

ADDRESSING GLOBAL INEQUALITY: IS THE EU PART OF THE EQUATION?

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ABSTRACT

If globalization leads to increasing inequality in the economically most advanced nation states, and if we want to reverse this trend, is the EU then part of the solution? Or, is the EU part of the problem? I argue that our discussion of these questions can be impaired by intellectual amalgamation and determinism in our understanding of globalization and Europeanisation. I signal these pitfalls in the work of Milanovic, Rodrik and other influential scholars: however thought-provoking their accounts of globalization and Europeanisation are, our discussion of the potential role of the EU should move beyond such accounts.

International competition, technological and demographic changes and sociological and ideational shifts all put pressure on welfare states. But the difference between the trajectory of most continental European welfare states on one hand and the US and the UK on the other hand shows that, so far, national institutions and policies played a crucial role in mitigating the impact of these changes.

Sixty years ago, European integration was premised on a neat division of labour: important aspects of economic policy would become supranational, social policy could be safely left in national hands. *Prima facie*, that neat division of labour seemed to work tolerably well for many years, notwithstanding a number of early, critical observations about the EU's impact on the social fabric in Member States. But, in today's EU, this division of labour is no longer sustainable: one reason is monetary unification, another reason is the economic heterogeneity after enlargement. Revising that division of labour requires a political contract at the European level that sustains risk-sharing and common social objectives. Agreeing on such a political contract raises issues of sovereignty, solidarity and shared values, but is possible without getting trapped in and paralyzed by a trilemma of democracy, sovereignty and integrated markets. However, to indicate the way forward, we need a coherent conception of a 'European Social Union'.

KEYWORDS

Globalization, Europeanization, inequality, social Europe, European Union, social policy

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If globalization leads to increasing inequality in the economically most advanced nation states, and if we want to reverse this trend, is the EU then part of the solution? Or, is the EU part of the problem? I argue that our discussion of these questions is impaired by intellectual amalgamation and determinism in influential accounts of globalization and Europeanisation. The debate on the legacy and potential role of the EU should move beyond such accounts, however thought-provoking they are.

‘The force of globalization’: an unsatisfactory account

Are we doomed to live with steadily increasing inequalities, because our national welfare states are under siege by the ‘force of globalization’? The ceaseless recurrence of the ‘winners and losers of globalization’ mantra in our debates certainly feeds into that pessimistic idea. Readers of Branko Milanovic’s *Global Inequality* – an outstanding academic bestseller often quoted in these debates – may come to the same depressing conclusion, even if Milanovic’s analysis is multifaceted and his conclusion relatively open. Why is that? The problem with Milanovic’s influential book is that it lumps together a complex set of developments, related to technology, international openness, changes in the balance of power and ideational changes, into one notion: ‘globalization’. Milanovic explicitly defends this amalgamation, by arguing that technological change and globalization are ‘wrapped around each other’ and that ‘trying to disentangle their individual effects is futile’, whilst policy changes are ‘endogenous to globalization’. Hence, ‘technology, openness and policy are mutually dependent and cannot be separated in any meaningful sense’ (Milanovic, 2016, p. 110).

The mutual interdependence of these drivers of change should not be denied, but conflating them into one single ‘force’ is analytically unsatisfactory and politically unhelpful. If all mature welfare states are under siege of ‘the force of globalization’ and policy changes are ‘endogenous’ to globalization, the considerable national differences in levels and trends of inequality are hard to explain. Yet, these national differences are so important that they should be center stage for anyone who is interested in policies and politics. Moreover, even if we accept that common trends affect all nation states on the backdrop of ‘globalization’, we need policies that identify and tackle specific issues, such as trade and its distributive impact, financial regulation, technology, migration, tax-and-benefit systems and collective bargaining, – at least if our aim is to formulate practical solutions. We should not deny globalization as an overarching background condition, nor should we deny that ‘openness’ can have adverse distributional consequences through tax competition, trade and migration, but we have to disentangle the different forces at play.² This complexity probably explains why empirical studies that assess the impact of ‘globalization’ on welfare states with a limited set of explanatory variables (such as trade), do not find much evidence. A study that tested a large variety of econometric models in that vein, concludes that we should be ‘skeptical of bold claims about globalization’s effect on the welfare state’: ‘Globalization may exert a very modest influence on policymakers and welfare states. But policymakers and welfare states are and always have been

² Milanovic would not deny the need to develop specific policies. However, to see the extent to which his approach relies on an amalgamation of various explanatory factors into one single concept, it is useful to compare it with Bourguignon’s account of ‘the globalization of inequality’: there is no denying that globalization contributes to inequality within advanced welfare states, but Bourguignon (2015) carefully distinguishes different mechanisms at play.

influenced by a diverse mix of pressures. The aging of the population, for instance, exerts far greater pressure than globalization. Moreover, economic or demographic pressures are always mediated and channeled by domestic political actors, and how or if they choose to address those pressures is always a political process' (Brady et al., 2005, pp. 945 and 944). A recent empirical study that avoids amalgamation by focusing on the sole impact of manufacturing imports from the global South on income inequality in the global North, finds a clear 'inequality effect' of such imports, but that effect decreases significantly with the degree of wage coordination through collective bargaining and welfare state generosity across countries. It concludes that we need to 'move beyond debates about the *relative* importance of domestic and global drivers of inequality'; we need 'theories of inequality at the *intersection* of the global and the national.' (Mahutga et al., 2017, p. 183).

A new major report on global income inequality, the *World Inequality Report 2018*, provides a useful antidote to deterministic accounts of the 'force of globalization'. The report shows that income inequality has increased in nearly all world regions in recent decades, but at different speeds. The fact that inequality levels are so different among countries, even when countries share similar levels of development, highlights the importance of national policies and institutions. The divergence in inequality levels has been particularly extreme between Western Europe and the United States, which had similar levels of inequality in 1980 but today are in radically different situations. The *World Inequality Report 2018* projects income and wealth inequality up to 2050 under different scenarios. In a future in which 'business as usual' continues, global inequality will further increase. Alternatively, 'if in the coming decades all countries follow the moderate inequality trajectory of Europe over the past decades, global income inequality can be reduced – in which case there can also be substantial progress in eradicating global poverty' (Alvaredo et al., 2017, p. 17). In other words, within-country inequality dynamics have a tremendous impact on the eradication of global poverty, and Europe can serve as a beacon for the rest of the world. For sure, European welfare states face many challenges, and we see cracks in our welfare systems. But the European experience signals that we are not doomed to live with ever increasing inequalities.

The authors of the *World Inequality Report 2018* do not refer to 'Europe' as an institution: 'Europe' stands for a region in which inequality – on the regional level – is estimated to have increased only mildly, compared to other regions in the world. National welfare state institutions are an important explanatory factor in the account of the *World Inequality Report*; whether or not the existence of the EU is part of the equation, is not discussed. Milanovic does not refer to the EU either. This lacuna has to be addressed.

The EU and social cohesion: an optimistic and a pessimistic view

In order to discuss the role the EU can play in the future, we should first understand its role in the past: did European integration contribute to increasing inequalities in the European region, or was it a mitigating factor? Whilst empirical social scientists have difficulty in establishing a simple and significant relationship between 'the force of globalization' and inequality, some researchers do find a simple and significant relationship between, on the one hand, *European* economic and political integration, and, on the other hand and two simultaneous trends: decreasing inequality *between* EU Member States and *increasing* inequality within EU Member States. But this research also underscores that the perceived inequality-enhancing impact within EU Member States, was dampened at the very high levels of economic integration exhibited by small, open economies that

are stabilized by strong welfare states and corporatist institutions, such as Belgium and the Netherlands. According to Beckfield, who studied the impact of regional integration on 13 EU Member States, the net effect was a decrease in *total* inequality (i.e. inequality measured from a pan-European perspective, as if these 13 Member States would constitute one country) between circa 1980 and circa 2000 (Beckfield, 2009, p. 501). Beckfield concludes that scholars of EU welfare states and inequality may be looking in the wrong place, when they focus on globalization: 'It may be regional integration, not globalization that structures the welfare state in the advanced capitalist societies of Western Europe' (Beckfield, 2006, p. 980 level).³ In addition, he emphasizes, correctly in my view, that globalization and Europeanization are *not* the same type of process on a different scale.

However useful such empirical research is in refocusing our attention on the impact of European integration, its difficulty is that it establishes *correlation* rather than *causation*. The UK's trade integration into the EU correlates with the drastic increase of inequality in the 1980s in Beckfield's data; but was it Europeanisation, or rather Margaret Thatcher? The honest answer, so it seems to me, is that it is hard to say what would have happened to inequalities in Europe without the EU: we cannot compare Europe's trajectory since 1958 with a counterfactual scenario without Common Market and European Union. Interestingly, two opposite *narratives* on the social impact of the EU were present in past debates: an optimistic one and a pessimistic one. Let me briefly elaborate on this.

The optimistic narrative transpires, sometimes explicitly and often implicitly, in the documents and policies accompanying the preparation and early years of the European project. The *founding fathers* of European integration – the signatories of the Treaty of Rome – were convinced that economic integration would contribute to the development of prosperous and inclusive national welfare states. In retrospect, we can summarize this optimistic belief as follows:

- Economic integration would not only stimulate growth in all participating countries but would also allow for less developed countries to catch up, thanks to access to the common market and, in addition, targeted support by so-called 'cohesion policies': integration was a convergence machine.
- Social policy could safely be left to the national level, where trade unions and political parties would develop sufficient pressure to redistribute the economic benefits of integration fairly. There was no need to agree on pan-European social standards. Countries that were ahead economically and socially would not be hindered in their social policy: the convergence machine would not affect their internal social cohesion.

In short, the *founding fathers' credo* was based on two articles of faith, which should be clearly distinguished: convergence-through-integration between the member states and cohesion-in-convergence within the member states. I should immediately add that the second article of faith (cohesion-in-convergence) was not undisputed. In the fifties, there was no consensus on whether economic integration was possible without social harmonisation. This question was at the heart of

³³³ Beckfield's results should be contrasted with Tober and Busemeyer (2015), who find a positive association between political integration and inequality in 14 EU Member States for the time period 1999-2000, but no association between economic integration and inequality on the other hand.

the 1956 Ohlin report, which, together with the Spaak report, prepared the launching of the European Economic Community (International Labour Organisation, 1956). Bertil Ohlin believed that differences in wages and related social expenditures between the countries involved were mainly related to differences in productivity; hence, one would not have to fear downward pressure on wages when allowing free trade. However, Ohlin added that, if any divergence in wages would diminish some member states' competitiveness in the common market, such an adverse development would be corrected by adapting exchange rates. Thus, Ohlin was not describing a monetary union, which is not an insignificant caveat. The founding fathers followed suit to a large degree.⁴

Hence, formulated with hindsight in the terms of today's debates and with a slightly benign interpretation of their motives, we may say that the founding fathers of European integration were deeply convinced that European economic integration would be a force for decreasing inequalities at the regional European level. Thus, their view was exactly opposite to today's dominant doom-mongering about the consequences of economic openness. Their view – as I reconstruct it here – was optimistic, in that they did not think the EU was in need of a European-level social policy, except for the coordination of social security entitlements (granted by national welfare states) for mobile citizens (citizens who would move from one welfare state to another, and who would always be included in a national solidarity circle). They had a neat division of labour in mind: economic policy had to become, in part, supranational; social policy could be left safely to national welfare states. Consequently, for many years EU-level social initiatives were seen as – at most – politically attractive, but not at all necessary to sustain social objectives in the member states. Below, I will argue that this neat division of labour is no longer sustainable today: while it worked relatively well in the EU of the 20th century, in the EU of the 21st century, the underlying optimism is naïve.

Prima facie, history has not proven Ohlin and the founding fathers wrong, at least not until halfway the first decade of the 21st century: integration and catching-up went hand in hand, and the spectre of a social 'race to the bottom' did not materialize. The *World Inequality Report* concludes that inequality increased only moderately in the European region between 1980 and 2016. That assessment may even underrate the positive side of what happened with the successive enlargements of the EU: depending on the indicators and the time span under review, there may have been episodes in which total inequality in the European region actually diminished, as already mentioned above with reference to Beckfield.⁵ Over the last decade, however, the model started to show cracks, the first one predating the 2008 crisis. The convergence machine was spinning, but

⁴ I write 'to a large degree' since the developing European Economic Community did link market integration to social harmonisation in specific areas, notably safety and health at work since the 1980s. It would be incorrect to argue that there was no social dimension to the European project; the EU became also an important player in anti-discrimination policies.

⁵ Research such as published by Lefebvre and Pestieau (2012), Goedemé *et al.* (2017) and Eurofound (2015, 2017) also suggests that there have been significant time spans during which European inequality, measured on a pan-European level, actually diminished. Goedemé *et al.* show this for net disposable household incomes, for the second half of the 2000s, i.e. the period following the enlargement to Eastern and Central European Member States. An implicit conclusion from Lefebvre and Pestieau is that between 1995 and 2010 pan-European social inequalities, measured for the whole EU15 with a variety of indicators, must have diminished. Eurofound's work on wage inequality in the EU shows that wage inequality across Europe diminished between 2005 and 2014, which was the net effect of increasing wage inequality within countries and decreasing wage inequality between countries.

inequality was increasing in several mature European welfare states: 'cohesion-in-convergence' no longer applied. The second crack, or, rather, a spectacular fissure, emerged with the crisis: the convergence machine stopped, with the north and the south of the Monetary Union tearing apart. Since 2008, inequality has not only been increasing within (a number of) member states but also between member states, particularly in the Eurozone. The optimistic view on European integration as a self-sustaining force for upward convergence and cohesion, which I attribute somewhat benignly to the founding fathers, is certainly naïve in today's world. The advent of the Monetary Union is one reason why the initial division of labour between the economic and the social is no longer sustainable; the increased heterogeneity of today's enlarged EU constitutes a second reason why the EU needs a social policy concept.

The pessimistic account of the EU's role can be found in an impressive stream of scholarly work on the EU, in which Fritz Scharpf stands out as one of the main authors: his thesis is that the EU *cannot* be a social market economy, and that European welfare states are doomed to become gradually but steadily more 'market liberal', because of the asymmetric way in which European institutions are bound to function. Given the constellation of the European treaties, negative integration and market-making policies prevail over positive integration and market-correcting policies; European institutions, notably the European Court of Justice, prefer liberalization over domestic social cohesion (Scharpf, 2009). Scharpf is also pessimistic about the Eurozone, which combines incompatible national socio-economic models (Scharpf, 2016).

Whilst the optimistic view is naïve in today's Europe, the pessimistic view is too schematic and deterministic in its understanding of the EU.⁶ It offers important critical insights and it may find comfort in the statistical correlation between European political integration and increasing inequalities. But it does not provide a real explanation for the longer-term trend in inequality in some of the most advanced EU welfare states, which was to a large extent mediated by domestic politics and socio-demographic change. This is not to say that the EU did not play a role in shaping domestic politics and policies, notably on an ideational level before the Eurozone crisis and with austerity policies after the Eurozone crisis. However, I concur with Maurizio Ferrera in his contribution to a volume on the EU's social dimension; Ferrera calls for 'a reframing of some classical issues that in the last two decades have dominated debates on the social deficit of the EU as an institutional and political construct, such as the asymmetry between negative and positive integration, market-making and market-correcting (...). If Social Europe is a composite construct that cannot be reduced to a single component and thus has to live with inherent tensions, there is no single asymmetry or deficit to which weaknesses can be imputed. Likewise, there is no single instrument or solution that can remedy such weaknesses.' (Ferrera, 2017, p. 50).

Dani Rodrik represents a related but different strand of pessimism with regard to the EU. He considers the drive towards the Single Market and the Monetary Union as an instance of 'hyperglobalization', which exacerbates the democratic problem of the EU: either political

⁶ Martinsen (2015) challenges the assumption that a strong causal link exists between legal and political integration in the EU, in which Court rulings progress and shape European integration in important dimensions of social policy and health care. She underscores the role of politics, *contra* Scharpf's determinist view on the role of the Court of Justice. For references supporting my contention that Scharpf's and likeminded authors' understanding of the Eurozone crisis is too schematic and deterministic, see Vandenbroucke, 2017a, note 4 on pp. 6-7.

integration catches up with economic integration – which he deems increasingly difficult – or economic integration needs to be scaled back.⁷ Rodrik’s work contains healthy warnings: I agree with him that one should not jump too readily to the conclusion that the interdependence of nation states *imposes* supranational solutions upon them in all kinds of policy domains. Elsewhere, I argue that one should not overstretch functionalist arguments in support of an active social dimension to the EU: the problem at hand is political and the challenge is to identify common standards and policy rules that are functionally relevant (for the Monetary Union and the Single Market) and legitimate in view of shared aspirations across the member states. What is ‘needed’ and what is ‘imposed’ by monetary unification in Europe, depends on the fundamental aspirations that drive the European project at large (Vandenbroucke, 2017a). On the other hand, Rodrik’s recent pessimism about the EU is premised on an analytical framework – the famous ‘trilemma’ between globalization, sovereignty and democracy – that is too rigid to capture both the EU’s record and its future potential.⁸ Undoing the Single Market and the Monetary Union seems the worst of all options, whilst there is no compelling argument – other than an *a priori* judgment – that no *intermediary* solutions can exist for the EU’s ‘trilemma’, in which the political contract is extended sufficiently to allow common goal-setting and risk-sharing in some key domains with respect for subsidiarity and without sacrificing any national prerogatives in many other domains. Admittedly, this requires a basic consensus on some key features of welfare states in selective policy domains, informed by shared values and aspirations. But that perspective is not bound to end in the demise of national democracies.

In the face of globalization, the EU can mobilize a variety of policy instruments to sustain national welfare states, more than it has done in the past. Politically, that is an uphill battle, but there is no deep, deterministic reason why it cannot be successful. In yet other words, if Europe is to be a beacon of equality for the rest of the world, as the authors of the *World Inequality Report 2018* would have it, the EU, qua political institution, should and can be part of the equation. To rise to this challenge, EU-level initiatives are needed in three domains: the completion of the Monetary Union, the organisation of fair mobility, and fair taxation; the EU is also well-placed to promote investment in human capital, or, more generally, social investment policies. The upshot is that the EU, for it to remain a beacon for the rest of the world, must become a ‘Social Union’, i.e. a true Union of Welfare States. To set the scene, I first emphasize the complex social nature of trends towards increasing inequality at the bottom end of the income distribution.

The erosion of mature welfare states

Much attention is nowadays to the increasing share of top incomes. One should not overlook developments at the bottom end of the income distribution: in many European welfare states poverty has been increasing, signalling a gradual erosion of the redistributive capacity of mature welfare states, such as Germany, Sweden or Denmark. This erosion already started before the

⁷ Rodrik’s recent writing on the EU is more pessimistic than his earlier work; compare his assessment of the EU in *The Globalization Paradox* (‘For all its teething problems, Europe should be viewed as a great success considering its progress down the path of institution building. For the rest of the world, however, it remains a cautionary tale.’ (Rodrik, 2011, p. 220) and his assessment in *Straight Talk on Trade: Ideas for a Sane World Economy*: ‘Macron notwithstanding, today it may be too late to entertain fiscal and political integration within the EU’ (Rodrik 2017, p. 78).

⁸⁸ Sabel (2018) challenges Rodrik’s trilemma as a poor account of the actual functioning of the EU (and even of the WTO).

financial crisis of 2008. Crucial factors explaining increases in inequality at the bottom end of the income distribution are homespun, and there is no single, silver bullet to address them. However, migration, cross-border mobility and increased competition in the enlarged EU also play a role, in interaction with shifts in labour market policies. The EU cannot be blamed as the main culprit, but it cannot be completely absent from the analysis either.

Individual poverty refers to the situation of households, since its metric is 'household income'. A key determinant of the poverty risk of individuals is the labour market participation of the members of the household in which the individual lives. We measure this by an indicator called 'household work intensity'. Around the middle of last decade, people living in households with a very low work intensity were confronted with a poverty risk of 54%, whereas people living in households with a very high work intensity were confronted with a poverty risk of only 5%. This sizable divide has further heightened. By 2015, the poverty risk of individuals living in households with low and very low work intensity had increased considerably; conversely, the poverty risk of individuals living in households with very high work intensity remained the same. Hence, what we see is a polarisation in poverty risks, starting already before the crisis. Simultaneously, we witnessed a polarisation of employment across households in Europe: today, if we take all EU member states together, the share of individuals living in households with very high work intensity is higher than before the crisis of 2008. The share of people living in 'work-poor' households (by which we mean households with low and very low work intensity) increased and is – as yet – not returning to its pre-crisis level. Thus, there was a hollowing out of the middle: the share of people living in households with medium and high (but not very high) work intensity is lower than before the crisis. Compared to 2007, more people live in a household that is 'very rich' in terms of work intensity, and more people live in households that are 'very poor' in terms of work intensity.

Thus, two mutually reinforcing factors are at play: more people are live in work-poor households; these households experience higher poverty risks than before the crisis. The combination of these two types of polarisation goes a long way in explaining why non-elderly poverty increased in Europe. For sure, the pattern of change was far from homogeneous across Europe. Since 2004, some countries have combined increasing employment with decreasing non-elderly poverty, notably Poland. In other countries, poverty increased despite increasing employment. These diverse trajectories cannot be explained by one single driver; rather, a set of drivers is at play and their impact differs from country to country. In principle, three sets of factors can explain why the poverty-risk of work-poor households increased in so many countries:

- i. tax-and-transfer systems may have become less generous for people without work, compared to people in employment;
- ii. changes in household structures can also play a role: a lone-parent household with a medium or low work intensity (say, a lone mother who holds a part-time job), is confronted with a higher financial poverty risk than a couple with children with the same medium or low work intensity (say, a couple where both partners work part-time or where one partner works full-time and the other is not employed);
- iii. if households with lower work intensity (but not *zero* work intensity) are dependent on a segment of the job market where the quality of jobs is lower, both in terms of contractual

security and earnings, they lose out in terms of earned income compared to other households.

The first factor, tax-and-transfer systems, may be associated with the 'activation turn' in public policies, which emphasised that financial incentives to take up employment had to be increased: if enhanced financial incentives are not accompanied by success in activation in the segment of work-poor households, relative poverty can increase because the income gap between employed and unemployed people grows. This does not imply that activation and concern about financial incentives to take up jobs should be abandoned. However, activation must be based on a 'high road' to quality jobs and real investment in human capital. In other words, both the quantity and the quality of jobs count; the quality of employment should actually be seen as a condition for a full valorisation of human capital. Also, Europe needs a combination of adequate social investment and adequate social protection; they cannot be substitutes for each other. The emphasis on 'investment' in human capital should not ignore the need for protection of human capital, i.e. the traditional 'protective' functions of welfare states.

Observations with regard to the decreased generosity of welfare states also point to the role of minimum wages, but we should understand that role correctly. It is not the case that increasing minimum wages would immediately have a significant impact on poverty; however, to a certain extent (and with considerable heterogeneity across countries) minimum wages function as a 'glass ceiling' for the generosity of benefit systems. In countries where minimum wages are under pressure, the generosity of social benefits will in the end also be under pressure.⁹ Minimum wages are indeed seen as under pressure because of cross-border mobility: part of the fears of social dumping may be unwarranted, but in specific sectors competitive pressure from 'low-wage' employers within the EU cannot be denied. In addition, there are problems with enforcement of minimum wage standards, in the context of posting of workers. The result is grey areas, and sometimes blatant cases of exploitation. All these considerations support the idea that the EU would be well advised to develop a policy on minimum wages; I return to this below.

A true insurance union

In contrast to the developments sketched in the previous section, the sharply increasing inequalities between southern and northern Eurozone member states since 2008 are clearly related to design flaws in the EU, notably in the European Monetary Union (EMU). In the wake of the crisis, a number of scholars have issued pessimistic statements about the viability of the Eurozone, as they consider the diversity of the member states too large to be accommodated; Scharpf, referred to above, is an example. Schelkle (2017) proposes a contrasting, positive perspective: by organising monetary solidarity, a monetary union enhances international risk sharing and thus allows diversity across its members.¹⁰ However, to be an effective risk-sharing device, the monetary union must be complete. What does 'completing the monetary union' mean? A basic insight, that has gained prominence in the European Commission's thinking on the completion of EMU, is that nearly all existing monetary

⁹ The idea of a 'glass ceiling on poverty reduction', associated with minimum wages, is developed by Cantillon and colleagues in several publications of the Herman Deleeck Centre of Social Policy.

¹⁰ I do not want to suggest that Schelkle would agree with the remainder of this section, as I conclude that a degree of convergence in some, key features of member states' labour markets is useful for the well-functioning of the monetary union.

unions are true ‘insurance unions’. They not only centralize risk management with regard to banks, they also centralize unemployment insurance. EMU is the one exception, but it is gradually developing policies driven by the need for mutual insurance, notably in its progress towards a Banking Union. Next to Banking Union, the European Commission now argues that EMU also needs fiscal stabilisers; to achieve this, one of the options would be the re-insurance of national unemployment benefit schemes at the Eurozone level. Another option, which the Commission seems to prefer at the time of writing this contribution, would be a scheme that supports member states’ public investment capacity when they are hit by a crisis and have to cope with reduced revenue and increased spending on unemployment benefits.¹¹ In fact, both options share a common insight, to wit, that it is important that member states’ automatic stabilisers can play their role in times of crisis whilst simultaneously their public investment capacity is protected.

The reference to unemployment insurance in these policy scenarios is not happenstance: unemployment insurance supports purchasing power of citizens in an economic downturn, and is therefore an ‘automatic stabiliser’ *par excellence*. Existing monetary unions either opt for a downright centralisation of unemployment insurance (like in Canada or in Germany), or they demand some convergence in the organisation of unemployment insurance and provide a degree of reinsurance and centralisation when the need is really high (like in the US, which combine centralisation and decentralisation in unemployment insurance). This is rational behaviour for two reasons. First, risk pooling enhances resilience against asymmetric shocks. The second reason also applies when shocks are symmetric across the whole Union and risk *pooling* across Member States has no added value *per se*. National insurance systems create an externality; a country that properly insures itself, also helps its neighbours. Therefore, the concern with the stability of the Eurozone entails a cluster of policy principles to sustain an effective stabilisation capacity in *each* Member State: sufficiently generous unemployment benefits; sufficient coverage rates of unemployment benefit schemes; no labour market segmentation that leaves part of the labour force poorly insured against unemployment; no proliferation of employment relations that are not integrated into systems of social insurance; effective activation of unemployed individuals; and the constitution of budgetary buffers in good times, so that the automatic stabilisers can do their work in bad times. These principles become *a fortiori* imperative, as *quid pro quo*, if the Eurozone were equipped with reinsurance of national unemployment insurance systems; but even without that perspective, the implementation of such ‘stability-related’ principles would benefit the Eurozone as a whole.

The upshot of this argument is that monetary unification implies a degree of convergence in some key features of the participating Member States’ social and employment policies. This is not necessarily a flat denial of Schelkle’s argument that a monetary union allows and even valorizes diversity; my emphasis is on ‘convergence’ (not: uniformity) and on ‘some’ (in some policy domains, not in all domains). Admittedly, the idea that there is a social policy corollary to monetary unification is not new. Already in the 1990s, reform in labour markets was justified by the advent of the monetary union. The 1997 European Employment Strategy emphasized supply-side flexibility: an agenda for flexible labour markets was interwoven with an agenda of investment in individual labour market opportunities and the development of ‘enabling’ policies; together, this would create

¹¹ See European Commission (2017a), notably on pp. 25-26 and European Commission (2017b), notably pp. 13-16.

‘flexicurity’. In a nutshell, my argument adds ‘stability’ as a desideratum to ‘flexibility’: stability both in terms of the avoidance of large financial and economic shocks, and of a stable development of the wage share in national income, thanks to coordinated collective bargaining (space forbids to develop the latter point here; see Vandenbroucke, 2017a). Whilst the ‘enabling’ dimension of flexibility focused on equipping individual people with adequate skills, in order to achieve stability, one needs collective action: collective bargaining, but also the organisation of collective insurance devices. Stability requires instruments that typically protect vulnerable individuals: unemployment insurance stabilises the economy, because it protects the purchasing power of the unemployed. In other words, stability is intrinsically associated with collective action and ‘protective’ policies. Enabling and protective policies can be mutually reinforcing in creating *resilient* social systems. In the debate about tackling inequalities, a monetary union that is an insurance union for resilient social systems becomes – positively – part of the equation.

Investment in human capital

Both Milanovic and the *World Inequality Report 2018* emphasize the importance of education in fighting inequalities. It is not sufficient to expand (higher) education in order to make the number of years of education the same for all, as Milanovic rightly argues, in tune with the authors of the *World Inequality Report*: ‘[I]f access to Harvard remains for all practical purposes limited to the children of the rich and the returns to four years of education at Harvard exceed manifold the returns to four years of education at a state college, nothing fundamental will have changed. There would be an apparent but not fundamental equality of education endowments. To attain fundamental equality, we need to equalize access to the schools that produce better returns to education and/or to equalize returns across schools. To equalize the returns by fiat is impossible in a market economy, since no one can dictate to firms that they must give equal pay to people who studied at different schools, regardless of the quality of those schools. The only remaining sensible way to equalize educational endowments is to make access to the best schools more or less equal regardless of parental income and, more importantly, to equalize the quality of education across schools. The latter can only be done by state investment and financial support.’ (Milanovic, 2016, p. 222). This argument fits well into the education policy tradition of many European countries, where public quality assurance of education institutions aims at putting the bar sufficiently high for *all* educational institutions, and equal access to educational opportunity is a generally accepted policy goal. However, there is no reason for European complacency: the EU is deeply affected by a human capital divide, both between and within the member states (Vandenbroucke and Rinaldi, 2015). European countries are therefore faced with a double challenge: they should consider how to boost skills and competence levels whilst also addressing the issue of how to bring high levels of competences to a broader share of the population.

For it to be effective, investment in education requires sufficiently egalitarian background conditions in the society at large. The OECD illustrates this convincingly in its work on the relationship between inequality and growth. The main transmission mechanism between inequality and growth, according to a recent OECD report, is human-capital investment (OECD, 2015). While there is always a gap in education outcomes across individuals with different socio-economic backgrounds, the gap widens in high-inequality countries as people in disadvantaged households struggle to access quality education. Also, investment in education should be part of an overall policy of investing in human capital that starts early in the life cycle. Hence, reducing background inequalities between families

with children and investing in child care and education support both *national cohesion* and *long-term EU-wide convergence*. Obviously, creating greater access to success in education for all children is not just a question of money; it also requires reforms in the education system in many member states.

The European institutions certainly recognise the huge education challenge and the European Commission has developed a comprehensive agenda on education, training and skills, and issued excellent recommendations on the modernisation of education systems. However, this educational agenda does not carry much weight at the highest levels of European political decision-making and in the setting of budget priorities. During the years of austerity, social investment policies suffered from budgetary pressures in member states where they were highly needed (Bouget *et al.*, 2015; Hemerijck, 2017).

To counter such negative evolutions, the priority afforded to investment in human capital must be perceptible and tangible in the Commission's own initiatives, in its country-specific recommendations (CSR's, issued in the context of the so-called 'European Semester') and in its fiscal surveillance procedure. With regard to its own initiatives, the Commission can reinforce the 'human capital' strand of the Juncker Plan, as explained by Fernandes (2017). The financial instruments of the Juncker Plan currently suffer from insufficient promotion and visibility amongst social actors; social actors do not yet consider this instrument as useful for financing loans for social projects. For the post-2020 period, a third pillar could be added to the European Fund for Strategic Investments (EFSI), devoted to investment in human capital, in addition to the two pillars devoted to infrastructures, innovation and SMEs. Also, a new evaluation framework is needed to better take into account the projects' social returns (using social indicators like the acquisition of skills or social inclusion).

The Commission must use the CSR's to insist on measures to promote the development of human capital. And to ensure that Europe's action is consistent and offers incentives to national governments, the Commission's fiscal surveillance should accommodate the measures adopted by each country to respond to such European recommendations, just as it has done with other structural reforms (particularly in consideration of the fact that the countries with the most progress to make in developing their human capital are often those with the least margin in their budgets for doing so). Finally, the EU should be ready to offer tangible support to member states that commit themselves to social investment strategies but face tight budgetary constraints : the idea of 'reform commitment packages' (as proposed in European Commission, 2017b) can be a starting point.

Fair mobility

Milanovic argues that the immigration practices of the Gulf countries (welcoming foreign workers en masse but discriminating them, in some respects rather harshly) actually contribute to the reduction in world poverty. He does not say that these practices should be generalized, but nevertheless defends a policy shift that goes some way in that direction by differentiating between different types of citizen status: 'Allow for a limited but higher level of migration than what currently exists, with legally defined relatively mild differences in treatment of local and foreign labour' (Milanovic, 2016, p. 154).

This view on migration constitutes a significant departure from the way migration and cross-border mobility have been organized in the EU over the last 60 years, notably with regard to intra-EU migration. European citizens have a right to free movement within the EU; moreover, with the exception of non-active citizens (in specific conditions, to which I return below), mobile citizens have non-discriminatory access to social benefits in the European member state where they reside. The EU applies congenial principles to migration from outside the EU to European member states, in so far as it regulates it (which is the case when those non-Europeans move from one EU member state to another, or when they become long-term residents). Since those principles have become controversial – witness the British debate that finally triggered Brexit – I think one should pause and think whether one indeed wants to maintain and defend them. I, for one, believe that these principles merit support, *contra* Milanovic; however, there is an important, albeit complex distinction to be drawn between active and non-active citizens; and reform is needed to guarantee *fair mobility*.

The principles of free movement and non-discriminatory access to social benefits for active European citizens can not only be justified on the basis of an ideal of European citizenship, but also on the basis of more contingent arguments (see Vandenbroucke 2017b and 2017c for a more elaborate argument). First, freedom of movement for workers is a logical corollary of a single market, as we have it in the EU: allowing capital, goods and services to move freely across borders, whilst restricting the movement of workers, would create an asymmetry that can be questioned on grounds of fairness. Second, non-discriminatory access to social benefits for mobile active citizens supports the idea that the EU should be union of welfare states. The fact that a Polish worker enjoys the same social rights as Belgian workers when working and living in Belgium justifies that his employment generates the same social security contributions and tax revenue for the Belgian government as the employment of a Belgian national in Belgium. In other words, non-discrimination in terms of social rights justifies and so sustains the principle that we do not tolerate unbridled competition between the Polish and the Belgian social and taxation system on Belgian territory. Such competition exists in the form of ‘posting’ of workers, which creates an exception to the principle sketched here (since the employer of the posted workers does not have to pay social security contributions in the country where his employee is actually working); for this reason, ‘posting’ should be well delineated. Thus, the non-discrimination principle establishes a notion of reciprocity across EU member states, in the following sense: all member states guarantee that all economically active mobile citizens will have equal access to social policies in each of the member states; simultaneously, all member states understand that including economically active mobile citizens in the solidarity circle of their host country protects these solidarity circles against practices of social dumping within their own territory.

This justification of free movement and non-discriminatory access to social benefits for active citizens is not premised on the idea that there are no social risks attached to cross-border mobility as it has developed in the EU. This is one of the reasons why the system of posting – which allowed the development of a grey area, with blatant cases of exploitation and abuse – needs thorough reform. Moreover, there should be no denying that intra-EU migration, even if does not take the form of posting, can have an undesirable impact on labour markets in host countries (notably in poorly regulated labour markets) and/or can create pressure on social services (notably when they are in short supply). Next to reforming posting, the best way to tackle the distributive risks associated with mobility is to be more demanding vis-à-vis member states with regard to the quality of their welfare

states, notably in the realm of labour market regulation and the provision of social services, more demanding than the EU is today. The regulation of minimum wages is a prime example. Different traditions exist with regard to the regulation of minimum wages: in some member states public authorities set minimum wage levels, in other member states this is the exclusive domain of social partners. But, however minimum wages are determined, a common European principle should be that *all* workers are covered by minimum wage regulation: decent minimum wages should apply universally in the EU's member states, without exceptions for certain sectors, or types of jobs, or types of workers. A related example is access to social protection: there should be no jobs that do not create access to social protection.

In short, if we don't want immigration to boost a precarious, hyper-flexible segment of labour markets, there should be limits to precariousness and flexibility *across the board*. Or, think about access to social services, which can be under pressure in municipalities or regions with significant immigration: member states should guarantee sufficient provision of social services to safeguard universal access, for non-mobile citizens as much as for mobile citizens. The *European Pillar of Social Rights* can be the starting point to develop such common principles. Admittedly, turning such principles into tangible realities is an uphill battle in today's Europe; but there is no alternative if free movement is to be reconciled with domestic social cohesion.

There is, however, one important *caveat* in this debate. The coexistence of national welfare states and free movement in the EU is made possible by a principle of 'earned social citizenship'. Historically, the tension between free movement and the bounded welfare state was reconciled by granting the right to move only to the economically active (and their dependents) to the exclusion of the economically inactive and by establishing a coordination regime for social security systems to the exclusion of social assistance. This simple dichotomy was not tenable, but, when the right to free movement became open to economically non-active citizens, EU citizens were granted a right of residence throughout Europe 'as long as they do not become an unreasonable burden on the social assistance system of the host Member State'. Dion Kramer sketches the combination of continuity and change in the evolution of the EU's principle of 'earned social citizenship' and situates that evolution in a broader notion of "neoliberal communitarianism", which 'combines a communitarian care of the national welfare state with a neo-liberal emphasis on the individual's responsibility to achieve membership of that welfare community'. He labels it 'neo-liberal' since 'it becomes the individual's own responsibility, expressed in the form of 'earning' citizenship, to convert to a bounded community of economic, cultural and social values' (Kramer, 2016, p. 277 and p. 272). Kramer sees dangers in the current evolution, as an expanding notion of individual responsibility risks to be pushed further and further within the confines of the national welfare state itself. However, taking on board these cautionary notes, there is also a more positive reading of the notion of 'earned social citizenship' for mobile Europeans, at least *if the EU would oblige its member states to develop comprehensive and adequate systems of minimum income protection* and if an increasingly restrictive interpretation of what 'earned social citizenship' means can be avoided. In this more positive reading, a carefully delineated possibility for member states to exclude non-nationals from domains of social policy in which principles of compassion rather than principles of responsibility dominate (such as social assistance) would be a corollary of a *duty* for each welfare state to protect its own citizens against vulnerability on the basis of compassion.

I would indeed argue that in a 'European Social Union' – a true union of welfare states – two complementary logics can apply legitimately with regard to social citizenship if they are applied conjointly:

- 1) Economically active citizens have the right to take up employment opportunities across borders, and on the basis of employment they – and those who depend on them – 'earn' non-discriminatory access to all social benefits in the member state where they work, including protection against the consequences of involuntary inactivity (unemployment, illness). National regulations that guarantee fairness in labour markets apply fully to them.
- 2) A non-active citizen who needs protection cannot simply rely on any member state of his (or her) choice: his nationality determines the member state which is first and foremost responsible for his protection. Under carefully delineated conditions, another member state to which he has no bond of nationality is allowed to say that the non-active citizen's social protection would create an 'unreasonable burden' on its welfare state. In contrast, it would be 'unreasonable' for any member state not to provide adequate social protection for its national citizens, whatever the causes of their vulnerability and dependence.

I don't say that, today, the EU and its member states apply these complimentary logics carefully and consistently: both with regard to 'fair mobility' and minimum income protection for the non-mobile citizens there is an agenda to be taken up.

My argument concerns migration and mobility within the EU. It provides support for the principle of non-discriminatory access to social benefits that regulates intra-EU migration. However, congenial EU regulation applies to non-EU ('third country') nationals who move from one country to another in the EU and to third country nationals who become long-term residents.¹² Milanovic's view on migration sits uneasily – to put it mildly – with the traditional European aspiration to develop and maintain inclusive welfare states, in which there are no 'second-class' citizens, and children of migrants can enjoy all opportunities open to children of natives, whilst migration into the EU is limited for non-EU citizens. Admittedly, my discussion of intra-European migration does not exhaust arguments on how one should organize external migration into the EU. However, I think it is not happenstance that European welfare states generally entertain an inclusive perspective on migration – by not subjecting migrants to a second-class social citizenship – and are, despite all the difficulties with the integration of migrants, relatively successful in the realm of equality compared to other regions in the world.

Conclusion: a European Social Union is part of the equation

We are not doomed to undergo increasing inequalities. For sure, international competition, technological and demographic changes and sociological and ideational shifts all put pressure on welfare states. But the difference between the trajectory of most continental European welfare

¹² In other words, it does not apply to the situation of a non-EU third country national who has links only with a third country and a single Member State: therefore, in principle, Member States can pursue their own policies with regard to the integration of third country nationals, in so far as they are not regulated by specific agreements between the EU and other countries or regions in the world. The UK and Denmark have also opted out of the extension of the EU's social security coordination to third-country nationals who move from one member state to another.

states on one hand and the US and the UK on the other hand shows that, so far, national institutions and policies played a crucial role in mitigating the impact of these changes. What the exact role of European integration was in this respect, is a moot question. Sixty years ago, European integration was premised on a neat division of labour: important aspects of economic policy would become supranational, social policy could be safely left in national hands. *Prima facie*, that neat division of labour seemed to work tolerably well for many years, notwithstanding a number of early, critical observations about the EU's impact on the social fabric in Member States, mentioned in this chapter. But, in today's EU, this division of labour is without any doubt no longer sustainable: one reason is monetary unification, another reason is the economic heterogeneity after enlargement. Revising that division of labour requires a political contract at the European level that sustains risk-sharing and common social objectives; agreeing on such a political contract raises issues of sovereignty, solidarity and shared values, but is possible without getting trapped in and paralyzed by Rodrik 'trilemma' of democracy, sovereignty and integrated markets. However, to indicate the way forward, we need a coherent conception of a 'European Social Union' (Vandenbroucke et al, 2017d).

My emphasis on a Social *Union* is no coincidence. A European Social Union is not a European Welfare State: it is a union of national welfare states, with different historical legacies and institutions. A union of national welfare states requires more tangible solidarity between those welfare states as collective entities. But its primary purpose is not to organise interpersonal redistribution between individual European citizens across national borders; the main mechanisms of solidarity which the EU now needs to develop are between Member States; they should refer to insurance logics rather than to redistribution, and to support for social investment strategies. Solidarity between Member States necessitates shared values and a degree of convergence, but convergence is not the same as harmonisation. More generally, the practice of a Social Union should be far removed from a top-down, one-size-fits-all approach to social policy-making in the Member States.

The core idea can be summarised as follows: a Social Union would support national welfare states *on a systemic level* in some of their key functions and guide the *substantive development* of national welfare states – via general social standards and objectives, leaving ways and means of social policy to the Member States – on the basis of an operational definition of 'the European Social Model'.¹³ If we want to resist the negative impact of the complex set of challenges that is often captured in the notion of 'globalization', a European Social Union is definitely a crucial part of the equation. Sweeping analyses about the impact of globalization and deterministic accounts of either globalization or Europeanisation are not helpful in this respect: rather than mobilizing our intellectual and political creativity, they paralyze our thinking.

¹³ The development of a fiscal stabilisation capacity in the Eurozone, to support national automatic stabilisers in one or other way, is a prime example of '*systemic support*' for national welfare states. Coordination of corporate tax policy is another example. I did not discuss the challenge of fair taxation, which features prominently in the agenda set out by the *World Inequality Report 2018*. Milanovic is sceptic about the potential of tax and benefit measures to redress inequalities: according to him, during the second Kuznets wave, states should work more on endowments and less on taxes and transfers. Here, I would concur with the authors of the *World Inequality Report 2018*, who argue, on the basis of solid empirical evidence, that regressive changes in taxation systems are a key explanatory factor for the surge in inequality in countries such as the US and the UK. Given the mobility of capital, fair taxation requires supranational coordination, notably in the realm of corporate taxation. The EU is well placed to take up this challenge.

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