



**COUNCIL OF
THE EUROPEAN UNION**

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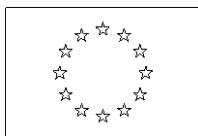
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**SOC 401
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COVER NOTE

from:	Social Protection Committee
to:	Permanent Representatives' Committee (Part I) / Council (EPSCO)
Subject:	The Social Dimension of the EU/EMU
	b) Ex-ante coordination of major social policy reforms: synthesis report

Delegations will find attached the above-mentioned report for the exchange of views on the social dimension of the EU/EMU to be held by the Council (EPSCO) on 19 June 2014.



Ex-ante coordination of major social policy reforms: synthesis report

This report presents the experience and views of the SPC on the implementation of a feasibility test on ex-ante coordination of major social policy reforms.

1. Background

The Council mandated the Committee to report on the application of increased ex-ante coordination of major reforms.¹ Social protection reforms have been considered under the EU economic coordination not only because of their importance for sustainable public finances, but also because of their contribution to human capital investment, the functioning of the internal market, productivity and growth. In the context of the euro area, one of the lessons from the financial and economic crisis is that uncoordinated economic policies can adversely affect economic performance generating macro-economic imbalances. Similarly, employment and social imbalances can negatively affect growth prospects in the EMU. Ensuring that Member States implement the necessary structural reforms addressing employment and social challenges is a matter of collective interest to the EU as a whole². As many of the social policy reforms support fiscal objectives, striving to achieve coordinated policy approaches within the euro area should also improve its economic performance.

¹ See Council conclusions from 22 February 2013, §7, Council document 6462/13

² Communication from the Commission, 'Strengthening the social dimension of the Economic and Monetary Union', 2.10.2013, COM(2013) 690 final

As part of its feasibility test, the Committee examined plans for major social policy reforms falling under the responsibility of the EPSCO Council.

This approach is coherent with the work carried out by the Economic Policy Committee and responds to the European Council conclusions of 25 October 2013, which called for further enhancement of the coordination of the economic, employment and social policies and for strengthened cooperation between the Council formations in order to ensure consistency of those policies.³

2. The examined plans for social policy reforms

CY, EE, IT, SI and RO volunteered to present their plans for social policy reforms in view of discussing them within the Committee. The Commission and BE, DK, FR, the NL and IT reviewed the plans of their peers.

The plan for reforming the long-term care (LTC) sector presented by SI was welcomed by the Committee as an adequate response to the social and economic challenges faced by the provision of long-term care in Slovenia. The draft reform seeks to address the imbalances, inequities and fragmentation of the current system of provision of long-term care services with the view to improve its efficiency, effectiveness and accessibility, as well as its fiscal sustainability. The Committee discussed the various pros and cons of establishing specific protection against LTC dependency, the spill-over effects of under-developed LTC sector as well as the potential impact of the measures on the tax wedge.

The draft plan for the reform of the pension system of RO was received as an appropriate step towards the equalisation of the statutory retirement ages for both genders. The Committee stressed the importance of choosing the best policy options for enhancing the adequacy of the pension system and its sustainability and discussed the effects of this measure against the already equalised length of contributory periods for men and women in RO.

³ See §38 of the European Council conclusions, document EUCO 169/13

CY presented its plan for introducing a new Guaranteed Minimum Income (GMI), replacing the existing public assistance benefit with a supplement of the minimum living costs (basic needs including housing, municipality taxes and extraordinary needs) for people who find themselves unable but willing to earn an adequate level of income. The Committee encouraged CY to continue this reform and stressed the need for careful sequencing of this complex reform given its importance for the take-up of the benefit. It was highlighted that minimum income provisions are an essential component of the resilience of social protection systems and instrumental in reducing poverty.

EE presented its plan to reform the incapacity-for-work benefits, introducing a centrally administrated system bringing under one administration the tasks of work-capacity assessment, the paying-out of benefits and the provision of labour market and rehabilitation services. This reform would mark an important policy shift by focusing on the remaining work capacity. The Committee discussed the experience of other MS in bringing people with reduced work capacity back to the labour market and stressed that the various options used (quotas, sanctions, incentives) have their advantages and disadvantages. It highlighted the need for a balance between the activation elements and the adequacy of the benefit also with the view to reduce spill-over effects on other Members.

IT presented a plan aimed at addressing the increase of severe material deprivation by putting in place a package of active inclusion support measures on the basis of stricter means-tested criteria, giving priority to households that require income support and other services. The progressive roll-out of the scheme across the national territory represents a good premise for the development of a national minimum income scheme and the Committee supported this objective. The discussion focussed on pros and cons of developing national schemes or regional ones and on their fiscal implications. This reform was encouraged also with the view to achieve better convergence of approaches within the euro area.

3. Overall assessment

On the occasion of its informal meeting in Athens and given the limited evidence on spill-over effects, the Committee identified the following additional potential of discussing plans for social policy reforms:

- These discussions were found very useful and fruitful, particularly by those Member States that presented their plans for reforms : this allowed them to benefit from the advice and experience-based feedback of other Members who had implemented similar reforms in the past;
- Members openly shared and confronted their views about how to overcome different obstacles in reforming key aspects of the social protection systems and the advantages and disadvantages of certain policy options;
- During the Committee discussions, Members received concrete advice on how to improve the policy design of the envisaged reforms and work toward acceptance of difficult policy choices;
- The ex-ante discussion of plans of social policy reforms needs to remain voluntary and part of the open method of coordination. This approach contributes to the strengthening of the social dimension of the EMU and in particular in the euro area. Better cooperation with other policy Committees is necessary in order to ensure comprehensive analysis.

In light of the discussions in the Council, the Committee would need to further clarify :

- the criteria for selecting major reforms for ex-ante examination in order to keep the process focussed;
- how the discussions at EU level could inform the national discussions ; what should be the exact degree of publicity of the Committee's deliberations on the presented plans for reforms and;

- the most appropriate timing for presenting sufficiently mature social policy proposals yet at an early preparatory stage allowing for a meaningful examination that could improve their policy design while fully respecting the prerogatives of national institutions and their decision-making calendar.

With regard to potential spill-overs that could affect other Member States, the Committee did not detect significant effects of the examined plans. This finding is consistent with the assessment of the Economic Policy Committee. Yet, the SPC stresses that spill-over effects may occur sometime after the implementation of the reforms or may result from reforms that have not been collectively discussed at EU level including from current policy arrangements. Moreover such spill-overs can be relevant for all Member States.

The Committee highlights that economic spill-overs can be transmitted through the financial markets, the trade and the product markets. Yet while evidence exists about the economic spill-overs of some policy interventions or the lack of policy interventions, there is currently no model to adequately detect potential spill-over effects stemming from social policy reforms.

Conclusions

Examining plans for major social policy reforms proved to be useful, informative and relevant process that the SPC plans to pursue in full respect of the voluntary participation in it and national competences, taking into account the work carried out by other Committees. This process aims at further promoting the development of social policy analysis and coordination. At the same time, it has the potential to support the EMU's social dimension by ensuring better integration of economic, employment and social policies. This new activity could also contribute to achieving better policy convergence. As spill-over effects proved difficult to detect in social policy areas, further methodological work is needed from the Committee and the Commission.

The Committee will inform the Council at regular intervals.