



European  
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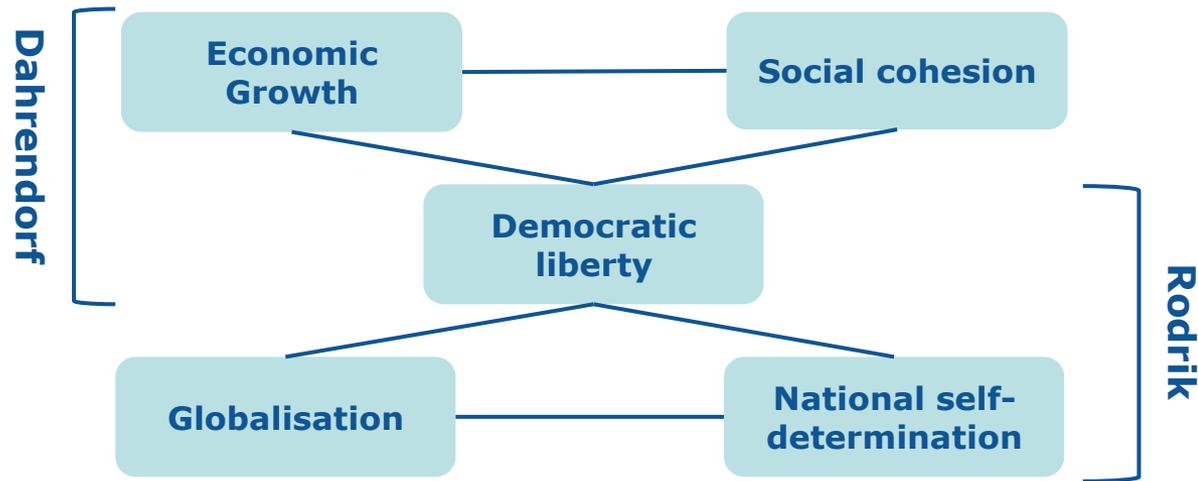
# Renewing the (damaged) social contract

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# The Dahrendorf-Rodrik quandary

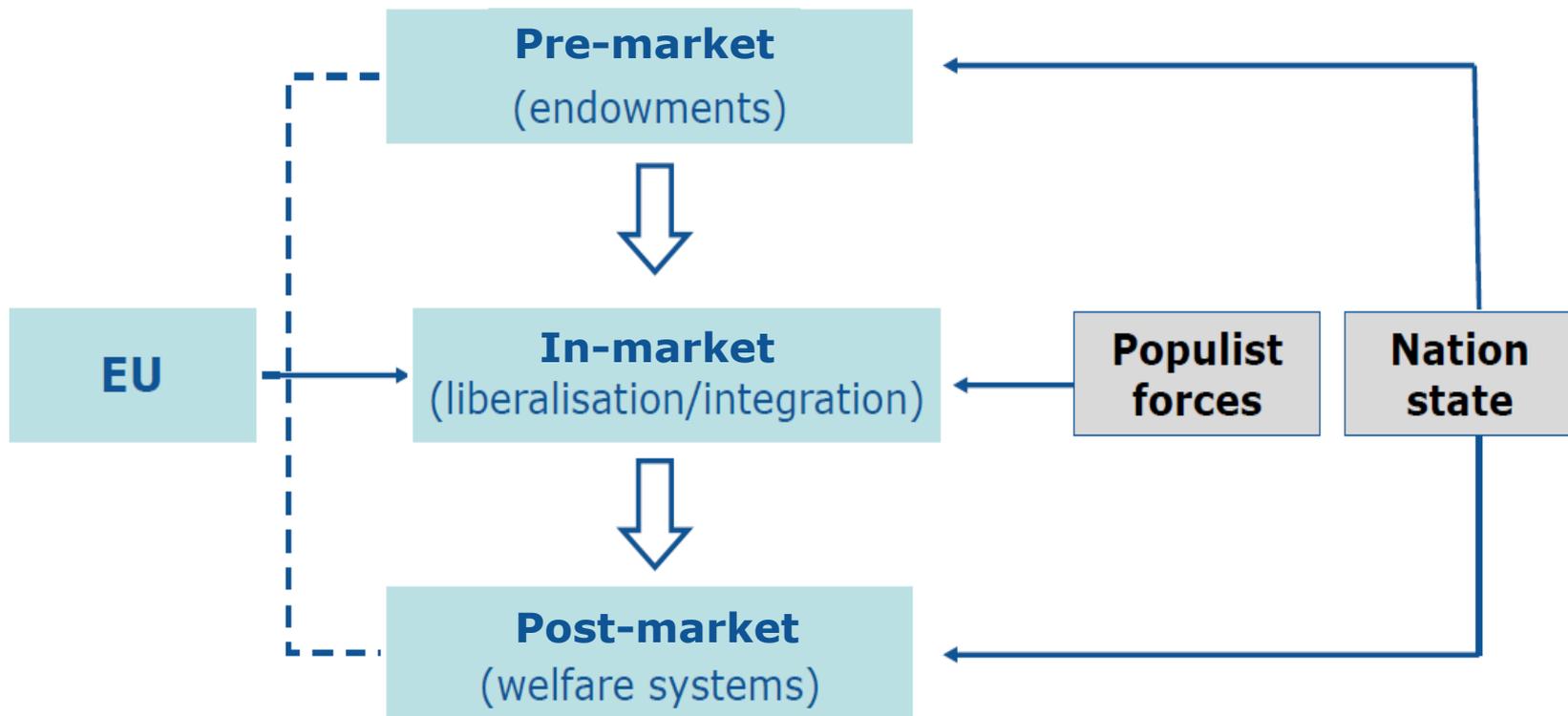


If globalisation (together with biased technological change)  $\equiv$  economic growth  $\Rightarrow$  risk of loss of social cohesion and national self-determination

## 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?

**Giving greater role to citizens**

## Positive measures

- BE (citizen consultation in the DE-speaking region)
- FR (Grand débat)

**Vs.**

## Negative agenda

- HU (Art. 7 on breach of rule of law)
- PL (Judicial independence)

**Taming the forces of globalisation**

- CCCTB
- Renewed approach to trade agreement

- Brexit
- Trade protectionism

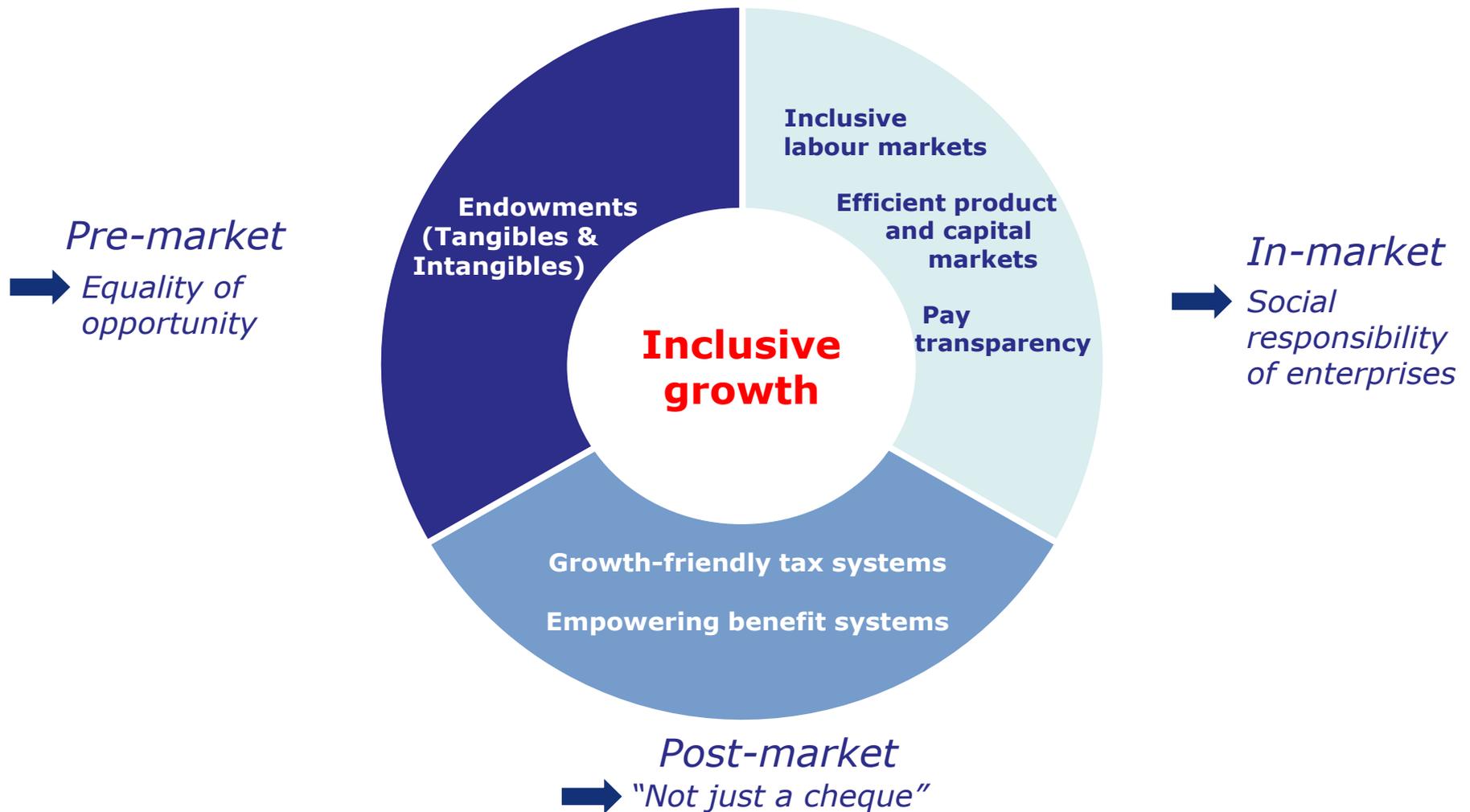
**Reinforcing social cohesion**

- DE (minimum wage)
- FI (basic income)

- “Walls”

- 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.

	Market	State	Community
“Inclusive localism”	Inclusive markets	Inclusive state	Empowered communities
What can be done...	Focusing on stakeholder value and addressing barriers to competition and entry (e.g. IP and data)	Creating bridges between communities, monitoring communities and providing central support	Localisation of activities such as education, retraining and safety nets

- **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

PRIORITY AREA	SETS OF ACTION
<p><b>Pre-market</b></p> <p><i>Fostering investment in people and ideas</i></p>	<ul style="list-style-type: none"> <li>• Strengthen activation and inclusion policies</li> <li>• Prioritise education and training</li> <li>• Explore decentralised innovation initiatives</li> <li>• Ensure universal and fair access to health care</li> </ul>
<p><b>In-market</b></p> <p><i>Adjustment and adaptability for inclusive growth</i></p>	<ul style="list-style-type: none"> <li>• Rethink collective bargaining structures</li> <li>• Support social role of enterprises</li> <li>• Address displacement costs</li> <li>• Foster the role of the Third pillar</li> <li>• Establish better social protection for non-standard employment</li> </ul>
<p><b>Post-market</b></p> <p><i>More efficient and inclusive tax-benefit system</i></p>	<ul style="list-style-type: none"> <li>• Optimise inclusive minimum income schemes</li> <li>• Use tax policy to impact market income distribution</li> <li>• Optimise tax incentives for labour market participation and productivity growth</li> <li>• Ensure fair and sustainable pension systems</li> </ul>

## 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

