The social dimension of European economic and monetary integration

Puzzles, paradoxes and perspectives

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Guest lecture in:
The Economics of European Integration – Prof. Abraham
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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**

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

**EU27**

- 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
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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

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

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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- **Design flaws in the European project**
The consequences of monetary unification: the traditional view

Transfers might mitigate the symmetry/flexibility trade-off
The EU’s way, until recently: more symmetry, more flexibility
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Permanenent 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

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

US ↔ EU paradox of solidarity

Savings
- Net taxes and transfers
- Factor income and capital depreciation
- Total smoothed

Furceri & Zdzienicka, The Euro Area Crisis..., IMF Working Paper
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)


• De Grauwe, Economics of Monetary Union, 12th edition, Oxford: Oxford University Press, 2018


Resources (2)


- 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.


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