# THE SHAPING OF SOME REFORM PROPOSALS FOR ENHANCEMENT OF SOCIAL AND ECONOMIC COHESION OF THE EU27

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**Summary**

*The COVID-19 pandemic, the war in Ukraine, rising inflation, increasing public debt and the rising cost of living highlight once again the need for the European Union to adapt to these realities. Therefore, the article aims to bring to light a series of problems of the EU27 countries, and through their prism to identify a series of necessary institutional reforms that will contribute to reducing the socio-economic vulnerabilities of the EU population. A series of aspects that appeared during the pandemic and that worked well on the labour market, for example remote work, will continue to discuss the optimal way to continue the activity on the labour market in the future. In this sense, we may conclude that there is a need for the multifaceted reforms, and the fiscal-budgetary reforms are necessary, but they alone cannot improve the future social and economic course of the EU27 population.*

***Keywords:*** *socio-economic conditions, the labour market, reforms, taxation, crises, shocks.*

***JEL:*** *E61, H12, H60.*

***UDC:*** *338.2+316.42*

## Introduction

Globally in 2021, amid the emergence of the Omicron variant, there have been continued pressures on healthcare systems, some mobility restrictions have been reintroduced, and the workforce has continued to be affected both in terms of demand and of supply, amid frequent and sometimes prolonged supply chain disruptions. Thus, waiting times at the level of the final consumer have increased, and the price of energy and raw materials has become more expensive, often causing a slowdown in GDP at the global level, but also regionally, at the EU27 level.

Recent economic, political and social developments, but also the projections for the future period, according to the main profile institutions including the rating agencies (e.g. Fitch Ratings), show a significant deterioration against the background of the energy crisis, with weak economic growth developments and for the beginning of the year 2023. Stopping the supply of Russian gas could pose serious problems to some Central and Eastern European economies (e.g. Slovakia, Czech Republic), and inflation, increased private and public sector spending, rising interest rates, droughtaffected agricultural season, etc. reinforces the gloomy forecasts for inflation due to the effect of higher energy prices that will be felt in the near future.

These developments are also foreshadowed in Western countries (e.g. especially Germany), especially in those with increased possibilities of being substantially affected by the energy crisis. One of the solutions can be outlined, at the level of the authorities, through a better control of prices in EU member states and a delay in the transmission of energy price inflation.

The increase in the incomes of the population, and especially of the categories with increased vulnerability to poverty, will not be able to cover the gap between inflation and wages as well and quickly, exposing ever wider categories of the population, including those in the labour field, to experience different forms of poverty (e.g. including energy poverty). Partial support of energy costs (especially for the population), with higher marginal financing costs and average maturities for public debt, as well as increased pressures on budget deficits will not be able to solve the problems, possibly even in the short term. Changing the structure of taxes and fees could be a solution, but these, at present, will only worsen the precarious situation of economic agents and the population. Any more substantial changes regarding taxation at the European level will certainly be visible starting from the spring of 2023.

In this sense, the article proposes a setting in a wider reform framework, in which taxation, but also structural reforms look carefully at social developments and clearly target the problems and categories most exposed to various forms of poverty and inequity, at the same time, the authorities also aim to widen the tax base.

**The degree of approach to the topic in scientific literature**

As we know the literature records a multitude of European models, and the notion of a European model or Social Europe does not fully fit, studies developed by numerous authors' record this (Esping-Andersen, 1990; Mathieu and Sterdyniak, 2008; Jepse and Serrano Pascual, 2005 etc.).

Thus, the Nordic model, the Mediterranean model, the liberal or Anglo-Saxon model and the continental model are recorded in the literature. The Nordic model generally shows increased levels of social protection spending, and welfare is seen in relation to universality, redistribution and high social inclusion, with the health system carefully managed through the tax system, with progressive and sometimes higher taxation than in other areas of the EU, with high unemployment benefits, strong trade unions and increased social dialogue as well as active labour market integration policies.

At the same time, liberal countries, with an Anglophone social system, focus rather on the responsibility of individuals, go for a system with low taxation, with low unemployment benefits, and with a system of last resort of social assistance, with generally low wages and wide wage dispersion, with fragile unions, low bargaining power, etc.

The continental model, on the other hand, preserves the power of unions from the Nordic system, the regulations for the protection of employees extending beyond the union sphere, social protection aims to guarantee wage income, the financing system comes mainly from the contributions of the employee and the employer, and the system of universality and redistribution is weaker compared to the Nordic model.

The Mediterranean model focuses on employment protection and high old-age benefits, but the level of social transfers is low, protection against poverty and social inequalities is low, a situation similar to that of trade union power. At the same time, the countries of Central and Eastern Europe partially take over components of the Mediterranean and continental models, but do not necessarily overlap with any of them.

It should be noted that, at the level of the EU member countries, the field of social inclusion and protection rests mainly with the member states, the European Commission only supports and complements the policies of the member states through the Social Protection Committee, using the Open Method of Coordination in the fields of social inclusion, healthcare and long-term care and pensions. The objectives of the Europe 2020 Strategy (including the Agenda for new skills and jobs and the Platform against poverty), for the Member States, aimed, among other things, to increase the employment of the population aged between 20 and 64 to 75% and to remove at least 20 million people from among the population affected by poverty and social exclusion.

However, in recent years, at the EU27 level, the results of the indicators regarding in particular the risk of poverty and social inequity have been diverted from the improvement trends against the background of the COVID-19 pandemic and the outbreak of the conflict in Ukraine. Despite some recent regulations regarding the minimum wage (e.g. COM(2020) 682) (either through collective agreements, statutory minimum wages established in laws or a combination of the two modalities), telework (e.g. Eurofound, 2022), protecting migrant workers (e.g. COM(2022) 657), the dispersion of EU-level social models may not produce the social effects expected by EU bodies. At the same time, European taxation through the divergence of approaches and at its level and the permanent request for reform, implicitly for the reconsideration and flexibility of the rules especially in times of crisis (European Parliament, 2021; Blanchard et al., 2021; Wyplosz, 2019; Beetsma et al., 2018 etc.), comes to reinforce this lack of socio-economic cooperation, but at the same time offers the chance for fundamental paradigm changes.

**Research methodology**

The article proposes a survey in the relevant literature, analyzing various measures of economic policy and fiscal or social reform, comparing the main developments and offering a series of proposals to improve the existing framework of reforms at the EU27 level. The data source is mainly Eurostat, EU decisions, directives and regulations, but also some profile studies, and the general framework refers to the area of EU27 countries.

**Main results**

Unlike the period in which the Economic and Monetary Union and the main fiscal rules of the EU were crystallized, the current period brings new and new challenges, sometimes antagonistic among them: wars and geopolitical tensions, climate transition, globalization and its reverse, isolated and closed economy, digitization, robotization, the evolution of financial markets and new instruments (e.g. crypto-currencies), aging of the population, declining birth rates, international population migration, increasing social inequality, the energy crisis, etc. In this context, the fiscal rules may lose their importance or a systematic review may be imposed on them in order to increase flexibility, at the same time requiring the development of new supranational instruments for severe supranational challenges and risks (e.g. COVID-19).

Thus, fiscal policy must address the effects of the war in Ukraine while simultaneously dealing with rising inflation and interest rates, slowing economic growth, higher public debt and global poverty inflamed by rising food prices and energy. In this sense, budget expenditures must be carefully systematized so that they can face new challenges and protect vulnerable social categories, and budget revenues require structural revisions so that they grow over time.

Against the background of a very rapidly evolving political environment, fiscal policies must be prepared to react to new circumstances, thus in 2022 the temporary emergency measures related to the pandemic have been gradually removed and the new challenges related to the energy crisis and rising inflation have not yet particular pressures on the fiscal field amid the maintenance in 2022 of the "general rescue clause" of the Stability and Growth Pact (SGP).

However, there is foreshadowing of a change in the register, with the general saving clause being able to be deactivated in 2023. The fiscal recommendations for 2023 will be formulated in qualitative terms with a quantitative basis, important being the recommendation on limiting the increase in current expenditure and analyzing the quality and the composition of public finances (COM (2022), 85). According to Eurostat and European Commission data (COM(2022), 85), in 2021 the aggregate public debt ratio of the EU peaked at around 92% of GDP and is expected to decline in 2023 to 89% of GDP. In 2023, public debt ratios in six Member States are expected to remain above 100% of GDP, while in around half of the Member States they will remain below 60% of GDP, while maintaining a high divergence between Member States.

Following the recommendations of the European Commission for this period and for 2023 (COM (2022), 85), tax developments and reforms must aim at:

- Strengthening policy coordination through a coherent policy mix and a gradual and high-quality fiscal adjustment to ensure the sustainability of public debt by gradually reducing it to prudent levels;

- Promoting fiscal strategies that meet the requirements of the Recovery and Resilience Facility (RRF) in the medium term and increased fiscal supervision;

- Highly indebted EU Member States should start a fiscal adjustment in 2023, so as to achieve a gradual debt reduction, without contributions from the RRF and other EU grants;

- In order to achieve a neutral overall policy position, low and medium indebted Member States should strengthen the necessary investments for the green and digital transition (dual transition) and increase resilience. This transition can be supported by the investments foreseen in the multi-annual financial framework, the EU cohesion policy funds and the RRF funds;

- National fiscal strategies should be differentiated and take into account the need to encourage high-quality public investments financed at the national level and the promotion of sustainable economic growth;

- Member states' fiscal strategies and reforms will have to take into account the increase in the quality and composition/structure of public finances, the need to formulate anti-cyclical fiscal policies and create appropriate fiscal space for stabilization, the simplification of the legal framework (national and EU27), better law enforcement and stronger national accountability;

- At the same time, national and EU objectives should be clarified and strengthened, and a series of interchangeable national-EU instruments should be intended (in relation to the capacity of the one who can best fulfil the function to achieve the objective), in addition to national instruments (horizontal level) and those of the Union (vertical level).

- For the euro zone, the appropriate fiscal orientation should result from an appropriate balance between sustainability and stabilization considerations, an aspect that must be found down to the country level, also taking into account the size of the EU and the euro zone.

The favourable prospects of economic growth, low financing costs, the moderation of interest rate growth differences, the encouraging situation of investments and reforms, the prudent multi-annual fiscal adjustment, the reduction of the gap between budget expenditures and revenues, a positive evolution of financial markets, control of sentiments market, a supportive and prudent monetary policy, etc., can all contribute to the gradual reduction of public debt in EU member states.

Although the European Commission in the near future puts its hope in the effectiveness of national recovery and resilience plans so as to gradually improve fiscal positions and ensure high potential economic growth, nevertheless national states may face the inability to develop viable plans and attracting funds especially for achieving the double transition (digital and ecological), the inability to establish priorities regarding investments with high innovative impact, to delimit and harmonize national objectives with those of the EU, but also to attract the private sector in recovery projects of European economies etc.

At the same time, fiscal adjustments and reforms must take into account a persistent, gradual approach, so as not to lead to a very restrictive fiscal orientation that blocks growth prospects and diverts the trajectory of public debt reduction in the medium and long term. Equally, when economic conditions are favourable, fiscal positions should be improved and the ratio of public debt to GDP should be substantially reduced, positive fiscal-budgetary spill over effects between countries should be promoted, the multiplier effect of investments in regarding ecological-digital projects, etc. so that the EU27 member states can face future macroeconomic shocks.

The need to review the European fiscal framework (possibly through a set of reforms applied to European fiscal rules, but also the national fiscal framework, at the level of each member state) raises the possibility of a deeper approach in which the social framework and implicitly the social reforms needed by the member states are absorbed and strongly integrated into this new revised framework.

For example, in the case of the COVID-19 pandemic, its social effects were uneven across households, depending on government support such as employment subsidies, cash transfers, tax breaks, etc. (IMF, Fiscal Monitor, April 2022). Government support mattered a lot, in some countries disposable income increased on the back of government support (Canada, United States), in other countries support came indirectly through job retention schemes and prevention of wage cuts, keeping household incomes relatively stable (France, Germany, United Kingdom), or in others they only mitigated the collapse (Italy, Spain) by preventing the growth of inequality but not poverty (Cantó et al. 2021). At the same time, mobility restrictions and government support generated, according to the IMF (2022), 1 trillion dollars in the European Union during the period 2020–2021, funds that could now temper inflation, but could equally increase it, if they are spent too quickly, especially amid rising energy and food prices.

In general, poverty support programs involve a medium and long-term vision, but often with the completion of these programs, the effects can be diluted and poverty can regain its rights, hence the careful monitoring of vulnerable categories and the automatic activation of programs of government support once a certain poverty rate threshold is exceeded could be a solution.

Young people and especially children are extremely vulnerable to the scourge of poverty, the Vanhercke and Spasova report (2022) pointing out the need to protect children and young people from, especially from poor and immigrant families, and targeting vulnerable social groups. Looking at Eurostat data on the situation of children exposed to the risk of poverty and social exclusion and those who drop out of school (see figure 1) we can see interesting patterns.

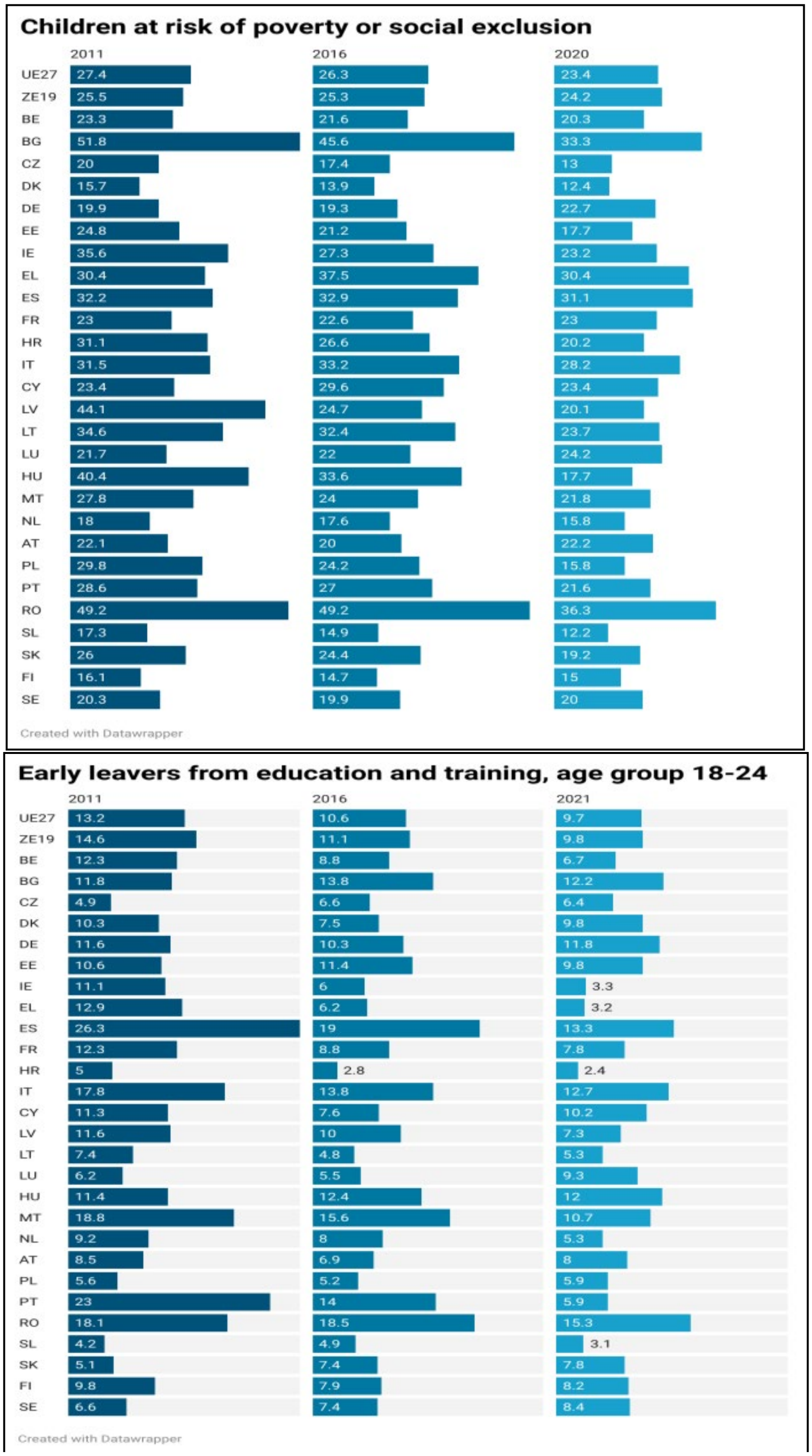


***Figure 1.*** **Situation of children at risk of poverty or social exclusion and early leavers from education and training at EU27 level**

*Source:* Eurostat, Data extracted on 05/10/2022

We observe some correlations between the two indicators poverty among children and school dropout for the countries of the central and eastern European flank (especially for Bulgaria and Romania), but also a disconnection, especially for countries that have understood or are making important efforts to understand (e.g. Spain, Portugal, Malta, Italy, etc.) that education is the only sustainable way to get young people out of the poverty trap and social exclusion.

Thus, taking into account the non-existence or temporary impossibility of a single social policy at EU level, but also the specific circumstances of each country, social policies (and policies addressed to the labour market, including education and health), in collaboration with the general fiscal-budgetary ones, should be aimed at:

- The direct and well-targeted targeting of government support for households and categories of vulnerable people, subsidies for energy and food and the stimulation of domestic producers, to reduce the international price pressure on the citizens of the EU27 member states;
- In addition to stricter control of the competent authorities on the formation of energy and food prices, in order to avoid the speculative factor, subsidies granted to the population for energy and food should be designed to activate automatically or semi-automatically whenever they are exceeded certain price levels or prices rising at a certain rate that cannot be borne by the population;
- If social safety nets are ineffective or weak, in addition to cash transfers, direct distribution of food and fuel and the temporary use of stocks can be resorted to, as well as the imposition of price ceilings for vulnerable categories and product price differentiation (especially energy) depending on the destination (e.g. transport, heating, cooking), as well as the expansion of effective social programs (IMF, 2022);
- For countries where social safety nets are strong, building on existing social safety nets, governments could use temporary and well-targeted cash transfers to vulnerable social groups and low-income people and vouchers and discounts on energy bills in particular in a flat rate system (IMF, 2022);
- Improving payment arrangements for social care and broadly reforming the health system by providing more generous financial support from local authorities and achieving a fairer cost for social care especially for the elderly.
- To increase participation in the education and training system for children and young people, the system of vouchers for supplies and uniforms, a hot meal, provision of school transport or transport vouchers, and a progressive system (e.g. continued during the completion of one more cycle of education) of school scholarships, reduction of tuition fees, provision of preventive health services for young people, inclusion of vulnerable young people in vocational education, etc. all this can prevent school dropout, future employment on the labour market and maintaining a continuous lifelong learning process;
- Stimulating technology adoption, achieving large-scale digitization and supporting innovation in social care, education and health (including e-health and telemedicine services) (IMF, 2022, European commission, 2021b). Digitizing the social network, so that it can be identified the eligible households and it can be provided delivery mechanisms such as smart cards (IMF 2020). Regional dispersion

of income, social category or age can help in systematizing information on targeting and providing clear social assistance for the most vulnerable beneficiaries;

- Improving the training, qualification, but also the recognition of the performance of the staff that provide care and social assistance services, as well as the staff from the health and education activities;

- To improve employment, reduce the employment gap between men and women and increase employment among young people, based on their recovery and resilience plans, the EU27 member states have foreseen and will continue to introduce a series of reforms to support the creation of jobs and labour market modernization. These measures also aim at improving labour market regulations and institutions and strengthening the labour market integration of groups with lower labour market participation, supporting the transition to new sectors and types of jobs, and increasing labour market resilience. In addition to the RRF, a number of support instruments are added such as: the European Social Fund Plus (FSE+), the European Globalization Adjustment Fund for Displaced Workers - EGF), Temporary Support to Mitigate Unemployment Risks in an Emergency - SURE and the Employment and Social Innovation program - EaSI)(European Commission, 2021a);

- To increase the inclusion and quality of education, the member states, but also the European Commission, are considering investments and reforms in school education regarding: individualized support for disadvantaged schools and students, including mentoring, overcoming learning gaps and potential school dropouts, increasing the number of training hours and to allow schooling throughout the day, implementing some curricular reforms, digitizing education, reforming the mechanisms for recruiting teaching staff, combating early school leaving, improving education for young people with special needs, supporting students with poor performance, improving external evaluation of schools, modernization of study programs, expansion of study places, modernization/renovation of existing buildings, including student campuses, increase of accessibility to accommodation, launch of new study courses, review of the school financing model, develop quality assurance and governance mechanisms, the introduction of graduate tracking systems and the internationalization of higher education, etc. (European Commission, 2021c).

All these and many others can contribute to the improvement of the European social framework, and can support the general macroeconomic policies of the EU27 member states, actively contributing to the achievement of sustainable development targets.

**Discussion of results, conclusions**

Although, at the level of the EU27 and the member states, there are numerous labour market integration programs, social, educational and health programs, related to the life and health of the elderly, people active in the field of work, children and young people, etc. however, there is, in many respects, no close, collaborative link between the targeted areas, and the fiscal-budgetary framework still relates to a small extent to solving or ameliorating social problems and disparities.

New crises and shocks are constantly added to all this, such as those related to demography, the need for ecological and digital transition, the restructuring of the energy system, etc. with reverberations regarding prices, ensuring agricultural and food diversity, ensuring decent conditions for life, work, health and education. Therefore, the challenges become systematically greater over time, and the possibilities of ensuring living in dignity, leaving no one behind and providing opportunities for a better life and career prospects become more limited, more volatile.

In this sense, at the EU27 level, the article points out a series of reform possibilities, some new others already underway at the European level, in which the social system ensures, both quantitatively and qualitatively, a better life for European citizens, growing at the same time measure resistance to other possible new shocks.

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