

European integration and populism: addressing Dahrendorf's quandary

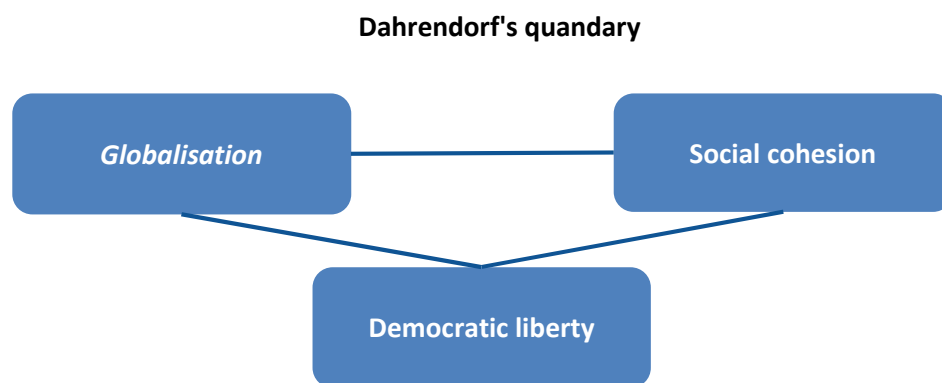
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1 The tide has turned

After a decades-long process where national economies became more and more entangled and interdependent at both the international and regional level, increasing strains to economic integration are evident both at the global and the European level. Examples abound – even without mentioning Brexit or the 45th US president -, from rising stress in international capital and currency markets to protectionist pressures of all sorts on domestic markets coupled with a rising tide of nationalistic, actually often nativist, go-alone policy approaches. What is at stake is huge as the spectre of disintegration is raising its ugly head and, in fact, an integration process that has been the bedrock of a half-century of peace and economic development can no longer be taken for granted.

The current rise in populist parties is a wake-up call resembling what the late Ralf Dahrendorf – a major scholar of the XXth Century and a former member of the European Commission - summarised a little more than 20 years ago as a quandary between globalisation (as a means towards growth), social cohesion and political freedom: *"To stay competitive in a growing world economy [the OECD countries] are obliged to adopt measures which may inflict irreparable damage on the cohesion of the respective civil societies. If they are unprepared to take these measures, they must recur to restriction of civil liberties and of political participation bearing all the hallmarks of a new authoritarianism (...) The task for the first world in the next decade is to square the circle between growth, social cohesion and political freedom"*¹.

Figure 1



Indeed, the EU integration process has traditionally been conceived as a means to square the circle, allowing for catching-up economic growth and convergence (the EU as a great "convergence

(*) European Commission, Directorate-General for Economic and Financial Affairs. The views expressed in this article are personal and should not be attributed to the European Commission or its services.

¹ Ralf Dahrendorf, *Economic Opportunity, Civil Society and Political Liberty*, UNRISD Discussion Paper 58, Geneva, March 1995.

machine"²), while preserving Europe's social model(s) as reflected in the EU social acquis. However, while the deepening globalisation and integration process has generated overall income gains via higher static and dynamic efficiency, in combination with skill-biased technical progress it has almost certainly not been Pareto-optimal creating winners (take-it all) and losers in an age of massive transformation. The financial crisis and its fall-out have only fuelled an already existing undercurrent of discontent and fading trust in democratic institutions and the so-called "elites" to deal with the (real or imagined) unfair distribution of gains and burdens in society. In this context, EU Institutional settings and policies have been increasingly perceived as being pro-market biased, paying little attention if any to its social impact, and undermining cohesion, solidarity, autonomy and governability at the national, regional and local level. Put succinctly, in Musgrave's Three Functions of Government, the EU is seen as dealing with the allocative and, subordinately the stabilisation function, while not caring about the redistribution function which was largely left to Member States.³

2 A populist backlash with economic and cultural roots

The backlash against globalisation and integration runs deeper than cheap populism as it is nurtured by economic and cultural roots that should not too easily be dismissed.

New trade agreements face fierce opposition almost everywhere. TTP, TTIP, CETA – you name it -, these acronyms once only known by specialists in the field have become household names and prominent issues in election campaigns. And unfettered market opening policies have lost a lot of their appeal with a growing recognition that the rising tide has not lifted all boats, on the contrary, in some cases perhaps even only a few super-yachts. Losers in the globalisation process have become clearly visible, while the middle classes have seen scant evidence of the gains once promised. Over the past decade, political scientists and economists have amassed a considerable body of survey evidence which shows that ordinary people's attitudes towards globalisation and integration are exactly what Heckscher-Ohlin economics would predict. Thus, while globalisation may actually not be the main culprit, there is nothing populist about noticing that the past decades have seen the top 1 per cent grab an ever-larger share of national income and wealth – a trend particularly pronounced in the US - while median incomes have stagnated.⁴

Protectionism, if not to say outright hostility, already rules the day when it comes to immigration. The arrival of migrants is perceived as threat to diminish or dilute the locational premium enjoyed by citizens of host countries, which includes not only possible direct economic impacts on jobs and wages, but also good health and education services, and public goods like the preservation of national culture and language. Arguably, the fears about "native identity" posed by immigrants from a different ethnic, cultural and religious background largely dominate the public debate and are often ruthlessly exploited by populists; thus, pro-immigration arguments that it may have long-run positive economic effects tend to fall on deaf ears.

² Gill, Indermit S.; Raiser, Martin. 2012, *Golden growth: restoring the lustre of the European economic model*. World Bank. <http://documents.worldbank.org/curated/en/539371468036253854>.

³ Obviously, the EU budget and its associated net cross-country transfers also perform some redistribution function, but it is very limited and mainly geared at the regional, rather than the interpersonal level.

⁴ The "elephant chart" of income distribution has become a reference point for the debate on the global inequality. See B. Milanovic, *Global Inequality – A New Approach for the Age of Globalization*, HUP, 2016.

It has to be acknowledged that some of the attack lines by populist are derived from a response to real grievances; and not everyone who criticises elites is a populist and not everyone who worries about immigration is a racist. But populists do not talk in terms of disagreement over policy, which in a democracy is the very point of politics; rather they claim that they and they alone speak in the name of what they tend to call the 'real people' as opposed to the 'establishment'.⁵ This is coupled with assurances to restore autonomy, identity and control which was taken away from citizens by hostile forces. The identity offer of the "us, the honest (native) ordinary people, *versus* them, the corrupt elites" is very powerful and tempting in an era of massive transformation where, to use a term coined by Zygmunt Bauman, many people are left to lead a "liquid modern life" amidst multiple insecurities threatening the social fabric.⁶

The populist promise to restore autonomy, identity and control typically comes with disrespect for rules and procedures, disparaging the in-built representative democracy while propagating referenda and other elements of direct democracy to implement "the true will of the people". In this context, ridiculing expert opinion, admittedly sometimes made all too easy, and denouncing statistical evidence as abstract and not in line with the experience of ordinary people ("numbers are liberal") belongs to the standard repertoire. Populists have also been quick to realise the potential of social media given their (partly real, partly imaginary) offer to create a space of common identity and understanding and to establish a direct link of identification between the individual and its alleged true authentic representative.

3 The EU and European integration as an easy target for populist onslaught

The EU has become a popular 'punch bag', an easy target and prey. It is of little comfort that the EU is often not really the main concern of many of its critics. They use opposition to European integration as a vehicle for their ultimate objective: to strengthen their influence and power at home. But we need to acknowledge that EU institutions and policy settings are prone to populist attack from both the purely economic and the more cultural "native identity" angle.⁷

From an economic perspective, the established policy allocation and the distribution of responsibilities between the EU institutions and the Member States⁸ – with the central level being predominantly focussed on growth and efficiency (free trade, open markets, the four freedoms, competition etc.), while the social dimension was largely left to Member States – have made "Brussels" an easy scapegoat being accused of ignoring the social consequences of its policies and, even worse, undermining the capacity of the nation state to deal with them. As shown in Figure 2, the EU and populist forces collide as they operate in the same sphere: the market, with the EU aiming at opening and integrating markets internally (Schengen, single market, competition policy)

⁵ Müller, J.-W., 2016, "Capitalism in One Family", *London Review of Books [Online]* vol. 38 no. 23 pp. 10-14.

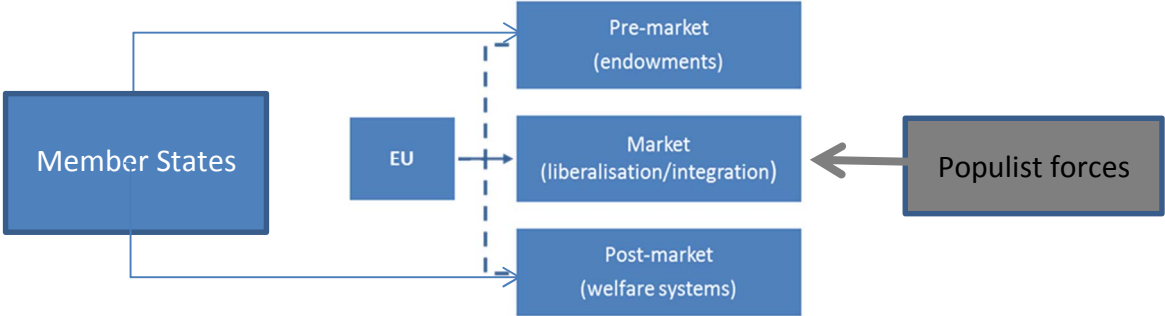
⁶ In the 1990s, Bauman coined the term "liquid modernity" to describe a contemporary world in such flux that individuals are left rootless and bereft of any predictable frames of reference. In books including "Liquid Times" and "Liquid Modernity" he explored the frailty of human connection in such times and the insecurity that a constantly changing world creates where traditional institutions no longer fill the wells of common understanding and experience.

⁷ The temptation by mainstream parties to follow populists on their own ground has led to tensions and weakened further EU's legitimacy. See M. Buti and M. Lacoue-Labarthe, "Europe's incompatible political trinitities", VOX EU, 7 September 2016.

⁸ See T. Padoa Schioppa, Efficiency, Stability, and Equity: A Strategy for the Evolution of the Economic System of the European Community; a Report, OUP, 1987.

and externally (trade policies) and populists aiming at closing them. In consequence, the EU is seen as the agent of globalisation, rather than the response to it.

Figure 2



The distributional fault lines are easily identifiable, impacting upon all three dimensions - the pre-market distribution of endowments, the distribution of gross market incomes, and the post-market distribution of net disposable incomes. Integration and open market policies affect the relative scarcities of production factors, with free (embedded) factor flows in integrated markets favouring mobile factors; they propagate (skill-biased) technical progress associated with a globalisation/digital divide, favouring capital and high-skilled labour; and they may enhance dynamic agglomeration effects, thereby increasing/high/persistent regional disparities. EU policies and deeper economic and monetary integration increase competitive pressures and enforce higher market flexibility which, if left unattended, may negatively affect working conditions and protection in the market and undermine established rent seeking and rent sharing practices. At the same time, the room for redistributive manoeuvre at the national and local level becomes more limited due to a reduction of discriminatory and enforcement power, enhanced system competition effects, and, last but not least the perception of fiscal rules as a straight-jacket rather than as a safety-vest. Identifying the EU exclusively with the market dimension and disregarding its potential role in the pre-market and post-market field would accentuate the distance with citizens and open the way for the populist attack.

Similarly, a number of elements fuel anti-EU sentiments from a native-identity perspective. Charges of "homogenisation" undermining or even erasing national specifics and identity are commonly brought up by populists mainly on the right side of the political spectrum. At the same time, the transfer of national autonomy and decision rights to EU institutions and bodies evidently shifts democratic control further away from national electorates. This is associated with a significantly higher complexity of mediation and, thus, intransparency of decision-making at the EU level, thereby increasing the distance to the ordinary citizen. A rules-based and institutions-based system, instead of being seen as a guarantee for equal treatment and protection of minorities, is seen as an additional layer between ruler and the people. The inevitable loss of input-legitimacy⁹ from a

⁹ The term goes back to Fritz Scharpf who introduced the distinction between input legitimacy of governance, i.e. the responsiveness to citizen concerns as a result of participation by the people, and output legitimacy, i.e. the effectiveness of policy outcomes for people; see F. Scharpf, *Governing in Europe: effective and democratic?* Oxford University Press, Oxford 1999. Vivien Schmidt later added the concept of throughput legitimacy, i.e. the

national perspective can easily be transformed into allegations of eroding the sovereignty of the Member State and the will of its citizens, eventually leading to the populist call "to take back control". Moreover, the often highly technical issues to be resolved at the central level make it easy to depict EU policies as designed by soulless technocrats detached from the life of ordinary people and accused of "fake" policy-based, pre-determined evidence-making. Output-legitimacy has clearly suffered as well given the hesitant and still incomplete reaction to the financial crisis and its fall-out, or the difficult handling of the migration/refugee issue. Protection of minorities and upholding the rights of citizens such as free movement of people, a stronghold of EU policies, can without much difficulty be construed as running against the will of "the no longer silent majority". Enhanced by national politicians' tendency to blame 'Brussels' for some of their own failings and their reluctance to give the EU credit for its successes, we witness widespread frustration with the EU's ability to tackle the poly-crises we are confronted with.

It will not help to bemoan that the crusade against Brussels is typically based on simplistic and often counter-factual arguments. The reality of Brexit puts evidence to this. Rather we need to develop a new positive perspective of the EU to address Dahrendorf's quandary and to strive for a prosperous and open Europe under challenging circumstances. Today's reality calls for a rethink of the requirements of the subsidiarity principle in the EU, aiming to ensure that decisions are taken as closely as possible to the citizen and correctly identifying and redefining the areas where action at EU level is justified and needed in light of the possibilities available at national, regional or local level. This will not silence the populists, but it will hopefully take the wind to some extent out of their sails.

4 Some guiding principles for a new positive EU narrative

Unfortunately, there is no quick fix. A sustained period of growth and rising incomes would help. So, too, would proactive policies to cushion the impact of liberalisation on the losers. But the present politics of middle class discontent demands a broader response to restore the trust in the European project. As long as EU integration is seen as a project of the political elites and the rich, it will carry the seeds of its own destruction. The growing polarisation in our societies needs to be addressed by finding better ways to combine the benefits of open markets and integration with social protection and fairness.

The EU – i.e. the Member States, the European Parliament and the Commission – needs to play a more active role in this process, in particular with a view to generate positive impacts on the pre-market and the post-market distribution to facilitate adjustment, adaptation and advancement. Clearly, this could create new tensions about EU interference and "power grab". Moreover, rebalancing is even more complicated in the EU integration context, where the divide between winners and losers does not merely follow the traditional fault lines along the functional and the personal distribution of income and wealth, but often also carries strong nationalistic co-notations of north-south and east-west conflict. Still, action at EU level may well be justified and effective in a renewed partnership with the actors at national, regional or local level.

governance processes that happen in between input and output; see V. Schmidt, Democracy and Legitimacy in the European Union Revisited: input, output and 'throughput'. *Political Studies*, 61(1), 2013.

A difficult trade-off has to be addressed between more involvement of the EU in distributional matters in the pre- and post-market (as the economic view of populism would prescribe) and less involvement (as the value / identity view would favour).

Against that background, we set out five guiding principles for policy articulation at the EU level to foster political stability, social cohesion and integration.

(i) Focus on delivering the common public goods in need of well-defined EU value-added. This involves strengthening security at Europe's external borders, including by enhanced neighbourhood policies, and addressing the internal security and societal challenge posed by terrorism. First steps have already been completed with the creation of the European Border and Coast Guard, officially launched in October 2016, and with the European Defence Action Plan initiated in December 2016 to contribute to developing European security and defence policy. Moreover, the EU is working on a common migration, asylum and refugee policy worthy of the name. Tackling the environmental challenge, fighting climate change and supporting the move to a low-carbon economy is another area where go-alone policies are obviously bound to fail. The EU played a collective decisive role in building the coalition of ambition making the adoption of the Paris Agreement 2015 possible. International cooperation will also be required to fend off protectionist tendencies, wherever they originate, and to defend European interests in the global economy. And obviously, economic security starts at home with safeguarding and extending the Single Market achievements, completing the Banking Union, and taking the necessary steps to ensure the sustainability of EMU.

(ii) Re-establish the core values of the European social model as a joint response to globalisation. The European Union's social *acquis* already provides a floor of social rights, protecting worker's health and safety, equal treatment and job security. However, in response to remaining gaps, allegations of "social dumping", and the many new demands in a rapidly changing world of work, a critical reflection is needed. The challenge of a further digital/robotic/Artificial intelligence divide will probably require new forms of flexicurity (2.0) to empower and protect workers, in particular in view of a further spread of non-standard employment relations (the gig-economy). In consequence, the European Commission has launched in 2016 an initiative for the establishment of a European Pillar of Social Rights Pillar with the intention to serve as a compass for renewed convergence within the euro area, while inviting other EU Member States to join in if they want to do so. In particular, the Pillar is divided into three main categories in the field of employment and social policies, notably i) equal opportunities and access to the labour market, ii) fair working conditions, and iii) adequate and sustainable social protection. The final shape of the Pillar and the roadmap for its delivery will be published in March 2017, but it could, for example, include the establishment of a common minimum wage – albeit not necessarily in absolute terms -, initially for the euro zone and gradually extended to all Member States.

(iii) Mainstream distributional considerations into EU policy designs. While acknowledging that social fairness is primarily a domestic challenge, the distributional implications of the EU's own policies need to be better taken into account. In addition to renewed focus on these issues in the mutual economic surveillance of the European semester, policy efforts need to be geared towards affecting the pre-market and the post-market distribution to avoid excessive inequality and to cushion against the social implications of abrupt shocks and ensuing large adjustment needs. It seems to be short-sighted choice, as an example, to leave it only to the national level to tackle the

social implications of the forthcoming restructuring of the EU banking sector following the establishment of Banking Union and Capital Market Union, which is why the euro-area recommendations call for a joint strategy. Stronger emphasis on the quality of public finances in the EU's monitoring and surveillance processes also contributes to higher intergenerational fairness and more tangible and intangible investments into a prosperous future. Co-ordinated action at both the European and the global level could help generating synergies and internalise negative spillovers. The EU has also become a strong actor in common strives for fairer taxation systems, as evidenced, for example, by current efforts to tackle profit shifting, tax evasion and the erosion of tax bases, and the use of competition policy instruments to address tax benefits granted selectively to companies.

(iv) Embody the new requirements derived from the subsidiarity principle in the EU budget. The EU budget, albeit limited in size, is one of the main tools for the EU to achieve its objectives. Thus, it is vital to ensure "vertical consistency" between European and national actions budgets.¹⁰ The recent crises have put extra pressure on the EU budget; they have also pointed to areas where EU action is the most valuable and the most relevant: internal and external security, the fight against climate change and the move towards a low carbon economy, and tangible and intangible investment to support growth and jobs. Stronger vertical consistency would optimise the EU budget's contribution to efficient pre-market and post-market distribution mechanisms, for example via strengthening human capital formation, innovation and R&D, and a reorientation of the European structural and investment funds. Last but not least, a dedicated fiscal capacity for the Euro Area, as called for in the Five Presidents Report, could not only add to the macroeconomic stability properties of EMU; it could at the same time serve distributional functions, be it in support of pre-market fairness via social investment or post-market cohesion in form of unemployment benefit funds.

(v) Ensure transparency and accountability over the course of decision-making. The European Union's activities today affect millions of European citizens' lives. The decisions having an effect on them must be taken as openly as possible. Admittedly, this is easier said than done, and despite many efforts to increase transparency, the perception of EU decisions driven by lobbying activities and backroom deals is wide spread. European citizens have more and more access to information on how the European institutions are preparing these decisions, who participate in preparing them and what position stakeholders defend. They also have a right to access documents produced to prepare and adopt legal acts, and make their views known, either directly, or indirectly, through intermediaries that represent them. Still, there are many ways to streamline decision-making processes making them more easily comprehensible. For example, the EU could move to a simpler, transparent, fair and democratically accountable system of new resources for the financing of the European project, as proposed in the Monti report.¹¹ It is also essential that responsibilities of "Brussels" and the national legislators are clearly identified, so that accountability – i.e. ultimately the decision of citizens to re-elect officials – can be exercised at the right levels. In any case, honest outreach from the EU institutions remains all-important, thus allowing a free and independent press/media to play its indispensable role to enforce raising standards of transparency and accountability to the highest possible levels.

¹⁰ M. Buti and M. Nava, "Towards a European Budgetary System", EUI Working Papers, RSC No. 2003/08.

¹¹ Future Financing of the EU, Final report and recommendations of the High Level Group on Own Resources, chaired by Mario Monti, December 2016. http://ec.europa.eu/budget/mff/hlgor/index_en.cfm

5 Conclusion

At a time when populist parties are riding on the coat tails of a backlash against globalisation rooted in both economic and cultural causes, the European project seems to be the perfect culprit. Its current competences, mostly confined to organising markets and lacking the ability to address distribution effects, make it appear as the agent of a globalisation within Europe, rather than a joint European response to globalisation; and EU actions such as common border control or the European pillar of social rights have not yet changed this perception. Its decision-making process, while anchored in the representation of both Member States and the citizens, appears as even more disconnected than national institutions, where the effectiveness of representative democracy is already challenged.

It may therefore seem paradoxical to argue that policy action at the EU level is an essential component of an effective and fairly balanced response to challenges raised by globalisation. Providing such a response requires an honest reassessment of the functions that can be addressed in a stronger and more effective way by all Member States together, as a European Union, rather than in isolation. It also requires that mainstream political parties across Europe do not give in to the populist version of "blaming Brussels", because such strategy only adds to domestic political instability; nor that they weaken the European legitimacy by opposing it to national institutions, because it blurs the lines of democratic accountability. Solving these inconsistencies and embracing the European project for what it is, namely a democratic endeavour to preserve and strengthen values shared by all European traditions, is even more essential in a time where international cooperation seems to be fading away.