Social policy in a monetary union: puzzles, paradoxes and perspectives

Frank Vandenbroucke
University of Amsterdam
MAES lectures ‘Transnational and global perspectives on Europe’
Leuven, 24 October 2016
The social dimension of the European project according to the *founding fathers*: a belief in convergence

- European integration would support the simultaneous pursuit of *economic progress* and of *social cohesion*, both *within* countries (through the gradual development of the welfare states) and *between* countries (through upward convergence across the Union).

- Initial division of labour:
  - economic development: supranational
  - coordination of social security rights & anti-discrimination: supranational
  - social development: national sovereignty (in theory)

- The convergence machine worked... more or less... until 2004/2008.
Inequality in Europe

**US**

- Median income US states
  - (US ‘representative state’ = 1)

**EU27**

- Median income EU Member States
  - (EU ‘representative MS’ = 1)
The social dimension of the European project according to the founding fathers: a belief in convergence

• European integration would support the simultaneous pursuit of economic progress and of social cohesion, both within countries (through the gradual development of the welfare states) and between countries (through upward convergence across the Union)

• Initial division of labour:
  – economic development: supranational
  – coordination of social security rights & anti-discrimination: supranational
  – social development: national sovereignty (in theory)

• The convergence machine worked... more or less... until 2004/2008.

• A tragic dilemma of integration (in the enlarged and heterogeneous EU)?
### European income distribution: a moving scale

<table>
<thead>
<tr>
<th>Top quintile</th>
<th>Romania</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>32%</td>
<td>133%</td>
</tr>
<tr>
<td>3</td>
<td>30%</td>
<td>140%</td>
</tr>
<tr>
<td>2</td>
<td>28%</td>
<td>145%</td>
</tr>
<tr>
<td>1</td>
<td>23%</td>
<td>152%</td>
</tr>
</tbody>
</table>

100% = average of 27 Member States
Minimum wages and what governments can do: net disposable income of couple with 2 children, one minimum-wage earner

Source: CSB/MIPI
Poverty risks in the population < 60, by work intensity of the household

Poverty risks in the population < 60, by work intensity of the household

At-risk-of-poverty rate (< 60)

Work intensity of the household


‘Poverty stabilisation’: the contribution of transfers (*not* pensions) in the reduction of poverty

Inefficient ‘pension-heavy’ welfare states

Austerity and instability EMU

Erosion of mature welfare states?

The social dimension of the European project according to the *founding fathers*: a belief in convergence

- European integration would support the simultaneous pursuit of *economic progress* and of *social cohesion*, both *within* countries (through the gradual development of the welfare states) and *between* countries (through upward convergence across the Union).

- Division of labour:
  - economic development: supranational
  - coordination of social security rights & anti-discrimination: supranational
  - social development: national sovereignty (in theory)

- The convergence machine worked... more or less... until 2004/2008.

- A tragic dilemma of integration (in the enlarged and heterogeneous EU)?

- **Design flaws in the European project**
Macro-economic stabilisation: smoothing of economic shocks: US vs. EMU

US:
- Federal tax-and-benefit system
- State-based unemployment insurance with federal framework & extensions

Furceri & Zdzienicka, The Euro Area Crisis..., IMF Working Paper
EMU: stability, sovereignty and solidarity

- Why are stabilization instruments centralized in monetary unions?
  - Risk sharing (pooling)
  - Externalities (vaccination)

- Paradox: in the US, solidarity systems at the state level are weak, but they are supported by solidarity mechanisms at the federal level; the EU is not ready to support strong mechanisms of solidarity at the member state level by solidarity at the EU level.

- Puzzle of:
  - Binding agreements ↔ sovereignty
  - Distrust ↔ solidarity
  - Legitimate concern about *moral hazard*, which has become an obsession
Defining the EMU’s social objective is a necessity rather than a luxury

• EMU forces upon the member states:
  
  – a shared conception of labour market flexibility
  
  – symmetric guidelines on wage cost competitiveness & institutions that can deliver
  
  – long term: sustainability of pensions

• Any ‘Eurozone re-insurance’ of ‘national stabilization policies presupposes (a) minimum requirements w.r.t. the adequacy of national unemployment insurance and the concomitant labour market regulation; and (b) general trust in the quality of each other’s social fabric.

• The need for conceptual clarity: a European Social Union ≠ a European Welfare State
Reciprocity in the EU

• Mutual insurance is based on reciprocity

• Reconciling domestic social cohesion and free movement should also be based on reciprocity

  – Non-discrimination ⇔ posting of workers
  – ... need for a consistent approach
A European Social Union

A Social Union would

- support national welfare states on a *systemic* level in some of their key functions (e.g. stabilization, fair corporate taxation, minimum wages)

- guide the substantive development of national welfare states – via general social standards and objectives, leaving ways and means of social policy to Member States – on the basis of an operational definition of ‘the European social model’.

⇒ European countries would cooperate in a union with an explicit social purpose, pursuing both national and pan-European social cohesion

⇒ based on reciprocity
A European Pillar of Social Rights: arguments & caveats

• A basic consensus about the general features of the ‘social order’ that is associated with the Monetary Union is a necessity; the EPSR can contribute to such a consensus.

• Upward convergence across the EMU/EU28 requires a combination of social investment, sufficiently egalitarian background conditions and social protection, as embodied in the EPSR.

• Caveat: perception of ‘replay’ of earlier soft initiatives will backlash
Thank you


3) Vandenbroucke, Automatic Stabilisers for the Euro area and the European Social Model, Notre Europe Jacques Delors Insitute, Tribune, September 2016 (www.delorsinstitute.eu)


6) Vandenbroucke, Sociaal beleid in een muntunie: puzzels, paradoxen en perspectieven, Inaugural Lecture at the University of Amsterdam, 1 June 2016 www.frankvandenbroucke.uva.nl


www.frankvandenbroucke.uva.nl