

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

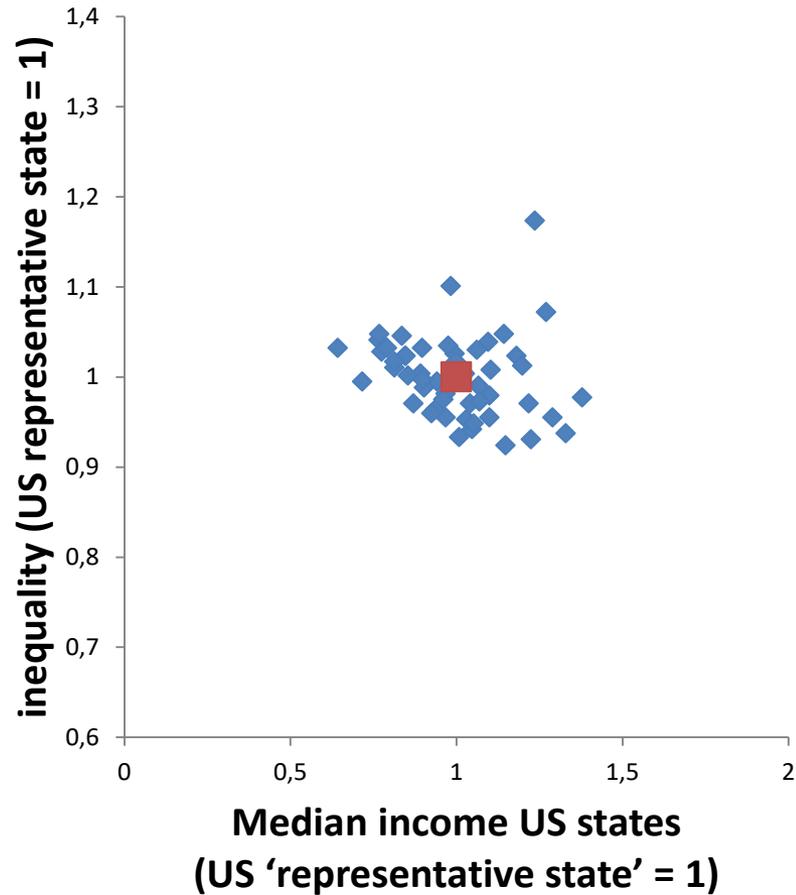
11 December 2019

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

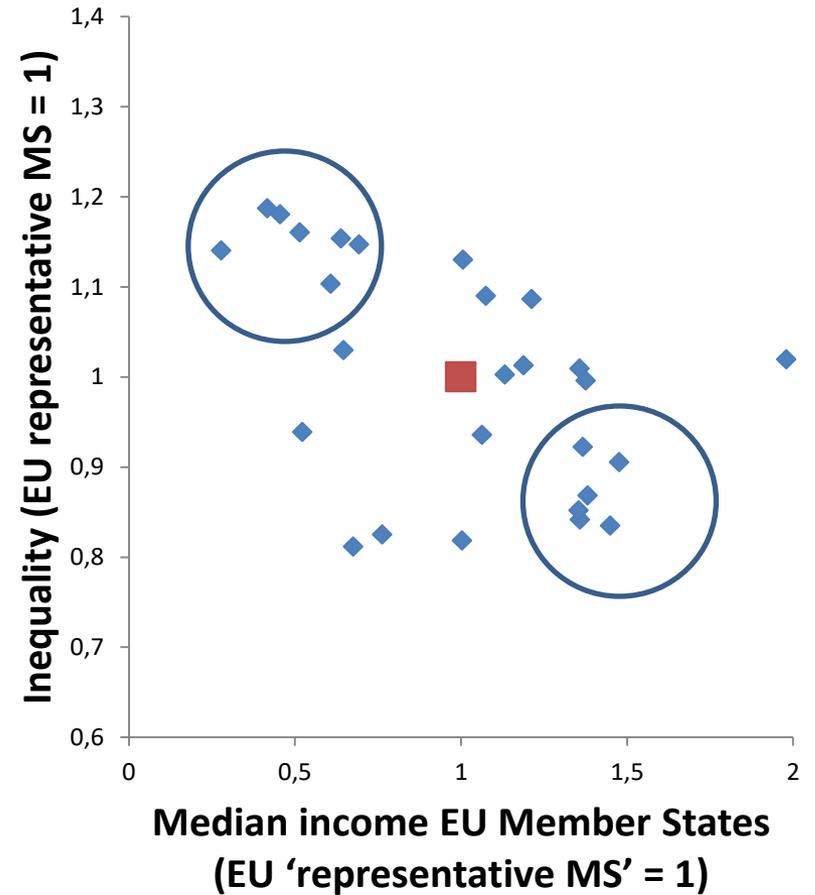
- European integration would support the simultaneous pursuit of *economic progress* and of *social cohesion*, both *within* countries (through the gradual development of the welfare states) and *between* countries (through upward convergence across the Union)
- Initial division of labour:
 - economic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

US



EU27



European income distribution: a moving scale



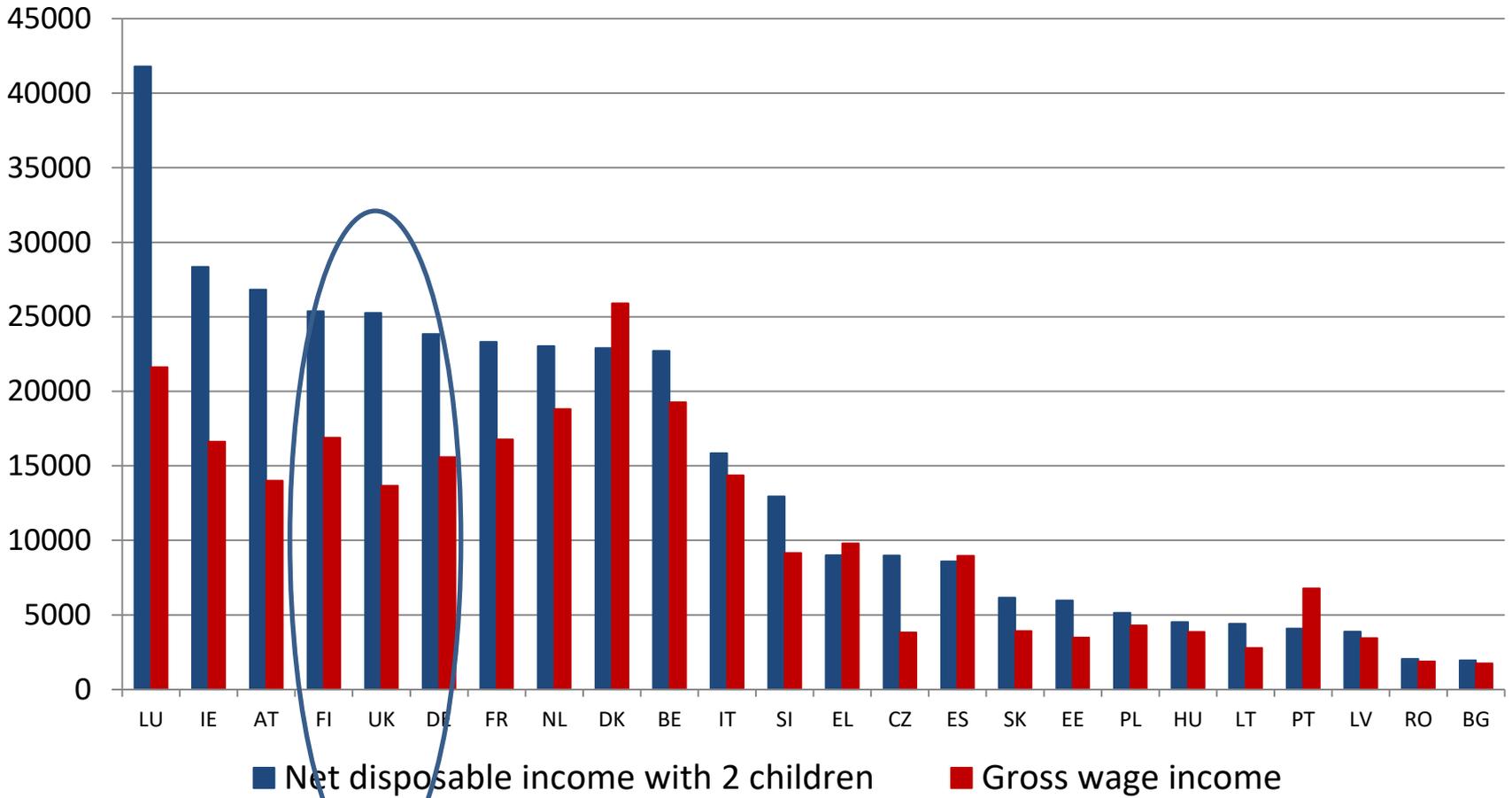
	Romania	Denmark
Top quintile 4	32%	133%
Top quintile 3	30%	140%
Top quintile 2	28%	145%
Top quintile 1	23%	152%

100% = average of 27 Member States

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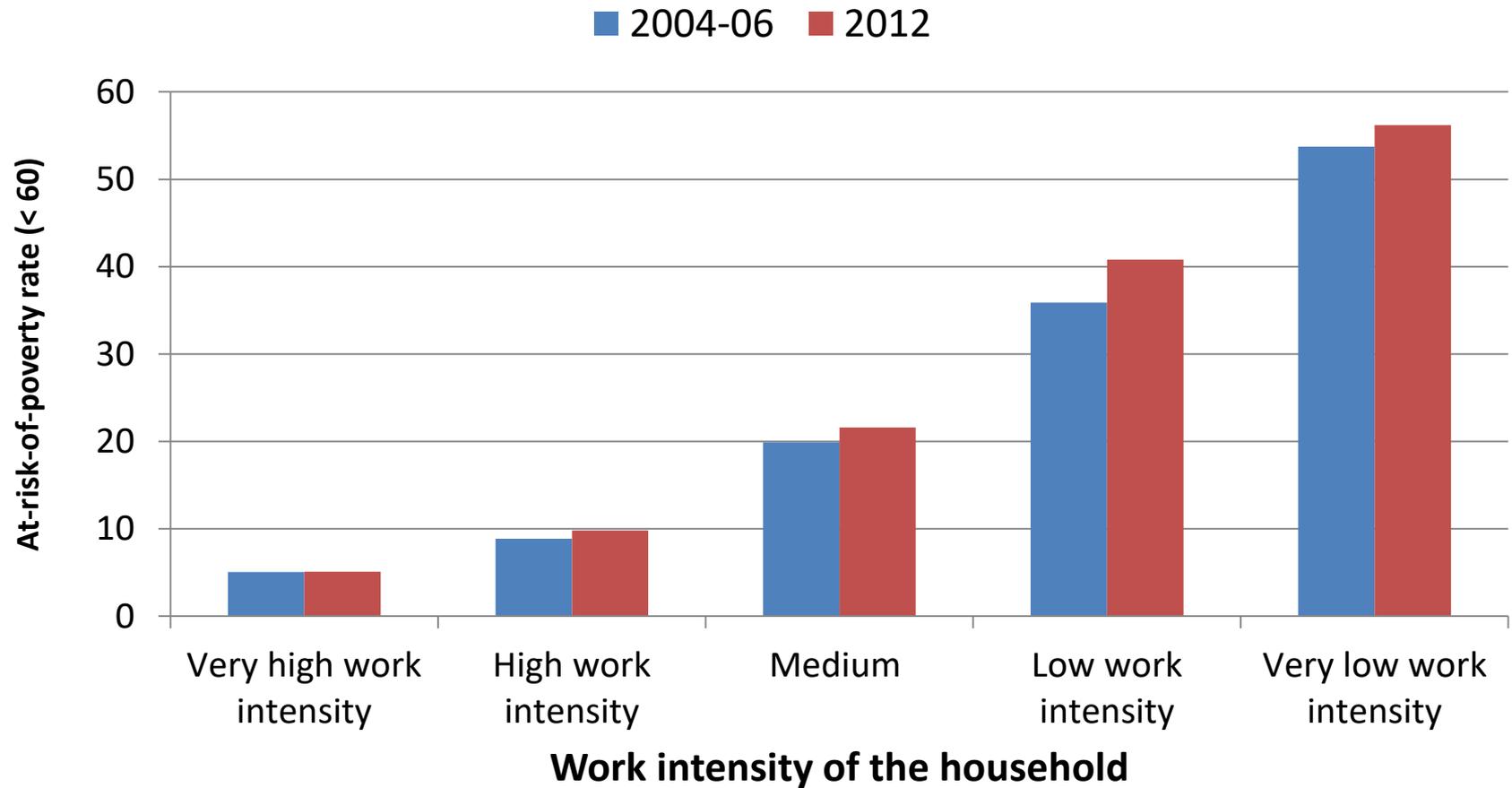
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- A **tragic dilemma** of integration (in the enlarged and heterogeneous EU)?

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



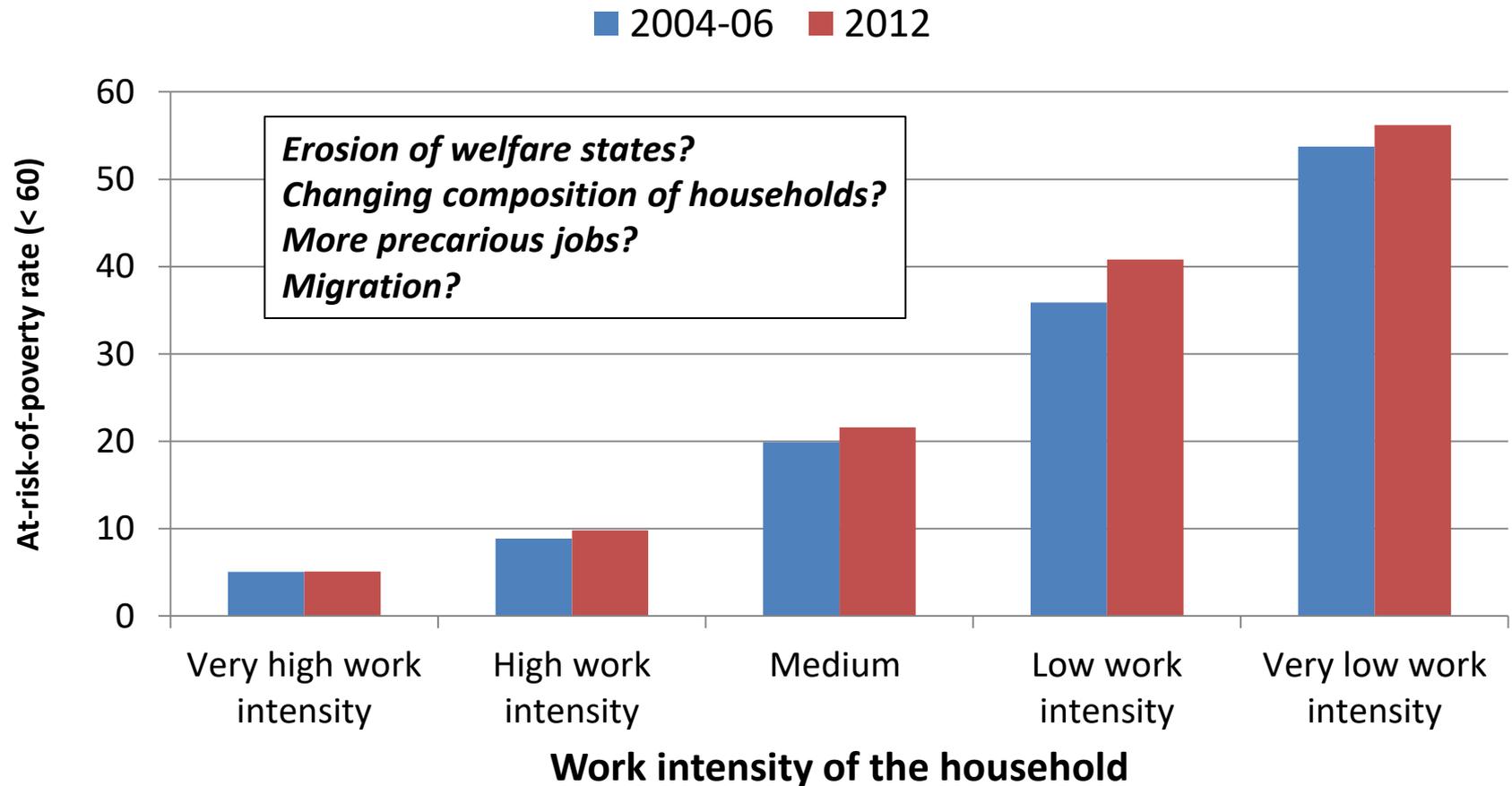
Source: CSB/MIPI

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



Bron: Eurostat, SILC 2005-2007; SILC 2013

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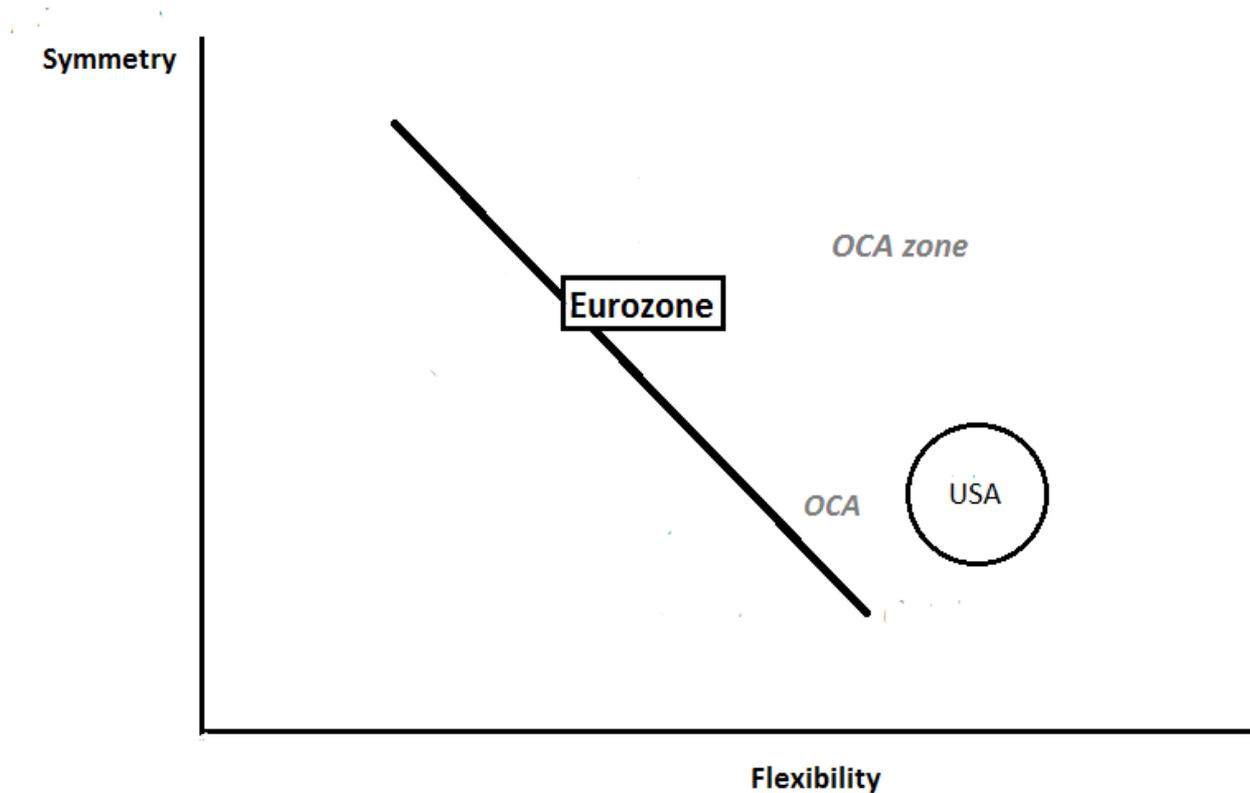
Reconciling openness and domestic cohesion

- 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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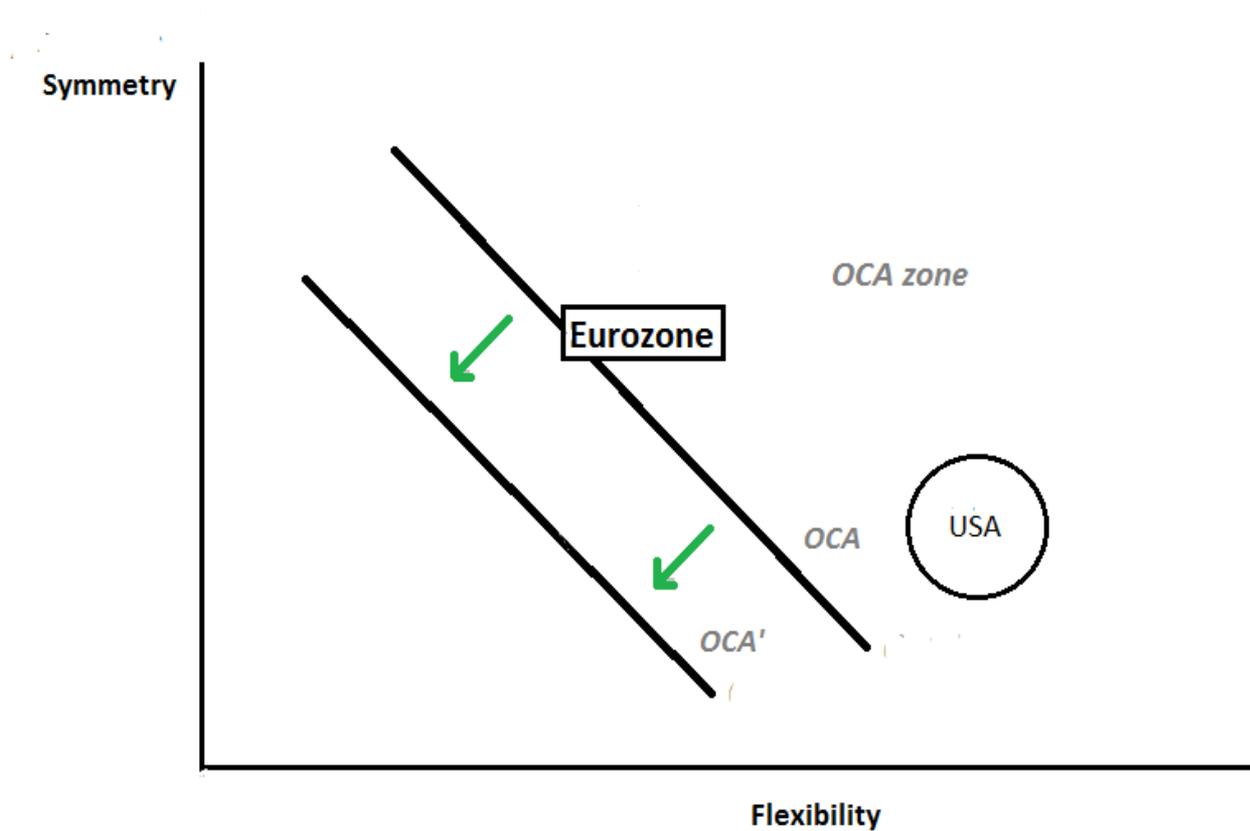
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- **Design flaws in the European project**

The consequences of monetary unification: the traditional view

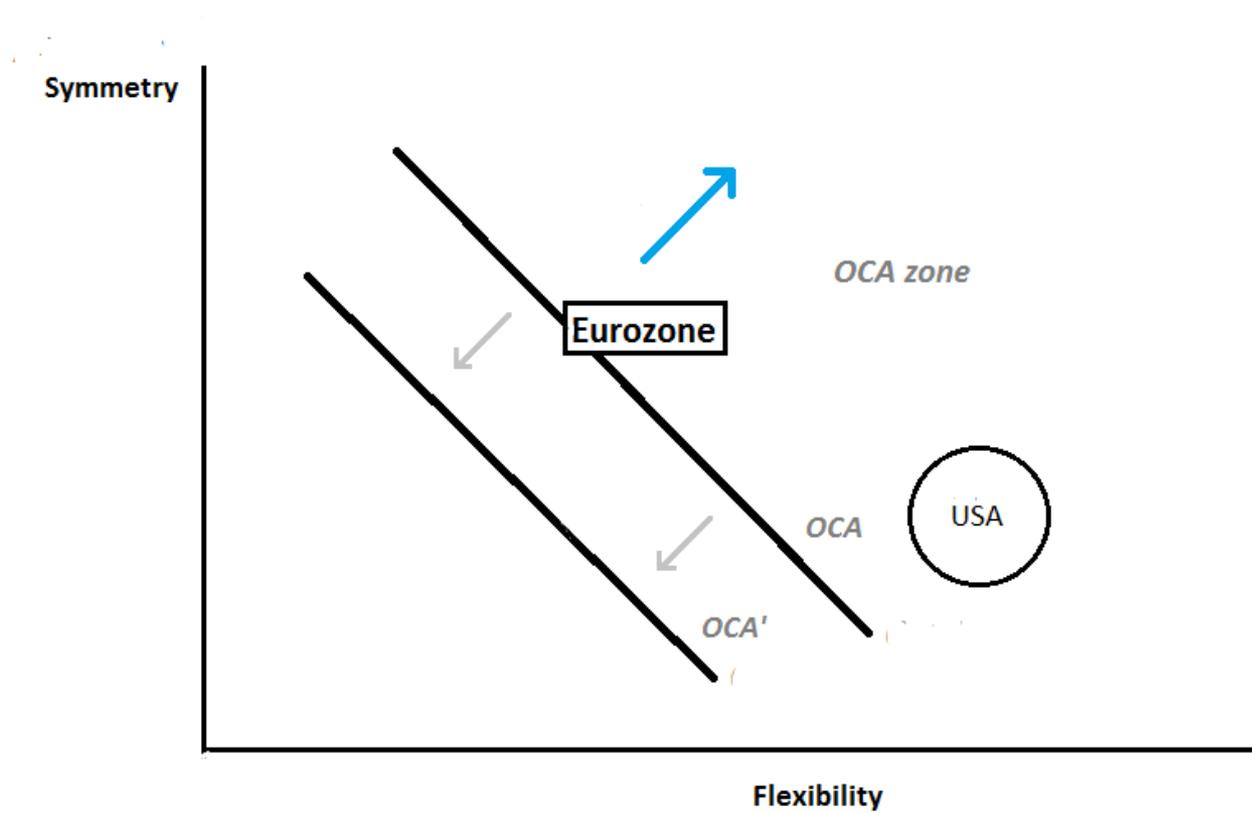


Source: De Grauwe, *Economics of Monetary Union*, 12th ed., p. 77.

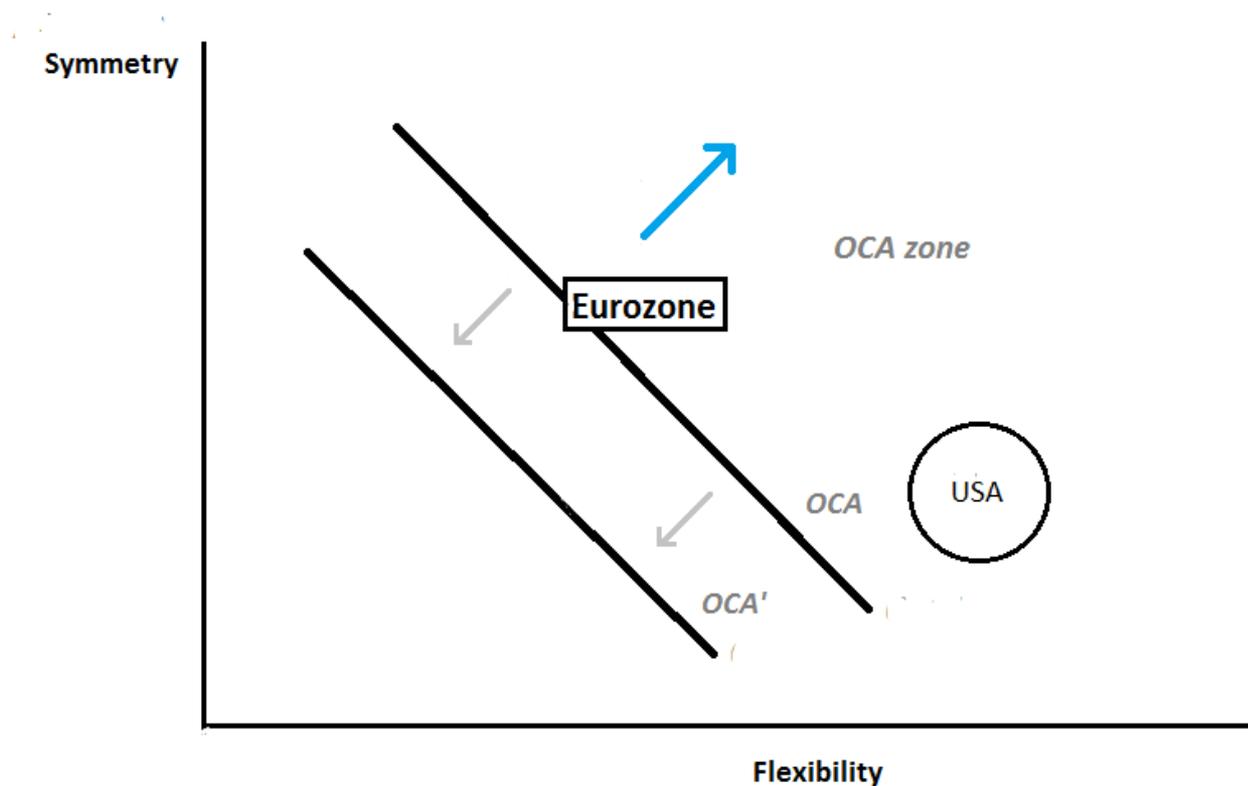
Transfers might mitigate the symmetry/flexibility trade-off



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

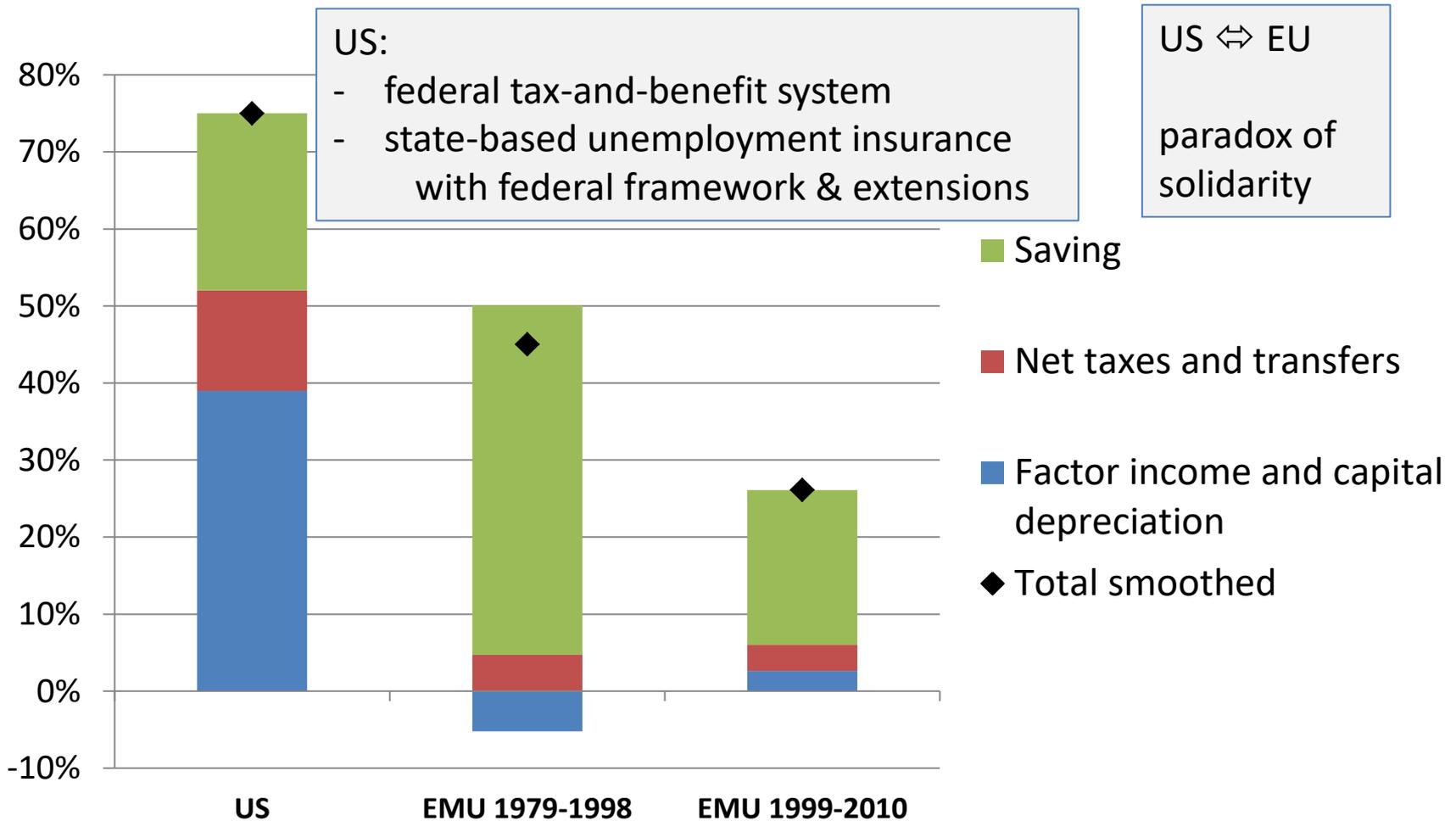


The EU's way, until recently: more symmetry, more flexibility



Permanent shocks: labour market flexibility > budgetary union
Temporary shocks: budgetary union > labour market flexibility
De Grauwe, *op. cit.*, pp. 84-85.

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



EMU as an insurance union

- Why are stabilization instruments centralized in monetary unions?
 - Risk pooling when shocks are asymmetric
 - Even when shocks are not asymmetric, without insurance mechanisms, including fiscal stabilizers, a monetary union is fragile (via disruption in government bond markets)
- Fiscal stabilization via re-insurance of national unemployment insurance systems?
- Unemployment benefits and *domestic* stabilization: minimum requirements for effectiveness:
 - 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;
- These domestic 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 (1)

- Vandenbroucke, Social policy in a monetary union: puzzles, paradoxes and perspectives, in: Boone, Marc; Deneckere, Gita & Tollebeek, Jo (eds.), *The End of Postwar and the Future of Europe – Essays on the work of Ian Buruma*, Verhandelingen van de KVAB voor Wetenschappen en Kunsten. Nieuwe reeks, 31, Uitgeverij Peeters, in Open Access at www.frankvandenbroucke.uva.nl
- De Grauwe, *Economics of Monetary Union*, 12th edition, Oxford: Oxford University Press, 2018
- 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.

Resources (2)

- Vandenbroucke, The European Pillar of Social Rights: from promise to delivery – Introduction to the ‘European Social Union (ESU) public forum debate’, *EuroVisions*, 3 December 2018 <http://www.euvisions.eu/>
- 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, 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>

All publications: www.frankvandenbroucke.uva.nl