

# **The social dimension of European economic and monetary integration**

**Puzzles, paradoxes and perspectives**

Frank Vandembroucke

Guest lecture in:

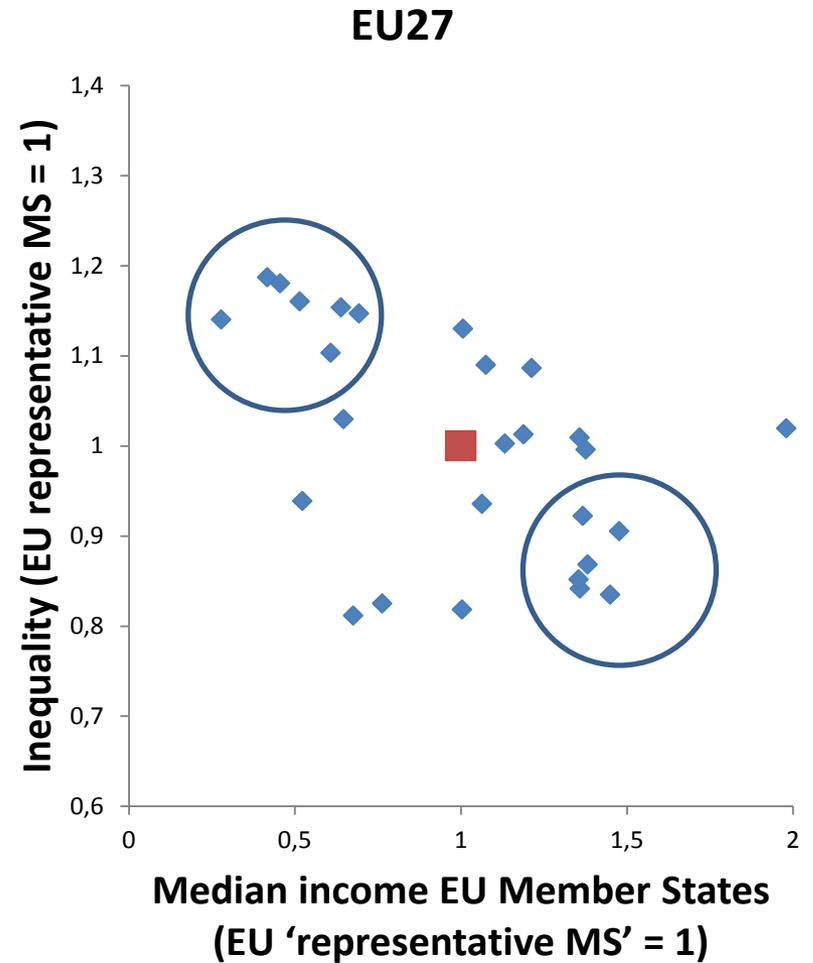
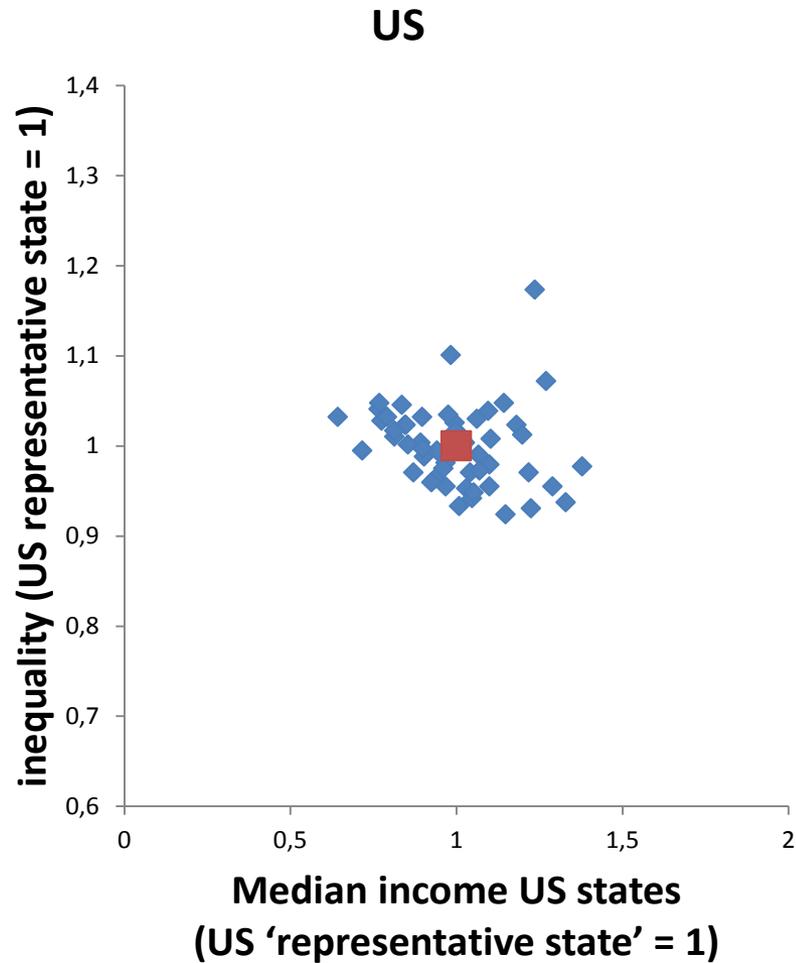
The Economics of European Integration – Prof. Abraham

20 December 2017

# 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
  - cohesion policy
  - 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



## European income distribution: a moving scale



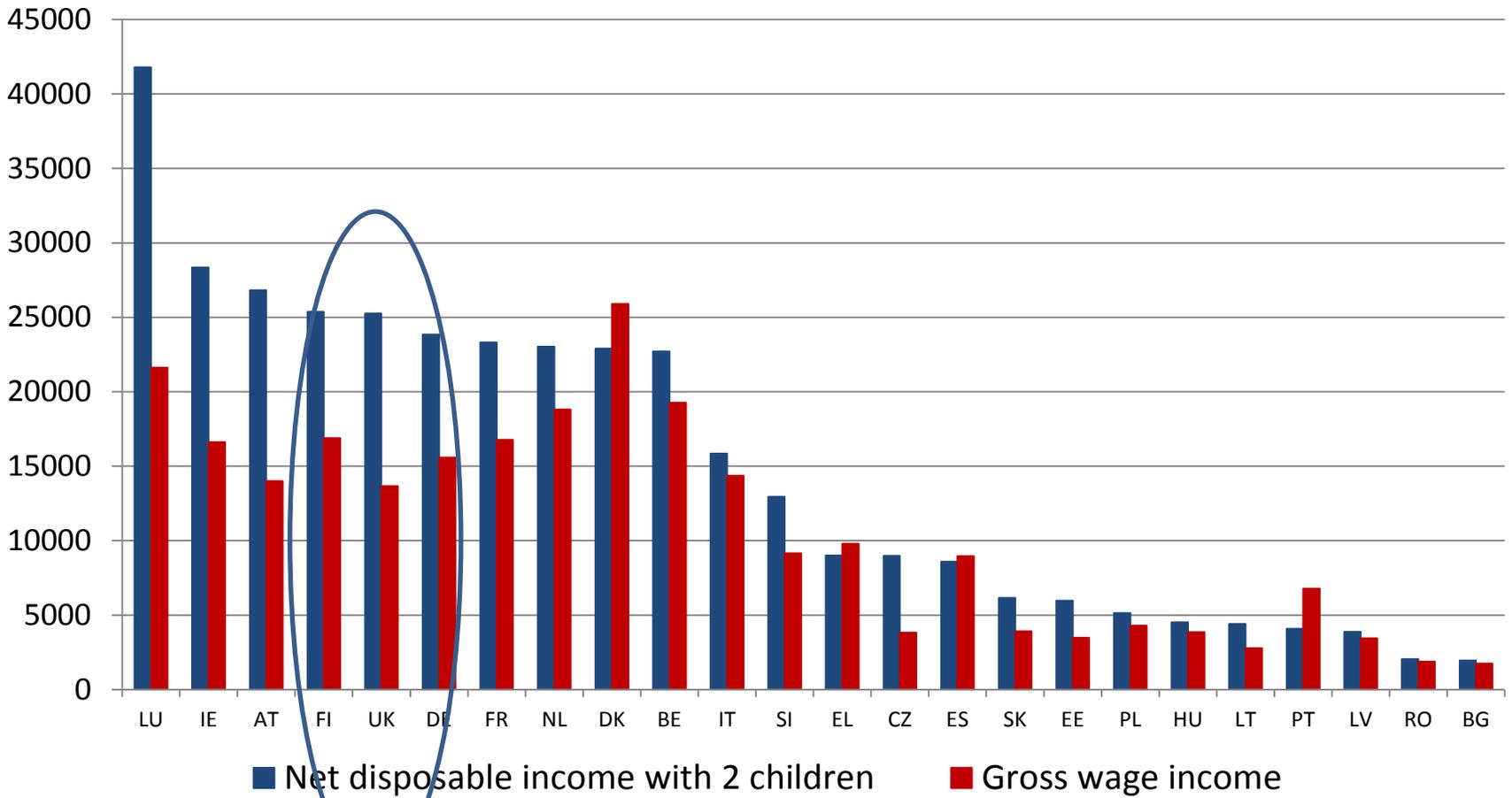
	Romania	Denmark
Top quintile 4	32%	133%
Top quintile 3	30%	140%
Top quintile 2	28%	145%
Top quintile 1	23%	152%

100% = average of 27 Member States

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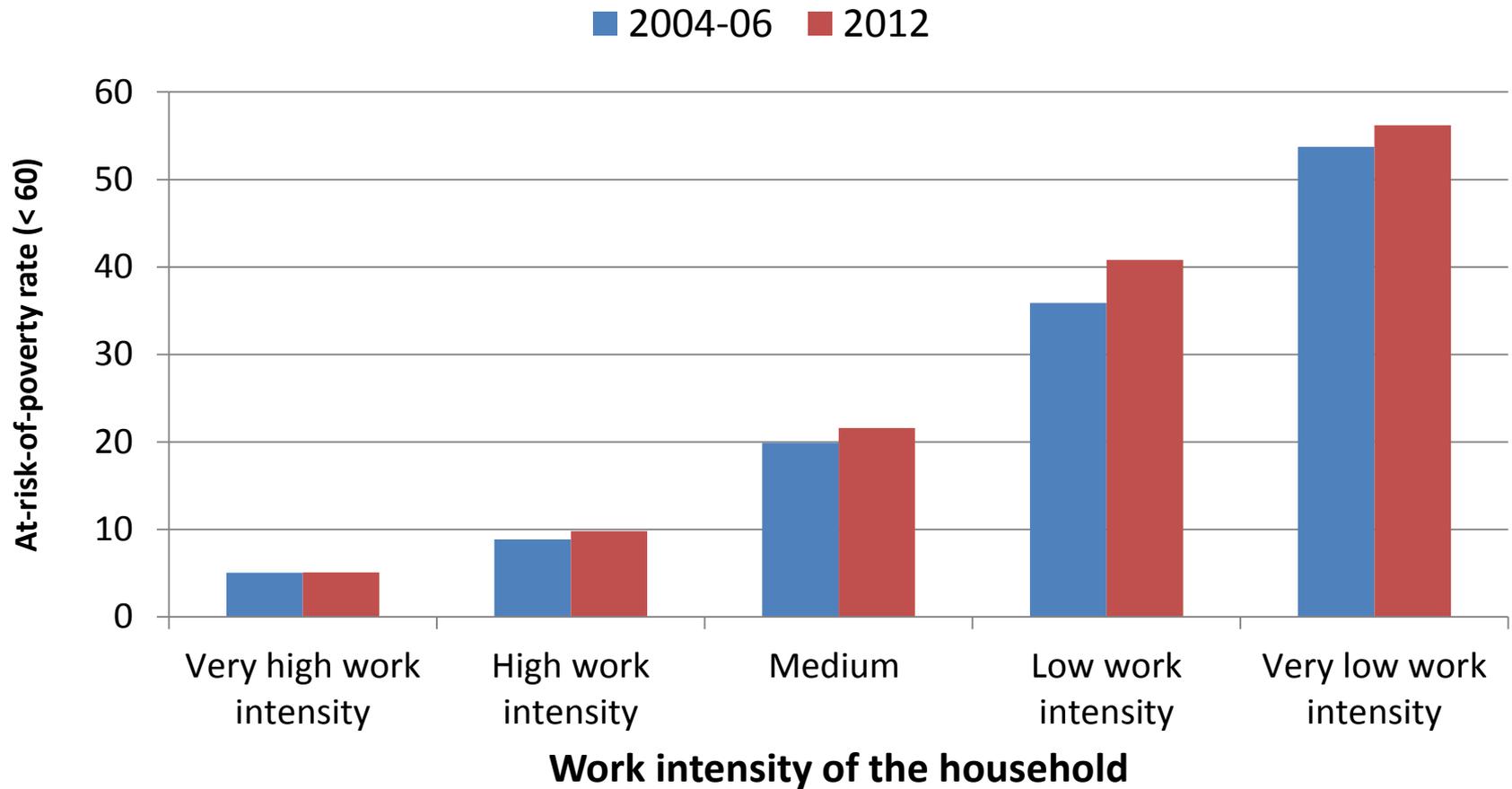
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- A **tragic dilemma** of integration (in the enlarged and heterogeneous EU)?

# Minimum wages and what governments can do: net disposable income of couple with 2 children, one minimum-wage earner



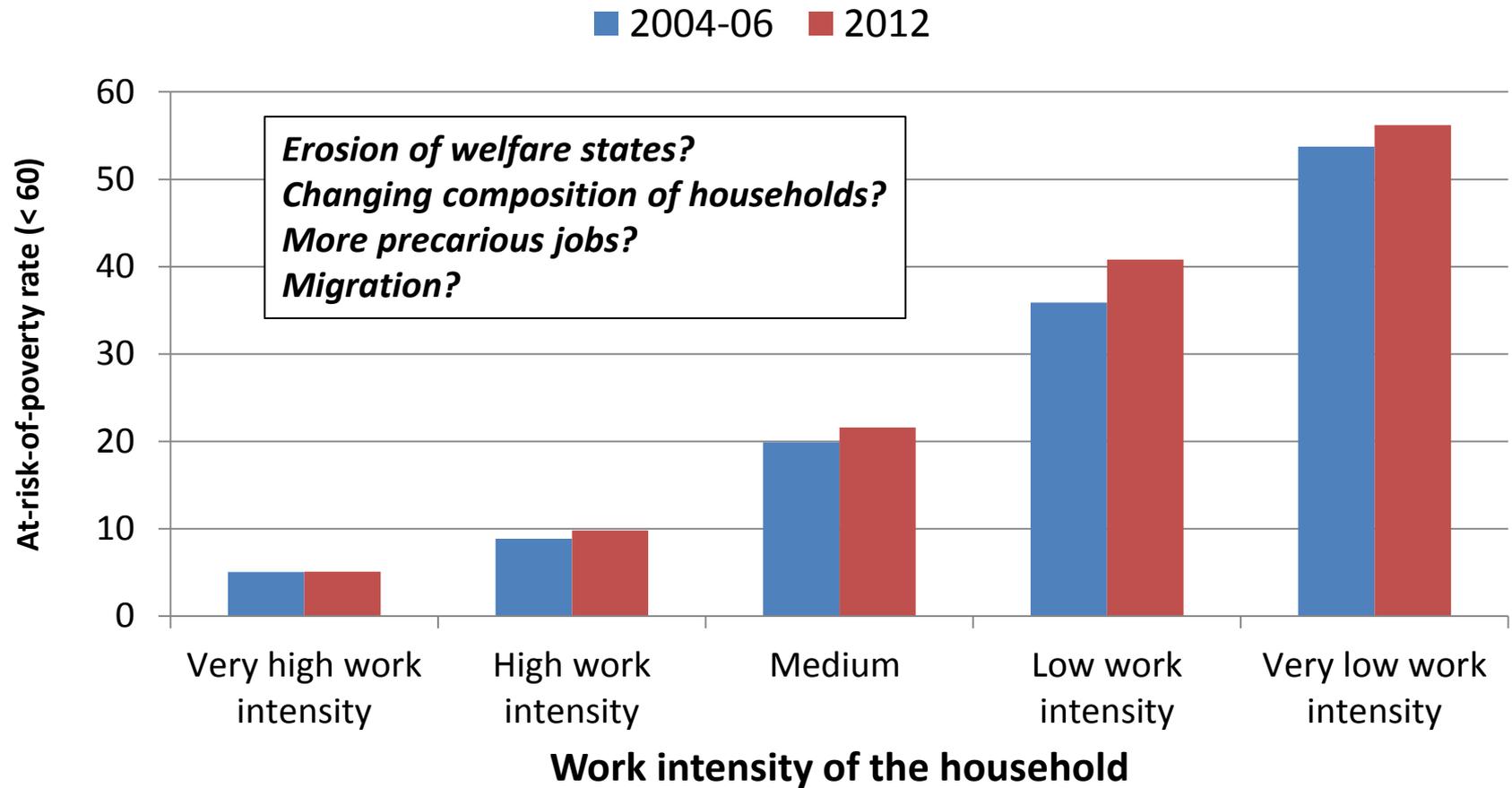
Source: CSB/MIPI

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



Bron: Eurostat, SILC 2005-2007; SILC 2013

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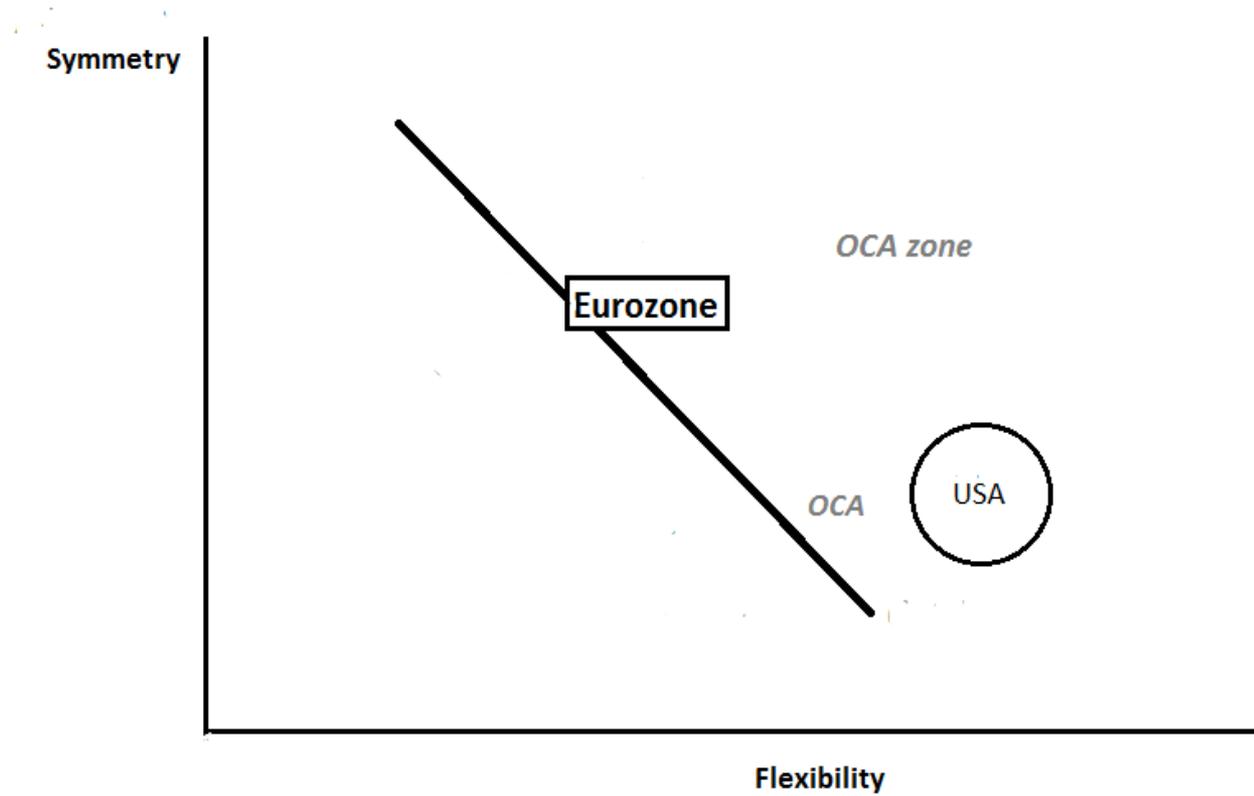
## Reconciling openness and domestic cohesion

- Access to social benefits: the general principle of non-discrimination
- The exception: posting of workers
- Transparency and coverage of minimum wage regimes

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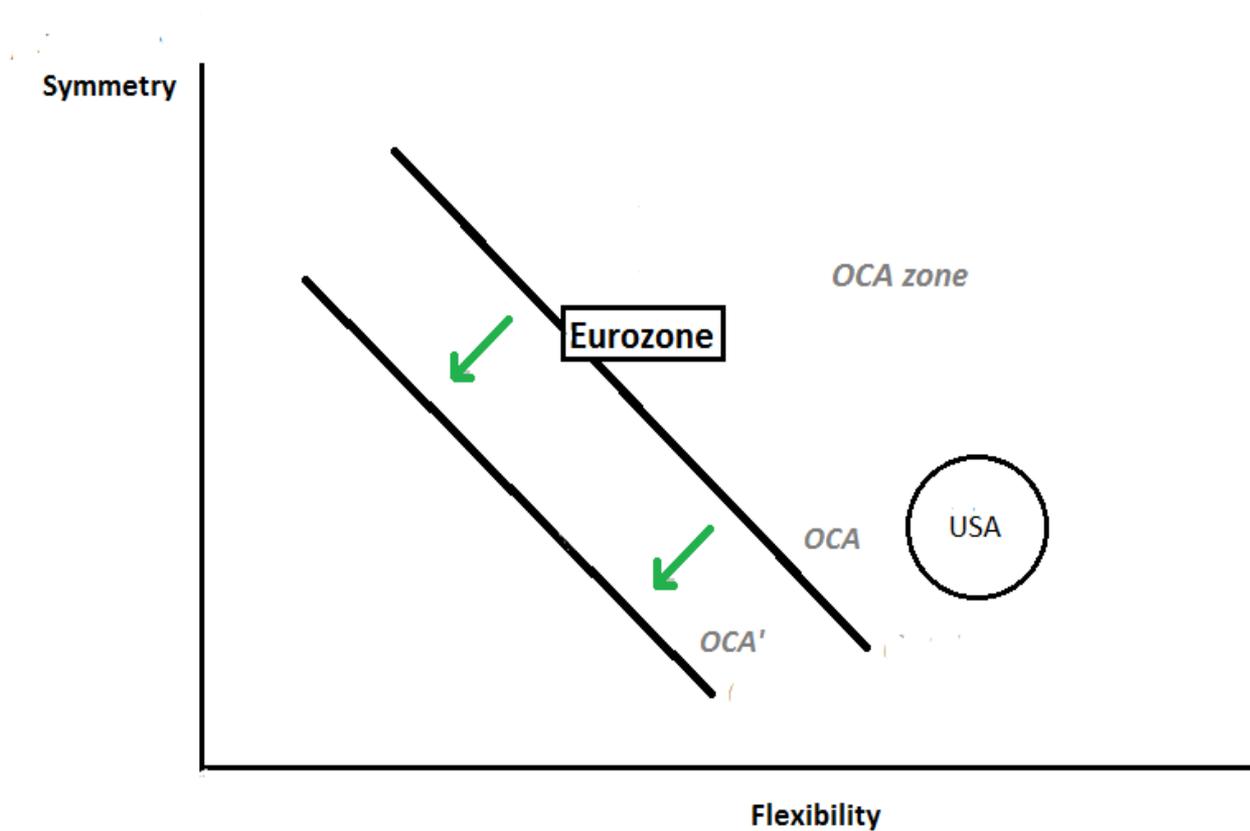
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- **Design flaws in the European project**

# The consequences of monetary unification

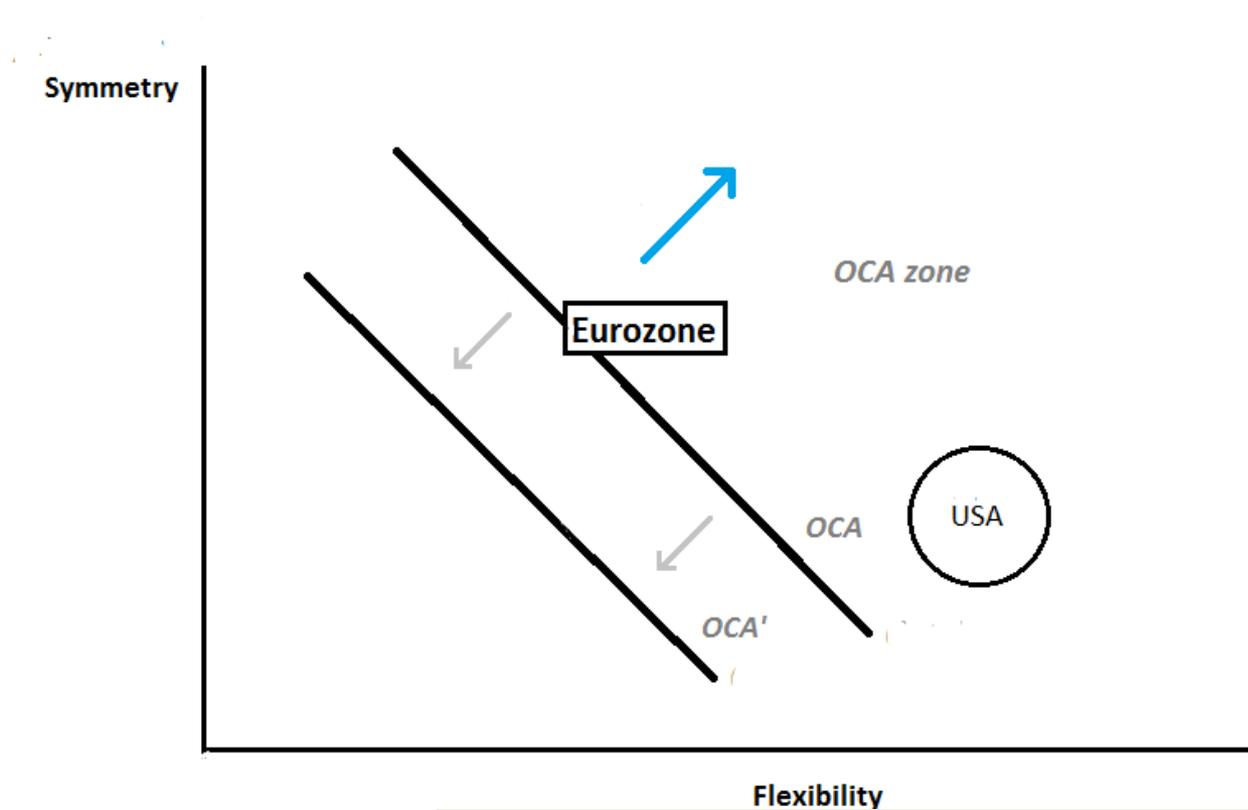


Source: De Grauwe

# Transfers might mitigate the symmetry/flexibility trade-off

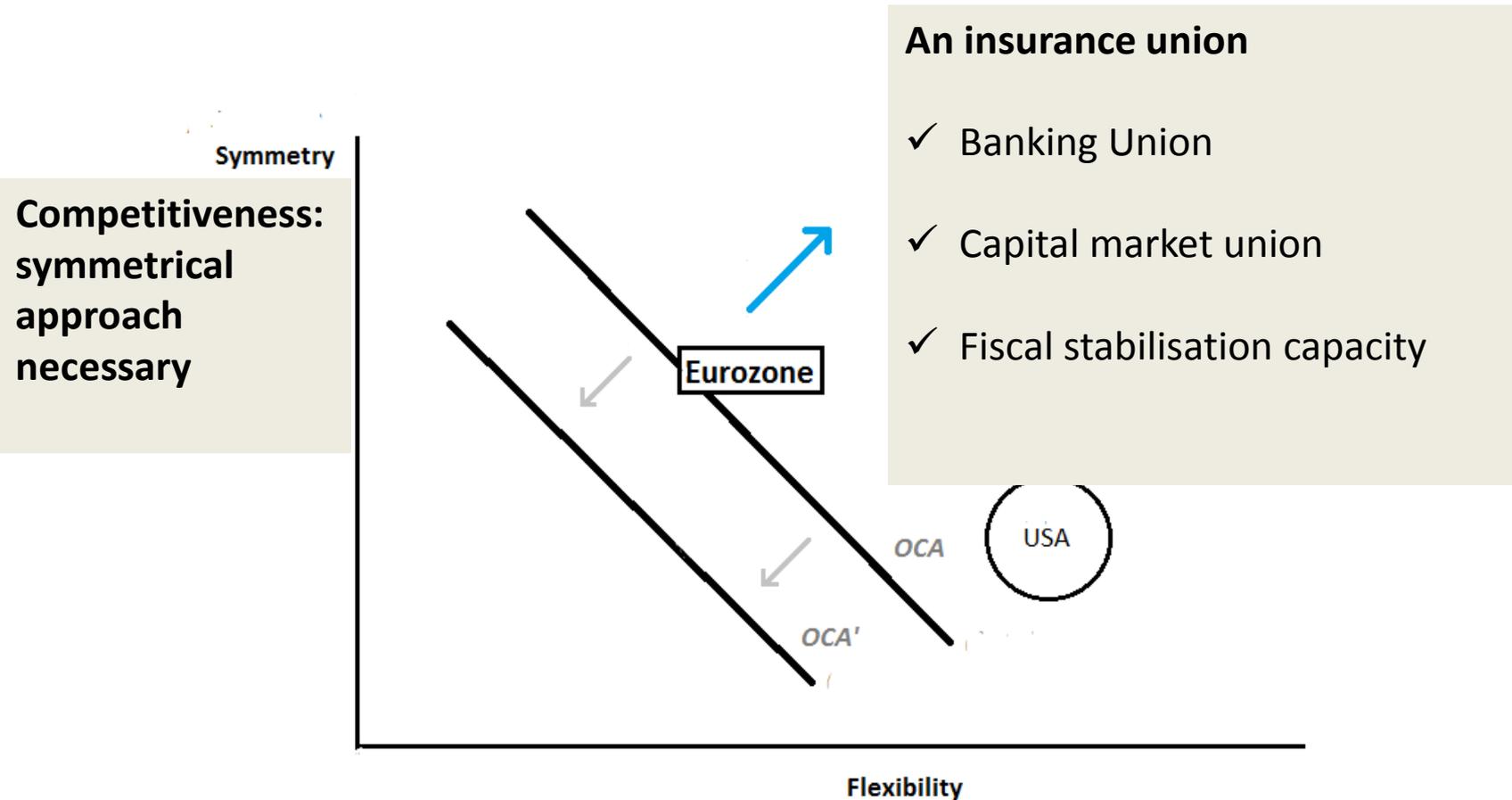


# The EU's way, until recently: more symmetry, more flexibility



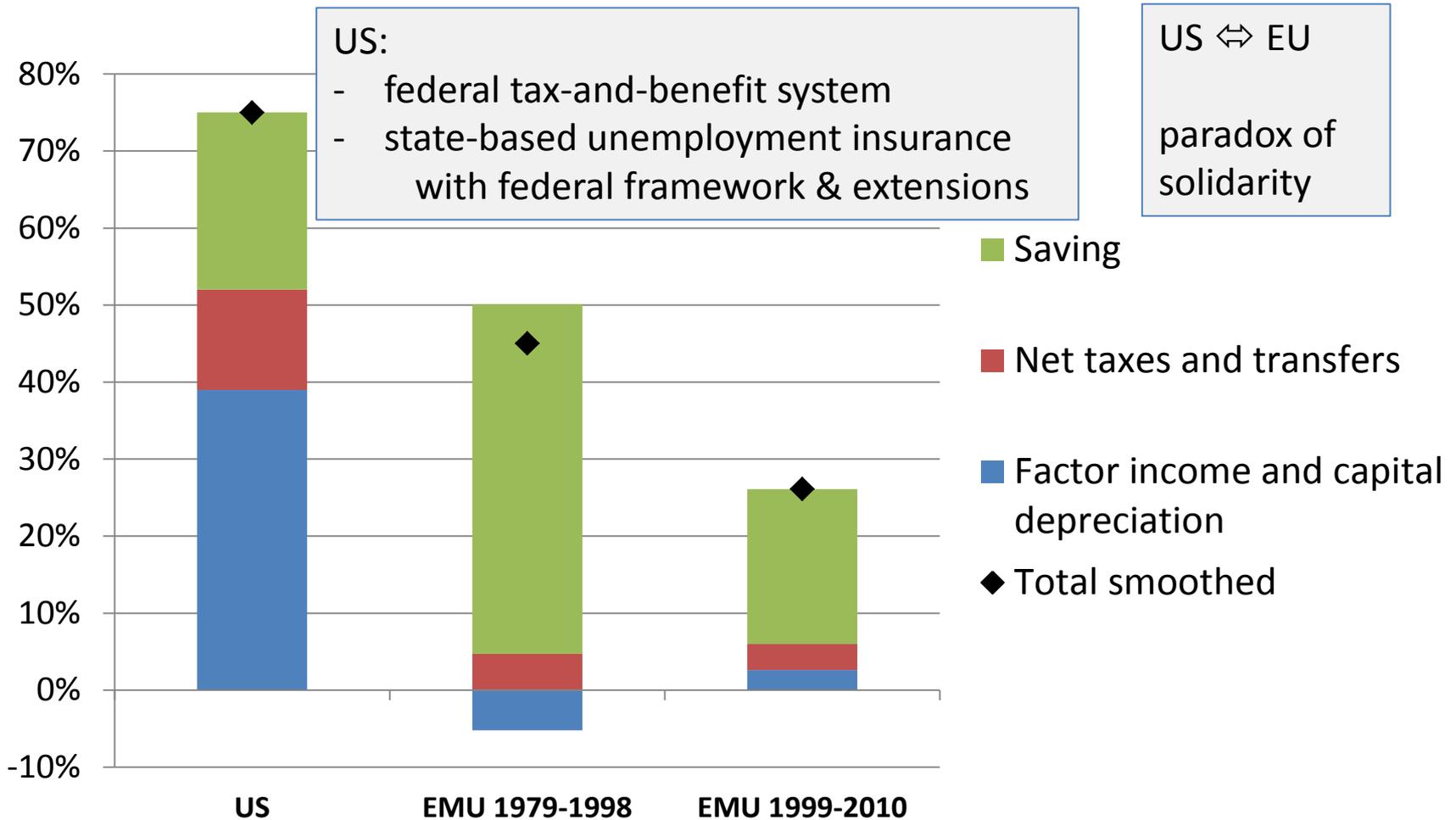
**Flexibility determines social order**

# The EU's way, current roadmap: stability in an 'insurance union'



**Institutional advantage of coordinated bargaining**

# Macro-economic stabilisation: smoothing of economic shocks: US vs. EMU



# EMU as an insurance union: a vaccination metaphor

- Why are stabilization instruments centralized in monetary unions?
  - Risk sharing (pooling)
  - Externalities of a national public good (vaccination)
- Vaccination: compulsory (minimum requirements) and subsidized (re-insurance)
- Minimum requirements for an effective stabilisation capacity:
  - sufficiently generous unemployment benefits, notably in the short-term;
  - sufficient coverage rates of unemployment benefit schemes;
  - no labour market segmentation that leaves part of the labour force poorly insured;
  - no proliferation of employment relations that are not integrated into social insurance;
  - effective activation of unemployed individuals;
  - budgetary buffers in good times, so that automatic stabilisers can do their work in bad times.
- These principles become a fortiori imperative, if the Eurozone would be equipped with re-insurance of national unemployment insurance systems: institutional moral hazard

## EMU: common standards for *resilient* welfare states

- A shared conception of flexibility
  - Labour market institutions that can deliver on wage coordination (effective collective bargaining)
  - Cluster of policy principles for an adequate stabilisation capacity in MS:
    - sufficiently generous unemployment benefits, notably in the short-term;
    - sufficient coverage rates of unemployment benefit schemes;
    - no labour market segmentation that leaves part of the labour force poorly insured against unemployment;
    - no proliferation of employment relations that are not integrated into systems of social insurance;
    - effective activation of unemployed individuals
- ⇒ Convergence in **some**, key features of Eurozone welfare states
- ⇒ ***European Pillar of Social Rights***, Gothenburg Summit, 17 November 2017

# 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, ...)
  - 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

# Resources

- Furceri & Zdziencicka, *The Euro Area Crisis: Need for a Supranational Fiscal Risk Sharing Mechanism ?*, IMF Working Paper 13/198, 2013
- Vandenbroucke, Risk Reduction, Risk Sharing and Moral Hazard: A Vaccination Metaphor, *Intereconomics*, Vol. 52, May/June 2017, Number 3, pp. 154-159.
- Vandenbroucke, From the Gothenburg Social Summit to a European Social Union, *Social Europe*, 27 November 2017, <https://www.socialeurope.eu/gothenburg-social-summit-european-social-union>
- Vandenbroucke, Barnard, De Baere (eds.), *A European Social Union after the Crisis*, Cambridge: Cambridge University Press, September 2017, <https://doi.org/10.1017/9781108235174>
  - Introductory chapter in Open Access on [www.frankvandenbroucke.uva.nl](http://www.frankvandenbroucke.uva.nl), item 263.
- Vandenbroucke, *Structural convergence versus systems competition: limits to the diversity of labour market policies in the European Economic and Monetary Union*, ECFIN discussion paper 065, European Commission Directorate-General for Economic and Financial Affairs, Brussels, 20 July 2017, <http://ssrn.com/abstract=3008621>

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