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EU AND GLOBAL CHALLENGES

28 IDEAS FROM THE ERASMUS GENERATION

School of Political Science,

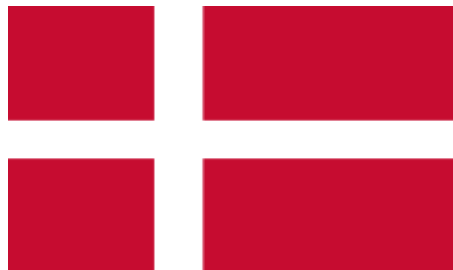
MA in International Relations and European Studies,

University of Florence

3 – 5 May 2017

EU's legitimacy among vulnerable groups and its economic governance

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1. Abstract

This paper focuses on inequality and social marginalization related reasons for Brexit and therefore also for the growing Euroscepticism all over Europe. The paper explains a connection between the fear of EU immigration and the fear of not being able to provide for oneself and one's family. It explains how the European economic governance has contributed to the growing inequality and social marginalization and proposes a model for a revised economic governance regime, that would promote more security for the vulnerable groups but also more growth, especially in times of crisis. Finally, on this basis the paper comments on parts of the European Parliament's resolutions from February 2017 that it finds worrisome. The paper states that it is absolutely necessary that EU's central institutions recognize the problems of inequality, social marginalization and slow economic growth which are related to its economic governance. The recognition of these problems is necessary for the sake of EU's economy, but more importantly for the social marginalized in Europe, EU's legitimacy among those groups and therefore also EU's future cohesion, which is now more important than ever.

2. Problem

On the 23. of June 2016, the British people voted about Britain's future relationship with the EU, and the outcome was unexpected: The majority voted to leave. It is evident that the question of free movement of citizens and access to welfare benefits was a central theme in the debate. In 2013 UK Prime Minister David Cameron declared that EU free movement needs to be less free and access to cross-border welfare limited (Martinsen & Vollaard, 2014: 684), the same year as Cameron committed to a vote (Reenen, 2016). John Van Reenen shows that the question of EU immigration has been a central theme in the debate, fueled by the economic crisis and "*a period of sustained austerity with public services under severe pressure*" (Reenen, 2016).

The growing Euroscepticism which led to Brexit, but which is also present in a growing number of member states, has often been explained with a growing fear of immigration and misperceptions of its consequences for the member state's economy. Even though this paper agree that the fear of EU immigration is to a wide degree a consequence of the post-factual society and not in line with reality¹,

¹ Martinsen & Rodger "*examine the fiscal impact of European Union (EU) immigration on the universalistic, taxfinanced welfare state of Denmark, on the argument that it constitutes a crucial case within an exceptional system for examining the unsustainability thesis*" and find that "*not only have EU citizens paid their way through the welfare system. They have also made a considerable contribution to its fiscal sustainability*" (Martinsen & Rotger, 2016).

this paper recognizes the fear of, not EU immigration, but of not having a safe base for providing for oneself and one's family.

In this respect, this paper states that the fear of immigration is connected with a growing fear of not being able to provide for oneself and one's family. Arnorsson & Zoega analyze the voting pattern in the June 23rd referendum and find *"that regions where GDP per capita is low, a high proportion of people have low education, a high proportion is over the age of 65 and there is strong net immigration are more likely to be apprehensive of the EU"* (Arnorsson & Zoega, 2016). The austerity policies which has taken place all over EU simultaneously with the economic crisis has obviously had profound effects on poorer, lower educated and elderly people: The EMU has with its hard governance in the form of criteria for fiscal discipline combined with soft governance in the form of the European Semester led to austerity policies in the most of Europe in the areas of social security benefits, public service and pensions (Anderson, 2015: 100, 105). These are areas that have especially affected the same groups of people who voted for Brexit. Specifically, for vulnerable people the focus in The European Employment Strategy on supply of labor (Anderson, 2015: 115) has, together with the strict criteria for fiscal discipline, led to:

- i) a lack of expansive economic policies to promote growth in a time of crisis which has led to higher unemployment than this paper substantiates would have been the case with more flexible and context specific EMU criteria²
- ii) a situation where the unemployed are worse off than before structural reforms of social security benefits and general public service, because of fiscal discipline promoted by EU through the European Semester, but also agreements with the Troika and the ECB (Pavolini et al., 2015; Theodoropoulou, 2015). Oxfam writes: *"Since 2008 in Ireland, for instance, decreasing incomes and significant unemployment have forced almost a quarter of a million people out of expensive private health insurance schemes. At the same time, Ireland has cut its health care budget by 12 per cent"* (Oxfam International, 2015).
- iii) a lack of necessities to complement active labor market policies such as education possibilities for lower educated people, again because of fiscal discipline promoted by EU.

² For example: In Denmark, before the crisis, the unemployment rate of fulltime unemployed was as low as 2,6 percent (which implies very low level of structural unemployment) and after the crisis it has taken 6 years to lower the unemployment to 4,6 percent in 2015 which is still high in a Danish context. (Statistics Denmark, 2017).

Furthermore, inequality in EU has been rising, both as a consequence of large income gains among the top 10 percent of earners (Fredriksen, 2012) and as a consequence of that *“between 2009 and 2013 an additional 7.5 million people, across 27 EU countries, were classified as living with severe material deprivation, with 19 countries registering an increased level”* (Oxfam, 2015: 4). It is therefore evident that the EU must change its economic governance regime if it wishes to increase its legitimacy among the people of EU's current member states who are likely to vote for leaving the EU in future referendums.

Furthermore, this paper argues that a change in the EU's economic governance regime in the form of more flexible and context specific EMU criteria is likely to lead to more growth in Europe. It is highly contested whether EU's strategy of very strict fiscal discipline is the right policy to promote employment and growth in times of crisis. EU has with the EMU's strict criteria chosen a strategy that doesn't make space for Keynesian fiscal policies. EU has with its focus on strict fiscal discipline and therefore also austerity based structural reforms *during a severe crisis*, to a high degree chosen to follow the school that believes in 'Expansionary Fiscal Contractions', which is a very new and contested economic theory which states that contractive fiscal policy can result in expansionary chocks (Dellepiane-Avellaneda, 2015). Even though this theory has become ever more accepted among politicians (for reasons this paper will not address), this paper finds it very important to stress that the theory of 'Expansionary Fiscal Contractions' is in no way accepted by a majority of economic professors (Dellepiane-Avellaneda, 2015) and that it is the exact opposite of the economic theory that has led the development of the welfare states around Europe through the 20th century. Furthermore, organizations which traditionally has been advocates for liberal economics policies are now acknowledging that inequality harms the economy. For example, OECD states very clearly in a report from 2015 that *“inequality is bad for long-term growth”* (OECD, 2015: 22).

2.1. Partial conclusion

On this basis the paper concludes that EU has a profound problem with its legitimacy among vulnerable EU citizens, which, if not addressed properly, risks to result in more countries leaving the EU. Furthermore, the paper argues that EU, with its economic governance regime, to some extent has created this problem itself. Finally, the paper argues that a revised economic governance with more room for Keynesian fiscal policy can not only help this problem to be solved, but also create more growth in the EU.

3. Solution

On possible solutions this paper will focus on i) what a revised economic governance regime should take account of to make room for Keynesian fiscal policy, ii) how the proposed revision relates to three of the European Parliament's resolutions from February this year.

3.1. A revised economic governance

A revised economic governance in the EU shall be able to take account of:

- i) Economic conjunctures.
- ii) That the right investments (public as well as social) will pay off later
- iii) That the member states have very different levels of debt and structural problems.

To take account of this the criteria of 3 percent in annual general government deficit relative to GDP and 60 percent in government debt relative to GDP should be replaced with context based and country specific criteria.

By *context based criteria* I mean that the EMU criteria of annually government deficit has to be able to take account of i) when the member states experience recession and therefore need to have higher public spending and ii) when a specific member state needs to make social investments which will pay off later. Therefore, what appears in a subordinate clause in the EP's resolution on improving the functioning of the EU, that the implementation of the 2-pack and 6-pack should be taking account of business cycles (EP, 2017b: pts 65), needs therefore to have a much more central role in the Parliament's work and be supplemented with that it should be taking account of needs for investments.

By *country specific criteria* I mean that the EMU criteria of both public debt and annually government deficit have to be revised to take account of that the different member states have very different levels of debt and structural problems. It should be allowed for healthy member states with low levels of debt and/or low structural unemployment to generally have a higher annual deficit than 3 percent.

3.2. Discussion of the EP's resolutions on institutional set-up, budgetary capacity and the functioning of the EU

3.2.1. Competitiveness

The proposed solution implies that this paper disagrees with the EP in what the main economic problem of the EU is. The EP states in its resolution on evolution and adjustments to the institutional set-up that the loss of competitiveness of the economies of many member states is due to *"the absence of a common fiscal and economic policy"* and *"that the common fiscal and economic policy should become a shared competence of the Union and the member states"* (EP, 2017a, pts. 16). Firstly, some factors which in a neoliberal theory are seen as reasons for low competitiveness, such as high levels of social security and high levels of taxes, are in Keynesian theory seen as factors creating high competitiveness because of the positive externalities that they have on the private market:

- Low levels of criminality and therefore low levels of all of its negative externalities
- Stable levels of demand which reduce the size and speed of recessions which has positive effects for the private sector
- The possibility of having flexibility in the labor market in the form of lenient rules for employers to hire and fire
- The possibility of offering unemployed people education which is one of the three elements in the Flexicurity model
- The possibility of financing public health care, education and daycare services which contribute to healthy and qualified employees and increase the supply of labor

Secondly, unless a common fiscal and economic policy will stress that economic criteria should be different for different countries and diverge from times of economic boom to times of economic recession, which would largely diverge from the former and current EU economic governance, this paper sees a common fiscal policy as highly problematic.

Furthermore, this paper finds the strategy of promoting competition in all areas worrying, especially in the area of social services. In this respect, the development in supply-directives in the latest years is especially worrying. A new EU supply-directive came in 2014 where the appendixes in the earlier supply-directive were removed. The earlier competition directive acknowledged that there are areas where exposure to competition doesn't make sense and therefore Appendix IIB in the directive described exceptions such as health and social services, teaching- and vocational education, prisons

etc. Therefore, all social services were exempted from the rules of competition in public supply. As that has changed, this paper worries that the public institutions', such as municipalities, price focus will lead to poorer quality in services. Furthermore, there are cases that imply that there is a problem with missing rules for profit in this area. For example, the owner of a Danish firm that is supplying services for people with a physical handicap, makes a personal profit of 22 million Danish (tax payed) crowns every year (Dahlin, 2012). This raises the question of whether the market mechanisms are fully present when public tasks are supplied privately, as such a profit could imply that a monopoly like situation is created when the firm has won the task. One could also be worried that the focus on profit could comprise the quality of the service. Furthermore, it is easy to see that full mobility, full information and full rationality, factors which are conditions for the market to work, often are not present in the area of social services. Therefore this paper is very worried with the now missing Appendix of the directive and asks the EP to work for its reinstatement in the directive.

3.2.2. A convergence code

This paper is worried about the EP's proposal of an adoption of a 'convergence code' setting convergence targets in relation to taxation, the labour market, investment, productivity, social cohesion, public administrative and good governance capacities (EP, 2017a, pts. 20: EP, 2017b: pts. 53). Areas as taxation and labor market are central national matters and this paper states that the need for convergence of these two factors can be contested and that the consequences of convergence can be severe. A likely consequence is that countries with higher levels of taxation and therefore welfare levels will cease to exist and more generally, that the different types of welfare states in EU, which has been developed over many decades and has roots in very different cultures, will converge to one type which will maybe fit a few member states, but misfit many member states. This is in itself a shame when one perceives the universal welfare states as a thing to be exported, not eroded. Furthermore, it risks to reinforce the Euroscepticism from vulnerable groups, and also left oriented people, that we see in so many member states.

3.2.3. Structural reforms

On the theory of 'Expansionary fiscal contractions' in EP's resolution on improving the functioning of the EU it is evident to see the EP's embeddedness in this theory as the only things that are mentioned in relation to promoting employment is structural reforms and the promotion of the inner market (EP, 2017b). In a Keynesian perspective not only can an expansive policy, sometimes in the

form of the opposite of structural reforms, promote growth. Furthermore, it is recognized that structural reforms can have a negative effect on growth and employment. It is worrying that this discussion is almost dead in the EU institutions, and this paper states that EU has chosen a very risky strategy in relying almost all economic governance in recent years on the theory of 'Expansionary fiscal contractions' and we are still to see the full consequences of this. The strategy has so far at best led to slow economic recovery at the cost of vulnerable groups of European citizens. Keynesian theory suggest that a faster and social fairer recovery could have taken place if an expansive and demand-oriented economic policy *also* had been pursued alongside more reasonable supply-oriented policy reforms. As the EU are still to solve problems of high unemployment and slow economic growth is it far from too late to *also* pursue expansive and demand-oriented policies along with reasonable supply-oriented policies. This paper states that this change in economic governance is absolutely necessary if EU wants to establish a social Europe, which the EP states in one of its resolutions (EP, 2017b: pts. 91).

3.2.4. Equal ranking of economic freedoms and social rights

The EP states that it wants to equally rank economic freedoms and social rights in Article 9 of the TFEU (EP, 2017a: pt. 21). Firstly, this paper states that it does not make sense to equally rank economic freedoms and social rights, there is very often a prioritization. This paper asks the EP to recognize this dilemma which is not the case in its current resolutions. Furthermore, it is very evident that the EP places greater emphasis on not distorting the competition on the internal market (EP, 2017b, pts. 3) than on the social problems that the internal market sometimes creates (nowhere to be found in the resolutions). Furthermore, a higher prioritization of social rights will demand a different economic policy regime if social rights are to be not only official but also real. This could be a way that a "*further development of the EMU*" can be "*linked to a deepening of the social dimension*" (EP, 2017b: pts. 51).

3.2.5. Involvement of national parliaments and social partners

EP recognizes that it is important to involve national parliaments in the 'economic dialogue'. Nevertheless, this paper states that it important to formalize involvement of national parliaments in the 'economic dialogue' under the 2-pack and 6-pack in more ways and in more permanent ways than in conferences and weeks (the 'European Parliamentary Week' and the 'Article 13 Conference' (EP, 2017b: pts. 59)). This is very important if the EU shall become attentive to the country specific

problems and economic models. Furthermore, the European parliament should not only acknowledge that the involvement of social partner in the European Semester could be improved, but that it *should* be improved. This is very important if the EU shall become attentive to the problems that these partners observe and learn from the knowledge that these partners possess.

4. Conclusion

This paper has identified inequality and social marginalization related reasons for Brexit and therefore also for the growing Euroscepticism all over Europe. It has explained a connection between the fear of EU immigration and the fear of not being able to provide for oneself and one's family and how the European economic governance has contributed to the growing inequality and social marginalization. On this basis it has proposed a model for a revised economic governance regime, that would promote more security for the vulnerable groups but also more growth, especially in times of crisis. Finally, on this basis the paper has commented parts of the European Parliament's resolutions from February 2017 that it finds worrisome: Its neoliberal understanding of competitiveness and its application in all areas of the welfare state, a common fiscal policy, a convergence code in the areas of taxation and labor market, structural reforms, an only formal equal ranking of economic freedoms and social rights, and finally, too little involvement of national parliaments and social partners in the 2- and 6-pack and the European Semester.

The paper states that it is absolutely necessary that EU's central institutions to a much higher extent recognize the several cases where problems of inequality, social marginalization and slow economic growth are related to EU's economic governance. The recognition of these problems is necessary for the sake of EU's economy, but more importantly for the social marginalized in Europe, EU's legitimacy among those groups and therefore also EU's future cohesion. Especially now where the latter are more important to uphold and promote than it has ever been.

5. Litterature

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