

Globalisation, Economic Inequality and Political Instability: What Future for Europe's Welfare?

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Executive summary

The losses of globalisation are concentrated among the lower and middle classes of developed countries, who find themselves in a worse economic and social position due to shifts in geographic and technological production patterns.

The subprime crisis and the euro crisis have exacerbated many of the long-term socio-economic changes of globalisation. This is especially true of the euro crisis, and in particular in the periphery of the Eurozone, where the scenario has deteriorated in terms of inequality, poverty and unemployment.

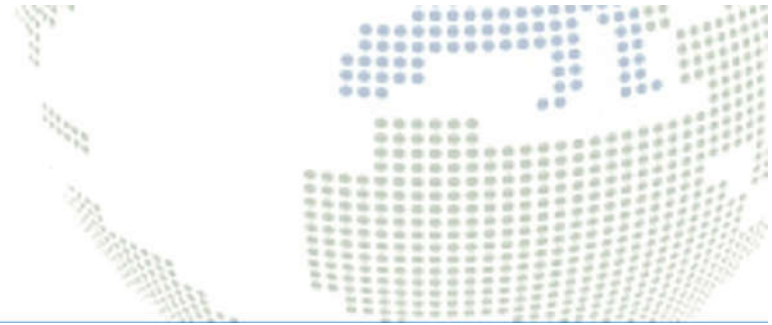
Meanwhile, the traditional welfare state's capacity to mitigate the adverse effects of globalisation and the Great Recession has declined for a number of reasons, such as the state's exposure to capital flows, endogenous transformations (like ageing), the stickiness of existing policies, and many countries' public debt burden. This weakening of the state is particularly marked within the Eurozone, where state action is further constrained by EMU rules.

The socio-economic effects of globalisation, integration, and the crisis have caused a backlash against openness in many advanced economies. This has, in turn, fuelled an unprecedented wave of populism and Euroscepticism.

While the sovereigntist agenda would not be an effective solution to the problems of globalisation and integration, the latter must still be acknowledged, and new forms of social intervention should be devised to help the "losers" of these processes, while retaining their advantages.

The EU is an ideal locus for the development of these new measures as it provides a scale large enough to preserve the advantages of openness but at the same time an arena in which the creation of new social policy tools would be viable and legitimate. Based on these observations, this paper presents ideas for the construction of a European Social Union, composed of five interrelated parts.

(1) **National Social Spaces**. This is the ensemble of social protection systems of the EU member states. The EU should intervene in these spaces: 1) to favour the search for joint solutions to the common problems facing member states; 2) to supply resources and incentives to help overcome national policy lock-ins; 3) to limit the system competition based on the logic of (social) comparative advantages.



The EU should be particularly proactive in promoting a reorientation of national spaces towards social investment—a real policy imperative if Europe wishes to reconcile economic competitiveness and high prosperity in the context of globalisation.

(2) The EU's **Mobility Space**. This is the novel membership space inside which all the bearers of EU citizenship enjoy a “title” bestowed upon them by the Union in order to access the services of the place in which they choose to settle.

While freedom of movement must remain a core principle of the Single Market, political conflicts around it cannot be ignored. A new balance between openness and closure is needed. It would be advisable to adopt a more stringent definition of the rights of those who do not work: e.g. relatives remaining in the countries of origin and residents who are not economically active.

(3) **Transnational Social Spaces**. This is the ensemble of social schemes and policies characterised by a cross-border element, most of which involve regions. Over the last twenty years, the sub-national level has increased its role in social protection: from health to social services, from active labour market policies to inclusion policies.

These novel aggregations can promote interesting forms of coordination and even fusion of social infrastructures, and feed new forms of cross-border solidarity. A similar virtuous circle can result from the ongoing trend of “social transnationalisation”, i.e. the creation of cross-border supplementary pension schemes for employees working in different states.

(4) **EU Social Policy**. These are supranational policies with an explicit social purpose, directly funded by the EU budget and based on either hard or soft law. The strategic priority of the EU social policy should be to increase the profile of pan-European forms of solidarity, calibrating both “reciprocity” and “benevolence”. The most effective tool for re-organizing reciprocity is some form of interstate risk-pooling, through measures such as a EU unemployment benefit scheme, or a pan-European pension insurance scheme at the industry or sectoral level.

As to benevolence, the most obvious instrument would be a EU scheme of last resort assistance, based on the “sufficientarian” principle, to make sure that all EU citizens have enough to survive.

(5) The **European Social Constitution**. This is the set of objectives of a social nature contained in the Treaties. The agenda of the European social constitution must re-start from Lisbon, enabling the full potential of its provisions. The most promising springboard is the social clause (Article 9 TFEU), which should be properly operationalised to redress the balance between the EU's economic and social dimension.

1. Introduction

The expansion of globalisation has generated gains as well as losses. The latter are concentrated among the lower and middle classes of advanced economies, who have seen their conditions worsen due to shifts in geographic and technological production patterns. The situation of these “losers” of globalisation has further deteriorated following the recent financial crisis.

The “great recession” has prompted a number of political and institutional responses, in the first place in Europe. However, these fixes remain insufficient to tackle the structural challenges of globalisation—and, in Europe, economic integration—and to give answers to those left behind by these processes.

The losers of globalisation and integration are caught between a welfare state that is less able to mitigate the markets’ effects, and many political movements proposing an unrealistic return to hard national borders as a panacea for their distress. Clearly, new institutional solutions will have to be found to make globalisation and integration more inclusive and politically viable.

This paper sketches proposals for the transformation of the welfare state in the forthcoming years. In these proposals, and in the underlying analysis, the focus is primarily on the European Union. European integration has a two-sided relationship with globalisation: on the one hand, the single market reproduces, regionally, the social and economic openness defining globalisation. On the other, the European project includes an important politico-institutional level—located between the equally unsatisfactory national and global arenas—that can be the basis for a more effective system of welfare.

The paper proceeds as follows: the next section examines the main socio-economic effects of globalisation and the crisis, primarily on inequality and social mobility. Section three will look at the political and institutional consequences of globalisation and integration: the state’s decreased ability to mitigate the effects of market forces, and the rise of populism. Building on these analyses, the fourth section presents some ideas on a regional response to the challenges of globalisation and integration, centred on the notion of a European Social Union.



2. The economic and social effects of globalisation

2.1 The decline of north-south inequality, and the rise of inequality in the north

The current wave of globalisation was ushered in by the integration into the world economy of China, India, Russia, its former Soviet satellites in Eastern Europe, India, as well as the rise of Korea, Taiwan, later Brazil, and other developing economies (such as Vietnam, Thailand, and Indonesia).

These transformations have had profound economic effects. To cite just one set of figures, in 1990 3% of world manufacturing was produced in China, compared to 65% in the G7 countries; by 2010, those numbers had changed to 19% and 47% respectively (Figure 2.1).

Soaring growth in rapidly industrialising countries and low growth in the G7 brought about what Baldwin (2016) has called “the great convergence”. Over the last quarter of a century, the share of world income earned by the G7 fell dramatically from two-thirds in 1990 to approximately 40% in 2014 (Figure 2.2).

What are the implications of globalisation for inequality? In a nutshell, inequality between countries has declined in recent decades, while inequality within individual countries has risen. This can be seen in Milanovic’s (2016) “elephant curve”, plotting relative gains in real per-capita incomes by global income level (Figure 2.3).

Between 1988 and 2008, income gains were spectacular around the median of the world income distribution. The persons involved (90% of which lived in China and other emerging Asian economies) were the obvious beneficiaries of globalisation (the “emerging global middle class”). In contrast, income growth was virtually zero around the 80th percentile of the income distribution, where the “lower middle class in the rich world” is located. Finally, the “global plutocracy” saw their incomes soar even higher: the incomes of the top 1% of the distribution grew by over 60% in 1988-2008.

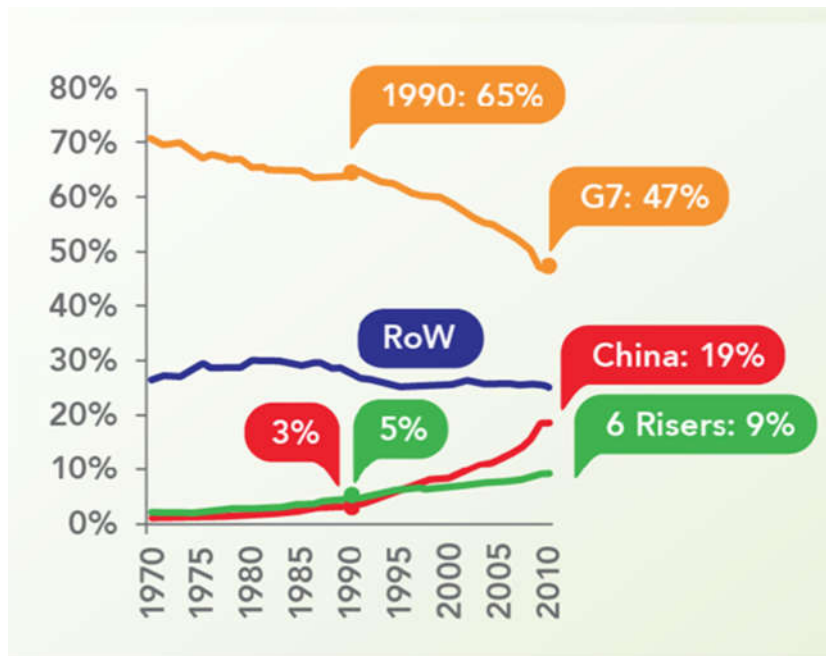
The global financial crisis has accelerated the “great convergence” further. Turmoil in stock exchanges and falling property prices dented the incomes of the “global plutocracy”, while low or no growth in advanced economies caused the incomes of the lower middle class in the rich world to stagnate. At the same time, in 2008-2011 average income in urban China doubled.

While China as a whole remained less prosperous than even the poorest member states of the EU, the gap is fast disappearing. Mean incomes (in power purchasing parities) are already higher in urban areas of China than in Romania and Bulgaria. In the meantime, the hyper-wealthy, i.e. the 735 individuals with a net wealth of over \$2 billion in 2013, did better than ever, their combined assets amounting to over 6% of world GDP.

The emergence of a “global plutocracy” points to a broader phenomenon: the recent rise of inequality in almost all advanced industrialised countries. During the three decades from the end of WWII to the 1970s oil shocks, unprecedented growth had gone hand in hand with reductions in income inequality throughout the rich world. In the US, for instance, inequality had peaked in 1933, at the depth of the Great Depression, then fell continuously until 1978, when it started to increase again. In Britain, the levelling of the income distribution began earlier (in 1867), and ended in 1979.

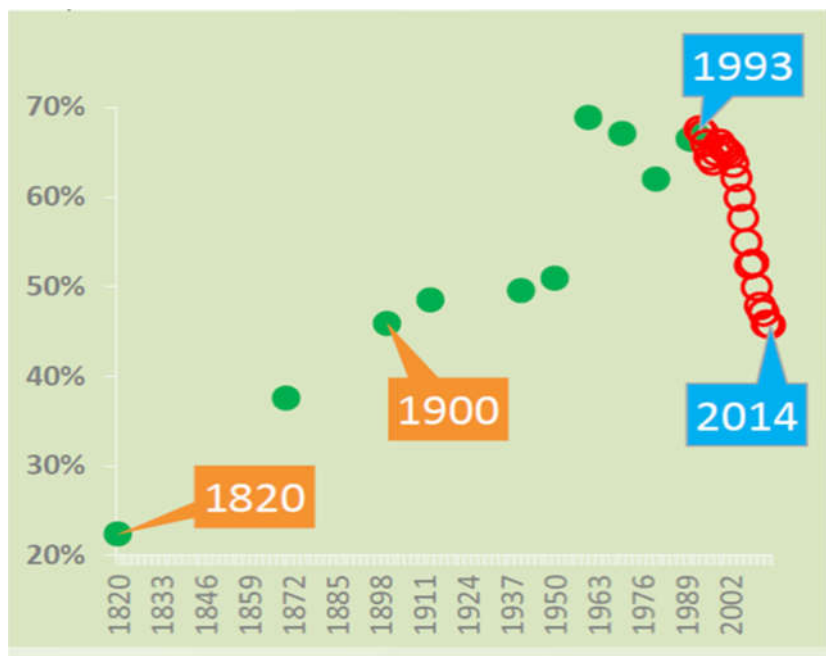
What are the causes of rising inequality in the US and Europe? As successive OECD studies have shown (OECD 2011), greater labour participation and greater earnings disparity among male workers accounted for about 60% of the growth in inequality in household incomes from the mid-1980s to 2008.

Figure 2.1. World manufacturing shares, 1970-2010



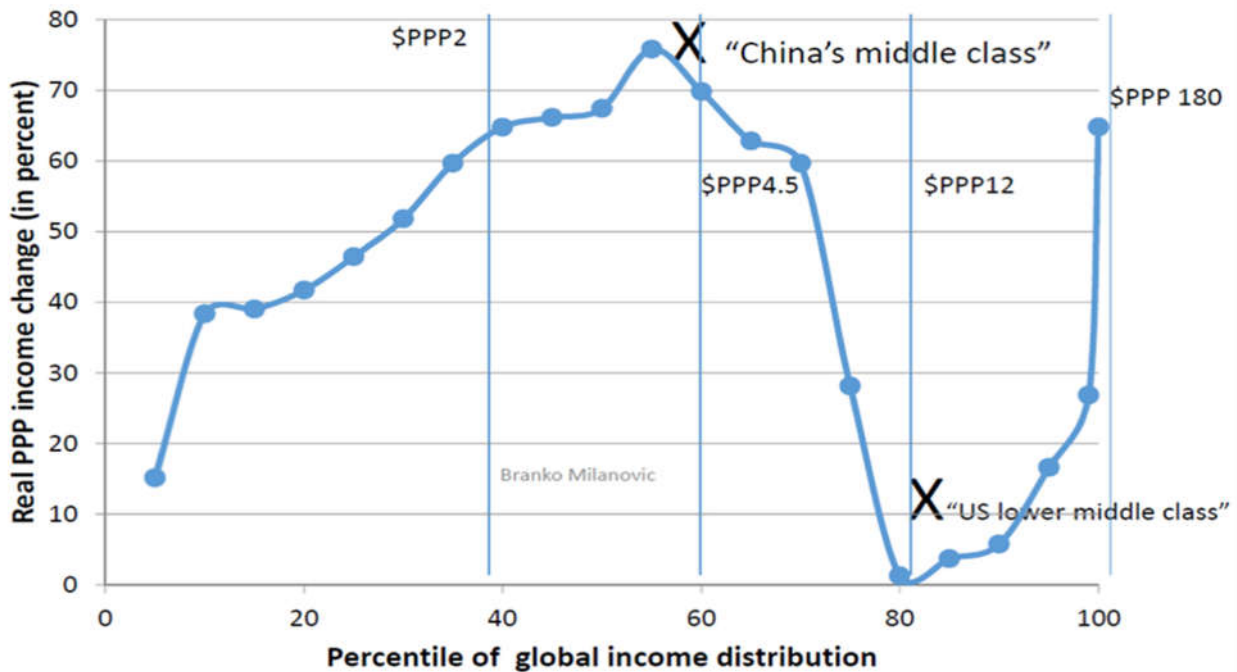
Source: Baldwin (2016).

Figure 2.2. The G7 countries' share of the world GDP, 1820-2014



Source: Baldwin (2016).

Figure 2.3 Real per capita income gains by income level, 1988-2008



Source: Milanovic (2016).

But why has the earnings distribution grown more unequal? For a long time, economists have debated the respective contributions to inequality of technology vs. globalisation. According to proponents of the former, “skill-biased technological change” increased the skills premium, widening the distance between the wages of high-skilled workers relative to those of low-skilled ones.

Those stressing the role of globalisation highlight the disappearance of well-paid jobs in manufacturing in the US and western Europe as firms relocated to lower-wage countries, or were driven out of business by lower-priced imports from emerging economies. As Milanovic (2016, 109-10) has suggested, technology and globalisation may in fact offer complementary explanations:

[T]he lower price of capital goods leading to the replacement of routine labour and greater complementarity between capital and high-skilled workers [...] could have occurred only under the conditions of globalisation, where reduced prices of capital goods were made possible thanks to the existence of cheap labour in China and the rest of Asia.

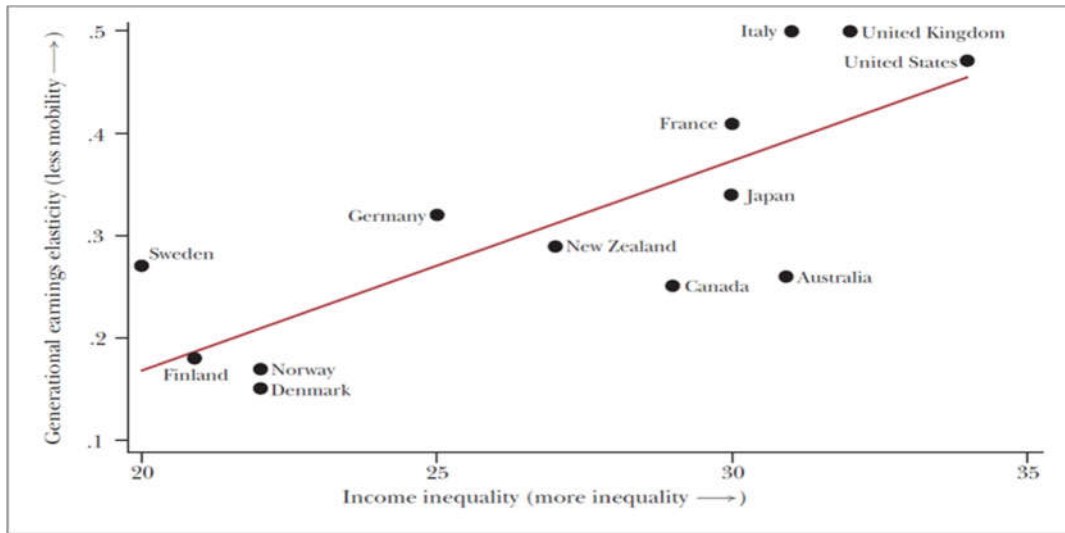
2.2 Declining social mobility

Evidence shows that greater inequality is associated with less mobility across generations, as suggested by “The Great Gatsby curve” (Figure 2.4). The US and the UK are located in the upper right part of the curve, suggesting high inequality as well as high earnings persistence (i.e. low mobility). On the contrary, Finland, Denmark, Norway and Sweden lie in the bottom left of the curve.

Using data from the European Social Survey 2002-2010, a recent study by Eurofound (2017) has estimated that “social fluidity” among socio-economic classes increased in Finland, Denmark, Belgium, the Netherlands, Slovakia and Greece. In contrast, it was stable in the UK, Ireland and Hungary (and for those born

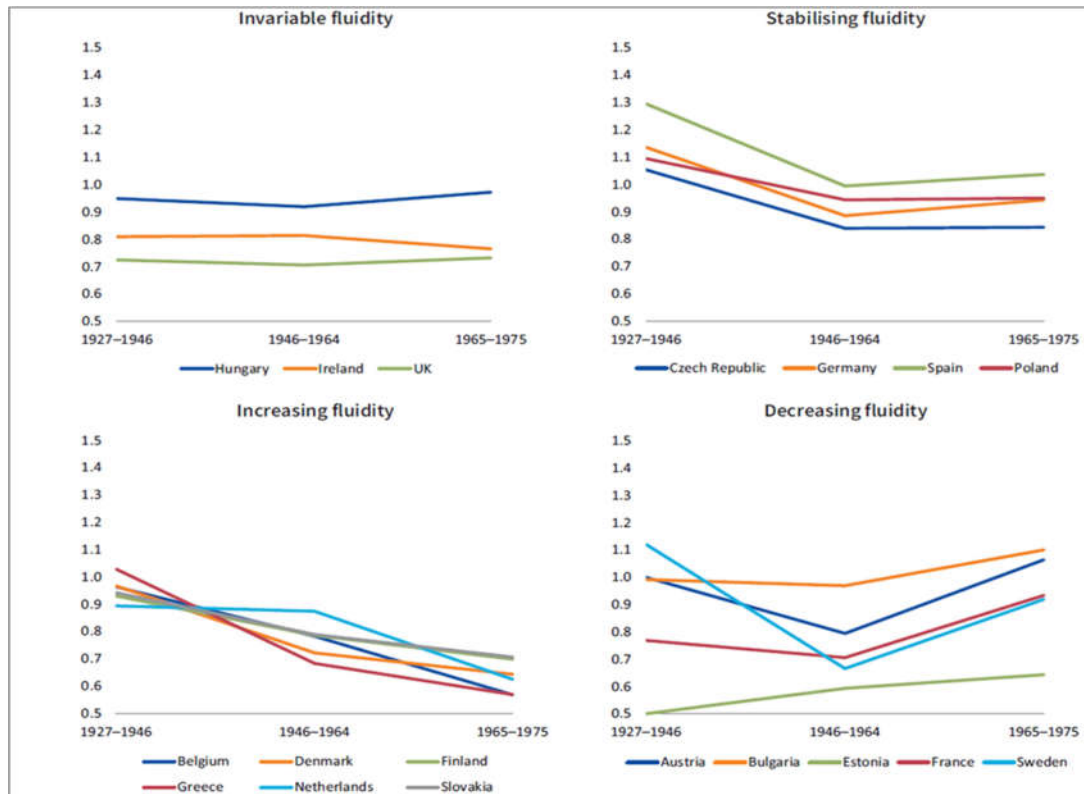
since 1946 in Germany, Poland, Spain and the Czech Republic), and declined (for those born in 1965-1975 relative to earlier cohorts) in Sweden, France, Austria, Estonia and Bulgaria (Figure 2.5).

Figure 2.4. The Great Gatsby curve



Source: Corak (2013).

Figure 2.5. Social fluidity in Europe



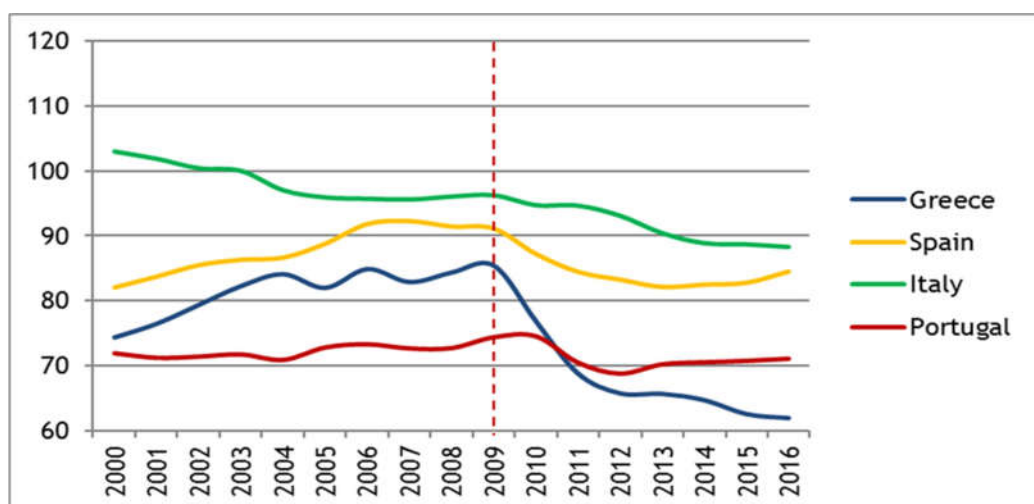
Source: Eurofund (2017).

2.3 Effects of the great recession and EU-induced austerity in southern Europe

On the eve of the Eurozone crisis, average living standards in the southern periphery had converged considerably with the rest of western Europe. In 2009, Spain, Greece and Portugal had come closer to the EU15 average than at any time in the previous quarter century, though Italy had peaked earlier (in 1995). By 2013, all four countries had lost ground relative to the EU15. Relative living standards fell most dramatically in Greece: to 62% of the EU15 average (from 85% in 2009). More recently, the distance seemed to have grown shorter in the case of Portugal and Spain, but not in that of Italy and Greece (Figure 2.6).

Southern European economies have shrunk in recent years: Spain by 8.9% (in 2008-13); Italy by 8.6% (in 2007-13); Portugal by 7.8% (in 2008-13). As for Greece, in 2007-13 GDP contracted by 26.5% in real terms. The trajectory of the Greek economy has so far been L-shaped: real GDP has barely budged (+0.1%) in 2013-16. In contrast, Spain has grown by a cumulative 7.9% over the same period, Portugal by 3.9%, and Italy by 1.8%.

Figure 2.6. Per capita GDP at current market prices - selected countries, 2000-16 (EU15 = 100).



Source: AMECO Eurostat.

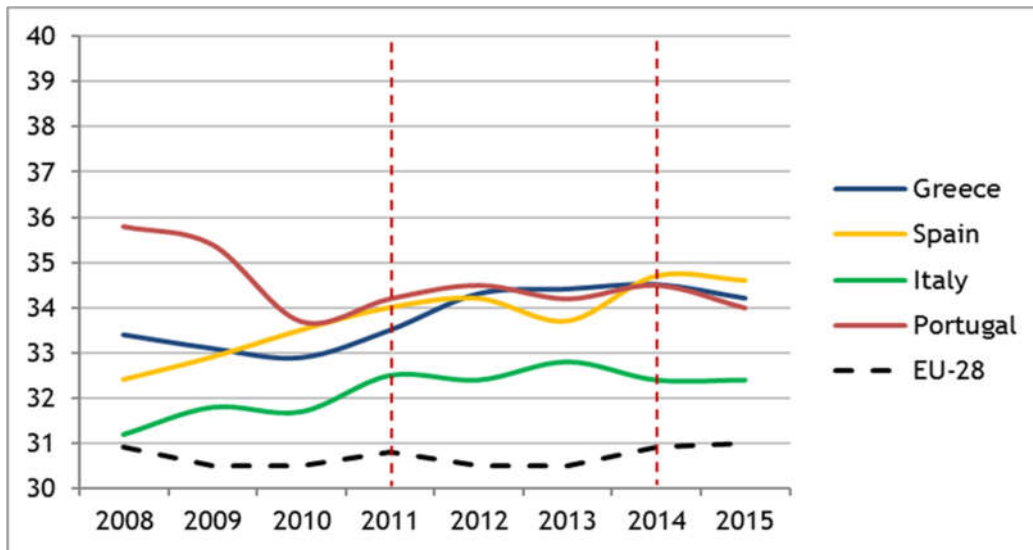
Between 2008 and 2013, the number of workers in jobs decreased significantly in all four countries: by 23.5% in Greece, 16.3% in Spain, 13.1% in Portugal, 4.2% in Italy. Employment rates have fallen dramatically: in Greece by 12.6%, in Spain by 9.7%, in Portugal by 7.4%, in Italy by 3.1% (in 2008-13).

In 2007, the unemployment rate in southern Europe was not far from the average for the EU as a whole, ranging from 6.1% in Italy to 9.1% in Portugal. Thereafter, joblessness rose throughout Europe, but nowhere as much as in Spain and Greece, where in 2013 it peaked at a massive 26.1% and 27.5% respectively. In 2016, against the EU average of 8.5% (10.0% in the euro area), unemployment stood at 23.6% in Greece, 19.6% in Spain, 11.7% in Italy and 11.2% in Portugal.

Real wages experienced zero or negative growth. That was both a result of the recession and of “internal devaluation” (i.e. compression of wages via labour deregulation). A recent study by the ETUI (2017) has estimated that in 2009-16 real wages declined in Greece (by 3.12% per year on average), in Portugal (by 0.74% per year), and also in Italy (-0.28%), while they stagnated in Spain (+0.13%).

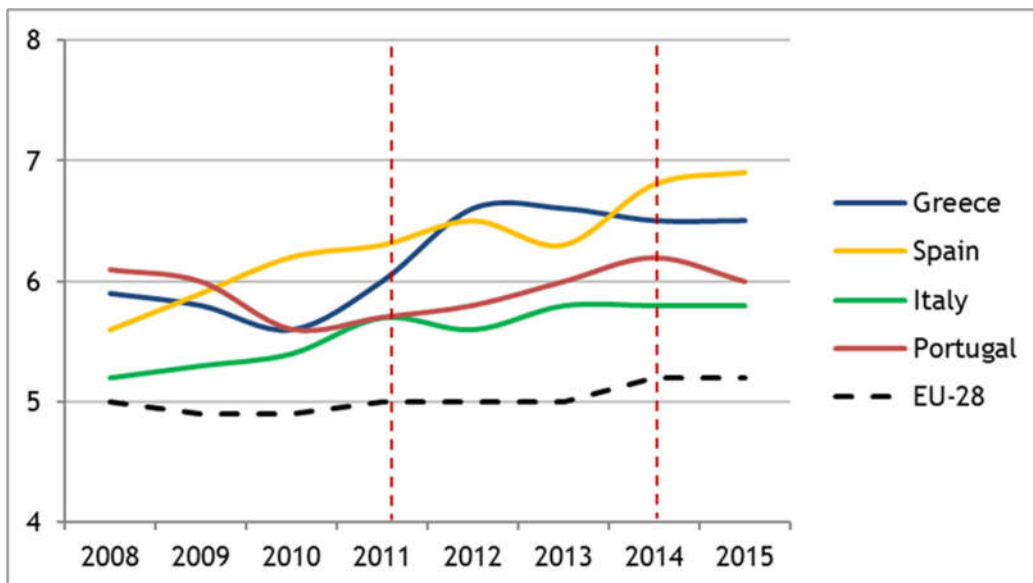
Eurostat figures indicate that income inequality has gone up throughout southern Europe since 2009. (In 2007-09, Portugal and, to a lesser degree, Greece had experienced a drop in inequality). The growth in inequality over the entire period has been greatest in Spain, the country with the highest level in 2014 (Figures 2.7 and 2.8).

Figure 2.7. Gini coefficient - selected countries 2008-15



Source: Eurostat.

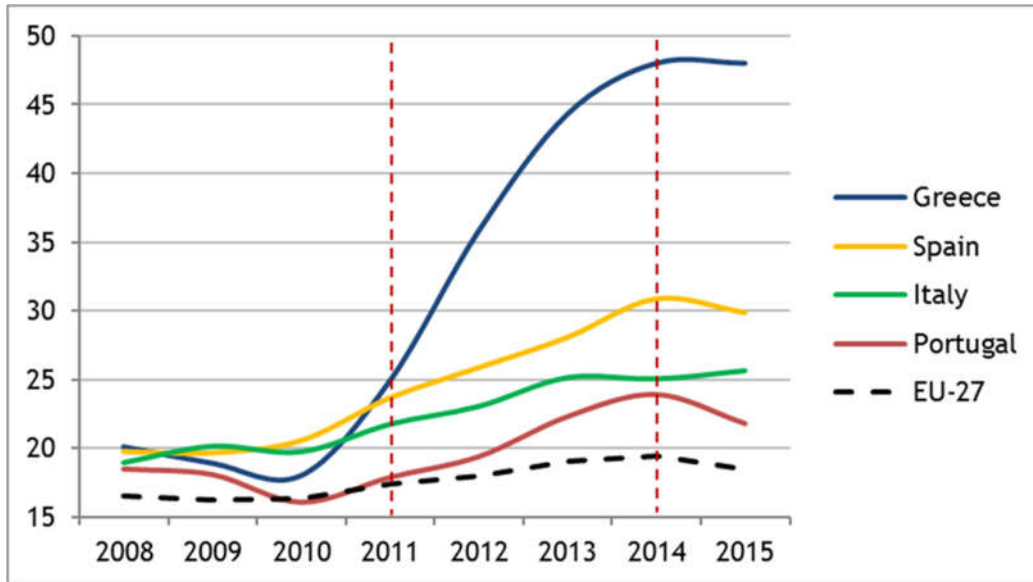
Figure 2.8. Income quintile ratio - selected countries 2008-15



Source: Eurostat.

Relative poverty also increased significantly in 2009-2013 in all countries (in Greece: from 18.0% to as much as 48.0% of the 2007 median, adjusted for inflation - Figure 2.9).

Figure 2.9. Share of population with net equivalent disposable income below 60% of the 2008 median



Source: Eurostat.

3. The political effects of globalisation and integration

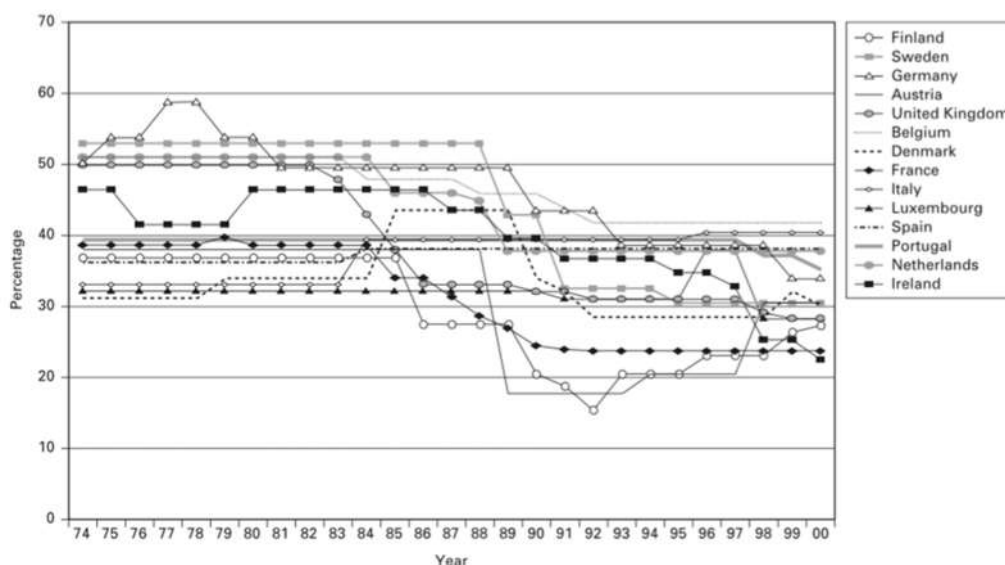
3.1 Globalisation, crisis, and the state

The socio-economic transformations described above have been accompanied by changes in the capacity of the traditional welfare state to correct for inequalities of income and opportunities. Between the end of WWII and the 1970s-80s, the international system was regulated by a regime of “embedded liberalism”, in which a fairly high degree of openness in trade was combined with a significant degree of public intervention within state boundaries, aimed at preserving full employment and social welfare. The advent of globalisation altered this compromise by expanding the scope of international free market to capital flows and extending the geographic reach of the liberal system to emerging economies, most notably China.

While globalisation has not generated the neoliberal convergence towards a minimal state that many predicted (e.g. Alesina and Perotti 1994; Strange 1996), it has certainly affected the state in its capacity to set and implement its domestic social goals. This is particularly true wherever state intervention impacts on the return on mobile capital, e.g. through regulations affecting production costs, or through taxation. Figure 3.1 shows this latter mechanism at play by graphing the decrease of corporate taxation in 14 European countries over time. Needless to say, lower corporate taxation means fewer resources to finance social policy initiatives.

At least two additional factors are at play in the weakening of the (welfare) state: the first is the “stickiness” of many social policy instruments, which limits state action whenever the latter implies the partial or total dismantling of existing measures (e.g. Pierson 1993). The second is the size of public debt in many western democracies, which limits their range of social policy intervention.

Figure 3.1. Effective tax rates on corporate income - selected countries, 1974-2000

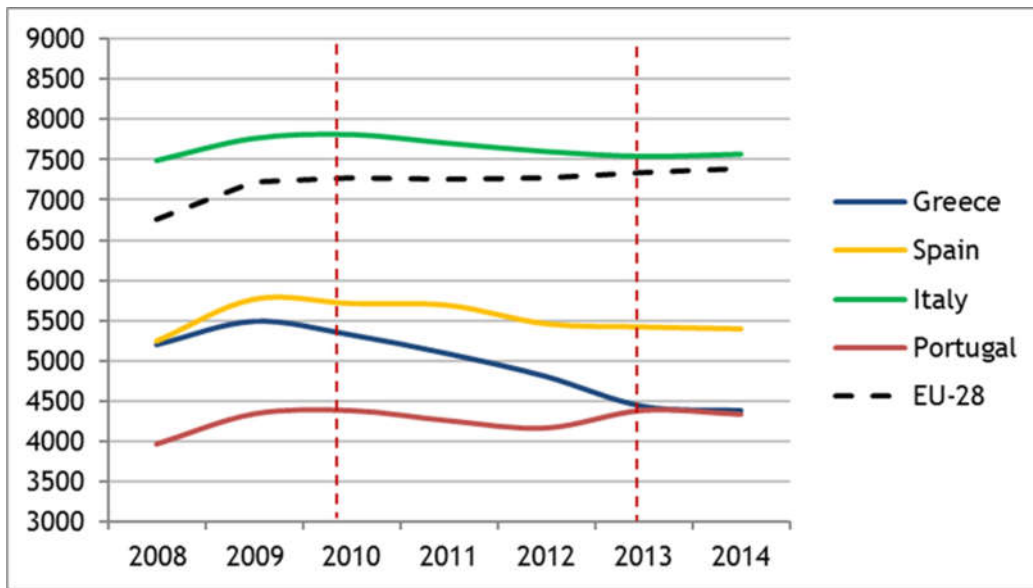


Source: Razin et al. (2005).

In recent years, the “great recession” has added to and exacerbated trends already at play with globalisation. This is especially true of the Eurozone, and in particular of its peripheral members. As the two figures below

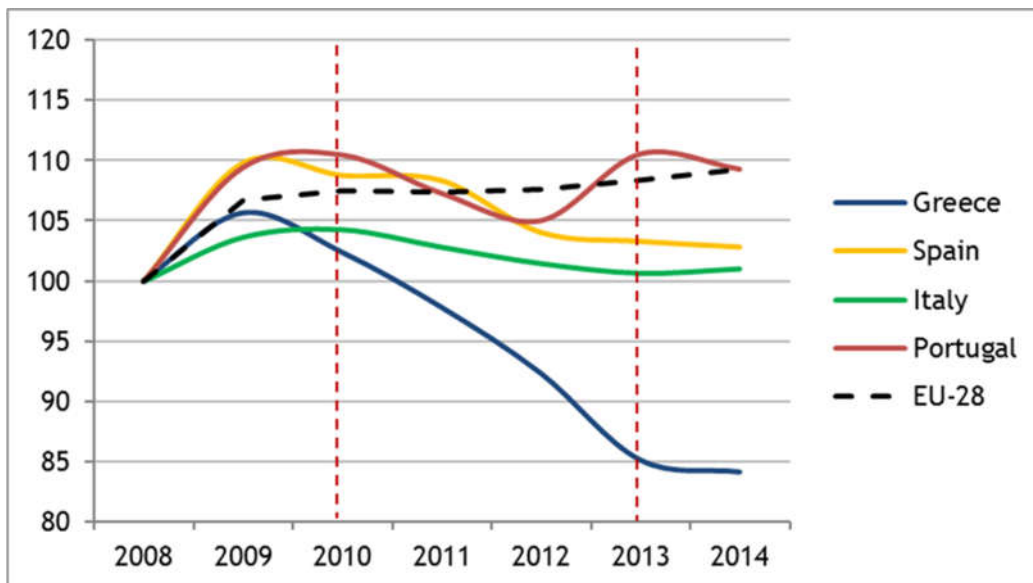
show, automatic stabilisers built in the welfare systems of the EU's southern states determined an increase in social spending at the outset of the crisis. However, shortly afterwards and during the worst part of the euro crisis, public spending became pro-cyclical in all four countries shown in the graphs (particularly in Greece), due in large part to the introduction of austerity policies. By Eurostat figures, social expenditure per capita fell by 3% in real terms in Italy (in 2010-13), by 5% in Portugal (2010-12), by 6% in Spain (in 2009-14), and by as much as 20% in Greece (in 2009-14).

Figure 3.2. Per capita spending on social protection - selected countries, 2008-14 (total €)



Source: Eurostat.

Figure 3.3. Total spending on social protection - selected countries, 2008-14 (2008=100)



Source: Eurostat.

The state's declining ability to tackle the social consequences of economic openness and the crisis is further complicated by the international movement of people—which is particularly important within the EU, where free movement is part of the single market. Migration flows exacerbate the above picture in two ways: first, by further undermining the economic position of the host countries' lower and middle classes, with whom immigrants compete in the job market. Second, by feeding the widespread perception of immigrants as undeserving net recipients of welfare measures, thus further strengthening the image of the host state as unable to shield its nationals from the effects of the international economy.

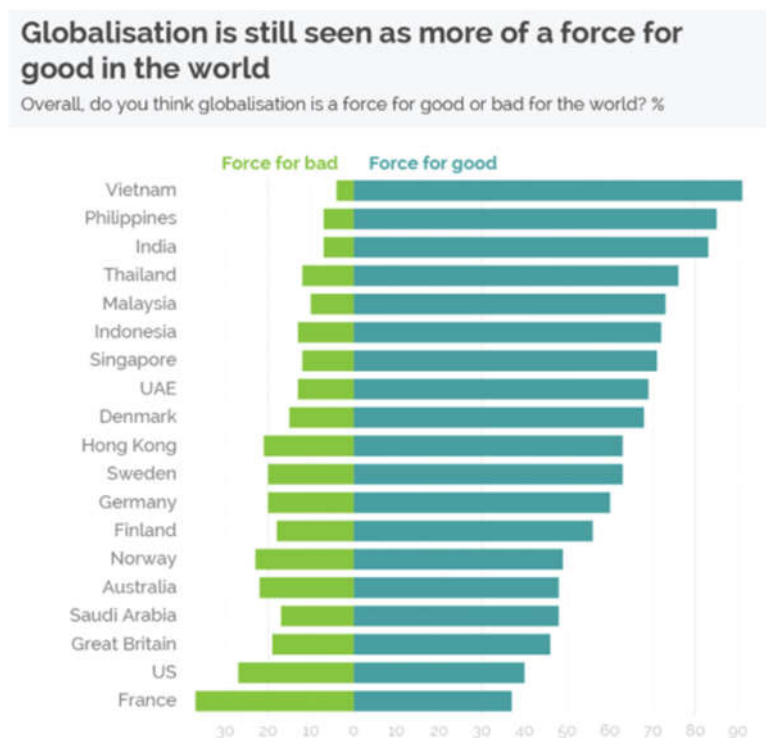
3.2 Political reactions to globalisation and integration

Faced with worsened economic conditions and a weakened state, those sectors of the population that have lost ground as a result of globalisation and integration have turned against these two processes (and the elites that over time have promoted them). Unsurprisingly, opinion against economic openness is distributed unevenly from one country to the next, as shown in Figure 3.4.

While globalisation is seen as a force for good by a majority in all countries—with the exception of France—opinion on globalisation is, on average, more positive in the developing world than in advanced economies. This distribution is consistent with the analysis above, which has shown how the gains from globalisation have been unevenly distributed worldwide. A similar, although not as clear-cut, distribution of public opinion can be observed regarding the human side of globalisation, represented by migration flows (Figure 3.5).

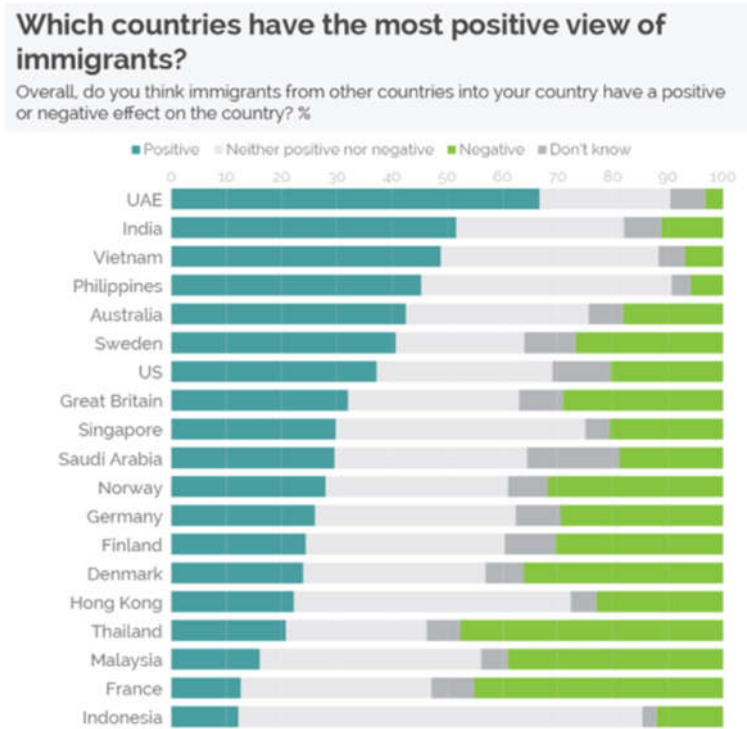
Switching to Europe, in the past decade public opinion trends against openness and transnationalism have had a regional counterpart in the decline of trust in the EU among member states' populations (Figure 3.6).

Figure 3.4. Opinion on globalisation - selected countries, October 2016



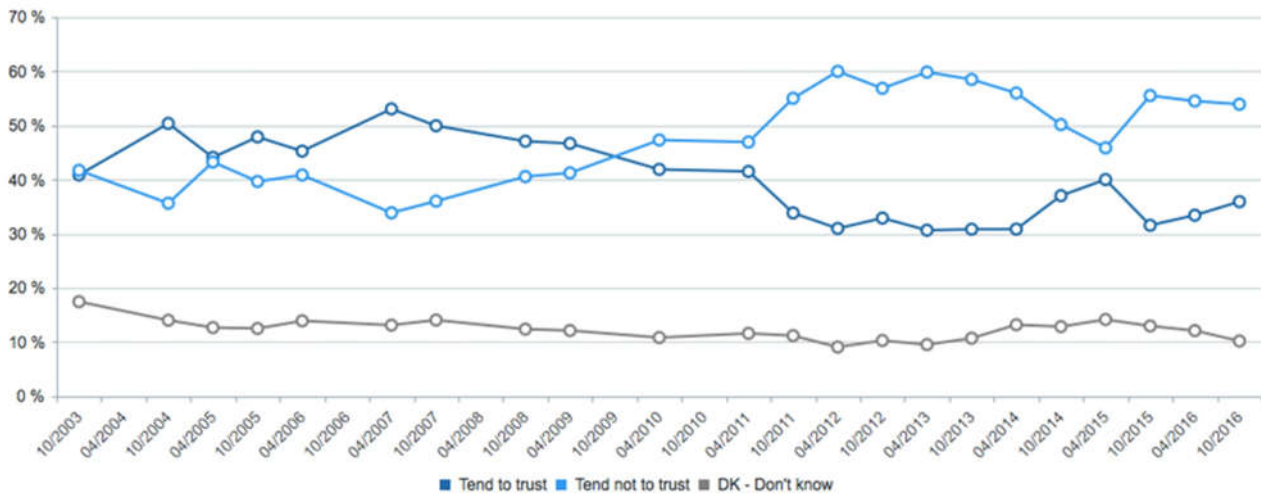
Source: YouGov.

Figure 3.5. Opinion on immigration - selected countries, October 2016



Source: YouGov.

Figure 3.6. Trust in the European Union, 2003-16 (EU average)



Source: Eurobarometer.

While by no means one and the same, the two phenomena—opposition to globalisation and to European integration—converge in an important respect, namely their being two manifestations of a more general revolt against transnationalism and supranationalism, based on the conviction that re-establishing hard borders and renationalising powers would benefit national communities by giving them back the policy-making ca-

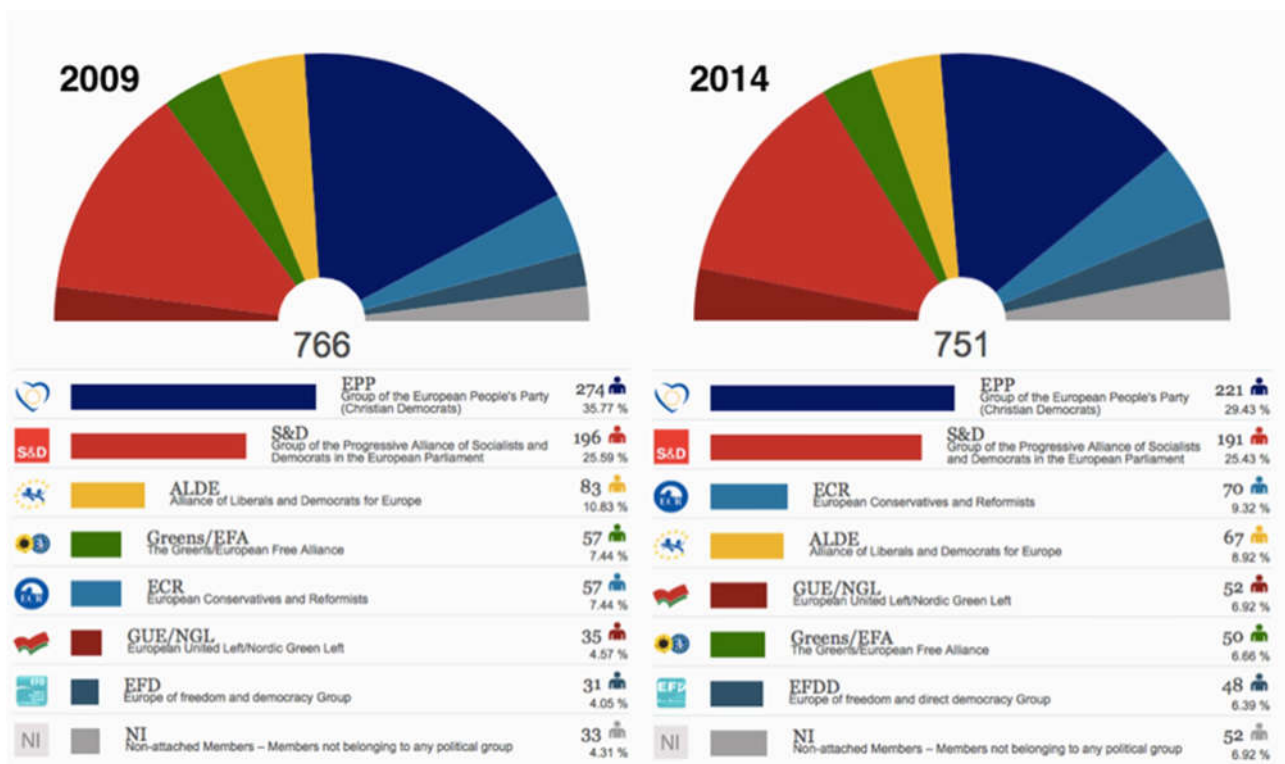
capacities lost in recent decades. Given this convergence, it is unsurprising that both phenomena have contributed to the rise of populist political forces in recent years.

Figure 3.7 provides a snapshot of the electoral growth of Europe’s populist movements by comparing results of the 2009 and 2014 European Parliament elections in terms of EP seats. As the figure shows, all three groups that have at least a populist/Eurosceptic component—the ECR, the EFD/EFDD and the GUE/NGL—gained in absolute as well as relative terms.

Some scholars have interpreted the rise of populism as the symptom of a deeper transformation in western societies, namely the emergence of a new cleavage structuring social conflict along an integration-demarcation divide (e.g. Kriesi et al. 2012). This new divide is in turn accompanied by a realignment of voter preferences affecting especially the traditional left, which has seen chunks of its working class electorate move towards (often right-wing) populist parties, as the latter are perceived as better defenders of the voters’ interests.

Shifting the focus from politics to policy, however, neither side of the integration-demarcation cleavage has a satisfactory answer to the problems generated by globalisation and integration. On the one hand, a return to hard national borders is likely to create more problems than it solves. On the other, globalisation as the mere transcendence of boundaries provides no answer to the need for a correction of transnational market forces. The response, thus, is most likely to be found at an intermediate level: one that is wide enough to safeguard the benefits of openness, but at the same time small enough for the establishment of new social policy tools to be both realistic and justifiable.

Figure 3.7. European Parliamentary groups, 2009 and 2014



Source: European Parliament and authors' elaboration.



4. Social Europe as a possible solution

4.1 Some encouraging trends

Acknowledging the emergence of the integration-demarcation cleavage should not lead to despair about the future of Europe. Some reasons for cautious optimism have emerged lately. In the first place, the performance of EU and Eurozone economies is back to positive. At least in the short run, this is good news for the EU's popularity.

Secondly, and more importantly, there are some signs that public opinion is moving away from populism. One such sign was the June 2017 election of Europhile Emmanuel Macron as French president. More generally, while Euroscepticism remains a strong force in the continent, European public opinion is likely to be better disposed towards the integration project than often thought.

A recent poll conducted by the Pew Research Centre (2017) in ten EU member states—France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Spain, Sweden and the UK—shows that, while Europeans are on the whole still critical of the way the Union is run, they remain supportive of their countries' EU membership.

The above results support the conclusions of another, more fine-grained survey conducted by the REScEU project in the fall of 2016 in seven European countries: Greece, France, Italy, Sweden, Spain, Poland and the UK (Ferrera and Pellegata 2017). Unlike similar existing studies, the REScEU survey combined general attitudinal questions to a number of more specific ones on the solidarity dimension of the EU. Some of these results are worth reporting here.

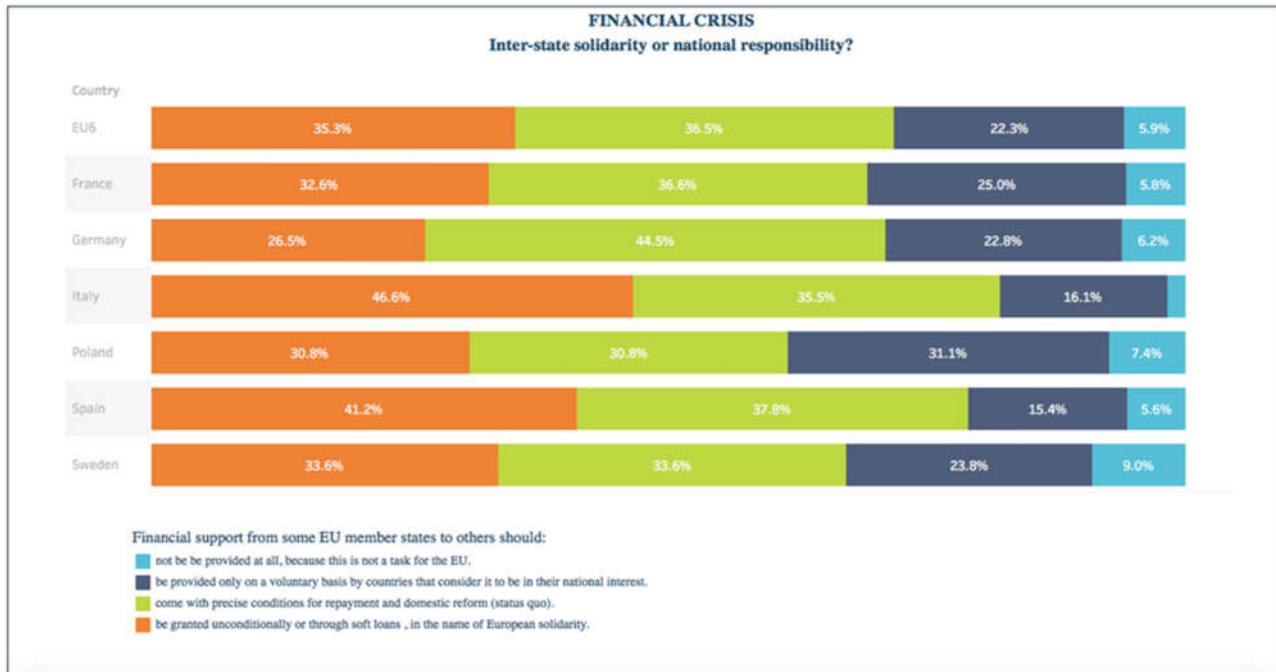
REScEU researchers asked respondents, first, whether the relationship between EU member states should be characterised by international solidarity, or rather by self-help and national responsibility. As Figure 4.1 shows, in all countries the vast majority of respondents support some form of solidarity, whether under precise conditions (the current status quo) or more generously, such as through soft loans or unconditional transfers.

A further step for the social development of the EU would be for it to provide welfare measures for individuals and families. The survey explored this aspect through a battery of questions on whether the EU should provide, respectively, means of subsistence for citizens in case of a crisis (Figure 4.2), poverty relief (Figure 4.3) or insurance against unemployment (Figure 4.4).

Finally, REScEU researchers asked respondents whether EU immigrants should be granted the same welfare protection as host country citizens, or instead some restrictions should be introduced. As shown in Figure 4.5, almost half of the respondents would grant welfare to all EU immigrants, regardless of their work status, while an additional 20% would grant it to all workers from the EU.

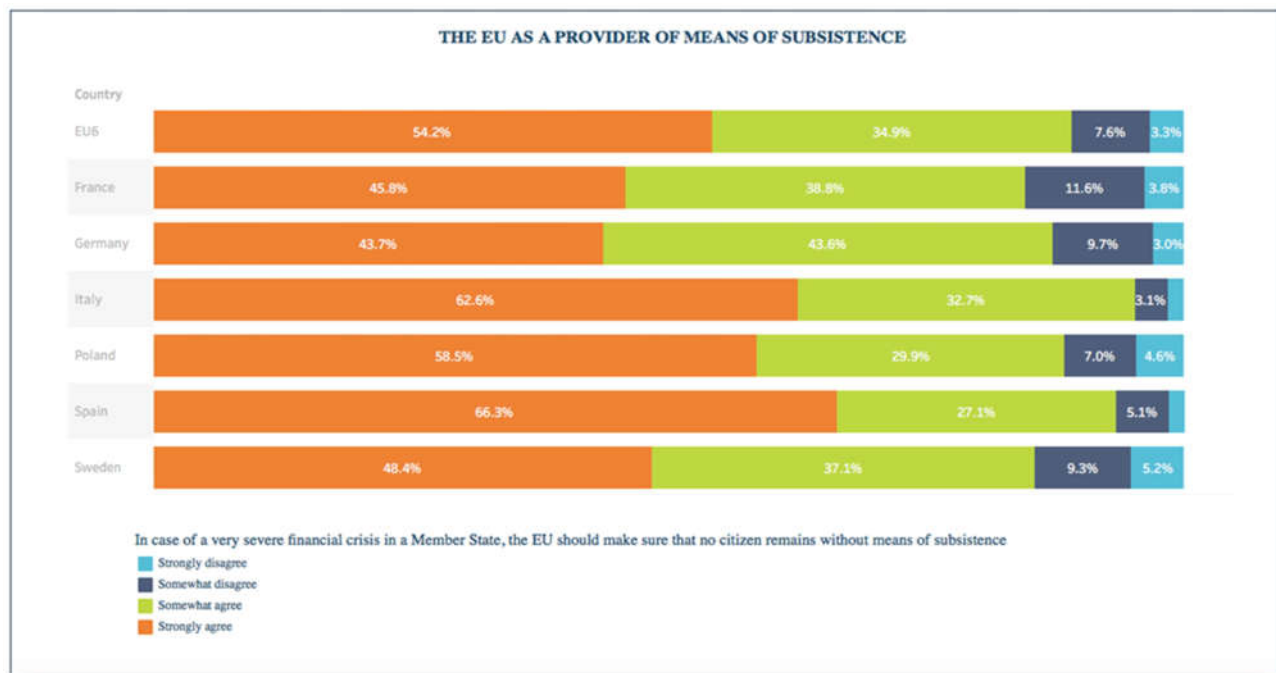
Taken as a whole, this data shows that European citizens are quite open to the idea of the European Union stepping up its efforts in the area of social policy and solidarity. To be sure, social Europe is not the national welfare state writ large. The EU lacks the history, structures and legitimacy to sustain a full welfare state, at least for now. A more realistic scenario is one in which a European system of social protection is built on a variety of levels—supranational, national, local—and instruments, reflecting the multi-layered nature of the Union.

Figure 4.1. Opinion on interstate solidarity in the EU - selected countries, Fall 2016



Source: REScEU and EuVisions.

Figure 4.2. Opinion on the EU's provision of means of subsistence - selected countries, Fall 2016



Source: REScEU and EuVisions.

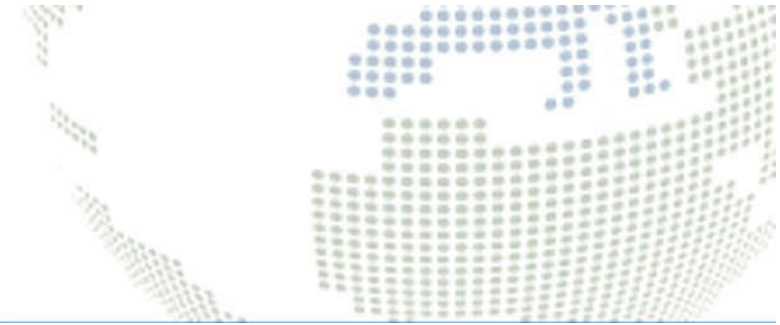
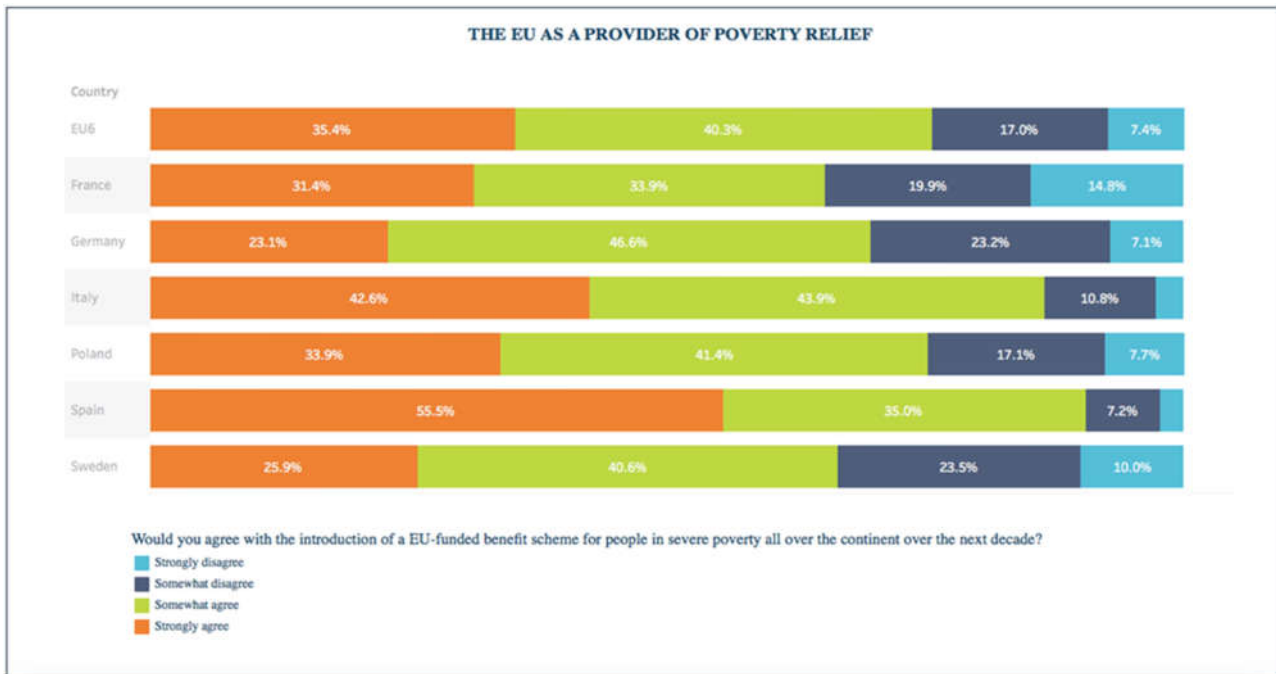
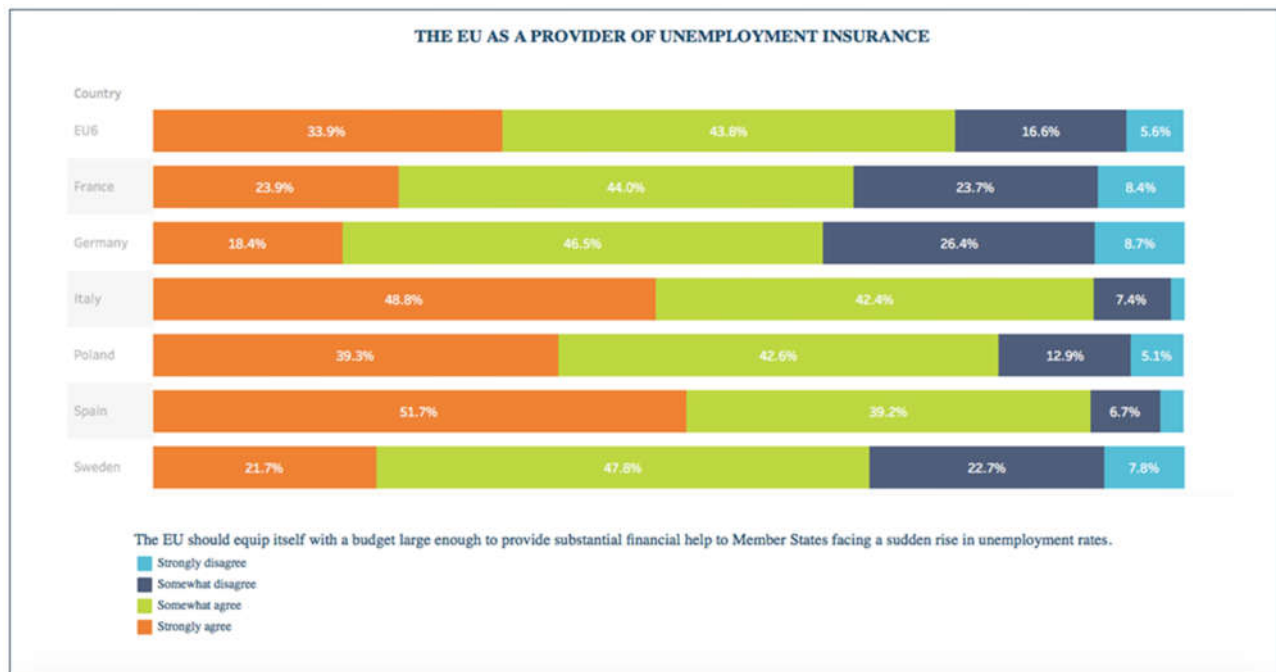


Figure 4.3. Figure 4.3: Opinion on the EU's provision of poverty relief - selected countries, Fall 2016



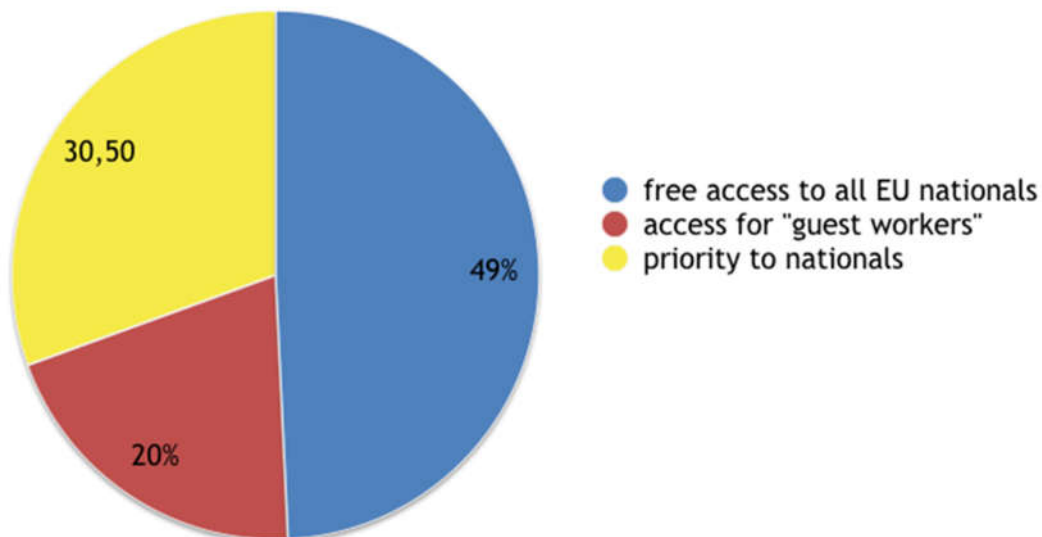
Source: REScEU and EuVisions.

Figure 4.4. Opinion on the EU's provision of unemployment insurance - selected countries, Fall 2016



Source: REScEU and EuVisions.

Figure 4.5. Opinion on the provision of welfare to EU immigrants - selected countries, Fall 2016



Source: REScEU.

4.2 Proposal for a European Social Union

Since the 1987 Single European Act, “social Europe” has been the holy grail for progressive reformers. Alas, it has also become one of the most elusive concepts in debates about the integration process. Ambiguity stems from the tension between the horizontal connotation of the concept—solidaristic goals, policies and achievements at the *national* level—and its vertical connotation — solidaristic or at least socially friendly goals, policies and achievements at the *supranational* level. Instead of ignoring this tension, a heuristically neutral and all-encompassing definition is advisable. The following components can thus be included under the concept of social Europe:

- (1) The ensemble of social protection systems of the member states, resting on the common traditions of a “social market economy” and “social dialogue”, but characterised by their differences in specific schemes and institutions, logics of market correcting, functional and distributive problems, and degrees of administrative performance. This component can be defined as **National Social Spaces**.
- (2) The novel membership space—coterminous with the EU external borders—inside which all the bearers of EU citizenship enjoy a common “title” bestowed upon them by the Union in order to access the benefits and services of the place in which they choose to settle. Starting from the 1970s, the EU has had an articulated legal framework for the coordination of the social security systems of the member states, and since 2011 a directive regulates the cross-border mobility of patients. This component can be defined as the EU’s **Mobility Space**.
- (3) The ensemble of social schemes and policies characterised by a cross-border element. Most of these initiatives involve regions, under the legal umbrella of European territorial cooperation. Another interesting development on this front is the creation (mainly by the social partners) of cross-border occupational insurance schemes for pensions and health care benefits. This component may be called **Transnational Social Spaces**.

- (4) The ensemble of those supranational policies that have an explicit social purpose, be they of a regulative or (re)distributive nature, directly funded by the EU budget (if they imply spending) and based on either hard or soft law. This component is the **EU Social Policy**.
- (5) The set of objectives of a social nature contained in the Treaties, including those that allocate responsibilities between levels of government and define decision-making procedures. Given the supremacy of EU law over national law, such objectives and rules constitute the general framework that guides the other four components. This component can be called the **European Social Constitution**.

How can the five components be made to work in synch, with mutual reinforcements but also without generating negative externalities for EMU? There is the need to devise an overall framework, that would be known as *European Social Union* (ESU), first proposed by Vandenberg (2015). The word choice immediately evokes a system of separate but interdependent elements, subject to common rules and aimed at sustaining different types of solidarity (Figure 4.6): a pan-European solidarity between countries and between individual EU citizens centred on supranational institutions, and the more traditional forms of national solidarity, centred on domestic institutions. The former should limit itself to redistributive goals which are functionally necessary and practically feasible. The latter's goal is the highest possible degree of solidarity—taking into account the preferences expressed democratically by the voters.

Figure 4.6. Types of solidarity within ESU

Component	Type of solidarity
<i>National social spaces</i>	Horizontal, national
<i>Cross-border social spaces</i>	Horizontal, trans/subnational, local
<i>EU Mobility</i>	Horizontal/some verticality transnational
<i>EU social (and cohesion) policy</i>	Vertical, supranational, pan-European: - <i>Interpersonal</i> - <i>Interstate</i>
<i>European Social Constitution</i>	Vertical, supranational, pan-European

Source: Authors' elaboration.

Concretely, the institutional mission of ESU should be to guide and support the functioning and modernisation of national welfare states based on common standards and objectives, leaving to the member states wide margins of autonomy in the choice of ways and means. Let us briefly survey the major strategic priorities for each component of the ESU (see Figure 4.7 for a summary).

Figure 4.7. ESU priorities

Component	Challenge/priority
National social spaces	<ul style="list-style-type: none"> • Stabilisation of social protection • Social investment • Inclusion
Cross-border social spaces	Support and «steer»
EU Mobility	Search for a new balance between «opening» and «closure»
EU social (and cohesion) policy	Expand and strengthen (European Pillar of Social Rights)
European Social Constitution	Operationalize and apply

Source: Authors' elaboration.

National Social Spaces. The current European landscape is characterised by national variations resulting from long-term policy trajectories. A number of factors militate in favour of a more proactive role for the Union at the national level. First, national social spaces are confronting similar problems, in the wake of the rapid endogenous and exogenous transformations illustrated in the previous sections. A joint search for viable and effective solutions can broaden the horizons of national models and provide them with wider policy options. Second, given the weight of policy lock-ins and path dependencies, institutional re-adaptation is a demanding task everywhere. The EU can help by supplying resources and incentives for overcoming organisational stickiness and political blockages to reform. Third, unbridled system competition based on the logic of (social) comparative advantages may lead to a growing “dualisation” between core and periphery (Palier and Rovny 2014) and hinder the formation of that pan-European solidarity which is a necessary political condition for the success of the integration project.

The EU can and should be particularly proactive on one front: promoting a reorientation of national spaces towards social investment. As argued by a rich literature, social investments (and in particular the enhancement of human capital) are a real “policy imperative” if Europe as a whole wishes to reconcile economic competitiveness and high prosperity/wellbeing in the context of increasing globalization (Hemerijk 2013; Ferrera 2016a). In the last years the EU has elaborated an articulated agenda on desirable policy responses, underpinned by convincing functional justifications. But more can and needs to be done: the facilitation of social investment should become a key political function of the European Social Union in the future.

EU Mobility Space. Here the priority should be the correct regulation and management of the free movement of persons, and their access to social benefits in the host countries. The ESU could not exist as a *union* of welfare states if did not rest on a common underlying space which guarantees basic social rights in any national system. But as is known this issue has become increasingly contentious after the eastern enlargement. Without an adequate regulatory framework and normative framing, such type of tension is likely to escalate into a fully-fledged conflict with disintegrative implications: *Brexit docet*.



Freedom of movement of workers is a core principle of the European construction. Data shows that the economic balance of intra-EU migration for the receiving countries is positive (Ferrera 2016b). But political conflicts about free movement cannot be ignored. A new balance between openness and closure is needed. To change the rules would require a treaty change, an option fraught with risks. But at the “constitutional” level the rules are very broad. Indeed, the free movement of workers/persons, and especially the access to social benefits are regulated by secondary legislation and Court jurisprudence (Giubboni 2016). It is at this level that solutions must be sought.

What might be done is a more stringent definition of the rights of those who do not work: e.g. the relatives who remain in the countries of origin (for example with regard to family allowances), residents who are not economically active, and to some extent also those who move in search of work. Partly, this can be done by applying more severely the clauses that already exist. But one can also imagine to introduce legislative changes through the ordinary procedure. The freedom of movement of workers and their entitlement to social security benefits should remain a “red line” not to be crossed. On other types of intra-EU migrants, however, it is reasonable to recognise that the pan-European solidarity now politically viable is more limited than that provided for by the regulatory status quo. A redirection in this sense is already detectable in recent ECJ rulings (De Witte 2015).

Transnational Social Spaces. Over the last twenty years, the sub-national level has significantly increased its role and importance in many areas of social protection: from health to social services, from active labour market policies to inclusion policies. There has been extensive cross-border experimentation between regions belonging to different member states (Wassenberg and Reitel 2015). These novel aggregations can promote interesting forms of coordination and even fusion of social infrastructures, feed new forms of cross-border solidarity. A similar virtuous circle can result from a second ongoing trend of “social transnationalisation”, i.e. the creation of cross-border pension schemes providing benefits to employees working in different member states (Guardiancich and Natali 2012). However small for the moment, all these developments should be encouraged and supported by the EU, as they work towards a partial de-nationalisation of solidarity by fostering risk sharing along functional and corporate lines.

EU Social Policy. Here the debate is already very extensive and the agenda is crowded. An incomplete inventory should include at least the following objectives:

- (1) The introduction of common standards for labour market, wage setting and social inclusion, in order to combat social dumping and facilitate mobility.
- (2) A better use and an increase of EU resources for (co-)financing reforms and especially social investment.
- (3) Significantly widening the scope of action of the European Fund for Strategic Investment from physical to social infrastructures and policies.
- (4) Strengthening cooperation and if possible establishing standards in the field of education, including early childhood education and care.
- (5) Strengthening the European social dialogue.
- (6) Improving social governance arrangements within the European Semester.
- (7) Specifically including modernising social reforms in the list of conditions for obtaining “flexibility” in national budgets.

Box 1 summarises a number of more specific reform proposals at the interface between EU social policy and the EU mobility space. The underlying rationale is that of enhancing the visibility and salience of EU citizenship combining its free movement dimension (now prevalent) with a social dimension.

It will not be easy to make substantial and rapid progress on the front of pan-European solidarity. On the one hand, there are obvious dangers of moral hazard. On the other hand, there is the imperative of upholding the livelihood of the least advantaged, wherever they reside. There is also the need to de-activate the conflict between “movers” and “stayers”. Although the technical and political obstacles are major, this is possibly the most urgent “nut to crack” for triggering off an orderly and reasonable Europeanisation of solidarity.

Box 1. Enhancing the social dimension of EU citizenship

Compensating the stayers:

- EU Fund to ease the impact of mobility

Enabling the stayers:

- A system of (transferable) universal vouchers for mobility/upskilling purposes

Autonomising the movers:

- A EU social insurance scheme for mobile workers

Universal empowerment

- A social card for access to a whole range of EU funded facilitating services
- Enhancing the visibility of the Global Adjustment Fund, the Fund for European Aid to the Most Deprived and the various initiatives of the European Social Fund
- EU insurance against the victims of terrorism and persons injured in the line of duty
- Enhancing the external protections linked to the EU passport

European Social Constitution. This component is perhaps the least visible to the general public but it is the most important one. The Lisbon Treaty has already dug the foundation of the ESU in terms of objectives and, in part, instruments (Bruun et al. 2012). Among the most important innovations are the redefinition of the programmatic values and objectives of the Union, the explicit acknowledgement of the links between the internal market and the achievement of full employment and social progress, the formal recognition of the Charter of Fundamental Rights, and—last but not least—the introduction of a transversal “social clause”. The crisis has severely weakened the transformative potential of such constitutional changes. Not only have the new rules introduced by the Six Pack, Two Pack and the Fiscal Compact strengthened the paradigm of austerity, but, according to some commentators, such changes are not legally in line with the general provisions of the Treaty concerning, precisely, the social sphere (Kocharov 2012).

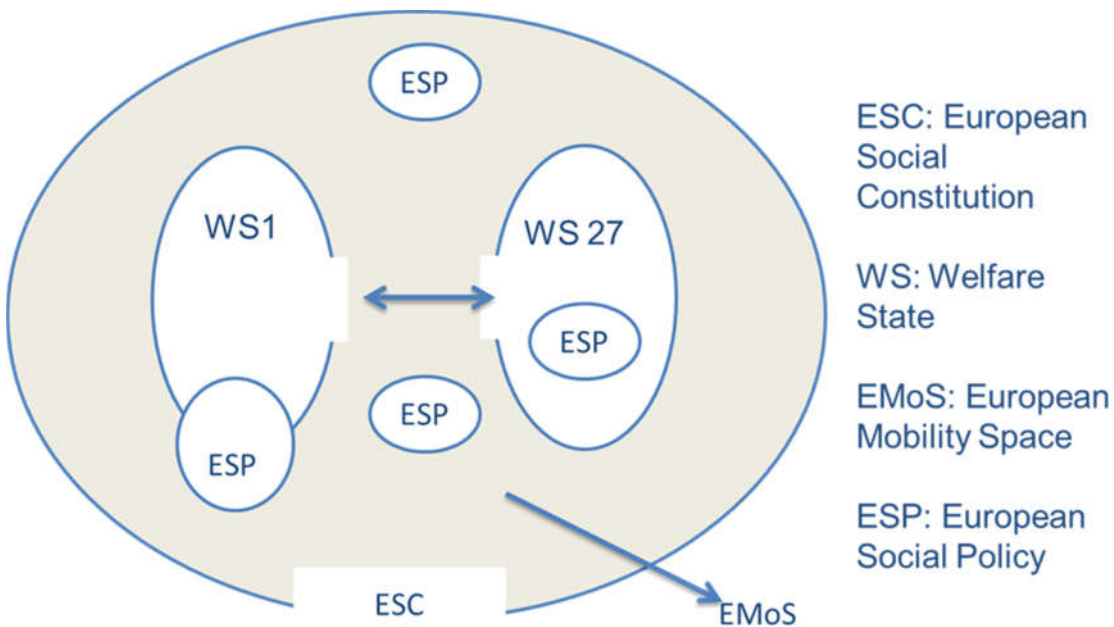
The agenda of the European social constitution must therefore re-start from Lisbon, enabling the full potential of its principles and provisions. The most promising springboard seems to be the social clause (Article 9 TFEU), according to which

in defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, guarantee of adequate social protection, the fight against social exclusion and a high level of education, training and protection of human health.

If properly operationalised, the activation of this clause might have important effects in terms of the balance between the economic and social dimension. It could in fact serve as a barrier to undue encroachments of the market logic in domestic solidarity spaces. And it could act as a tool to monitor and facilitate the effective implementation of the ambitious social objectives set out in Art. 3 TEU. *Mutatis mutandis*, its effect could be similar to those originated by the clause on gender mainstreaming (i.e. the integration of gender equality in all EU policies) introduced in the 1997 Treaty of Amsterdam (Vieille 2012).

Figure 4.8 provides a summary visualisation of the basic architecture of the European Social Union as a “holding environment” delimited by the Social Constitution and constituted by national social spaces, connected through the mobility space, accompanied by novel experiments of cross-border solidarity and underpinned by EU social policies.

Figure 4.8 .The European Social Union - A visualization



Source: Authors' elaboration.

5. Conclusion

According to Rodrick's famous "trilemma", globalisation has made it increasingly difficult if not outright impossible to reconcile democracy, sovereignty and economic opening. We can have democratic politics within sovereign nation states only if we restrain opening (as was the case during the European *Trentes Glorieuses*). We can have sovereignty and economic opening, but without the constraints of democratic institutions (the Chinese model?). We might give up sovereignty and create a global democracy aligned with a globalised economy (a modernised version of the Kantian utopia). But for the time being the obstacles to this third scenario seem insurmountable.

In Rodrik's view (shared by many other scholars), the trilemma holds also within Europe. We think, however, that European integration has the potential to overcome the trilemma. National sovereignties have already fused together in many key areas, empowering supranational institutions (including the ECJ) as a novel common sovereign representing *de iure* both the member states and EU citizens individually. Economic opening has gone a very long way, but it has not killed domestic democratic institutions. The fact is that the EU member states are not simply democracies, they are *welfare* democracies, or *democratic welfare* states. The challenge today in the EU is how to reconcile economic opening with social protection.

This would require the establishment of a democratic (or even better: a *demoicratic*) European Social Union, along the lines sketched above. The challenge is substantial, not only from an institutional perspective, but also, and especially, from a political perspective. The REScEU survey shows that a "silent majority" of citizens might be available to support such a farsighted agenda. However, the need for brave and responsible political actors capable to connect this potential majority with an ambitious vision remains. Who might those actors be? As of now, unfortunately, there is no one in sight.

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