

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

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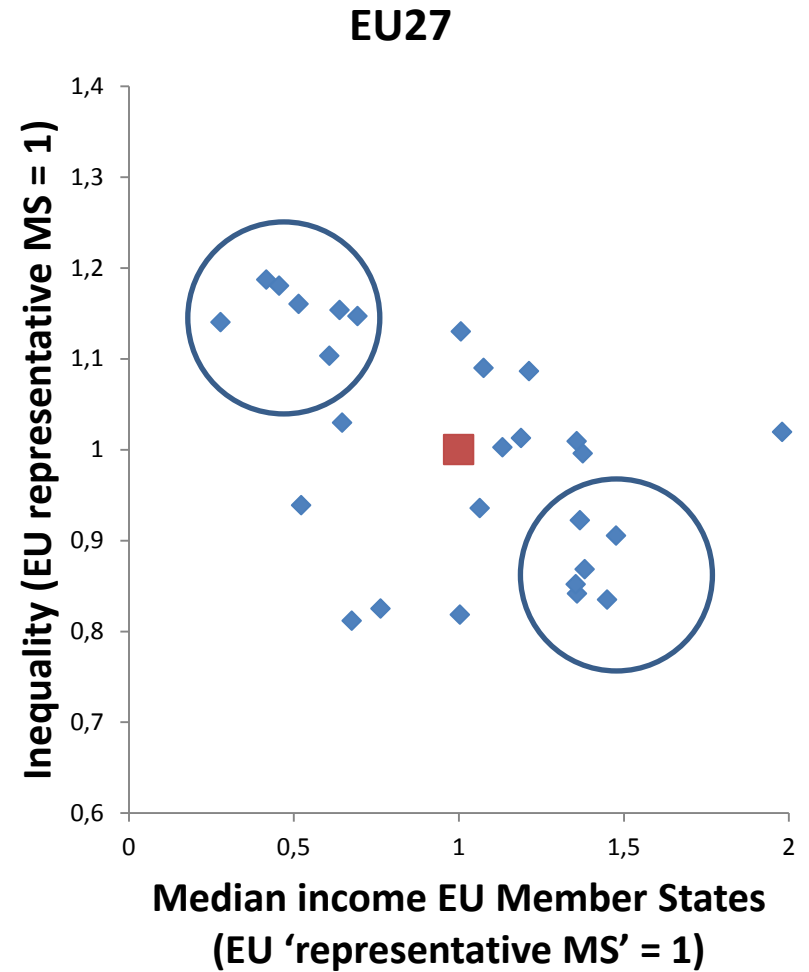
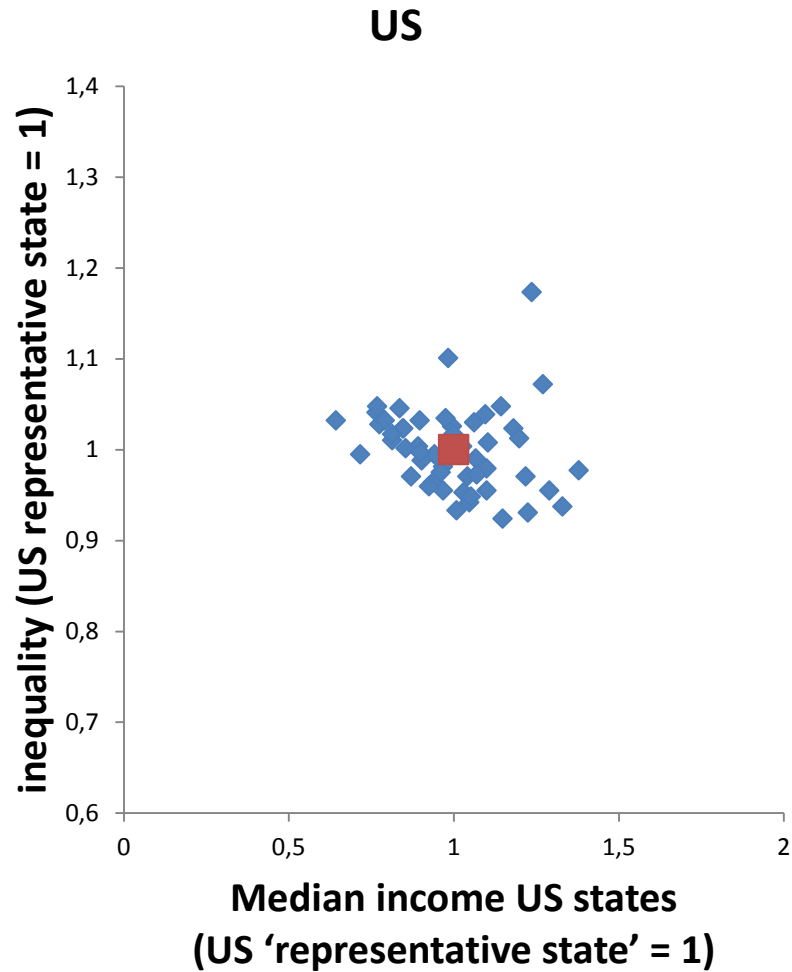
MAES lectures 'Transnational and global perspectives on Europe'

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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
 - 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



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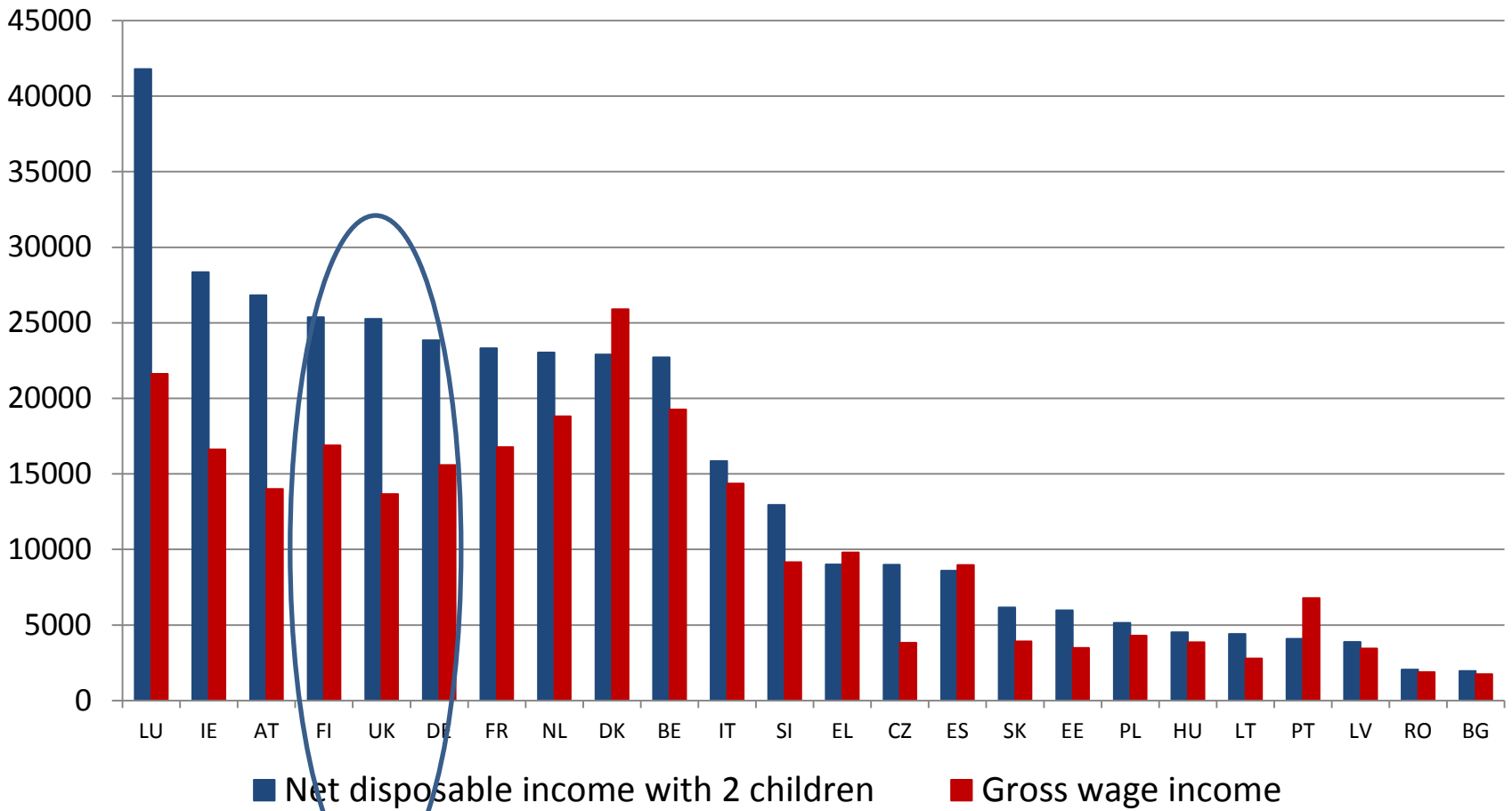
European income distribution: a moving scale



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

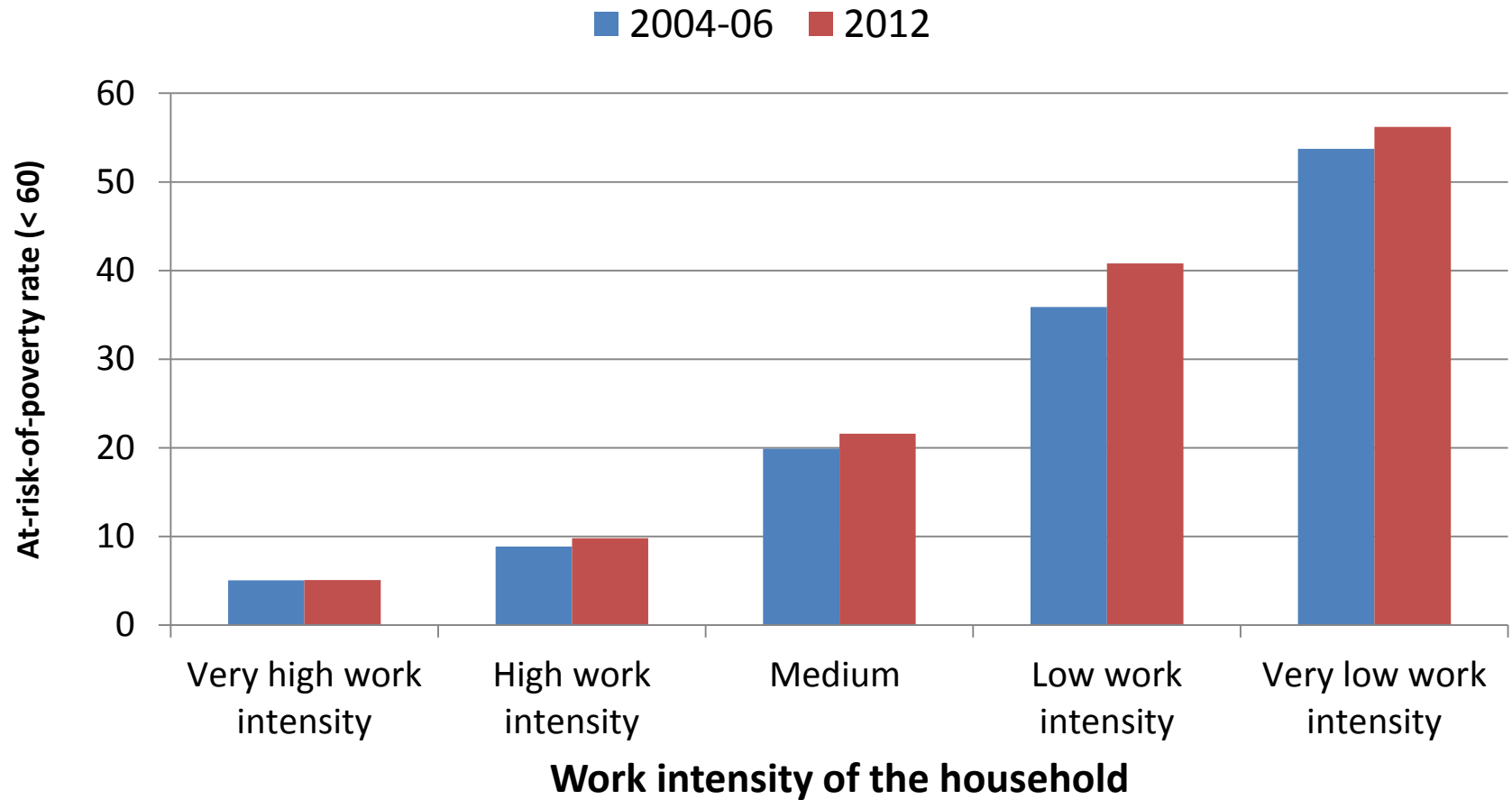
100% = average of 27 Member States

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



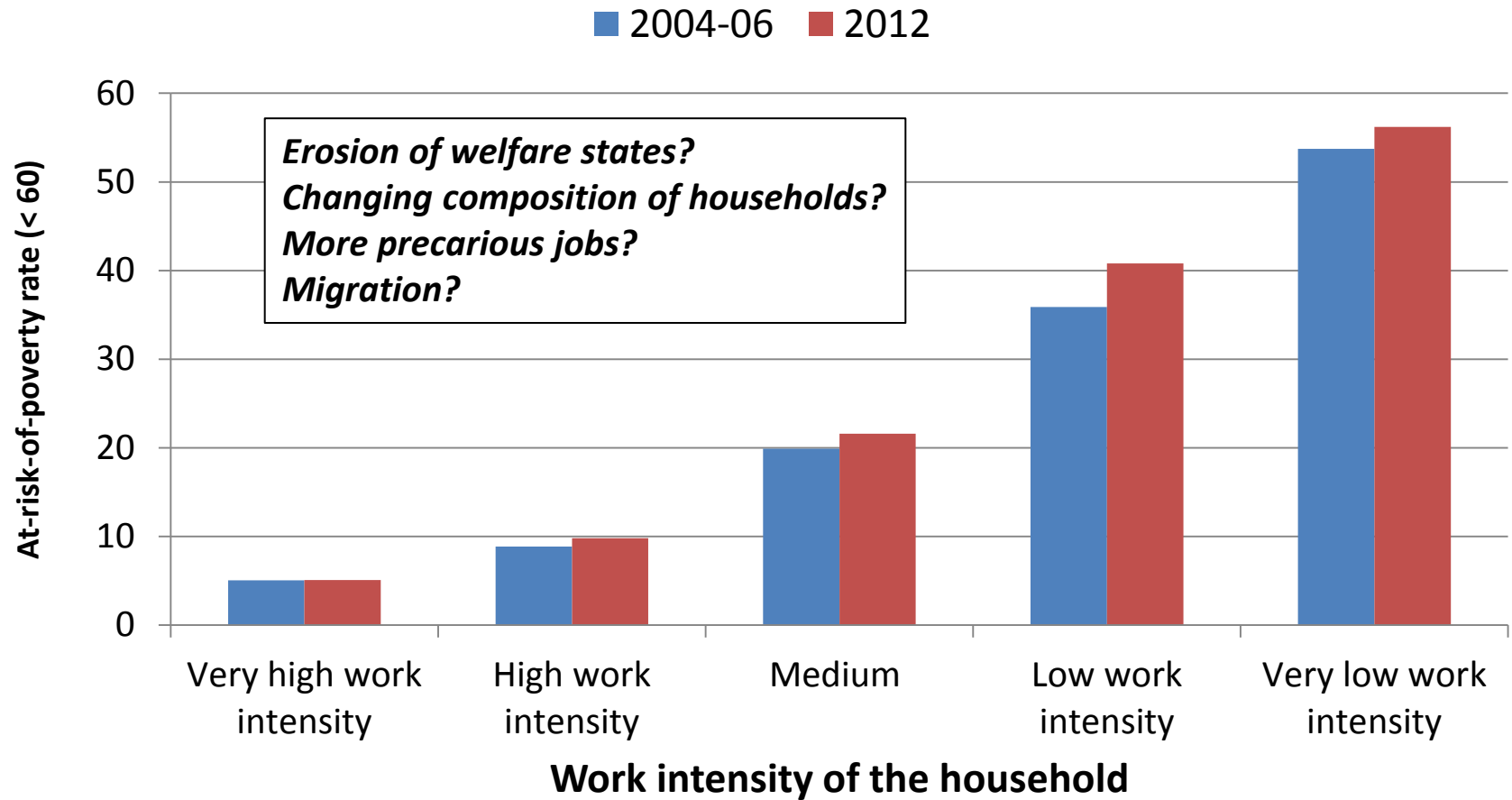
Source: CSB/MIPI

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



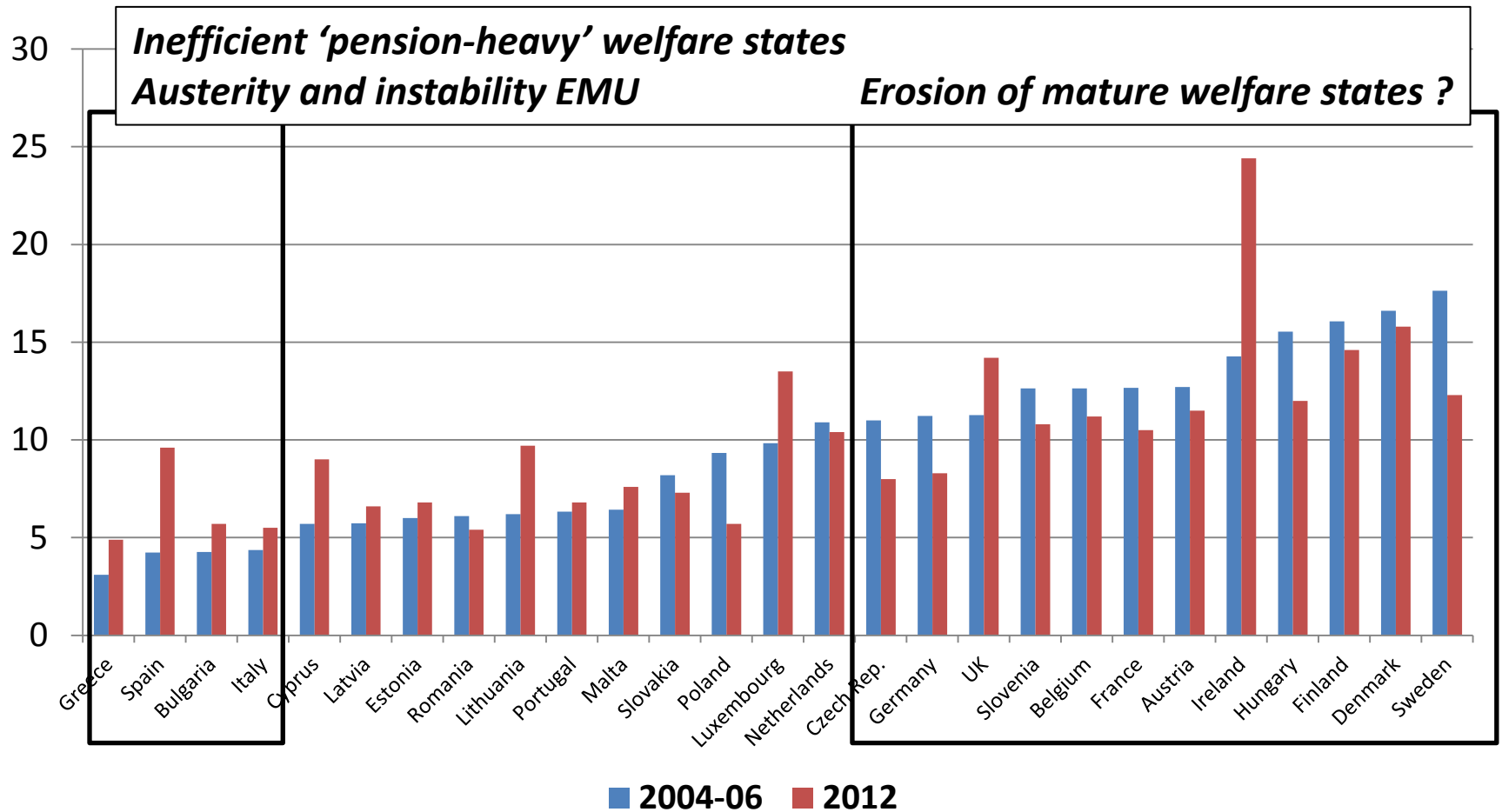
Bron: Eurostat, SILC 2005-2007; SILC 2013

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

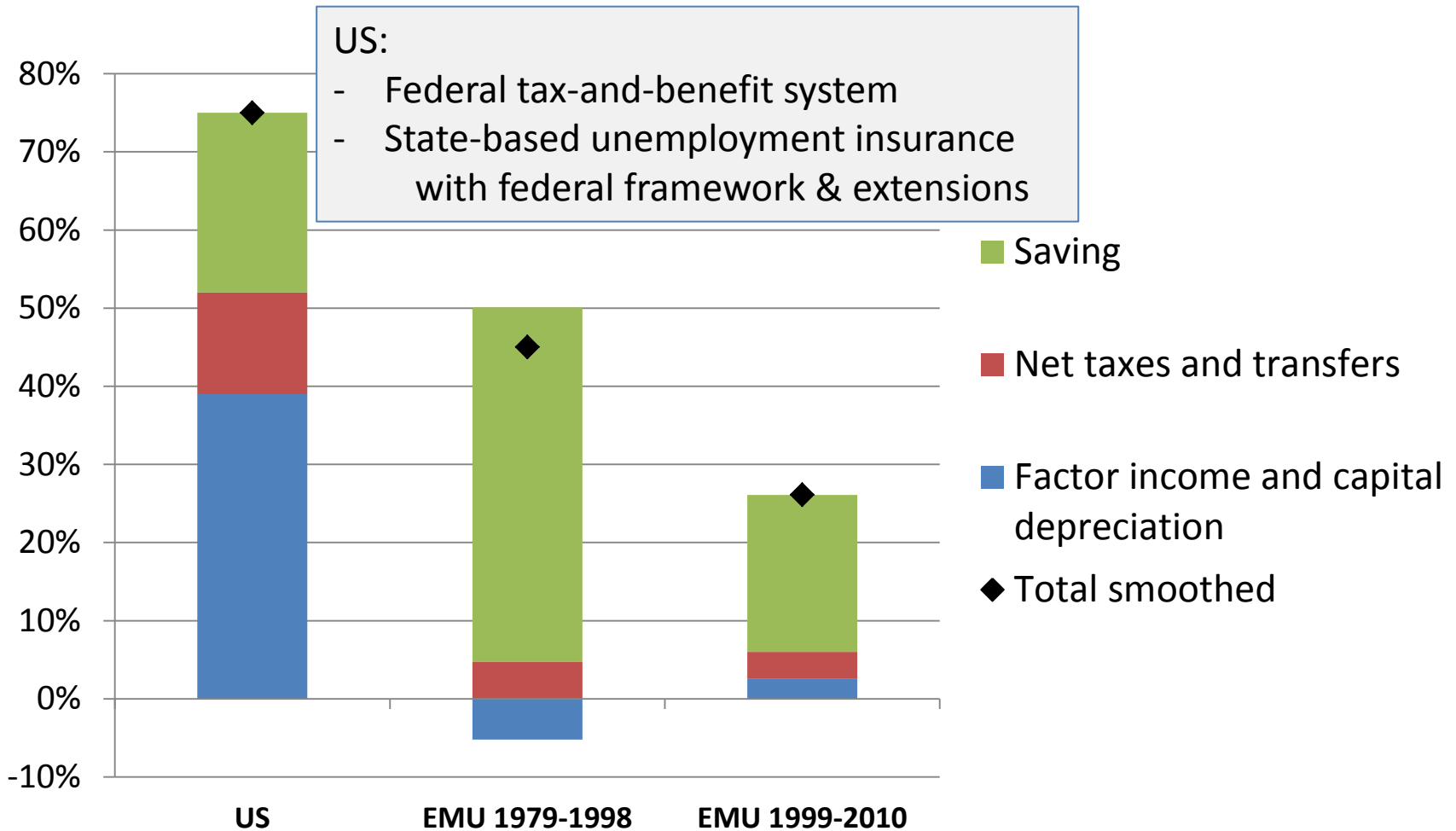


Source: Eurostat, own calculation of 'poverty reduction by transfers (excl. pensions)', total population, SILC 2005-2007 en SILC 2013

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- **Design flaws in the European project**

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



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 \Leftrightarrow sovereignty
 - Distrust \Leftrightarrow 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

- 1) Vandenbroucke, A European Social Union: Unduly Idealistic or Inevitable?, European Debates, 7, European Investment Bank Institute, September 2015 (<http://institute.eib.org/wp-content/uploads/2015/09/A-European-Social-Union-Unduly-Idealistic-or-Inevitable.pdf>)
- 2) Vandenbroucke and Rinaldi, Social inequalities in Europe – The challenge of convergence and cohesion. In: Vision Europe Summit Consortium (eds.): *Redesigning European welfare states – Ways forward*, Gütersloh (<http://www.vision-europe-summit.eu/>)
- 3) Vandenbroucke, *Automatic Stabilisers for the Euro area and the European Social Model*, Notre Europe Jacques Delors Institute, Tribune, September 2016 (www.delorsinstitute.eu)
- 4) Furceri, D. en A. Zdziencicka, *The Euro Area Crisis: Need for a Supranational Fiscal Risk Sharing Mechanism ?*, IMF Working Paper 13/198, 2013
- 5) Beblavy, M., G. Marconi en I. Maselli, *A European Unemployment Benefit Scheme. The rationale and the challenges ahead*, CEPS Special Report No. 119, 2015
- 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
- 7) Vandenbroucke, The Case for a European Social Union. From Muddling through to a Sense of Common Purpose, in Marin, B. (Ed.), *The Future of Welfare in a Global Europe*, Ashgate: Aldershot UK, 2015, pp. 489-520.

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