The social dimension of European integration

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Structure

*European integration and robust welfare states: a tragic dilemma?*

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

2. Explanations: what stopped the ‘convergence machine’?

   1. Increasing heterogeneity of Member States
      
      1. a tragic dilemma?
      2. erosion of welfare states
      3. policies (social investment)
      4. reconciling openness and domestic cohesion: the political challenge

   2. Design flaws in European integration

3. The way forward: A European Social Union
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

EU27

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

Median income EU Member States
(EU ‘representative MS’ = 1)
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
The pan-European distribution of income

Goedemé e.a., *Mountains on the move*

Net disposable standardized household income, as a % of the EU27 median

- EU15
- EU12
- Poverty threshold
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- A tragic dilemma of integration (in the enlarged and heterogeneous EU)?
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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

![Bar chart showing poverty risks by work intensity of the household from 2004-06 to 2012.](chart)

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

- Very high work intensity
- High work intensity
- Medium
- Low work intensity
- Very low work intensity

Work intensity of the household

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

Erosion of welfare states?
Changing composition of households?
More precarious jobs?
Migration?

The contribution of transfers (not pensions) in the reduction of poverty

Inefficient ‘pension-heavy’ welfare states

Erosion of mature welfare states?

Increasing inequality and poverty: diagnosis and domestic policy lessons for EU welfare states

• There is no one-size-fits-all explanation, hence no silver bullet to tackle increasing inequalities

• We need a set of complementary strategies and instruments that can improve both the social protection and the employment perspectives of households with a weak attachment to the labour market.

• “Improving our human capital requires a child-centred social investment strategy that addresses inequalities in opportunities.”

• “The EU should promote social investment policies.”
Reconciling openness and domestic cohesion: a political challenge

• 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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- **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’

An insurance union
- Banking Union
- Capital market union
- Fiscal stabilisation capacity

Institutional advantage of coordinated bargaining
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
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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 (1)


• Vandenbroucke, Barnard, De Baere (eds.), *A European Social Union after the Crisis*, Cambridge: Cambridge University Press, September 2017, [https://doi.org/10.1017/9781108235174](https://doi.org/10.1017/9781108235174)

  + Introductory chapter in Open Access on [www.frankvandenbroucke.uva.nl](http://www.frankvandenbroucke.uva.nl), item 263; also available on Blackboard.


Resources (2)


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