PERSPECTIVE

ECONOMY AND FINANCE

BOOSTING SOCIAL EUROPE IN CHALLENGING TIMES

Pathways to boost the European eco-social model at the start of the new EU legislature

Amandine Crespy
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A narrow focus on competitiveness can be regressive from a social and environmental standpoint.

This briefing identifies three dimensions to intensify political work geared towards progressive goals: articulate an alternative concept for a prosperous economy that works for all, strengthening socio-economic governance and advocate for new eco-social instruments.

Funds in the next EU long-term budget should increase support for eco-social policies and apply eco-social conditionalities.

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The history of Social Europe teaches us an important lesson: *political work* is essential to advance socio-economic governance in tune with progressive goals. Rather than seeking supposedly superior ›technical‹ fixes to shared problems which only require proper analysis and sufficient explanation, political work is based on a value-driven approach to policy problems, the legitimation of political agendas against competing alternatives, and the adoption of new policy instruments. The 2019-2024 legislature has witnessed fruitful political work in the realm of socio-economic governance. This has, among others, made the European Pillar of Social Rights an important component of the EU agenda, and catalyzed several progressive policies. At the same time, the revision of the Stability and Growth Pact has been disappointing in the light of the debates triggered by the Covid-19 pandemic. The new fiscal rules re-instate a fiscal straitjacket that might hinder much needed investments, threatening to restart an era of permanent austerity. Efforts to exclude social investment from the calculation of public debt have not had the expected success. Furthermore, the political constellation stemming from the last election of the European Parliament as well as from national elections jeopardizes the progress achieved over the past few years. The current prevailing discourse emanating from the new political majority creates a narrow focus on competitiveness and the securitization of economic policy in ways which could be regressive from a social and environmental standpoint. Against this background, maintaining and intensifying political work geared towards progressive goals is even more crucial. This briefing suggests three complementary directions to do so:

- at the *ideational level, a narrative* must be forged and strengthened which questions the current narrow understanding of competitiveness and makes the European eco-social economic model the cornerstone of prosperity in Europe
- at the *institutional level,* a push is needed to *strengthen, democratise and green* the EU's socio-economic governance
- at the policy level, the adoption of *new eco-social instruments* must be advocated

TOWARDS A NEW ECO-SOCIAL ECONOMIC MODEL CONTRIBUTING TO PROSPERITY

The unavoidable start for political work is about the way political problems, and therefore solutions, are understood and explained, both to decision makers and the wider public. A particular difficulty for progressive political actors is that they have to *fight ideas which often sound like common sense or are taken-for-granted* in political debates. Deconstructing these ideas is therefore a prerequisite to (re)assert policy solutions, which are more effective but also in tune with progressive values. The understanding of competitiveness among the mainstream of European elites is typically narrow and defined in terms of growth rates and cost-competitiveness as the main indicators for the capacity to thrive in international trade. This means that the focus lies on the ability of a few very productive firms to thrive.[1] This vision ignores the territorial, social and environmental dimensions of the economy, either in terms of detrimental impact on economic competitiveness, or in terms of unequal distribution. This is very different from a progressive vision shaped by an idea of prosperity which puts human welfare and the protection of our living environment at the centre.

As a matter of fact, the recent Report on the future of European competitiveness spearheaded by Mario Draghi, which should serve as a compass for the upcoming EU agenda, dedicates only one page out of over 360 to social issues. This is telling us that the European social model is only depicted as a secondary collective good in the report which is conditional upon growth. In contrast, progressives believe that a solid social model can and should go hand in hand with social protection and contained inequality. Several countries with high social standards in the world achieve high levels of growth and competitiveness. Unlike what the Draghi report suggests by citing continuously the US as a benchmark, this cannot be the road to follow: the US may serve as a guidepost on productivity growth and innovation, but boosting these in the EU should be pursued without adopting the eco-social drawbacks of the US economic model.

Another indication of the current regressive Zeitgeist is the recycling of old ideas such as *»Better regulation«,* a programme of cutting EU rules initiated by the President of the European Commission Jose Manuel Barroso in the 2000s. The idea that Europe's excessive bureaucratic burden is a major problem for Europe's competitiveness has been reheated by Ursula von der Leyen. As was to be feared, a recent study finds that the Better Regulation and REFIT programmes have lightened up the rules on businesses at the expense of social and environmental policies[2]. Similar consequences are at risk from the new deregulation discourse in the EU.

Progressives therefore need to articulate an alternative concept for a prosperous economy that works for all. In Europe, the more equal societies of Northern and continental Europe that also possess a robust welfare state are more productive and more resilient.[3] A major problem of European welfare states is that they remain largely defined by the productivist economic paradigm in which they were

1 Carlo Atomonte and Gabor Békès, Measuring competitiveness in Europe: resource allocation, granularity and trade, Bruegel Blueprint 24, 2016. Accessible at: https://www.bruegel.org/sites/default/files/wp-content/uploads/2016/01/Blueprint-XXIV.pdf.

2 Pirchner Brigitte, EU Better Regulation, Creating a level playing field for businesses at the expense of social and environmental policy, Verlag Arbeiterkammer Wien, 2024, https://emedien.arbeiterkammer.at/viewer/image/AC17244608/3/#topDocAnchor.

3 Anton Hemerijck & Robin Huguenot-Noël, Resilient Welfare States in the European Union, Newcastle: Agenda, 2022.

formed in the 20th century. To escape this dead end, the progressives need to *reconceive the welfare state-employment nexus along the lines of the challenges of the 21st century.* This implies working at least in two directions, namely the tasks performed and the sources of funding. First would be to include eco-social risks in the set of risks insured by collective social protection. Eco-social risks are those brought about climate change and decarbonisation. Rapidly expanding research and awareness in EU policy making already points in that direction with, for instance, the growing recognition of energy poverty or mobility poverty. Natural disasters and the relocation of people living in exposed areas might, in the medium run, also be covered as these risks are becoming unsustainable for private insurance markets. Second, the underlying systems of funding need to be rethought. With demographic ageing, time dedicated to education, training and re-skilling, the ratio between the employable population and those unavailable to work is deteriorating towards an unsustainable point. Without additional sources of funding for the welfare state external to workers' contributions (e.g. from taxing self-accruing wealth in society), these trends alone will imply social deteriorations which are unsustainable including for (labour) productivity and thus economic competitiveness. One other innovative way to reconceive the work-welfare nexus would be to foresee that part of workers' lives and careers can be dedicated to partly decommodified but socially useful work such as civil protection, care, environmental protection, or training.

These are admittedly ambitious, long-term objectives. But envisioning what an eco-social model could be is important to address the profound transformations already set in motion. From a political and electoral standpoint, it is also crucial to shape a positive narrative that contrasts with the current discourses fuelling collective anxieties about Europe's decline. And this in no way contradicts more modest objectives to take the steps going in the right direction in the short run.

STRENGTHENING, DEMOCRATISING AND GREENING SOCIO-ECONOMIC GOVERNANCE

A main goal in the coming years will be to preserve and consolidate the tools which have been adopted over the past ten years. Since its creation in 2011, the European Semester has become the central governance framework serving to coordinate the fiscal, macroeconomic, employment and social policies of the EU Member States. Initially set up to tighten fiscal discipline, there has been a gradual rebalancing towards investment needs and social issues. Moreover, the layering of the Resilience and Recovery Facility (RRF) on the top of multilateral surveillance has transformed the European Semester into a spending and investment instrument. However, the procedures in place for employment and social policy issues remain underdeveloped and less stringent than those for fiscal and economic matters. This *reproduces the entrenched overall imbalance at the heart of the EU's socio-economic governance.*[4] As the RRF implementation is coming to an end after 2026, there is also a danger the European Semester will again be focused on »sticks« (i.e. possible sanctions if debt and deficit limits are exceeded) without any incentivising »carrots« for national governments.

As a result of the political work performed by the Spanish and Belgian Presidencies of the Council of the EU in 2023 and 2024, *a new procedure (the Social Convergence Framework) and more explicit monitoring of social convergence* among the Member States (as a second stage of the Joint Employment Report) has been introduced. Its relevance and legitimacy do not however enjoy a consensus within the Council. From a progressive standpoint, this procedure must be maintained and deepened. For identifying excessive social imbalances, such as a housing crisis or an excessive level of youth unemployment, it is only the first step.

The objective is to urge and incentivise governments to take concrete action to remedy those issues. The key tool available in the European Semester are the *country-specific recommendations* which to some extent shape the spending of the RRF (through the macro-economic conditionality mechanism). It is therefore important to make sure that the *identification of risks to upward social convergence* leads to the adoption of a related recommendation. To do so, the social convergence reports should not be adopted at the end of the Semester in the Spring/Summer but be included in the so-called autumn package[5] in the preparatory phase of the Semester, when the European Commission issues its various reports. The most effective way would probably be to merge it with the Joint Employment Report into a *Joint Employment and Social Convergence Report*.

Breaking the silos between economic, fiscal, and employment and social policy would bring important progress. The EU institutions cannot simply urge the Member States to reduce spending and invest at the same time. This mix of *contradictory injunctions* coming from the European Semester has prevailed in the period 2014-2020.[6] This had led to stagnation and muddling through characterized by disinvestment in public services and the social sector, leaving many countries unprepared and unable to face the pandemic and the ensuing recession.

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4 Vanhercke, B., & Verdun, A. (2022). The European semester as goldilocks: Macroeconomic policy coordination and the recovery and resilience facility. JCMS: Journal of Common Market Studies, 60(1), 204-223.

5 The autumn package includes the Annual Sustainable Growth Survey, the Opinions on the Draft budgetary plans, the draft Recommendation on the economic policy of the euro area, the Alert Mechanism Report, and the proposal for a Joint Employment Report.

6 Haas, J. S., D'Erman, V. J., Schulz, D. F., & Verdun, A. (2020). Economic and fiscal policy coordination after the crisis: is the European Semester promoting more or less state intervention? Journal of European Integration, 42(3), 327–344. https://doi.org/10.1080/07036337.2020.1730356.

Country-specific recommendations should address fiscal, economic, employment and social challenges in a more integrated fashion, highlighting *where social challenges can justify further extensions of the timespan to meet debt/deficit reduction deadlines.* Three aspects should be addressed: a) on the fiscal front: how to increase revenue (as opposed to reduce spending) so as to enlarge fiscal space and fund investment, b) which national policy tools can be used to achieve the recommended objectives, c) which EU instruments (and funds) can be used to achieve the same objectives.

With regard to the way the fiscal framework (the rules of the reformed Stability and Growth Pact) will be used and implemented, there is a legitimate demand to *reverse the burden of proof and provide evidence on the cost of non-investment.* For now, political efforts have focused on producing expertise demonstrating that social investment can generate growth, and therefore contribute to a stable and fiscally sound economy. But the assumption that keeping social investment low is fiscally neutral is simply erroneous. Delaying or reducing investment in public infrastructure, services and social protection makes unavoidable spending more costly and more difficult later.

While studies on this do exist, the cost of non-investment remains a marginal topic in the political and public debate. While many believe that today's debt is tomorrow's poverty, more political work is needed to convince policy makers and the public that *today's non-investment is tomorrow's debt.* The delayed green transition in the face of rapid climate change and skyrocketing mitigation and adaptation needs and costs is a case in point.

The democratisation of EU governance is overdue. So far, the European Semester has remained a bureaucratic machinery involving essentially the executives, namely governments and their administrations (outside and inside the Council) and the European Commission. Neither national parliaments nor the European Parliament (EP) have a decisive decision-making role and they are constantly struggling for significance, as demonstrated by a wealth of research[7]. This situation feeds arguments that the EU has slid away from democracy towards *»executive managerialism«*[8]. If we accept that parliamentary representation remains the cornerstone of democracy, such criticism is not misconceived. European citizens are fully unaware of the existence of the Semester and the various coordination efforts, including those towards upward social convergence. The only aspect of EU economic governance which makes it to the media headlines are the rules on deficit and debt, once again fueling Eurosceptic resentment against »Brussels« and its diktats. *This is politically toxic.*

Granting parliamentary accountability to EU socio-economic governance should empower simultaneously national and the European legislatures, so as to not fuel a harmful rivalry between them. Instead of being a simple forum for an ex-post »economic dialogue«, once the other institutions have made decisions, the EP could be granted the right to:

- *endorse, together with the Council, conclusions* on the Annual Sustainable Growth Survey, the Alert Mechanism Report and the above-suggested Joint Employment and Social Convergence Report in December (instead of the economic dialogue in February and March)
- *endorse, together with the European Council, the Country Specific Recommendations* in June (instead of an economic dialogue in July)

In addition, the EU governance framework should include a binding clause for Member States to have their so-called *medium-term fiscal structural plans*[9] *formally passed through their parliament(s),* as a matter of »minimum standard« for democratic accountability[10].

Democratising procedures goes hand in hand with an ambitious agenda promoting the greening of socio-economic governance. The future of EU socio-economic governance can no longer be conceived in isolation from climate change and the ecological transition. This could be done in three ways:

- *Greening the European Pillar of Social Rights* by adding two principles covering eco-social risks, e.g.
  - The right to be protected against the consequences of climate change including natural disasters and relocation
  - The right to be supported against energy poverty and transport poverty, as recognized implicitly already in the European pillar of social rights' inclusion of access to essential services including energy and transport
- *Greening the employment and skills agenda* (including Erasmus+ and reskilling actions under the ESF+) by redirecting policies towards building new sectors of training and employment in the green sectors such as water depollution, carbon capture, the protection of biodiversity, organic agriculture,

7 Diane Fromage & Ton van den Brink (eds.) Parliaments in EU Economic Governance Powers, Potential and Practice, Routledge, 2020. See also Berthold Rittberger, Democratic control and legitimacy in the evolving EU economic governance framework, Study commissioned by the ECON committee of the European Parliament's Committee on Economic and Monetary Affairs, PE 733.742, February 2023.

8 Christian Joerges & Weimer, Maria, A Crisis of Executive Managerialism in the EU: No Alternative? (December 17, 2012). Maastricht Faculty of Law Working Paper No. 2012-7, Available at SSRN: https://ssrn.com/abstract=2190362 or http://dx.doi.org/10.2139/ssrn.2190362.

9 The annual progress report were rebranded medium-term fiscal structural plans when the new economic governance framework entered into force in April 2024 on the basis of the revised Stability and Growth Pact.

10 For a detailed proposal (pre-RRF), see Valentin Kreilinger, »Minimum standards for parliamentary participation in the European Semester«, Jacques Delors Centre/Bertelsmann Stiftung Policy Paper, 18 January 2019.

waste management, recycling, etc. This could go hand in hand with the adoption of a *Directive for the just transition of the world of work* called for by the trade unions as well as the European Economic and Social Committee.

RATIONALIZING EU FINANCIAL RESOURCES TO BUILD THE EUROPEAN ECO-SOCIAL ECONOMIC MODEL

A crucial political battle is starring now as the next budget of the EU for 2028–2034 is devised and negotiated from 2025 onwards. This opportunity to *preserve and re-direct expenditure towards strengthening the European eco-social economic model* cannot be missed. Several financial instruments and funds have recently been created in connection with the European Green Deal on the top of older structural and investment funds. As a result, several funds are overlapping with regard to the just transition objectives. At the same time, it is widely recognized that available EU funds are both dispersed and insufficient. The RRF coming to an end also means that certain lines of funding for green policies and social investment will be terminated by 2027.

So far, the European Green Deal has relied heavily on regulation and constraints on enterprises, states and people in order to accelerate decarbonization. However, as illustrated by the 2024 farmers' protest movement and the broader right-wing populist backlash to green politics, the objectives set out in the European Climate Law and the Paris Agreement will not be achieved if they meet *societies' resistance.* This calls for shifting the focus away from regulatory constraint to addressing the social fairness aspect at hand. As stressed by most observers, including the 2024 Draghi Report, this cannot be achieved without resources.

Positive support to mitigate climate change can be advanced in two ways. First is *reshuffling the EU funds* in the next Multiannual Financial Framework to increase support to eco-social policies, i.e. those addressing problems at the intersection of environmental and social issues:

– Merge the European Regional Development Fund (ERDF) and the Just Transition Fund into a Just Transition Regional Fund, dedicated largely to *financing public infrastructures and services accessible to all* for nature preservation and restoration, healthcare, clean mobility, etc.

– Merge the European Social Fund and the Social Climate Fund into a European Eco-Social Fund dedicated *to financial support to households and local authorities* for preventing and buffering eco-social risks, including job loss due to decarbonation or digitalisation, and housing renovation.

There is an increasing consensus that *public money should be used to foster the just transition of the economy.* The inclusion and enforcement of green and social conditionality in Public Procurement are already under discussion. To go further, eco-social conditionality could be applied consistently across all EU funds in two forms:

– Like in the RRF, *earmarking* a proportion of the available money to be spent on eco-social measures up to for instance 50 percent of total funds

– For the money not explicitly directed to eco-social policies, a principle of Do No Significant Harm (DNSH) – both green and social – could be applied. Considerable expertise has been gathered on this both at EU and national level.

Beyond reshuffling and repurposing of the funds, in-depth debates will have to take place *on how to sustain and increase the resources feeding into the EU budget* that can be dedicated to the eco-social agenda. Directions include the effective enforcement of the EU tax on non-recycled plastic packaging waste adopted in 2021, the adoption of the pending EU Financial Transaction Tax, and the earmarking of part of the national contributions to the EU budget.

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This briefing suggests three complementary directions to maintain and intensify political work geared towards progressive goals: (1) a narrative which makes the European eco-social economic model the cornerstone of prosperity in Europe, (2) a push to strengthen, democratize and green the EU's socio-economic governance and (3) advocating the adoption of new eco-social instruments.

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The negotiations around the next EU budget are an opportunity to preserve and re-direct expenditure towards strengthening the European eco-social economic model. Reshuffling the EU funds to increase support to eco-social policies, applying eco-social conditionalities across all EU funds and increase resources feeding into the EU budget can strengthen the eco-social economic model of the EU.

Further information on the topic can be found here:
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