

# The Social Dimension of the EU and the EMU

## *The way forward*

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# Cohesion & convergence in EU Treaties

## Treaty on European Union (TEU):

### **Preamble:**

RESOLVED to achieve the strengthening and the **convergence** of their economies and to establish an economic and monetary union including ... a single and stable currency...

### **Article 3 TEU (objectives of the union):**

The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. ...

It shall promote **economic, social and territorial cohesion**, and solidarity among Member States.

## Treaty on the functioning of the European Union (TFEU):

### **Article 121(3) - economic policy coordination:**

In order to ensure closer coordination of economic policies and **sustained convergence of the economic performances of the Member States**, the Council shall ... monitor economic developments in each of the Member States and in the Union as well as the consistency of economic policies with the broad [economic policy] guidelines ... and regularly carry out an overall assessment.

+ the '**convergence criteria**' agreed in the Maastricht Treaty as pre-conditions for Member States to join the single currency (inflation, exchange rate stability, interest rate, 3% deficit rule, 60% debt/GDP rule)

+ Title XVIII on **economic, social and territorial cohesion**

# Single market and currency union

## Single Market (EU-28)

- Cohesion policy (budget ~0.4% EU GDP)
  - supporting long-term cohesion & convergence
  - mitigating core-periphery dynamics resulting from competition within Single Market
- Social legislation preventing a race-to-the-bottom in working conditions

## Currency union (€A-18)

- Much stronger constraints on monetary and fiscal policies, yet:
  - No lender of last resort
  - No shared fiscal capacity to help deal with cyclical & asymmetry
- “Internal devaluation” as the only remaining adjustment mechanism
- This set-up deepens core-periphery divergence

# The social dimension of the EU

- A strong social dimension is indispensable for the legitimacy of the EU. However, the social agenda of the EU has been defined in the Delors era, and it has been primarily focusing on social legislation.
- Together with cohesion instruments in the EU budget, social legislation has ensured that the single market does not lead to a polarisation among member states and it makes real convergence possible.
- All countries in the EU have the ambition to be welfare states in a sense to be able to control unemployment, poverty and income inequality. The eurozone crisis has severely damaged this capacity in countries of the eurozone periphery.

# Europe 2020 strategy (2010)

- **OBJECTIVE:** smart, sustainable and inclusive growth
- **HEADLINE TARGETS:**
- **Education:** Reducing the rates of early school leaving below 10%, and at least 40% of 30-34-year-olds completing third level education
- **R&D:** 3% of the EU's GDP to be invested in R&D
- **Climate change and energy sustainability:** greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990; 20% of energy from renewables; 20% increase in energy efficiency
- **Employment:** 75% of the 20-64 year-olds to be employed
- **Reducing poverty and social exclusion:** at least 20 million fewer people in or at risk of poverty and social exclusion

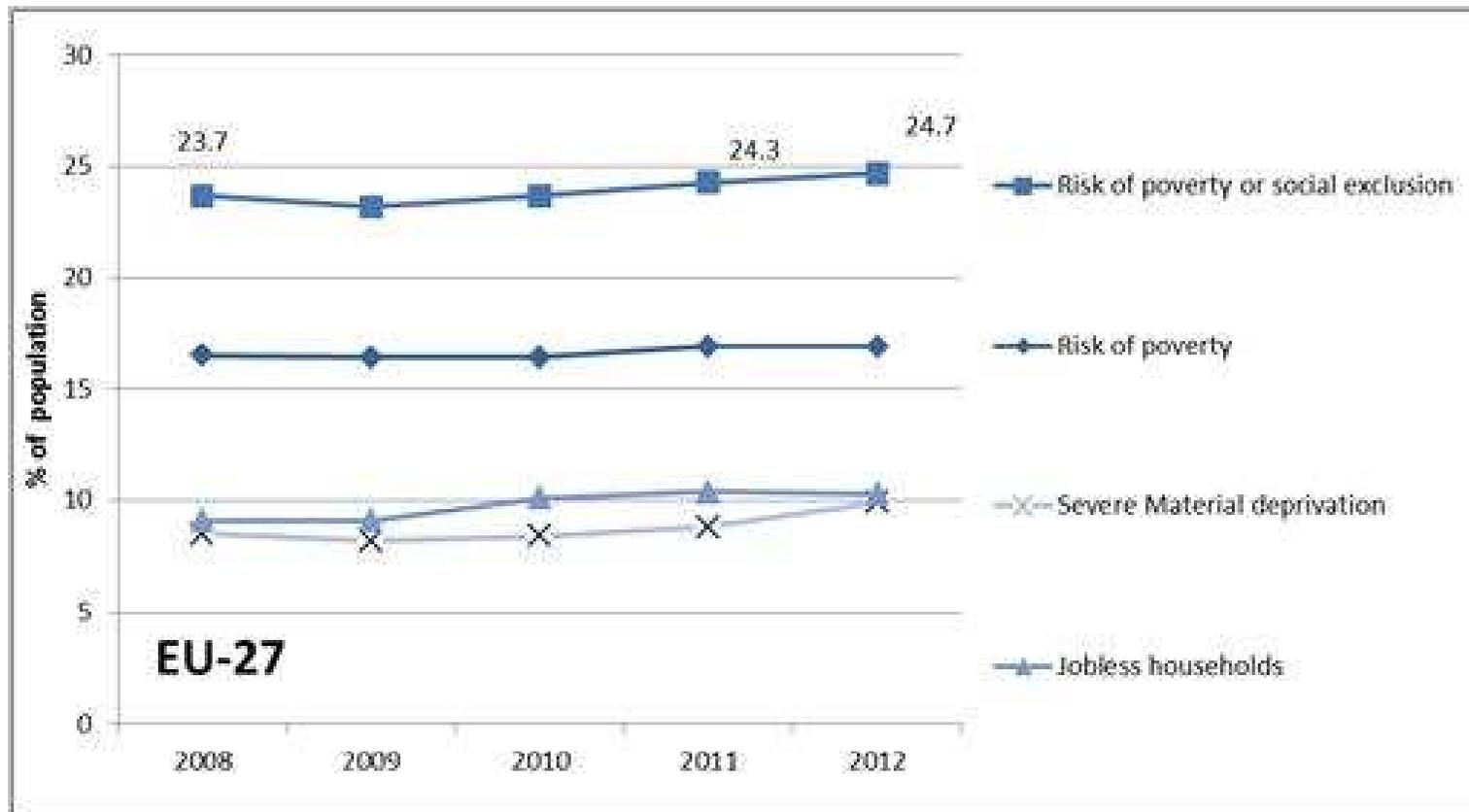
# Europe 2020 policy initiatives

- - Agenda for New Skills and Jobs followed by the **Employment Package and the Youth Employment Package (2012)**
  - Youth guarantee and Youth Employment Initiative
- - European Platform against Poverty and Social Exclusion followed by **White Paper on Pensions (2012)** and **Social Investment Package (2013)**
- - **Strengthening the Social Dimension of the EMU and the social dialogue (2013)**

# Poverty reduction target

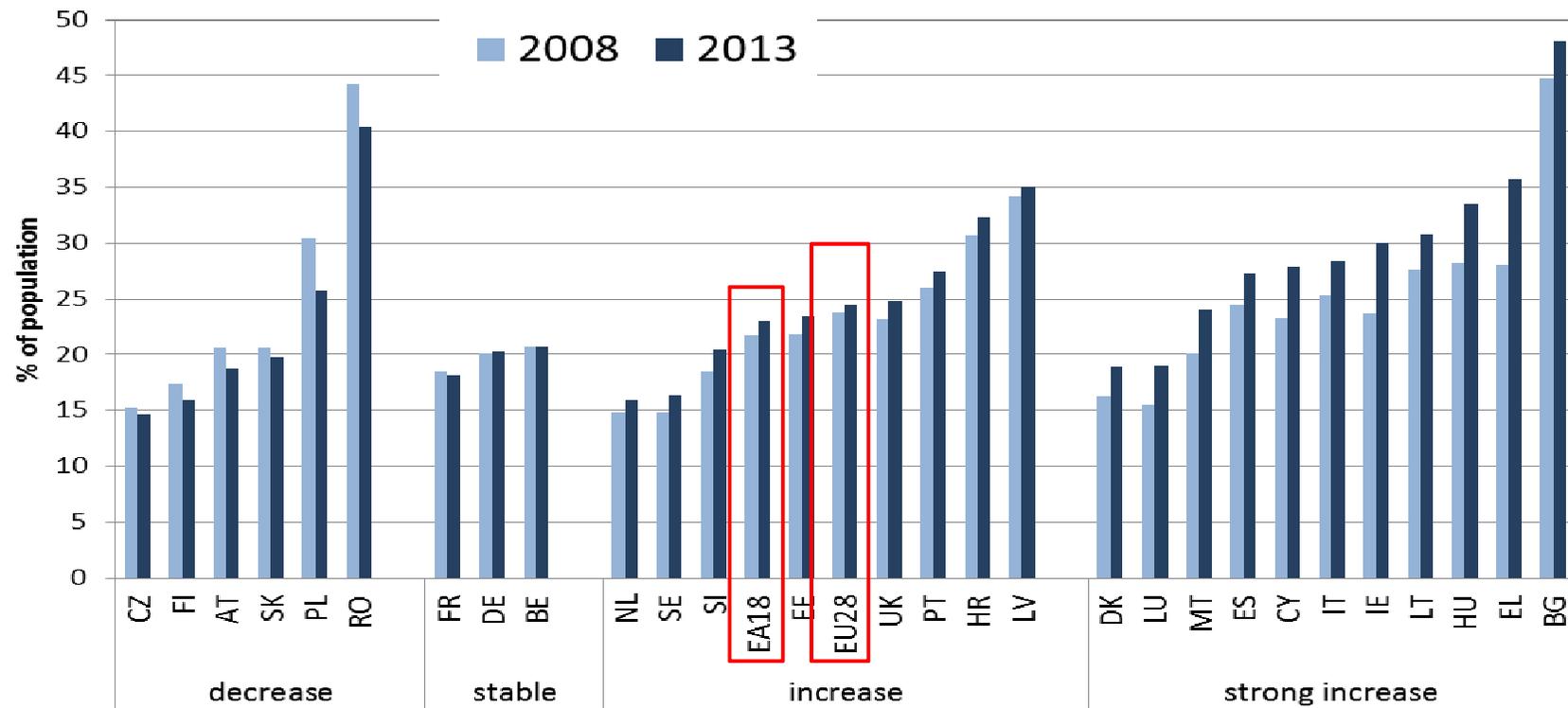
- Three components agreed in 2010:
- 1. **At risk of poverty** (those with less than 60 % of the median income)
- 2. **Jobless households** (low work intensity)
- 3. **Material deprivation**
- Member states asked to produce their own national poverty reduction targets in 2011 (pointing to reduction only by 12 million – ambition insufficient)

## Risk of poverty and social exclusion



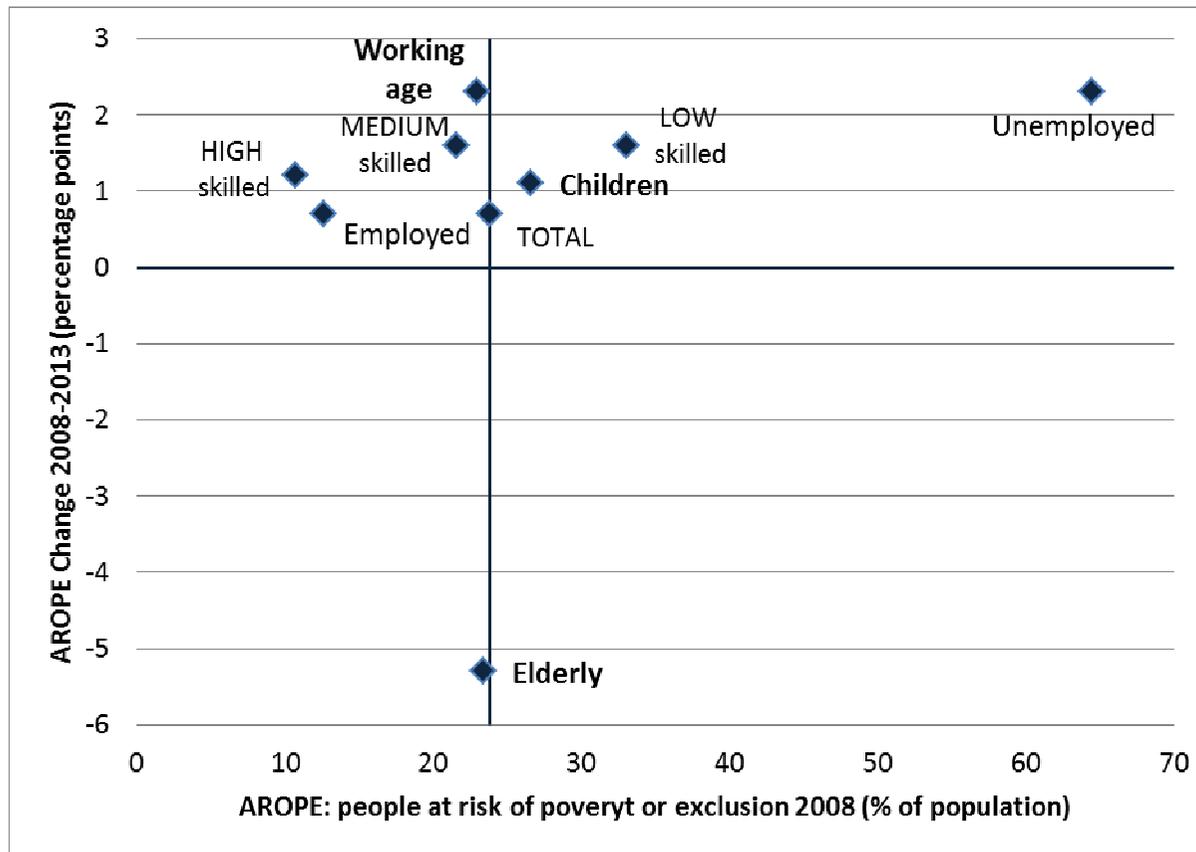
# Poverty and exclusion on the rise in two thirds of countries

**At-risk-of poverty and social exclusion**



Source: Eurostat, SILC

## Increases in risk of poverty or exclusion mainly affected the working age population (2008-13)



Source: ESTAT, EU-SILC

# From economic to social crises in EU

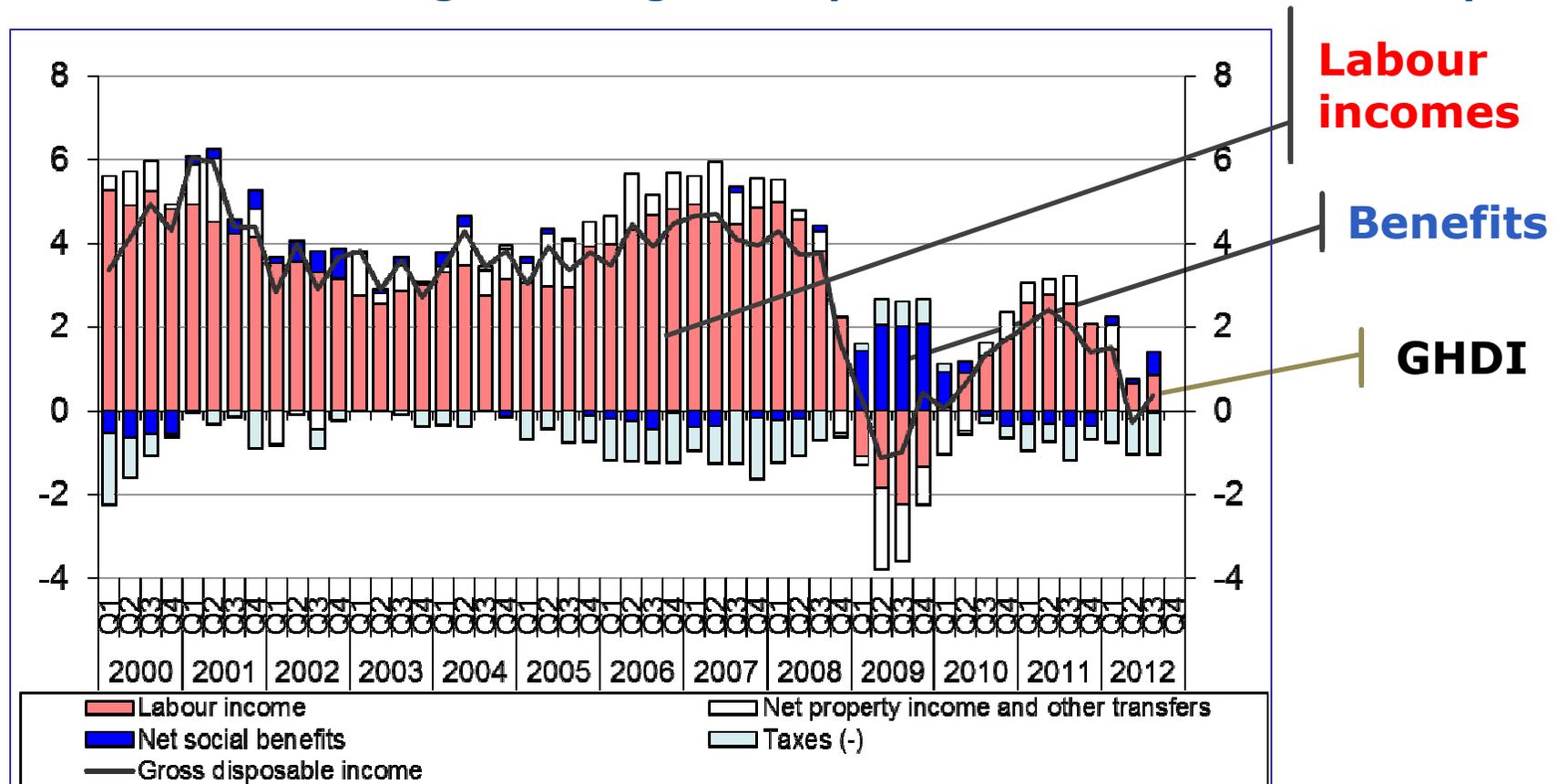
## Growth in GDP, employment and household incomes (GDHI)



Source: Eurostat, National Accounts  
GDHI: Gross Household Disposable Income

## Weakening of stabilisation of household incomes in the crisis

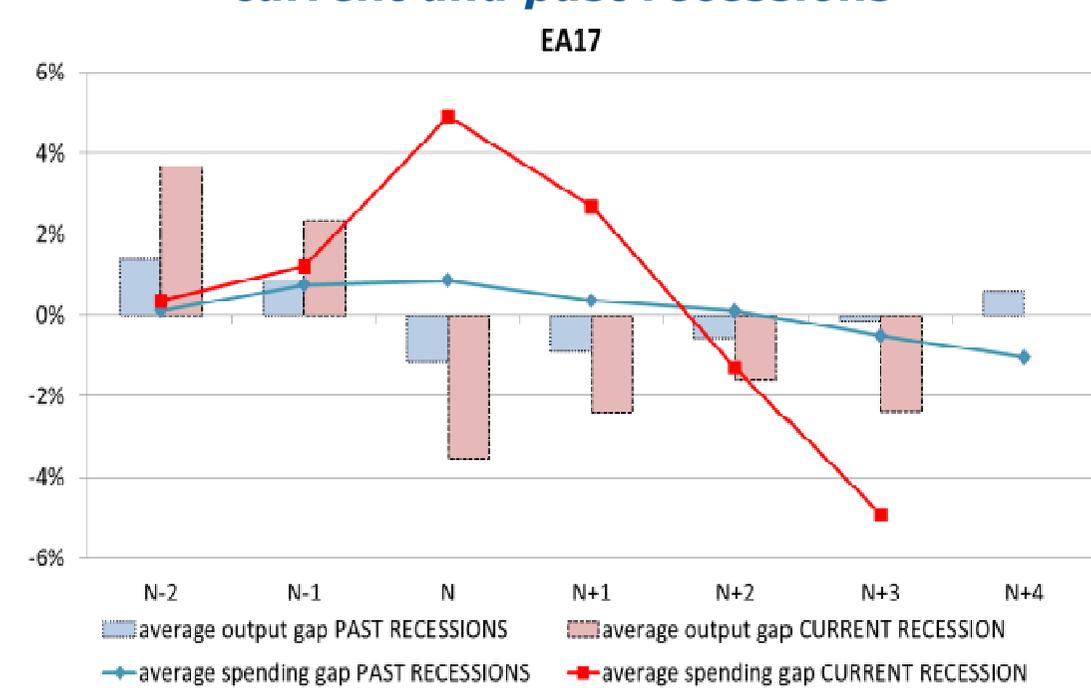
### *Contributions to nominal growth of gross disposable income of households (EA 17)*



Source: Eurostat and ECB.

# Weakening of automatic stabilisation: 2011 and 2012

**Public social expenditure and GDP: deviation from trend during current and past recessions**



Source : Eurostat, National Accounts, DG EMPL calculations

Note: 2012 data are estimated based on quarterly data from the first 3 quarters. In the current recession, N is year 2009. Estimates of the deviation from the trend in social protection expenditures are based on a standard Hodrick-Prescott filter. Reading notes : in the year of the recession, in the current crisis, social expenditure were around 5% above their trend in Europe, while the GDP was about 4% below its potential (output gap of -4%). Averages are unweighted country averages (since countries do not always experience a recession the same year).

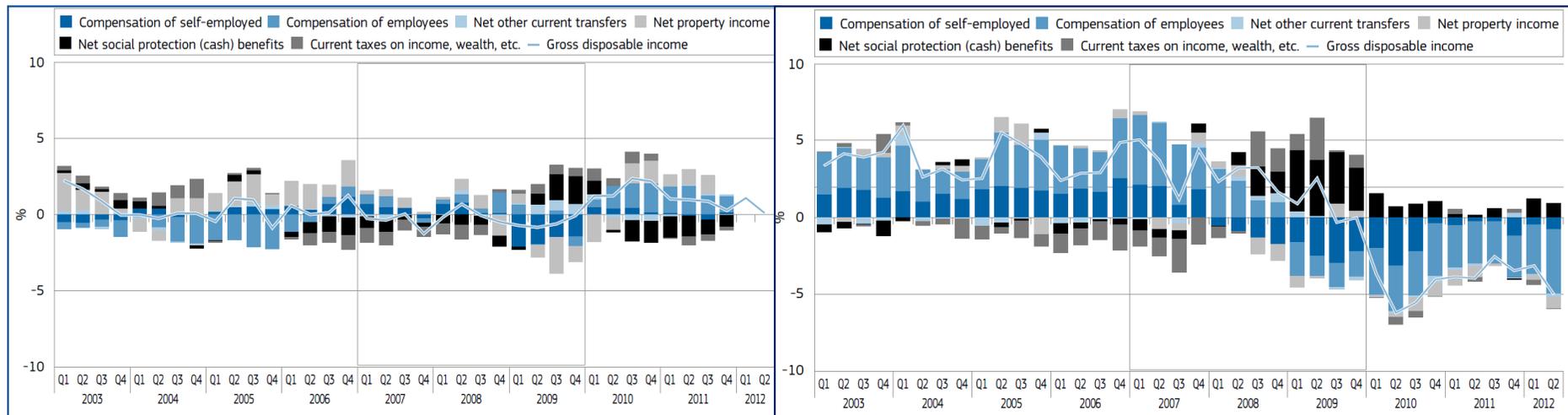
# Development of household income in Germany and Spain

After 2010

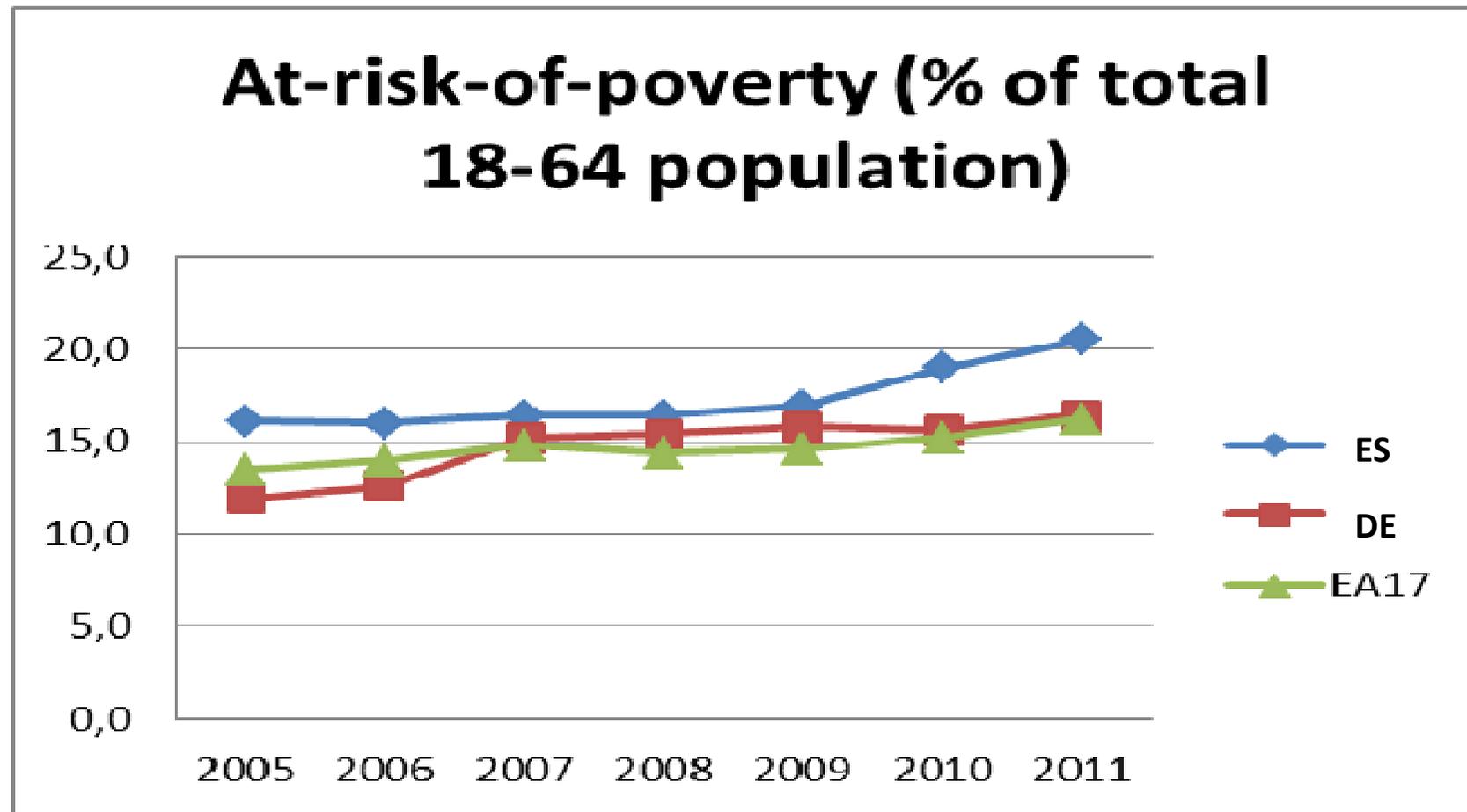
**Germany:** Market income increases with recovery; benefits no longer needed

After 2010

**Spain:** Weakened social benefits do not compensate for fall in market income

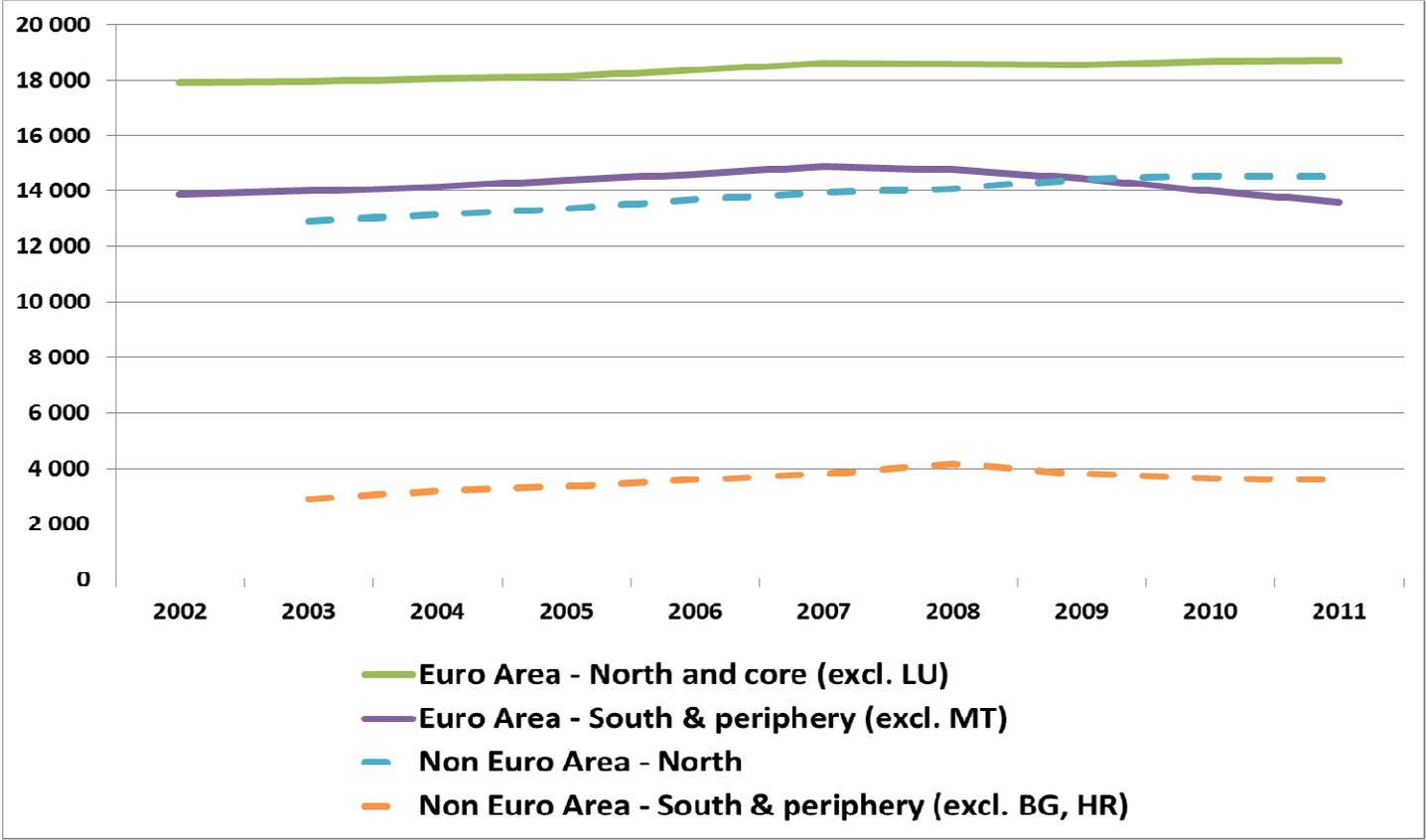


## Divergence in poverty developments



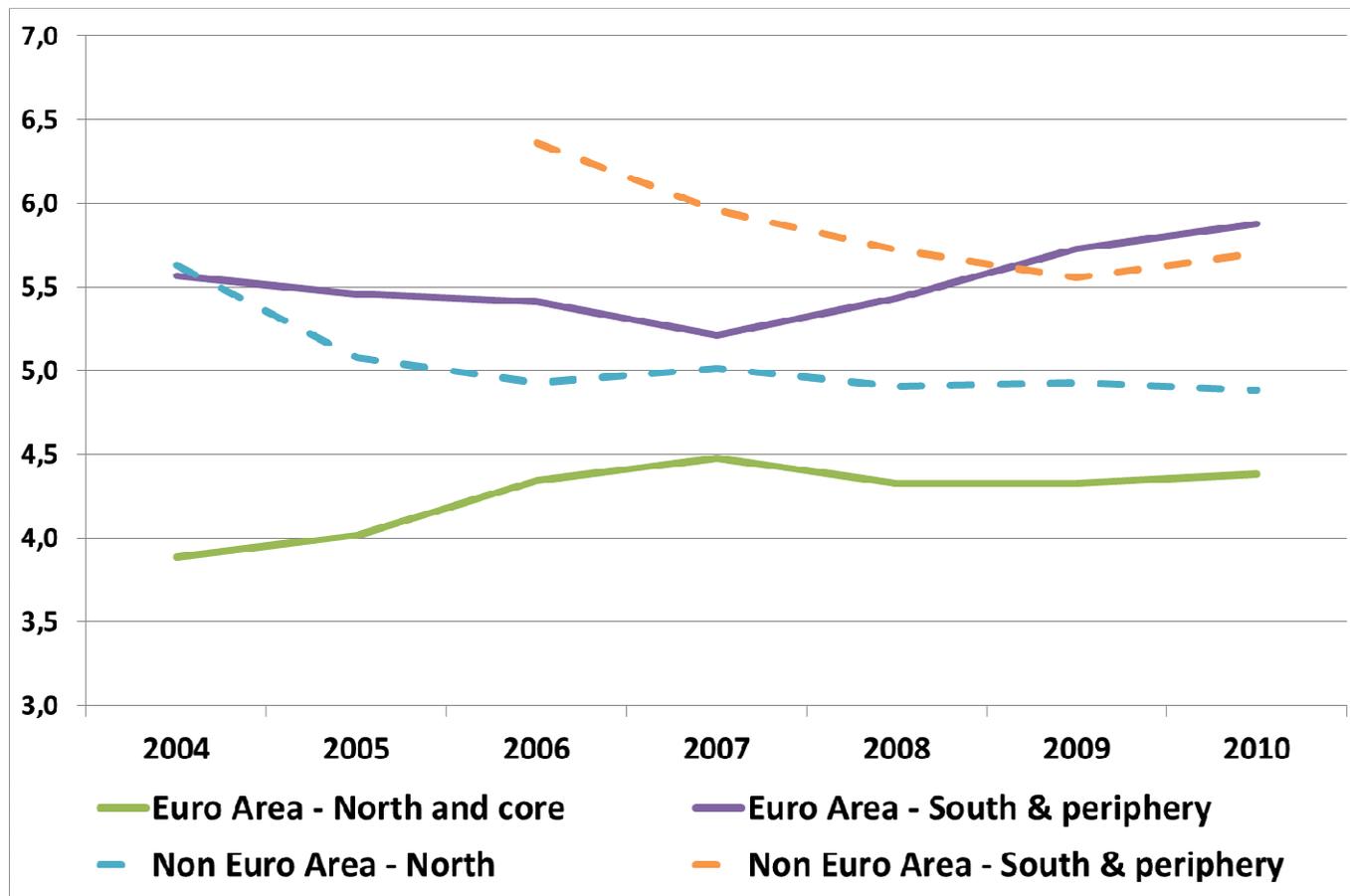
Source: Eurostat, EU-SILC

# Divergence in gross household disposable income per capita (GHDI)



Source: Eurostat, DG EMPL calculations – adjusted for inflation and at fixed exchange rates for countries outside the euro area

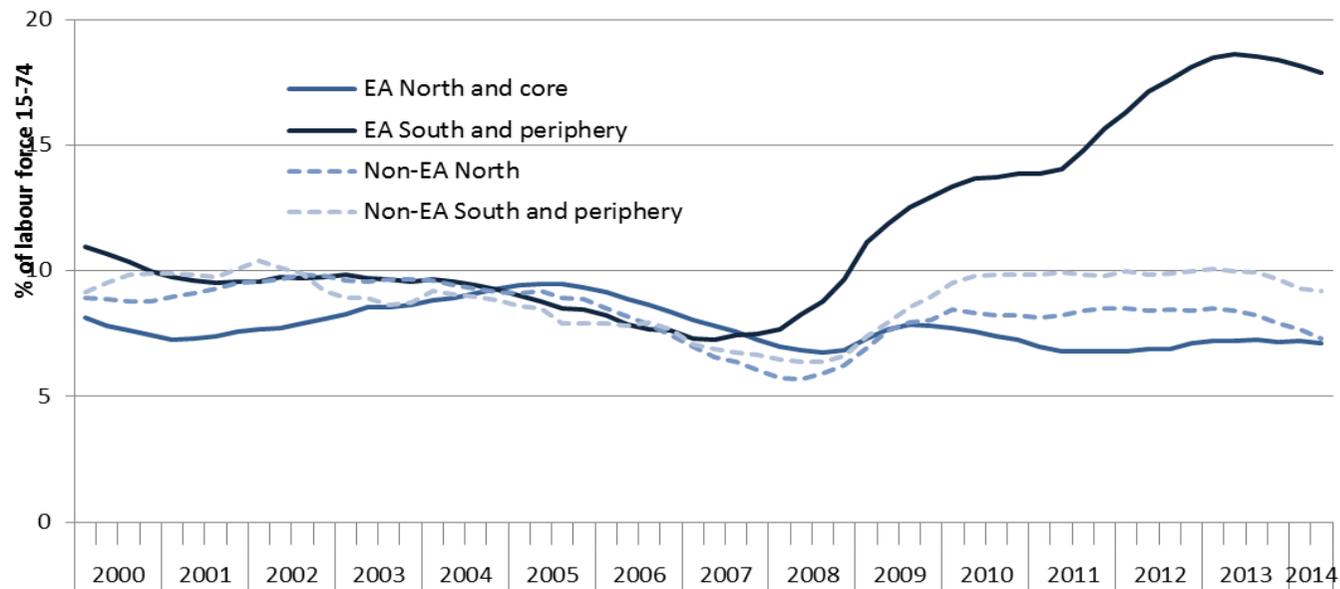
## Divergence in income inequality (S80/S20)



Source: Eurostat, DG EMPL calculations – Years refer to income reference years

# Divergence in unemployment rates

## Unemployment rates: divergence greater within Euro area



Source: Eurostat, Labour Force Survey

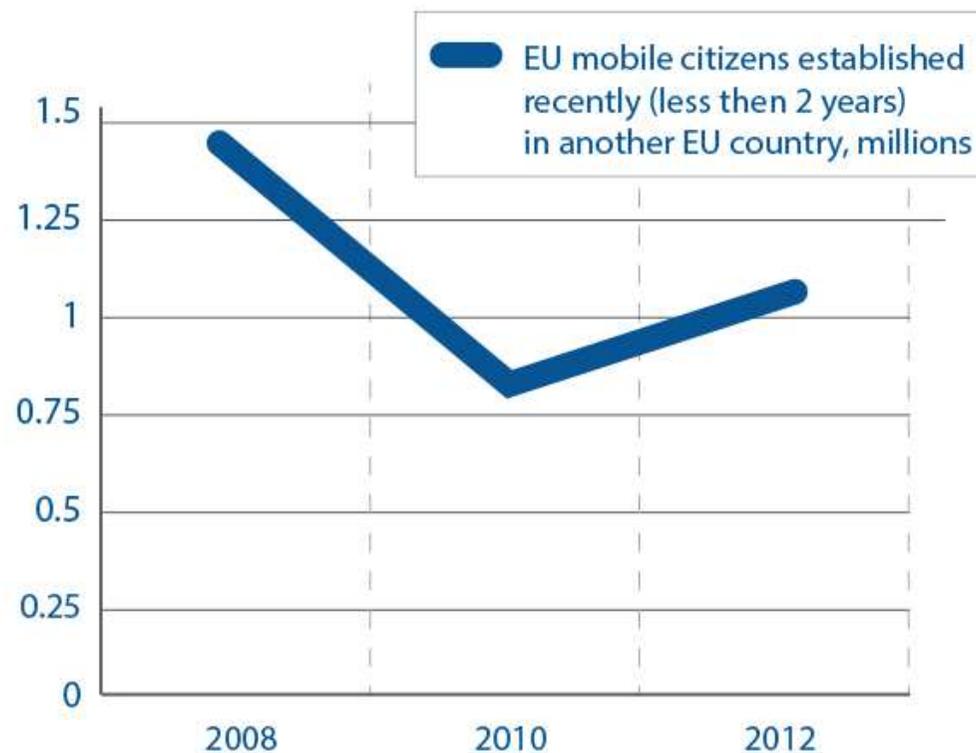
EA North and core is AT BE DE FI FR LU NL,  
EA South and periphery is CY EE EL ES IE IT LV MT PT SI SK,  
Non-EA North is CZ DK PL SE UK,  
Non-EA South and periphery is BG HR HU LT RO.

# Social divergence in the Economic and Monetary Union

- EMU with serious design flaws:
  - --**uniform fiscal (and centralised monetary) policy without risk sharing or transnational fiscal transfers**
  - --social problems generate spill-over effects on other members of euro area (e.g. falling demand)
  - --deterioration of human capital, loss of competitiveness and risk of destabilisation and disintegration
- Need to **restore socio-economic convergence** in EMU. Youth Guarantee and Youth Employment Initiative point to right direction but insufficient

## Impact of the crisis on EU mobility

Mobility declined sharply between 2008 and 2010 (-41%), but recovered (+22%) somewhat in 2011 and 2012.

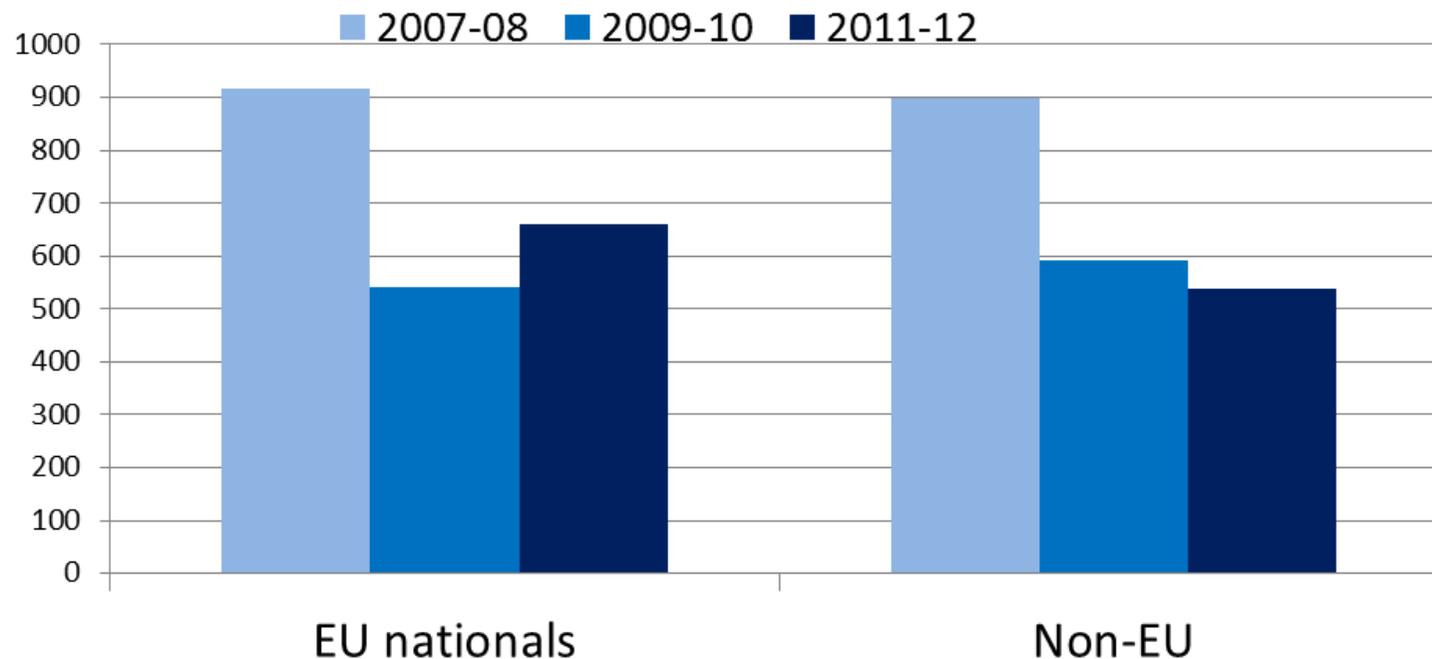


Source: Eurostat, LFS and European Commission calculations.

# Impact of crisis on intra-EU mobility

Mobility flows declined sharply from 2007-08 to 2009-10 (-41%) before recovering to some extent (+22%) in 2011-12.

Recent (<2 years) mobile EU citizens and non-EU economically active persons ('000)



Source: Eurostat, LFS and EC calculations.

# Welfare systems and monetary reform

- The establishment of a minimalist monetary union produced new types of financial and social risks, and the crisis of the EMU brought the EU to massive divergence and a weakening of the national welfare systems.
- The financial crisis has produced an unprecedented social crisis but the social agenda alone cannot compensate for the malfunctioning of the monetary union. It is an illusion. It is the monetary union itself which needs to be reconstructed.

# Broadening the social agenda

- The EMU controls most of the parameters that frame national welfare systems (and esp. fiscal capacity), therefore social policy cannot be a matter of subsidiarity either.
- The EU social agenda has to cover a wide spectrum of policies (coordination, legislation, budget resources) but today the key question is how to strengthen the social dimension of the EMU and counter social divergence.

# Stronger social dimension of the EMU

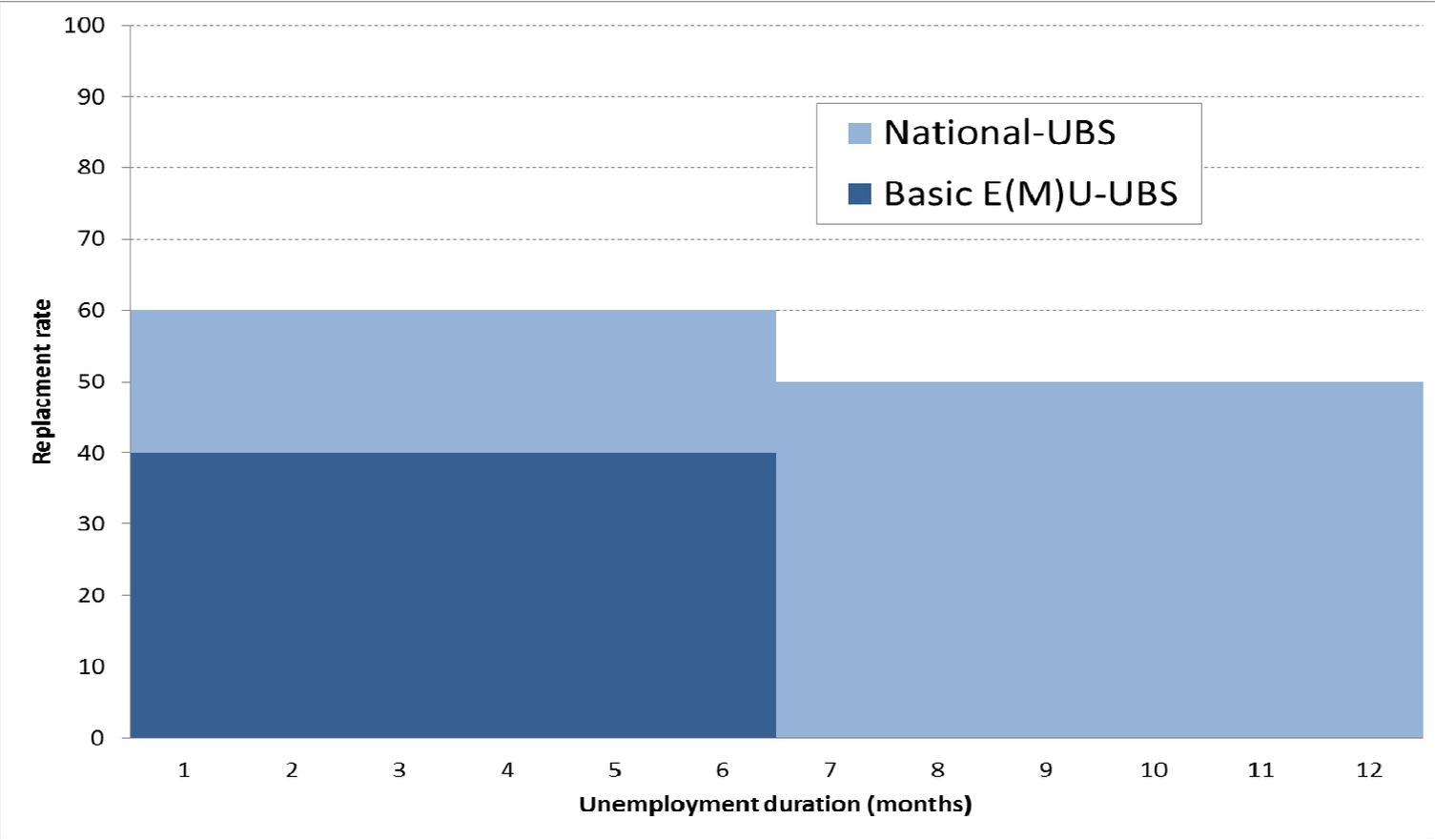
Ability of economic governance mechanisms & policy instruments to anticipate, take into account & address problematic developments & challenges related to employment & social policies in the EMU; helping all MS to realize their growth & employment potential & improve social cohesion

- Better **monitoring** of employment & social dynamics in EMU: scoreboard of five indicators introduced in European Semester
- Better **coordination** of employment & social policies to **collectively ensure timely action**
- Better involvement of EU-level & national **social partners** in EMU governance

# Need for automatic stabilisers in EMU

- Countering „asymmetric shocks” and resulting imbalances with rule-based, conditional and temporary fiscal transfers
- Supporting aggregate demand → economic activity → employment → social cohesion in zones of economic downturn (lacking autonomous fiscal/monetary policy)
- Options:
  - --automatic income support (based on „output gap”)
  - --reinsurance of national unemployment insurance funds
    - transfers triggered by major crises
  - --partial pooling of unemployment benefit systems
    - (need for partial harmonisation)

# Example of basic European unemployment insurance and a more generous national scheme topping it up



# "Do it yourself" European Unemployment Insurance

by *Bruegel*

Grégory Claeys, Simon Ganem, Pia Hüttl and  
Thomas Walsh, September 2014

<http://www.bruegel.org/nc/blog/detail/article/143>  
[4-do-it-yourself-european-unemployment-  
insurance/](#)

Select Parameters or Objectives of the scheme

Parameters  Objectives

Area

Euro Area  European Union

Contribution rate

Single  Differentiated

Type of insurance

Basic  Catastrophic

Replacement rate

50%  60%  70%  80%

Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	0.0%	-0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
Belgium	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%
Cyprus	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.2%	0.2%	0.3%	0.4%	0.3%
Estonia	0.3%	0.1%	-0.1%	0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.1%	0.8%	0.5%	0.0%	-0.2%	-0.2%
Finland	0.0%	0.0%	-0.1%	0.0%	-0.1%	-0.2%	-0.2%	-0.2%	-0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
France	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%
Germany	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	-0.1%	-0.1%	0.0%	0.0%	-0.1%	-0.1%	-0.1%
Greece	0.1%	0.0%	0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.2%	0.0%
Ireland	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%	0.2%	0.0%	-0.1%	-0.1%
Italy	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%
Latvia	0.3%	0.1%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.8%	0.3%	-0.1%	-0.1%	-0.4%
Luxembourg	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Netherlands			0.1%	0.1%	0.2%	0.1%	0.0%	-0.1%	-0.1%	0.0%	0.1%	0.1%	0.1%	0.1%
Portugal	0.0%	0.0%	0.1%	0.2%	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.1%	0.2%	0.3%	0.1%
Slovakia	0.5%	0.4%	0.2%	0.1%	0.1%	-0.1%	-0.2%	-0.1%	-0.1%	0.3%	0.2%	0.1%	0.1%	-0.1%
Slovenia	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.2%	0.1%	0.1%	0.1%	0.1%
Spain	0.0%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.7%	0.4%	0.2%	0.1%	-0.1%
Annual cash position (%GDP)	0.02%	0.07%	0.00%	-0.03%	-0.05%	-0.03%	0.02%	0.05%	0.00%	-0.14%	-0.08%	-0.03%	-0.05%	-0.01%
Accumulated cash position (%GDP)	0.02%	0.09%	0.10%	0.07%	0.02%	-0.01%	0.01%	0.06%	0.05%	-0.09%	-0.17%	-0.19%	-0.24%	-0.25%
Annual cash position (bn euro)	1.81	5.50	0.20	-2.30	-3.82	-2.30	1.39	4.32	-0.14	-11.95	-6.76	-2.48	-3.91	-1.21
Accumulated cash position (bn euro)	1.81	7.31	7.51	5.20	1.38	-0.92	0.47	4.80	4.66	-7.29	-14.05	-16.53	-20.44	-21.65

- Thank you for your attention!