

**ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ**

UDC 339.972:364.043.2

УДК 339.972:364.043.2

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**SOCIAL EFFICIENCY OF EUROPEAN ECONOMIC AND MONETARY UNION****СОЦІАЛЬНА ЕФЕКТИВНІСТЬ ЄВРОПЕЙСЬКОГО ЕКОНОМІЧНОГО ТА ВАЛЮТНОГО СОЮЗУ**

**Urgency of the research.** Throughout last few years the importance of social factor for the Economic and Monetary Union (EMU) have been underlying frequently. Finally, in 2017 European Commission accepted "The European Pillar of Social Rights" to restart the social activity of the monetary union and to tackle its 'social deficit'.

**Target setting.** After creation of the EMU there was a belief that common currency and set of Maastricht convergence criteria would smooth the divergence among its members. However, real social convergence still remains a challenge.

**Actual scientific researches and issues analysis.** Different aspects of the EMU's social dimensions were researched by L. Andor, I. Begg, S. Fernandes, R. Niblett, F. Vandenbroucke et al.

**Uninvestigated parts of general matters defining.** Social consequences of the adjustment mechanism in the EMU are still researched insufficiently.

**The research objective.** The paper aims to analyse the social consequences of creation of common currency area in Europe in order to define the priorities for establishing of Social Union or Social Europe.

**The statement of basic materials.** The paper investigates the social consequences of launching the currency union in Europe. The social effect of the EMU is considered in varied aspects: real and nominal convergences; reduction of poverty rate and social exclusion. Different policy approaches toward social development are considered: in the frames of the Eurozone and whole EU.

**Conclusions.** The paper concludes that in spite of some progress in social issues, the EMU doesn't prove the beliefs concerning effectiveness of its adjustment mechanism, real income convergence and unemployment reduction.

**Keywords:** «Social Europe»; Social union; adjustment mechanism; unemployment; convergence.

**DOI:** 10.25140/2410-9576-2018-1-1(13)-184-188

**Актуальність теми дослідження.** Протягом останніх років часто підкреслювалась важливість соціального чинника для функціонування Європейського економічного та валютного союзу (ЄВЕС). Зрештою, в 2017 р. Європейська Комісія прийняла "Європейську компоненту соціальних прав", котра повинна відновити соціальну активність валютного союзу та подолати його «соціальний дефіцит».

**Постановка проблеми.** Після створення ЄВЕС панувала думка, що введення спільної валюти та набір Маастрихтських критеріїв суттєво знизять рівень дивергенції між членами альянсу. Проте реальна соціальна конвергенція залишається недосягнутою і сьогодні.

**Аналіз останніх досліджень і публікацій.** Різні аспекти соціальних вимірів ЄВЕС досліджувались в працях Л. Андора, І. Беґа, Ф. Ванденбруке, Р. Ніблета, С. Фернандес та ін.

**Відбиття недосліджених частин загальної проблеми.** Недостатньо дослідженою залишається проблематика соціальних наслідків механізму коригування ЄВЕС.

**Постановка завдання.** Метою статті є проведення аналізу соціальних наслідків введення спільної валюти в Європі для визначення пріоритетів становлення Соціального союзу чи Соціальної Європи.

**Виклад основного матеріалу.** Здійснено аналіз соціальних наслідків створення валютного союзу в Європі. Соціальні виміри ЄВЕС розглядаються в аспектах реальної та номінальної конвергенції, зменшення рівня бідності та соціального виключення. Розглянуто різні політичні підходи до соціального розвитку: в географічних координатах Єврозони та всього ЄС.

**Висновки.** Не зважаючи на деякий успіх в соціальній сфері, Європейський економічний та валютний союз не виправдав сподівань стосовно ефективності механізму коригування, конвергенції реальних доходів та зменшення рівня безробіття.

**Ключові слова:** «Соціальна Європа»; соціальний союз; механізм коригування; безробіття; конвергенція.

**Urgency of the research.** Throughout last few years the importance of social factor for the Economic and Monetary Union (EMU) have been underlying frequently. Finally, in 2017 European Commission accepted "The European Pillar of Social Rights" to restart the social activity of the monetary union and to tackle its 'social deficit'.

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**ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ**

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**Actual scientific researches and issues analysis.** Different aspects of the EMU's social dimensions were researched by L. Andor, I. Begg, S. Fernandes, R. Niblett, F. Vandenbroucke [1–6] et al.

**Uninvestigated parts of general matters defining.** Social consequences of the adjustment mechanism in the EMU are still researched insufficiently.

**The research objective.** The paper aims to analyse the social consequences of creation of common currency area in Europe in order to define the priorities for establishing of Social Union or Social Europe.

**The statement of basic materials.** The Economic and Monetary Union (EMU) could be considered as a benchmark for deep economic integration, which currently has no analogues in the world. Since 2016, the EMU has evolved into a banking union. Indicated targets are also fiscal union and political union, which are already fragmentally implemented.

The declared types of unions are constantly fall into the discussion sphere of researchers and practitioners and are widely represented in the diverse literary sources. However, today another type of "unions" – the social one – is frequently mentioned.

The issues of social dimension are discussed both for the EMU and EU28 (so called 'Social Europe') levels. As marked by S. Fernandes & K. Maslauskaitė, social union is expected (1) to prevent severe competition between the EU member state on the internal single market and the risks of 'race to the bottom', (2) to assist overcoming of the current crisis effects in the short run, (3) to promote public support for the European integration [1]. At the same time, the abovementioned arguments would be reinforced in the framework of the EMU, taking into account tighter interdependence between its members and necessity for higher level of convergence.

According to the concept of Optimum Currency Areas, single currency zone requires high level of convergence among its members: national business cycles should be synchronized, asymmetric shocks (both exogenous and endogenous) should be reduced. If these conditions are not met, asymmetry could be compensated through the means of adjustment mechanism and fiscal centralization. Among the social aspects of adjusting process, labour mobility and wage flexibility should be mentioned. F. Vandenbroucke considers also the convergence in education and life-long learning as important factors of symmetry [2]. Fiscal concentration could be considered as a step toward transforming of the EMU in accordance with the principles of 'welfare state' [3].

The analysis of the EMU's social effects will be conducted in accordance with the following sequence: (1) Effect of the currency unification on employment; (2) Labour mobility and adjustment mechanism; (3) Real convergence in the EMU; (4) Impact of the EMU on poverty rate and social exclusion.

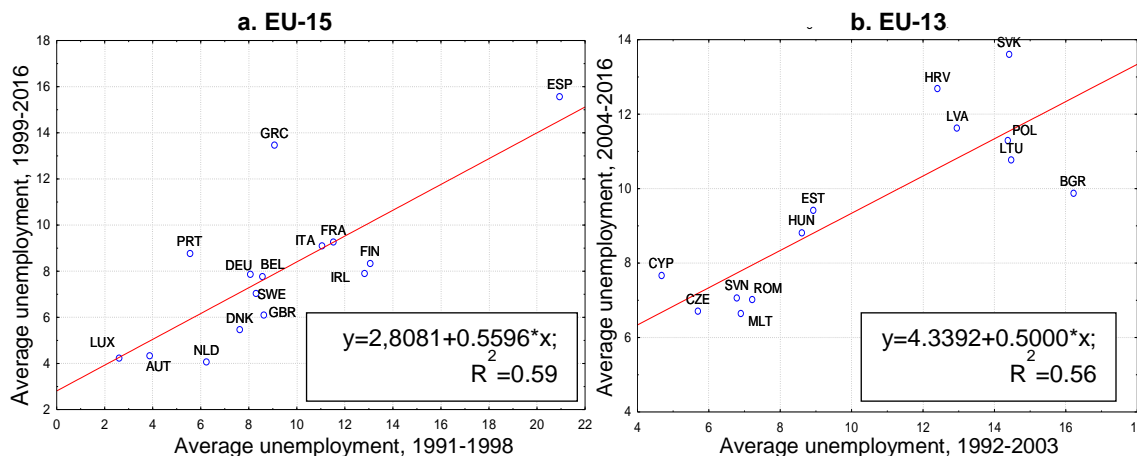
To determine the effect of the EMU on employment, we cluster the EU countries into two groups: EU15 (so called 'old' Europe – the founders and states that joined the EU before 1995) and EU13 (or 'new' Europe – the EU members that joined after 2004). We did not limit deliberately the research area with the EMU states exclusively to avoid the effect of survival bias. Instead we included in the sample the rest of the EU as the control variables.

The Fig. 1a plots average unemployment rate of the EU15 from 1991 to 1998 (period before Euro involvement) against average unemployment rate from 1999 to 2014. The regression line has a slope of 0.56 and  $R^2$  of 0.59 (i.e., the indicators are interdependent in general, but the deviations are rather significant). Most of the EU15 states had been experiencing the decreasing or relatively stable levels of unemployment rates during the Euro-period. Only, Greece and Portugal had been facing with appreciable unemployment growth after 1999 (4.4 and 3.3 percent points respectfully). The unemployment rate in Spain is more conspicuous than EU15 average, but at the same time Spain, as well as Ireland and Finland, demonstrates the largest progress after joining the Eurozone (5.4 percent point decreasing of average unemployment rate in the researched periods). But it should be noted that among the states with decreased unemployment rates there are also non-EMU members: the UK and Denmark, thus Eurozone could not be considered as the single factor of advancement.

For the most of the EU13 the breaking year was 2004, when 10 new members joined the EU and 7 of them decided to apply ERM II or pegged their currency to euro (Latvia and Slovakia do this in 2005 and 2006; Hungary quit currency pegging in 2008). The average unemployment rate of EU13 from 1991 to 2003 against average unemployment rate from 2004 to 2014 is plotting in Fig. 1b. The regres-

**ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ**

sion line has a slope of 0.5 and  $R^2$  of 0.69 (i.e., the deviations of indicators were less significant than in the EU15).



**Fig. 1. Persistence of unemployment rates across EU15 (a) and EU13 (b), 1991-2016**

**Source:** created by the authors on the basis of [4]

The EU13 states are characterized typically by higher average unemployment rate than EU15 but integration into the EU had influenced positively on its reduction for most of them. Anyway, the link of unemployment rate and monetary arrangement is not very obvious. Among the EU13 states the biggest progress in decreasing the unemployment rate after 2004 was demonstrated by Bulgaria (own currency pegged to euro), Poland (own currency, flexible exchange rate) and Lithuania (adoption of euro). But still the absolute rate of unemployment in those three countries remains among the highest in the EU.

According to the theory of Optimum Currency Areas, labour mobility is one of the fundamental conditions of adjustment process that allows the alliance to keep some divergence among members as well as makes asymmetric shocks not to be so vulnerable. Low level of labour mobility in the EMU is among the traditional arguments for claiming the EMU not being optimal currency area (alongside with the lack of fiscal supranational mechanism of accumulation and transfer, high differentiation of domestic prices, low trade openness, differences in national economic structures etc.) [5].

Share of foreign-born population varies largely among the EMU member states. Figure 2 demonstrates the share of working-age population of the EMU states, that was born in other EU states or outside the EU. The diagram includes both 1<sup>st</sup> and 2<sup>nd</sup> (EMU native-born with foreign and mixed background background) generations of immigrants. The total available value of working-age migrants to the EMU out of the EU is larger significantly than foreign-born EU citizens (11.5 million against 6.9 million).

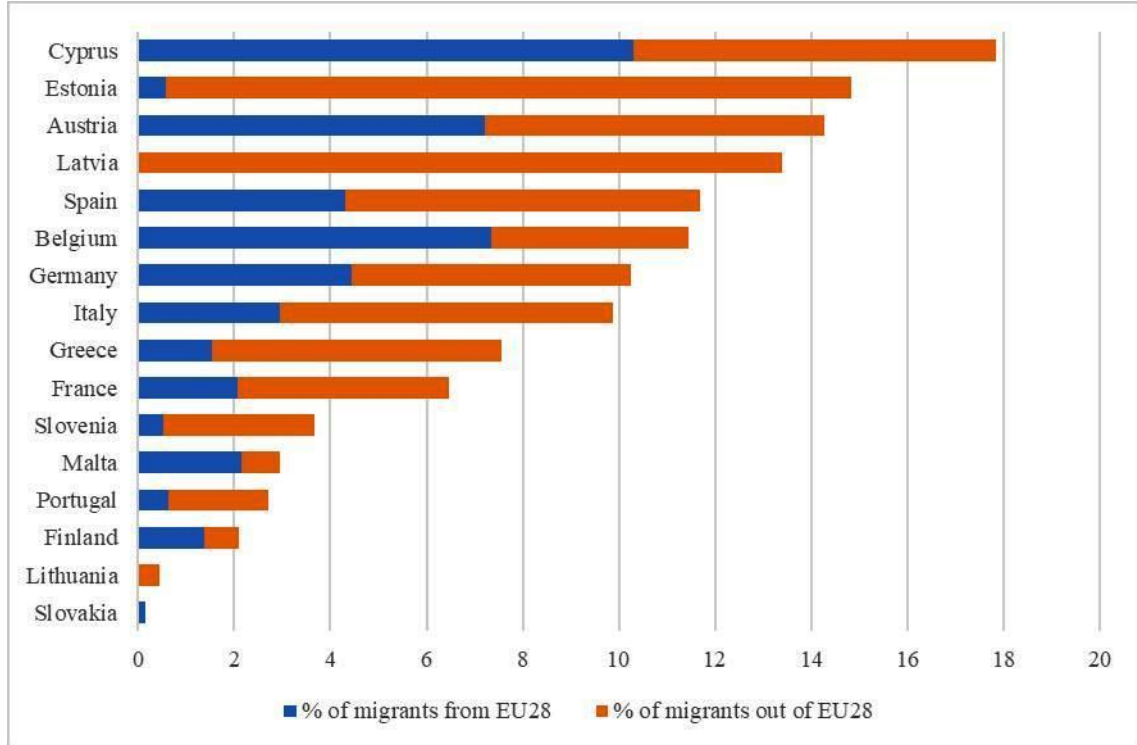
Thus, the fundamentals for adjustment mechanism in the EMU are rather weak at a first glance. But recent after-crisis dynamics in migration pattern give hope that labour mobility may increase its role in this process.

After creation of the EMU there was a belief that common currency and set of Maastricht convergence criteria would smooth the divergence among its members. However, more than 15 years of monetary integration brought state-of-the-art only for nominal convergence (i.e. inflation rates and interest rates), while real convergence (i.e. incomes per-capita) still remains a challenge.

Nevertheless, the average annual earnings are growing constantly both in 'old' and 'new' members of the EMU (see Fig. 3a). However, the divergence within and between country groups is growing as well (Fig. 3b). For instance, in 2015 annual net earnings in Luxembourg were EUR 28 800, that was almost ten times higher than Bulgarian earnings of EUR 2 900. Of course, price levels are different among countries that compensates to some extent such disparities – for example, in Luxembourg the

**ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ**

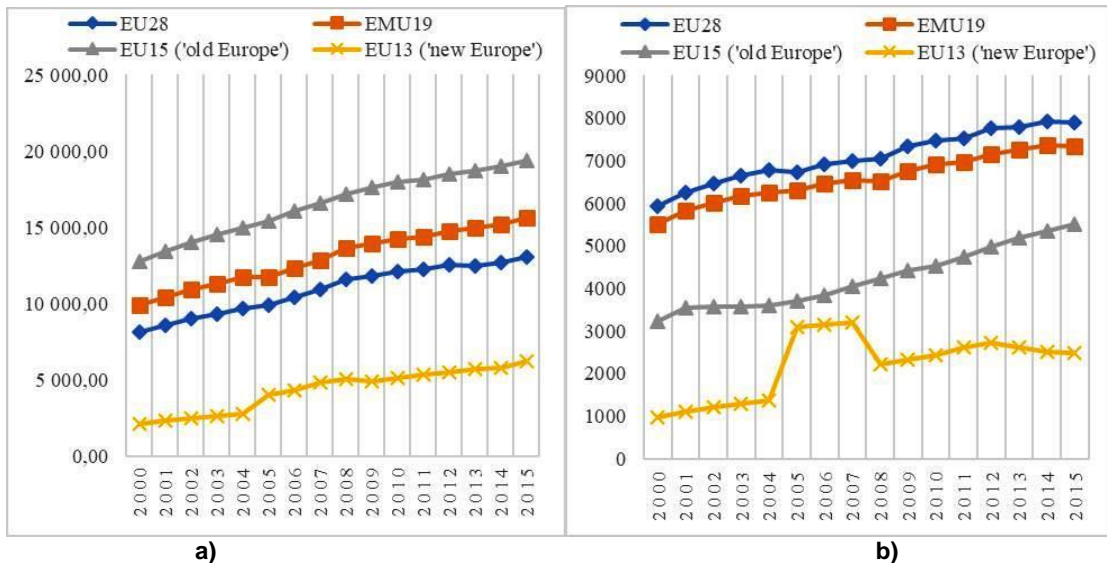
price levels are about three time higher than in Bulgaria (according to price level index for household final consumption expenditure) [4].



**Fig. 2. Share of working-age population of the EMU members born in other EU states and outside, 2014**

**Remark:** Luxemburg (38% of population was born in another EU country, 9% - outside the EU) was excluded from the diagram to make it clearer; no data available for Denmark, Ireland; partially available data for Latvia, Lithuania, Slovakia

**Source:** created by the authors on the basis of Eurostat 2014



**Fig. 3. Average annual net earnings (a) and their standard deviations (b) in the EU and EMU**

**Remark:** Net annual earnings are calculated for single person without children, 67% of average workers

**Source:** created by authors on the basis of Eurostat 2017



## ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ

Reduction of poverty and social exclusion is among the main priorities of the European Commission that is proved by its highlighting in the Europe 2020 Strategy (it is planned to lift at least 20 million people out of the risk of poverty and social exclusion – AROPE indicator). AROPE number is definitely larger than the number of really poor and excluded people and consists of three key sub-indicators: (1) at-risk-of-poverty or relative/monetary poverty – number of low income residents in comparison to the rest of society; (2) severe material deprivation; (3) households with very low work intensity.

According to European Commission's report on social inclusion, in 2015 the share of people AROPE is back at its pre-crisis level of 2008 – 23.7% of EU population (around 119 million people). Relative/monetary poverty was typical to 17.3% of population; severe material deprivation – 8.1%; job-less households – 10.5%.

The main social priorities of the EU policy were announced in 2013 by EU Employment and Social Affairs Ministers – unemployment, youth unemployment and inactivity, household income, poverty and inequalities [6].

In general, there are two main policy approaches toward the social dimension of the EMU. First approach emphasizes that employment and social policy is the prerogative of national governments. Second approach is based on the supposition that social vector should be mainstreamed in all EMU's political initiatives taking into account that social aspect is often affected by policies of other areas.

In 2017 the discussion concerning the level of social issues' implementation was finally completed with implementing "The European Pillar of Social Rights". The Pillar is expected to become a reference framework of the EMU (with free access of other EU members) and the time will show whether the current challenges would be met and 'triple A' social Europe will be achieved.

**Conclusions.** Social union, alongside with banking, fiscal and political unions, is among the often-discussed forms of evolution of the EMU. The issue is considered simultaneously at both levels: social dimension of the EMU and more general 'Social Europe' (EU level). More than 15 years of monetary integration leads only to nominal convergence (inflation rates and interest rates). In spite of some progress in social issues, the EMU doesn't prove the beliefs concerning effectiveness of its adjustment mechanism, real income convergence and unemployment reduction.

Currently, several policy approaches toward the social dimension of the EMU were elaborated. The first emphasizes that employment and social policy is the prerogative of national governments. The others suppose that social vector should be mainstreamed in all EMU's political initiatives. The possibility of implementing the social model at the pan-EU level is also considered.

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Received for publication 25.12.2017

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Lishchynskyy, I. O. Social efficiency of the Economic and Monetary Union / I. O. Lishchynskyy, M. V. Lyzun // Науковий вісник Полісся. – 2018. – № 1 (13). Ч. 1. – С. 184-188.