Renewing the (damaged) social contract

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If globalisation (together with biased technological change) \(\equiv\) economic growth \(\Rightarrow\) risk of loss of social cohesion and national self-determination

Questions
- Europe: regional globalisation or joint response to globalisation?
- Is the quandary inescapable?
- How to review the social contract?
The EU: often perceived as agent of the market rather than enabler of inclusive growth

Not a political equilibrium

A new balance/distribution of competencies is needed, but difficult
Is the trilemma unescapable?

- Recent measures taken in Europe suggest that countries can adopt a positive and negative approach to the quandary.
- Experience in the Nordic countries shows that a strong social contract can help overcome seemingly incompatible aspects.
Renewing the social contract

Progress needed on the three dimensions
- Political capital for redistribution is limited
- The same Gini coefficient achieved via more post-market equalisation results in lower level of happiness
Conclusions

Possible avenues to overcome the Dahrendorf-Rodrik quandary:

- Restore empowerment and a “sense of belonging”
- Strengthen pre-, in- and post-market dimensions
- “Dynamic subsidiarity”: deliver common goods at the appropriate level and via the appropriate means / actors
- Stretching sovereignty up (Europe, as a response to globalisation) and down (Inclusive localism, role of third pillar)
Thank you very much for your attention
Globalisation and “biased” technological change

- Beneficial for the economy as a whole...
  - Overall income gains via higher static and dynamic efficiency
  - Larger markets and product varieties
  - Convergence effects across countries: “elephant graph”
  - Reallocation of mobile factors

- ... but not Pareto-optimal
  - Adverse distributional impacts within countries, stagnation of median income
  - Systemic risk from unbridled financial markets
  - Benign view of cross-border labour mobility and migration
  - Agglomeration effects, risk of “economic desertification”

- Real/perceived loss of control at national and community level vis-à-vis big business, financial sector - “the establishment”
- A damaged social contract
Addressing the divergence: “Inclusive localism” and diffusion of high-quality jobs

- “The pillars are seriously unbalanced today” (The Third Pillar, by Raghuram Rajan)
- The state and markets have expanded their powers through liberalisation and centralisation.
- Communities became dysfunctional, but give us a sense of identity and self-determination.

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- **Spreading economic growth**
- The Henry George Theorem: Taxing the gains from agglomeration
- Diffusion of innovation hubs cannot be left to the market.
  - New innovation hubs must be geographically scattered (Public R&D funds)
  - Make sure all people benefit (e.g. innovation dividends)
Making inclusive growth happen: mainstream into EU policies

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| Fostering investment in people and ideas | • Strengthen activation and inclusion policies  
• Prioritise education and training  
• Explore decentralised innovation initiatives  
• Ensure universal and fair access to health care |
| In-market     |                |
| Adjustment and adaptability for inclusive growth | • Rethink collective bargaining structures  
• Support social role of enterprises  
• Address displacement costs  
• Foster the role of the Third pillar  
• Establish better social protection for non-standard employment |
| Post-market   |                |
| More efficient and inclusive tax-benefit system | • Optimise inclusive minimum income schemes  
• Use tax policy to impact market income distribution  
• Optimise tax incentives for labour market participation and productivity growth  
• Ensure fair and sustainable pension systems |

**ACTION AT EU LEVEL**

• Fostering integration and convergence, resilience of EMU  
• Rethink place-based cohesion policies  
• The European Pillar of Social Rights  
• Mainstreaming inclusiveness into the European Semester  
• New Skills Agenda, Upskilling Pathways, InvestEU  
• Access to social protection, minimum income schemes  
• Initiatives in the field of taxation
Back to the Dahrendorf-Rodrik quandary: stretching up and down

Economic Growth
Social cohesion
Democratic liberty
EU Sovereignty and Inclusive localism
Globalisation
National self-determination