EXECUTIVE SUMMARY

With the launch of the European Pillar of Social Rights, the Commission has adopted a new ambitious social policy framework. The aim is to support fair and well-functioning labour markets and welfare systems, for a renewed process of upward convergence towards better working and living conditions in Europe. Despite fighting inequality figures as one of the prominent challenges the Social Pillar aims to tackle, the European Semester, the EU coordination mechanism of socio-economic policies, still lacks a comprehensive framework to monitor socio-economic inequalities within member states. We address these drawbacks and propose a new framework to tackle inequalities in the Semester.

In Section 1 of this policy paper, we provide an 'operational' definition of inequality in the Semester, which serves as a 'toolkit' to assess the extent to which the country specific recommendations are 'inequality proof'. We apply this operational definition to examine three main policy areas: 1) social and employment policies [Section 1.1]; 2) public finance and economic policies [Section 1.2]; and 3) taxation policies (including labour, corporate and capital income taxes, taxes on immovable property, net wealth and inheritance taxes, VAT and environmental taxes) [Section 1.3].

For each policy area, the paper offers an assessment of the relevance and the capacity of the indicators currently used by the European Commission, to account for the inequality dimension in the three policy areas identified above. Based on the definition provided above, the paper provides an analysis of the country-specific recommendations addressed to member states in 2019, with the aim of understanding the distributional impact of the policy reforms based on the current set of indicators

With respect to traditional social and employment policies [Section 2.1], we show that the attention remains on measuring disadvantage at the bottom of the income distribution, with most of the indicators and of the recommendations focused on poverty and social exclusion, i.e. on individuals at the bottom of the income distribution. By contrast, no attention is paid to the declining condition of intermediate segments of the population (the so-called 'squeezed middle). Indicators on job insecurity, financial insecurity and job tenure insecurity,

RECOMMENDATIONS ADDRESSING INEQUALITIES

Policy interventions that address the effects of the socio-economic polarisation of the society (the declining position of the middle class) both directly (through explicit social policy mechanisms) and indirectly (through the effect of economic policies on the social sphere & considering the net effect of taxation

Socio-economic issues beyond poverty and social exclusion	Feedback loop between the 'economic' and the 'social'	The net balance between 'paying in' and 'getting the rewards

which interest an increasing portion of individuals living in Europe, are missing. Finally, the focus on inequality of opportunities is missing in social investment areas, such as childcare and the accessibility of social services.

Concerning the macroeconomic recommendations [Section 2.2], our analysis reveals a persisting focus on budgetary stability and debt reduction, in particular in health and pension, which might have a regressive effect on overall inequality, as well as a limited focus on public investment. The current Macroeconomic Imbalance Procedure (MIP) scoreboard is devoid of macroeconomic indicators that take into account the inequality dimension. Regarding the country specific recommendations, we highlight that, even though the macroeconomic framework defined in the Semester does not ask for explicit cuts and reductions in public expenditure, it indirectly affects member states' capacity to use public resources to redistribute and conduct public investments, by setting tight constraints and setting the limits of governments' initiative.

Finally, with respect to taxation policies [Section 2.3], we show that the indicators used by the Commission are adequate to the progressivity of the taxation system. However, our analysis shows that the attention of the country specific recommendations to the progressivity of personal income taxation is primarily oriented toward the efficiency and productivity of the labour market, rather than toward redistributing resources (especially on middle and lower-middle groups). Most of the recommendations do not have an explicit focus on progressive taxation, proposing a non-defined 'reconfiguration of the taxation mix'. In addition, we show inconsistences between the problems identified in the country reports (e.g.inheritance and high-income taxation), and the actual content of the countryspecific recommendations.

In order to address the shortcomings identified above, we propose nine recommendations on how the Semester can effectively monitor and address inequalities.

RECOMMENDATION GROUP 1

Integrate the focus on social exclusion by considering the rising socio-economic insecurity affecting the majority of the population, in particular the declining lower-middle class in Europe

RECOMMENDATION GROUP 2

Consider the redistributive effects of economic policies by creating a bridge between the economic and the social aspects

RECOMMENDATION GROUP 3

Link the spending and funding sides of the redistribution mechanisms by considering the redistributive effects of taxation

In the first group of recommendations (no. 1-2-3), we propose to include new indicators in the Semester in order to: a) capture the declining quality of work among the majority of workers (job-status insecurity, job quality and work representation); b) assess households' financial capability and financial fragility; and c) measure income and wealth inequality pre and post taxes.

In the second group of recommendations (no. 4-5-6), we propose to: a) integrate new auxiliary indicators in the MIP to monitor household financial fragility; b) revise the EU fiscal framework and especially the expenditure rules of the Stability and Growth Pact; c) involve the social actors in a formalised way in the drafting process of the macroeconomic recommendations.

Finally, as concerns the third groups of recommendations (no. 7-8-9), we recommend: a) an expansion and consistent use of progressive taxation recommendations that are currently made only for countries with very regressive taxation arrangements; b) a coordinated approach to EU tax erosion and taxation dumping; and c) expand the tax base using new areas (e.g. environmental taxation) in a progressive way.