerations should permeate the ongoing debate on the reform of EU economic governance. A key element emerging from this debate is the need to correct macroeconomic imbalances and to reduce public deficits and debts in EU Member States, while ensuring scope for investment supporting economic growth and the green transition. It appears crucial that these objectives be made consistent with the EU's social objectives, and that EU macroeconomic and fiscal policies contribute to achieving upward social convergence and reducing inequalities. This implies that the EU's social governance arrangements should be strengthened, because they are presently significantly weaker and less institutionalised than EU macroeconomic and fiscal governance. This working paper argues that setting up an SIP would be a significant step in this direction, and that institutional, political and social actors interested in strengthening the EU's social dimension should exploit the current window of opportunity.

This working paper provides a working definition of social imbalances and identifies normative, functional, technical and political arguments that justify why multiple and persistent social imbalances in the Member States should be seen as a matter of common concern. It then develops *two main options* for a possible Social Imbalances Procedure. In the first option, the instrument would cover the whole set of headline indicators currently included in the Social Scoreboard of the European Pillar of Social Rights (EPSR). The benchmark used to identify social imbalances would be the notion of upward social convergence in a broad sense, relying on the methodology currently used by the Employment Committee (EMCO) and the Social Protection Committee (SPC) to evaluate the situation and developments in the Member States in relation to the headline indicators of the Social Scoreboard. In the second option, the SIP would be closely linked to the achievement of the EU social targets agreed during the 2021 Porto Social Summit of EU leaders. The procedure would primarily be based on the Social Scoreboard's headline indicators more directly related to those targets, while the other headline indicators would be used to complement and deepen the analysis.

In this option, the benchmark for identifying social imbalances would be Member States' performances in relation to national social targets, and the procedure would use a specific assessment methodology to capture these performances. These two options appear to be the most pragmatic if the objective is to launch the SIP in the short run. Nevertheless, other solutions are worth exploring in the future, including linking the SIP more explicitly to the social challenges of the green transition.

In terms of *governance arrangements*, the working paper envisages that an EU SIP would include three stages: (i) detection and assessment of social imbalances; (ii) definition of actions to be taken at the national level (including an EU 'supportive arm'); and (iii) arrangements for monitoring SIP implementation. In operationalising these stages, attention should be paid to the role to be assigned to the various institutional and societal actors at both the EU and national levels. Careful consideration should also be given to the need to link the SIP to existing governance processes (notably, the European Semester), so as to avoid duplication and an additional burden on EU and national administrations. In this view, the working paper provides ways forward to ensure complementarity between the SIP, the Macroeconomic Imbalance Procedure (MIP) and the procedures for implementing the Stability and Growth Pact (SGP).

The European Commission's Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL), the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council formation and its two advisory Committees (EMCO and SPC) would play a key role in the detection and assessment of social imbalances. Several other institutional and societal actors should equally be involved, however: the European Parliament, the European Economic and Social Committee, and the Committee of the Regions, as well as EU and national social partners and other relevant stakeholders.

When defining actions to be taken at the national level in order to address social imbalances, a key role would be played by national authorities and by the Commission and the Council, within the framework of the Semester. The Commission and the Council would provide guidance through Country-specific Recommendations (CSRs) explicitly linked to the Social Imbalances Procedure, while the Member States found in situations of social imbalance could be asked to identify and report on initiatives aimed at addressing those imbalances in specific Sections of their National Reform Programmes.

In case of 'excessive imbalances', a more stringent set of procedures and initiatives linked to the SIP could be envisaged, entailing extra support from the EU. Such a 'supportive arm' of the SIP would be incentive-based, based on cooperation with the Member States, open and transparent. Within the framework of the supportive arm, actions needed to address social imbalances would be defined in specific national Multi-annual Action Plans (MAP), agreed between the national government and the European Commission, through a process duly involving national parliaments, social partners and other relevant stakeholders.

Finally, monitoring of SIP implementation could be conducted through the documents and procedures of the European Semester. Member States should report on progress on the initiatives/reforms to address social imbalances in a specific Annex to their NRPs. The Commission should annually monitor the situation in the Country Reports and recommend further action, if needed, through the CSRs. For countries that have submitted a MAP, enhanced monitoring could be envisaged.

Introduction

European Commissioner for Jobs and Social Rights Nicolas Schmit, during the press conference launching the 2022 European Semester Autumn Package, said that 'when reflecting on the future of the European Semester, [the] EPSCO advisory committees will also begin to consider a proposal made by two Member States [Spain and Belgium] for a Social Imbalances Procedure, as we know that the pandemic has amplified social divergences and economic divergences and we need to tackle these in the context of the European Semester' (European Commission 2021a). A reference to future work in the Employment Committee (EMCO) and the Social Protection Committee (SPC) on the proposal put forward by Spain and Belgium was also included in the European Commission's proposal for the Joint Employment Report (JER) published on 24 November 2021 (European Commission 2021b: 3).

The aim of this working paper is to provide food for thought for the policymakers, stakeholders and scholars involved in the public debate on the review of the EU's economic governance framework. Notably, this working paper discusses the possibility of setting up a Social Imbalances Procedure (henceforth 'SIP'), the added value of such an instrument, and key issues to be reflected upon for its operationalisation. More specific objectives of this working paper are as follows: first, it describes and discusses the policy background to the ongoing discussions around a possible SIP and the reasons justifying its adoption in time for the 2023 cycle of the European Semester (henceforth 'the Semester'). Second, it illustrates the state of the debate on such a procedure, including the joint proposal by Belgium and Spain. Third, it identifies and discusses a number of key (political and technical) issues and challenges related to the establishment of a future SIP for the European Union (EU). Fourth, it makes some concrete proposals for the detailed design of a possible SIP. Since existing proposals are modelled – more or less explicitly – on the governance arrangements of the Macroeconomic Imbalance Procedure (MIP), Annex 2 features several boxes that which succinctly present illustrate the main elements of the MIP. The final section summarises the key messages emerging from this research.

The research for drafting this working paper was conducted between September and December 2021. This paper is based on an analysis of the relevant academic literature and policy documents, the findings of ten elite interviews[1] and a

1. Interviews were conducted by the authors and included EU and national policymakers and stakeholder representatives. They were conducted under the condition of strict anonymity.

previous proposal for the establishment of a SIP put forward by the European Social Observatory for the Workers' Group of the European Economic and Social Committee (Sabato et al. 2019). An earlier version of this working paper was discussed with selected national and EU policymakers and stakeholders during an online expert meeting held in December 2021, under the Chatham House rule.

This working paper argues that the setting up of a SIP would represent a significant step towards striking a balance between existing EU arrangements for the coordination and surveillance of economic and fiscal policies, and pursuit of the EU's social objectives. Such an instrument could help to ensure that EU and national policies are fully consistent with the principles of competitive sustainability and just transition, which are at the heart of the Semester and the European Green Deal (EGD). The establishment of a SIP appears particularly urgent in view of the formidable social challenges and uncertainties related to recovery from the Covid-19 crisis and the green and digital transitions.

1. Setting the scene: a changing EU socio-economic governance

Since the establishment of the European Economic Community, the European integration process has been characterised by an *asymmetry of competences* between the economic and social spheres (Scharpf 2010). The original focus of the European project was the creation of a single market and, to achieve this objective, significant competences were transferred to the European level. By contrast, key competences in many social policy areas have remained in the hands of the Member States. That said, the impact of the single market (and, later, of broader economic policies) on Member State social policies has become increasingly evident over time. Market-making policies and the activist stance of the Court of Justice of the European Union (CJEU) have had important implications for domestic welfare states (Leibfried 2015), including in areas such as pensions and health care (Ferrera 2005). In addition to the asymmetry of competences between the economic and the social spheres, the construction of the Economic and Monetary Union (EMU) was also characterised, from the outset, by asymmetric integration, with more supranational governance in monetary policies and a far less centralised governance of economic policies (cf. Verdun 1996; Howarth and Verdun 2020).[2]

The shortcomings deriving from these multiple asymmetries came urgently to the fore during the financial and economic crisis of 2007–2008. To tackle the Great Recession, the European Union has, since 2010, undertaken important reforms of its macroeconomic and fiscal policies, with a view to better coordinating Member State action in these domains (Hodson 2015).[3] First, in autumn 2011, the EU adopted a package of five Regulations and one Directive (the so-called 'Six-Pack'), aimed at strengthening EU fiscal and economic governance. Several provisions in the Six-Pack aimed at enhancing Member States' compliance with the Stability and Growth Pact (SGP) – including by strengthening the Excessive Deficit Procedure (EDP) – while other provisions introduced a Macroeconomic Imbalance Procedure and the 'European Semester for economic policy coordination'. Second, in March

2. As explained by Howarth and Verdun (2020: 289), this asymmetry 'is predominantly institutional, in that there is a supranational institutional structure in monetary policy making while the institutions involved in fiscal policy making operate more in the intergovernmental domain – despite important powers assigned to the European Commission – with predominant responsibilities lying with the member states'.

3. While this section refers only to the main initiatives taken in the wake of the financial and economic crisis, which exploded at the end of the 2000s, key reforms of EMU governance were undertaken in previous years, including, importantly, the creation of the SGP in 1997 and its reform in 2005. For an in-depth analysis of the origin and subsequent reforms of the SGP, see Heipertz and Verdun (2010).

2012, 25 Member States[4] signed the intergovernmental 'Treaty on Stability, Coordination and Governance in the Economic and Monetary Union' (generally referred to as the 'Fiscal Compact'), undertaking to introduce a balanced budget rule into national legal systems. Third, two Regulations were adopted in 2013 (the so-called 'Two-Pack'). The first of these Regulations enhanced the monitoring and surveillance of the draft budgetary plans of the euro-area Member States and reinforced measures aimed at correcting excessive deficits in euro-area countries. The second Regulation introduced 'enhanced surveillance' for those Member States facing severe difficulties regarding their financial stability, those receiving financial assistance, and those exiting a financial assistance programme.

As already mentioned, the *European Semester for economic policy coordination* was formally introduced through the Six-Pack. The Semester is an annual policy coordination cycle that synchronises and coordinates various instruments and procedures linked to the reformed SGP (fiscal policies) with macroeconomic policies (the Macroeconomic Imbalance Procedure) and activities associated with the Europe 2020 Strategy (the EU's overarching growth strategy for the period 2010–2020), including its social component. Over time, the Semester has undergone several changes, both substantive and procedural. The initial focus of the Semester was on macroeconomic and fiscal objectives, essentially encouraging Member States to implement fiscal consolidation policies, with only scarce consideration for their social implications, but already in 2012 'tackling the social consequences of the economic crisis' was included among the key priorities of the Semester's Annual Growth Survey (AGS). In this respect, Zeitlin and Vanhercke (2018) demonstrated the progressive 'socialisation' of the Semester, in terms of both its substantive outcomes (such as the Country-specific Recommendations, CSRs) and its procedural aspects. In particular, an increasingly central role in the Semester has been gradually taken by EU institutional 'social actors', such as the European Commission's DG Employment, Social Affairs and Inclusion (DG EMPL), the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council formation, the EMCO and the SPC (ibid.). Thus, one can say that the Semester has gradually (essentially since 2013) developed a social dimension, in addition to its macroeconomic and fiscal dimensions. This 'socialisation' process has been further facilitated by the launch of several initiatives and tools in the social domain, including, importantly and more recently, the *European Pillar of Social Rights* (EPSR) and its (in the meantime revised) Social Scoreboard, which built on and revamped the Commission's 2013 social scoreboard. The EPSR – jointly proclaimed by the Commission, the European Parliament and the Council in November 2017 – has contributed to the relaunch of the EU social agenda and to the further strengthening of the Semester's social dimension (Sabato and Corti 2018; Vanhercke et al. 2018; Corti 2022; Vesan et al. 2021).

In December 2019, the European Commission launched the *European Green Deal*, the new EU growth strategy replacing Europe 2020. Tackling climate and environmental challenges is presented as the key priority of the EU growth

4. The Treaty was not signed by Czechia and by the United Kingdom. At the time the Treaty was signed, in 2012, Croatia had not yet joined the EU.

strategy, and the stated objective of the European Green Deal is to guide the transition towards climate neutrality by 2050 (European Commission 2019a). To do so, the EGD identifies several policy areas and initiatives that are supposed to characterise the transition towards a more environmentally sustainable economic model.[5] In the Commission's view, a precondition for the success of the transition is that it should be 'just and inclusive' (European Commission 2019a: 2), meaning that the costs of the ecological transition ought not to be borne by the most vulnerable regions and social categories. Besides a marked territorial character, focusing on those European regions and sectors that rely heavily on fossil fuels, the European Green Deal's notion of just transition is also linked to a broader strategic framework, the EPSR (Sabato and Fronteddu 2020). The European Commission has in fact defined the EPSR as '[the EU's] social strategy to make sure that the transitions of climate-neutrality, digitalisation and demographic change are socially fair and just' (European Commission 2020a: 2).

In line with the European Green Deal's objectives, one of the main novelties of the Semester's 2020 cycle was the attempt to endow the process with an environmental dimension and to incorporate the United Nations' Sustainable Development Goals (SDGs) (Sabato and Mandelli 2021). The 2020 Semester cycle was indeed based on what the European Commission presented – in its Annual Sustainable Growth Strategy (ASGS) – as a 'broader economic narrative' (European Commission 2019b: 13), that is, 'competitive sustainability'. Framed as such by the Commission, the notion of competitive sustainability consists of four, interrelated dimensions: environmental sustainability, productivity growth, fairness, and macroeconomic stability. 'Fairness' represents the social dimension of the competitive sustainability narrative, highlighting the need to deliver fully on the Principles of the EPSR (European Commission 2019b: 9), to prevent and contrast the risk of growing social divides, and to ensure social rights to all EU citizens. It was expected that the Semester would continue, as in the past, to provide a key governance framework to monitor Member States' progress in implementing the EPSR (ibid.: 3), using the indicators of its Social Scoreboard. Remarkably, the first sentences of the Annual Sustainable Growth Strategy 2020 read 'Economic growth is not an end in itself. An economy must work for the people and the planet' (European Commission 2019b: 1, bold in the original removed). In other words: it is somehow acknowledged that productivity growth and macroeconomic stability should be instrumental to achieving the objectives of fairness and environmental sustainability.

Soon after the publication of the Semester Country Reports in February 2020, EU countries were hit hard by the *Covid-19 pandemic*. The pandemic (declared by the World Health Organisation on 11 March 2020) has had far-reaching socio-economic consequences. The 2020 CSRs – proposed by the Commission in May 2020 and adopted by the Council in July 2020 – considered the need to tackle

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5. In the EU jargon, this is referred to as the 'green transition', namely 'the transition of the EU economy and society towards the achievement of the climate and environmental objectives primarily through policies and investments, in line with the European Climate Law laying down the obligation to achieve climate neutrality by 2050, the European Green Deal and the Paris Agreement' (European Commission 2021c: Art. 3a).

the pandemic, concentrating on 'limiting economic damage, ensuring adequate health protection and facilitating a swift, robust recovery to set the economies on the path of sustainable and inclusive growth' (European Commission 2020b: 2). Thus, the 2020 CSRs recommended that Member States take the necessary measures to address the social impact of the pandemic, also temporarily disregarding fiscal constraints – a solution made possible by the activation, on 23 March 2020, of the 'general escape clause' of the SGP (Council of the European Union 2020a).[6] To mitigate the pandemic's negative social impacts, several CSRs called on the Member States to ensure the resilience of health care systems, strengthen education systems, tackle the digital divide and implement dedicated labour market measures (Rainone 2020). Moreover, in line with the ambitions of the European Green Deal, most Member States were given a CSR urging them to identify areas in which sustainable investments can be frontloaded (European Commission 2020b) to boost economic-environmental synergies. Suggested investment priorities included clean and efficient production and use of energy, waste and water management, and sustainable transport.

In response to the Covid-19 crisis, the EU pledged financial support to Member States totalling €2.018 trillion, the largest package ever financed through the EU budget. Earmarked for EU recovery, the funding comes via the Multiannual Financial Framework (€1,211 billion) and 'NextGenerationEU' (NGEU) (€806.9 billion), with the temporary *'Recovery and Resilience Facility'* (RRF) at its heart (€723.8 billion) (European Commission 2021d). The EU has issued debt to finance this expenditure, the size and scope of which are unprecedented, breaking with longstanding taboos (Alcidi and Corti 2022). To have access to the resources of the Recovery and Resilience Facility, EU Member States submit national Recovery and Resilience Plans (RRPs), in which they set out detailed reforms and investments to be completed by 2026.[7] The Recovery and Resilience Plans are supposed, among other things, to promote green and digital transitions. They are supposed to allocate a minimum of 37 per cent of expenditure to investments and reforms that support climate objectives, as well as dedicate a minimum of 20 per cent of expenditure to digital transition. All initiatives included in the Recovery and Resilience Plans should be consistent with the so-called 'do no significant harm' principle, with reference to the EU's environmental objectives.

When it comes to social policies, Member States are requested to implement the principles and rights of the EPSR and the Semester's 'social' CSRs (in particular, the CSRs for 2019 and 2020) through their Recovery and Resilience Plans. Contributions to the implementation of the EPSR 'should require the highest score' in the assessment of the Recovery and Resilience Plans carried out by the Commission in the process of approval of the national plans (European Union

6. The general escape clause, which can be activated when the euro area or the EU as a whole face a severe economic downturn, does not suspend SGP procedures. It does, however, allow the Member States to deviate from the SGP's budgetary requirements (in terms of budgetary deficits and fiscal debt ceilings), which would normally apply.

7. By December 2021, all Member States except for the Netherlands had submitted their Recovery and Resilience Plans. Twenty-two out of the 26 submitted Recovery and Resilience Plans have been endorsed by the Commission (the plans of Bulgaria, Hungary, Poland and Sweden are still being analysed).

2021: par. 42). That said, unlike for the green and digital transitions, the Recovery and Resilience Facility Regulation does not stipulate minimum allocations for social objectives. Neither does it specify social targets that Member States ought to achieve. Importantly, however, during the negotiations on the Recovery and Resilience Facility, the European Parliament managed to obtain a mandate for the European Commission to develop (through delegated regulation) a methodology for reporting social expenditure (European Commission 2021e). The methodology's objective is to provide summary information on social expenditure under the Facility.[8] This compromise was the only one that was acceptable to the Member States to counterbalance somewhat the lack of social targets in the Recovery and Resilience Facility Regulation (for a more detailed discussion, see Vanhercke et al. 2021). A set of new headline social targets for the EU were ultimately defined in March 2021, when the European Commission published an Action Plan for the implementation of the EPSR, and further discussed during a special Social Summit held in Porto in May 2021 (see Section 3.2.2).

The Semester is intended to be a key institutional vehicle for implementation and monitoring of the Recovery and Resilience Facility at the EU level. The need to adapt the process to the features of the Recovery and Resilience Facility, however, has entailed important changes to the Semester, including the temporary suspension of key elements of the process. During the 2021 cycle, for instance, the publication of annual Country Reports and CSRs was suspended for those countries that had submitted Recovery and Resilience Plans – except for the recommendations linked to the SGP (adopted in July 2021).

Vanhercke and Verdun (2021, 2022) argue that the changes introduced in the 2021 Semester cycle have altered the roles of and the power balance between the (institutional and societal) players traditionally involved in the Semester at EU level. New players have subsequently emerged, such as the Recovery and Resilience Task Force (RECOVER) – a new entity within the Secretariat General – but also the Directorate-General for Structural Reform Support (DG REFORM). Furthermore, traditional players have seen their roles altered (for example, a further enhanced role for the Commission's Directorate-General for Economic and Financial Affairs [DG ECFIN]). According to the available evidence (ibid.), institutional EU 'social actors' – notably the European Commission's DG EMPL, the EPSCO Council formation, the EMCO and SPC – have to a large extent been sidelined (at least formally) from the initial governance of the Recovery and Resilience Facility (Vanhercke et al. 2021).[9] These actors, as well as the European social partners, were able to (re-)gain a role only at a later stage, partly by appealing to practices and procedures that had been institutionalised in the Semester during the past decade. By contrast, EU civil society organisations and domestic social

8. The Commission will assign each measure with a primarily social dimension to one of the nine social policy areas, which are to be aggregated into four broader social categories, namely: (i) employment and skills, (ii) education, (iii) health and long-term care, and (iv) social policies. The data on social expenditure under the facility will feed into the new 'Recovery and Resilience Scoreboard' adopted in December 2021.

9. According to some of our interviewees, some economic actors in the Council (notably, the EPC) had also initially been sidelined from the governance of the Recovery and Resilience Facility.

stakeholders (social partners and civil society organisations) remain largely sidelined in the new process (ibid.).

2. Addressing the asymmetry between EU economic and social policies: unfinished 'socialisation'?

2.1 Limits to the rebalancing of the EU's social dimension

As mentioned in the previous section, the social dimension of the European integration process has been, in many respects, strengthened over recent years. This has also resulted in several important legislative initiatives linked to the EPSR, including in areas such as work–life balance, working conditions, pay transparency and minimum wages. That said, several limitations and challenges remain.

First, regarding *outcomes*, the process of socialisation notwithstanding, the EU and its Member States show mixed results, at best, in achieving the social targets of Europe 2020 (Rainone and Aloisi 2021). While the employment target was a 'near miss' (and would likely have been reached without Covid-19), the poverty target was a clear failure.[10] In addition, even before the outbreak of the Covid-19 pandemic, important differences in Member States' social situations could be discerned, and not all the Member States (and social groups within the countries) have benefitted equally from the upward economic and social convergence that had slowly restarted in recent years (Eurofound 2020, 2021).

Second, in terms of *outputs*, guidance through the Semester's CSRs has its limitations. The scholarly research points to a varied rate of implementation of the CSRs in the Member States and, in some cases, to only low-level implementation (cf. Haas et al. 2020; Hagelstam et al. 2019). Furthermore, while noting increased attention to social policies in the Semester, some authors have pointed to a lack of consistency in the packages of recommendations addressed to the Member States over the years, potentially leading to tensions between 'social' CSRs and those pertaining to the macroeconomic and fiscal domains (Hacker 2019), especially in countries with high public debt. In these countries, because the fiscal and macroeconomic CSRs (attached to processes such as the Macroeconomic Imbalance Procedure and the Excessive Deficit Procedure) usually indicate a need to implement fiscal consolidation policies, there is then questionable fiscal room for manoeuvre to effectively implement social CSRs (Hacker 2019; Hemerijck and

10. For a detailed analysis, cf. the joint EMCO and SPC report assessing the Europe 2020 strategy (European Commission 2019c).

Corti forth.).[11] Furthermore, it is important to highlight the increasing tendency to include themes related to social policies in CSRs linked to the Macroeconomic Imbalance Procedure and the SGP. According to Bokhorst (2019: 109) this is a consequence of the over-extension (or 'dilution') of the scope of the Macroeconomic Imbalance Procedure, deriving partly from difficulties in clearly defining the notion of macroeconomic imbalances and the complexity and comprehensive character of these phenomena. According to Dawson (2018), the inclusion of social issues in CSRs under the Macroeconomic Imbalance Procedure or the SGP is a further sign of the 'displacement of social Europe' under the Semester, that is, a dynamic of subordination of social policies to the overarching objectives of fiscal discipline and economic competitiveness. The tendency to include a high number of social issues under the Macroeconomic Imbalance Procedure has been criticised by the EMCO and SPC, because it would allow the Economic Policy Committee (EPC) to exercise shared competence on the review matters that fall under the competence of the EPSCO Council (Bokhorst 2019: 100). On the economic side, such an over-extension of the scope of the Macroeconomic Imbalance Procedure has equally been criticised because it would make the procedure blurred and overly complex, thus weakening its effectiveness and credibility (cf. Bokhorst 2019: 113-114).

Third, in terms of *governance procedures*, the coordination and surveillance of macroeconomic policies under the Macroeconomic Imbalance Procedure and of fiscal policies under the SGP are based on legislation providing binding procedures for assessing, monitoring and correcting problematic situations in the Member States. These procedures also envisage the possibility of imposing financial sanctions on euro-area Member States. According to a number of scholars, these procedures (part of the EU's 'new economic governance') have proved strong enough to enhance EU influence on national social and employment policies, reinforcing the subordination of social goals to the imperatives of economic competitiveness and fiscal discipline at the EU level (cf. among others, Dawson 2018; Costamagna 2018; Jordan et al. 2021). Other scholars highlight that the fact that procedures such as the Macroeconomic Imbalance Procedure and the Excessive Deficit Procedure are based on binding frameworks does not automatically mean that implementation is hierarchical and rigid, nor that they automatically promote neoliberal and austerity-oriented policies. For instance, as noted by Bokhorst (2019), besides its legal design, the actual implementation of the Macroeconomic Imbalance Procedure has been rather discreet, especially on the European Commission's side. The MIP has been enforced not in a purely coercive way (relying on hierarchy and sanctions), but rather using mainly non-hierarchical mechanisms, such as socialisation, persuasion and peer pressure (Bokhorst 2019). Rather than imposing reforms in a top-down fashion, the Macroeconomic Imbalance Procedure has often been used as a tool to monitor the Member States more closely, to emit political signals and to ring alarm bells in case of unbalanced trends or unsatisfactory progress of reforms (ibid.). Nevertheless, the actual stringency of the Macroeconomic Imbalance Procedure has varied over time and across countries, depending on factors such as the EU political context

11. See also D'Erman et al. (2019) for a discussion of the relative importance of specific policy areas within the CSRs and on the extent to which CSRs have been tailored to country-specific needs.

(in particular, the orientations of the European Commission), domestic political contexts and market pressure (Bokhorst 2019). Persuasion has in some cases been significant, and decisions taken in the context of the Macroeconomic Imbalance Procedure have affected national policies by imposing constraints on government action or by prompting national initiatives due to the high costs of inaction (ibid.).[12] Furthermore, although the corrective arm of the Macroeconomic Imbalance Procedure (the 'Excessive Imbalance Procedure' [EIP]) has never been used and the imposition of financial sanctions on Member States seems very much to be a tool of last resort, these elements could nevertheless be used in the future, especially in the event of financial and economic turmoil, entailing the risk of spillovers across euro-area countries. Similarly, implementation of the SGP is not immune from political considerations, and extreme forms of enforcement, such as financial sanctions in case of non-compliance, have not been used so far (cf. Mérand 2021; Sacher 2021; van der Veer 2022). The procedures for implementation of the SGP are rule-based, however, and appear more constraining than the Macroeconomic Imbalance Procedure, with a higher capacity to affect Member State policies and debates, especially in some countries and circumstances (cf. Mariotto 2022). The EU social governance toolbox contains no procedures whose stringency is comparable to the Macroeconomic Imbalance Procedure and the SGP.

Against this background, one could argue that the recent progress in the development of the European social dimension and in the socialisation of EU macroeconomic governance have been due mainly to a combination of contingent factors. The favourable critical juncture included the entrepreneurial role played by high-level EU political figures, such as former Commission President Juncker, the improved economic situation from the mid-2010s, and political factors such as the need to halt the advance of 'Euroscepticism' (cf. Carella and Graziano 2022; Corti 2022; Vesan et al. 2021). These developments have not fundamentally altered the institutional framework on which EU social policymaking is based, however. Notably, while the EPSR has helped to boost a new Social Agenda for the EU and to support the inclusion of social issues in the Semester, it is nevertheless non-binding and not linked to any institutionalised procedures for monitoring and correcting worrisome social developments in the Member States. In this respect, the EPSR falls short of striking a new structural balance to replace the asymmetry in relation to budgetary and macroeconomic policies (Rasnača and Theodoropoulou 2020; Rainone and Aloisi 2021). Hence, one might wonder whether the governance infrastructure underlying EU social policymaking is strong enough to cope with changing economic and political circumstances and with the formidable challenges ahead – including the effects of the Covid-19 crisis and the impact of the green and digital transitions – especially in view of a possibly more stringent enforcement of EU coordination and surveillance procedures in the fields of macroeconomic and budgetary policies.

12. In particular, while the Macroeconomic Imbalance Procedure was used in a more stringent way in the initial years after its creation (without, however, using its corrective arm), from 2014, in a changed economic context, the Juncker Commission adopted a less top-down style, with a view to multiplying interactions with national governments and increasing ownership at the domestic level (Bokhorst 2019).

Indeed, first, there is a risk that the social situation in the EU will deteriorate significantly in the coming years as an effect of the Covid-19 crisis. It is too soon to say exactly what its long-term impact will be. Suffice to say that so far it has been very varied across territories, economic sectors and social groups (cf. Eurofound 2021). In particular, the gradual phasing-out of the support measures implemented by the Member States will likely lead to an increase in unemployment and social inequalities (Dauderstädt 2022; European Commission 2021f; Eurofound 2021; ETUI and ETUC 2021). Second, the Covid-19 crisis and EU and national investment plans to support the recovery may accelerate ongoing processes of transformation linked to the green and digital transitions. In particular, to implement the European Green Deal, the EU is increasingly relying on binding targets and legislation aimed at achieving the objective of climate neutrality, with the European Commission recently proposing, among other things, a European Climate Law (European Commission 2020c) and a comprehensive legislative package targeting a variety of economic sectors: the so-called 'Fit for 55' package (European Commission 2021g). The transformations foreseen in this legislation are likely to have a strong impact on the European labour market and societies. Without accompanying social policy interventions and enhanced monitoring of their social impact, there is a risk that they will further accentuate existing inequalities and social distress. Third, having been put on hold during 2020 and most of 2021 because of the Covid-19 pandemic, the debate on reforming EU economic governance (cf. European Commission 2020d) was officially relaunched in autumn 2021 and will continue in 2022. In October 2021, the Commission published a Communication framing this debate, also in light of the new circumstances deriving from the pandemic. According to the European Commission (2021h), the pandemic has aggravated existing societal challenges,[13] and addressing them will require considerable (public and private) investment and the implementation of policy reforms, in particular to ensure the green and digital transitions, the achievement of the EU's open strategic autonomy, and socio-economic resilience. While cohesion policy and the Recovery and Resilience Facility may contribute to this effort, the Commission concludes that 'a persistent and sizeable increase in both public and private investment in Member States' will be needed (European Commission 2021h: 6). Such an investment effort, however, will take place in a context characterised by the deterioration of macroeconomic imbalances in several countries (ibid.: 7) and a generalised increase of national deficits and debt ratios,[14] including in most of the Member States already with high levels of public debt before the pandemic (ibid.: 5). Consequently, even though several factors could support fiscal sustainability (European Commission 2021h: 5), in the Commission's view 'a gradual, sustained and growth-friendly reduction to prudent debt levels' (European Commission

13. These include (European Commission 2021h: 1-3) the rapidly ageing population, weak productivity growth, rising income and wealth inequality and territorial disparities within and among Member States, unequal access to education and skills, challenges related to climate change, environmental degradation and the digital transformation, differences in socio-economic resilience across Member States, territories and sectors.

14. According to Commission data, the EU headline deficit increased to about 7 per cent of GDP in 2020 from 0.5 per cent of GDP in 2019, and the aggregate debt ratio increased to 92 per cent of GDP at the end of 2020 (European Commission 2021h: 13).

2021h: 9) is needed,[15] while the interplay between macroeconomic surveillance under the Macroeconomic Imbalance Procedure and fiscal surveillance under the SGP should be strengthened (ibid.: 11-12). In the Council, the reform of economic governance was among the topics dealt with by the Eurogroup on 8 November and by the Economic and Financial Affairs (ECOFIN) Council configuration on 9 November 2021 (cf. Agence Europe 2021a, 2021b). The possible reform of the fiscal framework is a particularly thorny and divisive issue: some Member States are asking for a revision of fiscal rules to make them more flexible in order to support the recovery from the pandemic and allow public investment for the green and digital transitions (among others, France and Italy), while other Member States maintain that existing provisions already provide enough flexibility and that relaxation of the rules would be counterproductive for the objectives of fiscal discipline and debt reduction (in particular, Austria, Czechia, Denmark, Finland, Latvia, the Netherlands, Slovakia and Sweden). Key issues on the table include the deficit and debt thresholds themselves (respectively, 3 and 60 per cent of GDP), and the debt reduction criterion (for countries with public debt exceeding 60 per cent of GDP, a yearly reduction of one-twentieth of the difference between the current debt ratio and the 60 per cent reference value).

To conclude, in the past decade, the asymmetry between social and economic policies at the EU level has to some extent been attenuated but not resolved: EU 'social governance' still appears weaker than macroeconomic and, especially, fiscal governance. Furthermore, in some respects, the EU social governance toolbox is weaker than the governance of the policies for the green transition,[16] as the latter are increasingly based on binding targets, legislation and dedicated funding (for example, in the Recovery and Resilience Facility). This circumstance entails the risk that social objectives may again be sidelined (as happened with the involvement of social players in the Recovery and Resilience Facility, see Section 1) or diluted, should they conflict with the pursuit of macroeconomic and fiscal objectives or the objectives of the green transition, especially once the general escape clause of the SGP is discontinued (possibly in January 2023), and as the pressure to reduce public deficits and debts becomes stronger. Against this background, because social challenges may well be significantly heightened in the next few years, reinforcement of the governance framework for EU social policies appears necessary and urgent.

15. In particular, in countries '[w]here debt ratios are very elevated, promoting nationally-financed investment will require clear prioritisation of expenditures and efforts to improve the overall composition and quality of public finances' (European Commission 2021h: 6).

16. To be sure, EU environmental policy competences are varied, and the availability and stringency of EU targets, legislation and funding differ significantly across the thematic areas covered by the EU climate and environmental objectives.

2.2 A Social Imbalances Procedure as a possible solution: a Belgian-Spanish proposal

Several solutions have been put forward over time to strengthen, structurally, EU social policies, including a proposal to set up a Social Imbalances Procedure, as a counterpart to the procedures addressing macroeconomic imbalances and excessive public debts and deficits.

While some of our interviewees report that discussions on the need to create a mechanism in the social field parallel to the Macroeconomic Imbalance Procedure already took place in 2010/2011, the possibility of establishing a Social Imbalances Procedure was mentioned explicitly in an official document by the European Parliament in 2016.[17] It was subsequently restated by the Parliament in its 2017 Resolution on the social and employment aspects of the Annual Growth Survey (European Parliament 2017; see also Milotay 2020: 12), in which the Parliament called on the European Commission 'to consider the introduction of a procedure for social imbalances in the design of CSRs' (European Parliament 2017: point 72). No details on what such a procedure would look like were given, however, nor on how it would work in practice.

In a study commissioned by the Workers' Group of the European Economic and Social Committee (EESC) in 2019, the European Social Observatory (OSE) provided the initial operational building blocks for the idea of a SIP, delineating some of the main components and functioning of an EU instrument aimed at addressing social imbalances (Sabato et al. 2019).

More recently, the proposal to endow the EU with an instrument for addressing social imbalances has re-emerged in the EU political debate. In a 'non-paper' published ahead of the Porto Social Summit of May 2021, the Belgian and Spanish Prime Ministers proposed to equip the EPSR's Social Scoreboard with 'an alert mechanism that triggers a more in-depth follow-up and discussions at committee and ministerial level, based on the approach for macro-economic imbalances in the Alert Mechanism Report' (Belgian and Spanish Governments 2021). This initial *proposal by Belgium and Spain* was subsequently further elaborated by the two countries in several policy notes circulated in the EPSCO committees, delineating a possible SIP reflecting, in many respects, the preventive arm of the Macroeconomic Imbalance Procedure (cf. Annex 2, Box 2). One rationale for this design is legal in nature: according to its proponents, if the SIP does not include a corrective arm similar to the corrective arm of the Macroeconomic Imbalance Procedure, it could be based entirely on the existing procedures of Art. 148[18] of the Treaty on the Functioning of the European Union (TFEU), as well as on the Semester, and could be established through Council Conclusions – a relatively easy way to go about obtaining such a change. According to the Belgian-Spanish proposal, the Commission would be tasked with identifying the countries at risk of social imbalances, based on an analysis of the Social Scoreboard indicators (see

17. Resolution on the implementation of 2016 priorities of the European Semester (European Parliament 2016).
18. Article 148 TFEU on the coordination of employment policies.

Section 3.2.1). These countries would be listed in the Joint Employment Report, together with a preliminary analysis of those imbalances. A more comprehensive analysis aimed at investigating these imbalances and their severity would take the form of a ‘social In-Depth Review’ (‘social IDR’) to be included in the Semester’s Country Reports, followed by a Commission Communication identifying the countries in social imbalance and inviting them to address the situation. On that basis, after a preparatory discussion in the SPC and EMCO, the EPSCO Council would be invited to discuss the countries identified by the Commission as at risk of social imbalances and decide whether they are indeed in such a situation. The results emerging from the Social Scoreboard would not be read in a mechanical way, but would instead be discussed based on other monitoring frameworks, such as the Employment Performance Monitor (EPM) and the Social Protection Performance Monitor (SPPM). Finally, the Semester’s CSRs would include recommendations explicitly aimed at addressing the social imbalance. Finally, according to the Belgian-Spanish proposal, a similar procedure could be adopted for EU-level imbalances, with a dedicated social In-Depth Review in the JER.

This proposal was presented by the Belgian and Spanish ministers at the 15 October 2021 EPSCO Council, gaining support from ministries from several Member States (Estonia, Greece, Italy, Luxembourg, Latvia and Portugal), while other Member States expressed at least an interest in discussing it further (Bulgaria, Cyprus, France, Finland, Germany and Sweden). Several Member States furthermore underlined the importance of avoiding a situation in which the possible introduction of a similar mechanism might entail additional administrative burdens (Bulgaria, Cyprus, Denmark, Finland, Ireland and Romania). The European Commissioner for Jobs and Social Rights, Nicolas Schmit, welcomed the proposal (Agence Europe 2021c) and, as mentioned in the introduction, the European Commission (2021b: 3), in its proposal for the JER 2022, indicated that the revised Social Scoreboard, together with country-specific analysis, would enable closer monitoring of social divergences and that ‘[t]he EPSCO Council’s advisory committees will reflect on a proposal made by Spain and Belgium for a Social Imbalances Procedure (SIP) based on Article 148 of the TFEU in the context of the European Semester’. Thus, while informal exchanges took place during the second half of 2021 about the feasibility, scope and aims of the Belgo-Spanish proposal, formal deliberations are taking place in the first semester of 2022 under the French Presidency of the Council, which provides the EPSCO Committees with a formal mandate to start working in early February.

3. The scope of a Social Imbalances Procedure

3.1 A working definition of social imbalances and arguments in favour of the establishment of a Social Imbalances Procedure

The first set of (interrelated) issues to be addressed when establishing a SIP concern the definition of 'social imbalances'. From such a definition it logically follows how one is to determine (and measure) the existence of 'excessive' social imbalances.[19] One starting point is the definition of macroeconomic imbalances in the Macroeconomic Imbalance Procedure (cf. Annex 2, Box 1).

At a general level, *social imbalances* can be defined as social *problems* and *trends* that, given their social, economic and political implications, threaten social cohesion *within* a Member State. An accumulation of imbalances in various social policy domains and/or persistent negative trends in specific domains may indicate that a country is experiencing *excessive social imbalances*. Admittedly, this definition of social imbalances remains rather vague, as it leaves open several issues: (i) *which* social problems and policy areas should be considered; (ii) *how* to measure related imbalances; and (iii) *why* the EU should intervene in addressing them through a dedicated procedure.

As for the latter point, while Member States hold key responsibilities to address social imbalances at the national level, several arguments point to why multiple and persistent social imbalances within a Member State should be seen as a matter of 'common concern' justifying further action at the EU level, for instance in the form of a Social Imbalances Procedure.[20]

First, there is a *normative* argument linked to the ideal aspirations of the European project. Excessive social imbalances within one Member State could indeed jeopardise the achievement of key social objectives of the Union, as defined in the Treaties. These include (Art. 3 Treaty on European Union): the promotion of the well-being of European peoples; combatting social exclusion and discrimination;

19. It appears important to specify that the distinction made in this working paper between social imbalances and excessive social imbalances does not appear in documents circulating in policymaking circles at this stage. The latter simply refer to 'social imbalances' or, sometimes, 'harmful social imbalances'.

20. For an in-depth discussion of various arguments potentially justifying the EU's role in social rights through EU social policies, see also Vandenbroucke et al. (2021).

the promotion of social justice and protection, equality between women and men, solidarity between generations and the protection of the rights of the child; the promotion of social and territorial cohesion.

Second, a *functional* argument can be put forward. Vandenbroucke et al. (2013) define 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' (ibid.: 5), insofar as divergent trends might affect economic symmetry in the euro zone (ibid.: 14). Excessive imbalances in specific domains are attributable partly to shared causes at the pan-European level and may create problem 'spillovers' from single countries to the pan-European level, including in terms of legitimacy and support for EMU and European integration. Examples of such social problems include youth unemployment and child poverty (Vandenbroucke et al. 2013; see also Hanushek and Woessmann 2019; Hirsch 2008; UNICEF and the Global Coalition to End Child Poverty 2017). Furthermore, imbalances and negative social trends in specific social domains (either common, deteriorating patterns or significant cross-country diverging trends) could be common to several EU countries, thus indicating possible shortcomings of EU policies and of the functioning of EMU. The functional argument is based on the idea that certain social policies are instrumental to the proper functioning of the Single Market and of EMU, implying that – for a monetary union to work properly – a certain degree of convergence in national social systems and in the social standards they guarantee would be needed (Vandenbroucke 2017). In other words, achieving 'upward economic convergence' in the EU would not be possible without simultaneously promoting a certain degree of (upward) social convergence. This would justify EU action supporting the proper functioning of domestic welfare states (Vandenbroucke 2017; Vandenbroucke et al. 2021). Given its link with the pursuit of economic objectives (first, economic growth and competitiveness), the functional argument usually entails a focus on social investment policies, such as active labour market policies, education, training and skills development policies. Such a focus, already characterising the 2013 Commission Social Investment Package, can also be found, to some extent, in the EPSR. In the EPSR, the function of social policies as a productive factor is however combined with an explicit rights-based narrative and an emphasis on social protection policies, to the extent that some observers have labelled the approach of the EPSR as one of 'rights-based social investment' (Sabato and Corti 2018).

A third argument is more *technical*, in that it is related to the quality of EU policymaking. In some cases, social imbalances within a Member State could indeed be affected (worsened or improved) by decisions taken at the EU level in domains in which the Union has significant (although varied) competences. This is, for instance, the case with the internal market, macroeconomic and fiscal policies, and – increasingly – policies for the green transition. Decisions taken in these policy areas are likely to have an impact (directly or indirectly) on social developments in the Member States. Thus, although many areas of social policies are primarily a competence of the Member States, a *principle of responsibility* would apply: the Union would be required to ensure consistency between initiatives and decisions taken in other policy domains and the pursuit of its social objectives. To do so, it would closely monitor and help prevent (and where necessary, correct) possible social imbalances deriving from those initiatives and decisions. The establishment of a SIP would facilitate increased consistency of policymaking and in so doing it could also strengthen the implementation and enforcement of decisions taken within the framework of the Macroeconomic Imbalance Procedure and of the SGP. Making sure that action recommended to the Member States within the framework of those procedures duly considers social implications would increase ownership at the national level and, in its wake, the credibility, legitimacy and political acceptability of these processes.

A fourth argument is *political*. As noted by Vandenbroucke et al. (2013), excessive social imbalances between countries may threaten the political legitimacy of the European project, as the latter is based on the promise of achieving high social standards and upward social convergence. The same applies to excessive social imbalances within countries, when citizens and social groups perceive – rightly or wrongly – that the worsening of their situations can be attributed to EU policies and the integration process. Indeed, many actions taken after the 2008 financial and economic crisis, particularly social austerity measures, were viewed this way. There is a risk that initiatives to foster recovery from the Covid-19 crisis and for the green transition might be viewed through the same lens if the latter are not considered socially fair. In this context, balancing the existing asymmetry between EU economic and social policies and strengthening the consistency of EU policymaking is not only a *technical necessity* but also a *political imperative* to ensure the political legitimacy of and citizens' support for European integration.

Thus, while our working definition of excessive social imbalances primarily points to imbalances *within* Member States, these imbalances may also represent a threat to the EU as a whole, quite apart from the fact that they could be common to *several* EU or euro-area countries.

3.2 Identifying social imbalances: the EPSR, the Social Scoreboard and the EU social targets

Both technical and political considerations were behind the setting up of the Macroeconomic Imbalance Procedure, because there was no obvious consensus on the notion of macroeconomic imbalances and their causes (Bokhorst 2019: 65-67). Thus, intellectual and political debates developed on the scope of the future procedure (more targeted versus more comprehensive) and on the indicators to be used (ibid.). The definition of macroeconomic imbalances included in the Macroeconomic Imbalance Procedure Regulation appears fairly broad and vague, and the notion was further clarified only at a later stage, especially through the publication of multiple in-depth Commission studies on various types of imbalances and their potential risks (Bokhorst 2019: 82).

Similarly, both technical and normative considerations may influence the identification of social problems and policy areas that could be included in the notion of social imbalances to be targeted by the SIP, the definition of possible thresholds and benchmarks for assessing these imbalances, and decisions on the methodology by which social imbalances would be measured. Ultimately, these would be political choices, all the more so when choosing to describe a specific set of social problems and trends in the Member States as a 'common concern', thereby justifying EU intervention.

That said, from both a pragmatic and a political point of view, the starting point for defining the scope of the SIP and measuring social imbalances should be the rights and principles included in the EPSR and the headline indicators in the Social Scoreboard. Indeed, the EPSR enjoys a high degree of political legitimacy because of its unanimous adoption and interinstitutional proclamation. With this caveat in mind, one can identify two main options for social policy areas that a SIP might target.[21]

3.2.1 Option 1 – Using the current EPSR Social Scoreboard to the full

The first option would be to use, as a starting point for the identification of social imbalances, *the full set of headline indicators of the EPSR Social Scoreboard* (see Annex 1).

The risk of social imbalances for each country would be determined on the basis of clearly agreed criteria, including: (i) the number of worrying performances that are detected in the current year (such as critical situations, situations to watch, situations good but requiring closer monitoring); and (ii) the year-on-year evolution of these performances. The 'dynamic' aspect of the criteria for identifying possible social imbalances – that is, considering not only 'levels' but also 'trends' – would allow the inclusion in the SIP not only of countries with traditionally poor performance in the social realm, but also of countries demonstrating good or average performance, but with a deteriorating trend. This should be considered key for at least two reasons. First, from a political point of view, a system based on levels and trends may increase support in the Council for the establishment of a SIP, because the latter would not be perceived as an instrument concentrating on a limited number of countries (that is, those traditionally experiencing problematic social situations). Second, such an approach would be consistent with the notion of *upward* social convergence underpinning the EPSR, implying that social convergence in the EU should mean that the worst performers catch up, while the situation of the best performers does not deteriorate. In other words, on this option, any national trends jeopardising the achievement of the objective of (upward) social convergence in the EU – in the policy domains measured by the Social Scoreboard – could potentially be considered a social imbalance.

21. The order in which the two options are illustrated does not necessarily reflect the preferences of the authors of the present working paper. These options appear to be the most suitable if the objective is to set up a SIP in the short run. Other options in terms of policy areas and indicators to be included in the SIP are obviously possible (see, for instance, Section 3.4). However, these would entail a longer timeframe for setting up the procedure.

This option would be in line with the proposal for a SIP put forward by Belgium and Spain and currently being considered by the EPSCO committees. This proposal, however, does not exclude a priori a SIP based on a sub-set of Social Scoreboard indicators (rather than the full set). In this respect, it is important to highlight that the notion of upward (socio-economic) convergence is highly technical, entailing considerable measurement difficulties (cf. Eurofound 2018; 2021). Eurofound (2021: 10), defines upward convergence 'as the condition realised when a Member State's performance improves to the point that it draws closer to an ideal policy target, while at the same time narrowing the gap between itself and other countries'. In this respect, it should be noted that most of the indicators in the EPSR's Social Scoreboard are not linked to concrete, commonly agreed EU targets (such as income quintile ratio, disability employment gap, housing cost overburden and attendance in formal childcare).

3.2.2 Option 2 – Linking the Social Imbalances Procedure to achieving the new EU social targets

As mentioned in Section 1, three EU headline social targets were proposed in March 2021, when the European Commission published an Action Plan for the implementation of the EPSR (European Commission 2021i). These headline targets were then endorsed by the Council and welcomed by the European Council. The three headline targets are to be reached at the EU level by 2030.[22] Intended to guide policy decisions in the Member States, the three targets are: (a) at least 78 per cent of the population aged 20 to 64 to be in employment by 2030; (b) at least 60 per cent of all adults participating in training every year; and (c) reducing the number of people at risk of poverty or social exclusion by at least 15 million. These headline targets are accompanied by several sub-targets (see Table 1). The Commission's Action Plan and, more generally, the way ahead for EPSR implementation were further discussed during a special Social Summit held in Porto in May 2021, bringing together EU heads of state and government, the presidents of EU institutions, and representatives of the social partners and of civil society organisations (cf. Council of the European Union 2021; Porto Social Summit 2021). Member States are now expected to set national targets to contribute to achieving the EU headline targets.[23]

Hence, a second possibility that could be considered is to link the SIP to the policy areas (and the Social Scoreboard indicators) more directly related to *achieving the commonly agreed EU social targets* identified in the Action Plan for the implementation of the EPSR (Table 1). In this case, the benchmark for identifying a social imbalance would be Member States' performances in relation to national targets: negative national trends (or slow progress) in achieving national targets would signal the existence of social imbalances in the countries concerned.

22. These headline targets build upon the Europe 2020 Strategy social target.
23. By November 2021, 13 Member States had submitted initial proposals for national targets, while some have shared preliminary analyses.

Table 1 **EPSR Action Plan: headline targets and sub-targets**

Policy areas	Headline targets	Sub-targets
Employment	At least 78% of the population aged 20 to 64 to be in employment by 2030.	i) at least halving the gender employment gap compared with 2019; ii) increasing the provision of formal early childhood education and care; iii) decreasing the rate of young people neither in employment, nor in education or training (NEETs) aged 15—29 from 12.6% (2019) to 9%.
Training	At least 60% of all adults participating in training every year.	i) at least 80% of those aged 16–74 should have basic digital skills; ii) further reducing early school leaving, increasing participation in upper secondary education.
Poverty and social exclusion	Reducing the number of people at risk of poverty or social exclusion by at least 15 million (compared with 2019 levels).	i) at least 5 million children out of being at risk of poverty or social exclusion.

Source: European Commission (2021i).

In this option, the social imbalances to be monitored, prevented and corrected through the SIP would thus be related to: (i) the employment rate; (ii) the gender employment gap; (iii) provision of early childhood education and care; (iv) young people neither in employment, nor in education or training (NEET); (v) adult participation in training; (vi) basic digital skills; (vii) early school leaving and participation in upper secondary education; (viii) poverty or social exclusion; and (ix) child poverty or social exclusion. It should be noted that the revised Social Scoreboard (Annex 1) includes the indicators used to define the above targets. The Social Scoreboard's headline indicators not directly related to the social targets could be used to complement the analyses conducted within the framework of the SIP.[24]

24. In a chapter analysing in a comparative way how Member States perform on various EU agreed social inclusion indicators, Marlier et al. (2012) highlight that these varying national performances bring out the diversity and multidimensionality of poverty and social exclusion, and also of national situations and policies. As explained by the authors, 'no country scores consistently better than the cross-country median on all indicators, and [...] most countries excel (are in the top quartile) on at least one indicator. Across countries, there is remarkably little correlation between different indicators, reflecting different social, demographic and economic situations, but also different (implicit) policy priorities and trade-offs [...] The case for a comprehensive portfolio of indicators, covering all key dimensions of the common EU objectives and balanced across the different dimensions, seems thus well established' (Marlier et al. 2012: 331). Even though Marlier et al. focus only on social inclusion measures, whereas the EPSR covers several other important social areas, their implicit message also applies here: to ensure broad support from countries, it is important that the set of retained indicators makes it possible to take into account the differences in social, demographic and economic circumstances, and countries' different policy priorities and trade-offs.

3.3 Measuring social imbalances: methodological issues

Once the policy areas and indicators have been selected, the *methodology* by which Member States' performances on these indicators are assessed still needs to be defined.

A key issue is the choice of benchmark and related thresholds. The Macroeconomic Imbalance Procedure looks at changes or levels (depending on the indicator) compared with defined thresholds, common to all countries. In the social field, however, it is more difficult to determine the criteria that would make it possible to define 'social imbalances' and distinguish them from 'social challenges'. Considerable methodological work has been done at EU institutional level, however, to monitor countries' social performance, which can be used in the SIP. Comparisons of national performances with the EU average or with the performances of the EU's best performers can be used to evaluate the situation and developments in individual Member States.

If Option 1 is chosen, the current methodology (agreed by the EMCO and the SPC) used to evaluate the situation and developments in the Member States based on the EPSR Social Scoreboard's headline indicators would be used within the framework of the SIP. In this method, levels and changes are classified according to their distance from the respective (unweighted) EU averages, and Member States' performances are then combined, so that each Member State can be classified in one of seven categories: (i) best performers; (ii) better than average; (iii) good but to monitor; (iv) on average/neutral; (v) weak but improving; (vi) to watch; and (vii) critical situation. The results of this analysis, already conducted within the framework of the Semester, are reported and discussed in the annual JER and in the Semester's Country Reports. This methodology (see European Commission 2021j for a detailed description) can be summarised as follows: the national level of each indicator is standardised, that is, expressed in terms of how many standard deviations it deviates from the EU (unweighted) average. The same is done for the year-to-year change. A 'rule of thumb' is then used to define the thresholds and categorise the countries in terms of level and change.[25] By combining the two, the country's overall performance according to each indicator is classified into one of the seven categories mentioned above. In this method, both levels and changes are compared with the EU average, which constitutes the benchmark.

25. The level of the threshold used represents the number of standard deviations by which the national indicator deviates from the EU (unweighted) average (>1; 0.5-1; 0-0.5; -0.5-0; -0.5- -1; < -1). The value of the threshold therefore depends on the EU average value (level or change) of the indicator under scrutiny. For example, for the evolution of the AROPE indicator, a decrease of the national indicator between 2018 and 2019 of less than 0.2 percentage points (pp) is considered 'lower than average' and an increase of more than 0.2 pp is considered 'much lower than average' (the EU evolution attained -0.7 pp). This raises questions that could lead to some amendments of the current method: first, it is very likely that in view of the confidence interval of the AROPE indicator in most countries, such small evolutions are not significantly different from zero or do not differ from each other. Second, in terms of interpretation, it may be politically difficult to identify as problematic a situation in which there was a slight improvement or a very modest deterioration in the country, because, on average, other countries performed better.

By contrast, if Option 2 is used, for each country, the benchmark would be the 2030 target in each field, irrespective of the evolution in other countries. The aim of the SIP would be to identify all Member States that face deteriorating trends and are diverging from their 2030 targets, whatever the situation of the others.

Whatever the options and related benchmark chosen, there are two other important methodological issues that need to be addressed in the development of the SIP.

First, the SIP should be based only on evolutions that are *both* statistically significant and 'substantive'. Estimating the accuracy of survey estimates is crucial. This is an important basic quality requirement that needs to be considered in the SIP. The Social Protection Performance Monitor dashboard – a monitoring tool developed by the SPC to identify annual key social trends to watch in the EU – provides an interesting example of accuracy estimations. It highlights both the most recent changes and changes in comparison to 2008 (as the base year for monitoring progress for the social aspects of the Europe 2020 Strategy) which are statistically significant from zero. In addition to the checks for the *statistical* significance of changes, the SPC Indicators Sub-group (ISG) and the EMCO's Indicators Group agreed on a common methodology to assess the *substantive* significance of changes in the Social Protection Performance Monitor and the Employment Performance Monitor.[26]

Second, the SIP should be based only on developments that are 'robust over time'. A focus of the Social Imbalances Procedure on year-to-year changes has the advantage of allowing for highly reactive alert mechanisms, but implies the risk of capturing short-term volatility and focusing on trends that are not robust over time (for example, a one-year move that returns to the Y–1 level in Y+1). A thorough consideration of the best definition of 'imbalance' and a careful test of different options are therefore essential. As in the Macroeconomic Imbalance Procedure, mid-term trends could be considered (for example, comparing year Y with year Y–3 or Y–5) and combined with the level of each indicator. Another option could be to launch an alert after x consecutive negative yearly trends.

In summary, the SIP should consider both levels and trends. The latter should be statistically significant, substantive and robust over time. These criteria would enable a distinction to be made between social challenges and social *imbalances*.

26. See, for example, Social Protection Performance Monitor dashboard results (January 2020 update).

3.4 Looking ahead: the Social Imbalances Procedure supporting a social guarantee for the green transition

Options 1 and 2 illustrated in Section 3.2 can be considered the most likely options for establishing the SIP in the short term, insofar as they are based on the indicators already included in the Social Scoreboard and the EU headline social targets. Both the Social Scoreboard and the social targets benefit from significant support among societal and institutional actors and have already been agreed at the EU level; linking the SIP to these policy instruments in their current form would therefore make setting up that procedure smoother from both a political and a technical point of view. This said, other options could also be explored in the future: notably, linking a possible SIP more explicitly to the green and digital transitions.

In previous work, Sabato et al. (2019) proposed that a Social Imbalances Procedure could cover five (broad) policy areas: *poverty and social exclusion, unemployment, education, health care*, and *housing*. This selection is based on overlaps between basic rights included in the EPSR and in other EU and international declarations of rights, such as the Universal Declaration of Human Rights, the EU Charter of Fundamental Rights and the United Nations' Sustainable Development Goals. These five policy areas are key to ensuring that all citizens have access to what Ian Gough (2021) labels 'life essentials', which are fundamental for the satisfaction of basic human needs (see also Gough 2017). In the context of the radical transformations needed to achieve the objectives of the green transition and of the need to tackle the already emerging impact of climate change, ensuring access to these life essentials should make up the bulk of a 'social guarantee' complementing green deal policies (Gough 2021).[27] In this sense, the SIP would then be linked more explicitly to the notion of a just transition as framed in the European Green Deal and in the Commission Communication on 'A strong social Europe for just transitions' (European Commission 2020a). It could thus be aimed primarily at anticipating, monitoring and correcting possible adverse social consequences deriving from EU and national policies within the framework of the green transition, with a view to ensuring that fundamental social rights and citizens' needs are not compromised (but rather enhanced) during the transition. In addition to specific policy areas, in line with the notion of just transition, a future SIP would need to pay particular attention to developments related to monetary and non-monetary *inequalities* (including, importantly, gender equality). The notion of just transition is indeed based on the principles of procedural and distributional justice, the latter implying that both the opportunities the transition will create and the costs it will entail should be shared fairly, thereby considering and addressing current and potential inequalities (cf. Sabato and Fronteddu 2020: 9).

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27. Such a social guarantee would encompass cash income derived from employment, fair wages and forms of guaranteed income, and in-kind income derived from existing universal services (including education, health and social care, housing, childcare, access to basic transport services and digital access) (Gough 2021: 10).

The principles contained in the EPSR include references to the five policy areas listed above, as well as to other components of the social guarantee envisaged by Gough (2021: 10), such as *child care*, access to *basic transport services* and *digital access*. At the moment, however, linking the SIP more explicitly to the green transition would entail a number of challenges. First, the political debate at EU level on how concretely to ensure a just transition is still ongoing, and consensus among EU institutions, Member States and societal actors is still to be established. In this respect, the European Commission recently published a 'Proposal for a Council Recommendation on ensuring a fair transition towards climate neutrality' (European Commission 2021c), highlighting several policy areas and actions to be included in comprehensive policy packages that the Member States should implement in order to make sure that the green transition is socially fair.[28] The text of the Recommendation has not yet been approved by the Council, however. Second, to link the SIP more closely to the green transition, further reflection would be needed to identify additional indicators that fully illustrate aspects related to access, affordability and quality of services and related inequalities. While established indicators of poverty and social exclusion and unemployment exist at the EU level and are included in the Social Scoreboard, the indicators linked to education and health care[29] are rather limited and would need to be fleshed out if the purpose is fully to cover issues related to the quality, access and affordability of education and health-care systems. The same applies to indicators measuring inequalities, while no headline indicators related to access to basic transport services are available in the Social Scoreboard. Furthermore, headline indicators related to employment may not adequately reflect key issues related to employment quality.

3.5 The scope of the Social Imbalances Procedure: key messages

Summing up, Options 1 and 2, illustrated in Section 3.2 above, appear the most likely basis for setting up the SIP. While other options, such as linking a possible SIP more explicitly to the green and digital transitions, may be explored in the future, both political considerations and issues related to the availability of indicators would make their realisation difficult at the present stage. Although both Options 1 and 2 are strictly linked to the EPSR, they differ in terms of scope (that is, number of social policy areas and indicators to be included in the SIP), 'benchmark' in order to identify an imbalance, and methodologies to assess imbalances.

28. These policies include (European Commission 2021c): (i) active support for quality employment; (ii) quality and inclusive education, training and lifelong learning, as well as equal opportunities; (iii) fair tax-benefit systems and social protection systems (including high-quality, affordable and accessible social, health and long-term care service); and (iv) access to affordable essential services and housing (including essential services such as water, sanitation, energy, transport and mobility, financial services and digital communications).

29. Respectively, early leavers from education and training, and self-reported unmet need for medical care.

In terms of scope, while Option 1 would include most of the principles of the EPSR as captured by its Social Scoreboard, Option 2 would be narrower but more focussed. In terms of benchmarks, in Option 1, social imbalances in a country would be identified based on levels and trends related to the achievement of the broad (and, in a way, more 'aspirational') objective of upward social convergence in the EU, considering the whole spectrum of indicators in the Social Scoreboard. In Option 2, social imbalances in a country would be identified based on trends and performances related to the achievement of concrete national social targets that, in turn, would affect the EU's ability to reach the commonly agreed targets. In terms of methodology, while Option 1 would rely on the assessment methodology already used by the EMCO and SPC, Option 2 would require a methodology capturing developments in the Member States in relation to their path towards national social targets.

That said, one should also note that the two main options identified in this working paper overlap to some extent. First, there are obvious overlaps in terms of policy areas and challenges, insofar as most of the headline targets and sub-targets of the EPSR's Action Plan are measured through indicators already included in the Social Scoreboard. Second, even if the SIP is limited to selected policy areas/social challenges, as would be the case in Option 2, in-depth analysis of these would probably broaden the discussion, including other relevant policy areas and social challenges. In addition, other indicators of the Social Scoreboard not directly linked to the EU and national social targets would be used to complement the analysis in the SIP. Third, the adoption of Option 1 would not exclude the SIP devoting particular attention to those policy areas and challenges more directly related to reaching the EU social targets. For instance, while identifying and monitoring imbalances alongside the whole spectrum of indicators of the Social Scoreboard, analysis of imbalances affecting the achievement of the targets could be carried out through a specific methodology (see Section 3.3); more stringent procedures in terms of EU interventions could also be established when these imbalances risk jeopardising the achievement of the EU targets (see Section 4). That said, irrespective of the policy areas/challenges included, it seems important that their territorial and gender dimensions, as well as other aspects related to inequalities, should be considered in analyses undertaken within the framework of the SIP.

4. Governance arrangements

Several issues should be carefully considered when attempting to delineate the governance arrangements for a possible SIP. These include: (i) the role to be attributed to the various institutional and societal actors at both EU and national levels; (ii) the need to link the SIP to existing governance processes, so as to avoid duplication and an additional burden on EU and national administrations; (iii) the relationship between the SIP and existing procedures in the macroeconomic domain (MIP) and in the fiscal domain (SGP); (iv) the logic of the procedure (incentive-based versus punitive); and (v) the legal basis for the SIP.[30] In what follows, we keep in mind these critical issues while illustrating possible options for the various stages of a SIP and key issues to be addressed at each stage.

At a general level, a future SIP should be firmly embedded in the Semester. After the suspension of key elements of the process in 2021 (see Section 1), the Semester is again fully operational for the 2022 cycle, which was kickstarted in November 2021 with the publication of the Autumn Package. The governance framework of the upcoming Semester cycle has been presented by the European Commission (2021l) in the Annual Sustainable Growth Survey 2022, published on 24 November 2021.[31] While the Semester has broader scope than the Recovery and Resilience Facility, several changes to the process have been envisaged to integrate and ensure complementarity. In particular, the Semester now includes (ibid.: 14-15):

i) A 'standard' Autumn Package, including the Annual Sustainable Growth Survey, the Alert Mechanism Report (AMR), the JER, the Recommendation for the euro-area countries, and the Commission's opinion on draft budgetary plans for euro area countries.
ii) National Reform Programmes (NRPs), to be submitted by the Member States by the end of April. The NRPs should also include the bi-annual reporting on the Recovery and Resilience Facility. In the same period, the Member States will submit their Stability and Convergence programmes.

30. The latter is beyond the scope of the present working paper.
31. As was the case in the previous two cycles, the policy priorities identified in the Annual Sustainable Growth Survey 2022 are structured around the four dimensions of competitive sustainability and refer to the Sustainable Development Goals. According to the European Commission (2021l: 4), 'Ensuring that the four dimensions of competitive sustainability are mutually reinforcing is a key transformational challenge of economic and social policies'.

iii) 'Streamlined' Country Reports published by the Commission in May.[32] These documents will take stock of Member States' implementation of the Recovery and Resilience Plans and will provide an overview of the economic and social developments and challenges in the Member States, as well as a forward-looking analysis of their resilience. This overview will include an assessment of progress on the implementation of the EPSR (based on the revised Social Scoreboard), and on the achievement of the EU headline social targets. Importantly, 'where applicable', the reports will also include a summary of the findings of the in-depth reviews under the Macroeconomic Imbalance Procedure. Based on the analysis in the Country Reports, the European Commission will identify gaps relating to those challenges that are only partially or not addressed by the Recovery and Resilience Plans (European Commission 2021l: 15).[33]

iv) Country-specific Recommendations, to be proposed by the Commission to the Council in spring 2022. Besides recommendations on the budgetary situation of the Member States under the SGP, the CSRs will cover 'key issues identified in the Country Reports, and where relevant the in-depth reviews, for which policy action over several years may be required' (European Commission 2021l: 15), also with a view to bringing forward and reinforcing Member States' efforts under the Recovery and Resilience Plans, addressing emerging challenges, accelerating the twin transitions, and building up resilience.

The Country Reports, the in-depth reviews linked to the AMR and the proposals for CSRs will be part of the 2022 Semester Spring package, together with other documents related to the SGP and the yearly SDG monitoring report published by Eurostat.

4.1 Initiating the Social Imbalances Procedure: detecting and assessing social imbalances

It is worth recalling that the goal of the Macroeconomic Imbalance Procedure is to set out detailed rules for the detection, prevention and correction of excessive macroeconomic imbalances within the EU and that, in order to do so, the MIP has both a *preventive* and a *corrective* arm (cf. Annex 2, Boxes 2 and 3).

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32. For the 2022 cycle of the Semester, the Country Reports will be published in May 2022. For the next cycles, the expectation is that these documents will be published in February/ March of each year.

33. The Country Reports provide the analytical basis for the CSRs, and analyses contained in those documents have traditionally been based on a multiplicity of sources, including several datasets and scoreboards. In this respect, several new features are envisaged in the Annual Sustainable Growth Survey, which mentions – among the sources that could underpin the analysis – the Recovery and Resilience scoreboard (to be established by December 2021), the reporting on social expenditure in the Recovery and Resilience Plans (based on the methodology adopted by the Commission in December 2021), and the Resilience Dashboard.

As mentioned in Section 2.2, the Belgian-Spanish proposal on the possible establishment of a SIP envisages a procedure reflecting, in many respects, the preventive arm of the Macroeconomic Imbalance Procedure. According to that proposal, the main institutional actors steering the SIP would be DG EMPL of the European Commission, the EPSCO Council formation and its two advisory Committees (EMCO and SPC). These players would hold important responsibilities in key steps of the procedure, such as the identification of countries in situations of social imbalance and assessment of the severity of those imbalances.

A SIP with these features would indeed be in line with the proposal in the Belgian and Spanish non-paper published ahead of the Porto Summit, which refers generically to the setting-up of 'an alert mechanism that triggers a more in-depth follow-up and discussions at committee and ministerial level, based on the approach for macro-economic imbalances in the Alert Mechanism Report' (Belgian and Spanish Governments 2021). In our opinion, the introduction of such a mechanism would be a step towards strengthening the EU's social dimension. It would rebalance the role of EU institutional actors in the relaunched Semester (in particular, the EMCO, SPC and the EPSCO Council formation) and highlight further potentially worrisome social trends. In-depth discussions may be triggered on the causes and possible solutions and could give a higher profile to the CSRs related to the SIP. A SIP with these features would also furnish further arguments for EU and national political and societal forces interested in pursuing a progressive social agenda.

This said, the Belgian-Spanish proposal does not address two aspects that would be key for setting up a strong and effective Social Imbalances Procedure: first, the relationship between the SIP and other procedures in the economic and fiscal domains, such as the Macroeconomic Imbalance Procedure and the Excessive Deficit Procedure, and second, the role to be attributed in the SIP to other institutional and societal players besides the Commission and the Council. These aspects require further examination, insofar as they could narrow the effectiveness of the procedure and its ability to rebalance the structural asymmetry between economic and social policies in EU policymaking.

4.1.1 MIP, SGP and SIP: parallel, complementary, integrated?

Regarding the relationship between the SIP and other economic and fiscal procedures, while a SIP with the features presented above would run in parallel with the Macroeconomic Imbalance Procedure and SGP-related monitoring, the complementarity between these procedures could be strengthened to make sure that the EU recommendations to the Member States are consistent. In other words, even if the final outcome of the SIP were to be limited to the publication of social CSRs in the domains in which social imbalances are identified (that is, in the absence of a proper corrective arm as per the Macroeconomic Imbalance Procedure), consistency should be ensured with the analysis and initiatives taken under the SGP rules and the MIP. This outcome could be facilitated by the fact that key stages of the SIP as emerging from the Belgian-Spanish proposal would take place simultaneously with key stages of the MIP and of initiatives related to the SGP, under the common governance umbrella of the Semester.

The fact that the various procedures would run in parallel, however, might not be sufficient to ensure complementarity and integration.[34] Several arrangements could indeed be envisaged to further enhance complementarity. First, key documents related to the SIP could be based on formats facilitating comparisons and cross-analyses with corresponding documents of the MIP and SGP. Thus, the Commission analysis identifying the countries at risk of social imbalances in the JER could include a synthesis of the key findings and main messages for each country, modelled on the 'Member States specific commentaries' in the MIP's Alert Mechanism (cf. European Commission 2021k: 50-76). This way, a comparison would be easier between the main findings and messages from the two procedures, and any particularly problematic aspects or inconsistencies would be immediately apparent. Similarly, the social In-Depth Reviews envisaged in the Belgian-Spanish proposal could be based on a similar format to the MIP In-Depth reviews, also including a matrix summarising the severity of the challenges identified, evolutions and prospects, and the policy responses by the Member State concerned. Second, pushing complementarity a step further, social imbalances identified through the SIP should be reported in the documents produced in the context of the Excessive Deficit Procedure and the MIP (at both EU and national levels), while a requirement that these documents provide an explanation of how macroeconomic and fiscal policies will affect and help to address the social imbalances identified would lead to proper integration between the various procedures. This reporting would be particularly important for countries simultaneously experiencing both social and macroeconomic imbalances (and/or subject to enhanced scrutiny under the SGP rules). The Commission's Country Reports could be the main documents for ensuring complementarity and integration (see Section 4.3), also given that these documents contain analysis pertaining to the key dimension of environmental sustainability. Nevertheless, additional options to enhance complementarity and integration could be explored, including:

i) Inclusion in the Commission's Alert Mechanism Report of a box summarising the findings of the Commission's preliminary analysis of social imbalances and of specific references to that analysis in the parts of the AMR where overlaps between the SIP and the MIP are more evident (for example, discussions of wages, household debt, housing).
ii) Inclusion in the recitals of the Commission's 'Recommendation for a Council recommendation on the economic policy of the euro area' of a specific paragraph summarising social imbalances in the euro-area countries.
iii) Inclusion of the main findings and messages from the preliminary Commission analysis of social imbalances in its overall assessment of the draft budgetary plans submitted by the euro-area countries, as well as references to country-specific imbalances in the Commission's Opinions on the draft budgetary plans of individual countries. Similarly,

34. The fact that the various procedures run in parallel may enhance their complementarity. However, here we refer to complementarity in cases in which documents related to the various procedures are based on formats facilitating comparisons and cross-analyses or when the key messages/findings from one procedure are also reported in documents related to other procedures. Integration would be a step forward, meaning that the analysis/findings from one procedure would affect the analysis and conclusions in the other procedures.

if relevant, references to the Commission's preliminary analysis could be included in the guidance letters on the fiscal policy orientations addressed by the Commission to non–euro area Member States.

Further reflections would be needed, however, on the feasibility and suitability of the options illustrated above: important legal, institutional and political issues may arise. Because the Macroeconomic Imbalance Procedure and the enforcement of the SGP are based on legislation (and these legal provisions often define the contents of the procedures), explicit requirements to enhance complementarity through cross-references and to produce more integrated assessments in key SIP, MIP and SGP documents may require legislative changes.[35] Similarly, enhanced complementarity and integration would require procedural changes in the elaboration of key documents, entailing new patterns of interaction and decision-making between relevant institutional actors (for example, various Council formations and their respective advisory committees). In turn, the differing political weight of these institutional actors (also deriving from the degree of EU competences in each policy domain) could affect the results of joint analyses. In sum, while integration and consistency between the analyses and recommendations in the SIP, the MIP and the SGP would be highly desirable, careful consideration would be needed when identifying the specific stages/ documents of these procedures in which such integration should take place.

4.1.2 Role of institutional and societal actors

As already mentioned, DG EMPL of the European Commission, the EPSCO Council and its two advisory committees would play a key role in the type of SIP that may emerge from the Belgian-Spanish proposal. The role of other institutional actors at EU level in this procedure needs to be clearly defined. In our view, the inclusion of a broad array of actors at this stage of the SIP would increase both its soundness (in terms of precision and depth of analysis) and its transparency and legitimacy. Institutional actors to be involved include the European Parliament, the European Economic and Social Committee, and the Committee of the Regions (CoR). Roles for these actors could include the drafting of Opinions and/ or Reports on the analyses of countries at risk of social imbalances which have been identified in the JER. These contributions should be considered in the social IDR conducted by the Commission in the Country Reports and in the subsequent discussions in the EMCO, SPC and the EPSCO Council. Similarly, EU and national social partners and civil society organisations should be involved. This would be consistent with the 'crucial role' attributed to the social partners for successful implementation of the EPSR (European Parliament et al. 2017: Preamble) and with the acknowledgement, in the Annual Sustainable Growth Survey 2022, that 'the systematic involvement of social partners and other relevant stakeholders is key for the success of the economic and employment policy coordination and implementation' (European Commission 2021l: 16). Indeed, as shown by previous

35. In this case, the SIP should be linked to the reform of EU economic governance, a circumstance that would likely entail a longer timeframe for setting up the procedure.

studies, interaction between EU institutions and social partner and civil society organisations within the framework of EU socio-economic governance can contribute both to improving the knowledge basis on which analyses of national situations are based and to increasing national ownership of decisions taken in the Semester, thus increasing the chances of implementation at the national level (cf. among others, Sabato 2020). Such involvement of social partners and civil society organisations could take place at key stages of the Semester (in which the SIP would be embedded), in particular before the publication of, respectively, the Autumn Package, the Country Reports, and the CSRs. It would seem particularly important to establish specific venues allowing direct exchanges between the Commission and relevant European and national social partner organisations and other stakeholders from the countries identified in the JER as in need of a social In-Depth Review. Similarly, the results of the social IDR should be discussed with these organisations. In particular, in line with the specific role attributed to social dialogue in the treaties and with the provisions of Employment Guideline no. 7,[36] the SIP could foresee dedicated arrangements to ensure that the social partners contribute, within the framework of national and European social dialogue, to both the detection and the analysis of social imbalances and the identification of measures to prevent or address those imbalances.

4.2 Addressing social imbalances: the supportive arm of the Social Imbalances Procedure

Better highlighting of social imbalances through the JER and Social In-Depth Reviews, and addressing CSRs explicitly related to the SIP, would encourage discussions of these imbalances at the highest technical and political level. These could be considered steps forward to strengthen the social dimension of the Semester. Furthermore, arrangements to increase consistency between EU recommendations in the economic, fiscal and social domains would enhance the quality and coherence of EU policymaking.

At this stage, however, no other actions to correct social imbalances have emerged from the ongoing institutional debate on the SIP. While these further linked actions may well not be referred to explicitly, it would make sense at this stage to rule out, for legal and political reasons, a corrective arm for the procedure, along the lines of the corrective arm of the Macroeconomic Imbalance Procedure (cf. Annex 2, Box 3). First, from a legal point of view, it is felt that such a corrective arm would need legislation, which would in turn be difficult in the present political context. Second, a procedure based on enhanced surveillance and the threat of financial sanctions would not be appropriate (nor, probably, effective) for the correction of social imbalances.

36. Employment Guideline No. 7 states that 'Building on existing national practices, and in order to achieve more effective social dialogue and better socioeconomic outcomes, Member States should ensure the timely and meaningful involvement of the social partners in the design and implementation of employment, social and, where relevant, economic reforms and policies [...] Where relevant and building on existing national practices, Member States should take into account relevant civil society organisations' experience of employment and social issues' (Council of the European Union 2020b).

A more stringent set of procedures and initiatives linked to a SIP could nonetheless be warranted. This arm of the SIP would, however, be of a different nature from the corrective arm of the Macroeconomic Imbalance Procedure, with a different logic of action: it should be incentive-based rather than punitive, based on enhanced cooperation with the Member States (voluntary), and more open and transparent (involving more actors). These elements appear fundamental to justifying a procedure such as the SIP and preventing criticism being levelled at the EU, such as intruding in a domain – employment and social policy – that falls largely under the remit of the Member States. In other words, while the Macroeconomic Imbalance Procedure is endowed with a corrective arm, a *'supportive' arm* could be envisaged for the SIP.

4.2.1 Multi-annual Action Plans: balancing EU priorities and national autonomy in defining social policies

Member States in situations of social imbalances could be asked to identify and report on initiatives aimed at addressing these imbalances in specific Sections of their National Reform Programmes (NRPs) (see also Section 4.3). When social imbalances are deemed to be particularly severe (in our terminology, 'excessive'), however, a further step of the SIP could indeed be to define the actions needed to improve those situations through specific, national *Multi-annual Action Plans* (MAPs), agreed between national governments (which would hold the pen) and the European Commission. The MAP could contain (i) a list of initiatives (reforms and investments) to be implemented by the Member States over the medium term (at least a three-year time span); (ii) concrete milestones and targets for the implementation of the initiatives identified; and (iii) EU actions to support implementation of these initiatives.

Two elements appear particularly important in the definition of these plans.

First, in drawing up the MAP, a balance should be struck between national autonomy in defining social policy measures and the consistency of the initiatives proposed by national governments with the policy orientations and priorities defined at EU level. On one hand, possible EU intervention should be subject to the Member States' respecting – in the initiatives included in the MAP – the social policy principles and orientations defined in the EPSR and, over the years, in several binding and non-binding EU initiatives and strategies (including several Commission and Council Recommendations and in the Semester's CSRs). On the other hand, to enhance the legitimacy of the process and ensure democratic accountability, sufficient leeway should be left to domestic actors to pursue the policy options emerging from the national democratic process[37] and, if useful, to experiment with innovative policy solutions. In particular, to facilitate the implementation of the initiatives/reforms included in the plan and to enhance national ownership and the legitimacy of the process, there should be a requirement

37. For more general considerations on the need to enhance legitimacy and accountability in the EU response to Covid-19 (in particular, NextGenerationEU and the Recovery and Resilience Facility), see Creel et al. (2021), Fabbrini (2022), Young (2020).

to involve, in the elaboration of the MAPs, national parliaments, social partners and other stakeholders active in the area(s) covered by the SIP.[38] Ideally, in our opinion, national parliaments should debate the draft MAPs and vote on them.

Second, when defining the initiatives to be included in the multi-annual plan, 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 budget. To ensure consistency with fiscal policies, the MAPs should be published (possibly as an Annex to the NRPs) in parallel with Member States' Stability or Convergence Programmes. Ideally, in an optic of integration (cf. Section 4.1), the latter documents should provide an explanation of how fiscal policies will help to address the social imbalances identified and to support the actions included in the MAPs. Similarly, Commission and Council assessments of the Stability or Convergence Programmes should consider the existence of social imbalances.[39]

4.2.2 Enhanced EU support

As already mentioned, the MAPs should also include EU actions to support the implementation of national initiatives designed to address social imbalances. Such *enhanced support from the EU* within the framework of the MAP could consist of both technical assistance and/or enhanced, targeted EU financial support.

Technical assistance in defining the content of the reforms needed and activation of the 'learning instruments' available at EU level, including, for instance, various kinds of peer reviews and thematic reviews organised by the Commission and the Council Committees. Enhanced technical assistance could be provided by DG EMPL and its Country desks, in collaboration with the Directorate-General for Structural Reform Support and its Technical Support Instrument, and with the Recovery and Resilience Task Force.[40] Reflecting the open and transparent character of the possible supportive arm of the SIP (as well as the encouragement given in the Employment Guidelines to involve the social partners and civil society and enhance social partners' technical capacity), relevant social partner and civil society organisations should be involved in technical assistance activities organised by the Commission.

Enhanced, targeted EU financial support could be provided to the Member States experiencing excessive social imbalances. Considering the financial instruments currently available, a first option for providing enhanced financial support would be the European Structural and Investment (ESI) Funds. First, a set amount of

38. In line with Employment Guideline No. 7 (Council of the European Union 2020b).
39. The same would apply to countries found to be in a situation of 'non-excessive' social imbalances (and which, consequently, would not submit a MAP). Also in these cases, national and EU documents pertaining to macroeconomic and fiscal policies should pay particular attention to the implications that those policies may have on the development of social imbalances identified through the SIP.
40. Indeed, some of the initiatives included in the MAPs may overlap with or be relevant to reforms and investments included in the Recovery and Resilience Plans.

these resources could be concentrated on the priorities and initiatives defined in the MAP and, when implementing initiatives foreseen in those documents, the co-financing rate of the ESI funds could be increased. Second, a share of the resources not used during a given programming period could be channelled to support the initiatives included in the MAPs.[41] For the next few years, besides the ESI funds, additional EU financial support could come from the Recovery and Resilience Facility. The latter would enable the Member States or the Commission to propose amendments to the contents of the Recovery and Resilience Plans, if they feel the need to better address the excessive social imbalances identified (and following the procedures foreseen, in this case in the Recovery and Resilience Facility Regulation). The possibility of using other EU financial instruments related to specific policy domains/challenges could also be explored, in line with the regulations governing these instruments. That said, one should note that using currently available financial instruments, such as the ESI funds and the Recovery and Resilience Facility within the framework of the SIP may not be so straightforward. Indeed, ESI funds cannot be easily redirected and the planning for the 2021–2017 period is already at an advanced stage. Similarly, regarding the Recovery and Resilience Facility, the Member States have already defined their Recovery and Resilience Plans. Consequently, if a future SIP is endowed with a supportive arm, including targeted financial support from the EU, further reflection would be needed on the type of financial instruments to be used for such a purpose.

The selection of the financial instruments to be linked to the SIP would obviously depend on the scope of the procedure, in terms of policy areas possibly considered and on choices concerning the 'division of labour' between the EU and the Member States. One possibility would be to restrict additional EU financial intervention to initiatives more directly related to social investment, such as activation measures, child care and social infrastructure. In this perspective, while initiatives related to both the social protection and the social investment approach should be included in the MAPs and brought into line with the EU and national macroeconomic and fiscal frameworks, the EU would financially support only initiatives with a more marked social investment character. Although a focus on social investment policies might be considered too narrow,[42] this could help to create consensus at the EU level and among the Member States. Another option would be to limit EU financial support to national initiatives more directly relevant to achieving the national social targets or more closely related to the objective of and the challenges deriving from policies for the green and digital transitions.

41. According to the most recent reports of the Court of Auditors (October 2021), the use or 'absorption' of the ESI funds by Member States has been slower than planned: of the total amount of committed ESI funds, 45 per cent (€209 billion) have still not been absorbed (European Court of Auditors 2021: 69-70).

42. One should consider, however, that more traditional areas of social protection, such as health care, unemployment and minimum income protection, also have a social investment component.

4.2.3 The role of the Council

As mentioned in Section 4.2.1, national MAPs should be first agreed between national governments and the European Commission. If no agreement is reached at that stage, the supportive arm of the SIP would be deactivated, and the Member States would agree to do without additional support from the EU. This would of course not prevent the Commission and the Council from continuing to use the ‘preventive arm’ of the SIP and addressing SIP-related CSRs if excessive social imbalances in a Member State persist. Conversely, if agreement is reached on the initiatives and reforms to be undertaken, the MAP should be scrutinised by the Council. Notably, these documents should be discussed and possibly amended by the relevant Council Advisory Committees and then approved, with a qualified majority, by the EPSCO Council formation.

4.3 Monitoring the implementation of the Social Imbalances Procedure

To avoid excessive reporting and monitoring procedures, monitoring of the SIP should be conducted, as much as possible, through the documents already produced as part of the Semester and, where relevant, the Recovery and Resilience Facility. In particular, the Member States, in a specific Annex to their National Reform Programmes, should report on progress on the initiatives/reforms designed to address social imbalances, possibly including opinions and arguments from the social partners and other relevant stakeholders. The Commission should annually monitor the situation in the Country Reports and recommend further action, if needed, through the CSRs. For countries that have submitted a MAP, enhanced monitoring could be envisaged through the publication of annual reports reviewing progress in the implementation of policy measures relevant to correcting the imbalances. This reviewing exercise, that could be conducted by DG EMPL, should involve enhanced consultation with national governments, national Parliaments, social partner organisations and other relevant stakeholders.[43]

The Semester’s Country Reports should in any case be the main documents used to ensure consistency of the analysis of country-specific situations and initiatives in the social, macroeconomic and fiscal domains (as well as in the domain of environmental sustainability). As explained by the European Commission (2021l: 15), the Country Reports will include, 'where applicable’, a summary of the findings of the in-depth reviews under the MIP. The same should apply to the findings of the social In-Depth Review under the SIP. That said, in order to enhance complementarity and integration between the various procedures in the economic, fiscal and social domains, it could also be envisaged that, when

43. Under the Macroeconomic Imbalance Procedure, countries in situations of imbalance or excessive imbalances are subject to enhanced monitoring. An annual review of progress on policy measures relevant to the correction of macroeconomic imbalances is published by the Commission’s DG ECFIN. These review reports usually include tables on ‘Key findings on implementation of policy reforms’, based on three categories: ‘on track’, 'wait-and-see’, and ‘action wanted’.

a country is found to be simultaneously experiencing social imbalances and macroeconomic imbalances (and/or is subject to enhanced surveillance under the SGP[44]), the European Commission would explain, in a specific section of the Country Reports, the consistency between the analyses and actions recommended in the macroeconomic and budgetary domains, and the analyses of Member States’ social situations. This would include an explanation of how macroeconomic and budgetary policies would enable implementation of the national initiatives/reforms aimed at addressing social imbalances contained either in the NRPs or in the MAPs. This exercise of integrated monitoring of the Macroeconomic Imbalance Procedure, SGP and SIP could continue beyond the Country Reports, also including other documents related to those procedures.

For countries that have submitted a MAP, every year the European Commission should assess whether, and to what extent, the Member State is complying with the actions foreseen in that document. In case of serious and repeated non-compliance, and after asking the Member States to urgently implement corrective actions, the Commission could autonomously decide to discontinue the supportive arm of the SIP. In this case, specific technical assistance and – if foreseen – increased financial support from the EU would be terminated.

44. For instance, under the Significant Deviation Procedure or the Excessive Deficit Procedure.

Conclusions

This working paper has discussed the possibility of setting up a Social Imbalances Procedure, the added value of such an instrument, and key issues to be reflected upon for its operationalisation. We have also proposed some concrete ideas on the building blocks of a possible SIP.

The paper demonstrates that the SIP can be an important step towards strengthening the governance of EU social policy, helping to address the traditional asymmetry between the latter and existing arrangements for EU-level coordination and surveillance of macroeconomic and budgetary policies. This could in turn contribute to the elaboration – at both EU and national levels – of more balanced policies, making it possible to combine economic, social and environmental objectives, in line with the notion of competitive sustainability at the basis of the European Green Deal and of the Semester. Strengthening the governance arrangements for EU social policies appears necessary and urgent in view of the formidable social challenges and uncertainties ahead, linked to the recovery from the Covid-19 crisis, to the green and digital transitions, the need to address macroeconomic imbalances exacerbated by the crisis, and the pressure to reduce public deficits and debts in many EU Member States. These objectives should be made compatible with the pursuit of EU social objectives. In this respect, a mechanism such as the SIP could be extremely useful, insofar as it could facilitate identification of social imbalances in the Member States, strengthen monitoring of their development, lead to better coordination between actions undertaken at the EU and national levels and, possibly, allow the EU to provide more effective support to its Member States in addressing social imbalances.

This working paper has identified and discussed several conceptual and practical issues that should be addressed to operationalise the SIP. Some of these issues obviously concern the need to determine the scope of the procedure more clearly, by better defining the notion of social imbalances, identifying the policy areas/problems that should be included in the SIP and the methodology used to assess the presence and severity of social imbalances. In this respect, the paper has identified two main options for a possible SIP, relying on the headline indicators included in the Social Scoreboard of the EPSR and on the EU targets endorsed by the Porto Social Summit. Other solutions are obviously possible and, as it emerges from the working paper, normative, political and technical considerations will all play a role in the final decisions on the scope of the SIP.

When it comes to the concrete governance arrangements for the SIP, this working paper has illustrated the possible building blocks of a procedure based on three stages: (i) the detection and assessment of social imbalances; (ii) the definition of actions to be taken at the national level; and (iii) arrangements for monitoring SIP implementation. The proposal for a SIP put forward by Belgium and Spain focusses on the first stage, envisaging a key role for DG EMPL, the EPSCO Council formation and its two advisory Committees in identifying and assessing social imbalances within the framework of the Semester. A broader array of institutional and societal actors at both the EU and national levels should be involved in the SIP at this early stage. Furthermore, arrangements to strengthen complementarity and integration between the SIP and existing procedures in the macroeconomic and fiscal domains (the Macroeconomic Imbalance Procedure and the procedures for implementation of the SGP) should be further specified.

Finally, besides arrangements for monitoring SIP implementation within the framework of the Semester, this working paper has discussed the possibility of endowing the SIP with a supportive arm, including enhanced technical and financial support from the EU to the Member States affected by excessive social imbalances. Such a supportive arm would be based on specific national Multi-annual Action Plans agreed between the European Commission and the Member States, and approved by the EPSCO Council formation. A supportive arm for the SIP does not seem to be on the agenda of the current discussions taking place at the institutional level and is a thorny issue. It would mean striking a balance between national autonomy to define social policy measures, on one hand, and the need to ensure that initiatives proposed by national governments are consistent with the policy orientations and priorities defined at the EU level, on the other hand. In this respect, we envisage a procedure that would be incentive-based rather than punitive, based on enhanced cooperation between EU institutions and the Member States, and involving a broad array of institutional and societal actors.

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All links were checked on 25 February 2022.

Annex 1
Revised EPSR Social Scoreboard

Equal opportunities
Adult participation in learning during the last 12 months
Share of early leavers from education and training
Individuals' level of digital skills
Youth NEET rate (15–29)
Gender employment gap
Income quintile ratio (S80/S20)

Fair working conditions
Employment rate
Unemployment rate
Long-term unemployment rate
GDHI per capita growth

Social protection and inclusion
At-risk-of-poverty-or-social-exclusion rate (AROPE), together with its three sub-indicators:
- At-risk-of-poverty rate (AROP)
- Severe material and social deprivation rate
- Persons living in (quasi-) jobless households (households with a very low work intensity)

AROPE for children (0–17),* together with its three sub-indicators:
- AROP for children
- Severe material and social deprivation rate for children
- Children living in (quasi-)jobless households

Impact of social transfers (other than pensions) on poverty reduction
Disability employment gap
Housing cost overburden
Children aged less than 3 years in formal childcare
Self-reported unmet need for medical care

*The assessment should be complemented with child-specific aspects, notably using the recently adopted child-specific deprivation indicator.
Source: https://data.consilium.europa.eu/doc/document/ST-9314-2021-INIT/en/pdf

Annex 2
The Macroeconomic Imbalance Procedure: main elements

Box 1 **The definition and identification of macroeconomic imbalances in the MIP**

According to Art. 2.1 of Regulation 1176/2011 establishing the Macroeconomic Imbalance Procedure, ‘imbalances’ are ‘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 ‘unsustainable trends’ in the macroeconomic performance of the Member States, with a view to preventing and, if need be, correcting the potential negative economic and financial spillover effects (negative externalities) which make the Union economy more vulnerable and are a threat to the smooth functioning of EMU. The annual MIP cycle – part of the Semester – begins around November of each year with the European Commission's Alert Mechanism Report (AMR), which analyses the economies of all EU countries. The analysis in 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 as a result of structural and long-term trends. The current Scoreboard for the surveillance of macroeconomic imbalances is made up of 14 headline indicators (with indicative thresholds) covering the most relevant points in relation to macroeconomic imbalances, competitiveness and adjustment issues. In detail, five of the Scoreboard headline indicators are related to external imbalances, six to internal imbalances, and three are employment indicators. In addition to these 14 indicators, there are 28 auxiliary indicators providing additional information, which are not linked to any threshold. The Scoreboard indicators are presented in the Statistical annex of the AMR.

Source: European Commission (n.d.), Eurostat (n.d.), Sabato et al. (2019).

Box 2 **The 'preventive arm' of the MIP**

The set of indicators underpinning the MIP function 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 Member States are backward-looking, in other words, they refer to the economic situation in the years before issuing the AMR (Gros and Giovannini 2014). The annual cycle of the MIP starts with the AMR, released as an annex to the Annual Growth Survey (renamed 'Annual Sustainable Growth Strategy' as of 2020) in the Semester Autumn Package. On the basis of the AMR, the Commission, following discussions with the Council and the Eurogroup (Art. 3.5 Reg. 1176/2011), identifies the Member States for which an In-Depth Review is needed to determine whether there are indeed imbalances that might develop into unsustainable trends. Since 2015, the In-Depth Review has been included in the Semester's Country Reports: in these documents, the Commission takes a decision at the level of imbalances of each Member State. Since 2016, there have been four levels: no imbalances, imbalances, excessive imbalances which require monitoring, and, finally, excessive imbalances which require the opening of an Excessive Imbalance Procedure.

At this stage, Member States are expected to prepare a reaction to the Country Report by publishing their NRPs and Stability (euro area) or Convergence (non-euro area) Programmes. In the NRP, Member States explain how they addressed previous years' CSRs and how they intend to address the challenges identified in the In-Depth Reviews. In the Stability or Convergence programmes, Member States must include the country's medium-term budgetary objective and provide information as to how these imbalances will be rectified. 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.

In May, based on the analysis in the NRPs, the Commission proposes Recommendations to the Council for the countries with imbalances. Simple imbalances trigger the so-called 'preventive arm' of the Macroeconomic Imbalance Procedure, when the recommendations are included in the CSRs. The proposed MIP CSRs are analysed in the Council committees, notably in the EPC and the Economic and Financial Committee (EFC).

Source: European Commission (n.d.), Sabato et al. (2019).

Box 3 **The ‘corrective arm’ of the MIP: the Excessive Imbalance Procedure**

When the Commission considers that a Member State is experiencing an excessive imbalance with the risk of negative spillover, for which monitoring is insufficient 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 (EIP). This enhanced surveillance mechanism, which is part of the so-called MIP corrective arm, aims to ensure compliance with the macroeconomic imbalance procedure that can be activated only for countries identified with excessive imbalances. After consultation with the EFC, the Council may adopt by a 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 Member State 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 Corrective Action Plan should include a timetable for implementing the measures envisaged. After a Member State 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 responsible for monitoring the implementation of the CAP and producing a public report for each Member State concerned. On the basis of this report, the Council assesses whether this country has taken the recommended corrective action. However, if the CAP is deemed insufficient, the Member State is given a second chance. If it refuses to submit a second CAP, or if the proposed CAP is again insufficient, then the Commission can suggest to Council a fine of up to 0.1 per cent of its GDP (this applies to euro area countries only). If the Council does not react, the Commission proposal is automatically accepted. Otherwise, within ten days of its adoption by the Commission, the Council can decide by a qualified majority vote among only euro area Member States to reject or amend the recommendation (Art. 3.3 Reg. 1174/2011).

Source: European Commission (n.d.), Sabato et al. (2019).

Annex 3
List of acronyms

AGS	Annual Growth Survey
AMR	Alert Mechanism Report (MIP)
AROP	At-risk-of-poverty rate
AROPE	At risk of poverty or social exclusion rate
ASGS	Annual Sustainable Growth Strategy
CAP	Corrective Action Plan (MIP)
CoR	Committee of the Regions
CJEU	Court of Justice of the European Union
CSRs	Country-specific Recommendations
DG ECFIN	Directorate-General for Economic and Financial Affairs (European Commission)
DG EMPL	Directorate-General Employment, Social Affairs and Inclusion (European Commission)
DG REFORM	Directorate-General for Structural Reform Support (European Commission)
ECOFIN	Economic and Financial Affairs Council formation
EDP	Excessive Deficit Procedure
EESC	European Economic and Social Committee
EFC	Economic and Financial Committee
EGD	European Green Deal
EIP	Excessive Imbalance Procedure (MIP)
EMCO	Employment Committee
EMU	Economic and Monetary Union
EPC	Economic Policy Committee
EPM	Employment Performance Monitor
EPSCO	Employment, Social Policy, Health and Consumer Affairs Council formation
EPSR	European Pillar of Social Rights
ESI	European Structural and Investment funds
ETUC	European Trade Union Confederation
ETUI	European Trade Union Institute
EU	European Union
GDHI	Gross disposable household income
IDR	In-Depth Review (MIP)
ISG	Indicators Sub-group of the Social Protection Committee
JER	Joint Employment Report
LISER	Luxembourg Institute of Socio-Economic Research
MAP	Multi-annual Action Plan (SIP)
MIP	Macroeconomic Imbalance Procedure
NEET	Young people neither in employment, nor in education or training
NGEU	NextGenerationEU
NRP	National Reform Programme
OSE	European Social Observatory
RECOVER	Recovery and Resilience Task Force (European Commission)
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan

SDGs	Sustainable Development Goals (United Nations)
SGP	Stability and Growth Pact
SIP	Social Imbalances Procedure
Social IDR	Social In-Depth Review (SIP)
SPC	Social Protection Committee
SPPM	Social Protection Performance Monitor
TFEU	Treaty on the Functioning of the European Union
UNICEF	United Nations Children's Fund

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