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Tackling the adverse effects of globalisation and integration: Ideas on a European Social Union

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Abstract

Besides creating new opportunities and improving the lot of many people around the world, globalisation and economic integration have also generated economic and social losses. The latter are particularly concentrated among the lower and middle classes of advanced industrialised countries, who have seen their position worsen primarily as a consequence of shifts in technological and geographic production patterns. Meanwhile, the nation state's capacity to tackle social problems such as inequality, poverty and unemployment has been declining as a result of its exposure to capital flows, endogenous transformations like ageing, institutional stickiness and growing public debt burdens. The populist response to this combination of problems is to reverse the process of globalisation and integration, and return to hard national borders. If at all possible, such sovereignist recipes would not, however, be an effective solution to the challenges of globalisation and integration. While such challenges must be acknowledged, new social policy solutions should be devised to improve the lot of the "losers" of globalisation and integration without giving up the many advantages brought about by these processes. We argue that the European Union is the appropriate sphere in which to devise such solutions, for it works at a scale large enough to preserve the gains from openness while constituting an arena for the legitimate and viable creation of new boundaries for market corrections. Based on these premises, we present ideas for the development of a European Social Union, structured on five interrelated components: 1) the Member States' national social spaces; 2) the social citizenship space: 3) the transnational social space; 4) the EU's social policy; and 4) the European social constitution.

Contents

Executive summary

The rise and expansion of globalisation has generated gains as well as losses. The latter are concentrated particularly 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, and who are largely unable to take advantage of the opportunities offered by the global age. Growing inequality is also accompanied by decreasing social mobility in many advanced industrialised countries.

The subprime crisis and the euro crisis have exacerbated many of the long-term, structural socio-economic changes brought about by globalisation. This is especially true of the euro crisis, and in particular in the periphery of the Eurozone—most notably Greece, Italy, Portugal and Spain—where the scenario has degraded in terms of inequality, poverty and unemployment.

Meanwhile, the nation state's capacity to mitigate the adverse effects of globalisation and the Great Recession by means of social policies and other market correcting measures has declined for a number of reasons, e.g. exposure to capital flows (which makes it harder for states to impose policies affecting returns on capital); endogenous transformations such as ageing; the stickiness of existing policies and institutions; many countries' public debt burden. This (partial) retreat of the state is particularly marked within the Eurozone, where state action is constrained by the macroeconomic rules of the European Monetary Union.

Not surprisingly, the social and economic effects of globalisation, integration and, more recently, the crisis have caused a backlash against openness in many advanced economies. This has, in turn, fuelled an unprecedented wave of populism and Euroscepticism, and the growth of old and new sovereignist parties. The latter propose a return to hard borders and the regaining of full national control over the flows of goods, capital and people as a solution to the challenges generated by globalisation and economic integration.

This paper argues that the sovereignist agenda—if at all viable—would not be an effective solution to the problems of globalisation and integration. At the same time, these problems must be acknowledged, and new forms of social intervention—and more generally, market corrections—should be devised to assist the "losers" of globalisation and integration while retaining the advantages generated by these processes.

The European Union is an ideal arena 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 boundaries for the structuring of social policy would be both viable and legitimate. This normative premise is supported by recent survey data, which depict a European population not only generally favourable to the EU, but also supportive of the development of the European integration project in a more solidaristic direction.

Based on these observations, this paper presents a number of ideas for the conceptualisation and construction of a European Social Union. The latter is composed of five interrelated parts, for which we provide an analysis as well as some ideas for further development.

(1) ***National Social Spaces***. This is the ensemble of social protection systems of the EU Member States, resting on the common traditions of "social market economy" and "social dialogue". The EU should intervene in these spaces for several reasons: first, to favour the search for joint solutions to

the common problems that Member States confront as a result of the endogenous and exogenous transformations illustrated above. Second, to supply resources and incentives to help overcome national policy lock-ins and path dependencies. Third, to limit the unbridled system competition based on the logic of (social) comparative advantages, which may lead to suboptimal and inefficient mutual adjustments, generating a growing "dualisation" between core and periphery.

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 competiveness and high prosperity/wellbeing in the context of increasing globalisation.

(2) The EU's ***Mobility Space***. This is 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 freely choose to settle and work.

While the freedom of movement is and must remain a core principle of the Single Market, the fact of political conflicts about free movement cannot be ignored. A new balance between openness and closure is needed, based on non-dominating conditionality criteria. 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 restrictive clauses that already exist. But one can also imagine to introduce legislative changes through the ordinary procedure. A reorientation in this sense is already detectable in recent European Court of Justice rulings and doctrine.

(3) ***Transnational Social Spaces***. This is 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. 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. This trend toward a social neo-regionalism is partly connected to European integration, which has gradually relaxed the regulative "security belts" around nation states and provided incentives and resources for processes of region building, largely focused on the territorial differentiation of welfare policies.

These novel aggregations can promote interesting forms of coordination and even fusion of social infrastructures, feed new forms of cross-border solidarity—intermediate between infra-national and pan-European 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 supplementary benefits to employees working in different member states.

(4) ***EU Social Policy***. This part indicates the set of 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.

The big strategic priority of EU social policy should be to give a sharper profile and traction to pan-European forms of solidarity, calibrating both "reciprocity" and "benevolence". The most effective tool for re-organizing social reciprocity between the member states is some form of risk-pooling. The Five President's Report has already outlined a mutualisation agenda in the banking sector. But a more visible and effective innovation would be the establishment of a EU shock absorber scheme to co-finance unemployment benefits. Another promising proposal on the risk-pooling front is that of promoting the formation of single, pan-European pension insurance schemes at the industry or sectoral level, upon the initiative of the social partners.

As to benevolence-based solidarity, the most obvious instrument would be a EU scheme of last resort assistance, based on the principle of "sufficientarianism", namely making sure that all EU citizens have "enough", at least enough to survive.

(5) The ***European Social Constitution***. This is the set of objectives and principles 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 principles and provisions. The most promising springboard seems to be the social clause (Article 9 TFEU). If properly operationalised, the activation of this clause might have significant 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.

Introduction

The rise and expansion of globalisation is one of the greatest societal changes of our era. Like any comparable epochal transformation, globalisation has generated gains as well as losses, which are often distributed unevenly among political, economic and social actors. Developing economies, for instance, have thrived in the global arena, in many cases helped by transnational corporations which are freer than ever to spread their production chains wherever it is most convenient. Consumers in rich countries, in turn, can now afford high-end products at prices that were unthinkable only a few year ago. Finally, an English speaking cosmopolitan elite has formed worldwide, able to move, live and work virtually everywhere.

The flip side of these gains has been a worsening of the lot of the lower and middle classes in advanced economies, who find themselves in a worse economic and social position, mostly due to shifts in geographic and technological production patterns, and who are largely unable to take advantage of the opportunities offered by the global age. These are the main losers of globalisation, whose situation has further deteriorated due to the recent financial crisis.

The "great recession" has prompted a number of political and institutional responses, in the first place in Europe, to weather the emergency of the crisis. For the most part, 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 now caught between a national welfare state that is less able to mitigate the distributional effects of open markets, and a host of political movements proposing an unrealistic return to hard national borders as a panacea for their economic and social distress. Clearly, new and inventive institutional solutions will have to be found to make globalisation and integration more inclusive, fair, and ultimately politically viable.

In line with the spirit of the Vision Europe Summit, this paper aims to sketch a number of concrete proposals for the transformation of the welfare state in the forthcoming years. In these proposals, as well as the analysis on which they build, the focus is primarily (though not exclusively) on the European Union. European integration has a two-sided relationship with globalisation: on the one hand, the single market reproduces, in regional and expanded form, the social and economic openness that defines globalisation. On the other hand, however, the European project includes an important politico-institutional level that can serve as the basis for the construction of a more effective and multi-level system of welfare, located as it is between the equally unsatisfactory national and global arenas.

The paper is divided in two parts. The first section of Part 1 presents an analysis of the economic and social effects of both globalisation and the crisis, focusing particularly on the issues of inequality and social mobility. Section 1.2 will then look at the main political and institutional consequences of globalisation and integration, namely the state's decreased ability to mitigate the effects of transnational social and economic forces, and the resulting rise of (Eurosceptic) populism. Building on these analyses, Part 2 focuses on European integration, its problems and prospects and contains some reform proposals. Sections 2.1 and 2.2 present a number of ideas on how to structure a novel, regional response to the challenges of globalisation and integration, centred on the notion of a European Social Union. Section 2.3 focuses on the possible enhancement of EU (social) citizenship and formulates some practical proposals.

PART 1 – GLOBALISATION, INTEGRATION AND THEIR EFFECTS

1.1. The decline of North-South inequality, and the rise of inequality in the North

The changes in the world economy that have occurred over the last three decades can only be defined as epochal. As anyone aged 50 or older can testify, the world in the late 1980s, before the Berlin Wall came down, and before China started to liberalise its economy and open up to international trade, looked very different from the world today.

In retrospect, the late 1980s were the high point of what economic historians have termed "the great divergence", i.e. the first wave of globalisation set in motion almost two centuries earlier. As Britain and other western economies industrialised, and the "age of capital" led to the "age of empire" (to recall the titles of Eric Hobsbawm's celebrated books on the long 19th century), the gap in living standards separating the West from the rest of the world began to widen. Around 1820, the seven largest advanced economies (United States, Germany, Japan, France, Britain, Canada, and Italy), collectively known today as "the G7", accounted between them for about one fifth of world income. By 1990, their share had grown to about two thirds. The first wave of globalisation brought unprecedented prosperity to Europe and the other early industrialisers in North America, the South Pacific, and Japan.

The second 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). To cite just one set of figures: in 1990, only 3% of world manufacturing was produced in China, compared to 65% in the G7; by 2010, China's share had grown to 19%, while that of the G7 had shrunk to 47% (Figure 1.1). A combination of soaring growth in rapidly industrialising countries and low growth in the G7 brought about what Richard 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 (which happened to be about the same as in 1900), as shown in Figure 1.2.

FIGURE 1.1 HERE

FIGURE 1.2 HERE

What are the implications of the current (second) wave of globalisation for global inequality? Analytically, global inequality can be thought of as having two components: inequality between countries, and inequality within countries. In recent decades, the former has declined while the latter has risen. As Branko Milanovic (2016) famously demonstrated, plotting relative gains in real per capita incomes by global income level results in an "elephant curve", shown in Figure 1.3.

FIGURE 1.3 HERE

Between 1988 and 2008, income gains were spectacular (over 80% in real terms) around the median of the world income distribution. The persons involved (90% of which lived in China and other Asian economies such as India, Thailand, Vietnam, and Indonesia) were the obvious beneficiaries of globalisation, and formed the "emerging global middle class". In contrast, income growth was virtually zero around the 80th percentile of the world income distribution. The

individuals belonging to that group tended to be in the bottom half of the income distribution of the country where they lived, which overwhelmingly coincided with the US, or Japan, or Germany, or some other OECD member state. Globalisation has clearly not benefited the "lower middle class in the rich world". On the contrary, the "global plutocracy" saw their incomes soar even higher. The incomes of the top 1% of the world distribution grew by over 60% in 1988-2008.

The advance of the "global plutocracy" (about half of which were US citizens) was even more staggering in absolute terms. About 60% of the total gains in real incomes between 1988 and 2008 were captured by the top 10% of the world income distribution (and 19% of all gains by the top 1% alone).

The global financial crisis has accelerated the "great convergence" further. Turmoil in stock exchanges and falling property prices dented to some extent the incomes of the "global plutocracy", while low or no growth in the 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 European Union, the gap is fast disappearing. Mean incomes (in power purchasing parities) are already higher in urban areas of China than in Romania, Bulgaria, Latvia and Lithuania. What is more, rising living standards for the middle classes in rapidly industrializing nations have caught up with stagnating living standards for low-income families in the Western nations. In 1988, the average real income of households in decile 2 (the second poorest) of the US income distribution was 6.5 times higher than that of households in decile 8 (the third richest) of the income distribution in urban China. By 2011, that ratio had fallen to 1.3.

In the meantime, the hyper-wealthy, narrowly defined as comprising 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. Their counterparts back in 1987, the 145 persons with a net wealth of over $1 billion (equivalent to $2 billion in 2013 US dollars), had accounted between them for less than 3% of global GDP.

The emergence of a "global plutocracy" is one of the most glaring manifestations of a much broader phenomenon: namely, the recent rise of inequality in almost all advanced industrialised countries. During the *trentes glorieuses*, the three decades from the end of World War II to the oil crises which destroyed the international economic settlement agreed in Bretton Woods, unprecedented economic growth had gone hand in hand with dramatic reductions in income inequality throughout the rich world. In the US, inequality had peaked in 1933, at the depth of the Great Depression following the Wall Street Crash of 1929, then fell continuously until 1978, when it started to increase once again. In Britain, the levelling of the income distribution began earlier (in 1867), and came to an end in 1979. While the ascent of Ronald Reagan and Margaret Thatcher most sharply epitomised the defeat of the Keynesian compromise and the victory of neoliberalism in the US and the UK respectively, similar trends can be observed in other Western countries as well.

What are the causes of rising inequality in the US and Europe? The key facts are well established. As successive OECD studies have shown (summarized in OECD 2011), greater labour participation as well as greater earnings disparity among male workers accounted for about 60% of the growth of inequality in household incomes from the mid-1980s to 2008. Higher labour participation of women had the opposite effect, offsetting 19% of the increase in income inequality. Nevertheless, "assortative mating" (or the ever greater tendency of women to partner with men of the same socioeconomic group), together with changes in family structure (such as the proliferation of single person households), explained about 22% of the total rise in inequality. The remaining 40% was the unexplained residual.

But why has the earnings distribution grown more unequal? For a long time, economists 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. More recently, David Autor (2014) championed the theory that automation has increased wage polarisation: it has rendered redundant and/or compressed the earnings of workers specialised in routine tasks, while at the same time raising the demand for both high-skilled jobs at the upper end of the earnings scale, and low-skilled non-routine service jobs at the bottom of the distribution. Those stressing the role of globalisation point out to the fact that the rise in inequality is associated to 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 altogether by lower-priced imports from China and other emerging economies. As Milanovic (2016, 109-10) has suggested, the two leading contenders for the recent rise in inequality (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.

Rising income inequality has often been justified in liberal market economies as the price to pay for greater equality of opportunity. However, the evidence shows that more inequality is associated with less mobility across generations. As Raj Chetty and co-authors (2014) have demonstrated, there is in fact far more "opportunity" in egalitarian societies. For instance, the probability of a child born to parents in the bottom fifth of the income distribution reaching the top fifth has been estimated to be higher in Canada (13.5%) and Denmark (11.7%) than it is in Britain (9.0%) or the US (7.5%).

The relationship between intergenerational earnings persistence and cross-sectional income inequality can be depicted graphically in "The Great Gatsby curve". As Miles Corak (2013) has shown (based on the results of various studies on children born in the early to mid-1960s with adult outcomes observed in the mid- to late 1990s), 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 (Figure 1.4).

FIGURE 1.4 HERE

Differences in intergenerational mobility were even more pronounced within countries. In the US, the chances of children from the poorest 20% of families making it to the top 20% of the income distribution were far higher in places like San José, CA (12.9%) than in places like Chicago, IL (6.5%) or even worse in Memphis, TN (2.6%). What made children from low-income families in high-mobility areas (e.g. San Francisco) differ from those elsewhere was that they were more likely to attend college and less likely to experience a teen pregnancy, which points to factors that affect children while they are growing up rather than jobs or industrial structure. Chetty et al. (2014) found that the strongest correlates of upward intergenerational mobility were low residential segregation (and urban sprawl), low income inequality, high school quality, stable families, and high social capital.

In Europe, a recent study by Eurofound (2017) has highlighted wide differences in relative social mobility. The study compared the chances of individuals of differing class origins arriving at different class destinations, estimating the extent of social fluidity. (The latter increases if class origin becomes a less important factor in experiencing upward mobility or avoiding downward mobility.) Using data from the European Social Survey 2002-2010, it estimated that social fluidity 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 1.5).

FIGURE 1.5 HERE

1.2. 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, adjusted for purchasing power, had converged considerably vis-à-vis the rest of western Europe. In 2009, Spain, Greece and Portugal had come closer to the EU-15 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 EU-15. Relative living standards fell most dramatically in Greece: to 62% of the EU-15 average (from 85% in 2009), a level last seen in the early 1960s. 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 1.6).

FIGURE 1.6 HERE

Southern European economies shrank in recent years. Specifically, from peak to trough: 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 gross domestic product (GDP) contracted by 26.5% in real terms. There have been few precedents for such a deep and drawn-out recession in the peacetime history of advanced economies. The US Great Depression was worse (30% drop in GDP in 1929-32), but it was also shorter, and it was followed by a swift recovery largely engineered by Franklin D. Roosevelt's New Deal. The trajectory of the Greek economy has so far been L-shaped, not U-shaped: real GDP has barely budged (+0.1%) in 2013-16. In contrast, the Spanish economy has grown by a cumulative 7.9% over the same period, the Portuguese economy by 3.9%, and the Italian economy by 1.8%.

South European labour markets performed poorly during the crisis. 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. Taking into account changes in the prevalence of part-time work, Myant et al. (2016) have estimated that between 2007 and 2014 total hours worked by employees aged 15-64 fell by 7.5% in Italy, 9.8% in Portugal, 18.6% in Spain and 23.4% in Greece.

As Figure 1.7 shows, employment rates (even though also affected by the complex interplay of demographic changes, including population ageing, fertility, immigration and emigration) have fallen precipitously: in Greece by 12.6 percentage points (pp.), in Spain by 9.7 pp., in Portugal by 7.4 pp., in Italy by 3.1 pp. (in 2008-13). Note that pre-crisis employment rates in southern Europe (except Portugal) had been below the EU average. In Greece, the decrease undid the progress of the previous two decades.

FIGURE 1.7 HERE

In 2007, the unemployment rate in Southern Europe was not far from the average for the EU as a whole (7.2%), ranging from 6.1% in Italy to 9.1% in Portugal (with Greece and Spain at 8.4% and 8.2% respectively). Thereafter, joblessness rose throughout Europe, but nowhere as much as in Spain and Greece, where it peaked at a massive 26.1% and 27.5% of the workforce in 2013 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 (Figure 1.8)

FIGURE 1.8 HERE

Real wages experienced zero or negative growth. That was both a result of the recession (i.e. reduced demand for labour) and of "internal devaluation" (i.e. policy-driven compression of wages via labour market deregulation). A recent study by the European Trade Union Institute (2017), based on AMECO data, 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 virtually stagnated in Spain (+0.13%).

Wage growth differed by group. As revealed by a study of earnings of private sector employees in Greece (IKA 2016), median wages fell by a lot more for newly hired workers (-32.5% in 2009-14) and for those aged below 30 (-33.8%) than for workers who remained in employment throughout the period (-14.6%), especially if they stayed with the same firm (-5.6%). What this suggests is that not only did earnings fall precipitously, but also their distribution became more unequal.

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. This was true regardless of the indicator used. Note that the Gini coefficient is more sensitive to changes in the middle of the distribution, while the income quintile share ratio S80/S20 measures the income share of the richest 20% relative to that of the poorest 20% and is hence more sensitive to changes at the two ends of the distribution (Figures 1.9 and 1.10).

FIGURE 1.9 HERE

FIGURE 1.10 HERE

Relative poverty has also gone up, even though changes in relative poverty rates are confounded by changes in median incomes and hence in the poverty thresholds. In 2014, the relative poverty rate was highest in Spain, having risen since 2013 (i.e. just as the economy began to recover). "Anchoring" the poverty threshold to an earlier year is one way of dealing with the confounding role of changes in median incomes and poverty thresholds. By this definition, poverty rose

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), as shown in Figure 1.11.

FIGURE 1.11 HERE

As the evidence on inequality and poverty suggests, social stabilisers have failed to offset the adverse effects of the economic crisis. In fact, the growth in social expenditure was pro-cyclical. Before the crisis began in earnest, social spending continued to rise in real terms. Then, just as the recession deepened, spending on social benefits started to fall, as fiscal constraints became more binding, and austerity policies targeted social spending. This was just one of the several ways in which the crisis has affected the capacity of European states, which are examined in greater depth in the following section.

1.3 Globalisation, crisis, and the state

The economic and social transformations brought about by the era of globalisation have been accompanied by changes in the capacity of the nation state to limit and correct for inequalities of income and opportunities—and generally protect the more vulnerable parts of its citizenry—through the tools of the welfare state. Roughly between the end of the second World War and the 1970s-80s, the (Western) international system was regulated by what John Ruggie (1982) dubbed a regime of "embedded liberalism", namely a mixed economic configuration in which a fairly high degree of openness in the area of trade (regulated by such institutions as the general Agreement on Tariffs and Trade - GATT) was combined with a significant degree of public intervention within state boundaries, aimed at preserving full employment and, generally, social welfare by mitigating and circumscribing market dynamics. This compromise between states' domestic social goals and international markets was made possible to a great extent through limits imposed on the international flows of capital.

The advent of globalisation altered the embedded liberalism compromise by expanding the functional scope of international free market beyond the confines of the post-WWII regime—including, importantly, capital flows—and by extending the geographic reach of the liberal economic system to a number of new emerging economies, most notably (but not limited to) China. Initially, many an analyst of the globalisation phenomenon expected the latter to engender a "race to the bottom" effect in many areas of domestic state intervention. Market corrections in such areas as taxation, labour market and workplace regulations, social security, etc., the argument went, would increase the cost of producing in a given country and incentivise capital to flee, thus leaving the country in question with a choice between losing competitiveness, international market share and ultimately growth, or conforming to a capital-friendly, *laissez-faire* model of political economy. The world depicted by early globalisation scholars, in short, was one in which transnational forces and networks, above all economic ones, greatly gained power at the expense of the traditional nation state, which would find itself in retreat (Strange 1996), and unable to impose its will and sovereignty in many areas, including welfare policies (Alesina and Perotti 1994).

Later research has amended those pessimistic conclusions. By looking at a range of empirical evidence, a number of scholars have found that the effects of globalisation on state domestic (social) capacity cannot be reduced to an across-the-board race to the bottom, but are instead varied and mediated by factors like, to mention a few, the state's position in the international economy (Garretsen and Peeters 2007), the structure of its industrial-productive system (Chen et al. 2014),

and the specific type of state intervention under exam (for instance, regulation on productive processes are more constrained than those on products, and taxation is easier on mobile than on immobile factors) (Scharpf, Rhodes and Evans 1998).

On the whole, then, it can be argued that while globalisation has not generated the neoliberal convergence that many feared (and others hoped for), it has undoubtedly affected the nation state in its freedom to set and capacity to implement its domestic social goals. This is particularly true in all those cases in which state intervention impacts on the return on mobile capital, either indirectly, for instance through regulations affecting production costs, or directly through taxation. Figure 1.12 shows this latter mechanism at play by graphing the temporal trend in effective taxation of corporate income in a selection of 14 European countries. As the graph shows, in virtually all of them taxation moved downwards starting around the mid-1980s, in correspondence with an increase in international economic integration in the form of not only globalisation but also the European Single Market. Needless to say, lower capital taxation reduces the resources that the state can command to pursue its domestic goals.

FIGURE 1.12 HERE

As its ability to buffer the effects of globalisation is reduced by its very exposure to transnational economic and financial flows, the state also faces another set of challenges coming from technological change, and more precisely automation and digitalisation, two trends connected to yet distinct from globalisation. The socio-economic effects of technological change are multiple but, similarly to globalisation, the most prominent ones are the (at least short-term) disruption of old patterns of production and related job markets, and an increase in economic disparities, as new technologies improve the opportunities of the highly skilled workers (and high-end consumers) able to take advantage of them, while they worsen the lot of workers with lower skills such as those employed in routine jobs that can be automated (Jaumotte, Lall and Papageorgiou 2013; Brynjolfsson and McAfee 2014). At the same time, digitalisation generates new markets and jobs at the lower end of the service spectrum (e.g. the sharing economy), which are often highly precarious in nature and not sufficiently covered by the traditional welfare protections tailored around the needs of mass industrialised economies (Colin and Palier 2015).

To be sure, the state's diminished ability to tackle the adverse effects of both globalisation and technological change are not exhausted by its reduced control on cross-border financial flows. At least two additional factors are at play: the first is institutional stickiness, and in particular the entrenchment of many existing social policy instruments by virtue of constellations of beneficiaries, bureaucracies and other constituencies in their support (Pierson 1993). Institutional stickiness constitutes an obstacle to state action in responding to new social challenges whenever such action requires the partial or total dismantling of existing measures (for instance when limited resources need to be reallocated from an old to a new welfare programme). The second factor at play in many, though not all, western democracies is the size of their public debt, which limits their range of social policy intervention whenever the latter comes at the cost of greater public outlays. (Needless to say, this constraint is particularly rigid for those countries with a high level of taxation, leaving very little wiggle room on that side as well—Italy is a case in point). Figure 1.13 provides a visual overview of this type of constraint on state action by showing the current level of public debt as a percentage of gross domestic product in European Union members.

FIGURE 1.13 HERE

In recent years, the long-term and structural effects of globalisation described in the foregoing have been compounded by the dynamics and effects of the US subprime crisis and the ensuing Eurozone crisis. Considered as a whole, the "great recession" is linked to the broader phenomenon of globalisation in three ways: in the first place, the crisis can be interpreted as a result of the fast expansion of finance capital that has characterised globalisation, and which has made economic systems around the world particularly exposed to bubbles and bursts. In this respect, the great recession can be seen as the ultimate product of the "dark side" of globalisation (e.g. Rodrik 2017). In the second place, and connected to the above, the way in which the crisis has spread from the United States to Europe and the rest of the world is a clear manifestation of the effects of the transnational economic and financial linkages and interdependence that contribute to defining globalisation. Finally, as already mentioned, the great recession has exacerbated some of the economic, social, and political effects of globalisation, while also adding a number of new challenges of its own. Among the former are, for instance, an increase in overall economic inequality, as shown in the previous section. Among the latter is a short-term rise in unemployment and poverty, two phenomena which have been, at least in Europe, particularly severe among the younger generations, as shown in Figure 1.14.

FIGURE 1.14 HERE

In a similar vein, the crisis has affected the intervention capacity of the state in a way that has added to and exacerbated trends already at play in the long run. This is especially true of the Eurozone, and in particular of its peripheral members, whose economic downturn has been detailed in the previous section. 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 more importantly during the worst part of the euro crisis, public spending became pro-cyclical in all four countries shown in the graphs (with a particularly dramatic reduction in Greece), due in large part to the introduction of austerity policies, which in turn were ingrained in the fiscal architecture of the European (Monetary) Union, as defined by the Stability and Growth Pact (reinforced during the crisis through the so-called Two-Pack and Six-Pack) and the Fiscal Compact. 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).[1]

FIGURE 1.15 HERE

FIGURE 1.16 HERE

[1] Of course, not all parts of these aggregate figures have moved in the same way. Pension expenditures, for instance, have remained stable in Italy, and increased in Spain and Portugal, as a result of population ageing.

To sum up, what the foregoing analysis depicts is a situation in which the nation state, particularly in Europe, has seen a reduction in its capacity to redress some of the adverse effects of globalisation and the crisis on its lower and middle classes—the losers of globalisation—due to a number of external constraints (in addition to endogenous transformations such as the ageing of its population). Foremost among these constraints are the state's exposure to transnational economic and financial flows and, in the EU case, the set of supranational rules constraining autonomous state action—in the first place the monetary and fiscal straightjackets imposed by the Eurozone setup.

The picture is further complicated by two factors. The first is the international movement of people—one of the defining features of globalisation—which is particularly important within the EU, where free movement is part and parcel of the single market. Migration flows in turn 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 often misplaced but widespread perception of immigrants as underserving net recipients of welfare measures, thus further strengthening the image of the host state as unable to shield its nationals from the detrimental effects of the international economy. Add to this the readiness with which the state, especially in Europe, has been seen to open its coffers to bail out failing financial institutions—the second factor—and what results is a very fertile social context for the emergence of political movements and entrepreneurs pointing their finger at globalisation and integration as the true culprits for the misfortunes of their fellow nationals.

Faced with worsened economic conditions and with a state whose ability to respond to their needs has diminished over time, those sectors of the population that have lost ground as a result of globalisation and integration have unsurprisingly turned against these two processes—seen as the root causes of their difficulties—and the political and economic elites that over time have promoted and gained from openness. Given the analysis presented in the first section of this paper, it should come as no surprise that opinion against economic openness is distributed unevenly from one country to the next. Figure 1.17 summarises the result of an October 2016 survey conducted by YouGov in 19 developed and developing countries.

FIGURE 1.17 HERE

While globalisation is seen as a "force for good" by a majority of respondents in all countries surveyed—with the notable exception of France—opinion on globalisation is, on average, more positive in the developing world than it is in more advanced economies. This distribution is consistent with the economic analysis presented above, which has shown how developing countries have gained more, relatively speaking, from globalisation, and that economic gains in developed countries have been rather unevenly distributed, leading a good portion of the western populations to perceive globalisation mostly in terms of damaging and unfair competition from poorer regions (Rodrik 2017). The relationship between international economic position and opinion on globalisation is shown more clearly in Figure 1.18, which plots opinion against per capita GDP variation in the period 2011-15.

FIGURE 1.18 HERE

A similar distribution of public opinion can be observed regarding the human side of globalisation, represented by migration flows. Roughly speaking, immigration can be opposed by globalisation

discontents on two distinct grounds. The first is economic, and can be summarised by the two mechanisms explained above, namely the "job market competition" mechanism and the "welfare crowding out" mechanism. The second ground is cultural and relates to immigrants being perceived as threatening the host country's customs and culture. Clearly, the two are related, as the more culturally different immigrants are compared to the host population, the more likely their presence will be perceived as economically hostile. The chart below shows overall opinion on immigration in the 19 countries surveyed by YouGov. While differences between developed and developing countries are not as clear-cut as in the previous case, here too the overall pattern seems to be that immigration is seen less favourably in advanced economies than in poorer ones.

FIGURE 1.19 HERE

Switching the focus on Europe, in the past decade or so general public opinion trends against openness and transnationalism have had a regional counterpart in the marked decline of trust in the European Union institutions among member states' populations, as shown in Figure 1.20.

FIGURE 1.20 HERE

To be sure, we are not suggesting that the two phenomena—opposition to globalisation and to European integration—are one and the same. Distinctions between the two should be made clear: in the first place, as already mentioned above while the decline in trust vis-à-vis the EU is to be attributed primarily to the dynamics and effects of the recent euro crisis, opposition to globalisation is a more mixed phenomenon, which has been certainly boosted by the great recession but includes an important long-term and structural component. It should also be noted here that European integration and globalisation are in a number of ways conflicting phenomena. The European Union, for instance, has often been among the staunchest critics of some of the excesses of globalisation, whether out of principle or interest: the EU's battle against genetically modified organisms is a case in point. Therefore, generally speaking we should not necessarily expect opinion on the EU and on globalisation to move together.

Nevertheless, the two phenomena converge in an important respect, which is very relevant today, namely in their being two distinct manifestations of a more general revolt against transnationalism and supranationalism—and the politico-economic elites promoting them—based on the conviction that re-establishing hard borders and renationalising powers would benefit national communities by giving them back the policy-making tools and capacities that have been lost in recent decades. Given this convergence, it is not surprising that both criticism towards globalisation and Euroscepticism have contributed to the exceptional rise of populist political forces, on the left and especially on the right, that western democracies have witnessed in recent years.

Looking at Europe, in recent years populism has grown in member states of different size, political system and traditions, and economic position. In some cases Eurosceptic grievances have been channelled by previously existing parties which have received a boost by the crisis, such as the Northern League in Italy, the *Front National* in France, the FPO in Austria and the UK Independence Party in Britain. In other cases new movements have emerged to capture the support and votes of those dissatisfied with the existing party landscape. This is the case, for instance, with Italy's Five Star Movement, Greece's *Syriza*, and Germany's *Alternative für Deutschland*. Whether closer to the left or the right of the traditional political spectrum, populist parties share a critical

view of integration as an elite-driven process that benefits the few at the expense of the many—"the people"—whose welfare and life chances are threatened by unemployment, immigration, and a dwindling welfare state. To this, populism responds by promoting a nationalist agenda, which promises to take back control from the delegitimised technocratic elites in their capitals and Brussels, and right the wrongs of globalisation and integration.

Figure 1.21 shows an overall 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 the three groups that can be said to have at least a populist and/or Eurosceptic component, i.e. the ECR, the EFD/EFFD and the GUE/NGL, gained in absolute as well as in relative terms.[2]

FIGURE 1.21 HERE

Box 1.1 - *Case study: Brexit*

While Eurosceptic populism has grown virtually everywhere in Europe in the past decade or so, so far only in one instance has its agenda managed to become majoritarian, namely in the so-called Brexit referendum. Held on 23 June 2016, the referendum on Britain's exit from the European Union resulted from a 2015 electoral promise by incumbent Prime Minister David Cameron who vowed, in case of a Tory victory in the upcoming general elections, to renegotiate the UK's EU membership terms and then ask his fellow citizens to vote on the latter. Cameron was in turn reacting to a rising tide of Euroscepticism in Britain—a country already traditionally tepid vis-à-vis the EU—as a result of the euro crisis, and especially to the ever stronger competition of Nigel Farage's UK Independence Party for the country's centre-right vote.

After the 2015 Tory victory, the Cameron cabinet launched a rapid round of negotiations with the remaining EU member states, obtaining a few concessions (most notably in the area of welfare for EU-immigrants), on the basis of which Cameron himself supported the Remain campaign in the upcoming Brexit referendum. However, the strength of the Eurosceptic sentiment in the country—which the government had clearly underestimated—combined with a split within the Tories themselves between Leavers and Remainers and, finally a blatant asymmetry in the campaigning and communication abilities of the two sides, eventually led Cameron and the Remain side to lose the referendum 48% to 52%, leaving many in the UK and elsewhere dumbstruck, and inaugurating the first member state withdrawal process in the history of the Union.

While negotiations between the UK and the remaining 27 EU members on the terms of the separation are still ongoing, and will last at least until the spring of 2019, it is already possible to draw some conclusions about the nature of the Brexit process and the main factors behind it. Building on the results of an original survey run in the autumn of 2016, and cross-referencing this information with secondary economic and demographic data, the research project RESCEU (Reconciling Economic and Social Europe) and its observatory *EuVisions* (www.euvisions.eu) have been able to reach a number of conclusions on Brexit. Among these is, first, that the Leave victory was driven primarily by the so-called welfare chauvinism, i.e. a negative view of immigrants perceived as undeserving recipients of social spending. Second, this welfare chauvinism was, in

[2] The figure does not include the Europe of Nations and Freedom group, which was formed in 2015 by a number of extreme right populist parties, incuding the *Front National*, the Northern League and the FPO.

turn, mostly motivated by economic rather than cultural reasons, as its effect on voting behaviour was stronger in those areas that have experienced higher rates of unemployment in recent years. Finally, and importantly for the current negotiations, welfare chauvinism continues to have an important effect after the referendum, affecting preferences for a "hard Brexit"—a scenario in which the UK will leave all EU arrangement, including the single market—over a soft one (Pellegata 2017). Taken together, this data confirms the above depiction of Eurosceptic support as the reaction of some parts of the electorates that feel short-changed by economic openness and integration.

1.4 The emergence of a new cleavage?

Taking the analysis to a higher level of abstraction, some scholars have interpreted the rise of populist and Eurosceptic parties as the symptom of a broader and deeper transformation in the western societies, that is the emergence of a new fundamental cleavage structuring social conflict and political competition along the integration-demarcation divide (Kriesi et al. 2006; 2012; Hooghe and Marks 2017). Building on Martin Lipset and Stein Rokkan's (1967) classic cleavage theory, this argument sees the process of globalisation, integration and finally the crisis as historical critical junctures comparable to the formation of the modern nation state and the advent of industrialisation. Just as the latter congealed the cleavages that have dominated political competition since—centre vs periphery, state vs church, land vs industry, and capital vs labour—the forces of globalisation and integration have engendered, in recent years, a new dimension of conflict that pits the actors and forces supporting countries' international openness and multilateralism against those opposed to them.

The emergence of the new integration-demarcation divide is accompanied by a partial realignment of voter preferences in western democracies, whereby mainstream parties (mostly ordered along one or more of the four traditional cleavages) see parts of their traditional electorates, and more generally supporting social blocs, shift towards new and old movements located on the demarcation side of the new cleavage. So far such a realignment has affected particularly the mainstream left, which has seen chunks of its working class electorate move towards (often right-wing) populist parties, as the latter are perceived as more effective defenders of their voters' interests against transnational pressures and welfare state erosion (Swank and Betz 2003; Oesch 2008).

Shifting the focus from the dynamics of political competition to those of public policy, however, it is quite clear that neither side of the integration-demarcation cleavage has a satisfactory answer to the socioeconomic problems generated by globalisation and integration. On the one hand, a return to hard national borders—assuming that such a return is realistic at all: witness the many complications of the Brexit process—is likely to create more problems than it solves, both in the short and in the long run. On the other hand, globalisation as the mere transcendence of boundaries, to put it like Bartolini (2005), is of no more help, because by definition it has no answer to the need for correction of transnational market forces, and in any case takes place at a geographic scale that is too vast for such a correction to function in an effective as well as democratic fashion.

The response, thus, is most likely to be found at an intermediate, regional level: one that is wide enough to safeguard the many benefits that the transnational flows of goods, capitals, and people bring about, but at the same time small enough for the establishment of new correcting policy tools—and ultimately the drawing of new social boundaries demarcating the application of such tools (Ferrera 2005)—to be both realistic and justifiable. Needless to say, the European Union, with its history of cooperation and established supranational structures, is an ideal ground for the structuring of innovative solutions to the shortcomings of globalisation and integration.

PART 2 - THE EU'S PREDICAMENT: PROBLEMS, PROSPECTS, AND SOLUTIONS

2.1 A new conflict constellation

During the euro crisis EU politics has witness the emergence (or exacerbation) of four distinct lines of conflict. The first revolves around the policy priorities and overall mission of EMU and pits the supporters of a neo-liberal project, centred on market making and monetary/ fiscal stability against a growth/employment oriented project, supported by public investments and accompanied by a stronger social dimension. This divide does not question integration as such, but rests on different visions and programmatic ideas about EMU's *finalité*. It has long been debated whether EU politics (as distinct from domestic politics) can be captured in terms of Left and Right (Kriesi et al., 2012). The crisis has definitely increased the visibility and salience of this traditional dimension: within the intellectual and political circles that remain loyal to the European cause, a "euro-liberal" and a "euro-social" view have become clearly recognizable, in supranational as well as national arenas. Such views were explicitly articulated during the 2014 EP election, both in the platforms of mainstream European parties and in the public debates between the *Spitzenkandidaten* (Hobolt, 2014). This is a significant break with the past. The classic dimension of twentieth-century political competition has begun to openly Europeanize within electoral arenas, originating ideological divides about the integration process -rooted in material interests and normative orientations- as well as power conflicts among leaders pursuing consensus and change.

The second line of conflict has to do with the issue of fiscal stability and, ultimately, cross national transfers. The major divide here sets core against peripheral member states, is rooted in both economic interests and highly entrenched cultural worldviews and mainly runs from North to South. It is true that on this front the Eastern member states tend to side with the North. But only a few of them belong to the Eurozone; moreover, these countries are net recipients of the EU budget, thus do not have a strong interest in opposing cross-national redistributions.

Creditor member states (Germany *in primis*) support a markedly disciplinarian approach according to which domestic fiscal imbalances reflect bad policy choices in the past; thus the burdens of adjustment should fall on national governments (the "homework" approach) and taxpayers. "Domestic decisions imply domestic liability", "collective liability only with collective control": these two maxims (clearly rooted in Ordoliberal doctrines) have been repeated several times by German (Dutch, Finnish) leaders in the course of the crisis (Dyson, 2014).

While initially accepting fiscal discipline and conditionality and signing the Fiscal Compact, debtor countries have started to voice against EMU's *austerian* stance and to ask for greater flexibility in the application of rules, the mobilization of EU resources for investments and growth and –last but not least- the mutualisation of risks. As is well known, the creditor-debtor conflict exploded during the first Greek bailout in 2010, which imposed severe measures of labour market deregulation and welfare retrenchment. The conditionality regime promoted by creditor countries provoked a social shock and caused overt and heated waves of protest, emblematically represented by the rise of Syriza. Conversely, in Germany the widespread aversion to a Transfer Union (supposedly) funded by German taxpayers paved the way for the emergence of Eurosceptic Alternative für Deutschland.

While the divide between euro-liberals and euro-socials has prompted a timid, but visible Europeanisation of the Left-Right dimension, the novel divide between core and periphery has instead generated a burst of centrifugation, which is squandering the laboriously accumulated capital of respect, trust, and mutual sympathy among EU governments, and especially among citizens of different nationalities – a worrying trend of de-Europeanisation.

The third line of conflict has to do with the integration/demarcation divide mentioned above and thus with issues related to free movement, solidarity vis-à-vis outsiders and, more specifically, access to domestic welfare on the side of other EU nationals. Such issues started to be politicised after the 2004 Eastern enlargement. Initially, contention focused on freedom of service (consider the notorious "Polish plumber" controversy and later the wide mobilisation around the Bolkestein directive) but then it extended to the intra-EU mobility of workers (including rules on "posting" from one member state to another), setting the supporters of pan-European free movement and non-discrimination, on the one hand, against supporters of social and cultural closure on the other.

This line of conflict has a recognizable geographic dimension, running from East to West. In the wake of rising inflows from the newly acceded member states, the public opinions of the receiving countries have developed increasing hostility against immigrants, accused of "benefit tourism" and held responsible for social dumping dynamics in terms of jobs and wages. Both reflecting and reinforcing such orientations, parties with a restrictive and protectionist (or better, nativist: Mudde, 2007) agenda (typically right-wing populist parties) have become more and more attractive. The refugee crisis of 2015 has served as a further multiplier, triggering off chauvinist attitudes and protectionist measures (including physical "walls") also in Central and Eastern Europe. The most emblematic and at the same time dramatic effect of anti-immigrant politics (fomented by the economic crisis) is of course the British case, illustrated above.

Finally, the fourth line of conflict concerns the "powers of Brussels" vis-à-vis the defence of domestic models and practices, especially in the social sphere. The opposition between supranational centralisation and national sovereignty, more vs less integration has long been a salient and constitutive dimension of the EU political space (Grande and Hutter, 2016), pitting euro-lukewarm Northern (and Eastern) member states against euro-enthusiast Continental and Southern ones. Anti-integration sentiments have massively grown in recent years, also in the second group, where EU support has dramatically plummeted during the crisis. Eurosceptic formations have taken root almost everywhere (Mudde, 2013; Kriesi and Pappas, 2016), increasing in strength and impact (Brexit, again). In addition to the theme of immigration and, more generally, of "opening", Eurosceptic parties point the finger at the excessive bureaucracy and technocratic nature of Brussels's decisions, calling for a return to "peoples' self-determination". In some cases (e.g., the Northern League in Italy), the peoples in question are sub-national communities.

Compared to the other three lines of conflict, the vertical tension between Brussels and national governments is more difficult to capture in a pure form. It generally tends, in fact, to be referred to some specific policy, or to cross-cutting issues: austerity, the euro, the cost of membership, migration, the democratic deficit. Bashing Brussels and re-emphasising the value of national autonomy (or otherwise stated: subsuming policy-related grievances under the wider constitutive issues of cultural identity and national sovereignty) becomes the default option. i.e. the easier and simpler way to politicise issues linked to the socio-economic dimension along the North-South or East-West axis. Even the question of the EU mission as such (first line of conflict) can be shifted from the horizontal, Left-Right dimension, into the vertical dimension: leave our welfare state alone, the EU must not intrude (e.g. in the Nordic countries); you keep your social standards, we keep our jobs (the famous phrase by John Major, when he refused to sign the Maastricht Social Protocol); down with the euro and the European Central Bank, let us return to our national currencies (e.g. in France or Italy). These inter-dimensional shifts tend to occur in many federal systems. But in a still imperfect and incomplete polity such as the EU, the syndrome has extremely destabilising consequences.

As was the case in the development of national welfare states during the 20th century, the politicisation of solidarity essentially revolves around three foundational questions: who questions (who are "we", i.e. issues of identity and inclusion/exclusion); what questions (how much redistribution within and across the "we" collectivities) and who decides questions (the locus of

authority that can produce and guarantee social entitlements) (Ferrera, 2005; Statham and Trenz, 2013). Historically, such questions were prompted by the socially disruptive impacts of market expansion. But policy answers were shaped by a mix of economic interests, cultural identities and normative orientations, within specific national political and institutional contexts. Social reformism tended to proceed in an incremental fashion through constant puzzling (ideas) and powering (consensus building). Its trajectory was however punctuated by a number of critical junctures (e.g. the years that followed World War II) during which ambitious intellectual visions and blueprints combined with a political interest – broadly understood – in reconfiguring an untenable status quo.

After the Great Recession, the EU finds itself at a new critical juncture. Bold reform proposals are badly needed. Especially after Brexit, however, a pessimistic mood has been taking root, taking it for granted that public opinion constraints against integration have become so high that only marginal changes are possible. As Wolfgang Schauble said in a recent interview: this is no time for visions. But are we sure that EU citizens are so averted to change and more integration?

2.2 Public opinion after the crisis: some encouraging trends

Acknowledging the emergence of a new conflict constellation during the crisis should not necessarily lead to despair about the future of transnationalism and supranationalism in Europe. Some reasons for cautious optimism have emerged lately. In the first place, and very simply, the performance of EU and Eurozone economies is back to positive (Figure 2.1). At least in the short run, this is good news for the popularity of the European Union project.

FIGURE 2.1 HERE

Secondly, and more importantly, there are some signs that public opinion is, albeit slowly, moving away from populism. One such sign was the June 2017 election of Europhile Emmanuel Macron as French president, in a run-off against Eurosceptic champion and *Front National* leader Marine Le Pen. More generally, while Euroscepticism remains a strong and vocal force in the continent, European public opinion is likely to be better disposed towards the integration project than is often thought. This is especially true if the EU is not taken as a static phenomenon, to be accepted or rejected as is, but rather as a dynamic entity that can developed in a more socially friendly direction.

For instance, 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 (e.g. a lot of criticism is directed at the way Brussels has responded to the euro and refugee crises), they remain supportive of their countries' EU membership, which they prefer over exit scenarios. Interestingly, positive views of the EU are particular high among the younger generations.

The above results support the conclusions of another, more specific 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 concerning the Union to a number of more specific questions aimed at gauging opinion on the solidarity dimension of the EU, and on the latter as a social policy actor. Some of the REScEU survey results are worth reporting here (for more information, see the Appendix).

In the first place, the survey asked respondents in six countries (all except the UK) their position on a hypothetical referendum on their country's exit from the EU, along the lines of the Brexit referendum. As Figure 2.2 shows, in all countries the "remain" option enjoys a comfortable majority, being chosen by a minimum of 57% of the respondents (in France and Sweden).

FIGURE 2.2 HERE

Next, the survey asked respondents to apply one of four metaphors to the European Union often used by the media and commentators, ranked from the more optimistic to the most pessimistic and Eurosceptic one: a "common house", an "apartment building" (in which national peoples are good neighbours), a "playground" for mutually beneficial exchanges among member states, and finally a "sinking ship" from which member states should escape. As the figure below shows, the apartment building image enjoys a plurality overall, with some interesting differences from one country to the next.

FIGURE 2.3 HERE

Digging deeper, REScEU researchers asked respondents whether the relationship between EU member states should be one characterised by international economic solidarity, or conversely one of self-help and national responsibility. As Figure 2.4 shows, with varying degrees, in all surveyed countries the vast majority of respondents support some form of interstate solidarity, whether subject to precise conditions (the current status quo) or more generously, such as through soft loans or even unconditional transfers.

FIGURE 2.4 HERE

A further step for the social development of the European Union would be for it to have a larger role in the provision of welfare measures directed at individuals and families rather than states and regions. The survey explored this aspect through a battery of questions on whether the EU should introduce policy instruments to guarantee, respectively, means of subsistence for citizens in case of a crisis (Figure 2.5), poverty relief (Figure 2.6), or insurance against unemployment (Figure 2.7). Results in all these cases are even more in favour of solidaristic scenarios, confirming a good disposition among Europeans vis-à-vis the notion of a more social Europe.

FIGURE 2.5 HERE

FIGURE 2.6 HERE

FIGURE 2.7 HERE

Finally, REScEU researchers asked respondents for their opinion on whether immigrants from other EU member states should be granted the same level of welfare protection as host country citizens, or instead some restrictions and limitations should be introduced. As shown in Figure 2.8, almost half of the respondents would grant unrestricted welfare to all EU immigrants, regardless of their work status, while an additional 20% would grant it to all workers from other EU countries. Only 30% would give priority to national workers over foreign ones.

FIGURE 2.8 HERE

Taken as a whole, the data just presented depicts a more optimistic situation than one could extrapolate from the recent surge of the populist right in Europe; one in which European citizens are quite open (perhaps more so than their political leaders) to the idea of the European Union stepping up its efforts in the area of social policy and solidarity more in general. This, in turn, is consistent with the idea sketched at the end of the previous section, of the Union as the locus of a renewal of the continent's welfare state, which recognises the need to correct some of the adverse effects of globalisation and economic integration while acknowledging that the nation state can no longer be the only scale at which such corrections take place.

To be sure, social Europe is not the national welfare state writ large. The European Union lacks the history, structures, and legitimacy to sustain something akin to the welfare state as we know it, at least for the foreseeable future. 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 peculiarities and multi-layered nature of the Union as a political construction. The next section describes the contours of this scenario in greater detail.

2.3 Towards a European Social Union

Since the Single European Act of 1987, "social Europe" has been the holy grail for progressive reformers. Alas, it has also become one of the most elusive concepts in both EU studies and political 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: what the French debate calls *le social dans l'Europe*—and its vertical connotation, i.e. solidaristic or at least socially friendly goals, policies and achievements at the *supranational* level—*l'Europe dans le social* (Chassard and Venturini 1995). Instead of ignoring this tension and surrendering to the ensuing elusiveness, a heuristically neutral and all-encompassing definition is advisable. We can include under the concept of social Europe the following set of constitutive components:

> (1) The ensemble of social protection systems of the 28 (soon to be 27) member states, resting on the common, typically European traditions of a "social market economy" and "social dialogue", but characterised by their different endowments of schemes and institutions, different logics and effectiveness in terms of market correcting, different loads of functional and distributive problems, different degrees of "stateness" (administrative

performance and capacity to resist social and political captures). We can define this component the ***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 freely choose to settle and work, according to the rules of that place. Starting in the 1970s, the EU has put in place 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. Let us define this component as the EU's ***Mobility Space***.

(3) The ensemble of social schemes and policies characterised by a cross-border element—a grassroot development which took off in the 1990s and has increasingly gained momentum. Most of these initiatives involve regions, under the legal umbrella of European territorial cooperation (e.g. Euro-regions). 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*** in its ordinary denotation.

(5) The set of objectives and principles 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 and constrains the other four components. We can call this component, broadly, the ***European Social Constitution***.

If this descriptive characterisation is accepted, then how can the five components be made to work in synch, with mutual reinforcements but also without generating negative externalities for EMU? There exists the need to devise an overall framework, for which one could adopt the term *European Social Union* (ESU), first proposed by Vandenbroucke (2015). The choice of words immediately evokes a system of separate but interdependent elements, subject (as in the European Monetary Union) to common rules and principles and aimed at sustaining/promoting two types of solidarity: a pan-European solidarity between countries and between individual EU citizens centred on supranational institutions (*l'Europe dans le sociale*) and the more traditional forms of national solidarity, centred on domestic institutions (*le sociale dans l'Europe*). The former should limit itself to pursuing 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. Concretely, the institutional mission of ESU should be to guide and support the functioning and modernisation of national welfare states based on some common standards and shared objectives, leaving to the member states wide margins of autonomy in the choice of ways and means.

What could the ESU's agenda be, with reference to the five components identified above? Let us briefly survey the major strategic priorities.

National Social Spaces. Here, as is well known, the current European landscape is characterised by marked national variations resulting from long term policy trajectories, driven by distinct socio-economic and cultural-political factors. To the extent that they mirror national preferences and traditions, domestic diversities in the organisation of solidarity are undoubtedly "legitimate" (Scharpf 2002). Some authors argue that the EU should stay aloof from harmonization or even any

promotion of upward convergence among systems; it should rather limit itself to "ordering" (in the German sense of *Ordnungspolitik*) institutional competition (Abelhauser 2014). A number of factors militate, however, in favour of a more proactive role for the Union. First, national social spaces are now confronting an increasing host of 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 richer and wider policy options. Second, given the weight of policy lock-ins and path dependencies, institutional re-adaptation is a demanding task, even among good performers. 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 suboptimal and inefficient mutual adjustments, generating a growing "dualisation" between core and periphery (Palier and Rovny 2014) and hindering the formation of that pan-European solidarity which is at the same time a key normative element of the integration project and a necessary political condition for its success.

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 competiveness and high prosperity/wellbeing in the context of increasing globalisation (Hemerijk 2013). Responding to such imperative is however an extremely difficult exercise, precisely because of the narrow horizons, institutional constraints and the political short-termism that characterise domestic systems (Ferrera2016a). In the last years the EU has elaborated an articulated agenda on desirable policy responses, underpinned by convincing functional (and partly normative) 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 years to come (Ferrera 2016a).

Mobility Space. Here the priority should be the correct regulation and management of the free movement of persons and their access to social benefits and services in the countries of destination. The ESU could not exist as a *union* of welfare states if it did not rest on a common underlying space which guarantees the right to basic social rights in any national system as a result of "entries" and "exits". But as we know this issue has become increasingly contentious after the Eastern enlargement (Copeland 2012). In the mid-2000s, the image of the "Polish plumber" came to emblematically represent the challenge of reconciliation (at the practical, but also epistemic and normative level) between the logic of closure and the logic of opening. A similar controversy on free movement between member states has more recently arisen around the so-called "benefit tourism," i.e. the (supposed) opportunistic migration of job seekers and inactive persons from low-welfare to high-welfare member states (Ferrera 2016b). Again, without an adequate regulatory framework and normative framing, such type of tension is likely to escalate into a fully-fledged political conflict with disintegrative implications: Brexit *docet*. The current massive wave of migrants from outside the EU does not have much to do with the space of EU citizenship, but it is clear that the refugee crisis has made immigration in general an increasingly hot political theme, with negative consequences also for the more specific issues linked to intra-EU mobility. The existing Treaties are very clear: freedom of movement of workers is a core principle of the European construction. To change the rules would require a treaty change, an option fraught with risks in the current situation. 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. More concretely, 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 restrictive clauses that already exist. But one can also imagine to introduce legislative changes through the

ordinary procedure. It is clear that 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. As long as the "red line" (the minimum level of solidarity which is necessary to speak of a EU common space) is respected, it would not be unreasonable to give back to the member states a modicum of autonomy in filtering the access to social benefits on the part of non-national inactive or non-resident persons. A redirection in this sense is already detectable in recent European Court of Justice rulings and doctrine (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. This trend toward a social neo-regionalism is partly connected to European integration, which has gradually relaxed the regulative "security belts" around nation states and provided incentives and resources for processes of region building, largely focused on the territorial differentiation of welfare policies. Ever since Jacques Delors, a deliberate European strategy has been emerging (mainly supported by the Commission) to strengthen the "third level" of government, increase the involvement of the latter in social policy, and encourage cross-border experimentation (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—intermediate between infra-national and pan-European 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 supplementary benefits to employees working in different member states (Guardiancich and Natali 2012). Made possible by a 2003 Directive (entered into force in 2005), the establishment of such institutions works towards a de-territorialisation of solidarity by encouraging risk sharing along functional and corporate lines. The role of all these developments for the consolidation of ESU should not be underestimated also in political terms. By directly connecting the supranational and the sub-national level/elites, on the one hand, and by stimulating social partner activism and involvement, such processes open up new channels and new ways of bonding and more generally legitimate the EU as a whole.

EU Social Policy. Here the debate is already very extensive and the agenda is crowded—even if relatively unproductive so far. An incomplete inventory should include at least the following issues/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 the EU's 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.

Within ESU, the big strategic priority of EU social policy (i.e. the component anchored directly to the supranational level) should be to give a sharper profile and traction to pan-European forms of solidarity, calibrating both "reciprocity" and "benevolence" criteria (Ferrera 2016b).

The most effective tool for re-organising social reciprocity between the member states is some form of risk-pooling. The Five President's Report has already outlined a mutualisation agenda in the banking sector (e.g. through a common deposit guarantee by means of a reinsurance system [Juncker 2015]). But a more visible and effective innovation would be the establishment of a EU shock absorber scheme to co-finance unemployment benefits. One of the clearest summaries of this proposal was outlined by the so-called Glieniker Group (a number of prominent German academics and public intellectuals):

> a euro-area insurance mechanism to cushion the fiscal consequences of a dramatic economic downturn. The euro-area could therefore establish a common unemployment insurance system, to complement national systems: all countries that organise their labour market in line with the needs of the monetary union could be eligible for participation. They would create a mechanism to counteract deep recessions with automatic shock stabilisers. Thus the macro-economic cohesion of the euro-area could be strengthened and the integration of the European labour market accelerated (Glieniker Gruppe2013).

The discussion on such a scheme is already fairly advanced, also from a technical point of view. Retrospective calculations of the spending flows of this scheme—had it been in place since the adoption of the common currency—show that virtually all countries of the Eurozone would have received something—including Germany (Claeys et al. 2014). Another promising proposal on the risk-pooling front is that of promoting the formation of single, pan-European pension insurance schemes at the industry or sectoral level, on the initiative of the social partners (Briganti 2015).

As to benevolence-based solidarity, the most obvious instrument would be a EU scheme of last resort assistance. As mentioned above, the standard in this case should be "sufficientarian": making sure that all EU citizens have "enough", at least enough to survive. Ever since the 1992 Recommendation on sufficient resources, the Commission has been sensitive to this issue and efforts are now being made to identify "reference budgets", i.e. indicators of absolute poverty (Storms et al. 2014). In terms of policy action, there is a legacy that stretches back to the late 1980s, when the European food aid program for the most deprived persons (MDP) was launched by Delors in order to redistribute agricultural surpluses. In the wake of the crisis, a new scheme was officially created in 2014, called Fund for European Aid to the Most Deprived (FEAD), with a focus on severe material deprivation (Madama 2016). Compared to pre-existing schemes, the FEAD is more ambitious as it envisages: a) the move from the sphere of agricultural policy to social policy; b) the widening of the scope of the intervention (from food aid to the fight of material poverty and social exclusion); c) an increase of resources (taking into account national co-financing); d) the shift from voluntary to compulsory participation for EU member states; e) a novel multi-level and multi-actor governance architecture. FEAD is part of a wider strategy centred on the European Strategic Investment Funds (ESIF). This strategy offers the most promising grounds for enhancing benevolence-based solidarity anchored directly to the EU. The mission of this type of solidarity should be to establish a safety net below reciprocity. To quote the Glieniker Group again,

> The responsibility of member states entails the responsibility of their taxpayers. It is therefore inevitable that [national] taxpayers will have to shoulder a large share of the burdens of the crisis and suffer painful reforms. But the limit of responsibility ends where livelihoods are threatened. If in Greece, Portugal or Spain a whole generation is deprived of their chance to live a productive life, it is not just a Greek, Portuguese, or Spanish problem, but one that affects us all citizens of the EU (Glieniker Gruppe 2013).

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 (and thus the need to reduce risks prior

to establishing new schemes—though it is not clear precisely what such reduction should entail). On the other, there is the imperative of upholding the livelihood of the least advantaged, wherever they reside. Although the technical and political obstacles are remarkable, this is possibly the most urgent "nut to crack" for triggering off an orderly and reasonable Europeanisation of solidarity.

European Social Constitution. This component is perhaps the least visible to the general public but it certainly 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, among others, 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 and of a "disciplinarian" mode of governance 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 significant effects in terms of the balance between the economic and social dimension. It could in fact serve as a barrier against 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 effectsould 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).

Figures 2.9 and 2.10 summarise the priorities of the ESU agenda and the types of solidarity which underpin each of its components.

FIGURE 2.9 HERE

FIGURE 2.10 HERE

Figure 2.11 offers in turn a visualisation of the overall architecture of the European Social Union. How could such a framework be actualised? The most ambitious strategy would be the explicit mention and establishment of a European Social Union in the Treaties, as a counterpart of the Economic and Monetary Union (through the addition of a short article similar to art. 3 TEU, paragraph 4: "The Union shall establish an economic and monetary union whose currency is the euro"). Such step may be ultimately unnecessary and it would be certainly premature at this stage. But nothing prevents the starting of a strategic reflection on the topic. The EMU was born after a long gestation period, and its formal conception occurred in 1988, when the European Council entrusted to Jacque Delors the task of developing a concrete project. A similar initiative on the

social front could serve today not only as an analytical and technical clarification, but also as a precious source of political legitimation.

FIGURE 2.11 HERE

2.4 Enhancing EU citizens' rights

A suitable and partly "transversal" foundation for expanding and making ESU more visible in the eyes of national public opinions (especially as regards the EU mobility space and EU social policy) is the instrument of EU citizenship. Introduced by the Maastricht Treaty in 1992, EU citizenship is derivative from national citizenship. In the social sphere, it basically entitles its holders to be treated as equals when they enter the citizenship space of another member state. The rights attached to the EU passport only apply when one crosses an internal border. True, the EU has adopted a Charter of Fundamental Rights and has recently launched a new initiative called the European Pillar of Social Rights. But these are rather soft rights, they apply only in respect of EU legislative acts and do not really add anything substantial to the catalogue of rights already existing in the member states.

EU citizenship does not confer subjective entitlements to material protections (transfers or services) directly provided by the EU. The limited supranational funds that exist in the social field (e.g. the European Social Fund) can only be accessed by national or regional governments. When supranational regulatory measures are adopted (e.g. on gender equality or employment protection) they need to be transposed into national legislation to become operative. Even if they concern individual cases, jurisdictional decisions (the rulings of the ECJ) can only result from a request on the side of a national Court.

Like all rights, also derivative ones have corresponding duties. In the first place, mobile citizens are subject to the same obligations that are in force in the country of destination: in particular, they must pay taxes and social security contributions. But the EU derivative social rights generate a second, and less visible, type of duty. Stay-at-home citizens are obliged to "make room" for the mobiles, share with them their own national space (an identity-thick and rights-thick space) and bear the burdens of "hospitality". Empirical studies demonstrate that intra-EU mobility is not driven by benefit tourism and that, in the aggregate, it tends to benefit the receiving member states. But at the disaggregate level (this or that territorial area, this or that economic sector, this or that policy field) the negative economic and social externalities produced by the mobiles may be greater than the positive ones. The influx of citizens from other EU member states may in fact decrease the availability of scarce resources such as jobs, hospital beds, emergency care, social housing, school places and so on.

Contrary to what happens at the domestic level, the social component of EU citizenship rests on regulation, not on allocation (i.e. material provisions directly funded through tax extractions on the side of the conferring authority). This strategy has caused significant political asymmetries: as a matter of fact, it has empowered a relatively small constituency of mobile citizens, at the (perceived) expense of large majorities of non-mobile natives. In the medium and large EU countries, more than half of the natives have always lived in the region where they were born and hardly expect to exercise their rights of free movement. On average, large majorities of nationals have never visited another EU country, watched TV or read a book in another language, used the internet to purchase goods from abroad. It is not surprising that many of these people perceive the rights of immigrants as a loss in the value of their own rights and opportunities within their communities. Such perceptions are stronger among the less educated and within poorer areas, where vulnerability is higher and immigration is seen as a threat in the competition for scarce resources.

As a result of these dynamics, the introduction of EU citizenship has not met its integrative and bonding promises. Quite to the contrary, it has provoked a sort of boomerang effect. As aptly put by Luuk Van Middelaar (2013, 261), "[t]he goal was: Hurrah, 'we Europeans' can work in twenty-seven countries! The public response has in fact been: Polish plumbers are coming to take 'our jobs' and Brussels is to blame!"

Is there a way to remedy this failure, with a view to leveraging on EU citizenship in order to move towards a fully-fledged ESU? If the diagnosis is correct, any remedial strategy must address two distinct challenges: 1) deactivating the current vicious disintegrative circle; 2) making the rebalanced container of EU citizenship more visible and its content more substantial.

Deactivating the vicious circle. The rebalancing of the current system can be achieved in two complementary ways: a partial compensation for the negative externalities produced by free movers and some forms of empowerment of those who do not exercise free movement rights. The establishment of something like a **EU Fund to ease the impact of mobility** (or immigration more generally) could serve the purpose. It could work through national (better: sub-national) applications and selection criteria based on adequate evidence of impact. The UK government experimented with a similar fund at the national level, which was established in 2008 by the Brown government and later (rather inconsiderately) scrapped by the Cameron government in 2010. According to the REScEU survey, the creation of such a pan-European scheme would be highly welcomed by EU citizens (see Figure 2.12).

Figure 2.12 here

Empowering the stayers could be a second promising step. At the moment, the EU not only guards and regulates free movement (including in its social dimension), but provides a range of incentives and instrumental resources to encourage intra-EU mobility. One option would be to consider putting in place a scheme creating some stake for stay-at-homes as well in the area of free movement. Instead of limiting itself to easing the impact of migrants in the receiving communities, the above-mentioned EU fund (e.g. redefined as EU Mobility Fund) could offer, upon application, **Universal Transferable Vouchers** (or drawing rights) that family members could pass to their kin—in particular sons and daughters wishing to move. Such vouchers (each having a certain value) could be used to access the existing benefits and services aimed for mobile workers. Everyone would be entitled to a voucher, but the transferability rule could endow some movers with more value. One might also consider to allow using vouchers for participating in lifelong learning activities at home (and/or in other member states, for short periods) on the part of workers who do not wish to exercise their right of free movement. This rule would increase the stakes of stay-at-homes. It is to be noted that EU facilitating schemes in the area of childcare, education, training, lifelong learning can be justified not only on the basis of free movement, but also of the mere fact of economic and monetary unification.

A third possibility would be to establish a brand new **Supranational Scheme for Insuring Mobile Workers** against some risks (unemployment, maternity, disability etc.): a sort of 29th scheme (or 28th, after Brexit) separate from existing national schemes and providing homogeneous protections to those workers who move across borders. This idea has been circulating in the debate ever since the 1970s, when the social security coordination regime was adopted. As shown by Figure 2.13, popular support for the establishment of such a scheme would be very high. One of its advantages would be to ease the financial pressure (real or perceived) on domestic social protection systems stemming from the inflow of mobile workers and their families.

Figure 2.13 here

Making EU citizenship more visible and salient. In addition to the binding supranational regulations that force the opening up of national spaces, the EU has sponsored, organised, and funded a number of facilitating initiatives with a view to easing and supporting cross-border mobility and transactions (e.g. the European network of employment services [EURES], Erasmus, the European health insurance card, e-health, quick assistance services to travelling citizens—including a EU-wide emergency number, 112—a support service for crime victims and so on). A number of additional initiatives are planned for the future, such as a single digital gateway to receive counsel and assistance in cross-border situations or a common EU disability card.

While it is true that all these facilitating initiatives provide tangible benefits only if there is a cross-border element, their personal scope is potentially very wide: it goes well beyond the constituency of mobile workers, affecting travellers and tourists, patients, students, consumers. Among ordinary people there is only very limited awareness of these initiatives. One could imagine the introduction of a **EU Social Card** (with a number identifier) available to all European citizens to enhance the visibility of (and also easing access to) the various privileges and services already provided by these initiatives. In the US the social security number is not only a pre-requisite for most contacts with the public administration, but also a visible and tangible symbol of membership to the US legal space. Italy has a similar "number", which is called *codice fiscale*, requested for any application to a public benefit, in addition to being used for tax purposes. This number used to be shown on a dedicated plastic card, identifying each citizen (and legal residents) primarily as a taxpayer. The number is now shown on a different card: the *tessera sanitaria*—used to access the National Health Service—which evokes the idea of an entitlement associated to tax duties. A smart move in terms of integration and bonding.

The salience of EU citizenship could be enhanced also by strengthening the existing social funds and creating new ones. These include the Globalization Adjustment Fund, providing resources to workers affected by plant restructuring or closure, and the Fund for European Aid to Deprived Persons, providing resources in case of extreme poverty. Benefits are not paid directly to recipients, but through local authorities—which must previously apply for assistance. The indirect character and the small budget of these funds greatly limit their public visibility and salience. As a minimum, the EU should seek some credit by prescribing to local authorities to clearly indicate the provenance of resources at the endpoints of the delivery chain. If a "EU social card" were in place, it could provide a tangible instrument for linking benefit fruition and EU citizenship.

Figure 2.14 here

In the wake of a proposal of the Italian government during its last EU presidency (following preparatory work by the Commission), the establishment of a **EU fund to compensate cyclical unemployment** (already mentioned in the previous section) is currently on the EU agenda. This would be a major step in terms of pan-European solidarity—possibly one of the first important building blocks of a future European Social Union. Most likely, this fund will also operate indirectly. Given its wide personal scope, it will be extremely important to render the link between the EU and the resources accruing to national authorities and, ultimately, citizens as clear and

evident as possible. Survey data shows that popular support for such an initiative is very large (see Figure 2.14). Table 1 summarises the set of proposals made in this section.

Table 1 here

Conclusion

According to Rodrick's famous "trilemma", globalisation has made it increasingly difficult if not outright impossible to reconcile democracy, sovereignty, and economic opening. There can be 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 the Europe. However, 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 is how to reconcile economic opening with social protection. In our view, this requires 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 c 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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More European solidarity than meets the eye

Ten messages from the REScEU mass survey (Fall 2016)[1]

The EU is doomed to fail. That is what we hear more and more often in public debates. Weakened by the economic crisis and austerity policies, the European public opinion now refuses to give carte blanche to governments that look for further market integration, a stronger monetary union and more powers to Brussels. The recent comeback of souverainiste temptations is only the tip of a wider Eurosceptic iceberg - we hear - that is opposed to any prospect of further integration and that calls for the end of the Euro. Lucky enough if we will be able to deal with all that without incurring in major disruptions.

Although popular, this analysis is too simplistic and dismissive. Can we really say that Europeans deeply dislike the Eu? Or is there a chance that a pro-European majority is silently hiding under the Eurosceptic blankets? A recent poll conducted in 7 European countries (www.resceu.eu) points exactly into this direction. In other words, if we look at empirical data, there is no such thing as a major Eurosceptic iceberg below the water. Quite to the contrary, the survey reveals a much less gloomy picture than commonly thought.

This flash note reports the main results of the survey and the ten messages that can be drawn from them. Public opinion polls need to be taken with a grain of salt. Yet, the general indication is clear: a majority of citizens living in core EU member states still believes in the EU. How is it possible then that Eurosceptic minorities make the headlines all over the Continent in public debates? Why have the solidaristic attitudes revealed by the survey been ignored over the past years of crisis management? To make the point clear: data show that even a majority of German citizens back EU wide solidarity mechanisms.

European leaders should care about these results. If there is anything missing in European politics, it is not a pro-European electoral and social bedrock, but political leaders that are able to give a voice to this silent majority. The political groups that have driven the process of European integration until now (liberals, Christian democrats and social democrats) are in front of a historical failure. If the EU is on the brink of collapse, it is simply because its élites are unable to suggest an alternative to "souverainisme", on one hand, and fiscal austerity, on the other. An alternative capable of reassuring worried voters that the EU does have a "caring" face and that it is not a threat for jobs, democracy and national cultures. If there is any deficit in this Union, it comes in the form of a lack of ideas, initiatives, and assumption of historic responsibility by the political class. If things do not rapidly change, we all shall pay dear for it, condemning our sons and daughters to live in a divided and impoverished Europe, with little or no influence at all on the global stage.

Maurizio Ferrera

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[1] *Resceu* (Reconciling Economic and Social Europe) is a research project funded by an Advanced Grant of the European Research Council (ERC, grant no. 340534), directed by Maurizio Ferrera. It is based at the University of Milan and at the Centro di Ricerca e Documentazione Luigi Einaudi.
Websites: www.resceu.eu; www.euvisions.eu

Reconciling Economic and Social Europe? Ten positive messages

1. Voters believe the EU should be more social. A majority of respondents (61%) think the top priority for the EU should be ensuring social protection, whereas 39% of voters are in favor of ensuring fiscal stability and competitiveness.

2. During a financial crisis, despite a slight plurality of voters (36,5%) supports the current "conditionality regime", there is a large share of respondents (35%) who would support **more cross-national solidarity.**

3. The support **for open labor markets** remains high (49,2%), even if a sizeable share of voters (20,2%) would like to make mobility conditional on an employment contract.

4. The vast majority of voters supports the **access of non-nationals to domestic welfare benefits** (81,4%). Among those, a sizeable share would reserve this right only to EU nationals (38,5%). In addition, a vast majority (65,7%) is in favor of shifting decisions on immigration to the EU level.

5. Vast majorities (75,9%) would welcome **EU funded schemes** for economic and social investments, the fight against severe poverty (75,6%), insuring mobile workers (67,7%), helping member states to face sudden rises of unemployment (77,7%). Finally, 71,2% of respondents are in favour of a common EU fund compensating national governments and local communities for the costs related to extra-EU immigration.

6. A majority of voters has a **positive image of the EU** as a "neighborhood community", i.e. as a shared home (23,8%) or apartment building (30,1%), whereas 25,8% of voters consider the EU as just a playground for economic exchanges and a minority (20,3%) sees the EU as a sinking ship.

7. In a referendum on EU membership the **exit option would be rejected** by the majority of voters Germany (75%), France (57%), Italy (63%), Poland (72%), Spain (74%) and Sweden (57%).

8. In case of a new Brexit referendum, **the majority of UK voters would choose to remain in the EU** (53%) (November 2016).

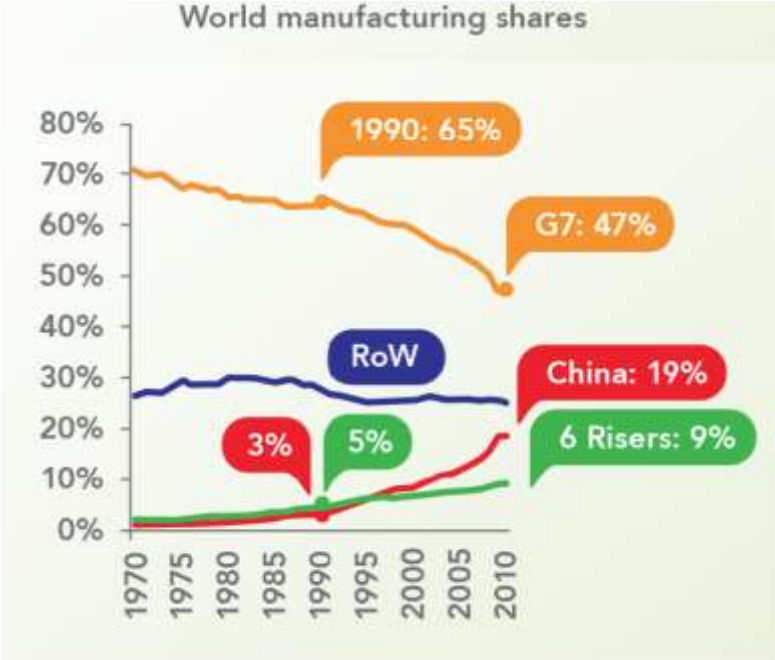
9. The majority of British voters (51%) would favor **a new trade agreement with the EU even if it implied accepting free movement of workers**, whereas 36,9% would welcome a new free trade agreement only without EU immigration. Only a small minority (12,1%) would be against a free trade agreement (November 2016).

10. Substantial majorities of voters remain **worried about European integration** causing loss of jobs (64,5%), loss of national identity (52,8%) and weakening of national democracy (60,3%).

To download the results of the survey visit:

www.resceu.eu

Figure 1.1: World manufacturing shares, 1970-2010



Source: Baldwin (2016)

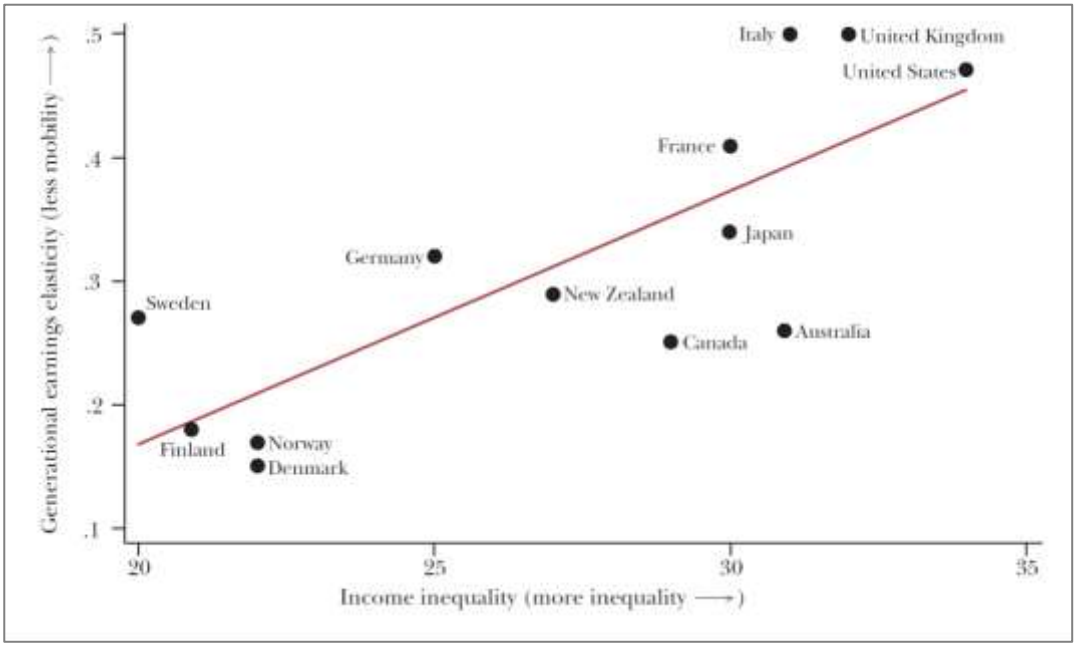
Figure 1.2: The G7 countries' share of the world GDP, 1820-2014

Source: Baldwin (2016)

Figure 1.3: Real per capita income gains by income level, 1988-2008

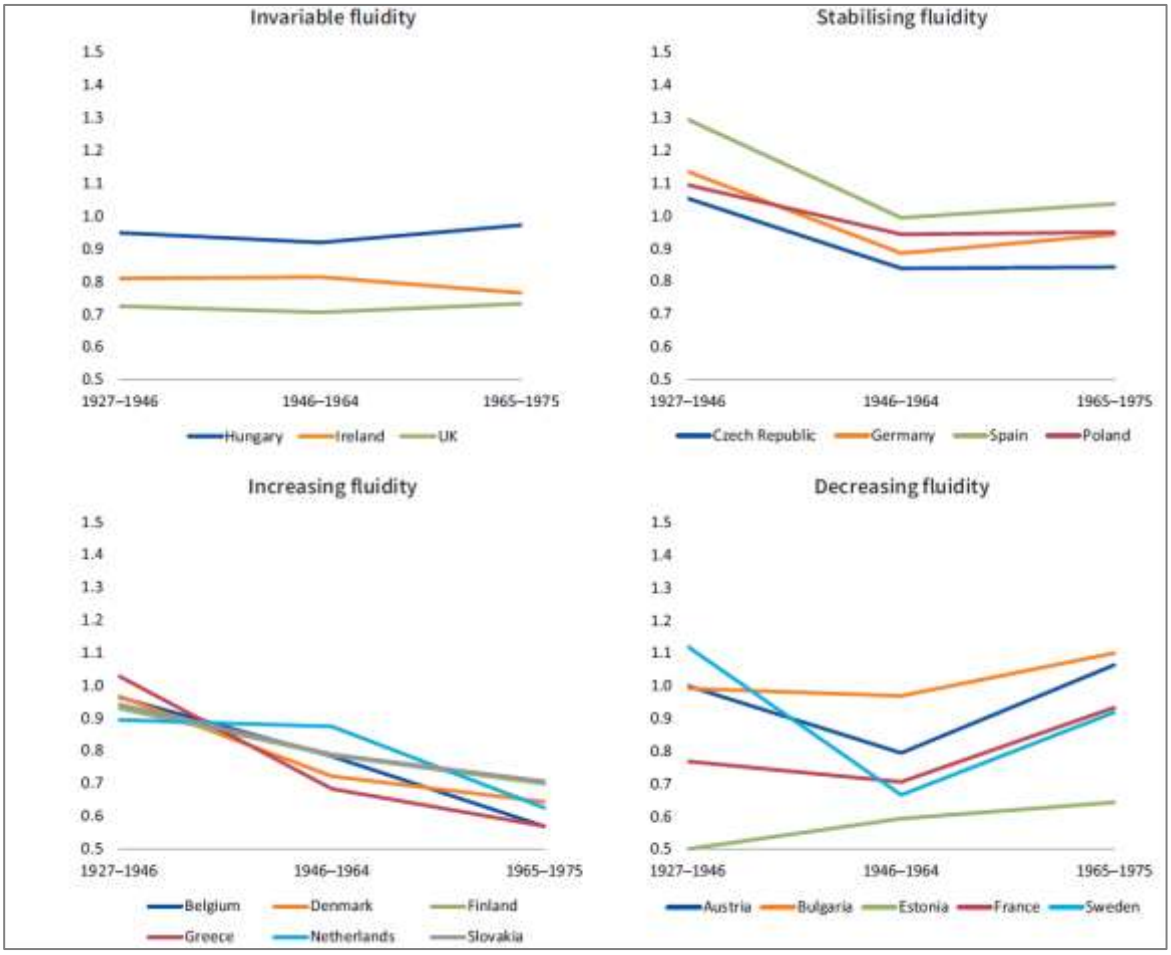
Source: Milanovic (2016)

Figure 1.4: The Great Gatsby curve



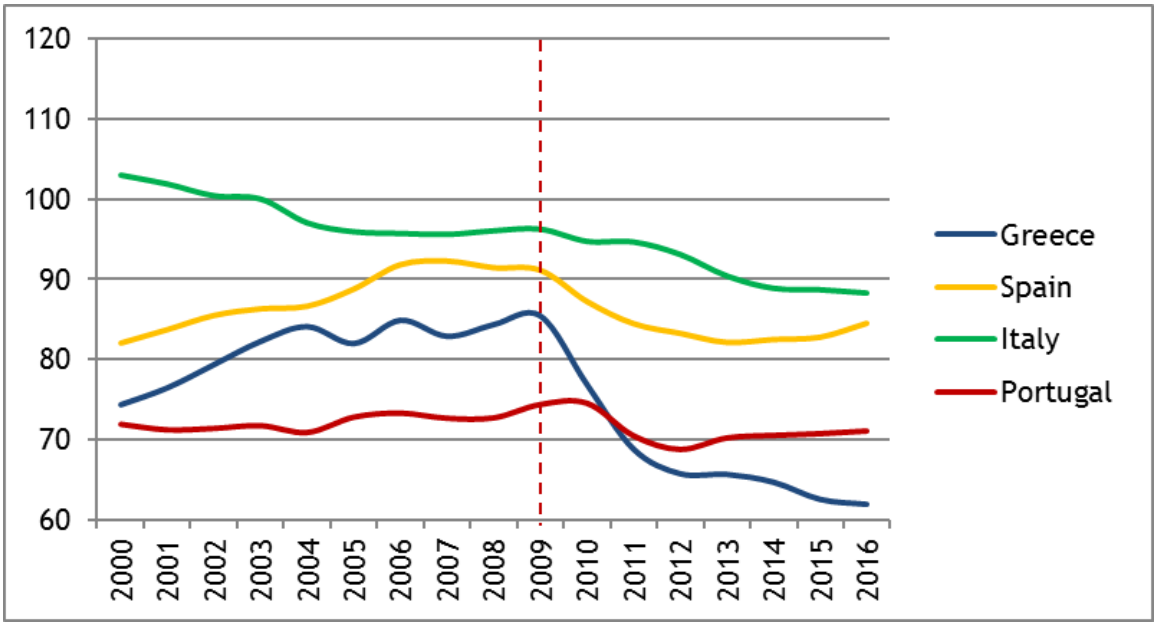
Source: Corak (2013)

Figure 1.5: Social fluidity in Europe



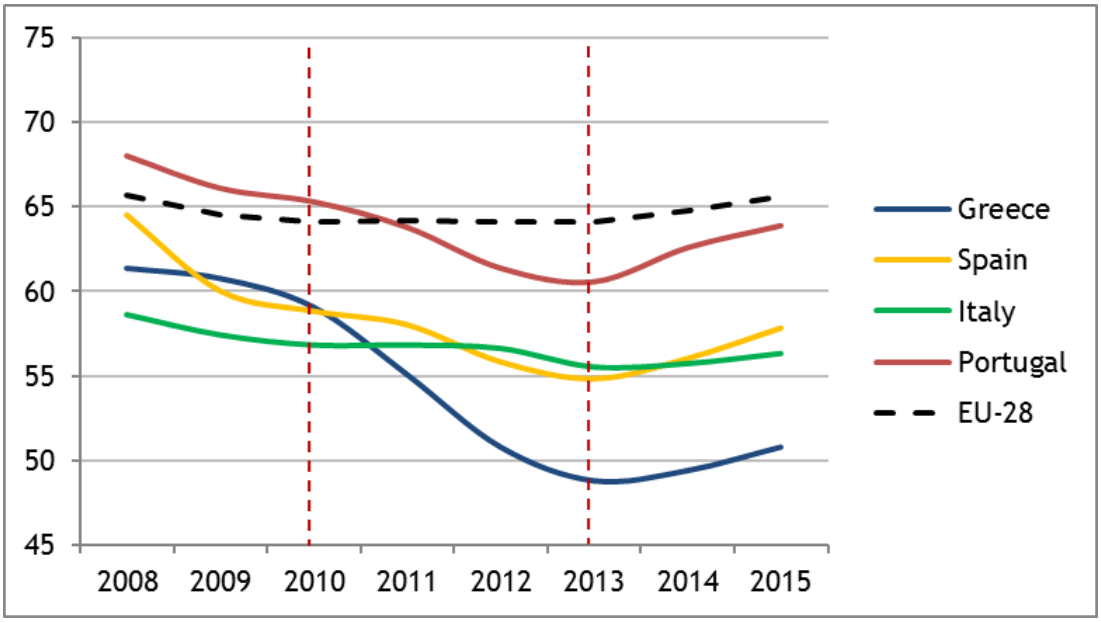
Source: Eurofund (2017)

Figure 1.6: Per capita GDP at current market prices - selected countries, 2000-16 (EU15 = 100).



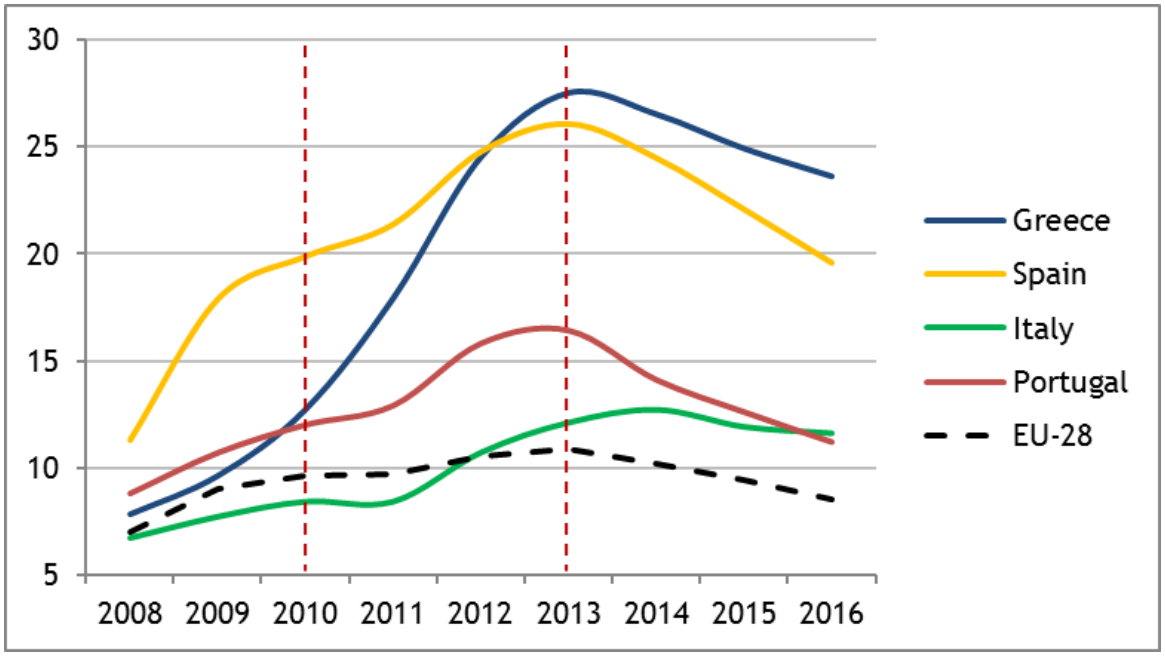
Source: AMECO Eurostat

Figure 1.7: Employment rate - selected countries, 2008-15



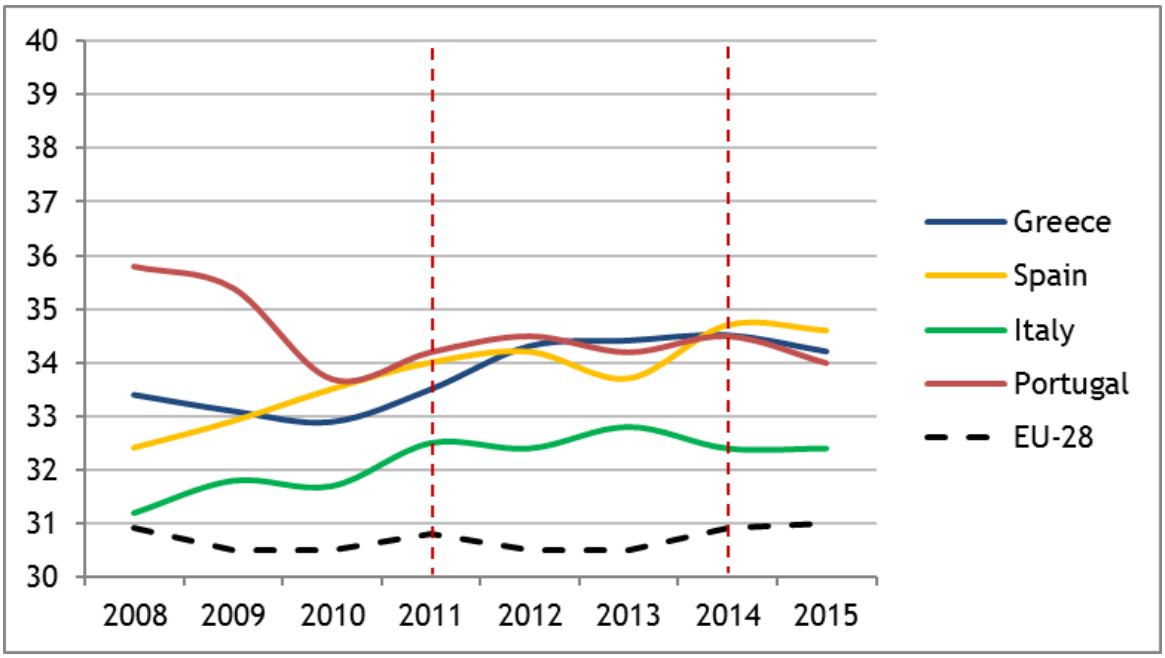
Source: Eurostat

Figure 1.8: Unemployment rate - selected countries, 2008-16



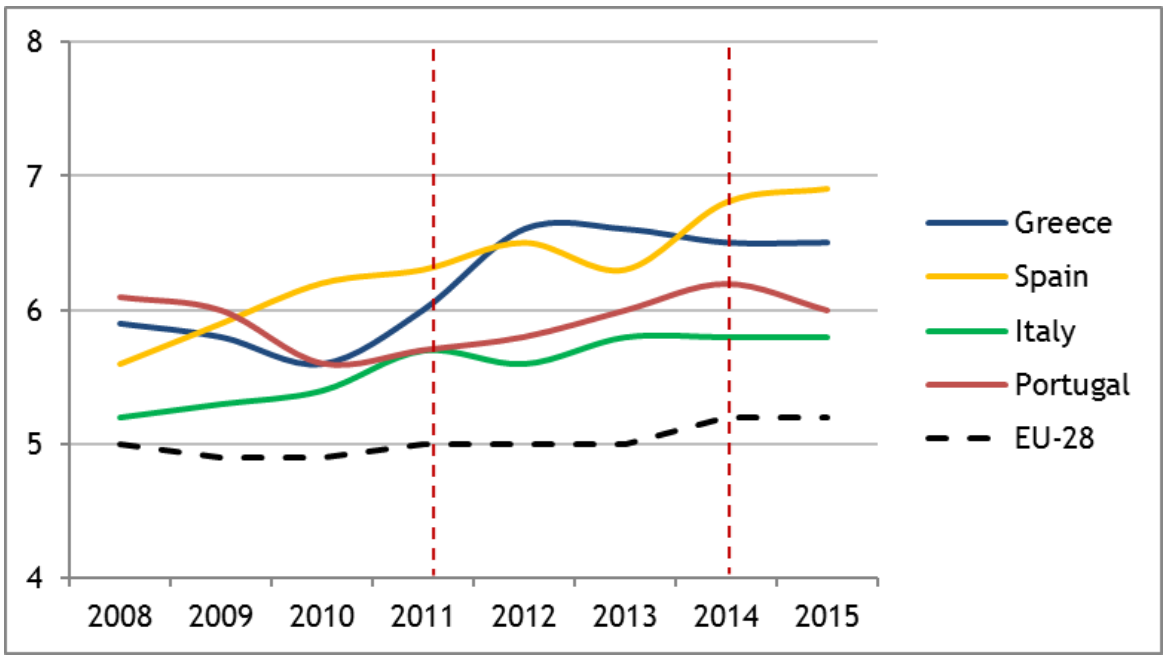
Source: Eurostat

Figure 1.9: Gini coefficient - selected countries 2008-15



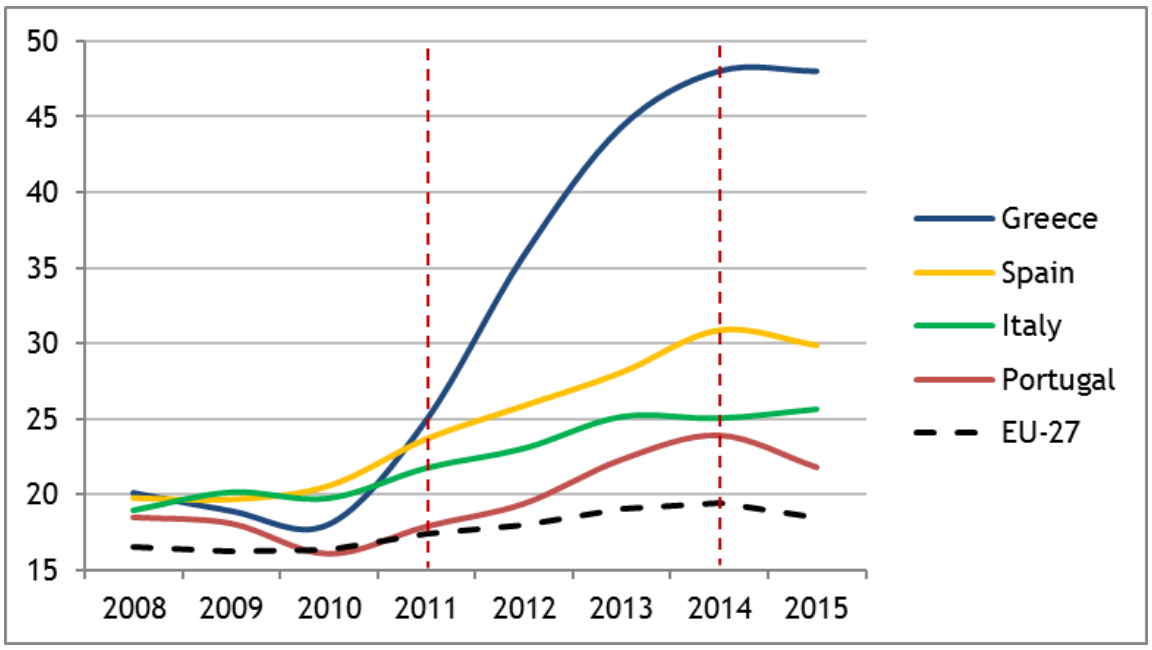
Source: Eurostat

Figure 1.10: Income quintile ratio - selected countries 2008-15



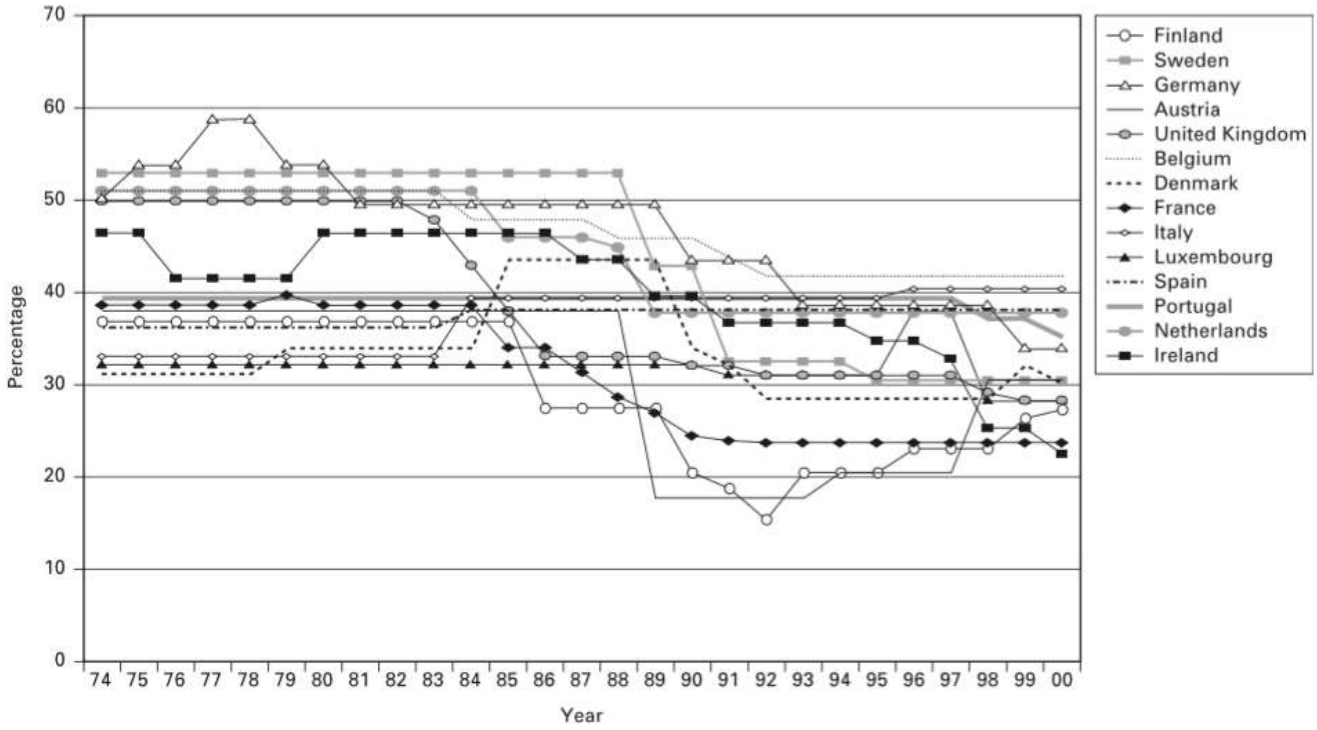
Source: Eurostat

Figure 1.11: Share of population with net equivalent disposable income below 60% of the 2008 median.



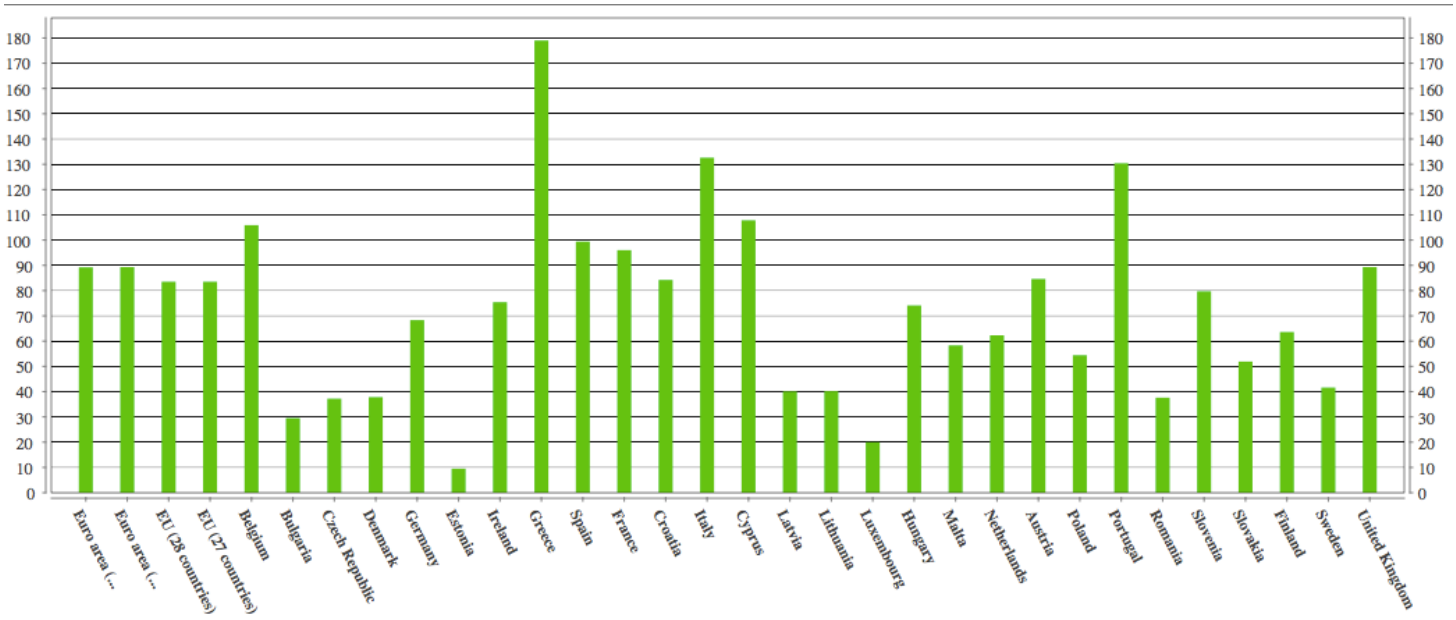
Source: Eurostat

Figure 1.12: Effective tax rates on corporate income - selected countries, 1974-2000



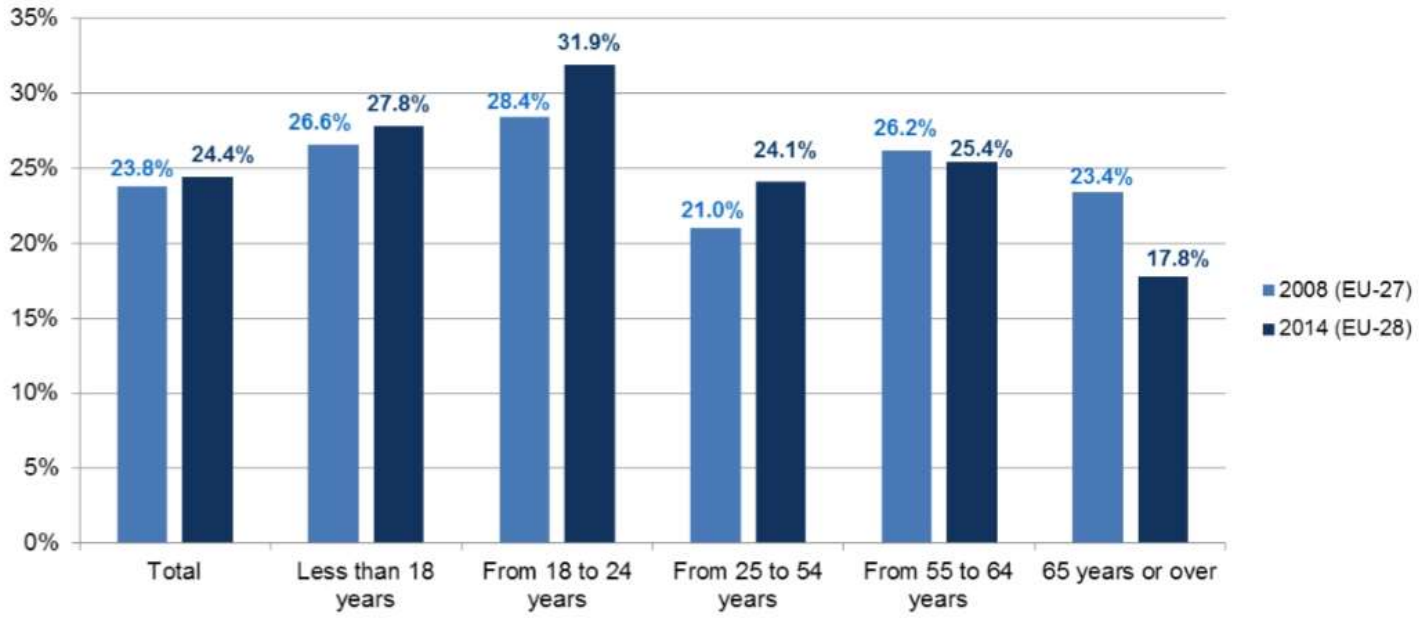
Source: Razin et al. (2005)

Figure 1.13: Government debt as a percentage of GDP - EU members, 2016



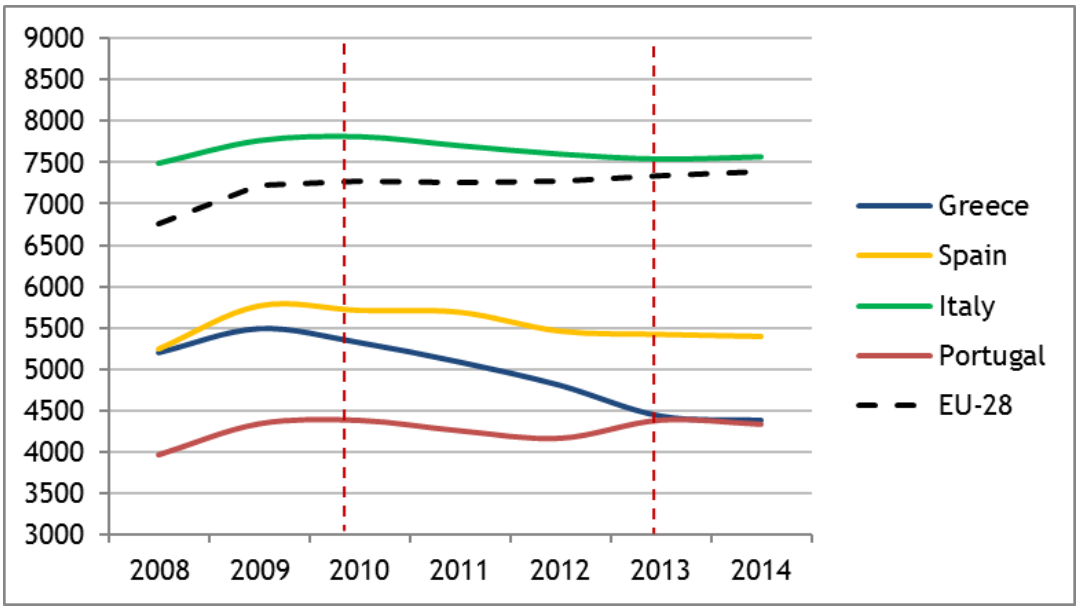
Source: Eurostat

Figure 1.14: Poverty risk by age groups - EU member states, 2008 and 2014



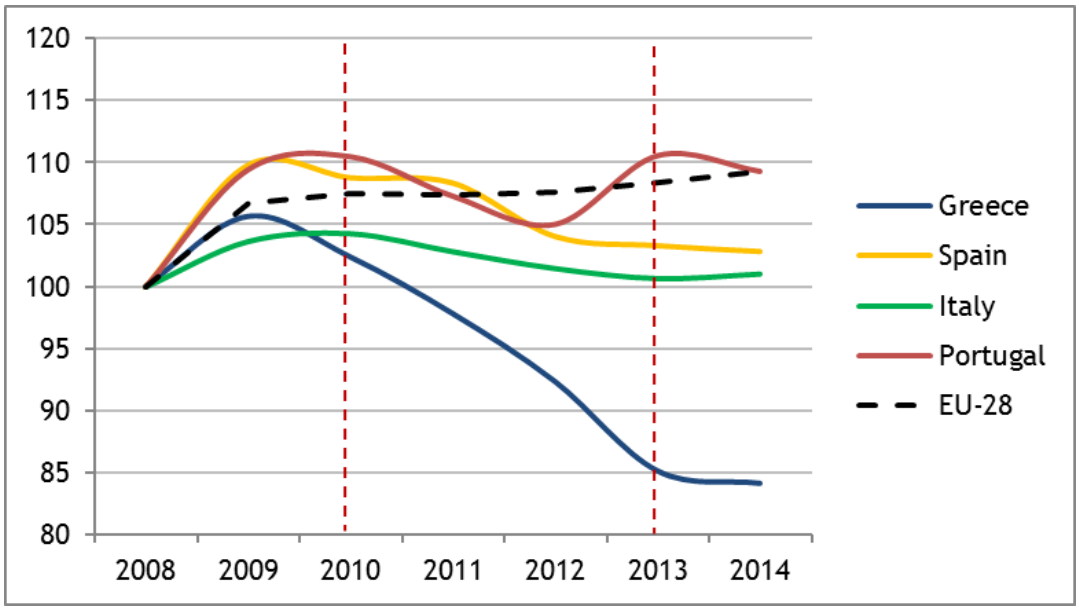
Source: European Parliament (March 2016)

Figure 1.15: Per capita spending on social protection - selected countries, 2008-14 (total €)



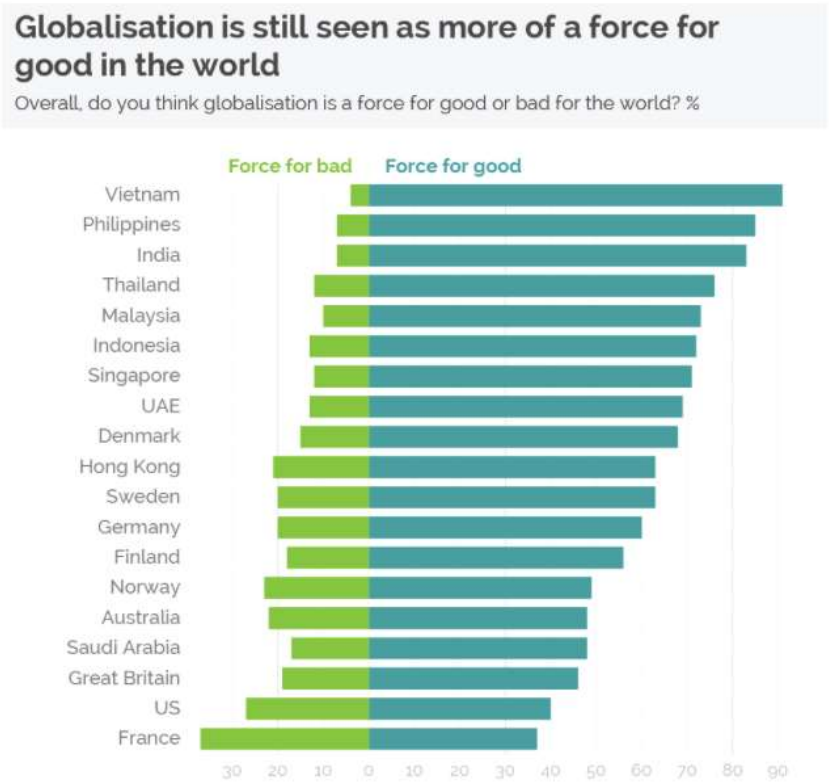
Source: Eurostat

Figure 1.16: - Total spending on social protection - selected countries, 2008-14 (2008=100)



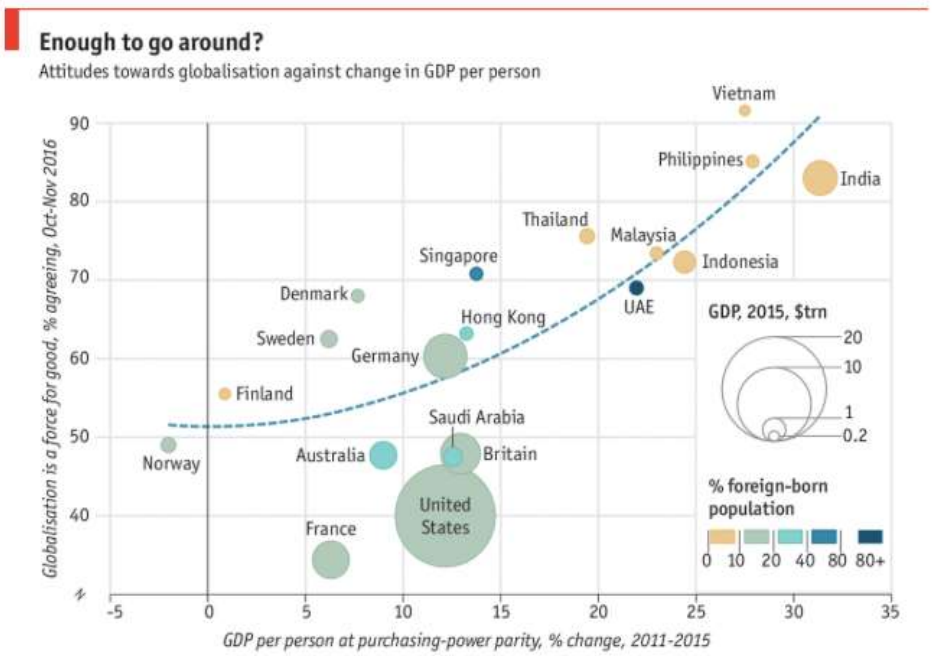
Source: Eurostat

Figure 1.17: Opinion on globalisation - selected countries, October 2016



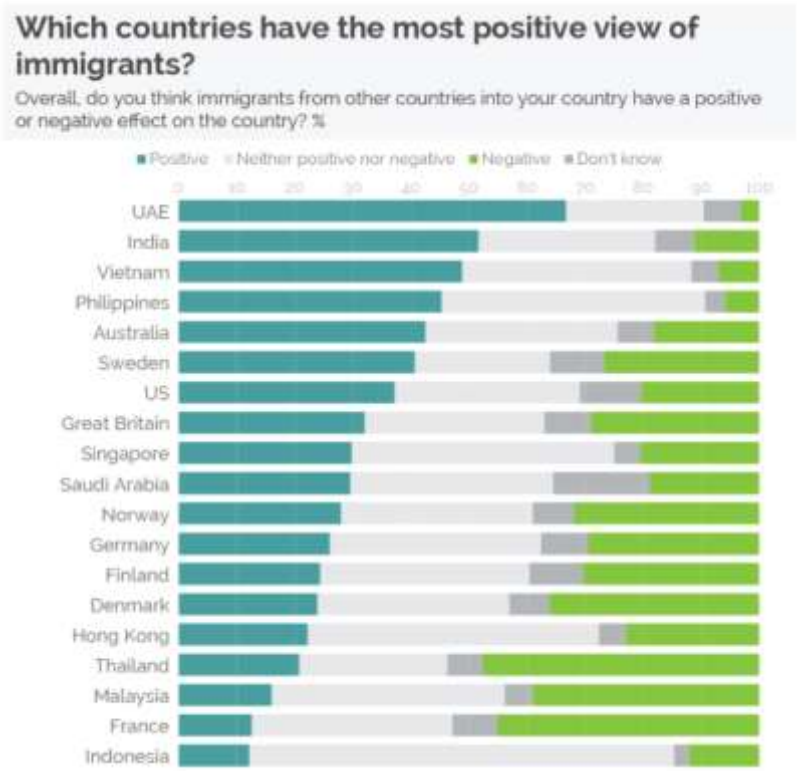
Source: YouGov

Figure 1.18: Opinion on globalisation and GDP variation - selected countries, 2011-15



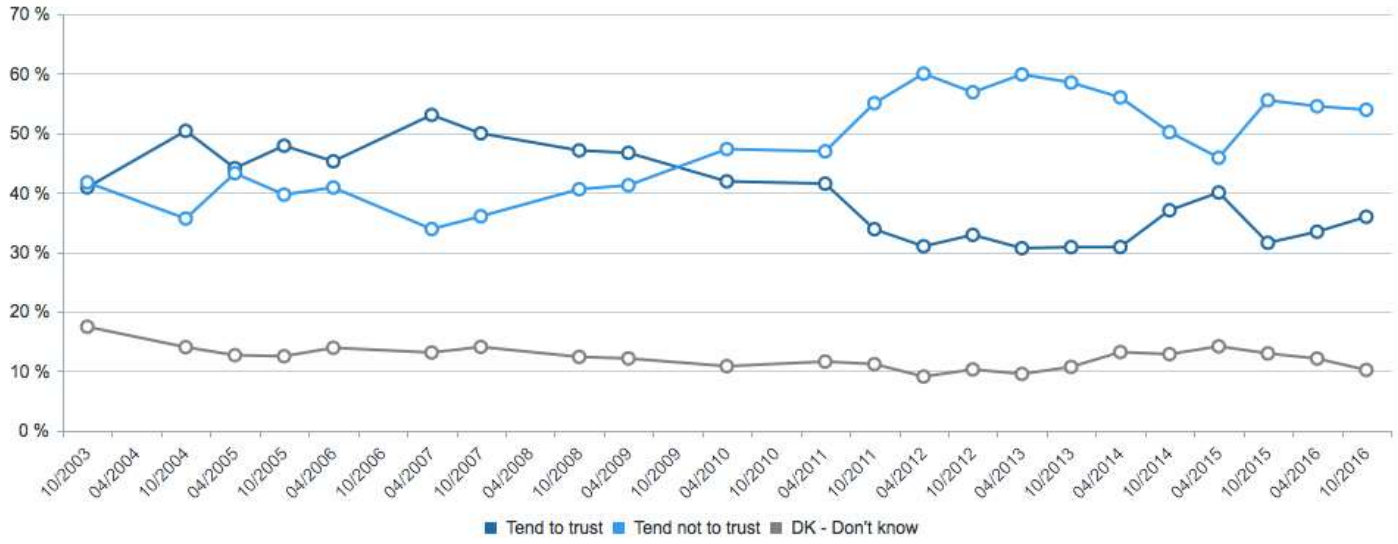
Source: YouGov, *The Economist*

Figure 1.19: Opinion on immigration - selected countries, October 2016



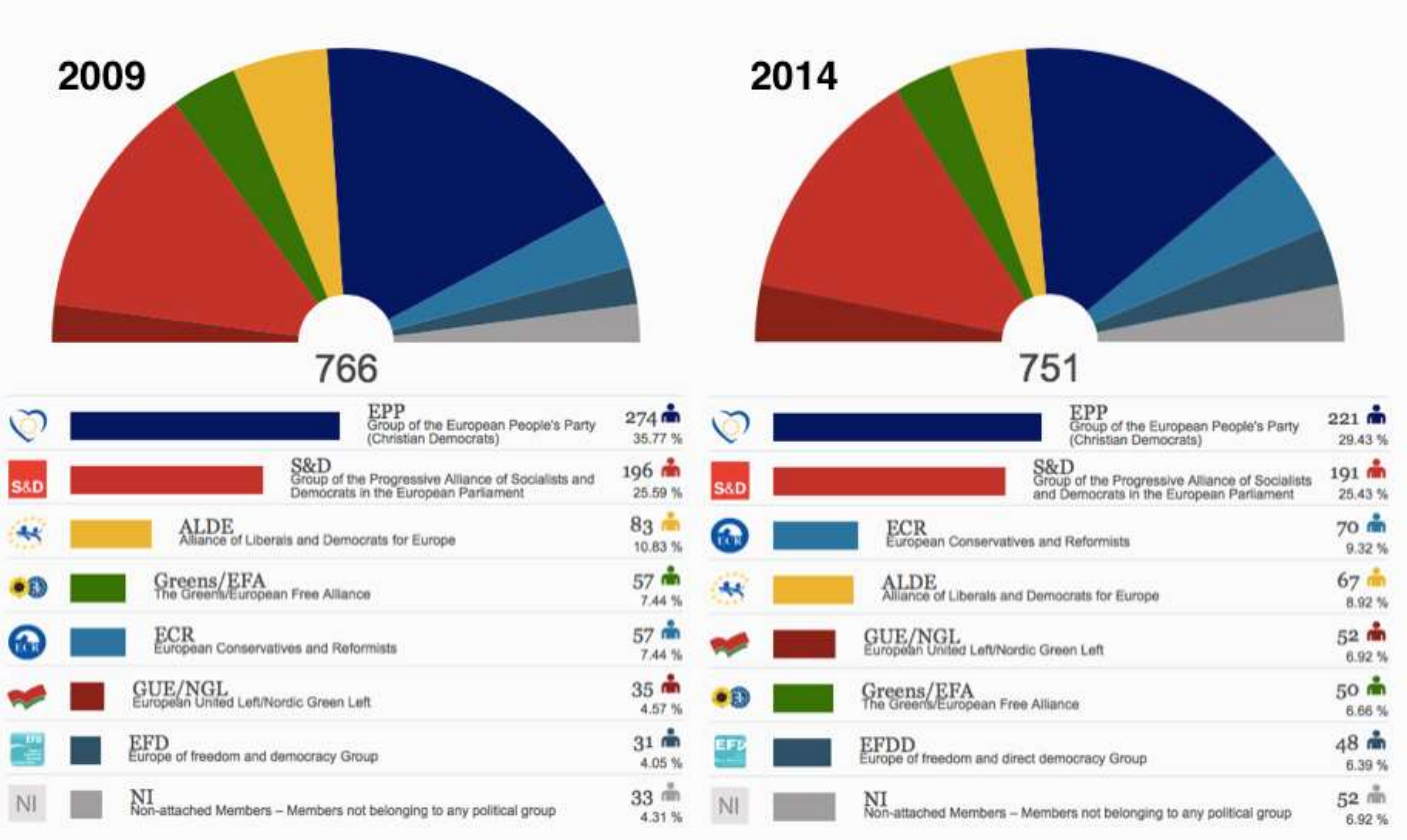
Source: YouGov

Figure 1.20: Trust in the European Union, 2003-16 (EU average)



Source: Eurobarometer

Figure 1.21: European Parliamentary groups, 2009 and 2014



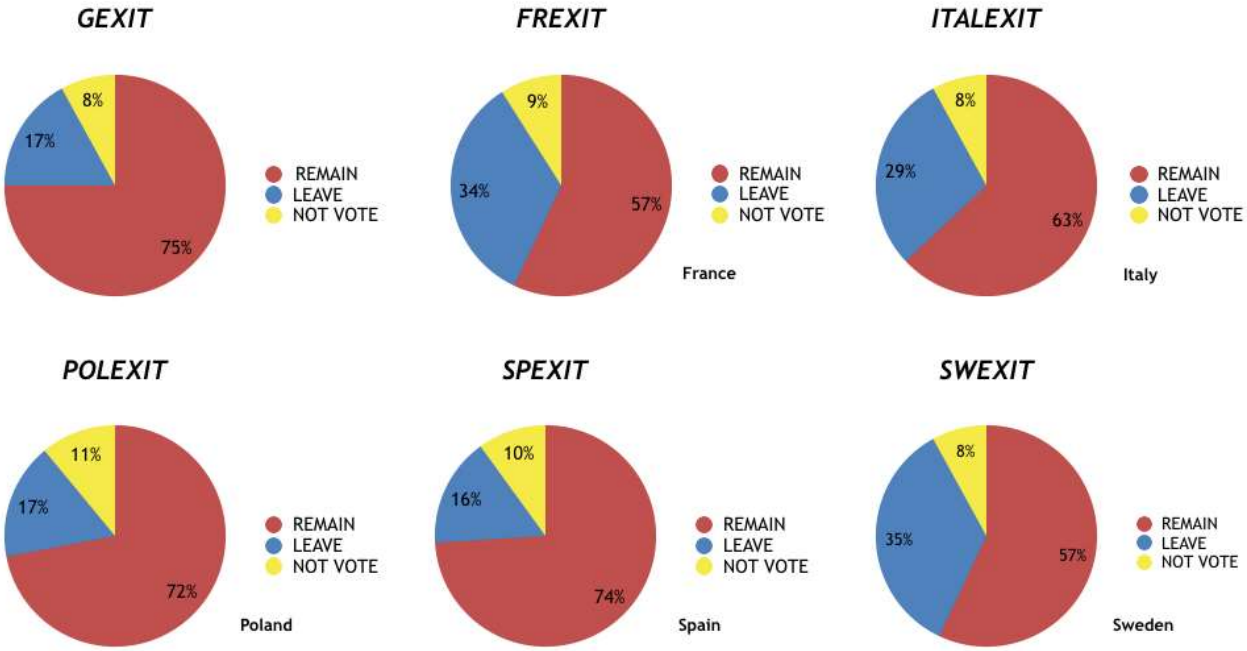
Source: European Parliament and authors' elaboration

Figure 2.1: GDP growth forecast - EU member states, Spring 2017

	2016	2017	2018
Belgium	1.2	1.5	1.7
Germany	1.9	1.6	1.9
Estonia	1.6	2.3	2.8
Ireland	5.2	4.0	3.6
Greece	0.0	2.1	2.5
Spain	3.2	2.8	2.4
France	1.2	1.4	1.7
Italy	0.9	0.9	1.1
Cyprus	2.8	2.5	2.3
Latvia	2.0	3.2	3.5
Lithuania	2.3	2.9	3.1
Luxembourg	4.2	4.3	4.4
Malta	5.0	4.6	4.4
Netherlands	2.2	2.1	1.8
Austria	1.5	1.7	1.7
Portugal	1.4	1.8	1.6
Slovenia	2.5	3.3	3.1
Slovakia	3.3	3.0	3.6
Finland	1.4	1.3	1.7
Euro area	**1.8**	**1.7**	**1.8**
Bulgaria	3.4	2.9	2.8
Czech Republic	2.4	2.6	2.7
Denmark	1.3	1.7	1.8
Croatia	2.9	2.9	2.6
Hungary	2.0	3.6	3.5
Poland	2.7	3.5	3.2
Romania	4.8	4.3	3.7
Sweden	3.3	2.6	2.2
United Kingdom	1.8	1.8	1.3
EU	**1.9**	**1.9**	**1.9**

Source: Adapted from European Commission (Spring 2017)

Figure 2.2: Opinion on exiting the EU - selected countries, Fall 2016



Source: REScEU

Figure 2.3: Dominant images of the European Union, Fall 2016

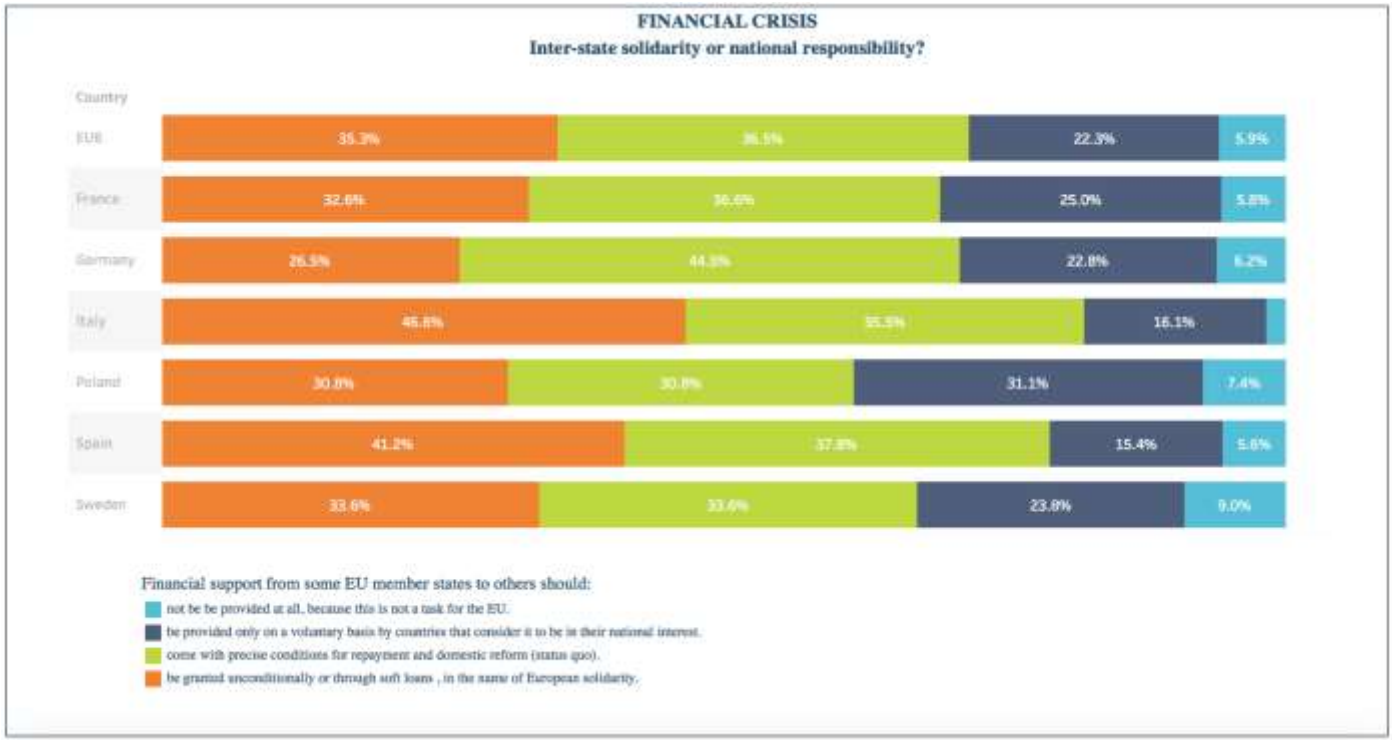
Image of the EU

	Common House	Apartment Building	Playground	Sinking Ship
France	22.1	22.4	22.3	33.2
Germany	6.9	54.6	26.6	11.9
Italy	38.1	26.4	15.1	20.4
Poland	31.9	31.4	23.5	13.2
Spain	31.0	22.6	33.8	12.6
Sweden	18.7	28.3	34.5	18.5
United Kingdom	17.9	25.1	24.8	32.3
EU6	24.8	31.0	26.0	18.3
EU6 + UK	23.8	30.1	25.8	20.3

Note: Exact question: "In talking about the European Union, media and people sometimes use the following images. Could you please indicate which one comes closest to your view? 1) The EU is the common house of all European citizens; 2) The EU is like an apartment building: national peoples live next to each other like good neighbours; 3) The EU is a playing ground that facilitates (mutually advantageous) economic exchanges among Member States and citizens; 4) The EU is a sinking ship: Member States should escape it as fast as they can". DK answers (0.37% of the total) are excluded.

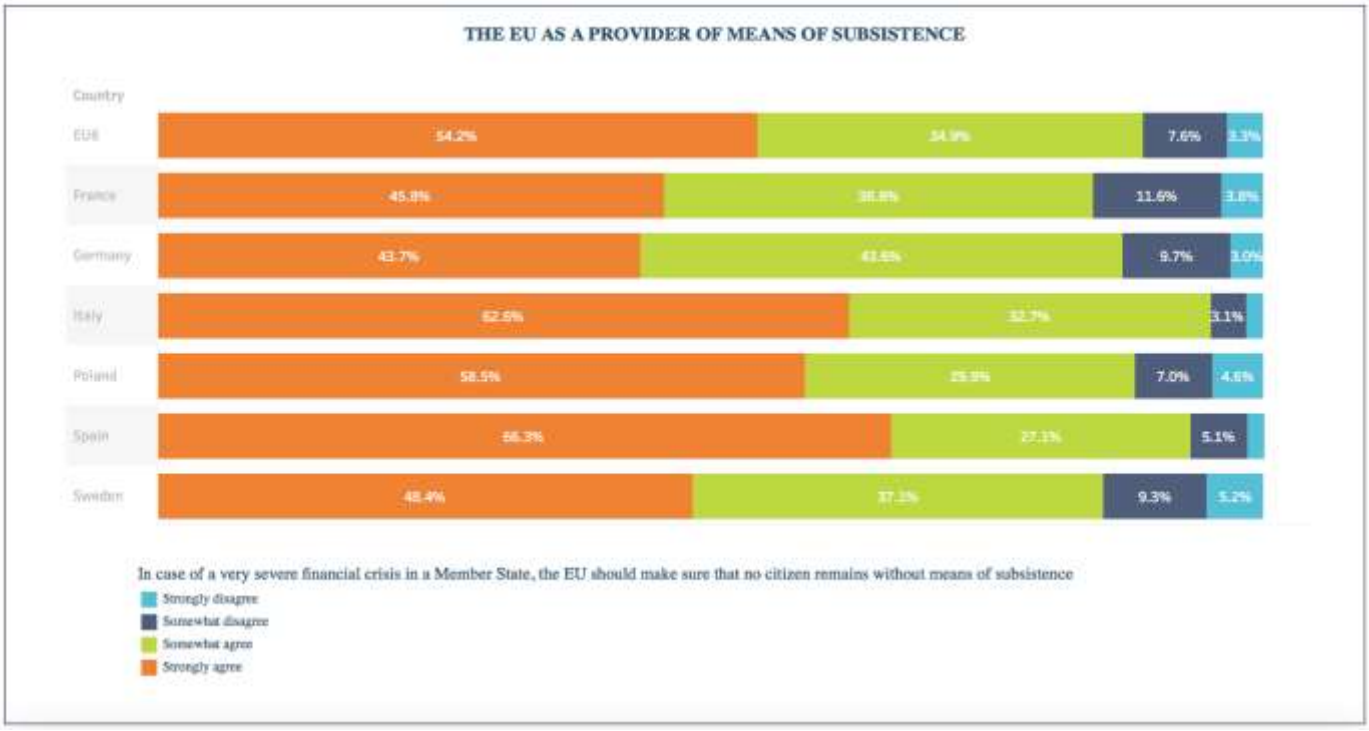
Source: Pellegata and Ferrera (2017)

Figure 2.4: Opinion on interstate solidarity in the EU - selected countries, Fall 2016



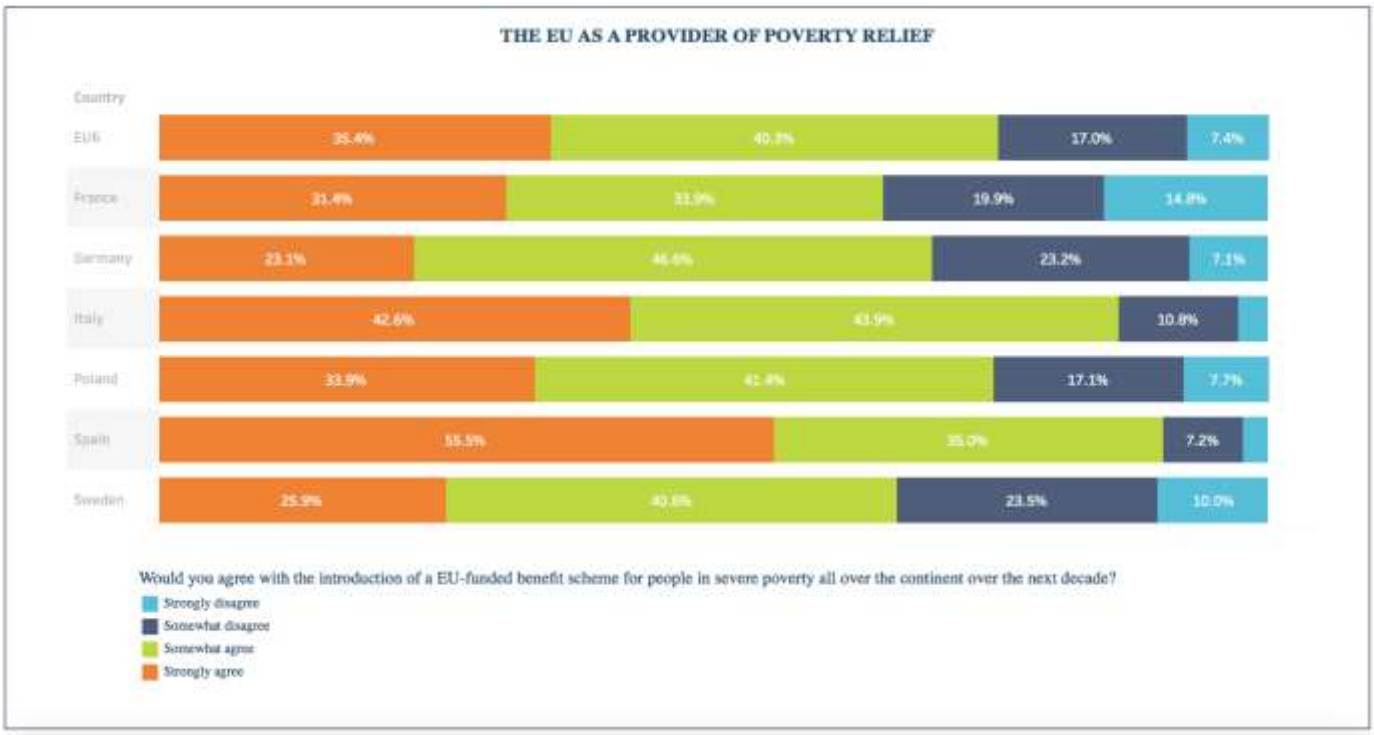
Source: REScEU and *EuVisions*

Figure 2.5: Opinion on the EU's provision of means of subsistence - selected countries, Fall 2016



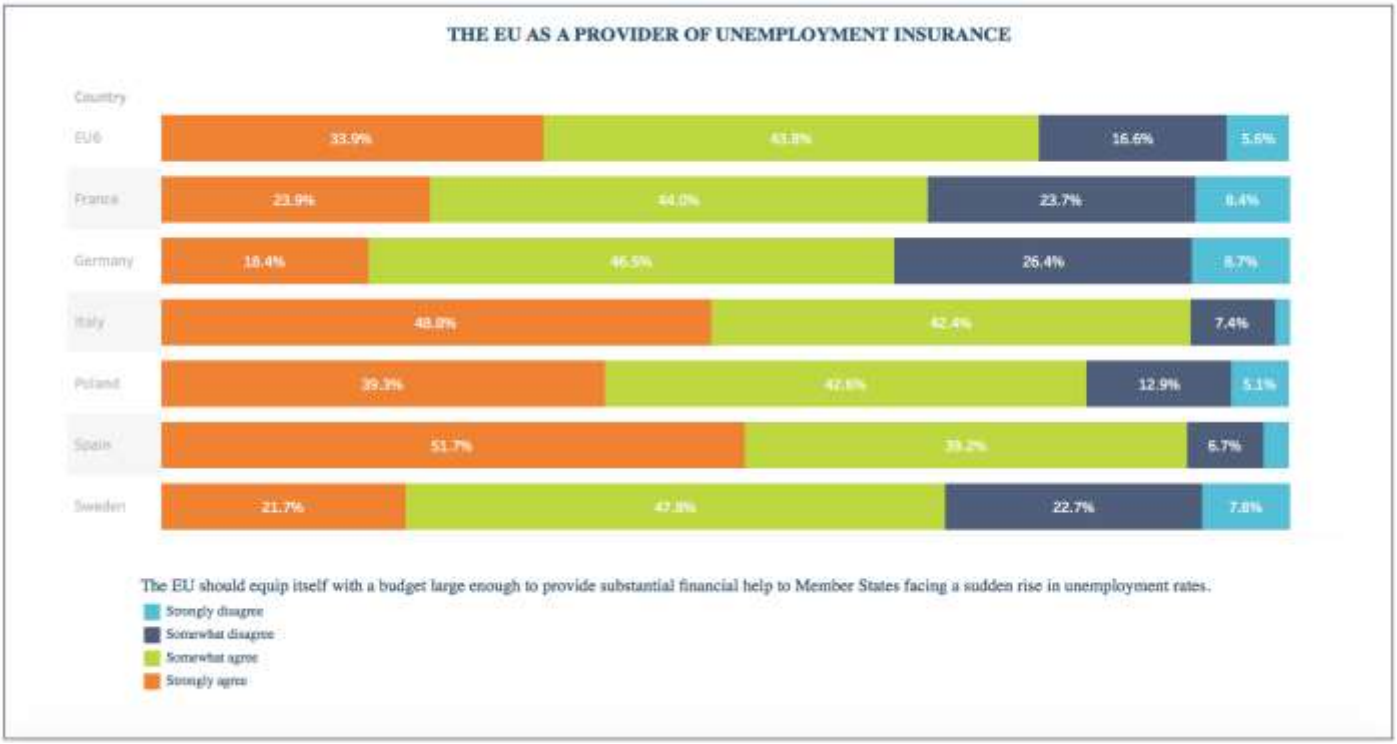
Source: REScEU and *EuVisions*

Figure 2.6: Opinion on the EU's provision of poverty relief - selected countries, Fall 2016



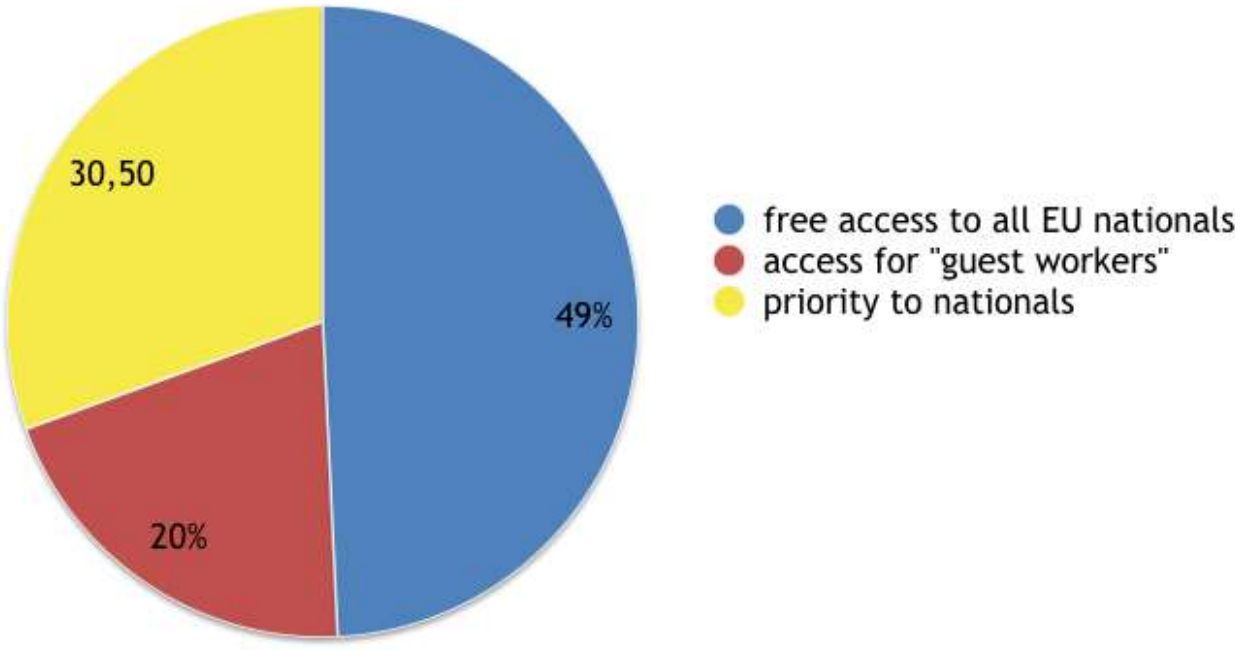
Source: REScEU and *EuVisions*

Figure 2.7: Opinion on the EU's provision of unemployment insurance - selected countries, Fall 2016



Source: REScEU and *EuVisions*

Figure 2.8: Opinion on the provision of welfare to EU immigrants - selected countries, Fall 2016



Source: RESc EU

Figure 2.9: Types of solidarity within ESU

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

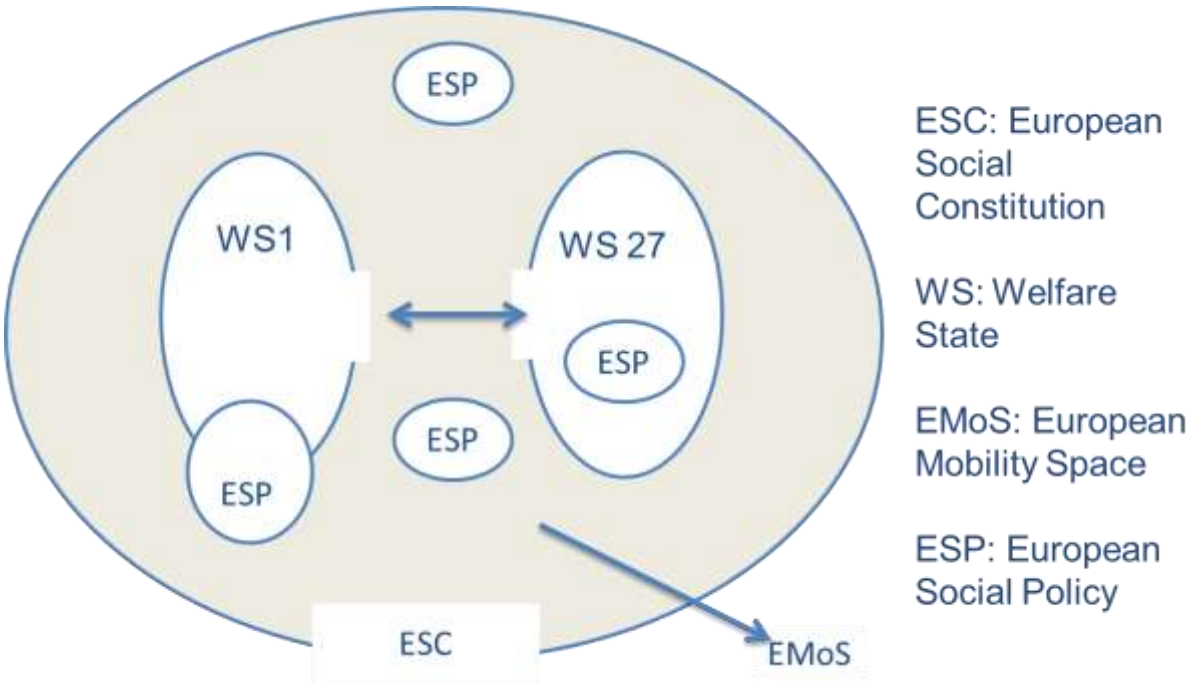
Source: Authors' elaboration

Figure 2.10: ESU priorities

Component	Challenge/priority
National social spaces	• 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

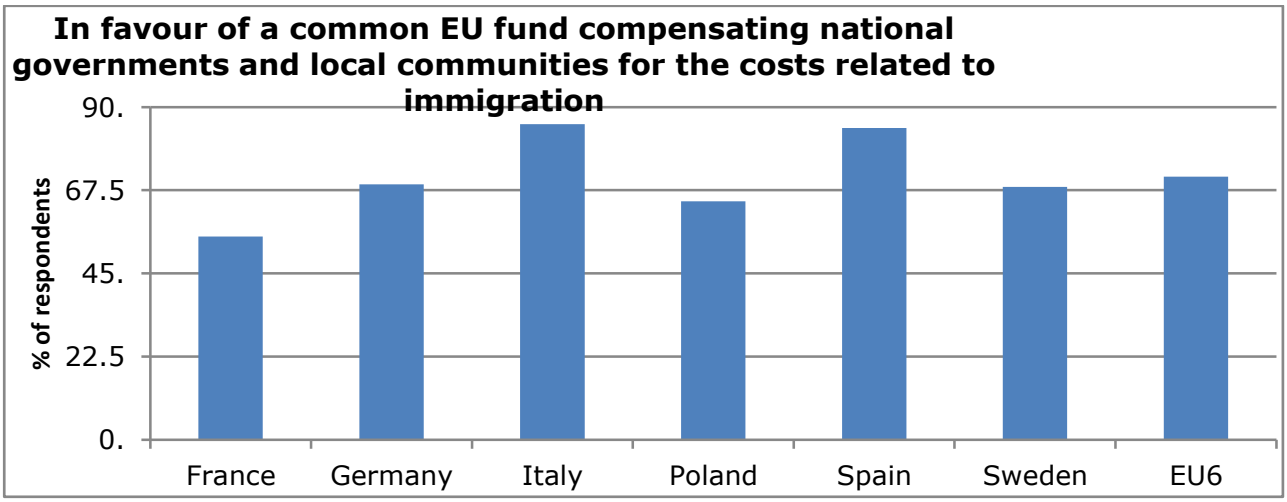
Source: Authors' elaboration

Figure 2.11: The European Social Union - A visualisation



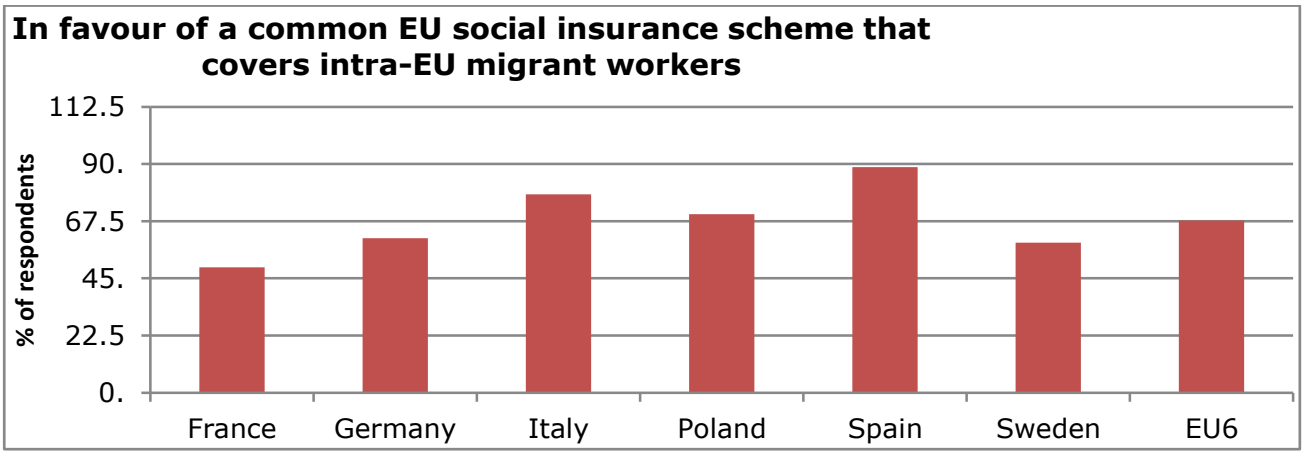
Source: Authors' elaboration

Figure 2.12



Source: Ferrera and Pellegata (2017)

Figure 2.13



Source: Ferrera and Pellegata (2017)

Figure 2.14 Pan-European solidarity: EU measures against unemployment

	Financial help to states that face a rise in unemployment	
	Disagree	Agree
France	32,1	67,9
Germany	35,1	64,9
Italy	8,8	91,2
Poland	18,1	82,0
Spain	9,0	91,0
Sweden	30,5	69,5
EU6	22,3	77,7

Table 1: Adding a social component to 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:* - EU social insurance scheme for mobile workers *Universal empowerment and protection* - A social card for access to the whole range of EU funded facilitating services - Enhancing the visibility and salience of the Global Adjustment Fund, the Fund for European Aid to the Most Deprived Persons (FEAD) and of the various initiatives of the European Social Fund - A EU Fund against cyclical unemployment - A EU insurance against the victims of terrorism and persons injured in the line of duty - Enhancing and making more visible the external protections linked to the EU passport