Global Workplace Law & Policy

State of the Union address: minimal social focus, a deeper structural change ahead?

Ane Fernandez de Aranguiz Chueca (Tilburg University (The Netherlands)) · Wednesday, November 16th, 2022

On 14 September 2022, the president of the European Commission, Ursula von der Leyen, delivered the State of the Union speech, where she laid out the main steps to be undertaken by the Commission in the next year. Unsurprisingly, and understandably, the vast majority of the speech was dedicated to the war in Ukraine and to the EU efforts to combat the war and assist those affected. Yet, there were also some social considerations worth noting both in this speech and in her letter of intent sent to both the President of the European Parliament, Roberta Metsola, and the President of the Council of the European Union held by the Czech prime minister Petr Fiala, in which she expressed the concrete steps the Commission will be taking in the next twelve months.

First, the speech indicated a clear emphasis on skills, making 2023 the year of education and training.Although at 6% the level of unemployment is at a historical low, there exist concerningly high numbers of unfilled vacancies, particularly in areas of transport and healthcare. The Commission is planning to target this issue in a twofold strategy. On the one hand, by recognizing professional qualifications for third country nationals in a way that access to the labour market becomes easier for everyone. On the other, the Commission aims to propose further investment in education and higher education, particularly for those areas where filling vacancies becomes an imperative. In this vein, the DIGITAL Europe Programme will fund new Bachelor's and Master's degrees in key technology areas.

Another important step forward, in and out of work, concerns the call for more mental health support. The Commission is currently working on a new comprehensive initiative on mental health, which could be 'life-saving' for many fellow Europeans. These efforts will join previous steps undertaken in this domain through investment in the creation of specific programmes.

Furthermore, the Commission plans to propose 'a lifeline in troubled waters for SMEs' in the form of a relief package. This includes a proposal for tax rules (BEFIT) prompting Member States to allow loss carry-back for businesses to at least the previous fiscal year. With this, the Commission aims at addressing the fact that currently one in four bankruptcies is due to delayed payment, which affects SMEs more harshly. This reform will benefit businesses that were profitable in the years before the pandemic, allowing them to offset their losses against the taxes they paid during the years before.

Some more flexibility is also proposed for Member States with the upcoming reform of the fiscal rules. Some flexibility over the pace of debt reduction, confirmed von der Leyen, would be paired with more scrutiny in the process. According to experts, the pre-corona fiscal rules (before the escape clause was triggered in March 2020), were not fit for purpose because they were primarily pro-cyclical. Hence, fiscal policy was underused in economic downturns when it is actually most necessary, and overused in economic booms, when buffers should have been built. The biggest victim of this was public investment because the fiscal rules did not differentiate between public expenditure and investment. For a better fiscal performance, hence, fiscal policy should not be restricted during crises, when a strong fiscal reaction is necessary but rather in good times to ensure that necessary buffers can be built in times of prosperity. In this respect, some argue that if policymakers want to avoid repeating the mistakes of the 2010 sovereign debt crisis, there is a need to reform the existing framework with two clear priorities: Countering the current pro-cyclical bias to ensure that all Member States can quickly recover from the crisis and to make space for public investment by making a distinction between public and private investment, which is not currently the case under the existing framework. In the state of the Union address, von der Leyen confirmed that strategic investments would be allowed as long as debt sustainability could be safeguarded. Others support this idea by arguing that in fact, public investment —particularly in the Southern countries— will be financed by the Recovery and Resilience Funds, which diminishes the validity of claims saying that higher investment needs will result in a higher public debt.

The flagrant spike in energy prices and the cost of living for Europeans as a consequence of the war in Ukraine was addressed several times during the speech also in relation to the pledge to put forward a proposal targeting the windfall profits from energy companies, as it has been the case in countries like Spain or Italy, which would be accompanied by a long-term reform of the energy market. A reform to the current 'broken' energy market will require a comprehensive reform of the electricity market, including a massive overhaul of the way in which the energy market operates and decoupling gas from the price of electricity. Together with investment on renewable energies linked to the Green Deal plan and many of the national recovery and resilience plans implementing it, this reform should reap the benefits of lower-cost renewables.

Mention was especially given to vulnerable groups like SME owners or single-parent families, who should be helped first. Even before the 'superprofits' of energy companies, already one in five people were living below the poverty line in the EU. With the upward cost of living, the situation is quickly worsening, putting more households at risk. To target this, the Commission will propose a cap on the profits of energy companies, which von der Leyen called a 'crisis contribution', to balance their excessive profits. This is expected to raise more than 140 billion euros which should be channeled to buffer the impact on Member States' budgets in combating the energy crisis. Nevertheless, the cap on the windfall revenues of companies that produce electricity at a low cost is only but one piece in ensuring that people are capable of keeping up with the cost of living.

Together with this, trade unions, including ETUC, have been calling for a set of other demands, including pay raises to meet the increase of the cost of living and guarantee that workers are receiving a fair share of the productivity gains. In this vein, some trade unions have remarked that wage and social security indexation can only go so far. Even with automatic indexation in countries like Belgium, France, or Luxembourg people still struggle to stay above the poverty line. Wages have increased in the last year, but they are not keeping up with inflation. The power of collective bargaining is moreover capped in some instances, in which wages are negotiated with a maximum margin that is unilaterally set, based not on price movements but on the evolution of hourly wage costs. In this vein, other demands include the promotion of collective bargaining as the best way to achieve a fair pay. Surprisingly, no reference was made here to minimum wages, or in particular, to the future directive on minimum wages. There was also no reference to the proposal for a recommendation on minimum income or national and European anti-crisis support measures that aim at protecting incomes —in and out of work— like SURE-type measures. In fact, even though a permanent European Reinsurance Unemployment Benefit Scheme was planned at the beginning of the von der Leyen Commission's mandate, this is no longer listed in the plans of the Commission, in spite of SURE's temporary success.

Another missed opportunity concerns the food shortage or inaccessibility. The 2022 State of the Union address contained no explicit mention of the rising food prices, not even in relation to the successful 'solidarity lanes' to export food to Ukraine or the usage of the Fund of European Aid for the most Deprived (FEAD).

Overall, very little attention was drawn to social progress, which is particularly striking considering that last year's State of the Union address did call for the implementation of the European Pillar of Social Rights as a way to 'ensure decent jobs, fairer working conditions, better healthcare and better balance in people's lives'

There was, however, an important mention to including a principle of solidarity between generations in the Treaties, which should reflect on the idea that the EU and Member States keep working towards 'leaving a better world' for the future generations. To this end, von der Leyen backed an earlier European Parliament's call of June 2022 to host a European Convention to kick-off the process of reforming the EU's founding Treaties.

In this regard, it is quite interesting that part of what is pushing for a reform is the amendment of important provisions on the social field. In particular, the European Parliament asked to increase the Union's capacity to adopt decisions not by unanimity but by qualified majority voting in relevant areas including the adoption of sanctions and the use of *passerelle* clauses. It is worth mentioning that a 2019 proposal of the Commission asked to trigger the *passerelle* clause in the social policy title, but this has so far not been adopted by the Council. This proposal aimed to render the decision-making in social policy more efficient by moving away from unanimity to qualified majority voting (QMV) and from special to ordinary legislative procedure in at leasttwo of the five areas that require unanimity in Article 153 TFEU: non-discrimination on the grounds of belief, disability, age and sexual orientation, social security and social protection. At the time, the Commission did not see fit to activate the *passerelle* clause in the other areas (protection against dismissals, employment conditions for third country nationals and the representation and collective defence of the interest of the workers and the employers) due to either the limitations envisioned in the Treaty, the sufficiency of the existing legislation or the strong links and diversity between national social protection systems.

In the call to amend the treaties, among other things, the European Parliament also asked to revise the competences conferred on the EU in areas of health care and cross-border health threats, the completion of the energy union and to ensure that the European Pillar of Social Rights is fully implemented. In the same vein it also asked to incorporate social progress in Article 9 TFEU linked to the Social Progress Protocol into the Treaty. This revision of the Treaties could potentially be ground-breaking for Social Europe.

The State of the Union speech made clear that the Commission is far less interested in delivering social initiatives to improve the living standards of Europeans than it was a year ago. And yet, the call for a European Convention could contain a far deeper and more structural pressing change in the Treaties that could lift some of the current obstacles in the development of social Europe, potentially containing a better balance between different interests of the Union. A next blog post will address such possible reform.

This entry was posted on Wednesday, November 16th, 2022 at 8:00 am and is filed under EU, European Commission, Social Dialogue, Training
You can follow any responses to this entry through the Comments (RSS) feed. You can leave a response, or trackback from your own site.