

Factors for the building of the European pillar of social rights as an instrument for social cohesion in the European Union

Monika Moraliyska¹Gerald Tola²

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Abstract

The social dimension of the European Union and its further development is a part of the debate on the future development of the Union as a whole. It was included as a priority in the Declaration adopted by the EU leaders at the Rome Summit on 25 March 2017 and in the European Commission's Reflection Paper on the Social Dimension of Europe following the presentation of the White Paper on the Future of Europe. On 17 November 2017, the Presidents of the European Parliament, the Council of the EU and the European Commission jointly proclaimed the creation of the European Pillar of Social Rights. Building a fairer Europe is a priority of the current composition of the European Commission (2014-2019) and will most likely remain among the priorities of the next.

The paper aims to analyse the factors underlying the creation of the EU Social Pillar. For this purpose, the authors have analysed the current social situation in the EU member states with regard to certain social indicators (unemployment, risk of poverty and social exclusion, and income inequality), the differences in their performance and the main factors underlying them. The hypothesis of the authors is that the significant differences in the social status of the EU citizens, both between the member states and within the individual countries, is the major factor why the EU's social policy needs to be deepened both at national and at Union level, and that the creation of the European social pillar is a step in the right direction.

Keywords: European Union, Social policy, Social pillar

JEL Classification: I3, J4, J8, O3, O52

1. Introduction

The debate on the future of Europe arising from the European Union's pressing problems and the need for its member states to respond better to the expectations of European citizens is now at the center of the EU agenda. Its important contribution is to add value and ideas to the scenarios of the future of Europe – and not only about the way the political and economic development of the EU will continue, but also about its social dimension. The following

¹ Chief Assist. Prof., University of National and World Economy in Sofia, Bulgaria, Faculty of International Economics and Politics, Department of International Economic Relations & Business, mmoraliyska@unwe.bg

² PhD student, University of National and World Economy in Sofia, Bulgaria, Faculty of International Economics and Politics, Department of International Economic Relations & Business, geraldcola@yahoo.com

commitment was accepted by the leaders of the EU Summit in Rome on 25 March 2017: "In the next 10 years, we want the Union to be a safe, secure and prosperous place, to be competitive, sustainable and socially responsible, to have the will and ability to play a key role in the world and in the shaping of globalization. We want a Union in which citizens have new opportunities for cultural and social development and economic growth" (European Commission, 2017a).

The European Commission has contributed to the debate on 1 March 2017 when it presented a White Paper on the Future of Europe (European Commission, 2017b) followed by a Reflection Paper on the Social Dimension of Europe (European Commission, 2017c) and on 26 April 2017, the European Pillar of Social Rights (European Commission, 2017d) joined these strategic documents.

The Reflection Paper on the Social Dimension of Europe recognizes that despite its outstanding achievements, Europe still faces a number of economic and social challenges related to the effects of the economic crisis, the shortcomings of open markets and societies, innovation and technological change, and the existing social inequality. There is also a gradual strengthening of individual and collective social rights in the EU as well as improved cooperation with the social partners at European and national level, but there is also a growing need for the debate to focus on the social dimension of Europe in the future. It is concluded that the economic, social and political arguments in favor of a social Europe are solid and the discussion's goal is rather to reach a consensus on the form that it will adopt in the future.

On 17 November 2017, the European Commission's President Jean-Claude Juncker and the Swedish Prime Minister Stefan Löfven jointly hosted the first for twenty years EU Social Summit (held in Gothenburg, Sweden), in which the EU leaders took part together with the Presidents of the EU institutions, heads of states and government, the social partners and other key stakeholders. At the Social Summit, representatives of the European Parliament, the Council and the European Commission jointly proclaimed the European Pillar of Social Rights (European Commission, 2017e) in order to highlight the commitment of EU leaders to respect the principles and rights in this pillar¹.

The pillar strengthens and complements the rights envisaged in the European and international law and is based on 20 principles grouped in three categories: 1) Equal opportunities and access to the labor market (education, training and lifelong learning, gender equality, equal opportunities, employment); 2) Fair working conditions (secure and flexible employment, wages, information on working conditions, protection against dismissal, social dialogue and worker participation, work-life balance, healthy and safe working environment, personal data protection); 3) Social protection and inclusion (childcare, social protection, unemployment benefits, minimum income, income and pensions for old age, health care, integration of people with disabilities, long-term care, housing for the homeless, access to basic services).

2. Preconditions for the creation of the European pillar of social rights

Several sets of factors can be identified that underline the growing importance of social policy and

¹ For the first time the European Pillar of Social Rights was presented by the European Commission's President Jean-Claude Juncker in his European Union Statement of 2015; a project of the Pillar was presented by the Commission in April 2017 (European Commission, 2017f).

justify the need to strengthen the collective effort for social initiatives at EU level:

- The sustainable aging trend of the European population (Moralisyka, 2017);
- The still high unemployment and preserving social consequences of the economic and financial crisis;
- The high proportion of European citizens in the "at risk-of-poverty" group;
- The significant social divide (in terms of citizens' incomes and social status as well as social spending), both between and within member states;
- The emerging digital revolution, implying the need to restructure the economies on which the technological change has a strong social impact.

The author identifies the aforementioned challenges as the most important for the future development of the EU and identifies the last three as the subject of this report.

2.1. Assessing the social status and the risk of poverty of the European citizens

The European Social Scoreboard

The measurement of the social status of the European population is based on a series of indicators from the EU statistics, as well as on the Social Scoreboard¹ set up for the purposes of the social pillar. They represent a set of indicators to monitor the achievement of the EU's objectives and progress in 12 areas, the performance of which will be taken into account by the European Semester for Economic Policy Coordination (European Commission, 2018a).

The statistics provided by this set of indicators show that in 2016 one in four people in the EU (23.5% of the EU's population or 118.8 million people) is at risk of poverty or social exclusion (Figure 1).

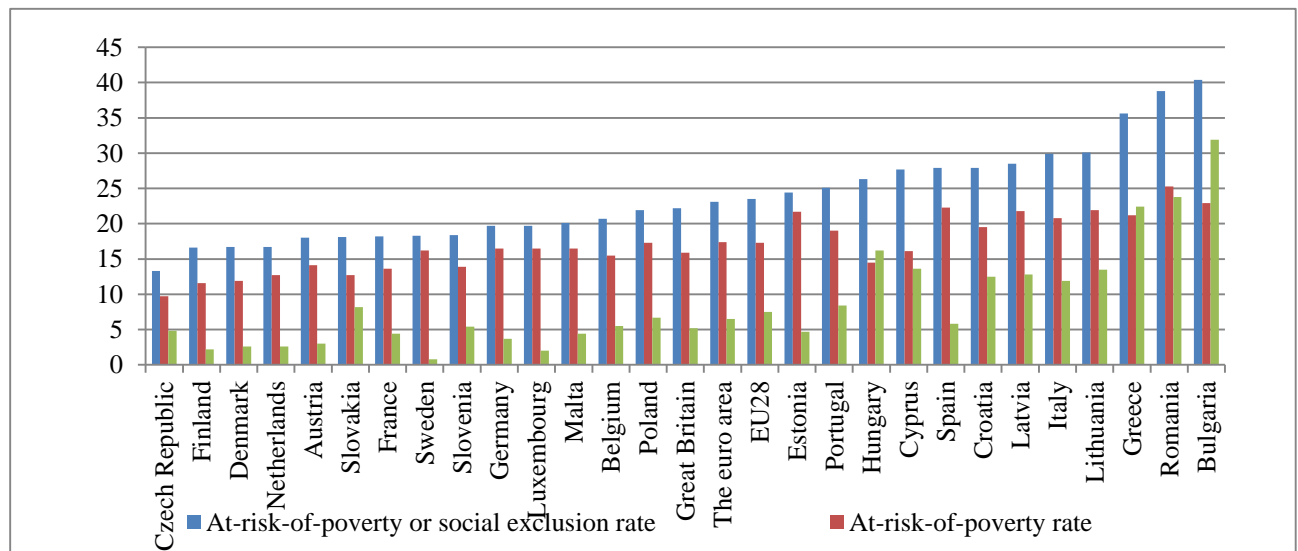


Figure 1: Social status in the EU: Poverty and social exclusion risk rates in 2016

Note: The three indicators are defined as follows: People are considered to be at risk of poverty or social exclusion if

¹ The Social Scoreboard is a set of social indicators that includes three dimensions: 1) "Equal opportunities and access to the labor market" - gender equality aspects related to education, skills and lifelong learning, gender equality on the labor market, inequality and upward, living conditions and poverty, and opportunities for youth; 2) "Dynamic labor markets and fair working conditions" - the structure of the labor force, labor market dynamics and income; 3) "Public support /social protection and inclusion" - fair solutions through public support and/or social protection and the provision of social security services and networks are considered.

they experience one or more of the following three conditions: (i) Being severely materially deprived with living conditions constrained by a lack of resources as measured in terms of being deprived of four of nine items: unable to afford 1) to pay rent/ mortgage or utility bills on time; 2) to keep their home adequately warm; 3) to face unexpected expenses; 4) to eat meat, fish or a protein equivalent every second day; 5) a one week holiday away from home; 6) a car, 7) a washing machine, 8) a colour TV or 9) a telephone (including mobile phone). This indicator captures absolute poverty in some degree and is measured in the same way in all Member States. (ii) Living in a jobless household or household with very low work intensity where on average those of working-age (18-59) worked less than 20% of their potential total working hours over the past year, either because of not being employed or working part-time rather than full-time (students are excluded from the calculation). (iii) Being at risk of poverty living in a household with an equivalised disposable income (i.e. adjusted for the size and composition of households) below the at-risk-of-poverty threshold, set at 60% of the national median equivalised disposable income.

This is a measure of relative poverty. The total number of people at risk of poverty or social exclusion is less than the sum of the numbers in each category, as many fall into more than one of these categories.

Pos. There is no data for Ireland

Source: Eurostat (2018a). Social scoreboard

This is less than in 2012 (24.8%), but at the 2010 level, i.e. no significant progress can be reported. The level of child poverty also remains high. These children have limited access to healthcare and are at a higher risk of early school leaving, therefore later when they become adults they are at a higher risk of unemployment and poverty. In 2010, the EU leaders committed themselves to reducing the number of people at risk of poverty by 20 million by 2020, but since then there has been even a rise in their number by 1.7 million. No significant progress has been achieved in the fight against poverty and for equality of minorities and risky social groups as well.

The worst-performing EU member state in that respect is Bulgaria where 20.4% of the population is at risk of poverty and social exclusion, followed by Romania (38.8%) and Greece (35.6%), while the Czech Republic, Finland and the Netherlands are the most successful countries with 14-17.0% of the population at risk of poverty and social exclusion.

A detailed view of the situation also shows that one third of the young people between the ages of 18 and 24, one third of the people with the lowest secondary education and two thirds of the unemployed in the EU, are at risk of poverty or social exclusion (Eurostat, 2018a).

The share of early school leavers¹ has been declining since 2005, but their share remains significant, especially in the southern member states. The highest it is in Malta - 20%, Spain and Romania - 19%, while the lowest it is in Croatia - 3%.

At the same time, despite the decline, the share of young people (15-24 years) in the EU who are neither in employment nor in education and training (NEET) remains high and amounts to 11.6% in 2016, with big variations between member states here as well (from 4.6% in the Netherlands to 19.9% in Italy).

Similar variations are also observed in terms of employment. It has grown at European level in recent years, reaching 71.1% in 2016, with leading countries being Sweden (81.2%), Germany (78.6%) and the UK (77.5%). At the ranking's bottom again are the southern countries, including Greece (56.2%), Croatia (61.4%) and Italy (61.6%). In 2016, the employment rates were record high for most member states, being consistently the highest among the highly

¹ The share of persons aged 18-24 who have completed the lowest secondary education but are not participating in further training, as % of the total population 18-24.

educated people.

Although the employment rate in Bulgaria (67.7%) in 2016 is not far from the EU average (71.1%), the country is the last in terms of the share of unemployed persons (per 100 people willing to work) who have participated in labor market measures¹ that aim at creating and supporting employment. In 2015, the number of participants in such measures was less than 3% in Bulgaria, compared with nearly 50% or more in Belgium and Denmark.

Almost 7 times is the difference in the share of youth unemployment in Germany and Greece, Fig. 2.

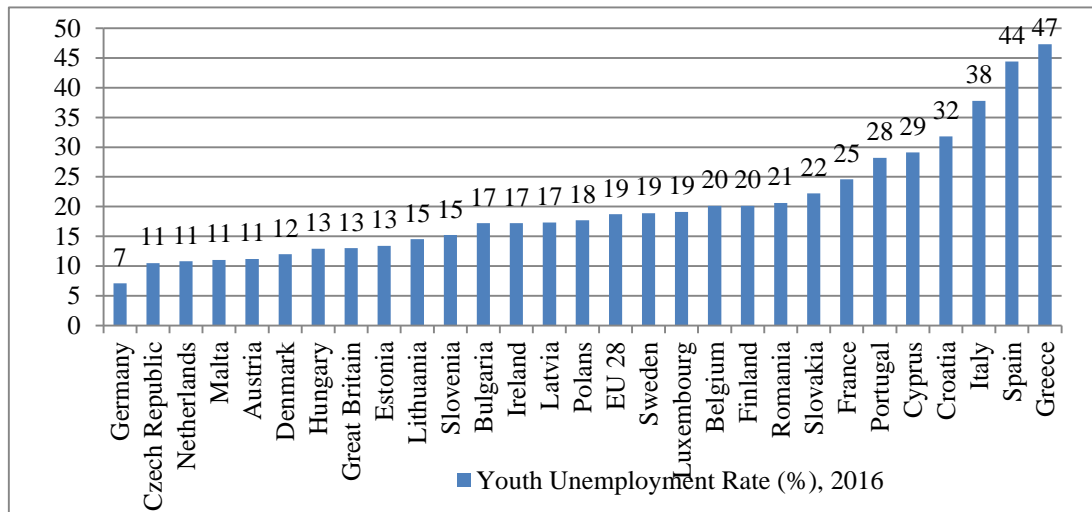


Figure 2: Level of youth unemployment in the EU in 2016, % of total population

Note: The share of youth unemployment is calculated by dividing the number of unemployed persons aged 15 to 24 by the total active population of the same age group.

Source: European Commission (2018b). Social scoreboard

Six times is the difference between EU member states in terms of number of people, who work but are still at risk of poverty - Finland is the best performer (3.1%) and Romania (18.9%) the worst, with EU average at 9.6%. The Czech Republic (3.8%) and Belgium (4.7%) are ahead, while Greece (14.1%), Spain (13.1%) and Bulgaria (11.4%) significantly lag behind.

Similarly, there are countries that perform poorly in terms of population's income. In 2016 Bulgaria is ranked last in terms of work remuneration (wages, salaries in cash and in kind, social contributions from employers) - 4.6 € per hour, while in Luxembourg it is € 43.3 per hour.

In addition, in many member states the social transfers poorly help to reduce poverty (Figure 3). Although social transfers reduced the share of people at risk of poverty in the EU by one third (33.0%) in 2016, this impact varies widely from 14.2% in Romania to 57.0% in Finland.

¹ Interventions aimed at activating the unemployed persons or preserving the jobs of the people at risk of unemployment (through training, incentives for employment, supported employment, job creation, start-ups, etc.).

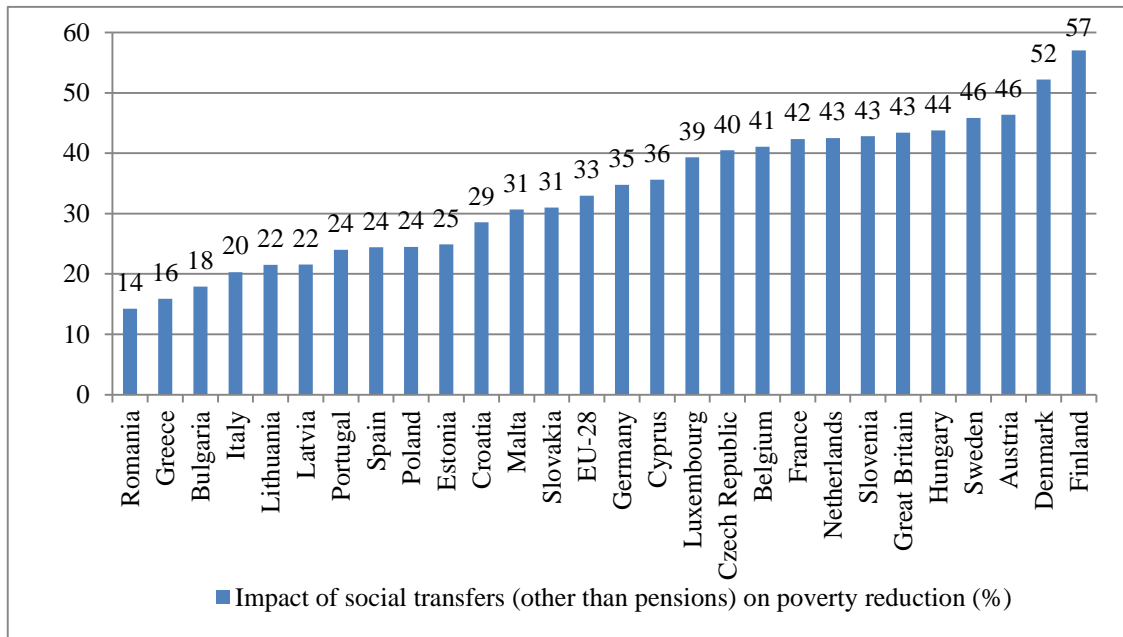


Figure 3: Impact of social transfers (other than pensions) on poverty reduction (%), 2016*

*The reduction in the poverty risk rate due to social transfers (calculated by comparing poverty rates before and after social transfers; pensions are not considered as social transfers in these calculations).

Source: European Commission (2018b). Social scoreboard

It can be concluded that the EU's challenges to the social well-being of its citizens are numerous and significant. To a particularly high degree this is true for the southern and eastern member states, including Bulgaria, which is the country with the highest share of the population at risk of poverty and material deprivation.

The Index of Social Justice¹

The definition of the term "social justice" is subject to controversy, as its conceptual frameworks are wide and dependent on different cultural and cultural-historical value systems. The Social Inclusion Monitor Europe model of the Bertelsmann Foundation presents a modern concept of social justice that addresses the goal of achieving equal opportunities and opportunities for life and capable of "gathering the consensus needed to create a sustainable social market economy" (Bertelsmann Stiftung, 2017²). This model implies that the creation of social justice depends rather on compensating for social exclusion than on investment in social inclusion. This means that instead of "equal" redistributive justice, this concept of justice deals with ensuring that every person has equal rights and opportunities for self-realization by investing in developing his or her individual abilities. Everyone must be empowered to seek independent living and wider public participation without his or her social background restricting him/her.

The empirical data on the Social Justice Index in the EU in 2017 show the following:

- Social justice is improving slightly, with some exceptions, the results being still significantly

¹ The index is based on the quantitative and qualitative data collected by the Bertelsmann Foundation within the Sustainable Governance Indicators project (www.sgi-network.org) and is based on 140 indicators.

² The Social Justice Index includes 28 quantitative and 8 qualitative indicators related to: poverty prevention, access to education, labor market inclusion, social cohesion and non-discrimination, health care and intergenerational justice (the first three are more important and have a bigger weight in the index).

worse than before the crisis. The improvement in most EU member states is mainly due to an upward trend in the labor market;

- In 2017, the index was the highest in Denmark (7.4), Sweden (7.3) and Finland (7.1), and the lowest in Greece (3.7), Romania (4.0) and Bulgaria (4.2). The EU average is 5.9;
- An overall EU-wide improvement in employment levels is evident, including in youth employment, which is still very high in the southern member states (Greece, Italy, Spain) and higher than before the crisis;
- The poverty risk in the EU declines slightly (23.5% in 2017), but the gap between northern and southern Europe (Greece, Spain, Italy) remains high;
- For certain social groups (children and adolescents), the risk of poverty and social exclusion is even higher - 26.5% (in Greece and Spain - 37.5% and 32.9%, respectively);
- The trend for a large and even growing number of full-time employed people who are at risk of poverty remains. Highly developed Member States such as Germany are also affected by this trend (in 2015 7.1% of the fulltime employees in Germany were at risk of poverty, compared with 5.1% in 2009), (Bertelsmann Stiftung, 2016). This leads to a growing low-paid sector and a segmentation of the labor market in many countries;
- High youth unemployment remains a structural problem in the EU despite a slight decline. The integration of refugees into the labor market represents a similar problem; it remains weak even in the best-performing in that respect countries - Sweden and Finland (Bertelsmann Stiftung, 2017).

2.2. The remaining social divide between EU member states and regions

The economic and social indicators of living standards testify to a heterogeneous situation in the EU member states. In addition, there are large differences within the territories of the countries themselves, with the poorer countries having relatively rich areas (especially capitals) as well, and vice versa.

Overall, there is a general trend for income in the EU to be unevenly distributed. The situation has confirmed that 20% of the richest households in the EU earn on average more than 5 times more than the poorest. The most eloquent example for this inequality is Bulgaria, where the difference is 7.9 times, and the lowest income inequality exists in the Czech Republic (3.5 times).

The disparity in disposable income in recent years in the EU is also proved by the Gini coefficient, which is 30.8 in 2016, compared to 31.0 in 2015 and 2014, and has not experienced any significant decline over the last decade (Eurostat, 2018b). The main reasons for the differences between counties are their historical political and economic development, the different traditions and achievements in the economic and social spheres, as well as the big differences in the fields of education and health, employment patterns, wages, income and social systems protection.

As it has already become clear, the share of people at risk of poverty and social exclusion in the EU is very high - almost a quarter of all citizens, with considerable differences between countries. With regard to the fight against poverty and the equality of minorities and social groups in risk, the EU has not achieved a significant progress as well.

We saw that there are large differences in employment and (especially youth) unemployment rates in the individual member states (Figure 3). Apart from the labor market, there are also differences in the countries' social protection systems as a result of their different political priorities and budgets. In 2015, the public expenditure on social protection in the EU accounted for around 40% of the total public expenditure, almost one fifth of its GDP. Eight member states (Finland, France, Austria, Denmark, Italy, Sweden, Greece and Belgium) have devoted at least 20% of their GDP to social protection expenditure (European Commission, 2017c). Social systems are a reflection of the different traditions in this area and vary widely with regard to their basic parameters - size and budget allocation, funding sources, degree of coverage of risks among the population and the role of the social partners, and, of course, they reflect the characteristics of the relevant state taxation system.

It can be concluded that the serious differences between and within member states in terms of the social status of their citizens remain a serious challenge for both the countries and the EU. The observed disparities prove the lack of economic and social cohesion between the EU members, which could have a strong negative impact on them and the Union as a whole. In its position, the Committee of the Regions recalls that cohesion policy aims to ensure a level playing field allowing the EU to take full advantage of the benefits of the single market and the opportunities for global transformation and notes that the lack of convergence in the Union could increase the economic and social disparities between regions and cause greater tensions between member states, as well as lead to the collapse of the single market and to EU's inefficient economic governance (European Committee of Regions, 2018).

The awareness of this fact seems to be in the base of the EU's motivation to work in favor of achieving EU-wide economic and social cohesion. In addition to that, workplaces and social policy are also among the main priorities for the European citizens, who have high expectations towards related authorities at all levels - local, regional, national or European. For over 8 out of 10 Europeans, unemployment, social inequalities and migration are the three major challenges the Union faces. They expect the free market economy to be accompanied by high levels of social protection. For 7 out of 10 Europeans, it is acceptable to take decisions on employment and social policy at both national and EU level (European Commission, 2017c).

The strengthening of the economic, social and territorial cohesion of the EU is one of its main objectives (Article 174 TFEU), and the cohesion policy is the main European investment policy aimed at achieving these goals. Its funds also stimulate innovation and mitigate the effects of asymmetric economic shocks, ensuring public growth-oriented investment in the regions and helping to reduce youth and long-term unemployment, and promoting social inclusion. Unfortunately, the current debate on the future EU budget and the share of cohesion policy in it shows that it is likely that the budget for this policy (like the agricultural one, which also helps to bridge the gap) is reduced "moderately" by about 5 % (European Commission, 2018).

2.3. Economic and social effects of the emerging digital revolution

Among the factors that are increasingly affecting modern economies and societies are the changes in the education and skills, and there are some negative trends in the EU in that sphere. On the one hand, about a quarter of the adult population of the Union is experiencing reading or writing difficulties or lacking mathematical skills, and almost twice as many people do not

have the proper digital skills. On the other hand, the basic skills of the young people in the EU are deteriorating (according to the results of the Programme for International Student Assessment - PISA) and many member states are not advancing in reducing the share of low-achieving pupils in reading, mathematics and science (European Commission, 2017c).

The digital skills are essential to create a knowledge-based economy and are increasingly needed in modern life. However, the level of the digital skills of the EU's population is unsatisfactory - in 2016, 44% of the Union's population did not have basic digital skills (Luxembourg is the best performer with 86% of the population with digital skills and Bulgaria is the worst with only 26%), Fig. 4.

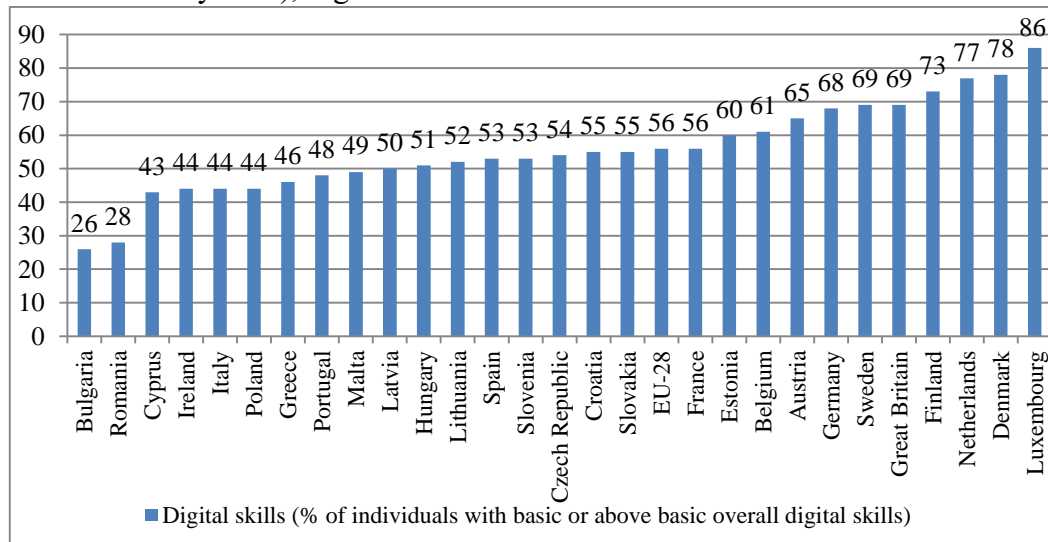


Figure 4: Digital skills (% of people with basic or above basic digital skills), 2016*

*The basic or above basic overall digital skills represent the two highest levels of the overall digital skills indicator, which is a composite indicator based on selected activities performed by individuals aged 16-74 on the internet in the four specific areas (information, communication, problem solving, content creation).

Source: European Commission (2018a). Social scoreboard

There is also a varying performance of the countries according to the European Commission's Digital Economy and Society Index (DESI), - a five-dimensional index including indicators concerning connectivity, human capital, Internet use, digital technology deployment and digital public services. Romania is the last in this ranking, and Bulgaria is in 27th place in 2017, despite its progress in improving the digital broadband infrastructure and in providing free data. The results are also weak in terms of the population's digital skills and the digitization of the economic and social services, which stops the further development of the digital economy and society in the country (European Commission, 2017g).

There is an understanding in the EU that the Union can benefit greatly from the digital revolution and that the digitization of products and services can add over € 110 billion in annual revenues to the European industry by 2020. But the EU is not ready - just about 1 in 5 companies in the EU is highly digitized. Also, around 60% of the large industries and more than 90% of the small and medium-sized enterprises feel underdeveloped in the digital innovation. The Digital Revolution provides opportunities for large and small businesses but many still have difficulties in choosing what technologies to invest in and how to fund their digital transformation (European Commission, 2018c).

The economic and challenges of digitization are related to:

- Changes in the economy - as a result of the technological progress, globalization and the expansion of the services sector leading to restructuring of the economic sectors;
- The need for the workforce to adapt to change, new business models and consumer preferences, and to acquire new skills;
- Changes in labor relations - the wider take-up of teleworking, more freelancing opportunities and job matching, greater geographic mobility but also a bigger risk of growing polarization in the labor market, with greater inequality in the payment and fading opportunities for the low-skilled workers.
- New skills requiring the modernization of education systems and the extension of lifelong learning programs, facilitating professional mobility and overcoming skills mismatches and supply.

It is impossible to determine what overall impact the digitization and the Fourth Industrial Revolution will have on the economy and labor markets. It is expected to be differentiated by sector and it is difficult to predict concrete effects on the different professions, jobs and sectors. An overview of the different areas of expected impact includes the following:

- Job creation due to new sectors, new products, new services;
- Change in workplaces due to digitization, interface, new forms of management;
- Job closures due to automation, robotics;
- Change of workplaces due to digital platforms, crowd sourcing, "shared economy" (European Trade Union Institute, 2016).

It is important to note that the European average of 54% of jobs at risk as a result of the process of digitalization is again polarized – the EU-peripheral countries would be the most affected by the computerization of employment - Romania (62.0%), Portugal (59.0%), Bulgaria (57.0%), Greece (56.4%), while the "center" and the northern part of the EU will be less affected - Germany (51.1%), Belgium (50.4%), the Netherlands (49.5%), Sweden (46.7%). In this aspect, this classification coincides with the Digital Economy and Society Index (DESI), i.e. the higher the position of the country in the index, the less its jobs are endangered by the process of digitization (European Trade Union Institute, 2016).

The effects of digitization will be accompanied by macroeconomic issues stemming from the labor market developments, the labour pay, the social inequality, the quality of newly created, changed or "shunted" jobs, etc. The main concern is the jobs' quality in the future in terms of pay, job security and working conditions. There is a need to update the social and lifelong learning systems. Gradually new social rights will be introduced, a part of the changing world of work, to which the countries are not well prepared to adapt. This is not just a question of financial sustainability, but also of providing security mechanisms and new social protection.

3. Conclusion

Although the responsibility for employment and social policy lies primarily with national governments, the European Union provides funding, supports and complements their efforts. In addition to that the EU coordinates and monitors national policies, encourages member countries to share best practices on social inclusion, poverty and pensions, supports training, skills development and entrepreneurship, and makes laws on workers' rights, discrimination at

work and coordination of social security schemes, and monitors their implementation. However, there are a series of economic and social challenges that the Union is facing, which need to be solved. The new European pillar of social rights is a step in the right direction. Although it will not be able to solve the social problems that have been addressed so far in Europe as it is focusing on common fundamental rights and principles, its formulation draws attention but also encourages member states to create better social conditions and opportunities for their citizens. It will also help to identify the need for reforms in important areas, although because of the different social systems the European states will have to find their own solutions.

The spheres of activity to strengthen social justice are connected and it is important for EU countries and institutions to work together. But there is also skepticism. There is a risk of excessive expectations, or fears that these social rights are just redefined existing ones (European Trade Union Institute, 2017). There is also the question of the legal status and the lack of EU competences in the social field that limit the possibilities for the implementation of the social pillar, as well as the differing perspectives of the social partners, which will have to be key players in its implementation. What lies ahead is a matter of member states consent, political will and good organization.

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