

Briefing Notes

Europe: Is the System Broken?

MERCATOR
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DIALOGUE

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why are we here?

The ground is shifting: Europe, and a changing political landscape

For years, the political discourse has been gradually heating up over European affairs. It is not unlikely that after the coming European Parliament elections one-quarter of all members of this crucial institution for the EU's democratic checks-and-balances mechanism will consist of representatives whose mandate will be to call into question the very existence of the union in its current set-up.¹ New challenges lie ahead.

While the economy is still slowly recovering from the last crisis, imbalances persist and there is a rising fear of the next economic downturn—particularly because long overdue reforms to make Europe more resilient have largely stalled since 2009. Political stalemate among member states involved in protracted negotiation and mediation of diverging interests frustrates efforts towards the pursuit of common solutions. The debate on migration and asylum-seekers has become a dominant political item across member states while large numbers of unemployed and precariously employed people wait for economic improvements to reach them too.² The political reality that is reflected to us by the ballot boxes across Europe raises the question of whether our political system is fit for purpose? Is it the best we can do or is the system broken?

Trust in democracy in Europe is slowly recovering from a plunge after the 2008 crisis.³ Still, according to one study in 2017, an absolute majority of the population in

Greece, Germany, Sweden, the Netherlands, France, and Italy say that their government never or rarely works in their interest.⁴ In 2018, a new Italian government was formed by two parties that ran in the elections on clear anti-establishment platforms demanding drastic political change. In France, the protests of the *gilets jaunes* have become a symbol of fierce discontent toward the government's fiscal policies and the decline in quality of public services.⁵

The question is why are groups of voters now losing faith in institutions that they trusted to run their countries throughout the previous decades?

Given the political backdrop, it may be worth exploring the way our "system" is set up and our approach to evaluating it. What are the underlying ethical premises around which our current societal organization is built? What are the different lines of argumentation and political narratives that are driving the debate? And what are their policy implications?

Are claims of the system being broken even justified? Or is the questioning and reversal of political trends once taken for granted the result of a functioning system based on a healthy dose of pluralism and scepticism? How resilient is the system to change, and to what degree does it need to be repaired, rebuilt, or replaced?

exploring system failure: what is it and what do we know about it?

Defining “the system”

“System: a regularly interacting or interdependent group of items forming a unified whole”

“A form of social, economic, or political organization or practice (e.g., the capitalist system)”

“An organized society or social situation regarded as stultifying or oppressive (aka the establishment)”

— the Merriam Webster Dictionary

One could argue that there is no such thing as “the system.” The notion lends itself to different interpretations, from the social to the economic or the political angle, to the national, European, or international, you could paint the system a different number of colors or shades thereof. In the eyes of voters, there is but one system, in which citizens are allowed, indeed tasked, to express their judgement by casting a single vote. Every four to five years one vote expresses citizens’ level of satisfaction with the societal-economic and political infrastructure that makes up the status quo – whatever that represents.

Defining System Failure

System failure could be defined as the result of an outdated model of public policy making, based on the reduction of complex problems into separate, rationally manageable components, which is no longer appropriate to the challenges faced by governments and changes to the wider environment in which they operate.¹⁸ Elements of system failure include:

Increased complexity due to the growing range of actors involved in the policy process, the impact of communication technologies and the resulting growth in interactions, and the blurring of the boundaries between domestic and international policy.

The combined effect is to make it ever **more difficult to predict the outcomes of policy interventions**, especially in systems that do not behave in straightforward, linear ways.

Unintended consequences, alienation of professionals, and long-term standstill on performance improvement and electoral promises all contribute to failure resulting in an increasingly cynical electorate.

What does it mean for a system to deliver or to fail to do so? How can performance be measured and to what degree is it subjective? What role do perceptions play in our experience of the system? When can we say that a system has failed, and when is it merely in transition? What are voters signaling to politicians today across Europe?

Voter satisfaction, or lack thereof, can be understood as an aggregate evaluation of different interdependent factors that come together to compose the political, economic, and social system.

One way to organize these is along the lines of input factors, output factors, and perceptions.

Input Factors

“This system does not represent me”

Among the defining input factors of a system are representation and political equality. There are many potential reasons for citizens to doubt the system’s capability to represent them democratically, and on equal grounds. Among them are corruption, regulatory capture, or unrepresentative electoral systems. If these doubts prevail, no matter how justified they are, voters may question the system’s input legitimacy, and thus withdraw their support.

Output Factors

“This system does not deliver for me”

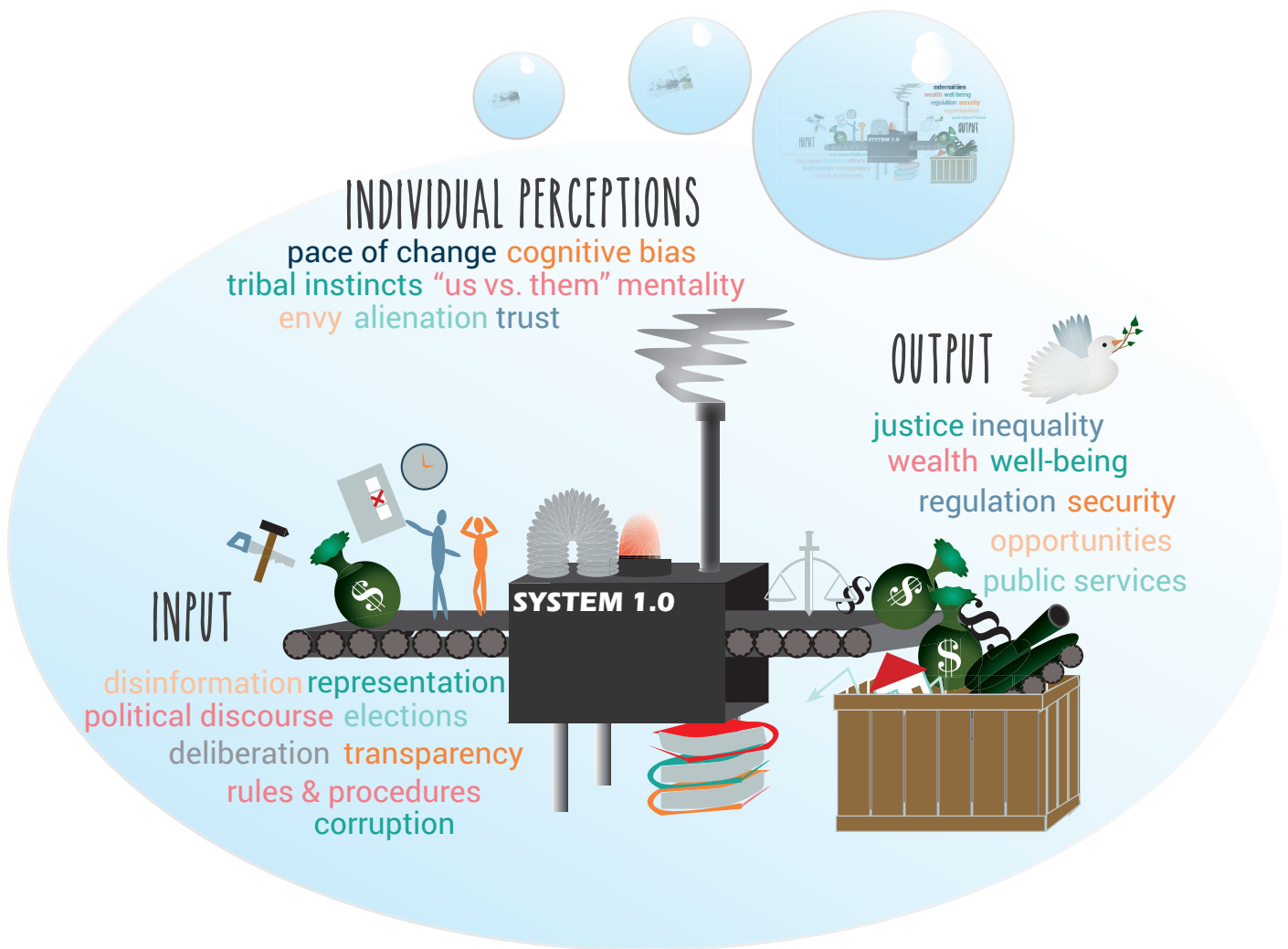
Voters can also assess their system on the basis of its outputs. According to this reasoning, it makes sense for a large number of citizens to want to break with politics-as-usual because they think that they simply do not benefit from it enough. Income inequality or decreasing purchasing power are two key indicators of how citizens judge the performance of a system.⁶

Perception Factors

“I do not feel like the system works and I do not trust it”

A host of sociopsychological arguments suggest that the social changes related to demographics⁷, a lack of social interaction⁸, expectations of future developments, societal diversity⁹ may decrease or at least negatively affect trust in the system.¹⁰ Psychological factors are found to influence people’s perceptions of value and expressed preferences on a broad scale of issues.

Graph: Factors influencing our evaluation of the system: 1. Input factors—how does the system work? 3. Output factors—what does the system produce? 3. Perceptions—how do I perceive the system?



WHAT IS THIS TELLING US?

Whichever combination of factors or perceived and experienced failures makes large parts of the population turn against the system, the status quo seems particularly unstable. Different interpretations exist:

Crisis of Leadership

In *Thinking the Unthinkable*, Nik Gowing and Chris Langdon, argue that the rate of change of societies is overcoming human capacity to keep up.¹¹

Moral Tribes at Odds with Globalized Societies

Moral tribes author and psychologist Joshua Greene, argues that the violent confrontation of diverging philosophies in a globalized society is bringing out deep rifts between “moral tribes,” which can prevent political compromises altogether.¹²

EXAMPLES OF OUTPUT FAILURES

Compared to a generation ago, **economic inequality** has generally increased in Europe.¹⁹

The effects of the financial crisis are still felt economically and politically. Studies show that **financial crises are drivers of political polarization**.²⁰

It is key to distinguish between the status quo and **expectations for the future**, which seem to play an important role in people’s assessment of their situation and often diverge.²¹

The impression that the world has become **more insecure recently** is one negative output that is cited in several studies.²²

EXAMPLES OF INPUT FAILURES

There has been a **decrease in electoral participation and trust** in political institutions.²³

The **people who trust the system more are those who have better access to education, information, and wealth.**²⁴ These people are the so-called “elites”. Others are less likely to feel that their voice is being heard in politics.²⁵

Many voters distrust the integrity of the economic and political system. For example, **half of Europeans** say that the only way **to succeed** in business in their country is **through political connections**.

Political environments have been transformed by the 2008 economic crisis, which has **imposed budgetary constraints** directly affecting the policies government can pursue.

Disinformation is a growing threat to the public sphere in countries around the world, as it often aims to influence citizens’ decisions to vote (or to abstain from voting).²⁶



FACTORS CONDITIONING OUR PERCEPTIONS

Increasing loneliness can lead to more morally hazardous decision-making and affects our judgement of what represents the “greater good.”²⁷ Variations in hormone levels can affect our individual state of mind when evaluating the overall performance of a system.²⁸

Research reveals that the majority of people are wrong about the state of the world, **thinking it is poorer, less healthy, and more dangerous than it is.**²⁹

Instincts that are drivers of perceptions include the tendency to divide the world into two camps (**us vs. them**), the way we consume media, and human evaluation of progress (believing most things are getting worse).³⁰

There are **discrepancies between perceived or assumed mandates of organizations and their actual powers.**³¹

Crisis of Values

Hannah Arendt describes how in times when political authority is questioned, citizens may turn to pre-political authority instead: “The common quest for gaining meaning by forging pre-political solidarity can often express itself in affirming traditional values”. Frank Furedi accuses liberal elites of having waged a “cultural war” against the average citizen on the basis of assumed shared values.¹³

Growing Pains

Ivan Krastev reflects in *After Europe* that distrust in the system is not inherently bad. Maybe, more skepticism is exactly what is needed to keep improving it.¹⁴

Unsustainable Tensions

According to **Thomas Piketty**, the unprecedented trajectory of societal inequality (exacerbated by the emotional responses to the increased visibility of the lives of others brought about by digital and communication revolution¹⁵) are making issues of redistribution politically unavoidable and the current system untenable.¹⁶

Pace of Change and Slow Institutions

Angela Wilkinson reflects on the rigidities of the current institutional set up: “today, the world is radically more interlinked, fast-moving and information-rich. But our governments aren’t.”

Loss of Perceived Control in a World of too Many Variables

Ulrich Beck’s *Risk Society* describes society as in transition, due to the scale of modernization, unleashing unintended side-effects, growing societal uncertainties, increased perception of risk, and a feeling of loss of control. It is at the transnational level that this is most evident, leaving citizens and politicians worrying about who is actually deciding what, and what influence they really have over their own futures.¹⁷



FACTS & FIGURES

72 percent

Over two-thirds of French and Italian citizens believe that their system is failing them.³²

financial crises and polarization

A study by the Centre for Economic Studies on financial crises and political polarization finds that policy uncertainty rises strongly after financial crises as government majorities shrink and polarization rises.³⁶

bounded networks

Studies show digital spheres may connect us better – but only within our national boundaries.³³

cleavages

Four out of ten EU citizens perceive a high level of tension between racial and ethnic groups and between religious groups. About three out of ten perceive a high level of tension between rich and poor people, and between managers and workers.³⁵

84 seats

The two biggest groups in the European Parliament – the European Peoples Party (EPP) and the Progressive Alliance of Socialists and Democrats (S&D) – are projected to lose up to 84 seats in the coming elections.³⁴ Their joint share of seats is forecast to fall to 46 percent from 54 percent currently.



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broken institutions

FRAMING

Over the past three decades, European citizens' trust in political institutions such as parliaments and courts has declined,³⁷ leading to low voter turnouts and a general disapproval of policies that are considered to not be in the people's interest. Trust can be an important indicator of how citizens perceive their institutions to be working. The Democracy Perception Index 2018³⁸ has come to the record finding that 64 percent of respondents living in democracies found that their governments "never" or "rarely" works in the interest of the public. While "vigilant skepticism" of the government by the public is considered a necessary aspect of liberal democracy,³⁹ recent trends, such as the *gilets jaunes* movement in France,⁴⁰ the anti-corruption rallies in Romania⁴¹ or the rise of anti-European parties,⁴² point to a more deep-rooted problem. What does all this tell us about the institutional framework of governments today?

Trust in democracy relates to multiple levels and needs to be analyzed as a synergy of macro-level aspects, such as political institutions, their capacity to adopt and implement sensible policies, and the micro-level impacts on the daily lives of individual citizens.⁴³ European citizens perceive a general decline in the quality of governance as well as a failure to reform and address these challenges.⁴⁴ At the same time, their expectations as to how institutions are supposed to perform increase as the number and scope of services offered by the state increase. Citizens' trust and satisfaction in their institutions may thus decline even though governance improves.⁴⁵

The United Nations Sustainable Development Goals consider peace, justice and strong institutions (SDG16) as crucial for the fulfilment of the other goals. Stable institutions can and should thus be measured by various indicators. They depend on factors such as government efficiency, democracy and representation, upholding of human rights, the rule of law, transparency, and accountability.⁴⁶ The trend whereby a growing

number of citizens feel disconnected, as some studies suggest, highlights the need for political institutions to reform by adopting more inclusive processes.⁴⁷ According to the OECD, more and more governments are pursuing innovative forms of open government that may not only improve their policies and services but also regain the trust of citizens through transparency and accountability.⁴⁸

Traditional reform seems to be incapable of adapting to the demands of the fast-changing socio-political developments in Europe and around the world.⁴⁹ In the face of constant technological innovation, an aging population, shorter economic cycles and other societal changes, slow processes in governance and governmental reform fail to meet the demand for continuous adaptation in policy.⁵⁰ Intense political polarization inhibits reform and is known to have led policymakers to turn away from broad societal consultation in the policymaking process.⁵¹

Disproportionate influence of some interest groups on institutional processes may lead to regulatory biases and unequal benefits, undermining trust in fair institutions. In fact, more than half of Europeans say that the only way to succeed in business in their country is through political connections, suggesting either a lack of transparency in political institutions or regulatory capture.⁵² The latter – the strong influence of interest groups on the exercise of regulatory powers – may also prevent reforms or regulations completely, which can have devastating outcomes.⁵³

At the EU level, the panorama is further complicated. The institutions are often accused of a democratic deficit, which has been a source of popular discontent crystalized by the success of euroskeptic parties. As the EU gains competencies that are characteristic of sovereign states, such as eurozone monetary policy and fiscal monitoring, it seemingly misses adequate political accountability. As the argument goes, decisions derive from inter-state bargaining and technocratic processes rather than the democratically elected parliament. Such intergovernmental bargains do not necessarily lead to coherent policies, as demonstrated by the failure of EU member states to adopt a coherent asylum policy, which ultimately contributed to fueling perceptions of a Europe in crisis.⁵⁴

Federalists suggest that the increased powers of the EU should be accompanied by more accountability mechanisms, such as the direct election of the president of the Commission or a two-tier EU by pursuing federalization among the members of the eurozone. By contrast, EU “minimalism” advocates a reversal of the process, bringing sovereignty back to the national level of political accountability.⁵⁵

Most European citizens appear more comfortable with democracy at the national level than with the creation of a Euro-state.⁵⁶ On the other hand, dismantling the current set-up of the EU to the benefit of the nation-state could block Europe’s ability to respond collectively to policy challenges. The majority of EU citizens seems to share this view, as they support the EU and the common currency.⁵⁷

Consequently, the current model of EU governance lacks a mandate to increase coordination of national policies (in fiscal policy, migration, socioeconomic regulation etc.), while the national governments are incapable or unwilling to introduce important reforms on their own, especially when there are weak compensation mechanisms (e.g. eurozone budget) on the EU level, or even blame Brussels for imposing them.

Citizens are left with both the Commission and national governments presenting their reform agendas but blaming the respective counterpart for not setting the right institutional framework for implementing it.

What is the right way forward? Is there a possible and effective compromise for EU institutional reform, for more effective and legitimate governance?

FACTS & FIGURES

2 out of 3

People in the world support direct democracy as a governing system where citizens, not elected officials, vote directly on major national issues. There is little difference between regions.⁵⁹

trust

In cross-national comparisons political trust is consistently highest in countries that are not considered liberal democracies.⁶²

40 percent

Proportion by which the biggest 50 corporate spenders on EU lobbying have increased their lobbying expenditure since 2012⁶³

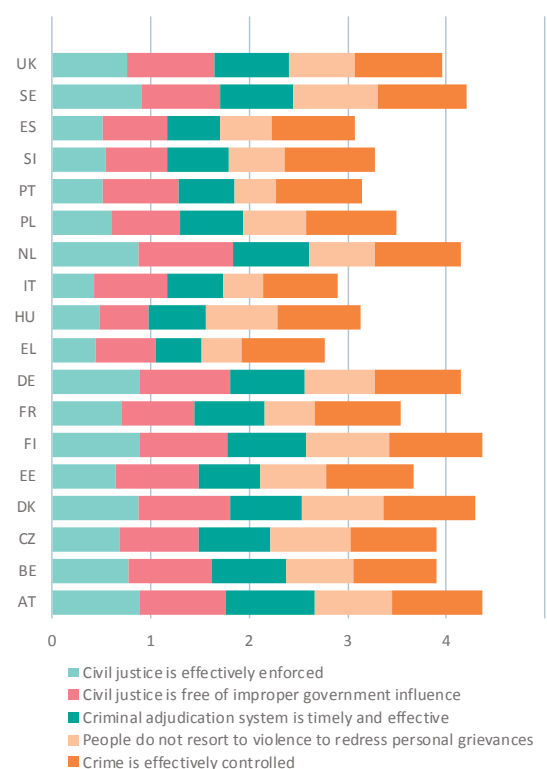
26 out of 41

OECD and EU countries have shown a deterioration of sustainable governance as measured by the Sustainable Governance Index between 2014 and 2018.⁶⁰

29 and 28 percent

Average share of female parliamentarians and government ministers in OECD countries in 2017⁶¹

Aggregates of OECD civil justice indicators, each scaled 0-1, reveal deficits mainly in Italy, Hungary, Greece, Spain, Slovenia, and Portugal⁵⁸



62 vs. 43 percent

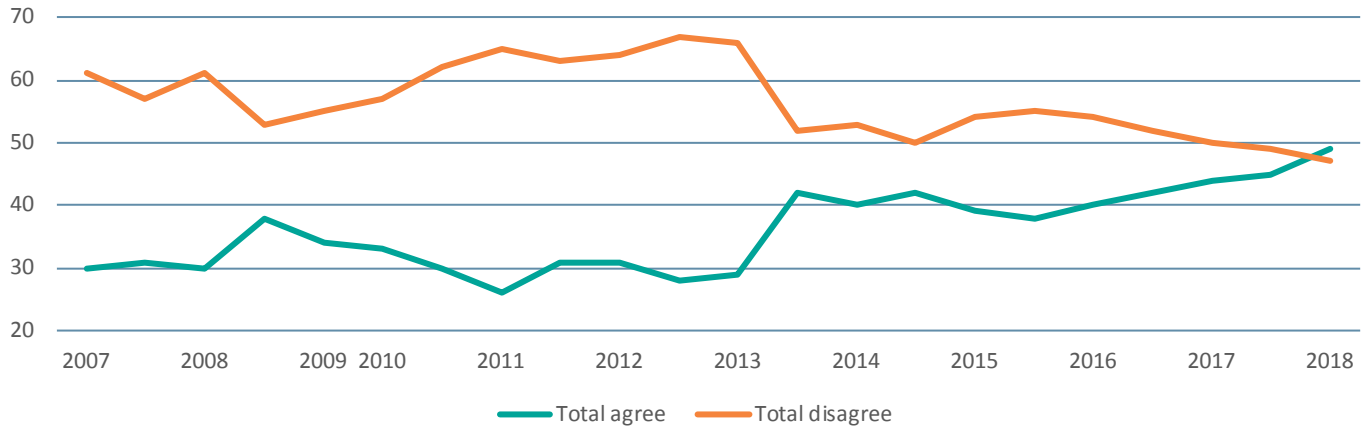
Turnout rates for the 1979 and 2014 European Parliament elections⁶⁵

€ 137 bn

The total EU budget is smaller than that of Austria or Belgium, for example. It amounts to 2 percent or the aggregate budgets of member states.⁶⁶

48 percent

Almost half of the EU's population wants more competencies to be returned to the member states.⁶⁷



More and more people believe that their voice is represented in the EU, according to responses from Eurobarometer surveys 2007.1-2018.2. For the first time since the according data were first collected, more people agree that their voice counts in the EU than do not.⁶⁴



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(dis)trust in politics in the digital age

FRAMING

At a time of perceived increased insecurity, trust becomes existential in ensuring social cohesion and collective decision making, particularly when governments need to implement structural reforms with long-term benefits.⁶⁸

Today, less than half the citizens of OECD countries have confidence in their government. National averages range between almost 80 percent in Switzerland and 12 percent in Greece, and their distribution does not appear to reflect standards of living, per capita GDP levels or growth rates, suggesting that trust in government may not be affected as much by long-term economic trends as by cultural factors, evolving expectations and political discourse.⁶⁹ Overall, research shows a mixed picture when it comes to the evolution of trust: On the one hand, Europeans' confidence in political institutions has dropped precipitously since the onset of the euro-crisis in 2009,⁷⁰ though there are signs of a recent recovery: 42 percent of Europeans say they trust the European Union (the highest level since the autumn of 2010);⁷¹ and more than a third say they trust their national government and parliament (35 percent, +1 percentage point since 2010). Furthermore, countries showing a declining quality of democracy do not necessarily manifest a decline in citizens' confidence in their government. On the contrary, in these cases confidence in government can even grow.⁷²

Political polarization, on the rise in Europe,⁷³ is strongly influenced by levels of social and political trust, with polarization increasing as social trust decreases.⁷⁴ While a degree of polarization is desirable due to its potential positive impact on political participation, excessive polarization can make governance more difficult, limiting the capacity for reform⁷⁵ and inhibiting a system's ability to innovate and address issues of major public concern that require broad majorities.

Digitalization has significantly altered *modus operandi* when it comes to social interaction and civic engagement in ways that may be reducing the overall level of social trust, which is inseparable from the notion of political trust.⁷⁶ In his book, *Bowling Alone*, Robert Putnam depicts a society in which people are increasingly disconnected from family, friends, neighbors, and democratic structures. He warns that our stocks of social capital have plunged alarmingly.⁷⁷ Citizens who are not involved in face-to-face contact with members of their communities, thus building social capital, tend to view the government and its institutions less favorably.⁷⁸ Yet some research also finds that online social networks may increase and complement, rather than reduce, offline social interaction.⁷⁹ Nevertheless, people's behavior while online, which is qualitatively different to offline behaviour, comes with its own challenges. We tend to engage in more aggressive behavior online,⁸⁰ which is a phenomenon that requires attention due to its potential social and political implications.

The existence of a digital public sphere comes with its own set of challenges. The (contested) concept of online echo chambers,⁸¹ manipulation of information, and microtargeting (as the case of Cambridge Analytica has revealed) further complicate the issue of political trust. The spread of misleading, false, and harmful information online, for political gain or merely due to the great regulatory lag concerning online activities, may well pose a fundamental challenge for democratic debate and the public sphere, paving the way for what Yuval Noah Harari has termed "the highway to digital dictatorship."⁸² His warning has received more attention since stories about China's "Social Credit" program have made the news.⁸³

FACTS & FIGURES

67percent

More than two-thirds (67 percent) of Europeans are worried about personal data on the internet being used to target the political messages they see.⁸⁵

disengagement≠ disenchantment

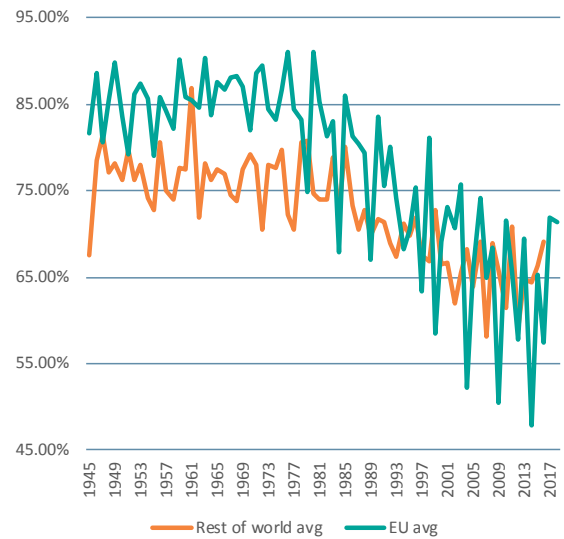
The youngest Europeans (18–24 year-old) were more positive about the EU, even though far fewer of them turned out to vote. The same can be said for many national elections.⁸⁷

stable participation

Political and civic engagement have been stable across the EU for the past decade or so, but they are highly dependent on income, education level, and age. The most engaged people are young, have tertiary-level education, and a high or medium income.⁸⁶

55-58 percent

Of Britons and Americans believe that their government is engaged in conspiracies about immigration.⁹¹



68 percent

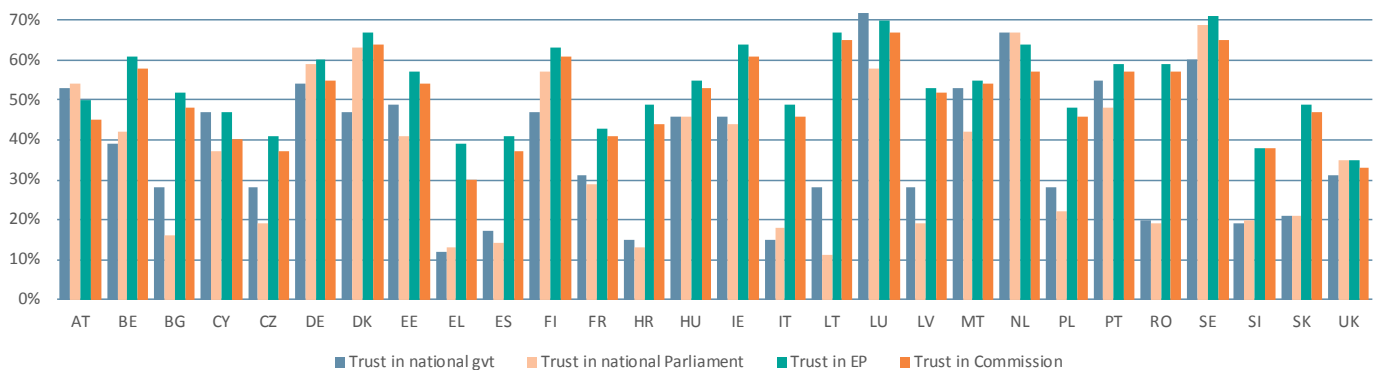
Of Europeans say that they come across fake news at least once a week.⁸⁹

1.2 times as likely

Recent research shows that messages containing moral and emotional words are 20 percent more likely to spread on social media.⁹⁰

Turnout in parliamentary and presidential elections in EU countries vs. the rest of the world since 1945. Europe, formerly boasting high turnout rates, has converged with the globally declining trend recently. We are currently witnessing a spike in turnout.⁸⁴

Share of population that trust in national and EU institutions. European institutions are trusted more than national ones on average, and particularly so where trust levels are lower overall.⁸⁸



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- » IDEA. (2018). *Digital Parties Portal*. <https://www.idea.int/data-tools/tools/digital-parties-portal>
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(mis)managed migration

FRAMING

Migration flows across the Mediterranean have decreased significantly. In 2018, the number of arrivals was lower than in 2017 and 2016.⁹² Yet, the Standard Eurobarometer 90 published by the European Commission in December 2018 shows that 40 percent of citizens across the European Union continue to consider immigration their main concern, above terrorism (20 percent), the economic situation (18 percent), or unemployment (13 percent).⁹³ Three years after the peak of the migration crisis, the reform of the Dublin regulation, which establishes that each asylum request has to be examined by the first country of entry, came to a standstill.⁹⁴ The Schengen system is under pressure.⁹⁵ Meanwhile, the highly emotional debates on where to bring migrants saved at sea after some Member States started to refuse authorization for migrants to disembark, as well as the failed attempts to step up cooperation with countries of origin and transit on the issue of returns, have left EU Member States in a political gridlock.^{96,97}

In Europe, recent survey results suggest that attitudes towards immigration may have become more negative in the past three years.⁹⁸ A host of factors, including the size, origin, religion, and skill level of immigrants, the economy of the receiving country as well as characteristics of survey respondents (age, education), influence perceptions about immigrants.⁹⁹ Additionally, most studies of public opinion on immigration and the media reporting on this matter tend to provide a picture of a divided and polarized public rather than a more complex and sophisticated understanding of the conflicting views of the majority of the population.

Immigration is among those issues that pose fundamental challenges to democratic societies because it

challenges the nation-state in a policy area that represents a core component of state sovereignty: admitting or excluding aliens. Therefore, it is no surprise that the topic has played such a fundamental role in elections and referendums, as showcased by the electoral success of anti-establishment parties and leaders in today's Europe.¹⁰⁰

Engaging effectively with attitudes toward migrants requires an understanding of the concerns, emotions, and values around which attitudes are formed, and understanding that the issue cannot be dealt with approaches such as “myth-busting” alone, which are unlikely to resonate beyond those who are already supportive of immigration.¹⁰¹ It is also important to note that there is no longer a “general public” but rather different segments within each country that are driven by different values and concerns.¹⁰²

In recent years, it has sometimes been argued that social media and other non-traditional channels contributed to creating echo chambers that reinforce people's beliefs and reduce their exposure to opposing perspectives. Nevertheless, many of the drivers of polarization were gathering strength before the use of social networking sites became ubiquitous.¹⁰³ The risk is that the crystallization of the debate around radically opposed positions on migration (open borders vs fences and push-backs), or a simplistic view of the public as being divided into two camps, will paralyze EU institutions and Member States alike, in turn exacerbating the backlash against them and citizen dissatisfaction and frustrations.

FACTS & FIGURES

65,383

Most people arriving to Europe irregularly across the Mediterranean Sea landed in Spain (65,383), followed by Greece (32,497) and Italy (23,371) in 2018.¹⁰⁴

68 percent

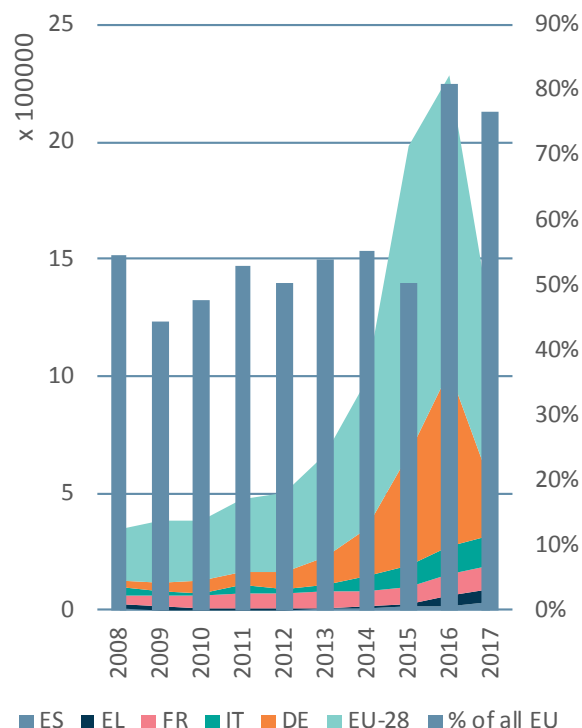
Support for a common European policy on migration is high (around 70 percent since 2014, 68 in 2018), while about 25 member states are opposed.¹⁰⁵ However, there is a preference for decision-making at a national level.¹⁰⁶

222,560

Germany received the highest number of asylum applications in 2017 (222,560), followed by Italy (128,850), France (99,330) and Greece (58,650). Together, these four countries received 72 percent of all applications in the EU.¹⁰⁷

Art. 79 & 80 TFEU

The Treaty on the Functioning of the EU determines the manner in which the EP and European Council shall co-legislate on the conditions of entry, residence, and readmission agreements with third parties



Number of asylum applications per year in the EU and the top-five receiving countries. The blue bars show the share of applications processed in the top-five countries alone. After the spike in 2016, total numbers have dropped dramatically, yet concentration in the main receiving countries remains high at 72 percent of asylum applications

52 percent

More than half of Europeans wanted immigration to be reduced in 2015. This made Europe the only region in the world where a majority wanted less immigration.¹⁰⁸

2x as likely

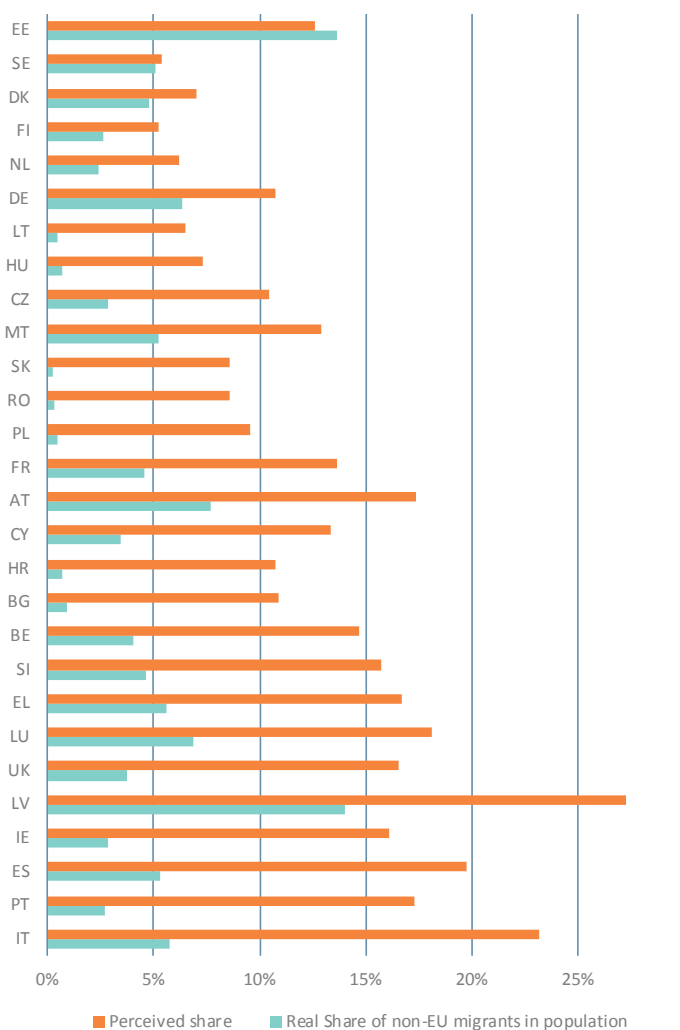
People who rate their country's economic situation as "fair" or "poor" are almost twice as likely to say that migration should decrease than those who rate it "good" or "excellent."¹⁰⁹

12 percent

Only a small part of the European population believes that immigrants are portrayed too positively in the media; 39 percent believe they are portrayed objectively; 36 percent think that they are portrayed too negatively.

tribal attitudes

Research by More in Common on attitudes toward migration in Italy, France, Germany and the Netherlands has shown that complex value systems can help map attitudes along group lines.



Perceived and real share of non-EU migrants in the country. Only Estonians underestimate the actual number of non-EU migrants in their country. The opposite is true across the rest of the EU¹¹⁰



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economic malfunctions

FRAMING

Critical observers of the economic system claim that traditional economic indicators no longer give us an accurate depiction of societal wellbeing and prosperity and advocate for the need for new metrics of prosperity.¹¹¹ Even when traditional indicators paint a positive economic picture, the subjective firsthand experience of citizens may tell a different tale. This dissonance can fuel a discrediting of experts, politicians and policymakers, undermining institutional legitimacies. This tension is magnified and can be instrumentalized if we consider the EU level, where experts and indicators in Brussels can be perceived as being at odds with individual and member states' own assessment and experience of the economic reality.

Sometimes, macro-level indicators can be insufficient. One common observation is that the economy is growing in all EU member states, at an average of 3.4 percent, for an overall growth rate of EU GDP of 2.4 percent.¹¹² However, distribution of this growth is obscured by the use of aggregate indicators. Investments, for example, are a key indicator of a well-functioning economy, and most member states have not returned to pre-crisis investment rates (only Sweden, Austria, Germany, and Belgium have). For the EU as a whole, investment has fallen by 2.3 percentage points (in terms of total GDP).¹¹³ The average overall unemployment rate of the EU is at 6.9 percent. However in Southern European countries it is much higher (18.9 percent in Greece, 14.8 in Spain, and 10.6 in Italy),¹¹⁴ and for 15-24 year-olds even higher (43.6 percent for Greece, 38.6 for Spain and 34.7 for Italy, the EU average was 16.8 percent in 2017).¹¹⁵ As macro-level indicators paint a picture of Europe slowly re-emerging from crisis, at the member state level, indicators show alarming and persistent imbalances that can and have contributed to heated political conflict and landslide victories for anti-establishment parties.¹¹⁶

Other factors merit our consideration. Economic insecurity can be summarized as the "harmful volatility in people's economic circumstances [and] their exposure

to objective and perceived risks to their economic well-being."¹¹⁷ It is to be understood as a separate indicator alongside poverty, inequality and social mobility and affects a much vaster segment of society. A case study of the United Kingdom reveals that around 50 percent of the population was affected by at least one spell of insecurity in the five-year period following the recession of 2008-9.¹¹⁸ Similarly, while recovery has had a positive impact on employment figures, this indicator too needs to be qualified. A European Trade Union Institute report covering the period 2005-2015 finds that post-2008 we have experienced a "bad jobs" recovery, marked by an increase in nonstandard and precarious forms of employment and average levels of job quality in the EU remaining below pre-crisis levels.¹¹⁹

Compared to a generation ago, economic inequality has generally increased in Europe.¹²⁰ Income and wealth inequality are still above the levels of the mid-1980s,¹²¹ social mobility remains inhibited by inheritance, structural disadvantages and different forms of horizontal inequality. Just since the financial crisis, the number of billionaires in the world has nearly doubled. In 2018 the wealth of billionaires increased by 12 percent, while that of the poorest half of the population declined by 11 percent.¹²² The economic recovery has not reversed the long-term trend towards increasing income inequality.¹²³

This is indeed an age-old problem, as Aristotle would have it. "Great then is the good fortune of a state in which the citizens have a moderate and sufficient property; for where some possess much, and the others nothing...a tyranny may grow out of either extreme. Where the middle class is large, there are least likely to be factions and dissensions".¹²⁴ In this sense the middle-class squeeze, reported on by the OECD, is claimed to be a source for economic and political instability. That said, Piketty's argument suggests, that the unprecedented trajectory of societal inequality is now making issues of redistribution politically unavoidable and the current system untenable.¹²⁵

These tensions are further aggravated when the system is perceived as being skewed in favor of certain actors. For example, while many are still feeling the negative effects of the financial crisis, financial actors, often the same banks rescued through the use of public funds, return into the public spotlight due to cases of legal and illegal tax evasion.¹²⁶ As among the key performance indicators of governments as measured by the OECD and the EU are rule of law, control of corruption and accountability, instances where citizens perceive a failure to enforce rules and justice mechanisms are bound to significantly impact a citizen's overall evaluation of the state of economic governance. Perceptions and expectations are both key determinants of satisfaction. It is key to distinguish between the status quo and expectations for the future, which seem to play an important role in people's assessment of their situation. These often diverge.¹²⁷

The crisis, and even just the fear thereof, has arguably shifted more economic policy competences to the EU

level at least in eurozone countries, once more raising the question of democratic control of emergency measures.¹²⁸

Furthermore, if economic policymaking is perceived to be the exclusive domain of people coming from higher income groups, that poses a serious representativeness problem. People who feel that their concerns and needs are not being addressed, can turn against the system.¹²⁹

Finally, there are significant institutional constraints when it comes to economic policymaking. For instance, the EU's Stability and Growth Pact stipulates that governments accumulate debt no larger than 60 percent of their annual GDP and that budget deficits may not exceed 3 percent. Even though this rule has never been universally enforced, it can limit govern-

ments' economic policymaking, e.g. related to investments. At the same time, there are global forces at play that directly determine governments' fiscal capabilities—EU Commissioner Günther Öttinger famously invoked the market's educating effect on Italians' political choices, causing enormous political backlash.¹³⁰ This, among other reasons, could explain why electoral turnout rates are particularly low among the economically disadvantaged.¹³¹

Whether a better form of economic governance exists, is a matter of heated policy debate. Candidates in any election are routinely evaluated on their economic policy agenda, and bond market reactions to their election are interpreted as indicators of their expected success. But is there actually such a thing as sovereign economic policymaking?

FACTS & FIGURES

mobility & gender

211/1

Overall, women are significantly more likely than men to move to a higher economic class than their parents across EU countries.¹³³

CEO-to-average employee pay ratio in S&P 350 companies in Ireland. This is the highest calculated rate in the EU, followed by that in France (113/1), and United Kingdom (105/1)¹³⁸

money talks

Class and income are key predictors of people's life satisfaction in general, and health and happiness in particular.¹³⁷

redistribution

There is strong evidence of progressive tax and redistribution policies decreasing the linkage between parents' and children's educational attainment¹³⁴

class is persistent

Class is highly persistent, especially at the edges. The groups least likely to move to a different job category than their parents are the lowest (routine workers) and the highest (large business owners, managers, supervisors)¹³⁶

9 out of 10

Satisfaction with working conditions has risen slightly between 2010 and 2015 in the EU. A total of 86 percent are satisfied or very satisfied with the conditions in their main job.¹³⁵

Annual GDP per capita at current prices (euro) and share of low-wage-earners as proportion of all employees in the six largest member states. German and French economic growth is accompanied by a growth of the low-wage sector.¹³²



1 out of 3

34 percent of the lowest income quintile of Europeans are overburdened by housing cost, compared to less than 2-10 percent in all other quintiles.¹⁴⁰

optimism prevails

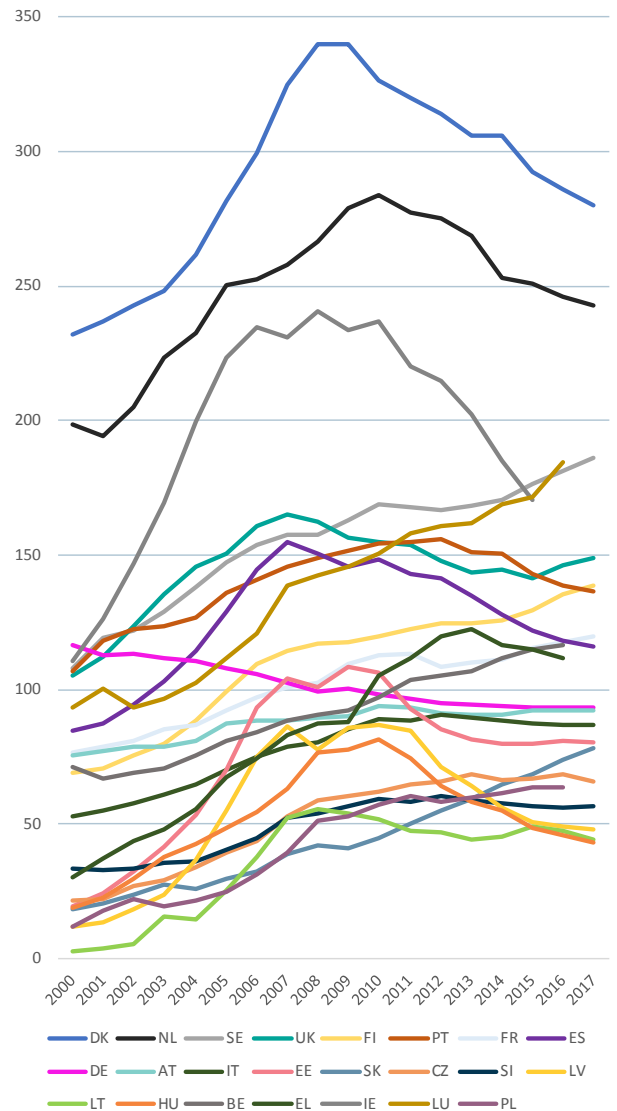
In 2015, 2017 and 2018, most Europeans expected the economic situation to improve in the following year. That had only been the case once before in the history of Eurobarometer polls, in the year 1994.¹⁴³

2015-2016

Per capita GDP (at constant prices) of the Euro area and the EU only reached pre-crisis levels in 2016 and 2015 respectively, but the trend remains sluggish.¹⁴¹

safe bonds

Despite a 240 percent public debt to GDP ratio, and continuous primary fiscal deficits, the credit default swaps on the Japanese government debt are valued nearly as safe as Germany's.¹⁴²



ADDITIONAL RESOURCES

- » Daianu, D. (2018). *Can Europe strengthen its "economic sovereignty"?* European Council on Foreign Relations. https://www.ecfr.eu/article/commentary_can_europe_strengthen_its_economic_sovereignty
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what keeps societies together?

Philosophers, political thinkers, and social scientists alike have always been fascinated by the connection between the individual and society. From Aristotle's viewpoint that humans are social by nature,¹⁴⁴ to Locke's, Hobbes, and Rousseau's theories of how states can and should be organized, philosophical grappling with the basic rules of structuring our cohabitation has been at the heart of trying to establish how we can peacefully coordinate our individual interests as a society – in other words, what keeps our societies together.

One way of looking at what keeps us together is often summarized by the term “social cohesion”. This can be defined as the relations, connectedness and perceptions of the common good that individuals experience.¹⁴⁵

There is evidence that suggests a positive effect of social cohesion on peaceful collective decision-making¹⁴⁶ and general wellbeing.¹⁴⁷ Several aspects of social cohesion may also be influenced through policy adjustments, e.g. in the areas of education or redistribution,¹⁴⁸ but some are also subject to cultural and historical idiosyncrasies that may not be influenced that easily.¹⁴⁹ For instance, interpersonal trust, an important indicator of social cohesion, is almost constant and inelastic to political or other changes over time in several countries.¹⁵⁰

While there is also no robust indication of social cohesion being in decline overall, ongoing changes could affect its foundations; for example, traditional communities such as churches or political parties are losing membership¹⁵¹ and family and household sizes are decreasing.¹⁵² As traditional communities decline, new ones emerge that are based around shared needs and lifestyles. Such groups attract ever more similar members with a tendency to interact less with others, which fuels distrust and prejudice between them.¹⁵³

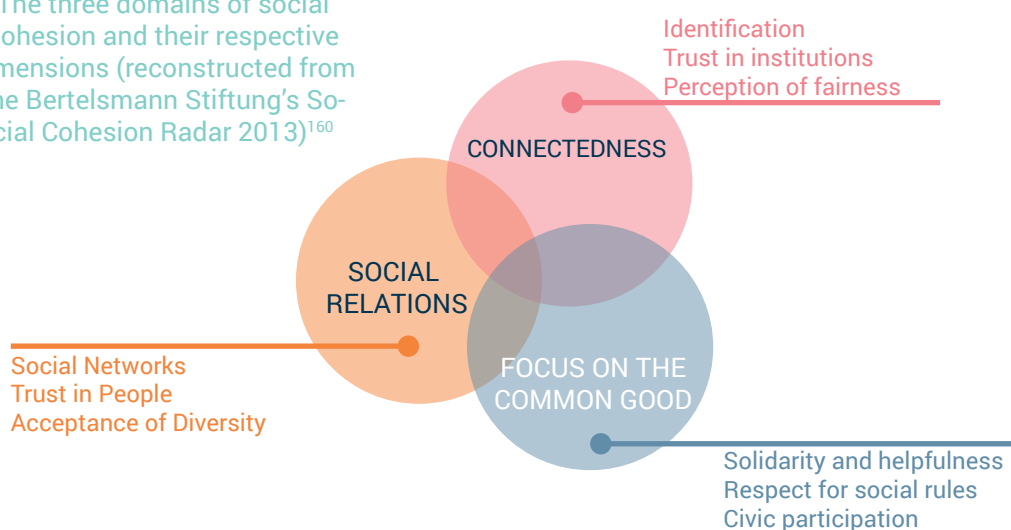
Institutions—religious, political, civic or otherwise—may also serve as providers of key aspects of social cohe-

sion: identity, social networks and civic participation can be built through being part of a religious group or a football club, or by volunteering at the homeless shelter. Families can provide several of the “securities” associated with social cohesion.

Indeed, several indicators of social cohesion could be summarized by the idea of security—not merely in the traditional sense. Social cohesion can help people curb fundamental risks: misfortune can be alleviated through an intact social network or a general sense of solidarity, arbitrary violence can be prevented through trustworthy institutions and fairness, and discrimination and social exclusion can be mitigated through an acceptance of diversity and civic participation.¹⁵⁴

Security—from job loss, crime, war, and social exclusion—is perceived by citizens to be eroding as the digital revolution automates traditional jobs;¹⁵⁵ the international rule-based order is portrayed as being under

The three domains of social cohesion and their respective dimensions (reconstructed from the Bertelsmann Stiftung's Social Cohesion Radar 2013)¹⁶⁰



attack and the European world view is challenged by global powers; cities across Europe are struggling with a housing crisis that may directly affect people's livelihoods and human rights; a peak in immigration has incited fears of changing cultural identities—all of which is further aggravated by the rapid spread of online media use by a population that still seems only partly prepared for its impact.¹⁵⁶ The results may already be visible: Despite living in a safer world, the share of Europeans who think that the EU is a secure place to live in has fallen significantly.¹⁵⁷ 68 percent said so in a recent survey compared to almost 79 percent in 2015.¹⁵⁸ Dis-

ruptions break down existing social structures and old certainties increasing the probability of radical change. If too many things change too quickly, citizens may turn to government seeking reassurance and protection. Social disruption can be understood as the result of five social symptoms: frustration, disconnection, fragmentation, polarization, and escalation.¹⁵⁹ Particularly

at times of social disruption, understanding social cohesion may be fundamental to keep societies together and to ensure effective government of a potentially ever more diverse group of people.

FACTS & FIGURES

faith=trust?

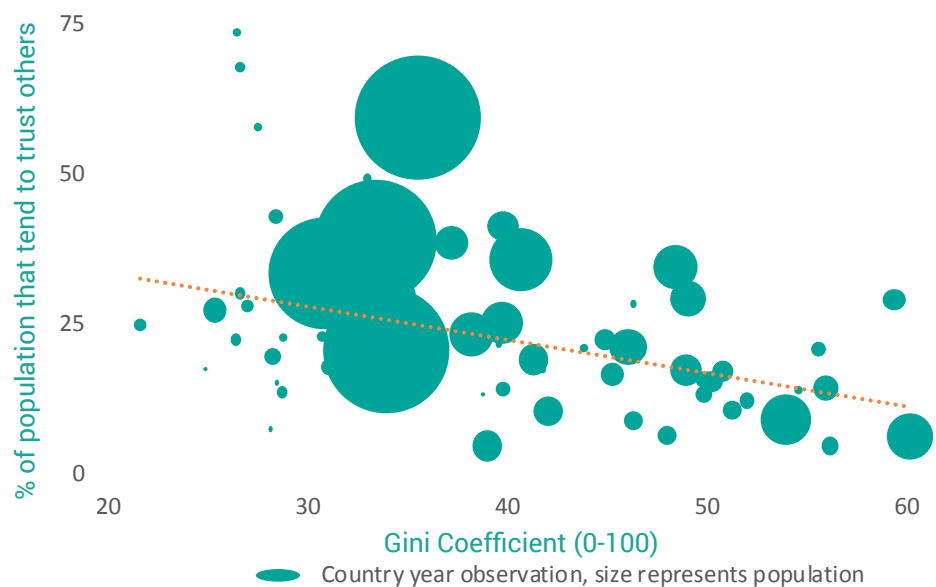
Religion has a significant impact on people's trust in each other. Generally, individual religiousness increases interpersonal trust and ultimately, aggregates of societal cohesion. At the same time, it can have exclusionary outcomes as it may lead to "ingroup" and "outgroup" thinking.¹⁶¹

cohesion at what level

Germans have a surprisingly high perception of social cohesion—however, only when asked about their own personal or regional environment; across greater social distance the perception of social cohesion diminishes. Three-quarters of the respondents reported feeling that social cohesion in Germany is endangered.¹⁶²

diversity and cohesion

Cultural diversity does not necessarily weaken societal cooperation. Acceptance of diversity in a society does not reflect the overall level of social cohesion in a country. This may be different at the local level.¹⁶⁴



Interpersonal trust plotted against income inequality, by country year. The orange correlation line suggests that income inequality may be detrimental to trust. Based on World Values Survey and World Bank data from 1993-2009.¹⁶³

what is the EU's idea of cohesion and what is being done to achieve it?



COHESION POLICY IN A NUTSHELL

- » Total volume of €351.8 billion for 2014-2020
- » First deployed in 1980 to:
 - compensate regions for their reduced ability to benefit from the Single Market; balance net contributions to the EU budget and Common Agricultural Policy benefits.
- » Jointly managed by the European Commission and the member states.



IMPACT ON ECONOMIC DEVELOPMENT

- » overall positive and significant EU-wide impact on regional economic growth and employment.
- » regional impacts are unevenly distributed across Member States, with the greatest impact concentrated in Germany and the United Kingdom.¹⁶⁵



IMPACT ON EUROPEAN IDENTITY

- » Eight-in-ten Europeans consider that the policy's impact on the development of cities or regions has been positive (78 percent).
- » One-in-four say they have benefited in their daily life from a project funded by the European Regional Development Fund or the Cohesion Fund.¹⁶⁶



COHESION POLICY OBJECTIVES

- » Strengthening research, technological development and innovation;
- » Enhancing access to, and use and quality of, information and communication technologies;
- » Enhancing the competitiveness of small and medium-sized enterprises;
- » Supporting the shift toward a low-carbon economy;
- » Promoting climate-change adaptation, risk prevention and management;
- » Preserving and protecting the environment and promoting resource efficiency;
- » Promoting sustainable transport and improving network infrastructures;
- » Promoting sustainable and quality employment and supporting labor mobility;
- » Promoting social inclusion, and combating poverty and any discrimination;
- » Investing in education, training and lifelong learning;
- » Improving the efficiency of public administration;



COHESION POLICY FUNDS IN NUMBERS

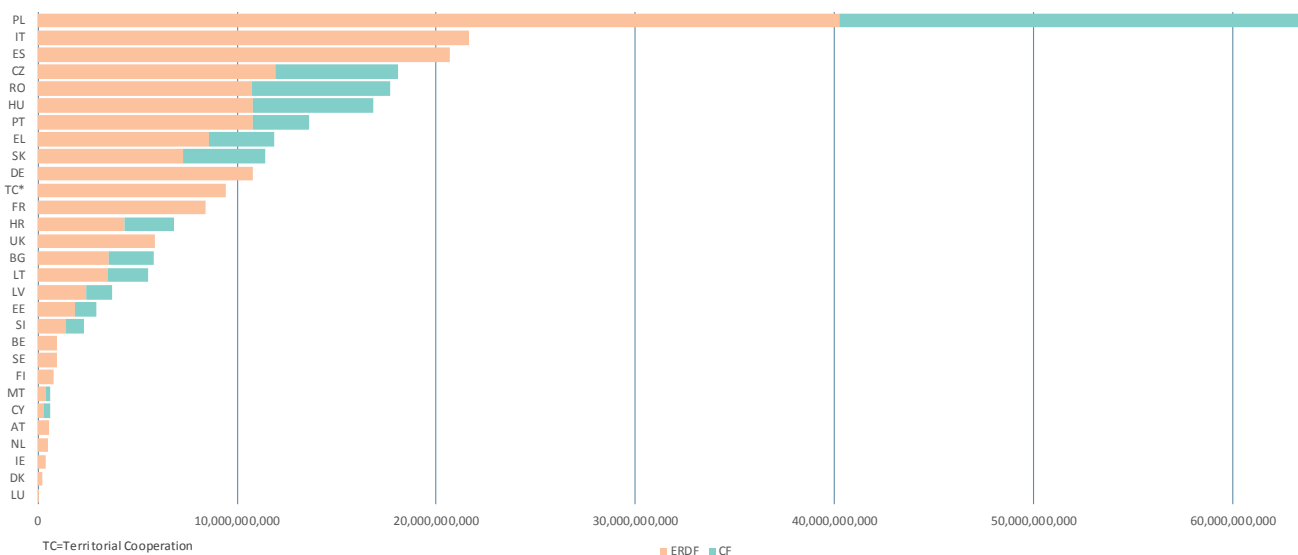
Over half of EU funding is channeled through the five European structural and investment funds (ESIF), which include the three Cohesion Policy Funds, representing a total of 32.5 percent of the EU's overall budget:¹⁶⁷

- » European Regional Development Fund (ERDF) – promotes balanced development in regions, €199.2 billion.
- » European Social Fund (ESF)—supports employment and invests in human capital—its workers, its young people and all those seeking a job, €83.9 billion.
- » Cohesion Fund (CF)—funds transport and environment projects in countries where the GNI per capita is less than 90 percent of the EU average. In 2014-20, these are BG, HR, CY, CZ, EE, HU, LV, LT, MT, PL, PT, RO, SK, SI, €63.2 billion.

Drivers of European Identity

- » **Cognitive mobilization:** studies reveal that understanding how the EU works does not always translate to a greater sense of belonging.
- » **Instrumental rationality:** there is evidence that the perceived economic benefits are a more important determinant of European identity than the actual benefits, where little evidence is found to support the relationship between real benefits and identity.
- » **Psychological persuasion and symbolism:** numerous studies have confirmed that identity-building policies and political symbols (the euro, the flag, Europeanized news) impact on citizens' European identity and that this effect increased over time.¹⁶⁸

Allocation of cohesion policy funds in Euros by country, 2014-2020¹⁶⁹




ADDITIONAL RESOURCES

- » Explorer Tool for Cohesion Funds in Europe <https://cohesiondata.ec.europa.eu/funds>
- » Crescenzi, R. and Giua, M. (2018). One or many cohesion policies of the European Union? On the diverging impacts of cohesion policy across Member States. SERC Discussion Paper 230. https://ec.europa.eu/regional_policy/sources/policy/analysis/sercdp0230_rdd_eu.pdf
- » Cohesify: Understanding the Impact of EU Cohesion Policy on European Identification: <http://www.cohesify.eu/>

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