

# ENDOWING THE EMU WITH A SOCIAL DIMENSION

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The current economic crisis and the ongoing austerity policies are having a strong negative impact on society, especially in the euro area peripheral countries. In response to this, the heads of state and government are currently working to define a “social dimension for the EMU”, which is necessary on several counts: not only to compensate for the impact of the crisis but also to limit the negative impact of the common currency on national welfare states, to ensure the smooth functioning of the euro area and to reconcile Europe’s citizens with the European project.

## 1. A social dimension based on the completion of the EMU and respect for national competences

A precondition for taking the social dimension on board is to [complete the Economic and Monetary Union \(EMU\)](#) with its four – economic, budgetary, banking and political – pillars. It is necessary to resolve EMU’s problems, including the imbalance between economic and monetary cooperation, as well as the vicious circle between banking crises and sovereign debt crises, in order to have a common currency area that brings growth and creates jobs, two crucial conditions for its citizens’ prosperity and well-being. The economic cooperation pillar within the euro area (with its own tools to bolster the cohesion of the EMU as a whole) is essential in order to allow all of its member states to achieve a satisfactory level of competitiveness.

In addition, it is worth bearing in mind that social and employment policies are first and foremost the province of national governments and that member states are not particularly inclined to transfer their competences in this field to the European level. Thus it is neither realistic nor indeed desirable – in view of the differences that exist among the various national welfare models – to think in terms of a mass transfer of prerogatives or powers to the European Union (EU) or to the EMU.

## 2. A social dimension to limit the negative impact of the single currency on national welfare states

It is necessary to promote a social dimension to the EMU in order to limit the potentially negative impact of the single currency on national welfare states, an effect which emerges in two ways.

On the one hand, the euro area’s member states can no longer resort to the devaluation of their currency in order to respond to cyclical shocks and so, having to

adopt budget constraints, they have no choice but to engage in a painful internal devaluation process which comes at a heavy social cost. It is the peripheral countries that are suffering from this fragility in the EMU today, but all of the euro area member states are potentially exposed to the risk. Member states have adopted measures designed to address the consequences of this fragility, in particular the “youth employment initiative” earmarking six billion euro to help national authorities combat youth unemployment. It is now time to endow the euro area with a tool designed to limit member countries’ adjustment effort in the event of a major cyclical shock. To this end, the EMU must be endowed with a [macro-economic stabilisation mechanism](#), as recently proposed by *Notre Europe - Jacques Delors Institute (NE-JDI)*.

On the other hand, given that there is stronger economic integration within the euro area and that certain countries are forced to lower their social standards in the name of fiscal consolidation, there is also an increased risk of social competition among countries sharing the same currency. In order to prevent a race to the bottom, it is necessary to define the minimal social standards acceptable at the EMU level. The Franco-German declaration of 30 May 2013 takes a step in that direction by proposing the adoption of a minimum wage in the EMU countries.

The European Commission published a Communication dated 2 October on the social dimension of the EMU, which adds certain positive elements but which is insufficiently ambitious to provide real answers to these two problems. The Commission defends the principle of the establishment of a shock-absorption mechanism, but it highlights the legal obstacles involved, and therefore projects it into the longer term. Nor does the Communication make any mention whatsoever of common social standards.

### 3. A social dimension to ensure the smooth functioning of the EMU

The promotion of a [social dimension for the EMU](#) – apart from the individual benefits accruing each member state and its citizens – would also represent a major step forward for the euro area as a whole if it helps to improve the smooth functioning of the EMU.

First of all, improved coordination and monitoring of social and employment policies, in a framework of respect for national prerogatives, would facilitate convergence among the member states that share a common currency. This, because social imbalances have an impact not only on the population's well-being but also on countries' economic performance and political stability, thus they need to be addressed. In this context, the Commission's proposal to include a new "social scoreboard" in the European Semester as well as building social and employment indicators into the alert mechanism used to detect macro-economic imbalances is a definite step in the right direction.

Despite improved monitoring of macro-economic and social imbalances, cyclical divergences can be curbed but not totally eliminated. That is why the countries in the euro area need to bolster the mechanisms for adjusting to cyclical shocks. In addition to a new macro-economic stabilisation mechanism, which we have already mentioned, labour mobility – as a market-based adjustment mechanism – needs to be strengthened and improved. The Commission's Communication addresses this issue by proposing a set of initiatives designed to reduce the number of barriers to freedom of movement, in particular by strengthening the portability of rights. If it turns out to be difficult to make progress in this field at the EU-28 level, the countries in the euro area need to progress further down this path by resorting to the procedure of enhanced cooperations.

### 4. A mainstreamed EMU social dimension to act not as a curb on EU-28 Social Europe but as a driving force behind it

While a strengthening of the EMU's social dimension is obviously a welcome development, it should not simply comprise a limited group of initiatives forming a kind of "fifth pillar" of the EMU: this social dimension must be mainstreamed in all EMU initiatives and social concerns must lie at the heart of Europe's economic governance. The Treaties already contain a horizontal social clause (article 9 TFEU) enjoining the promoters of all EU policies and initiatives to take their social impact into account. This clause deserves greater consideration in Europe's action than it has received in recent years. Also, in order to better take into account citizens' concerns in European initiatives, the role played by both the European and the national social partners must be strengthened, particularly in the context of the European Semester.

Naturally, we must not forget greater Europe in this whole debate on the EMU's social dimension. The completion of the single market must rest on a compromise skilfully reconciling economic freedoms with social rights, as indicated in the Monti Report dated 2010. While the countries in the euro area must play a steering role in the consolidation of social Europe, participation on the part of EU member countries that are not in the euro area must also be encouraged. Social initiatives adopted by the 17 must act not as a curb on the deepening of the EU-28 social Europe but as a driving force behind it.

Taken as a whole, these steps forward in the social sphere will attract greater public support for the European integration process and they will help to rebuild its [declining legitimacy](#). The ball is now in the court of the European Council on 19 and 20 December 2013!

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