

IPR Report
May 2017



From Brexit to European Renewal

Professor Graham Room

Professor of European Social Policy,
University of Bath

IPR Institute for
Policy Research

*For Jos Berghman
and
Alfredo Bruto da Costa*

Scholars of European cooperation

In Memoriam

Contents Page

3 Introduction

7 Chapter 1: The Not-So-Great British Brexit

- 8** Introduction
- 8** Picking up the Bits
- 10** Austerity as Failure
- 11** Rebuilding Solidarity
- 13** Rebuilding Europe

15 Chapter 2: It's the European Economy: Stupid

- 16** Introduction
- 16** The Foundations of European 'Integration'
- 19** Earlier Transformations of the European Economy
- 20** Markets and the Knowledge Economy
- 22** The Dynamics of Change in the European Economy
- 23** The European Consequences of Germany's 'Luck'
- 25** The Dysfunctional Project
- 26** Conclusion

27 Chapter 3: European Politics: High, Low and Hot

- 28** Introduction
- 29** The Political Actors
- 32** The Drama
- 33** The Public
- 37** Conclusion

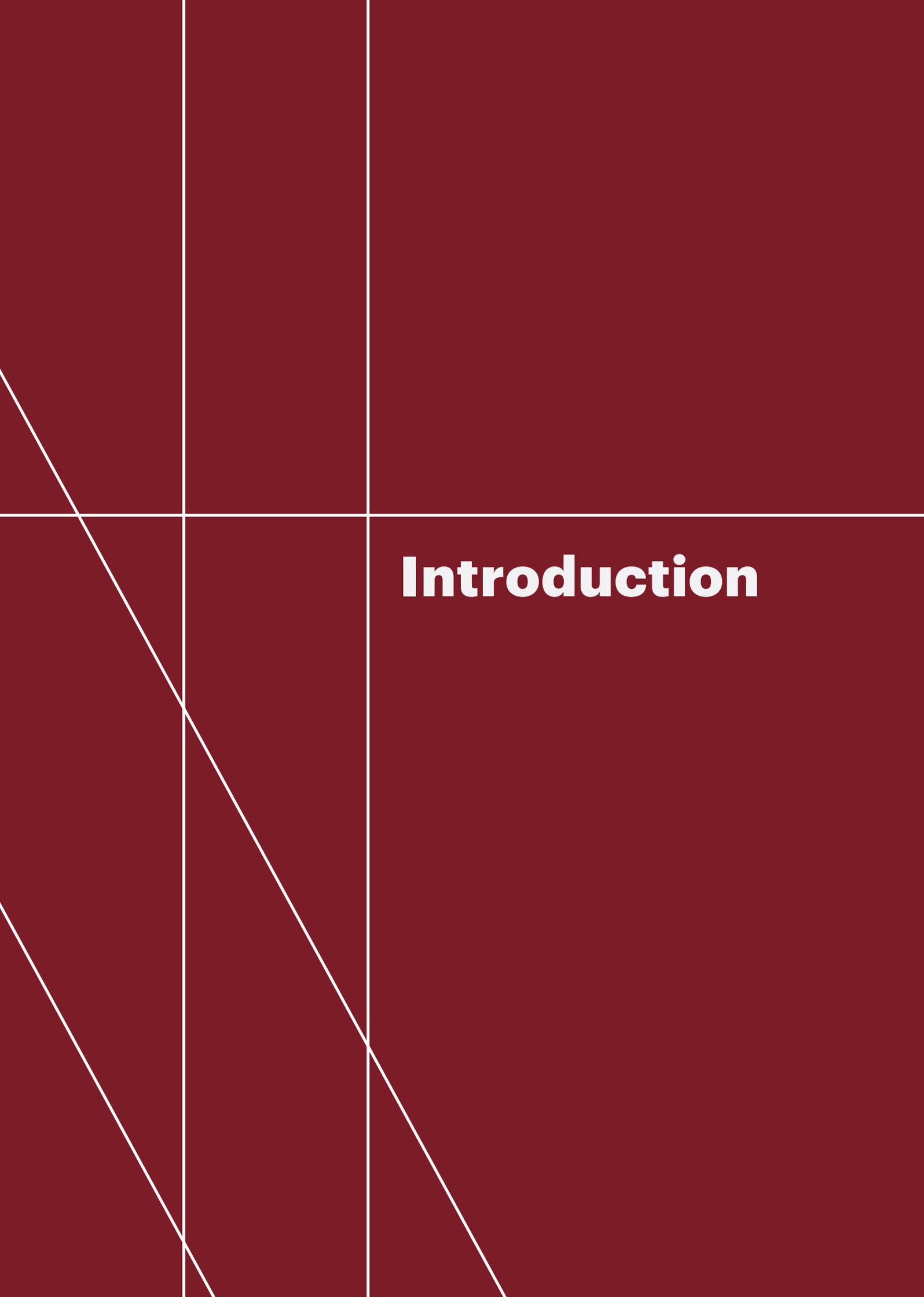
39 Chapter 4: Four Steps to Rebuild Europe

- 40** Introduction
- 41** Rejuvenate the European Economy
- 43** Promote Security and Creativity for All
- 45** Re-Think Free Movement
- 47** Encourage Creative Subsidiarity
- 50** Conclusion

52 Chapter 5: How We Can All Have Our Cake and Eat It

- 53** Introduction
- 53** A Programme for Renewal
- 55** A Beacon for the World?

57 References



Introduction

"The task of the most advanced societies is a work of justice"

(Emile Durkheim, *The Division of Labour in Society*)

"What are the roots of this disaffection and how appropriate is it to lay the blame at Europe's door?"

The UK referendum in 2016 revealed deep popular disaffection with the European Union (EU) – in particular, on the part of working-class communities that felt that they had been left behind, with their cohesion and their very identity under threat.

Some of the roots of this disaffection may lie elsewhere – in national government policies or in the effects of globalisation more generally. The disaffection may also have been stoked by opportunistic politicians. The blame may therefore have been laid unfairly on Johnny Foreigner – the Brussels Eurocrat as much as the Syrian refugee. Be that as it may, it was sufficient to provoke one of the worst crises in the history of the EU.

Three questions arise.

First, was this a uniquely British malaise, or did it tell a more general story about the European project and the European citizen? In 1848 Marx and Engels focussed their attention on the burgeoning industrial towns and cities of northern England. They assured the world at large '*de te fabula narratur*': the story that is unfolding here shows you your own future. How far did the disaffection of working-class communities in the 2016 referendum, especially across that same northern England, encapsulate a larger unfolding story about Europe more generally? If it did, the European Commission (2017) gives little sign of paying heed, to judge by its *White Paper on the Future of Europe*, published in March.

Second, what are the roots of this disaffection and how appropriate is it to lay the blame at Europe's door? Is the EU distributing the benefits of European integration evenly, so that all communities can share in its prosperity, or is it visiting the costs of change disproportionately on those who are already vulnerable? And how far is the discontent of the aggrieved being given any voice in the long-standing debates about the 'democratic deficit' of the EU?

Third, what reforms to the European project might address this malaise – and maybe in the process save the EU itself from further disintegration? Whether the promise of such reforms will suffice to reverse popular opinion in the UK, and even provoke the British electorate to apply an emergency brake to the whole Brexit process, is beyond the scope of this report. What seems clear however is that **without** such a positive vision of Europe's future, capable of addressing the grievances that the UK referendum revealed, such a U-turn is highly unlikely.

It is with these three questions that this report is concerned.

Chapter 1 starts with the UK referendum and the politics of Brexit. Much has been written about the defenestration of the British political class and the turmoil the referendum result has produced in the British political system. This goes far beyond the politics of Westminster, with strains to the relationship with Scotland, Northern Ireland and the Irish Republic, and with potentially disastrous consequences for the UK's post-divorce relationship with the EU²⁷. Our own focus however is on the relationship between political leaders and the population at large: the 'social contract' which is part of any democratic

"In the wake of the US election, the world is more turbulent and uncertain; rescuing and rebuilding Europe assumes an even greater importance"

society. This is the bargain between leaders and led, the trading of political legitimacy for popular security. It is the fracture of this social contract, we argue, which underlay the Brexit vote; but it also raises for the EU the question of how far those cracks extend, across the body politic of Europe more generally.

Chapter 2 argues that these cracks derive from flaws in the economic model that drives European integration. The single market involves the free movement of people, a principle that aligns well with the liberties that Europe treasures; but it also involves freedom of movement for goods, services and capital. Freedom of this sort has economic and social consequences which are not necessarily benign – reinforcing the inequalities between regions and eroding the social fabric of communities. Such persistent inequality is bound to alienate the communities most adversely affected.

Constitutional reforms to the European Parliament are here of little relevance: what matters are the principles of social justice by reference to which Europe treats its own. Yet as **Chapter 3** argues, these issues are left largely peripheral to the European debate. This is in part because of an economic orthodoxy, which expects social benefit to be evenly spread, as the natural concomitant to the free market; but also because social policy is assigned by the subsidiarity principle to the individual nation states. We argue that social policy and social justice are too important to be left there: they constitute the 'hot politics' of European progress and if ignored, they risk a melt-down of the whole Union.

Chapter 4 sets out a programme of reforms which would accord with such principles of social justice: a social contract between European political leaders and European citizens, trading political legitimacy for collective solidarity and security. This is important for at least three reasons. First, because across Europe, ordinary people have since the financial crisis been struggling to get by on stagnant incomes, even as inequality has grown and the affluence of corporate elites continues to be flaunted. Second, because in an uncertain world, households and communities need to have some sense of stability, underpinned by public institutions. Only on this condition can they engage positively with change. Third, because the limited capacity of the individual nation state, to insulate itself from global uncertainties, means that social stability and justice have a much greater chance of being secured through collective action at European level. Such a social policy can touch the communities which other European policies cannot reach – giving them a critical voice and rebuilding political trust between leaders and led.

As yet however, Europe's political leaders seem to lack that positive vision. Germany continues to insist on austerity and financial prudence, as sufficient remedy for the economic malaise of the periphery. The 2017 White Paper makes much of the completion of the single market and the firmer governance of the Euro. What it wholly lacks is any clear vision of social justice. Instead the leaders of the EU seem stuck in a bubble, viewing the problem as one of institutional re-working.

Chapter 5 concludes with the larger global significance of this drama. In the wake of the US election, the world is more turbulent and uncertain; rescuing and rebuilding Europe assumes an even greater importance. This will require major acts of political leadership by the EU institutions – demonstrating eloquently the positive benefits of European integration and shared purpose in an uncertain world.

It may still be possible for the UK to be part of this grand re-working of the

European project. The referendum was a collective decision, and responsible citizens, individually and collectively, are able to change their minds.¹

1. <https://goo.gl/rdvLLR>



Chapter 1: The Not-So-Great British Brexit

Introduction

During 2015-16, two member states of the European Union asked for a new deal. Greece wanted the single currency without austerity. The UK wanted the single market without the free movement of labour. Both were told this was impossible. Both electorates fulminated at the intransigence of the EU rules and institutions. The Greek electorate backed down; the UK electorate backed out.

Not that they were entirely alone. Public discontent across the Continent – concerned variously at the effects of austerity and immigration – fuelled and was fuelled by the rise of far-right parties, not least in Germany, the heartland of the European project. It would be unwise to assume that this discontent will fade away, leaving the European project to resume its steady progress, with only the Greeks and the British glowering from opposite ends of the European space.

But what lessons should be drawn from all this – for the basic freedoms of the single market, for the relationship between national governments and transnational governance, and for the place of democratic politics in a globalising world? Are there positive elements that can be salvaged from this dramatic 18 months – not only by the Greeks and the British, but by the EU itself? Indeed, in the wake of the US election shock, are there even lessons that go beyond Europe?

These are the concerns of this report. But we start with the UK referendum and the political fracture it revealed between political leaders and the population at large.

Picking up the Bits

In May 2015 the Conservatives won the UK general election, with a promise to hold a referendum on EU membership. At the beginning of 2016, Prime Minister Cameron sought a renegotiation of the UK's membership, protecting the UK from further steps towards economic and political integration, but also placing limits on the numbers of migrants from other member states and on the social benefits for which they were eligible. The deal he brought back from Brussels was widely derided as trivial (Shipman, 2016).

The referendum campaign was bitter, the result close – and the social divisions that were exposed, across the UK, profoundly worrying. The days and weeks following were politically turbulent, in terms of both British domestic politics and the shock internationally.

What did we learn from the referendum campaign, the passions and fears that it unleashed? Were the electorate truly energised by the question of whether to leave or remain, or were they asking quite other questions than that on the ballot paper? Was this a national, and rational, debate about UK membership of the EU – or a mix of quite different hopes and especially fears, using the referendum as a brief opportunity to express themselves?

These questions arose most fundamentally for the UK Labour Party, as they

“In such a situation, political leaders struggle to unpick a complex mix of problems – and wonder how to offer policies which unite and build resilience”

sensed the gap that has opened up, between the internationalism of their London-based elite and their traditional supporters in the Midlands and the North. If Cameron, with his divided party, was forced to look Left for some hope, Labour was itself forced to look to its progressive middle class and younger supporters.

How did the UK get into this situation? How in particular did immigration divide Labour from its base?

Immigration into the UK over the last decade has been 5.77 million¹. Many immigrants have gone into areas of low-cost accommodation alongside the working-class households from whom Labour traditionally drew its support. True, there has been emigration of 3.48 million (meaning net immigration has been 2.49 million) but not necessarily out of those same localities. During the same period, austerity and recession have meant cuts in public services, in jobs and in benefits, which have hit those same areas particularly hard. Was it so surprising that established residents should infer a causal connection? And was it surprising that they felt insecure and abandoned?²

In such a situation, political leaders struggle to unpick a complex mix of problems – and wonder how to offer policies which unite and build resilience. This both major parties failed to do. Labour assured the voters that immigration was a good thing; those who said otherwise were bigoted or misguided. After all, had not immigration been accompanied by some growth in GDP? (Maybe so, but for households on average incomes, real wages stagnated.) And did not immigrants pay more in terms of social security contributions than they took out in benefits? (Maybe so, but in localities receiving large numbers of immigrants, policies of austerity meant there was little if any financial support for the extra services needed.)

How should we understand community resilience in the face of rapid change; and what role can public policies play? In the mid-20th Century, writers such as Tawney (1931, 1964) and Titmuss (1963) and T H Marshall (1950) provided an account of the development of UK social policy strongly related to national identity and solidarity. It set the fraternity and mutual interdependence of citizenship against the divisions and inequalities of class and against the turbulence and insecurity of an urban-industrial society. It was a solidarity that would welcome the stranger – but this generosity presupposed that foundation of solidarity. When other writers – Rimlinger (1971) and Esping-Andersen (1990) for example – wrote the comparative history of social policy in other countries, it was similarly in terms of the solidarity and resilience of local and national communities.

We might also go back to those British sociologists who described the changes that came to working-class urban communities in the mid-20th

1. <https://goo.gl/HC2OEL>

2. Goodwin and Heath (JRF report <https://goo.gl/cokFjl>) draw together the demographics of the UK referendum and of the Leave voters in particular. They emphasise that income and poverty were a major divide, as were skills and education. Those who were additionally marginalised, by the lack of opportunities in the places where they lived, faced a ‘double whammy’ – and the voting divide was even greater. Some commentators have followed Kaufmann (<https://goo.gl/hHleNV>) in explaining the Leave vote by reference to the ‘authoritarian personality’ of many of its supporters. Goodwin and Heath, while recognising those contrasting values, are careful to highlight the social and economic processes that have generated the divide. It is just such processes that tend to drive aggregate shifts in people’s consciousness – explanations in terms of aggregations of personality types are of little use.

Century. Young and Wilmott (1957) described the move from the close-knit relationships of Bethnal Green to the nuclear families of Debden. Richard Hoggart (1958) described the ways in which rising levels of material consumption, while welcome in themselves, left those solidaristic links to atrophy. By the end of the century, New Labour was able to bring consumerist aspiration, and choice in public services, to the centre of its electoral promise (to some extent neglecting the challenges of deindustrialisation facing its traditional heartlands). The question was reduced to how well ordinary citizens would deal with this cornucopia, and how much a benign government would need to nudge them, if they were to exercise those choices wisely.

Such optimism for the new century was understandable. The economic crisis following 2008 – and the programme of austerity that followed – changed all that. Solidarity failed; all but the wealthiest suffered, and Labour's natural constituency suffered most of all. The referendum provided an opportunity for them to give vent to their sense of abandonment. It is this that politicians in the UK were forced to confront.

Austerity as Failure

The UK referendum was remarkable in bringing together the leaders of all the major political parties in defence of Remain. Concealing as it did their dramatically different visions of social and economic policy – and by extension their vision of the UK's future within Europe – this subterfuge only underlined the artificial nature of the referendum debate. The public dialogue instead served as a distorting mirror, in which the electorate struggled to make sense of the futures paraded before them.

Central to this strange tableau was the Chancellor George Osborne, whose austerity policies had been so wantonly destructive of the social fabric and who thus – no less than the Leave campaigners themselves – was the reckless co-architect of their victory. It is to the wholesale replacement of those austerity policies that any effective response to the referendum will need to be geared. Just as the near-defeat of the British establishment in the Scottish referendum forced some recognition of Scotland's grievances, so also this more dramatic defeat requires a clear re-engagement with the have-nots of the country, if these deep divisions are to be healed.

Austerity insists that reduction of the public sector deficit must be the principal economic goal, pursued mainly through cuts in public expenditure. Shrinkage of the public sector is meant not just to reduce the deficit, but also to stimulate the private sector. Underlying this view is the assumption that the market, left to itself, will automatically adjust, and produce investment, full employment and economic growth. Government only gets in the way (Blyth, 2013).

There is an alternative and very different analysis of the modern economy (Room, 2015). This recognises that government must play a leading role in maintaining the general buoyancy of the economy, and in using public investment to build its long-term capacity. Viewed from this standpoint, to make

“What the successive rounds of QE over recent years did was to channel money not into investment in the real economy, but into equities, very much to the advantage of the already wealthy”

reduction of the deficit the top short-term priority has been unnecessary and unhelpful. If government expenditure is continually cut back, the economy is likely to stagnate: business investment will remain low, the growth in the underlying capacity of the country will be slow, and tax receipts will be flat or falling. And, as we have seen, the most vulnerable communities disproportionately bear the costs. It is like the medieval practice of blood-letting, overlooking that this only weakens the patient and reduces the likelihood – or at least the speed – of recovery.

Whether a new government dominated by Brexiteers will offer such a vigorous re-orientation of economic policy is rather doubtful. The immediate response by the public authorities to the economic uncertainties created by the referendum was to promise new rounds of ‘quantitative easing’ (QE) by the Bank of England (Martin, 2013). Such measures lower the interest rate and, it is argued, make it easier for businesses to borrow money and invest. Keynes however showed that if those businesses lack confidence in the future level of economic activity, then no matter how cheaply money can be borrowed, they will not invest in new programmes of activity.

What the successive rounds of QE over recent years did was to channel money not into investment in the real economy, but into equities, very much to the advantage of the already wealthy. It is perhaps not surprising therefore that the announcement of new rounds of QE following the referendum sent the FTSE index soaring. Whether the working-class communities, who voted in large numbers for Brexit, took similar delight from the announcement, is more doubtful.

The UK economy did not suffer the immediate post-referendum loss of momentum of which the Remain campaign had warned. Even so, the pound sterling fell, public fiscal targets were loosened and most informed economic opinion remains pessimistic about the economic prospects³.

Rebuilding Solidarity

The 2008 crisis produced enormous discontent and a loss of legitimacy for major social and political institutions. Nevertheless, the main UK political parties continue to cluster around a narrow agenda of neoliberal policies: the general direction of social policies has been to push as many as possible into the market place, narrowing public generosity towards those who remained. The burden of austerity has in consequence fallen on the most disadvantaged, multiplying the uncertainties to which they are exposed.

This has been the politics of fear – and of surrender to the global market. Austerity has not however worked and has proved intellectually bankrupt (Blyth, 2013). Something different is needed, involving positive action to rebuild solidarity and creativity as a nation.

In the years that followed the Second World War, the social contract

3. <https://goo.gl/O140Ta>

between state and citizen, across the western world, involved a pooling of risks and uncertainties through systems of social security. The same period saw governments confronting the economic instability of capitalist society. This has sometimes been characterised as a consensual process, the benign fruit of economic progress (Wilensky and Lebeaux, 1958). Nevertheless, as T H Marshall (1950) warned: 'in the twentieth century, citizenship and the capitalist class system have been at war'. It was only out of that struggle that institutions of shared security emerged. By the 1980s and 1990s however, those institutions were becoming somewhat threadbare.

If the social changes of the 21st Century are to be managed successfully and with public consent, they will need a new social contract to underpin them. This will need to include several interrelated elements, going well beyond traditional welfare systems:

- Individual security against risks of income interruption – the heartland of traditional welfare states, albeit in the last half-century on the defensive across much of the industrialised world, in the face of neoliberal hostility to state welfare
- Investment in everyone's capabilities, not just in those with parental wealth – what many have referred to as the 'social investment state'. There is good evidence that for a given financial outlay, it is investment in the lowest-skilled that can produce the greatest benefit for national productivity (Coulombe et al., 2004)
- The rebalancing of our economies to provide 'decent jobs'⁴ which make use of everyone's capabilities, not least in face of new challenges from automation and robotics
- Investment in vibrant local communities as *loci* of education, learning and creativity for all – in particular for disadvantaged communities, which are often poorly connected to the community at large
- Involvement of all in the governance of social, political and economic institutions, with active citizenship and scrutiny of public policies, and of the corporate interests which might otherwise detract from such a contract

These are complementary elements of development. Such a contract would involve a broad range of policies of relevance to all citizens, rather than focussing just on society's casualties. It would need to go far beyond the notion of a basic income for all, which in various guises has again reared its head across the political spectrum. It would limit the risks of poverty but also promote economic growth; promote individual security but also collective resilience and adaptability. It would mobilise the energies and talents of all sections of society. It would also go far beyond the extension of choice in public services, with the citizen seen primarily as a consumer. It would involve rebuilding local and national communities, as points where these different policies can be connected up. It would leave the market where it belongs, as the servant of the community not its master, not least in respect of housing.

4. <https://goo.gl/eFzAKC>

All this would make for a distribution of rewards which is significantly less unequal.

This would also re-shape the debate on immigration. First, by investing in the skills and creativity of our own population, we reduce the need for employers to look elsewhere – for nurses, for IT specialists and others – in ways that denude poorer countries of those in whom they have invested their slender national resources. Second, by taking collective responsibility for the infrastructures of those communities to which large numbers of immigrants come, rather than ‘devolving’ this burden to the local areas in question, we reduce the risk that those communities will see immigrants as a threat.

Rebuilding Europe

The Brexit victory demonstrated deep disaffection with the European project, across broad swathes of the UK – including in areas which have long benefited from EU regional support. This chapter has sought to understand the outcome of the referendum by reference to the fears of communities and households suffering from austerity and the dismantling of community services, and blaming these on high levels of immigration. It is not enough to tell those who voted to leave that they should be less xenophobic.

The major UK parties face significant existential challenges as they contemplate the uncertain road ahead⁵. The Conservative Government – having initially toyed with a ‘soft Brexit’, with special terms of access for key sectors including finance and vehicle manufacturing – now seems reconciled to wholesale exit from even the European Economic Area (EEA), given EU insistence on maintaining free movement of labour. To accede to free movement would risk the Conservatives losing electoral support to UKIP (or at least the Prime Minister being side-lined by her own Brexiteers).

It is this fear that seems to have trumped all else in her thinking, no matter what economic damage Brexit produces⁶. Not to secure those special terms will however jeopardise major sectors of the UK economy – and business elites who are the natural allies of the Conservatives. If the negotiations go badly, she threatens to pursue “an alternative economic model”: low-tax but inevitably also low-wage and low-security. This hardly offers much comfort. ‘Hard Brexit’ will also place fresh strains on the relationship between Westminster and both Scotland and Ireland (Morphet, 2017: Ch 1)⁷. UKIP may be almost absent from the Westminster Parliament, but it is the ghost at the feast and even in its absence, it exacts a heavy price. The arrival of President Trump – and his support for UKIP – only reinforces these strains, and reduces the scope for the Government to ‘row back’ from the ‘hard Brexit’ into which it seems

“The major UK parties face significant existential challenges as they contemplate the uncertain road ahead”

5. For some of the options available, see Morphet (2017) Ch 3.

6. <https://goo.gl/aAwTQR>

7. <https://goo.gl/lbpbbG>

“To address these challenges and tensions will require reforms to the European project very different from those which successive UK governments have demanded”

increasingly locked.

Jeremy Corbyn meanwhile – instinctively sympathetic to free movement – leads a Labour party which likewise fears electoral wipe-out by UKIP, in many of its northern constituencies, if it wavers in its support for the Brexit they chose – but which also fears a weakening of support from its younger and professional voters, strongly in favour of Remain. The Trump presidency has only reinforced the dilemma: on the one hand, the evident need to address the despair and anger of working-class, post-industrial communities, which gave Trump his triumph⁸; on the other hand, the dangers of supporting a Brexit that recklessly delivers the UK into Trump’s hands⁹. Against this, the Scottish Nationalists demonstrate how a strong narrative of national solidarity and social justice can in some degree bind these different elements together, given sufficient political skill.

The UK may always have been a rather awkward partner in the European project; even so, these grass-roots concerns cannot be dismissed as the waywardness of an island people. Nor are they concerns that could have been managed by a more competent national government. On the contrary, this report will argue that they resonate with some core challenges and tensions within the European project as a whole, affecting nations and communities across the Continent. To address these challenges and tensions will require reforms to the European project very different from those which successive UK governments have demanded – but also very different from those foreseen by the European Commission in its *White Paper on the Future of Europe* (March 2017).

It is to the elaboration of a viable alternative to the current foundations of the EU that this report is devoted. This starts from the fears revealed by the UK referendum and the disillusionment with the EU – both for its failure to provide sufficient net benefit for the communities in question and its failure to listen to their voice. Chapter 2 will be concerned with the first of these; Chapter 3 with the second.

8. <https://goo.gl/wcHfSs>

9. <https://goo.gl/s5atns>



**Chapter 2: It's
the European
Economy:
Stupid**

Introduction

The European Union is going through what is arguably its most difficult period. This is partly because of the financial crisis of 2008, which continues to have major repercussions, with stagnation across much of the European economy. The public spending disciplines imposed on countries such as Greece and the turmoil occasioned by the refugee crisis of 2015 have added to these strains. The UK referendum has reinforced the state of crisis; so has the response of other far-right Eurosceptic parties and the election of Trump.

Nevertheless, this is a crisis whose roots are long-standing. More fundamental questions must be posed, about the whole model and direction of European economic development, over many decades. This chapter examines these strains. It poses two questions. First, through what institutional forms have successive transformations of the European economy been managed; what have been their effects and limitations; and what constraints and path dependencies for subsequent transformations have they imposed? Second, what have been the implications of this economic transformation for the distribution of its costs and benefits across the European population, the inequalities between regions and the social fabric of communities?

It is from this vantage point that we will seek to make sense of the fracture exposed by the UK referendum between political leaders and the wider population: a fracture that threatens to widen, across the body politic of Europe more generally.

The Foundations of European 'Integration'

The project of European integration recognises that the social, economic and political futures of the different European nations are inextricably linked. These interconnections have in the past led to mutually destructive warfare; the hope has been that through cooperation and the removal of borders, those interconnections can now lead to harmony and 'ever-closer union'. From the start, market integration has been portrayed as central to this process.

Today that market integration rests on two principal foundations: the **free movement** of goods, services, capital and labour, and the maintenance of **sound finance** by national governments, as expressed most obviously in the criteria laid down in the Maastricht Treaty of 1992.

These institutional foundations are, however, human creations; we do well to notice their limitations and their consequences, not all of which may have been foreseen. We also do well to be self-critical as to the assumptions that underlie our understanding of how a modern economy works. And, not least, we do well to learn from earlier periods of transformation of the European economy, and the social and political correlates thereof. Orderly markets and sound government finance were not always so central to our understanding of European connectedness.

Indeed, we will argue that free movement and sound finance, as presently institutionalised, far from being essential to the European project, now

threaten its very existence.

Free Movement

The 'four freedoms' are market freedoms. Nevertheless, the very word 'freedom' resonates with the ambition of the founders of the European Community: to build an enduring area of peace, prosperity and democratic freedom out of the rubble of war. To question or even to oppose those market freedoms might well seem to challenge these more fundamental goals.

The 'four freedoms' are fundamental to the single market of the EU. According to the Cecchini Report of 1988, espousing completion of the single market by 1992, the barriers to such freedom were costing European industry dear. Their removal would ensure a 'self-sustaining virtuous circle' with 'downward pressure on prices', the easing of public deficits, large-scale job creation and sustained economic growth (1988). This eloquent paean to the power of free markets, releasing the energies of the capitalist system, was consistent with the earlier commitment to a common market embodied in the Treaty of Rome – but it resonated even more with the neoliberal spirit of the 1980s and 1990s.

The single market project had a varied parentage – as it needed to, if it was to be politically sustainable. The French socialist Jacques Delors was Commission President but the British Conservative Lord Cockfield held the single market portfolio and sold the project to Margaret Thatcher, as a fitting expression of her own economic programme (inspired as it was by Hayek). Meanwhile the whole project was set within the Exchange Rate Mechanism – the currency system that foreshadowed the euro – embedded within rules dictated by the German central bank.

It is easy to refer to the 'four freedoms' as though the single market means the same for all of them: the removal of national barriers and the release of creative energies. Nevertheless, the content given to these four freedoms has evolved over the decades and been frequently contested and adjudicated within the European Court of Justice¹ (ECJ). This is, not least, because market freedoms have a complicated relationship with social wellbeing and political governance, whether we are referring to local, national or transnational affairs.

Thus, for example, market freedom in the provision of services across the EU can run up against national concerns to maintain nationally specific social welfare systems and the forms of national solidarity which these entail. Market freedom in the movement of capital can run up against national concerns to limit foreign ownership of key national industries. Market freedom in relation to labour raises difficult questions for firms posting their employees to work in another EU country and the extent to which they should be subject to local employment regulations (Papadopoulos and Roumpakis, 2013). How such questions are resolved will have different implications for the different stakeholders involved – and for the scope they then have to mobilise EU provisions in their respective interests.

"The content given to these four freedoms has evolved over the decades and been frequently contested and adjudicated within the European Court of Justice"

1. From the very start, the Court's most obvious point of reference was the promotion of market freedoms: and to an increasing extent, ECJ judgements seem have taken on a neoliberal flavour (Supiot, 2012: Ch 3; Streek, 2014: Ch 3; Streek, 2016: Ch 6).

The ‘four freedoms’ – including the free movement of labour – do not therefore have some fixed meaning. They are contingent and contested, evolving as new social and economic conditions emerge, as well as in response to shifting balances of power among the various contending groups. They are also in some degree contingent on wider debates over market freedoms and the assumptions made by political and economic elites as to how ‘markets’ work².

Sound Finance

If the four freedoms are contingent and contested, the same goes for sound finance. Such economic orthodoxy tells governments to return to the mantras of the 1920s: balanced budgets, low inflation, stable currencies and support for business. This is expressed most obviously in the Maastricht criteria for European fiscal and monetary convergence.

This orthodoxy has two particular elements. First, it insists that a robust and strong euro requires fiscal conservatism by all member state governments in the conduct of their public finances. The Maastricht criteria set limits on the size of public sector deficits (albeit in the early years of the recent recession both Germany and France went outside those criteria). Second, the central banks insist that come what may, loans to debtor nations must be repaid (even if public assets have to be sold off cheaply for this purpose) lest the stability of the commercial banks be put in question, producing another banking crisis.

According to this orthodoxy, if both of these elements are respected, each member state will grow and prosper. This is ‘ordo-liberalism’ (Blyth, 2013: Ch 5). This is supposed to explain Germany’s economic success. As Chancellor Merkel put it in 2013: “What we have done, everyone else can do³.” If the mass of the population has to suffer as a result of these disciplines, they can rest assured that prosperity will eventually return and trickle down to them.

This orthodoxy is predicated on a particular view of how a modern economy works: with markets, when left to themselves, coordinating investment, consumption and production. For economies in recession however, the fundamental issue is then this: will sound finance and austerity, removing demand from the economy by increasing taxes and cutting government expenditure, be followed by automatic rejuvenation – or will it result in prolonged stagnation, low investment and low productivity growth (Room, 2015)?

Keynes in his *General Theory* (1936) warned that when business confidence is low, and uncertainty about the economic future is high, businesses cannot be expected to invest, no matter how low the interest rate. This tends to produce a downward spiral of demand across the economy, producing unemployment and stagnation. Under these conditions, governments must be ready to raise their levels of expenditure, so as to give businesses confidence that the

“If the mass of the population has to suffer as a result of these disciplines, they can rest assured that prosperity will eventually return and trickle down to them”

2. The language of free markets, competition and the efficient allocation of resources is central to both academic economics and the managers of large corporations. For the former, it justifies models of economic activity which allow a high level of mathematical elaboration, taken as a sign that the academic discipline is truly scientific. For the latter, it obscures the oligopolistic structure of modern economies and justifies resistance to government interference. This hinders critical discussion of how ‘market freedom’ impacts on social equity and political stability, and of the central place it has been given within dreams of European progress and harmony.

3. <https://goo.gl/IMQp5N>

economy will be buoyant, and encouraging them to invest themselves.

Post-war prosperity left these warnings largely to fade into history. By the 1980s neoliberal confidence in the market (inspired by Hayek rather than Keynes) aligned the Anglo-Saxon world with the 'ordo-liberalism' of *Mitteleuropa* (Streek, 2014: Ch 3). Sound public finances were both necessary and sufficient as a mantra for government economic policy.

Earlier Transformations of the European Economy

The project of European integration today rests on **free movement** and **sound finance**. However, it was not always in such terms that European interconnectivity was primarily viewed.

The first stage in the development of the EU was not the common market but the European Coal and Steel Community (ECSC), established under the Treaty of Paris in 1951. This had a much stronger and more active social and industrial policy than the European Economic Community (EEC), subsequently established under the Treaty of Rome, which was predicated on the free market optimism that has dominated ever since. The ECSC social and industrial policy was in part a response to the long-term decline of the coal mines of Wallonia, Belgium. It was not enough to rely on the free movement of capital, bringing new industries to Wallonia; nor on the free movement of labour, with Belgian miners dispersing to the new jobs that might develop elsewhere. Instead, new industries and employment would be brought to them, with active programmes of retraining and investment in new skills. This entailed the beginnings of European involvement in local programmes of area redevelopment, preventing economic decline and seeking to preserve the social fabric of local communities (Collins, 1975a: Ch 3).

The Treaty of Rome moved beyond the old industrial heartlands of north-eastern France, Belgium and the Rhineland. However, its vision for the free movement of labour was made in historical conditions which were no less specific: with rapidly expanding German industry on the one hand, hungry for labour, and a labour surplus in Italy in particular. Free movement of labour offered a mutually convenient response to both problems. Nevertheless, this risked blinding those at the helm of European integration to the more problematic relationship between free movement, social wellbeing and political harmony that might obtain, as this particular historical juncture passed.

There is a still earlier moment in the interconnectedness of the European economy that is also of some significance – and which was no doubt much in the minds of the founders of the EU, if not of their modern day heirs. In 1919 the Treaty of Versailles imposed heavy reparations on Germany and restrictions on how it might rebuild its industrial base. Keynes famously condemned the Treaty in *The Economic Consequences of the Peace* (1919). This was in part on grounds of justice – and the need to build a peace in which the new and democratic Germany would feel included. It was also because a Germany without a thriving economy would hardly be in a position to pay the reparations that were being exacted. It was, however, primarily in relation to the rebuilding of the European economy as a whole that Keynes advanced his

case. Europe involved highly interdependent national economies. Within this, the German economy was central; restoring prosperity to Europe would be impossible if Germany remained devastated.

Financial discipline imposed on Germany and its government finances was not enough; and such a blunt tool would by itself damage the wider European economy. Amidst the gloom, there was one bright if small light. Keynes applauded the American Relief Commission of 1919, which ‘not only saved an immense amount of human suffering, but averted a widespread breakdown of the European system’. He called upon Britain and the United States in particular to arrange an international fund for rebuilding the European economy. Even so, this would be contingent on the Continental countries adopting a responsible and cooperative stance in their dealings with each other.

His advice was ignored. Nevertheless, in the aftermath of the Second World War Germany faced a similar crisis – not because of any reparations demanded, but because of international debts incurred in the pre- and post-war periods. Once again the victors had to consider what balance to strike, between exacting re-payment from Germany and enabling it to rebuild its shattered economy. Once again the United States led the way, securing a 70% write-down of Germany’s debt from its international creditors, through the 1953 London Debt Agreement. Without this, the German economic miracle would at the very least have been delayed and stunted (Becker, 2013)⁴.

In our own time, we do well to take note of these earlier periods of transformation of the European economy, and to notice the specific conditions under which different policy responses were debated and adopted. This will help make sense of the institutional path dependencies and legacies in which we now find ourselves enmeshed⁵.

Markets and the Knowledge Economy

Completion of the single market was largely accomplished by 1992. Monetary convergence and then union was completed by 1999, with the inauguration of the euro. Both were intended to drive forward the European economy, on the twin principles of sound finance and market freedoms.

4. <https://goo.gl/JVllcH>

5. The foregoing historical discussion does not exhaust the projects of European integration which have provided significant points of reference over the post-war period, casting their respective shadows. The Holy Roman Empire may have been dissolved by Napoleon in 1806, but for French and German politicians in particular, the legacy of Charlemagne has remained an inspiration (Macgregor, 2016: Ch 11; Varoufakis, 2016: Ch 3). For the smaller nations of Europe, there is, then, always the question of how far the imperial legacies and hegemonic instincts of such countries as France, Britain and Germany continue to shape their approaches to European solidarity. Nazi Germany developed a narrative of European economic and monetary union, in language which unhappily resonates with that of European solidarity today (Varoufakis, 2016: Ch 7). During the inter-war period and indeed the post-war decade, France approached proposals for European integration in part from the standpoint of ‘Euroafrica’, uniting its colonial and pan-European ambitions (Hansen and Jonsson, 2014). Meanwhile in the UK, the remnants of an imperialist narrative tended to divert attention from Europe to the ‘Anglosphere’ – even as the City of London and Wall Street ensured Anglo-hegemony over international finance (Kenny and Pearce, 2017).

“Even in its first decade, delivery on the Lisbon strategy was disappointing. Targets were set but not met and there were doubts about the commitment of member states to the reforms that were needed”

In 2000 a third strand was added to this armoury, all in the quest to mobilise the dynamism and power of the European economy, in face of the long-standing dominance of the United States and the rising economic powers of East Asia. This was the ambition to turn Europe into a dynamic and high-productivity ‘knowledge economy’, distinctive in having a strong social dimension (De la Porte et al., 2001). This implied an active and purposeful European industrial policy – echoing the policy stance of the ECSC and the Treaty of Paris, more than that of the EEC and the Treaty of Rome.

The ambition was clear and appropriate. Market freedoms and sound finance were insufficient to shift the EU from the industries of the past to the science-based industries of the future. The instruments of this new and collective purpose were, however, modelled at least as much on the Treaty of Maastricht as on the Treaty of Paris. Maastricht had set out the rules and benchmarks for national fiscal and monetary discipline; the Lisbon process of March 2000 set out benchmarks and indicators for national action, in relation to a socially cohesive knowledge economy. Both Maastricht and Lisbon left the nation state responsible for achieving a good performance; and both in principle imposed sanctions for those which under-performed. There however they diverged – for whereas Maastricht embodied financial penalties for poor performance, Lisbon relied on no more than ‘naming and shaming’. In the event, even that was only mild. And whereas Paris had mobilised collective financial resources for an active industrial policy, Lisbon left this primarily to national treasuries.

Leaving policy in national hands, and limiting the role of the EU institutions, was consistent with the principle of subsidiarity – a principle emphatically re-affirmed and reinforced during the 1990s, by the UK and German governments in particular. That principle is only appropriate, however, when national governments have the capacity to manage the affairs in question. With the increasing interdependence of European economies, and the increasing significance of transnational processes, not least those that have been accelerated by the four freedoms, the principle of subsidiarity is put increasingly into question. Once again, institutional arrangements that may have seemed appropriate in one context have in changed conditions proved inadequate to the task, constraining the scope for any concerted EU action that goes beyond market-building (Scharpf, 1997: 210).

Even in its first decade, delivery on the Lisbon strategy was disappointing. Targets were set but not met and there were doubts about the commitment of member states to the reforms that were needed. The EU’s response was that targets must be sharper, the whole process must be streamlined and the member states must be whipped into line (European Commission, 2005). The 2005 reform of the Lisbon process gave priority to economic growth, competitiveness and employment; in the interest of coherence, other aspects of the social dimension were put on hold. The 2008 financial crisis then shifted the focus to the defence and rescue of the banking system: sound finance itself was in peril and the drive for a ‘knowledge economy’ was side-lined. Austerity and stagnation followed – and any chance of an active industrial policy faded.

More recently, Lisbon has been re-packaged as the Europe 2020 Strategy and the European semester (Scharpf, 2014: 7-10). This involves the intensification of multilateral surveillance, with the EU institutions taking on a ‘more visible and intrusive role in scrutinising and guiding national economic, fiscal

and social policies'. This hardly sits easily with the principle of subsidiarity. It can also be argued that this 'mix of inter-governmentalism and supranational technocratic decisions at EU level is ... neither effective nor legitimate' (Natali and Vanhercke, 2015: 65, 248). This will be central to the discussion in Chapter 3.

The Dynamics of Change in the European Economy

We need to re-examine our understanding of the international economy and the forms of national and European economic management that are appropriate for its interdependent dynamics.

Much of our thinking about international trade harks back to Ricardo (1821: Ch 7). He analysed a simple model of two countries, one well-placed as far as industrial production was concerned, the other similarly blessed in terms of agricultural production. He showed that both would benefit if they each specialised in the production for which they were better-placed, and then traded with each other. Trade brought an expanded market and allowed specialisation in those areas where each country enjoyed a comparative advantage.

This model though influential is also static. It fails to address the dynamic path dependencies which the situation described would likely produce: in particular, the stimulus provided to the country specialising in industrial production, to invest in its industrial capacity and to enjoy the substantial benefits that this sector offers in terms of productivity growth. In other words, the apparently equitable exchange offered by Ricardo's model conceals the unequal growth prospects that the two countries would then enjoy, with one finding itself in a virtuous circle of rising productivity and enhanced capacity to capture international markets, the other locked into stagnant productivity levels and living standards. It was to such dynamic and beneficial effects of easier trade that Cecchini (1988) had pointed; but he expressed confidence that such benefits would extend to all the countries involved. He gave little if any warning that some might succumb to stagnation.

The same questions were raised at the time of the UK's entry into the European Economic Community in 1973. Kaldor, a leading Keynesian but indebted also to Allyn Young and Gunnar Myrdal, had a keen appreciation of the cumulative dynamics of economic development and the much greater scope for productivity growth in the manufacturing sector, as compared with the agricultural and service sectors. This tended to mean that those regions which captured a competitive advantage in manufacturing industry would perpetuate and reinforce this. Kaldor tackled head-on the UK Government's confidence that these 'dynamic effects' would play out to the advantage of the UK, given its industrial base. On the contrary, the UK's steady loss of position in international manufacturing markets, and its slow rate of productivity growth, meant that the dynamic effects of entry into the EEC were likely to be modest or negative (Kaldor, 1971).

Already in his 1971 essay, Kaldor pointed out that eventual European economic and monetary union would tend to reinforce these virtuous and vicious circles, because such union would leave no scope for exchange rate adjustment, by those countries that were falling behind. In such circumstances

moreover, the burden of social benefits – unemployment benefit in particular – would tend to grow fastest in the countries with the weakest economies, as has indeed happened. Here was a fiscal vicious circle, walking in step with the vicious circle of stagnant productivity – even while other countries enjoyed the virtuous circle of accelerating productivity, export surplus and stable levels of social expenditure. The only remedy, he concluded, would be automatic stabilisers, redistributing those surpluses towards the ‘deficit’ areas.

What Kaldor wrote about the European economy was foreshadowed by what Keynes prescribed for the world economy at Bretton Woods. If countries with a trade surplus sat on their positive balances, demand for the products of other countries would fall, reducing their capacity to invest and triggering a downward spiral in their economic activity. For this reason Keynes favoured a mechanism under which countries in surplus would, if they sat on these balances, be taxed on those surpluses by an international monetary authority, which would then invest the proceeds appropriately in the weaker economies. This would help counter the development of virtuous and vicious circles of development and stagnation (Skidelsky, 2002: Ch 9).

It is precisely in these terms that growing numbers of economists in the Keynesian tradition have been arguing for just such a mechanism today, within the institutional arrangements for European economic integration. This does not necessarily imply – for Keynes or for his modern heirs – a simple ‘handout’ of such funds, but rather their purposeful investment in the weaker economies.

The European Consequences of Germany's 'Luck'

“Germany got lucky – and it interpreted its luck as the result of its own economic orthodoxy. It has since then been using its economic and political dominance of Europe to enforce this wisdom on all”

Over the post-war period, German industry has enjoyed a ‘virtuous circle’ of exports, investment and productivity growth. This is a process of ‘cumulative causation’ which, however, within the corset of European monetary union and discipline, has weakened the economies of the European periphery.

Germany got lucky – and it interpreted its luck as the result of its own economic orthodoxy. It has since then been using its economic and political dominance of Europe to enforce this wisdom on all. As we have seen, however, its economic miracle was predicated on the 1953 London Debt Agreement – and the importance the United States attached to rebuilding the German economy, as a bulwark in the emerging Cold War.

This weakening of the European periphery has brought additional benefits – further luck – for Germany. The euro has been lower on the international exchanges than it would have been, based on the German economy alone; German exporters have benefitted from this on global markets. Moreover, following 2010, Germany saw a rapid increase in the number of migrants from Southern Europe (especially Italy and Greece), many of whom were young, highly skilled and trained workers, such as doctors, engineers or IT specialists. Pushed northwards by cuts in public spending on education and health services at home, this has brought further benefit to core EU member states, in terms of a highly educated workforce trained at the expense of Southern European taxpayers (Papadopoulos and Roumpakis, 2015).

In Greece in 2015, the Syriza government mounted a political challenge to

EU austerity – but the electorate was forced to back down by an intransigent EU financial regime under German leadership. Solidarity had its limits; the Greeks were told to subject themselves to disciplines which nobody believed were sufficient to the situation. Greek debt would not be forgiven by those who had been luckier⁶.

By the autumn of 2015 however, a new and quite different political and moral crisis was looming from the south, with the dramatic influx of refugees from Syria and the Middle East. This first overwhelmed an impoverished and dispirited Greece, then flowed north, in response to Germany's moral generosity, so singularly absent just a few months earlier. Even the German welcome however, which put many other European countries to shame, opened up new stresses in the European body politic: it exposed the flimsy texture of burden-sharing between the member states and the hostility of large swathes of the domestic population to such an influx. What might have at first appeared as a moral and humanitarian challenge, with little connection to Europe's own economic and political travails, instead served to expose and reinforce them.

How should Europe respond: by welcoming the afflicted, by establishing a harder border or by building safety and security for the populations in question within their region of origin? And in articulating a response to this extra-European distress, what consistency was needed with Europe's response to the distress within its own regions?

The flood of refugees has diminished and the migration route through Greece has been curtailed. A deal has been reached with Turkey to co-manage the influx. In addition, policy seems to be shifting towards extending education and economic and labour market opportunities for Syrian refugees within their own region, with western governments ready to pledge financial support (Lenner, 2016). True, there are plenty of barriers and difficulties to be faced within the countries concerned – but there is the beginning of a pro-active European policy to support social and economic development within this fragile region.

This effort may come to be seen as justifying a no-less proactive European policy to support social and economic development within its own fragile regions, going well beyond the limited regional and structural policy of the past. The humanitarian concern which shaped Germany's response to the refugee crisis may now put in question the narrower response of financial probity and austerity, in terms of which it framed its response to the economic and social distress of Europe's own periphery. Nevertheless, for the moment at least, austerity and sound finance remains the order of the day, imposed through the multilateral surveillance mechanisms of the EU institutions – not only on Greece, facing a continuing debt crisis and requiring further bail-outs, but also on Italy. Both economies face a new phase of austerity and hardship, which

6. Greece had been unlucky in its previous governments, going back to the military dictatorship – and in the tax advantages these had given to the Greek oligarchs. Greece had also been unlucky in the contrived advice provided by Goldman Sachs when it sought to demonstrate its fitness for membership of the euro (Varoufakis, 2016: Ch 5). This raises the question of how far the children should be required to bear the sins of their fathers (Streek, 2014: 93-5; Streek, 2016: Ch 5).

could push the Eurosceptic political forces to new and dangerous heights⁷.

The Dysfunctional Project

Economic integration was supposed to drive economic prosperity, social cohesion and political stability across Europe. In recent times however it has proved destabilising, disrupting the social fabric within which it is embedded and on which it depends – a process described most eloquently by Polanyi (1944). This is for at least three reasons. First, as we saw earlier, it was predictable that the ‘dynamic effects’ of European economic integration would produce virtuous and vicious circles of cumulative economic development, and thus the likelihood of persistent winners and losers, in terms of the fruits of prosperity. Such virtuous and vicious circles are then reinforced by the establishment of a single currency, which eliminates the scope for exchange rate adjustment by countries that fall behind.

Second, as Scharpf for example argues, national governments seem increasingly to lack the tools to manage and steer the economic system (Scharpf, 1997: 206-7). This is a direct consequence of the ‘four freedoms’, which reinforce the transnational processes that lie beyond their individual control. It is also a consequence of the limits on the role of government activity, in the face of both austerity and neoliberal doctrine. Their capacity to moderate the effects of economic divergence has been progressively eroded.

Third, the whole thrust of EU development is around ‘negative integration’; in other words the extension of market freedoms in the face of any interference by national governments. Positive integration – in the sense of Community-level action to manage these increasingly fateful transnational processes – has been much slower to develop, not least under the doctrine of subsidiarity.

The implications for the social welfare of citizens have been dire, with insecurity and inequality growing. Meanwhile free movement and sound finance have reinforced corporate influence – especially given the liberalisation of international financial markets over recent decades and the scope for footloose firms to avoid high taxes⁸. All this tends to undermine democratic government. Meanwhile, since the establishment of the euro, supranational technocratic surveillance of national economic and social policies has become much more stringent and intrusive (Scharpf, 1997: 206-8, 213-14; 2014: 7-10). This Streek terms the (fiscal) *consolidation state*, now constituted as an international regime (Streek, 2014: Ch 3).

7. <https://goo.gl/z3jH55>

<https://goo.gl/wPh0ve>

8. Not that such corporate influence is just a recent intrusion, or the result of changes in the global economy: large industrial corporations have long dominated the European economy, notwithstanding the rhetoric of free markets and competition. The drive to make European economies more competitive – in the Lisbon process for example – therefore focussed on reducing labour market rigidities and insisting that workers must be more ‘flexible’ (Supiot, 2012: Chs 3, 7).

In short therefore: market integration in Europe has outrun the capacity of governments, individually or together, to steer their economies and ensure balanced economic development and social cohesion – the more so, against the background of market globalisation. Many of those governments welcome that neoliberal embrace. Across Europe, the costs and burden of austerity are off-loaded disproportionately onto the poor. Much of the population is dispirited and disillusioned with the political class, and inclined to support populist movements such as UKIP, as well as more extreme groups. This is already proving politically destabilising.

Conclusion

This chapter has been concerned with the strains in the model of European economic development. It started with two questions. First, through what institutional forms have successive transformations of the European economy been managed? Second, what have been their implications for the process of economic integration, and the distribution of its costs and benefits across the European population?

The first step is to recognise that the institutional foundations and principles of the EU were established in particular historical situations; even if, in many ways, they have served us well, they need to be re-assembled for new circumstances. European decision-makers are struggling but failing to adapt these foundations for the new situation, leaving Europe mired in the institutional straitjacket of the past.

In particular, the foundations of **sound finance** and **free movement** no longer suffice. They assume that the European economy can and should be left free to respond to market signals, and that the resulting prosperity will readily secure social cohesion and political consent, even if the road is occasionally bumpy. The lessons of recent decades are that more purposeful and coordinated action is needed, to ensure that sound finance does not imperil sustained growth and shared prosperity, and to manage and steer the movement of both capital and labour.

This means not least that we must stop confusing the freedom of the individual on the one hand and the freedom of the market, of capital and of the corporation on the other. Many of those who have been migrating to the north-west of Europe – both from inside and outside the EU – have done so, not as a celebration of their freedom, but in response to the ‘economic desertification’ of their homelands. Such desertification was never a goal of any EU Treaty – and it bears witness to some wanton consequences of the free movement of goods, services and capital.

This opens up major questions on the politics of European reform – the extent to which we remain prisoners of the past or have the imagination and will to craft an alternative future. What is the scope for democratic political change, re-weaving this institutional legacy in socially constructive ways for communities across the Continent? It is to these questions that the next chapter turns.



**Chapter 3:
European
Politics: High,
Low and Hot**

Introduction

"This chapter examines the political questions that face Europe and the scope for democratic involvement in the European project"

The previous chapter was concerned with the economic dynamic of European integration. It started from the principles of market freedom and sound finance. It exposed the cumulative transformations of the European economy that this economic dynamic has produced and the distribution of its costs and benefits. It is from this standpoint that we can re-examine the institutional foundations of economic integration, recognise their limitations and begin to develop a programme of reform – something to which we will turn in Chapter 4.

We first however undertake a parallel exercise in regards to the **political** dynamic of European integration, concerned in particular with the political implications of the economic and social divides that the previous chapter revealed. Those divides can hardly but alienate the communities most adversely affected. These issues are, however, peripheral to much of the European reform debate, including the Commission's March 2017 White Paper. This is not only because of an economic orthodoxy, which expects social benefit to be evenly spread as the natural concomitant to the free market; but also because social policy is assigned by the subsidiarity principle to the individual nation states. Social policy and social justice are much too important to be left there: they constitute the 'hot politics' of European progress and, if ignored, they risk a melt-down of the whole Union.

Much of the political process of European integration has been by consensus, with major treaty changes requiring ratification by national parliaments. Beyond this, democratic accountability has always been weak; debates over the 'democratic deficit' have regularly re-surfaced. This chapter examines the political questions that face Europe and the scope for democratic involvement in the European project. Like Chapter 2, it takes due account of the treaties by which Europe has been built, both economically and politically. It also takes account of debates over 'integration' versus 'intergovernmentalism' and the speed of progress towards an 'ever-closer union' (the question that seems to dominate the 2017 White Paper). However, it is first and foremost with political action and struggle that we are here concerned, the competing agendas and policy windows, and the exercise of power to build and to contest positional advantage.

We take as our starting point Middelaar's widely acclaimed history of the EU and its political life *The Passage to Europe* (2014). Middelaar is an academic scholar but was also a participant observer on the European political stage from 2009-2014, as political adviser to the President of the European Council. He offers an account of political actors as institutional entrepreneurs, weaving new political openings and shifting the political landscape of the EU (Scharpf, 1997; Crouch, 2005).

Middelaar poses three questions. First, how have the main political actors of the EU emerged, to make decisions and enforce European law? Second, how have they addressed the major challenges which Europe faces? Third, how have they engaged democratically with the people of Europe?

The first question dominates. Middelaar argues that it is the European Council – the national governments of the member states, acting jointly – that has risen to supreme power. However, in the current crisis – and even

more with the impending exit of the UK – this risks morphing into German hegemony.

The second question is concerned with how these political actors have addressed the big – and often unexpected – questions of their time; more particularly, what was traditionally described as ‘high politics’ – war, defence and external security. However, this risks blinding us to the importance of other big questions, including trade, economic prosperity, social cohesion and environmental sustainability. It is here that EU politics have been less coherent.

The third question concerns the low level of involvement of the European electorate in the political development of Europe. Here much of the debate has focussed on institutional reform and the powers of the European Parliament. What is largely side-lined is any political debate around social and economic inequality and justice, with ordinary citizens and their communities having a voice.

Middelaar’s study may have some limitations; nevertheless it provides a good starting point. It is by critical engagement with his arguments that we examine the politics of the current crisis. We deal in turn with the political actors, the drama and the public.

The Political Actors

Middelaar distinguishes three groups of political actors and three spheres within which this political action has unfolded. The inner sphere is that of the treaties – and the institutions that those treaties empower. Initially at least, this meant the Commission, the Council of Ministers and the ECJ. The outermost sphere is that of the individual nation states, pursuing their *Realpolitik* as in centuries past. It is, however, to the intermediate sphere – the national governments acting together – that he principally attends.

The story that Middelaar tells is of the rise of this intermediate sphere to supreme power, as expressed institutionally by the establishment of the European Council in 1974. The Maastricht Treaty on the European Union (1992) entrenched its role. In the Treaty of Rome, the Commission proposed, the Council of Ministers disposed. Henceforth the European Council would dominate. The Parliament receives some attention, but only as an adjunct to the inner and intermediate spheres. Except for a few key judgements, the ECJ as protector of the treaties – and thus of the inner sphere – likewise receives little mention.

For Middelaar, the pre-eminence of the European Council was probably inevitable: the stakes were highly political and the Commission lacked the political legitimacy to give direction. Even so, Commission presidents have differed greatly in their political weight. Delors in particular offered strong leadership, and he used this, not only to drive forward completion of the single market, but also to affirm its social dimension. It was under his presidency that the European project came closest to embracing an agenda of social solidarity and social justice (Room, 1991). Too often, however, small men from small countries were appointed to the task. More therefore than Middelaar allows, the side-lining of the Commission was a political choice, not an institutional inevitability.

Central to Middelaar’s argument is the move towards majority voting – but

“Opposition parties have long been ready to question the consensual solutions agreed at European level, in a bid to undermine and embarrass their governments”

with the perennial fear that if a member state is pushed too far, with insufficient respect for its particular national interests, the whole show might fall apart. That is why the political move forward could not be left to treaty-based procedures and the technocrats of the Commission. Only the member states, assembled in the intermediate sphere, have the ultimate authority to weigh those existential threats and to make appropriate political bargains to overcome or by-pass them¹.

Majority voting forever risks being perceived as foreign domination. The European Council cannot, however, enforce its will, and quell riots in the streets, if the government in question does not acquiesce. No country can therefore be over-ruled in regards to its vital national interests. Somehow a consensual solution must be found in reasonable time – with the government in question then enforcing the resulting agreement within its own territory. This was the Luxembourg compromise of the mid-1960s, devised to cope with French obduracy.

The pinch point now shifted to the possibility that a government could not enforce that consensual solution, in the face of domestic disagreement as to what is the national interest. Of course, opposition parties have long been ready to question the consensual solutions agreed at European level, in a bid to undermine and embarrass their governments. Since Middelaar wrote, the stakes have become much higher. In 2015 the Greek government contested their austerity medicine, only to suffer humiliation. In 2016 the UK electorate rejected the reform package negotiated by Cameron and instead opted for exit. The Luxembourg compromise envisaged that an eventual consensual solution would always emerge; this no longer stands as the taken-for-granted outcome. Eurosceptic opposition parties now disrupt the intermediate sphere, reinvigorated by the Brexit vote and by the Trump election victory in the US. The inner sphere – and in particular the Commission – seems to have no answer².

In the treaty-based inner sphere, each member of the Council of Ministers has equal weight, even on issues where there is decision-making by majority. In the intermediate sphere of the European Council, decisions are always in principle reached by unanimity; here however there is no real equality of voice. Member states have different national interests and power, and it is those power differentials that tend to prevail. The European Council may have risen to its supreme position in part in response to national obduracy, but countries differ greatly in the respect that their obduracy commands. The corollary – albeit unstated by Middelaar – is that the intermediate sphere reinforces hegemonic power relations across Europe. This is relevant to the situation in which countries like Greece have found themselves in recent years. The EU institutions may be unable – save via the national government in question – to quell riots in the streets, but their power to enforce compliance on such governments through new instruments of multilateral surveillance has become starkly evident.

Middelaar is centrally concerned with the three afore-mentioned spheres or spaces – and with the actors who straddle them, weaving new political

1. This is especially in regards to accession and treaty revision – and now, also, in regards to exit.

2. See <https://goo.gl/Rnghg6>

possibilities. His actors are in the main politicians, of one sort of another. Nevertheless, many other actors have also exploited the opportunities – or mobilised against the threats – that these intersecting spaces afford, in order to build their own positional advantage³.

These include the ‘social partners’: on the one hand the multinational corporations which have entrenched themselves across the European political landscape; on the other, but from a weaker position, the trade unions, social pressure groups and NGOs. These are not just lobbies in Brussels: they are also engaged in national politics, where they may question the definition of the ‘national interest’ that is championed by the democratically elected government. Some are adept at weaving new spaces and leverage across Middelaar’s three spheres. Indeed, they may themselves be thought of as a ‘fourth sphere’ of the European polity (although they receive little attention from Middelaar). Questions of social solidarity and social justice may be peripheral to the agenda of European politics with which Middelaar is concerned; but for these actors of the ‘fourth sphere’, they are a hotly-contested battleground.

Also mentioned, but not appearing as major players in Middelaar’s account of the European polity, are the United States and indeed the USSR and now Russia. The rivalries of the Cold War shaped the contours of west European cooperation following the end of the Second World War – including the cancellation of West German debt, its re-industrialisation and its eventual rearmament within NATO (Milward, 1984). The collapse of the Soviet Union and its east European satellites produced new opportunities for the projection of American power.

For better or worse therefore, the super-powers – America in particular – have called the political tune within Europe to a significant extent, throughout the period with which Middelaar deals. This we might describe as the ‘fifth sphere’ of European politics. It has been institutionalised through a whole range of channels, at European as well as national levels, including bilateral US deals with many of the new democracies of Eastern Europe. Until recently, the TTIP trade talks promised to reinforce US political and corporate strength within the heart of the European project; these talks may now be aborted by Trump. What he also promises is upheaval and even disruption to the EU itself, perhaps indeed in alliance with Putin: the fifth sphere acting in concert to provoke citizen disenchantment⁴. This is the ‘high politics’ of our time – and the latest contribution of the fifth sphere to European politics⁵.

“For better or worse therefore, the super-powers – America in particular – have called the political tune within Europe to a significant extent”

3. Room (2016: Ch 5) offers a more generic theoretical treatment of such struggles for positional advantage.

4. <https://goo.gl/gJF78v>

<https://goo.gl/qSVbdW>

<https://goo.gl/vNXkyq>

5. <https://goo.gl/hixHt2>

The Drama

Middelaar turns next to how these political actors have addressed successive external challenges and opportunities. Here again, his focus is on the politicians of the three spheres – especially the intermediate sphere of the European Council – and on the ‘high politics’ of defence, foreign policy and security.

Given this focus, the years following the Treaty of Rome appear as a period of waiting, while the inner sphere – led by the European Commission – devoted itself to the ‘low politics’ of market-making. That period of quiet was broken by the collapse of the Soviet Union, confronting Germany with the opportunity for unification and the EU with an array of new members from the east and south-east. It also brought instability and war, most obviously in the Balkans. The EU moved slowly but steadily to expand its membership.

This was also the period of triumphalism in the United States, now the world’s sole super-power. Soon however this was over-shadowed by the attacks of 9/11 and fears of Islamic extremism. Middelaar traces Europe’s half-hearted involvement in America’s ‘War on Terror’ and its concern with the new instabilities across the Middle East, all providing further impetus to the intermediate sphere and the European Council, as the strategic political actor *par excellence*.

This focus on ‘high politics’ is however rather unhelpful and artificial. Even during the years of quiet – the ‘low politics’ of market-making – high politics had not been entirely in abeyance, as global changes re-shaped what market-making could achieve inside Europe. American abandonment of the gold standard in 1971 turned the Deutschmark into the anchor for the stability of other European currencies. The 1973 oil crisis brought an end to the sustained economic growth of the post-war decades, with the re-emergence of poverty and unemployment, even in the EU heartland. In the mid-1980s the Commission under Delors launched a new drive for completion of the single market – low politics perhaps, but designed to strengthen Europe in the face of this global turbulence.

Similarly, even during the years of ‘high politics’ after the fall of state socialism, ‘low politics’ were not put on hold. On the contrary, market-making expanded eastwards, dismantling the socialist economies and privatising what remained. This was the heyday of neoliberalism, driven by Washington and New York and their allies, the corporate behemoths – parts of what we described above as the fourth and fifth spheres of European politics. Free markets became the weapon of choice for transforming the international order, and not just economically. Eastern Germany and much of Eastern Europe were absorbed into the German economic hinterland.

It was the Commission – even after the departure of Delors – that championed an alternative to that neoliberal advance, using the language of the ‘European social model’. This stressed social solidarity and security as the precondition for a dynamic and innovative economy. This was central to the Lisbon process of March 2000. It was also central to the Commission’s international agenda, as competing western models of development were espoused across the post-communist world, and at least some in the Commission sought to moderate the neoliberal dominance (European Commission, 2001; Room, 2004).

Little of this receives much attention from Middelaar. Yet if ‘high politics’ addressed the new instability of Europe’s wider neighbourhood, there was also

growing evidence of Europe's tendency to generate instability from within. The launch of the euro had been the *quid pro quo* for German unification, intended by France to keep Germany engaged with the larger project of European integration. However, German fiscal and monetary disciplines – 'ordo-liberalism' – were the price that Germany in turn demanded of its partners in monetary union.

With the global financial crisis of 2008, the fragility of this arrangement soon became apparent, for the weaker economies in particular. Austerity and social despair followed. Multilateral surveillance under the authority of the 'intermediate sphere' achieved little and served only to undermine public consent, producing social and political instability, not on the borders of the EU but in its very heartland. The inner sphere also was limited in what it could achieve, in the absence of a fundamental re-think of the Union's social and economic foundations. There were regular calls for a 'deepening' of Europe, but leaving unclear what this should entail. Even in the March 2017 White Paper, the Commission seems unable to imagine more fundamental reform.

Scholars may disagree as to whether economic prosperity and social cohesion are 'high' or 'low' politics; for citizens and politicians, however, they are self-evidently 'hot politics'. It is here that EU politics have been incoherent, with neither the intermediate nor the inner sphere adequate to the task.

The Public

Middelaar is concerned finally with the involvement of the European public in the political development of the EU⁶. With the Maastricht Treaty of 1992, the people of Europe became citizens of the Union – but the substance remained slight. There is a longstanding debate as to the possibility of a transnational European *demos*, by reference to which the EU might develop its legitimacy beyond that which its member states and their treaties confer. Particularly active in this debate have been German political scientists such as Scharpf (2008)⁷. Nevertheless, as Middelaar demonstrates, this debate about political obligation and legitimacy beyond the nation state resonates with a much wider range of European political traditions.

Middelaar considers this involvement of the European public from three angles: in terms of a shared sense of European identity; the perceived benefits of EU membership; and a sense of involvement in the unfolding drama of political change.

6. Middelaar dissects what this might mean with reference to 'we the people' from the US constitution. He asks: is Europe grounded in 'we the states' or 'we the citizens'? He fails however to notice that in the US, corporations – part of our 'fifth sphere' of European politics – have recently been recognised by the Supreme Court as enjoying some of the same freedoms of expression and electoral expenditure previously reserved for citizens (*Citizens United v. Federal Election Commission* 2010). This would have complicated his question even further.

7. Dieter Grimm was the first to formulate the no-*demos* thesis, at a time when he was a member of the German Constitutional Court. See <https://goo.gl/tpuopJ> and <https://goo.gl/Re9mis>

A shared sense of European identity

At the Paris Summit of 1972, on the eve of the first expansion, the member states decided that the Community needed a 'human face' for its citizens, embodying a shared political identity at a European level. The Social Action Programme of 1975 gave flesh to that commitment and included an early initiative concerned with poverty, the first to concern itself with European citizens other than as workers (Dennett et al., 1982).

It is, however, to European cultural politics and symbols that Middelaar gives pride of place. The Commission strove to develop such symbols, but ineffectively. The European public seems to recognise itself culturally only through the competitive circus of the Eurovision song contest and the European football championship. The Commission retreated into programmes of cultural exchange and dialogue among the populations of the member states, largely abandoning its quest for a single European public.

Nevertheless, even in this rather disparaging account of failure, there may lurk a rather fundamental insight: that any national identity is a re-working of cultural elements drawn in considerable measure from a larger European pool, and that by revisiting that common pool, the bearers of these national identities demonstrate that they are indeed a European public. This is nothing new. Goethe transformed Shakespeare into a Germanic literary hero, while also weaving German and classical Greek civilisation together. In the 18th and 19th Centuries, Britain's liberal political culture attracted – but was in turn re-woven by – European émigrés including Voltaire, Mazzini and Marx. Countless parallel stories could be told, across the arts and sciences. Not least, the royal faces that still sit on the coinage of some European countries, as cultural symbols of sovereign independence, betray a common gene pool.

Cultural symbols also however carry memories that may divide, vilify and blame. European integration from the start was a peace project: an effort at reconciliation, but also a decision to leave the past incompletely resolved. In the early years, that meant, in particular, Germany's responsibility for the Second World War. After 1989, in the new democracies of Eastern Europe, it also entailed a complicated history of compromise and retribution during successive dictatorships (Deák et al., 2000). Nevertheless, as new members were added, from the south and the east, it was typically with a view to anchoring their recently established democratic institutions and the rule of law within a common European system. In the struggle between a bitter past and a shared future, maybe time would heal. Nevertheless, as the Greek crisis of recent years has shown, resentments at perceived injustice can rekindle historic grievances, threatening the civility on which any community depends for its good functioning.

The perceived benefits and costs of EU membership

For Middelaar, the most fundamental benefit that a political system must offer its citizens is security – and by this he means, first and foremost, the maintenance of peace between neighbours. That was of course a fundamental inspiration for the whole post-war process of European integration. Wars did break out in the aftermath of the Cold War, but they were on Europe's fringes, to the east and the south-east, in distant countries of which the west European

“Any national identity is a re-working of cultural elements drawn in considerable measure from a larger European pool, and [...] by revisiting that common pool, the bearers of these national identities demonstrate that they are indeed a European public”

public knew little. Peace was then enforced more obviously by the United States and NATO – what we have termed the fifth sphere – rather than by west Europeans themselves.

A second public benefit was associated with the right to free movement, initially for skilled miners and steelworkers of the Coal and Steel Community. This gave them equal rights with the nationals of the countries to which they migrated. What it did not mean was any generalised rights for members of the European public, on which the legitimacy of the EU could be grounded. Moreover, as Middelaar points out, it could also increase competition for jobs in the host countries – producing the resentment that in recent years has fuelled the pressures for Brexit. These negative effects and costs, he rightly concludes, were always ‘vastly underestimated’ (p 261).

The third sort of benefit to which Middelaar attends involves measures of social ‘solidarity’ or risk-sharing. Such solidarity lay at the heart of the national welfare states established in the mid-20th Century: protecting citizens against the insecurity associated with unemployment, sickness and old age, and variously supporting families with the costs of raising their children. The European arm of this solidarity was limited by the determination of national governments to maintain this political lever for themselves. It was therefore limited to special funds for farmers and for economically backward regions, including the rural areas in the south, the deindustrialised regions in the north and relics of state socialism in the east.

What this misses is a whole range of protections also brought forward by the Commission – the inner sphere – under the terms of the successive treaties: European protections of the living and working conditions of ordinary citizens across the Union. These include Europe-wide standards in regards to equality and non-discrimination, working time and environmental protection. They include a charter of fundamental rights and (softer) recommendations on minimum income safety nets. These are vivid expressions of the purposeful and creative opportunism of the ‘inner sphere’ (Cram, 1997).

All these then serve as points of reference in national administrative law. Those who, in autumn 2016, challenged the right of the UK government to trigger Article 50 without the prior consent of the UK Parliament, did so in part by reference to the rights with which UK membership of the EU had endowed UK citizens – and which the government could not without that consent abrogate.⁸ In Ireland Sinn Fein has argued that Brexit could undermine fundamental human rights enshrined in the 1998 Good Friday Agreement⁹. This may not amount to the sort of class conflict out of which national social rights were built in the 20th Century; nonetheless, it may prove potent.

While these social and environmental regulations give a European dimension to social risk-sharing, they involve little cross-border transfer of resources. Solidarity may involve common rules but it does not mean much in the way of common provision. So long as the benefits of European prosperity trickled out to all, this may not have mattered much; with the growing imbalance of recent

“Solidarity lay at the heart of the national welfare states established in the mid-20th Century: protecting citizens against the insecurity associated with unemployment, sickness and old age”

8. <https://goo.gl/LCoCX7>

9. <https://goo.gl/qbEsuF>

"Even as social solidarity remained primarily a national mandate, recent decades saw some 'hollowing out' of those public provisions, as neoliberal market ideology enjoyed its heyday and the role of government diminished"

years, that solidarity appears increasingly hollow.

Moreover, even as social solidarity remained primarily a national mandate, recent decades saw some 'hollowing out' of those public provisions, as neoliberal market ideology enjoyed its heyday and the role of government diminished. For those negatively impacted by these changes – including the working class base of the Brexit victory – the blame fell on globalisation and Europe, and fed their increasingly negative perception of the benefits and costs of EU membership.

Involvement in the unfolding drama of political change

Middelhaar asks finally about the involvement of the European public in the unfolding drama of European political change. This metaphor of drama is one that he exploits strongly: with the public, like a Greek chorus, on stage and actively involved, interrogating the political actors and the spectacle they offer, and questioning their fateful choices among alternative destinies. Middelhaar envisages real alternatives being debated, not just between 'more of the same' and Brexit, as happened in the one-dimensional debates of the UK referendum. The involvement of the public means that choices must be made by majority, but also that no group should be condemned to perpetual minority.

Middelhaar turns first to the European Parliament, a key element of the inner sphere. Lacking any pre-existing European *demos*, and having no scope to produce an alternative government to replace the Council, its efforts to mediate between the people and those who govern have met with only limited success. One answer has been to increase the powers of the Parliament, in an effort to increase its leverage with the public: it is now a co-legislator in practically all policy fields. Nevertheless, discussion of EU reform in terms of parliamentary powers and electoral procedures seems to receive a cold reception from much of the electorate.

A different answer has been to increase the involvement of national parliaments, weaving the European polity and the European public out of the pre-existing political life of the member states. This goes beyond the 'inner sphere', strengthening but also complicating the intermediate sphere. It offers a multi-level articulation of the issues under debate, avoiding their aggregation and homogenisation at a European level.

This is not necessarily attractive to national governments, concerned with managing and maintaining their own domestic legitimacy. Opposition parties may be keen to use Europe wherever possible to undermine that legitimacy, or to present the European polity as a foreign occupying power. To expose the domestic political battle – and the attention of national parliaments – to larger European debates may make the outcome less predictable, for both government and opposition.

Here there is not one Greek chorus but many, each coming to the political drama with its own particular memories and narratives; each demanding a performance that satisfies its own particular hopes and fears. Yet as Middelhaar observes, the fact that European politics has been extremely consensus-oriented takes its toll. We walk on eggshells: forever aware of our conflicting histories, ancient wounds and sensitivities easily re-awakened. To weave narratives that can resonate with one domestic public without jarring with another is no easy task, when in considerable degree those constituent nations

emerged out of conflicts with each other.

Conclusion

We took as our starting point Middelaar's study of the EU and its political life. It has, however, been by critical engagement with his arguments that we have addressed our own questions and, in doing so, we have exposed some key limitations in what Middelaar himself says.

While writing about politics, Middelaar has rather little to say about power. In Part 1 of his book, his account of the 'intermediate sphere' acknowledges that within the European Council, member states have different national interests and power. This might have expanded into a political economy of the EU and of German hegemony in particular; as we saw in Chapter 2, German political leadership and *ordo-liberalism* have been fateful for the strains and inequalities that the European economy has generated. Nevertheless, Middelaar leaves this politely unsaid.

In Part 2, Middelaar tells of the successive challenges of 'high politics', and of a plucky European Council, rising manfully to address their enormity. Here we have instead pointed to the 'low' – or better the 'hot' – politics of uneven economic prosperity and fractured social cohesion. It is not surprising that European politics neglects these. There was always a political bloc resistant to 'ever-closer union' in the area of social policy, and invoking the principle of 'subsidiarity'. This was championed by the UK but even more powerfully by the German Constitutional Court. The result has been to disempower European politics and to prevent it from addressing these contemporary and urgent challenges. Middelaar likewise neglects them – and the alternative trajectories of social and economic development they might entail¹⁰.

Middelaar devotes Part 3 of his book to the 'audience': the citizens of Europe. He hopes that they will play an active role, interrogating the political

10. Middelaar is generally rather limited in his account of such alternative trajectories. European politics have moved 'forward' towards 'ever-closer union', with the intermediate sphere at its helm. This is what he calls the 'passage to Europe': a path-dependent and even inevitable process, albeit with periods of stasis and impasse. Middelaar also tends to assume the stability of the arrangements that are now in place, as Europe has grown to maturity, and their resilience in the face of possible new challenges. However, just because the European Council emerged in part to address earlier geo-political challenges, it is not necessarily fit for the new challenges that may present themselves, both externally and internally. Since Middelaar put down his pen, this has become all the more apparent.

In consequence of these limitations, Middelaar tends to downplay some of the other directions in which European politics might have developed. Timing and sequence matter, in terms of the opportunities they open and close, from which quite different dynamics may then unfold. Had the oil crisis been delayed ten years, or the Berlin Wall collapsed ten years earlier, the various spheres of European politics would no doubt have developed along quite different trajectories. This is what Middelaar calls the 'contingency of time', but it does not sufficiently alert him to the alternative political directions that could have been taken.

The Commission for example strove through the 1980s to expand its competence and role in the social sphere, in an adept display of 'purposeful opportunism' (Cram, 1997). This was then overtaken by the triumph of the Council – but it could have gone differently, and for a while under Delors it did. Each sphere, by its actions, helps to shape the landscape on which the other spheres can then act: a process of co-evolution, but one where purposive political action and the exercise of power can make a difference.

actors as their performance unfolds. He does not quite present them as a potential 'sixth sphere' of European politics, actively engaged in its direction. Nevertheless, he provides some generic tools by which those citizens – no less than Europe's other actors – might confront the situation in which Europe now finds itself. It is an invocation to creative action, aimed at re-weaving the range of resources of which Europe disposes, in order to shape their own future and discover alternatives to the present impasse.

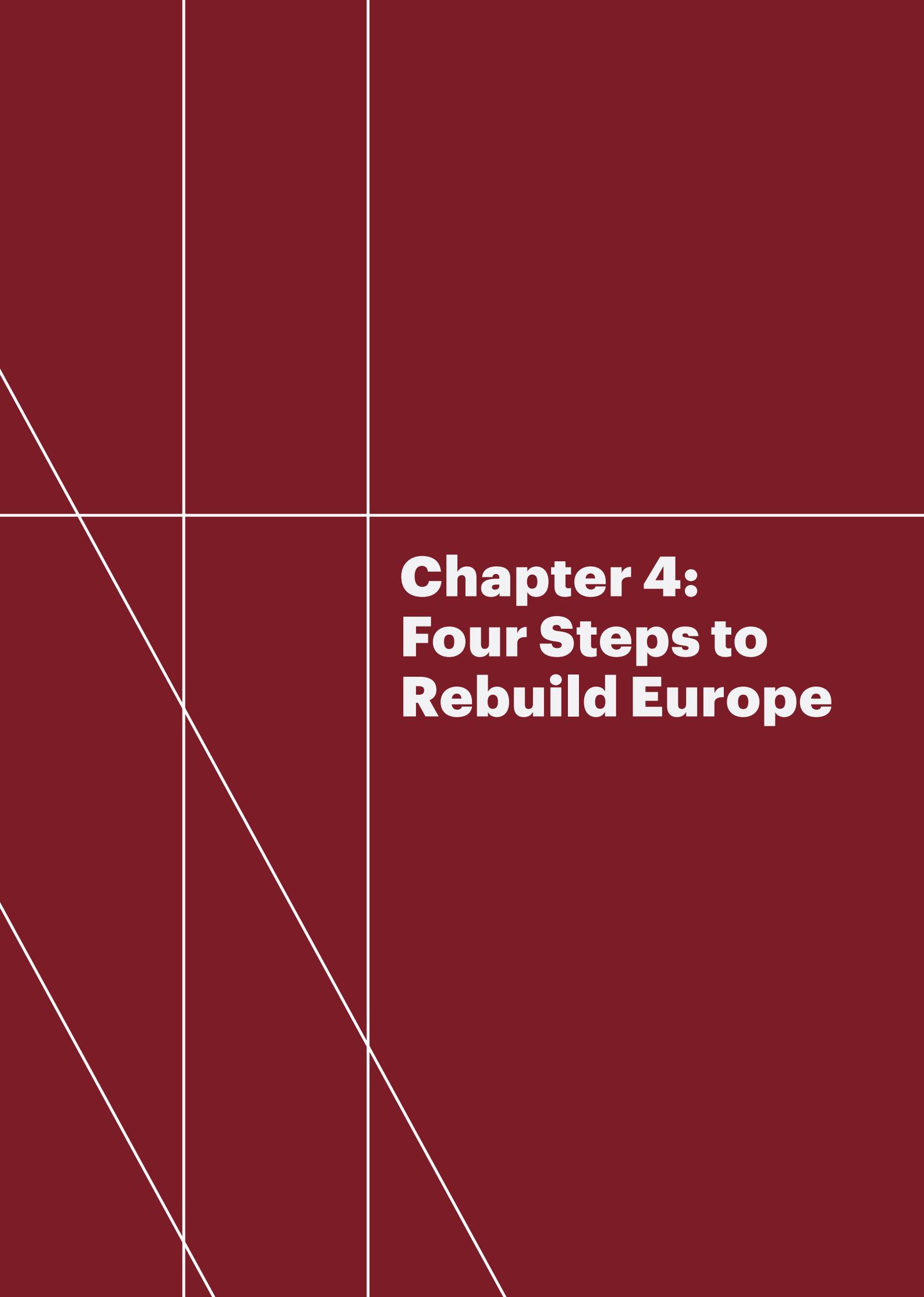
Middelaar provides a whole series of examples of such audaciously creative institutional entrepreneurs, creating new contingencies and facts on the ground. They come from all the spheres he has distinguished. By their actions, new institutional spaces have been created where other actors have then been able to innovate further¹¹. This has sometimes been for good and sometimes for ill, depending on the vantage point we adopt (although in Middelaar's own account there are few villains, just the rather ineffectual actors of the inner sphere). Not least, Brexit itself has seen examples of such institutional creativity, with UK advocates of remaining in the EU using the English courts to limit the freedom of manoeuvre of the government in the exit negotiations¹².

It is thus that citizens can potentially exercise their responsibility in our own time, creatively re-weaving the legacy of their fore-runners, and playing their part in reforming the 'hot' politics of uneven economic prosperity and fractured social cohesion. It is to such reforms that Chapter 4 is addressed.

11. Room (2016: Ch 4) offers a more generic theoretical treatment of such institutional innovation.

12. <https://goo.gl/PFQT3l>

<https://goo.gl/bAMu5o>



**Chapter 4:
Four Steps to
Rebuild Europe**

Introduction

We began this report with the discontent of the Greeks and the British, over the way the EU has been working. That discontent may in part have betrayed the failures of the political establishment in both countries; nevertheless, it also poses questions for EU decision-makers, which they do well to consider.

What lessons can be salvaged from this – by the Greeks and the British, but also by the EU itself? More than a decade ago, Ferrera (2004) argued that Italy had been ‘rescued by Europe’ and its project of economic integration. How far can Europe now be rescued by Greece and the UK – at least in the sense that the questions they pose may force a larger debate about that whole project?

The preceding chapters have been concerned with the prevailing model of European economic development and with political debates around the democratic credentials of the EU. Economic and political life must however be set firmly in their social context. In Chapter 2 we argued for limits on the free reign of the market and its social re-embedding, as the servant of our societies not their master (Polanyi, 1944). In Chapter 3 we considered the scope for democratic political change, re-weaving political life in socially constructive ways, for communities across the Continent¹.

This will involve re-assembling the institutional foundations and principles of the EU, so that they serve the new circumstances of today. Instead of leaving the European economy to respond to market signals, it will require more purposeful and coordinated action, to manage and steer the movement of both capital and labour, so as to secure shared prosperity, social cohesion and political consent. It will mean distinguishing the freedom of the individual on the one hand from the freedom of the market, of capital and of the corporation.

This will affect the whole range of public policies at national and European levels, including economic, industrial, financial and educational policies. It includes, but goes far beyond, social policy as normally understood in the pursuit of social justice and social Europe. It contrasts starkly with the Commission’s *White Paper on the Future of Europe* (March 2017), which is concerned with the **pace** at which the EU should move ‘forward’, but which says little about what ‘forward’ means and the alternative directions of travel that it might involve.

We offer four steps to rebuild and renew Europe:

- Rejuvenate the European economy
- Promote security and creativity for citizens and communities across the Union

1. There are interesting parallels with the questions posed by Baccaro and Pontusson (2016) in their recent attempt to rethink comparative political economy. They start with the ‘varieties of capitalism literature’ and the alternative institutional equilibria and path dependencies that this claims to espy across advanced capitalist societies. They then shift, however, from this focus on ‘supply-side’ institutions to the dynamics of different forms of demand-side economic growth, and their distribution of the benefits of that growth across the population. They finally examine the distributive conflicts that typically arise, and the implications for political coalitions and class conflict, in a more open political situation than the ‘varieties of capitalism literature’ sometimes acknowledges.

- Re-think free movement
- Encourage 'creative subsidiarity'

Rejuvenate the European Economy

European elites often referred to the post-war period of reconstruction and economic growth as the 'thirty glorious years'. From the mid-1970s onwards the tone became much more sombre. Europe was described as sclerotic and falling beyond the dynamic economies of North America and East Asia. Hence the drive for the single market and the single currency in the 1980s and 1990s. Hence also the drive for a dynamic 'knowledge economy' in the 2000s, under the Lisbon process.

Much of this, as we have seen, relied on extending the 'four freedoms' and allowing the market to work its 'magic'. The main duty of government was to ensure sound finances. The social welfare systems whose consolidation had seemed integral to the 'thirty glorious years' were now re-oriented to 'flexible' labour markets. The economic and political crises of recent years, however, expose the inadequacies of this response, as argued in the foregoing pages.

The problem is in part the instability of a common currency for countries in quite different situations of economic development. Faced with the shocks that a single market can bring, and lacking the scope for currency devaluation that the Eurozone entails, countries in difficulty struggle to cope. Their travails then threaten to contaminate the wider region. A common currency may bring many advantages, but if it is to be economically, socially and politically sustainable, additional measures must be put in place.

It is with these conditions that Stiglitz (2016) is concerned, in his recent analysis of the euro and its economic, social and political consequences². He criticises the ordo-liberalism of the Eurozone, arguing (as we did in Chapter 2) that:

- Divergences in national economic performance tend to produce cumulative dynamics of development and stagnation
- Germany benefits from the value of the euro being deflated on world markets: its export surplus (larger than China's, both absolutely and relative to GDP) tends to reduce aggregate demand in the international economy and is not to be regarded as a virtue
- It is not the case that governments, if only they maintain sound finances, can leave markets to sort things out: policies of austerity instead make matters worse
- The present regime is very costly for the South – 'their future is being destroyed' – and this 'economic desertification' is driving migration northwards, including to the UK

2. There are quite a few other proposals embodying similar elements: an emerging consensus for social, economic and political reform. See for example: <https://goo.gl/CLpzlb> and <https://goo.gl/RttMZR>

"A positive industrial strategy [...] would include investment in infrastructure, human capital and the science base"

Stiglitz therefore argues for a variety of financial mechanisms which would give stability, including eurobonds, common deposit insurance, and maybe even the pooling of unemployment insurance costs. He argues for less inequality, more Europe-wide taxation and less tax competition, because the latter only increases the scope for corporations to reduce their tax charges. He also wants a stimulus to promote growth, especially in the stagnating regions, and encouragement to industrial policies to enable the Eurozone's laggards to catch up with the leaders.

It is not however sufficient to build resilience in the face of shocks. Nor is it sufficient to call, as Stiglitz does, for a 'stimulus' to promote growth in the stagnating regions – if by 'stimulus' we mean short-term special measures, which may not have sustainable effects. The larger issue, as seen in Chapter 2, is the cumulative dynamic of economic development and stagnation, which seems intrinsic to a large capitalist economy, and the much greater scope for productivity growth in the manufacturing as compared with the agricultural and service sectors. This is a problem, if countries in surplus just sit on these balances or reinvest them in their own economic infrastructures.

One response could be to allow incomes in those surplus countries to rise, and expect some of this to be spent by consumers on goods and services from the weaker economies. This would accord with the instinct to 'trust the market'. It would however be unlikely of itself to produce a process of economic development which built up high value-added industries in those weaker economies and addressed the social and economic needs of their domestic populations.

A better response would be to invest purposefully and strategically through both public and private effort. A positive industrial strategy of this sort, rejuvenating the European economy, could take inspiration from the active industrial policy of the Treaty of Paris, as well as the concerted efforts to build a knowledge economy that were embodied in the Lisbon process. The 'entrepreneurial state' has a key role to play (Mazzucato, 2013). This would include investment in infrastructure, human capital and the science base, especially through long-term projects of a scale and duration which the private sector cannot contemplate. Government can also be central in creating new markets, including – in recent times – the development of new markets for green technologies and energy sources. This goes far beyond the argument that government should intervene only in cases of 'market failure'.

How might this be organised and funded at a European level? Part of the answer may lie in Keynes' proposals for taxing persistent surpluses and investing them appropriately in those weaker economies. Nevertheless, Keynes was dealing with a world where those trade surpluses sat as foreign currency holdings in government vaults; trade surpluses within the Eurozone sit in the coffers of German households and corporations. To tax and re-cycle these would therefore be an altogether different task – especially given the freedom of corporations to move their profits across borders and with no obligations to invest.

In some degree therefore, rejuvenating the European economy will surely require significant fiscal integration. Chapter 2 highlighted Kaldor's analysis, at the moment the UK entered the EU, of the likely trajectory of European economic integration, and the political pressures that uneven development would

create (Kaldor, 1971). He foresaw that this would necessitate some degree of fiscal integration. This was echoed at the time of the Maastricht Treaty by Wynne Godley (like Kaldor, a Cambridge economist), who argued that, 'If a country or region has no power to devalue, and if it is not the beneficiary of a system of fiscal equalisation, then there is nothing to stop it suffering a process of cumulative and terminal decline leading, in the end, to emigration as the only alternative to poverty or starvation³.'

Subsequent events have strongly vindicated these arguments. Various proposals for fiscal union in the Eurozone have been advanced in recent years, including most recently by Piketty and colleagues, starting with corporation tax⁴. They also argue for the creation of new democratic institutions for the Eurozone, since without an accompanying democratisation of decision-making at the European level, fiscal union will simply be experienced as a further loss of sovereignty and accountability. At the political level, proposals for greater fiscal and political union in the Eurozone have been advanced by Emmanuel Macron and Sigmar Gabriel⁵.

Even then, as Stiglitz recognises, no economic system can be given a consistent set of rules that will work well, through changing and not entirely foreseeable economic conditions. There must be scope to modify them as needs change; Europe cannot be left on market auto-pilot. That however will require a shared political vision.

Promote Security and Creativity for All

Individual security against the risks of income interruption was the heartland of traditional welfare states. Over the last half-century, however, it has been on the defensive across much of the industrialised world, in the face of neoliberal hostility to state welfare. Increasingly citizens have been treated as 'consumers' of welfare services, making individual choices in a marketplace, but then expected to take responsibility when those choices prove ill-advised. The Europeanisation of markets and increasing economic uncertainty undermine citizen confidence: choice becomes a euphemism for insecurity. Chapter 1 argued that this insecurity, in part at least, created the social conditions for the Brexit vote in the UK.

The Lisbon process of 2000 recognised that, in the face of uncertainty, social actors need some safe and solid ground. The move to a knowledge economy therefore depended on reassuring people that they would retain a degree of security during the transition period, and that the flexibility which a dynamic and innovative economy requires would not come at too high a human cost. These were collective risks which should be managed on a Europe-wide basis. It follows that the solidarities of strong national welfare

3. <https://goo.gl/ArJPhz>

4. <https://goo.gl/G6yVZa>

5. <https://goo.gl/IJaaZX> See also De Grauwe (2013) <https://goo.gl/iLbbMz> and Demertzis and Wolff (2016) <https://goo.gl/AJrfJL>

systems must be retained, not dismantled, in the face of neoliberal markets (Polanyi, 1944; Rieger and Leibfried, 2003). The successful functioning of European markets – in the eyes of the public at least – may thus depend on the strength of national solidarities. This is one of the senses in which we may speak of social policy being a productive force.

It is not just that people need to be protected against the specific risks that may befall them – what in earlier times the Beveridge Report (1942) referred to as the five ‘Giants’ standing in the way of a civilised society: Want, Disease, Squalor, Ignorance and Idleness. It is also that those Giants tend to congregate together – in terms of the households and the communities that they ravage. The risks tend, in other words, to be interconnected and self-reinforcing.

That was of course also a lesson of the financial crisis. Banks made their assessments of risk on the assumption that risks were largely independent of each other. This proved not to be the case: risks were contagious. Governments and taxpayers came forward as the guarantors of the banks’ viability. The costs of those risks were spread across society, in particular by retrenchment in public provision – and in the institutions of collective solidarity. It is no wonder that people with few resources may fear rapid change, knowing as they do their own vulnerability to ‘tipping points’ of calamitous loss. Competitive markets are no substitute for such collective solidarity (Room, 2016: Ch 8).

If markets threaten those solidarities, so does excessive and unbridled inequality (Piketty, 2014). This is for several reasons. First, because it encourages the rich to opt out of collective security arrangements and build protected schemes of their own. Second, because the national solidarities of strong welfare systems carry with them norms of equitable treatment and just desserts, which unbridled inequality undermines. Gross inequality undermines solidarity and hence also the overall European project.

Security for citizens and communities is thus, at least in some degree, in tension with security for the financial institutions and for those sections of the population that depend on them. Streek highlights this tension in terms of the *Staatsvolk* and the *Marktvolk* (Streek, 2014: Ch 2). The tension is all the greater when taxation systems become less progressive; when taxation of footloose corporations is driven by a race to the bottom against national tax authorities; and when governments shift from taxation as a source of revenue to borrowing on the bond markets. This is what Streek (2014) describes as the ‘Debt State’; Galbraith (2009) as the ‘Predator State’. Tax reform is also therefore a necessary part of any European reform, in any attempt to ‘rescue Europe’.

As well as individual and collective security, a knowledge economy also depends on human investment and skills. This is especially important for the demographically challenged societies of Europe, which can ill afford to waste their scarce human resources, and must equip them to respond successfully to the new challenges of artificial intelligence and robotics⁶. However, if our education and training systems are to prioritise these groups, they need to be much more inclusive than at present. At the moment, opportunities for life-long learning have long been available mainly to those who are already

“As well as individual and collective security, a knowledge economy also depends on human investment and skills. This is especially important for the demographically challenged societies of Europe, which can ill afford to waste their scarce human resources”

6. <https://goo.gl/iZseKA> and Brynjolfsson and McAfee (2014)

well-educated (European Foundation for the Improvement of Living and Working Conditions, 2001); they need to be opened up to those who are least skilled. Neglecting them helps to produce a bifurcated labour force of high skill and low skill workers (Brown et al., 2011: Chs 3 and 8). This is neither socially equitable nor economically efficient, for it is investment in the least skilled that can yield the greatest returns in terms of economic growth (Coulombe et al., 2004).

Social policy as a productive force is not just about investing in individuals; it also involves investment in occupational and regional communities. Human capital must be deployed effectively within industrial settings if economic growth, competitiveness and employment are to be achieved. Innovation in knowledge industries is rarely a matter of new technology alone: it also involves human resource management, organisational change and the creative application of new technologies in new contexts. This aligns with the vision of a 'smart economy' set out by Hutton (2015: Ch 6), with innovation and 'mass flourishing', locally and nationally.

In short: reaching towards a knowledge economy means not only shifting the European budget towards research and building the right links between research, technology, innovation and enterprise. It also needs a strong social dimension, in terms of skills, social institutions that support a high-skill economy and broad popular commitment to this new economic order. This makes an active social policy central to capacity-building in dynamic economies (Room, 2005).

Re-Think Free Movement

Free movement also needs re-thinking: the free movement of people, but also of goods, services and capital.

The free movement of goods and services may allow economies of scale and reductions in the price of consumer goods – but it can also mean downward pressure on social and environmental standards and the destruction of employment in communities unable to compete. The free movement of capital may mean downward pressure on taxable capacity, as businesses threaten to move elsewhere, and their disregard of any obligations towards the communities where they are based.

Being forced to migrate because of the 'economic desertification' of one's home region is no freedom, and if desertification results from the free movement of capital, that is hardly cause for celebration by those who are thus uprooted. It is also no 'free movement' if rich countries denude poorer countries of their highly skilled people, because they have themselves failed to invest sufficiently in training⁷.

7. What this also underlines is that the individual's freedom to move is the freedom to offer another country the human capital that has resulted, in part, from investment by the local and national community of origin. Citizens' capabilities are embedded within the communities and economies where they have lived their lives; this cannot with justice be ignored.

“Free movement requires some collective responsibility for the infrastructures of the communities to which large numbers of immigrants come, rather than ‘devolving’ this burden to the local areas in question”

We allow for fragile environments to be protected and watched over by local communities. We may also allow them, as caretakers, to set the terms on which we intrude and in what numbers; we encourage their community stewardship (Ostrom, 1990). It would be strange not to extend that thinking to local communities and their jealous protection of their social fabric. That may mean limits on the intrusion of outsiders, even if such limits require a clear justification.

Free movement requires some collective responsibility for the infrastructures of the communities to which large numbers of immigrants come, rather than ‘devolving’ this burden to the local areas in question. This is true, whether those incomers arrive from outside or inside the country in question. Indeed, it is part of the larger question of how national and European policies can support local communities more generally, especially those facing major social and economic change. Leaving them at the mercy of global markets risks community disintegration – just as much through the exit of secure jobs, as through the arrival of incomers.

This will require investment in the social and economic security of all our communities. It will need strong welfare systems, able to support citizens during periods of change and insecurity. It will also mean re-embedding capital within national and local communities (Polanyi, 1944), including – for example – reforms to encourage community co-ownership of local businesses and limitations on foreign ownership. This is central to the reforms of the UK economy proposed by Hutton (2015: Ch 5), with business ownership a vehicle for innovation and community benefit as much as for profit.

This means interfering in the free movement of financial capital, the hallmark of the globalised economy, widely celebrated as driving industrial development across the low-wage economies of Asia, making them the workshop of the world. There is another view: that the industrial development of East Asia has been state-led, just as happened with countries such as Germany and Japan in the late 19th century (Wade, 1990, 2004). What recent experience has also underlined is that the free movement of financial capital is itself dependent on the concerted guarantees provided by national governments – the very governments from whose taxation international finance seeks to free itself (Supiot, 2012: Ch 4). This is evident not least in the recent European experience, where repayment of loans to the international commercial banks by the debtor nations of the European periphery has involved the use of enforcement mechanisms by the European institutions which privilege financial capital over all else (Streek, 2014: Ch 3; Varoufakis, 2016: Ch 6).

In short, therefore, the free movement of labour, capital, goods and services requires some more careful assessment of who benefits, rather than a blanket commitment as an article of faith, or a test of political correctness. This sets markets as servants, not masters, of social and political choice. Blind commitment to the ‘four freedoms’ is not a sound basis for public policy (Supiot, 2012: Ch 5).

What might this mean, in practical terms, for the free movement of labour within the EU – the issue which emerged as the central battle ground in the UK referendum, but which also now infuses national politics across the Continent?

First, there are no simple answers. It is as unhelpful to insist on the ‘free movement of people’, as an absolute principle of the EU, as it is to insist that ‘control of its borders’ is an absolute necessity for each nation state. A more

"We must recognise that we each sit within multiple solidarities, with their entitlements and obligations: our families, our local communities, our nations and beyond that our citizenship of the EU"

intelligent conversation is needed, seeking to balance the diverse interests involved in a civilised and open debate.

Second, we must recognise that we each sit within multiple solidarities, with their entitlements and obligations: our families, our local communities, our nations and beyond that our citizenship of the EU. Each of these entails responsibilities and commitments on our part and the expectation of support. I should expect a generous welcome wherever I travel in the EU, but until I make my own contribution to that community, it is to my community of origin that I should primarily look for support in time of need. This is indeed broadly the current situation⁸. This, again, needs respectful and civilised discussion, with due attention to the readiness of extremist groups to fan the flames with their divisive rhetoric.

Third, it is necessary also to recognise that, like any ecosystem, these solidarities may be resilient, but also sometimes fragile, in the face of different forms of exogenous change – and that, as noted earlier, rapid change can bring them to ‘tipping points’ of calamitous loss (Scheffer, 2009: Ch 12). This may arise from the sudden influx of outsiders, migrants from other countries, but also the ‘gentrification’ of old working-class residential areas as prosperous young professionals move in (the latter unlikely to receive the same negative press coverage as the former). Such ‘tipping points’ can also arise from the free movement of capital, as international corporations acquire and close down local firms with no regard to the community solidarities that employment sustains. It was partly in recognition of such solidarities that the Treaty of Paris and the European Coal and Steel Community had a strong social and industrial policy (see Chapter 2 above); this still has a key role to play in a reformed EU.

These surely are the principles by reference to which any new view of free movement needs now to be forged – applicable across the EU. There are ideas aplenty for practical reform, including from those involved in the UK’s Brexit debates⁹. This report will not, however, venture further into that detail.

Encourage Creative Subsidiarity

Stiglitz calls for ‘less Europe’ and more subsidiarity, in matters where there are no cross-border externalities. The principle of subsidiarity is here being defined negatively: in the absence of such externalities, individual countries should be left to manage their own affairs. It is however possible to propose a more positive view of ‘creative subsidiarity’. This can be argued by reference to the Lisbon process of 2000, discussed in Chapter 2.

The Lisbon process, as originally conceived, espoused benchmarking as

8. <https://goo.gl/7HvnhT>

9. Shipman (2016: Ch 20)

<https://goo.gl/qrbre7>

<https://goo.gl/qcJlka>

a means of promoting convergence between countries in their policy and performance. It also aimed at cross-national policy learning: accelerating the transfer of best practice, in all areas relevant to the development of a knowledge economy. This sort of strategic learning is common in business; it recognises the role of networks in exchanging innovations, through what are sometimes referred to as 'national innovation systems' (Lundvall and Tomlinson, 2002). Now, however, this transfer would extend to national policy-makers, local and regional authorities and civil society.

Within much of the Lisbon process, such cross-national learning has remained limited. In some areas – employment, social inclusion, pensions – national officials from different countries have undertaken 'peer reviews' of each other's policy interventions (Atkinson et al., 2005, Ch 6). This will only become a dynamic force for change, however, when local and regional social and economic actors drive the process of comparison and policy learning, depending on their specific needs and interests. This would expose domestic policymaking to alternative approaches and intelligence from across Europe, enriching policy debates¹⁰.

This raises the question of whether, on one hand, the Lisbon process is intended to track the progress of member states towards a single common future – one which can be defined by reference to common economic and technological imperatives – or, on the other, benchmarks of national performance are meant to display different scenarios of potential development, with real political choices and trade-offs. The official reports which apply these benchmarks use the language of laggards catching up with leaders: a journey to a single destination, albeit at different speeds. Nevertheless, the futures that are available for laggards are of course constrained by the industrial and technological niches which the leaders have already occupied. If policy benchmarks and indicators are to be of practical use, they must illuminate potential new niches (Room, 2011: Ch 16).

A further question is how far these debates around alternative possible futures should involve wider public scrutiny. This would mean that domestic political leaders could no longer rely on the relative ignorance of their population regarding practices elsewhere; they would, instead, need to justify their performance by comparison with good practice in other countries. Social benchmarking of this sort could have major consequences for their political credibility.

This is consistent with some of the pressures for change around the 2020 European Strategy, the updated Lisbon process, which call for more opportunities for citizens and communities to participate in European governance, along with trade unions and other civil society organisations (Natali and Vanhercke, 2015: 248, 258). The latter have generally grown weaker over recent decades; new forms of cross-national exchange and solidarity might serve to reverse this. Social benchmarking would also constitute a powerful commitment to good governance on the part of the EU, for while it would affirm national responsibility, it would also affirm Community interest in how

10. There are some parallels between our notion of 'creative subsidiarity' and Zeitlin's notion of 'experimentalist governance' (Sabel and Zeitlin, 2012).

“Social benchmarking would [...] constitute a powerful commitment to good governance on the part of the EU, for while it would affirm national responsibility, it would also affirm Community interest in how that national responsibility is exercised”

that national responsibility is exercised (see also De la Porte et al., 2001: 300-301). This sort of creative subsidiarity could thus provide one way of addressing the ‘democratic deficit’ discussed earlier: connecting up communities and associating them in a transnational *demos*.

In some small and modest ways, there are already prototypes of this within the history of the EU – largely unnoticed, but demonstrating what this ‘creative subsidiarity’ can involve. One such prototype is provided by the succession of ‘pilot programmes’ to combat poverty launched by the Commission between the mid-1970s and the mid-1990s (Room, 2014). Poverty was of course outside the scope of Community social policy as defined by the Treaty of Rome (Collins, 1975b). These programmes were therefore small and required special decisions by the Council of Ministers – but their novelty and their concern with the living conditions not just of workers, but of citizens in general, gave them a certain freedom to develop outside the normal constraints of Commission functioning. So did their small scale, which obliged the Commission to limit them to a range of local communities and to work in concert with NGOs.

The result was a succession of initiatives involving local communities from across Europe, connected through the evaluation experts on whom the Council had insisted but, once connected, using that intelligence network for their own purposes. Local projects were then able to bring their peers together on their own turf, to enrich the debates with city decision-makers in which the local project was involved, and also bringing Commission officials and national civil servants to events at which those decision-makers would have to defend their choices, in the glare of international publicity (Room, 1986: Ch 4). This was a foretaste of the ‘creative subsidiarity’ that local communities can exercise, exposing local, national and European decision-makers to public scrutiny – and associating those communities in a transnational *demos* critical of the prevailing order¹¹.

Small prototypes of this sort will not change the world, but they may provide models on which other social and political actors can draw – including national parliaments. Indeed, this aligns well with the enhanced role for national parliaments envisaged by Middelaar (see Chapter 3 above), offering a multi-level articulation of the issues under debate, and avoiding their aggregation and homogenisation at a European level. This ‘creative subsidiarity’ is what in that earlier discussion of Middelaar we described as the potential ‘sixth sphere’ of European politics: the citizens of Europe, interrogating the political actors and their performance.

11. A more recent example is provided by Rebel Cities (or Cities for Change): “...the construction and development on a European level of networks between the ‘cities for change’ can be decisive in increasing the potential of intervention and political pressure on national governments and European institutions. It can affirm a real protagonism of the communities and local governments in political decisions that affect them.” <https://goo.gl/UdSYDa>

Conclusion

Much of Chapters 2 and 3 was concerned with the institutional foundations of European integration. These expressed modes of economic and social governance plucked from the contested practices and traditions of the different member states. As social and economic conditions have changed, they have then been re-woven and applied to new challenges, sometimes with consequences and limitations not entirely foreseen.

The 'democratic deficit' of the EU is in part a constitutional question, concerned with the institutions through which citizens can be given an effective political voice. As we saw earlier, however, it is also a question of how the uneven distribution of the benefits of economic integration – and the insecurity and inequality it tends to produce – can be made consistent with the demands of social cohesion and political stability.

Scharpf (2014) argues against majoritarian democracy for the European institutions on the grounds that persistent minorities – in particular, countries consistently out-voted – would become alienated from the whole project. This is, however, part of a more general problem. The triumph of the Brexit campaign in the UK, the Trump presidency and the rise of right-wing parties across Europe testify to the disaffection of working-class voters with what national politics has delivered over many years. The constitutional challenge of persistent minorities is not one that can be solved by constitutional means alone. On the contrary, the more fundamental challenge is to address the uneven economic and social conditions in question.

What the European institutions lack is not so much ingenuity in constitutional reform, as the capacity and the will to address the insecurity and inequality that uneven economic integration has been generating. This will require much more than a single market and a single currency; adding further layers of political union will also not suffice. What is needed is a Europe-wide social contract, with investment in the social and economic security of communities across the Continent – and in their active citizenship, putting them confidently in charge of their own destinies, and with none feeling left behind. This is a necessary bulwark against social and political dissolution.

Scharpf bemoans the *impasse* at which the EU finds itself – and its failure to allow the economic crisis to jolt it into action of sufficient ambition (2014: 14). Maybe, he observes, the crisis first needs to be bigger. Nevertheless, action for political change often arises not so much from shocks and jolts, as from a mass of small-scale ventures, developing within the detritus of the present: efforts which can then coalesce and forge something new, behind the backs of the dominant economic and political elites – and behind the backs, indeed, of resurgent anti-democratic forces, eager to take advantage of insecurity and instability.

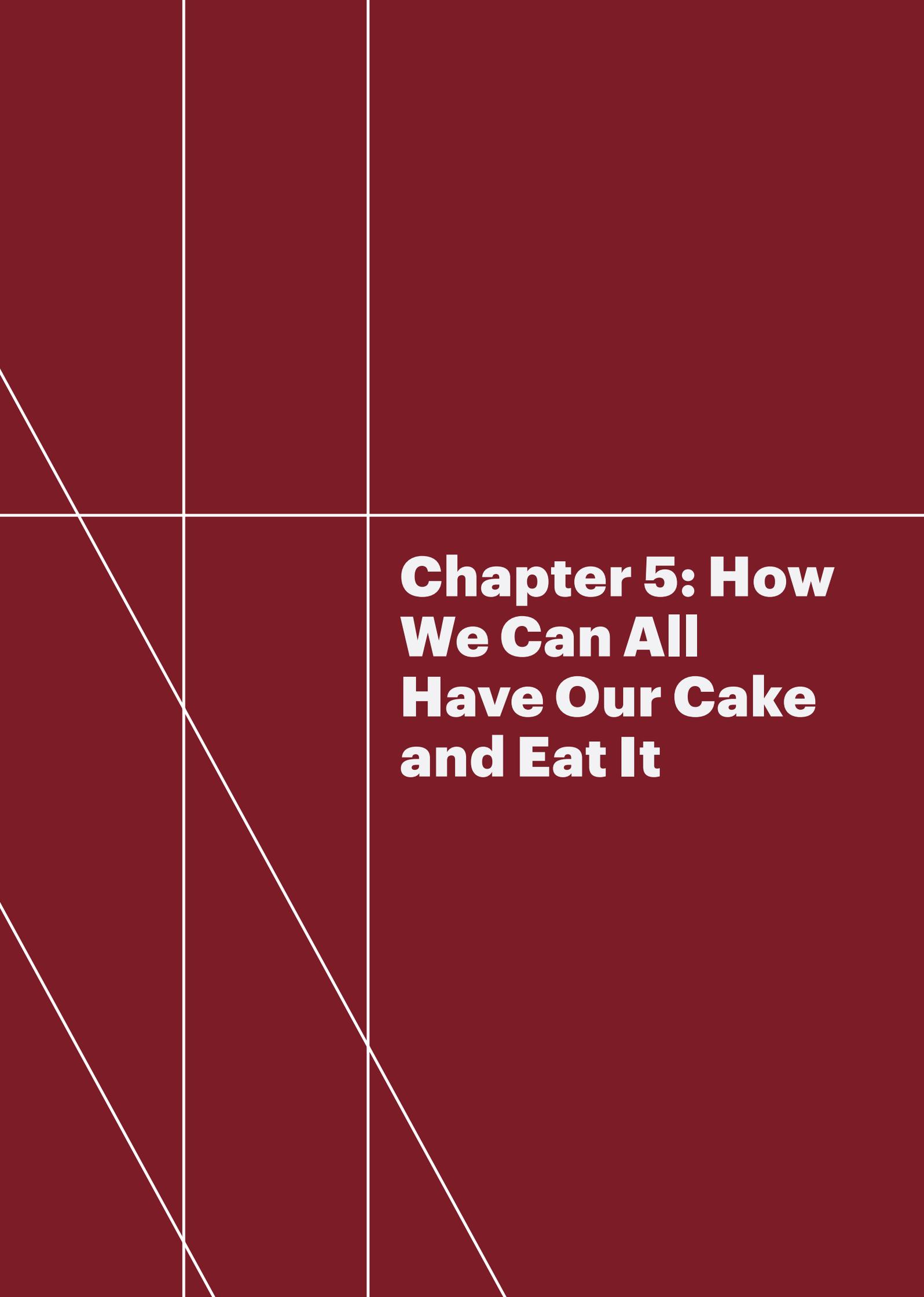
The process of European integration itself creates new spaces and levers for new forms of contested transnational political struggle. Hereby a transnational European *demos* is in some measure being constituted from below, as suggested in the earlier discussion of 'creative subsidiarity'. We referred earlier to the 'pilot programmes' to combat poverty in communities across Europe. There are also associations of professionals and practitioners, of trade unions

"What the European institutions lack is not so much ingenuity in constitutional reform, as the capacity and the will to address the insecurity and inequality that uneven economic integration has been generating"

and civil society organisations, of local communities and campaign groups, of universities and academies and artists, all offering opportunities for bargaining, planning and the development of loyalties on a transnational basis.

This involves not just securing mutual respect for what Scharpf (2014: 1, 16) terms 'legitimate diversity', but also building **new** forms of that diversity, through transnational association and practice. The long history of Commission-supported networks in the social field – small-scale in their budgets but building transnational connections among hitherto isolated local organisations – demonstrates the energy and political potential of such diversity. This suggests balancing an 'ever-closer union', as the goal of European development, with an ever more **diverse and creative union**, enjoying strong social solidarity and participatory democracy (Leonard, 1999: Ch 5).

Meanwhile, however, national governments invoke mandates established by the European authorities, under the rules of fiscal consolidation, against domestic opponents of austerity (Streek, 2014: Ch 3). New forms of domination are also being developed by corporate and financial interests, making use of the transnational spaces and levers that European integration offers (Varoufakis, 2016: Ch 7). Thus, against the apolitical market optimism of recent decades, what European austerity has exposed are the social class divisions of capitalism. This is why our 'four steps to rebuild Europe', taken together, are much more than an exercise in economic management and social cohesion: they are fundamentally political, a struggle for social justice.



**Chapter 5: How
We Can All
Have Our Cake
and Eat It**

Introduction

The European Union faces the most difficult period since its birth. In the aftermath of the financial crisis, much of it stagnates in unending austerity. The refugee crisis has added to those strains. The UK referendum has reinforced the state of crisis, and the response of other far-right Eurosceptic parties and the election of Trump have only made matters worse.

The academic consensus seems gloomy and uncertain. For political actors with a progressive agenda this is unhelpful. It may help explain the rather half-hearted role that the Labour Party played within the UK referendum campaign – and continues to play as negotiations over exit unfold. Nevertheless, the future is in some degree open and political choices must be made. There is always an alternative to the existing order of things.

When Boris Johnson became UK Foreign Secretary, he declared that in the Brexit negotiations we (the UK) “can have our cake and eat it”. This was contested by Council President Donald Tusk, who argued that in negotiating its withdrawal, the UK would undoubtedly face losses, alongside whatever gains it hoped to achieve by leaving. This report argues that instead of a zero-sum battle over the terms of divorce, the EU can with appropriate reforms offer all of Europe (including the British) a better future.

As the UK moves towards exit, this report has mapped out a path to renewal: a positive view of a reformed Europe with social, economic and political ambitions which have been fundamentally re-cast. This is essential if the EU is to survive and thrive, offering a beacon of stability and hope in a turbulent world.

A Programme for Renewal

Chapter 1 opened with the concerns of local communities across the UK: on the one hand, the threat they felt from immigration, with few compensating benefits from EU membership, and on the other hand their lack of political voice at both national and European levels. The UK Conservative Government, with its policies of austerity, has done nothing to moderate their anger – and Labour offers little new hope. The referendum gave expression to their sense of abandonment. The wide surge in support for Eurosceptic parties suggests that this was no parochial UK revolt.

Chapter 2 was concerned with the institutional forms through which European economic integration has been managed – and the distribution of its costs and benefits across the European population. The surrender of this process to the magic of the market has left large parts of that population insecure, and with little to show for the claimed advantages of European cooperation. Nevertheless, these institutional foundations are human creations and it is possible to re-work them.

Chapter 3 was concerned with the politics of European integration – and the voice, or lack of it, given to communities such as those who voted for Brexit. It built on Middelaar’s account of the political drama that has unfolded over the last half-century. He distinguishes three spheres of political action: the

“What however if domestic policymaking were exposed to alternative approaches from across Europe, with local and regional social and economic actors driving the process of comparison and policy learning, depending on their specific needs and interests?”

Community institutions, the European Council and the individual member states. In the intermediate sphere, now pre-eminent, power differences matter – and it is Germany that has emerged to a hegemonic position. This brings with it an unenviable responsibility, in relation to the present crisis. However, Germany’s self-satisfied view of its own economic success justifies much of the present pessimism.

Middelhaar sees the European Council as having developed its role first and foremost through the ‘high politics’ of external defence and security challenges, leaving the Community institutions to concentrate on the ‘low politics’ of market-making. This largely ignores the ‘hot politics’ of social and economic justice: the very issues over which the voices of Brexit protested. This lacuna extends to the European Parliament. Proposals for reform tend to focus on its powers of co-legislation, rather than its confrontation with the prevailing doctrines of ordoliberalism and the socio-economic settlement which they entail across Europe.

Chapter 4 set out an alternative socio-economic programme for the EU. This would re-work the institutional foundations and principles of the EU, so that they serve the new circumstances of today. It would re-embed economic life within the society of which it is part: limiting the free reign of the market, so that it is the servant of our societies not their master. It would require purposeful and coordinated action to manage and steer the movement of both capital and labour so as to secure shared prosperity, social cohesion and political consent. It would involve democratic political change, re-weaving political life in socially constructive ways, for communities across the Continent.

It is worth considering this more deeply. Chapter 2 examined the cumulative dynamic of economic development and stagnation which seems intrinsic to the international capitalist economy. This is a problem, if countries in surplus just sit on these balances – as Germany has done – or reinvest them in their own economic infrastructures. Part of the answer lies in Keynes’ proposals for taking persistent surpluses and investing them appropriately in the weaker economies. This would involve a positive industrial strategy to rejuvenate the European economy – re-cycling economic capital from the core to the periphery.

Chapter 4 also, however, described the recycling of ‘political capital’ from top to base through ‘creative subsidiarity’. It is national governments that have tended to monopolise opportunities for cross-national comparison and collaboration; Giddens (1979: 225-6) describes the ‘insulation’ of domestic affairs that the nation state thus enforces. What however if domestic policymaking were exposed to alternative approaches from across Europe, with local and regional social and economic actors driving the process of comparison and policy learning, depending on their specific needs and interests? These comparisons, involving wider public scrutiny, would force domestic political leaders to justify their performance by comparison with good practice in other countries. This sort of critical comparison from below could have major consequences for their political credibility – and become a dynamic force for change¹.

1. Morphet provides a vivid account of the failure of British governments, over many decades, to illuminate national policy debates with an understanding of EU involvement and benefits – concealing the latter, indeed, in an apparent effort to take credit themselves or, alternatively, to fend off Eurosceptic attacks (2017: 14-15, 132 and Chapter 2).

Recycling **economic** capital involves much more than a transfer of subsidies. Re-cycling **political** capital would involve much more than a change in the electoral processes of the European Parliament and its powers of co-legislation. This is not just a shift in the power and the resources enjoyed by the haves and the have-nots: it is also qualitative transformation – and a change in the direction of travel.

This could bring stability to local communities and allow their creativity to thrive. It would redistribute the uncertainty and insecurity on which populist and extremist political movements feed. It would give expression to the interdependence of the people of Europe. It would offer an ‘ever-closer union’, not in the sense of ‘free markets’ and new levels of political management, but in terms of the diverse legacy on which its local communities can creatively draw.

A Beacon for the World?

Set against the programme for renewal that we have elaborated here, the ‘reforms’ that Cameron sought for the UK, at the start of 2016, seem quite inadequate. His aim was to limit the UK’s involvement in further economic and political integration, and to limit the numbers of migrants coming from other member states and the social benefits for which they were eligible. He offered no positive vision for Europe, beyond making it more ‘competitive’.

Little in the way of reform has emanated from the power elites of the EU either, beyond further tightening of the multilateral surveillance of public spending in the weaker economies². This neoliberal austerity has manifestly failed in socio-economic terms, save in preserving the financial system and the corporate elites, whose wealth has grown so dramatically during this period. Meanwhile the misery that this causes feeds the anti-European populists and the parties of the extreme right.

Those populists promise a new international order, controlling globalisation and marketisation in the interests of ordinary people. Trump has become their latest inspiration. Some of what they propose may even seem to resonate with the purposeful economic policies championed by Keynesians³. Nevertheless, Trump seems to be building his new order around corporate oligarchs rather than social and economic justice⁴. Such corporate elites also seem destined to be a key part of the ‘special relationship’ post-Brexit between the United States and the UK⁵. What Trump also promises is upheaval and disruption, including the disruption of the EU itself⁶.

In the wake of the US election, rescuing and rebuilding Europe therefore assumes an even greater importance. It will require major acts of political

2. <https://goo.gl/UoyBgO>

3. <https://goo.gl/8ES5xl>

4. <https://goo.gl/UzaBMq>

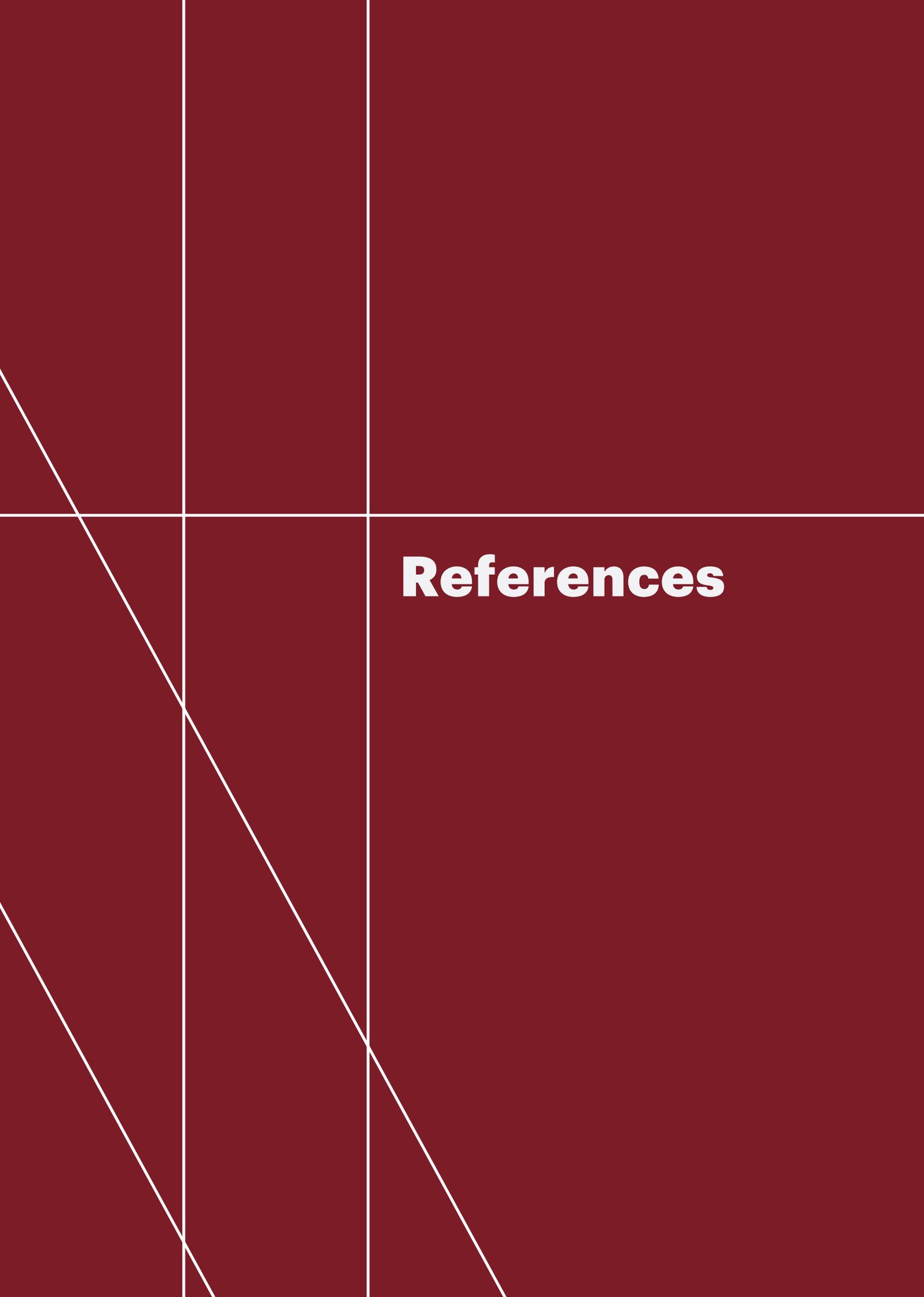
5. <https://goo.gl/NVsdBu>

6. <https://goo.gl/resVVz>

leadership by the EU institutions, demonstrating eloquently the positive benefits of European integration and shared purpose in an uncertain world – including in relation to climate change⁷. How Germany, the dominant economic power in Europe, responds to these challenges, will in large measure shape Europe through much of this century: not only its economy, but its cohesion, its democratic institutions and its global influence⁸.

7. <https://goo.gl/9xOi5q>

8. <https://goo.gl/jyOoXN>



References

References

- Atkinson, A. B., Cantillon, B., Marlier, E. and Nolan, B. (2005). *Taking Forward the EU Social Inclusion Process*, Luxembourg: Luxembourg Presidency of the European Union.
- Baccaro, L. and Pontusson, J. (2016). 'Rethinking Comparative Political Economy: The Growth Model Perspective', *Politics and Society*, 44(2): 175-207.
- Becker, A. (2013). 'German Economic Miracle: Thanks to Debt Relief?'. from <https://goo.gl/wMYwZG>.
- Beveridge Report (1942). *Social Insurance and Allied Services* Cmnd 6404. London. HMSO.
- Blyth, M. (2013). *Austerity: The History of a Dangerous Idea*, New York: Oxford University Press.
- Brown, P., Lauder, H., and Ashton, D. (2011). *The Global Auction*, Oxford: Oxford University Press
- Brynjolfsson, E. and McAfee, A. (2014), *The Second Machine Age*, New York: W W Norton.
- Cecchini, P. (1988). *The European Challenge: 1992: The Benefits of a Single Market*, Aldershot: Wildwood House.
- Collins, D. (1975a). *The European Communities: The Social Policy of the First Phase: Vol 1: The European Coal and Steel Community 1951-70*, London: Martin Roberston.
- (1975b). *The European Communities: The Social Policy of the First Phase: Vol 2: The European Economic Community 1958-72*, London: Martin Robertson.
- Coulombe, S., Tremblay, J.-F. and Marchand, S. (2004). *Literacy Scores, Human Capital and Growth across Fourteen OECD Countries*, Ottawa: Statistics Canada.
- Cram, L. (1997). *Policy-Making in the EU*, London: Routledge.
- Crouch, C. (2005). *Capitalist Diversity and Change: Recombinant Governance and Institutional Entrepreneurs*, Oxford: Oxford University Press.
- De la Porte, C., Pochet, P. and Room, G. (2001). 'Social Benchmarking, Policy-Making and New Governance in the EU', *Journal of European Social Policy*, 11(4): 291-307.
- Deák, I., Gross, J. T. and Judt, T. (ed) (2000). *The Politics of Retribution in Europe*. Princeton: Princeton University Press.

- Dennett, J., James, E., Room, G. and Watson, P. (1982). *Europe Against Poverty: the European Poverty Programme 1975-80*, London: Bedford Square Press.
- Esping-Andersen, G. (1990). *The Three Worlds of Welfare Capitalism*, Cambridge: Polity Press.
- European Commission (2001). *The European Social Agenda and the EU's Intentional Partners*. Brussels: European Commission.
- (2005). *Communication to the Spring European Council: Working Together for Growth and Jobs: A New Start for the Lisbon Strategy*. Brussels: European Commission. 2 February 2005.
- (2017). *White Paper on the Future of Europe*, Brussels: European Commission
- European Foundation for the Improvement of Living and Working Conditions (2001). *Third European Survey on Working Conditions 2000*, Luxembourg: European Commission.
- Ferrera, M. (2004). *Rescued by Europe? Social and Labour Market Reforms in Italy from Maastricht to Berlusconi*, Amsterdam: Amsterdam University Press.
- Galbraith, J. K. (2009). *The Predator State*, New York: Free Press.
- Giddens, A. (1979). *Central Problems in Social Theory*, London: Macmillan.
- Hansen, P. and Jonsson, P. (2014). *Euroafrica: The Untold History of European Integration and Colonialism*, London: Bloomsbury.
- Hoggart, R. (1958). *The Uses of Literacy*, Harmondsworth: Penguin.
- Hutton, W. (2015). *How Good We Can Be*, London: Little, Brown.
- Kaldor, N. (1971). 'The Truth about the 'Dynamic Effects'', *New Statesman*, (12 March).
- Kenny, M. and Pearce, N. (2017). *The Anglosphere*, London: Polity Press.
- Keynes, J. M. (1919). *The Economic Consequences of the Peace*, New York: Skyhorse Publishing.
- (1936). *The General Theory of Employment, Interest and Money*, London: Macmillan.
- Lenner, K. (2016). *The Politics of Pledging*. (Issue 2016/03). Florence: EUI Migration Policy Centre.
- Leonard, M. (1999). *Network Europe: The New Case for Europe*, London: The Foreign Policy Centre.
- Lundvall, B.-A. and Tomlinson, M. (2002). 'International Benchmarking as a Policy

- Learning Tool' in Rodrigues, J. M. (ed), *The New Knowledge Economy in Europe*, Cheltenham: Edward Elgar. 203-231.
- Macgregor, N. (2016). *Germany: Memories of a Nation*, London: Penguin.
- Marshall, T. H. (1950). *Citizenship and Social Class*, Cambridge: Cambridge University Press.
- Martin, C. (2013). *A Very Large Gamble: Evidence on Quantitative Easing in the US and UK*, University of Bath Institute for Policy Research.
- Mazzucato, M. (2013). *The Entrepreneurial State*, London: Anthem.
- Middelaar, L. v. (2014), *The Passage to Europe*, New Haven: Yale University Press.
- Milward, A. (1984). *The Reconstruction of Western Europe 1945-51*, London: Routledge.
- Morphet, J. (2017). *Beyond Brexit: How to Assess the UK's Future*, Bristol: Policy Press.
- Natali, D. and Vanhercke, B. (2015). *Social Policy in the European Union: State of Play 2015*. Brussels: ETUI, OSE.
- Ostrom, E. (1990). *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge: Cambridge University Press.
- Papadopoulos, T. and Roumpakis, A. (2013). 'The meta-regulation of European industrial relations: power shifts, institutional dynamics and the emergence of regulatory competition', *International Labour Review*, 152(2): 255-274.
- (2015). 'Democracy, austerity and crisis: Southern Europe and the decline of the European social model' in Romano, S. and Punziano, G. (ed), *The European Social Model Adrift*, Farnham, UK: Ashgate Publishing. 189-212.
- Piketty, T. (2014), *Capital in the Twenty-First Century*, Cambridge, Mass: Belknap/ Harvard University Press.
- Polanyi, K. (1944). *The Great Transformation*, New York: Rinehart.
- Ricardo, D. (1821). *Principles of Political Economy and Taxation*, London: John Murray.
- Rieger, E. and Leibfried, S. (2003). *Limits to Globalisation*, Cambridge Polity Press.
- Rimlinger, G. V. (1971). *Welfare Policy and Industrialisation in Europe, America and Russia*, New York: John Wiley.
- Room, G. (1986). *Cross-National Innovation in Social Policy*, London: Macmillan.

- (1991). *Towards a European Welfare State?*, Bristol: SAUS Publications University of Bristol.
- (2004). 'Multi-Tiered International Welfare Systems' in Gough, I. R., Wood, G. D., Barrientoset, A. al (ed), *Insecurity and Welfare Regimes in Asia, Africa and Latin America*, Cambridge: Cambridge University Press. 287-311.
- (2005). *The European Challenge: Innovation, Policy Learning and Social Cohesion in the New Knowledge Economy*, Bristol: Policy Press.
- (2011). *Complexity, Institutions and Public Policy: Agile Decision-Making in a Turbulent World*, Cheltenham: Edward Elgar.
- (2014). 'The European Anti-Poverty Programmes from the 1970s to the 1990s' in Oorschot, W. v., Peeters, H. and Boos, K. (ed), *Invisible Social Security Revisited*, Leuven: LannooCampus Publishers.
- (ed) (2015). *Alternatives to Austerity*. Bath: Institute for Policy Research, University of Bath.
- (2016). *Agile Actors on Complex Terrains: Transformative Realism and Public Policy*, London: Routledge.
- Sabel, C. F. and Zeitlin, J. (2012). 'Experimentalist Governance' in Levi-Faur, D. (ed), *The Oxford Handbook of Governance*, Oxford: Oxford University Press.
- Scharpf, F. W. (2014). *After the Crash: A Perspective on Multilevel European Democracy*. (MPlfG Discussion Paper 14/21) Max Planck Institute for the Study of Societies.
- (1997). *Games Real Actors Play: Actor-Centred Institutionalism in Policy Research*, Boulder: Westview Press.
- Scheffer, M. (2009). *Critical Transitions in Nature and Society*, Princeton: Princeton University Press.
- Shipman, T. (2016). *All Out War: The Full Story of How Brexit Sank Britain's Political Class*, London: William Collins.
- Skidelsky, R. (2002). *John Maynard Keynes: Volume 3: Fighting for Freedom 1937-1946*, Harmondsworth: Penguin.
- Stiglitz, J. (2016). *The Euro and its Threat to the Future of Europe*. London: Allen Lane.
- Streek, W. (2014). *Buying Time*, London: Verso.
- (2016). *How Will Capitalism End?*, London: Verso.
- Supiot, A. (2012). *The Spirit of Philadelphia: Social Justice versus the Total Market*,

London: Verso.

Tawney, R. H. (1931, 1964). *Equality*, London: Unwin Books.

Titmuss, R. M. (1963). *Essays on 'the Welfare State'* (2nd Edition), London: George Allen and Unwin.

Varoufakis, Y. (2016). *And the Weak Suffer What they Must?*, London: The Bodley Head.

Wade, R. (1990, 2004). *Governing the Market*, Princeton: Princeton University Press.

Wilensky, H. L. and Lebeaux, C. N. (1958). *Industrial Society and Social Welfare*, New York: Free Press.

Young, M. and Willmott, P. (1957). *Family and Kinship in East London*, London: Routledge and Kegan Paul.

Contact

To find out more, contact Professor Graham Room by:

Phone: 01225 386090

Email: g.j.room@bath.ac.uk

Discover more about the IPR

- Email us:
ipr@bath.ac.uk
- Find us online:
www.bath.ac.uk/ipr
- Follow the IPR blog for expert analysis, debate and comment on recent developments across UK government, policy and academia:
blogs.bath.ac.uk/iprblog
- Follow the IPR on Twitter for bite-sized, fresh and up-to-date policy commentary as it happens:
[@UniofBathIPR](https://twitter.com/UniofBathIPR)
- Like us on Facebook to engage with like-minded policy individuals:
www.facebook.com/instituteforpolicyresearch
- Listen to our podcasts to catch up on the best of our lectures and seminars:
bit.ly/2jQi9i8
- Join our mailing list to be the first to hear about our events or publications:
www.bath.ac.uk/ipr/sign-up