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Democracy at Risk

The Growth of Nationalism
and Extreme Right Parties
as Threat to the EU

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as Threat to the EU

Ewa Rokicka – University of Lodz, Faculty of Economics and Sociology
Department of Sociology of Social Structure and Social Change
90-214 Lodz, 41 Rewolucji 1905 St.
Jeremy Leaman – Loughborough University, Department of Politics and International Studies
Epinal Way, Loughborough, LE11 3TU, UK
Dieter Eißel – University of Gießen, Germany, Institute of Political Science
Karl-Glöcknerstr. 21 E, D 35394 Gießen

INITIATING EDITOR

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REVIEWER

Krzysztof Czekaj

NATIVE SPEAKER AND PROOFREADING

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TYPESETTING

AGENT PR

TECHNICAL EDITOR

Anna Sořita

COVER DESIGN

Agencja Reklamowa Efectoro

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www.wydawnictwo.uni.lodz.pl

e-mail: ksiegarnia@uni.lodz.pl

phone. (42) 665 58 63

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Preface

Liberal democracies are under pressure. Worldwide and in Europe, populist movements of various types promise protection and security through isolation and a strong, authoritarian state. With their simple solutions, they are heard by people who are unsettled by today's rapid changes and socio-economic upheavals. The European Union (EU) is not excluded from these developments. With various unfolding crises (finance, immigration, Brexit) and the EU's inadequate response to the discontent of its citizens, nationalism and exclusivism have risen in the EU. This can be seen from the success of populist politicians in recent elections, such as in Germany, France, Austria, Poland, Hungary, and Italy, to name but a few. Populist politicians advocate protectionism and anti-Islam sentiments, undermining the liberal foundations of the EU and its Member States. Currently, a new political divide has emerged in Europe, ranging from European identity and libertarian spirit on the one hand to traditionalism, authority, and nationality on the other. In Hungary, a so-called "illiberal national democracy" was proclaimed; freedom of the press and other mass media was demolished, and the rule of law attacked. This was accompanied by popular rises in social benefits, in particular, an increase in the minimum wage. In Poland, the government is following the Hungarian authoritarian example, supported by the Catholic Church, and it has tried to maintain its power by introducing improved social benefits, like the increase in child allowances and pensions. In Romania, the government has changed criminal law and procedural law, in particular, to protect politicians from prosecution for corruption. In Italy, right-wing populists enjoyed success in the regional elections in 2019, arguably endangering not only the stability of the euro but also the fragile collective responsibility of the EU. In Austria, the right-wing conservative government started a creeping reconstruction of the state. Within a few months, the discourse on migration and welfare had totally shifted. Moreover, at the border to Slovenia, the Austrian army conducted "refugee games". In Spain, the wealthy region of Catalonia is trying to achieve political autonomy and avoid sharing its relative wealth with the poorer regions. As a result, the new right-wing party, Vox, received 10.3% of the votes in the May 2019 elections, mainly by labelling the acceptance of Catalonia's independence "treason". Last but not least, the Brexit drama strongly suggests that the great European idea of peace, solidarity and regional cohesion is

in serious danger of collapse. Furthermore, in nearly all EU member states, populist extreme right-wing parties are attracting increasing electoral support.

These developments are accompanied by rising xenophobia against refugees and foreigners, and by attacks against multiculturalism. Thus, the parties of the far-right, who proclaim extremist slogans like “foreigners out of Europe” allow voters to object to migration policies and show societal distrust toward the governing elites. A high level of distrust, distance, and alienation toward the governing elite breed serious threat – a growing number of citizens seem to doubt democratic procedures and institutions. It is thus possible to assert that it is not only democracy and good governance that are endangered, but the EU itself.

The mix of cultures, ethnic groups and nations is just one of the many reasons for the revival of nationalist tendencies in European countries. The sources of nationalism are more deeply rooted in the negative sides of neoliberalism and globalisation. The renaissance of nationalism is a consequence of the inequalities in the distribution of profits, accompanied by a real or imagined sense of exclusion, changes in the political systems of the continent’s countries, as well as the degeneration of democracy. Nationalism, often combined with populism or other currents of political thought, is the result of uncertainty and fear of change, with the market or the alienated political and economic elites providing an unclear direction. Social groups that do not participate in the processes of benefiting from economic growth, or which participate to a small extent – called losers of globalisation (in the so-called “old” EU countries) or losers of the systemic transformation and globalisation (in the countries of the former socialist bloc) – express concerns about their future. According to nationalists their sense of security is not satisfied by the European Union. Individuals’ sense of security should be restored by the national community in the nation-state. In this situation, nationalism is an alternative to the neoliberal order or to the surrogate ideology for the idea of community within the EU.

This book analyses the threats to democracy that are associated with the rise of nationalism and populism in European Union countries. The main issue concerns the conditions that have resulted in the increase in nationalism and populism in the European Union and the links between those phenomena on the example of Germany, Great Britain and Poland. The aim of the analysis is also to show what could be done to regain democracy.

The statistical data cited in individual chapters come from Eurostat databases, national statistical offices, and studies of the World Bank, the International Monetary Fund and the OECD, as well as the results of scientific studies.

When we explore why populism is rising, we argue that rising populism can be avoided if we take decisive action to promote inclusive growth, engage citizens in public life, promote initiatives designed to ensure the transparency of decision-making processes and increase the political accountability of the public authorities. We believe that three paths to strengthen democracy and social peace in the European Union are particularly important: first, through better econom-

ic and social living conditions, the extent of anti-democratic attitudes could be stopped. Second, civil engagement and fighting authoritarian regimes should be supported by strictly using the tools of European law and, in addition, increasing the influence of society on the decision-making process by enhancing governance concepts. Third, the EU should support the urgently needed development policy to improve the livelihoods of people in Africa to reduce perilous emigration instead of more strongly enforcing capital interests and exploiting its raw materials. Furthermore, European countries should stop their arms exports to conflict zones, thus reducing an additional pressure to emigrate. This would simultaneously reduce the immense challenge of integrating refugees into Europe.

The book consists of 10 chapters. The first chapter discusses different aspects of democracy as a guideline. The second chapter shows how market dogmatism and austerity policies, in particular, the case of Greece, gained dominance and produced a severe social crisis, which in turn caused increasing distrust in the EU and the re-emergence of extreme right parties. Chapter Three gives a general overview of inequality and poverty as a result of this paradigm change. Chapter Four then examines how the European Union is trying to reduce the income gaps in the Member States and their regions to achieve greater social cohesion. Chapter Five shows the top-down movement of the EU, which concerns a change to the increasing role of regions and towns in implementing the EU's social and economic goals through the new governance concept, which could contribute to an increasingly democratic culture. Chapters Six, Seven and Eight provide a more comprehensive view of the specific situation in Germany after reunification, in Britain with regard to Brexit, and in Poland, in terms of the policy of the PiS-led government. Chapter Nine analyses the refugee dilemma and the differing reactions and attitudes in European countries. Chapter Ten presents ideas about how the EU could find its way back to solidarity and democracy. Thus, the book not only shows data describing the situation, but it analyses the causes and provides alternative solutions for the social, economic and policy dilemmas.

1. Aspects of Democracy

1.1. Introduction

Democracy has several aspects: political liberalism insisted on the ultimate goals of securing freedom and formal equality through a formal democracy. It includes the separation of powers following the ideas of Montesquieu through the independence of legislative, executive and judiciary powers. In addition, some states are even organised through a vertical separation of powers, mostly as a federal state. In Locke's liberal tradition of democracy the rule of law eliminates arbitrary decisions. Inalienable fundamental rights, human rights as natural law and the protection of minorities, and universal and equal suffrage belong to this type of democracy. Furthermore, rulers need legitimation through the indirect or direct election of governments which guarantee (input) legitimacy for the process of decision-making. Last but not least, there should be a free press as a watchdog to combat nepotism, bribery, and corruption and to guarantee transparency.

The EU stresses the centrality of these features of democracy with its accession criteria for new member states (Copenhagen Criteria). The Treaty on the European Union sets out the conditions and principles to which any country wishing to become an EU member must conform. These criteria include the stability of the institutions that guarantee democracy, the rule of law, human rights and respect for and protection of minorities.¹ The danger remains, however, that after accession compliance with these strict criteria is weak and that monitoring is inadequate. The EU can only then intervene when a member state has seriously contravened EU guidelines. However, to pursue possible infringement proceedings may in turn increase hostility towards the EU (Bergmann 2019: 12).

1 https://eur-lex.europa.eu/summary/glossary/accession_criteria_copenhagen.html?locale=en (accessed: 18.12.2019).

In addition to this liberal model of democracy, we have to recognise a material type of democracy. The liberal model guarantees equal rights where the latter focus on the material conditions for invoking formal rights. It was already Jean-Jacques Rousseau who expanded this understanding of democracy with his notion of output legitimacy, which relates above all to equality of means and not just formal rights. For him, income, wealth and social inequalities represent not only a threat to peace, but also to freedom. Rousseau's message of the *contrat social* and the associated slogans of the French Revolution see liberty threatened by an imbalance in the distribution of social wealth.

“As for equality: we should take this to mean not that the degrees of power and riches are to be absolutely the same for everyone, but that those with power should not sink to the level of using violence, and that their power will always be exercised by virtue of rank and law; and that no citizen will ever be wealthy enough to buy another, and none poor enough to be forced to sell himself – which implies, on the part of the great, no extremes of goods and credit and on the side of the ordinary folk no extremes of miserliness or greed” (Rousseau 1977a: 56).

“It is therefore one of the most important functions of government to prevent extreme inequality of fortunes; not by taking away wealth from its possessors, but by depriving all men of means to accumulate it” (Rousseau 1977b: 32). The output legitimacy of this *material* democracy has its central focus therefore on the degree of equality. The main goal is to ensure equal opportunities and freedom from hardship. The realisation is the welfare state, which guarantees equal opportunity, justice – especially concerning education in a meritocratic society. The welfare state should be responsible for the quality of life. In the centre of this understanding is the guarantee of “human security”, which emphasises the absence of extreme vulnerability, whether due to social, political or economic marginalisation. The concept of human security appeared in the context of peace research projects in the 1980s as a counterpoint to the dominant discourse of “national security” during the Cold War. This concept of human security had gained a wide audience by the time the United Nations Development Programme (UNDP) produced its Human Development Report (HDR 1994), which put poverty and the needs of people at the centre of the world development agenda. It also chimes with the *Programme of Action on a Culture of Peace* and the *Millennium Declaration* adopted by the UN General Assembly in 1999 and 2000, respectively. From the perspective of human security, what matters therefore is ensuring social peace. “The guarantor of national security is no longer military power, but favourable social, political and economic conditions, promotion of human development, human rights and inclusive policies” (UNDP Report 2004: 141).

The essential message is that the welfare of humankind is the real meaning of democratic development. The HDR therefore seeks to promote public policies that serve the health, well-being, freedom and dignity of all people. This presupposes security at different levels for all members of society – freedom from physical, from poverty, social exclusion and repression, security of education, housing,

health and the environment. According to the Commission on Human Security, human security “means protecting fundamental freedoms – freedoms that are the essence of life. It means protecting people from critical (severe) and pervasive (widespread) threats and situations. It means using processes that build on people’s strengths and aspirations. It means creating political, social, environmental, economic, military and cultural systems that together give people the building blocks of survival, livelihood and dignity.”²

Furthermore, inequality endangers not only social peace, but, as a recent study by the International Monetary Fund (IMF) asserts, it is also harmful to economic growth. In the study: “Causes and Effects of Inequality. A global Perspective”, the authors write: “Widening income inequality is the defining challenge of our time. In advanced economies, the gap between the rich and poor is at its highest level in decades” (Dabla-Norris et al. 2015: 4); “income inequality matters for growth and its sustainability.” (...) Specifically, if the income-share of the top 20% (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down. In contrast, an increase in the income share of the bottom 20% (the poor) is associated with higher GDP growth. The poor and the middle class matter the most for growth via a number of interrelated economic, social, and political channels (Dabla-Norris et al. 2015: 4).

Somehow, Abraham Lincoln expressed the comprehensive meaning of both input and output legitimacy in democracy with the simple words: “Government of the people, by the people, for the people.”³ This includes a form of government, where a constitution guarantees basic civil rights, fair and free elections, and independent courts of law.

After considerable criticism within Europe of the EU as an exclusive mercantilist fortress, the Treaty of Amsterdam (1997) added special goals concerning solidarity and cohesion. Article 158 of the Treaty states that in order to strengthen its economic and social cohesion, the Community shall aim to reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas. The European Commission underlined in its “Report to the European Council”, 21 March 2003: “Exclusion imposes unjustifiable and avoidable costs on society. The Lisbon strategy’s response – a European social agenda – is to provide basic skills for all, promote employment for those who are able to work and ensure adequate social protection for those who cannot. This approach recognises the role of well-developed social protection systems in reducing poverty and promoting employment and employability, as well as the need for such systems to be modernised to ensure their long-term sustainability in the face of an ageing population.”⁴ On the other side, the

2 Human Security Commission. “Final Report” www.humansecurity-chs.org/finalreport/ (accessed: 19.12.2019).

3 https://www.brainyquote.com/quotes/abraham_lincoln_101395 (accessed: 19.12.2019).

4 <https://www.consilium.europa.eu/media/20858/75136.pdf> (accessed: 19.12.2019).

Maastricht Treaties and the Lisbon Strategy commit the European Union (EU) to neoliberal dogma with its demonisation of state debt and of active fiscal intervention, and a primary stress of budgetary austerity. Member states are thus more concerned to avoid the sanctions of the Stability and Growth Pact and to encourage private investment via “crowding-in” strategies, including generous reductions in capital taxes. While tax harmonisation makes very slow progress, member states become competitors for the favours of international investors, thereby risking the intergovernmental solidarity invoked in the EU’s “social cohesion rhetoric”. The EU thus appears as a competitive Europe in which intergovernmental solidarity is at risk (Händel, Puskarev 2016).

The data confirm the dominance of market dogmatism in policy-making. Despite social policy commitments to greater equality and welfare in the member states, the EU’s failure is clearly evident in a greater degree of inequality and in high levels of poverty, where higher unemployment rates hit the already vulnerable sections of the population. Income and wealth inequalities rose in all member states over the last four decades. Furthermore, the political responses to the crises triggered by the 2008 financial crisis – namely austerity – exacerbated the social situation in the countries, worst hit by budgetary problems and increasing debt. It is hardly surprising, therefore, that many European citizens became profoundly disappointed by policy-makers and by policy failure, and increasingly attracted by the rhetoric of the emerging group of right-wing populist parties.

Italy exemplifies the dramatic and rapid rise of populist parties. The 2018 general election saw two major populist parties emerge, the Five-Star Movement and the Lega (formerly Lega Nord), to form a centre-right coalition government. Despite clear differences in certain policy areas, they shared both a marked Euroscepticism and an opposition to immigration. Under the leadership of Salvini, the coalition has directed its main focus on blocking immigration but began to emphasize other populist themes. The Lega consequently formed a European alliance with other right-wing populist parties such as France’s Rassemblement National, the Netherlands’ Party for Freedom and the Freedom Party of Austria. Under Salvini, the Lega reached record heights of popularity, both in the North and in the rest of Italy.

The Five Stars Movement promotes policies usually advocated by the Italian Left, like citizen’s income and environmental issues. Nevertheless, its Eurosceptic and anti-immigration attitude clearly puts it into the category of populism. The short-lived populist coalition in Italy reflected a broader trend of Euroscepticism, where – according to the standard Eurobarometer 90 from 2018 – a full 48% of respondents in the 28 Member States indicated a lack of trust in the EU. Figure 1.1 shows differences between the states.

Rising anti-democratic attitudes and the increasing strength of extreme right parties can therefore be traced back to a paradigm change in the political economy from a Keynesian welfare state to a neoliberal “competition state”. This change, with eroding welfare-levels, diluted labour protection and deregulation has led to widening inequalities between rich and poor.

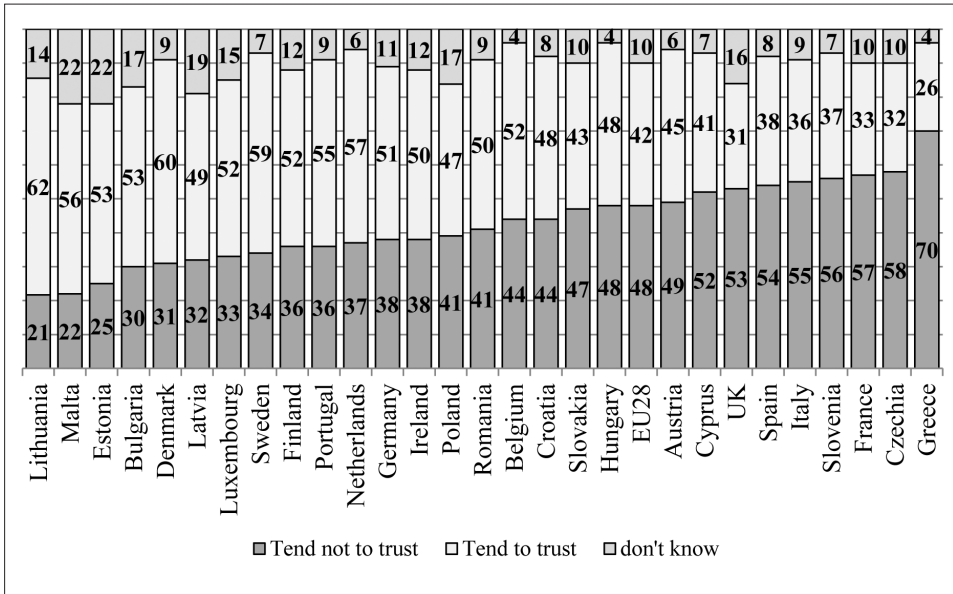


Figure 1.1. Trend of trust and distrust in the EU in %
Source: Standard-Eurobarometer 90, the public opinion in the EU, November 2018: 6.

As a result of this process, the historically identifiable groups of disadvantaged poor households at the bottom end of the income distribution have now expanded to include a growing number of “working poor” households which, despite participation in employment, earn less than 60% of net median income. The alienation of these groups from disproportionately enriched top ten and 1 percent of the distribution is arguably evident in the Eurobarometer poll results (Figure 1.2).

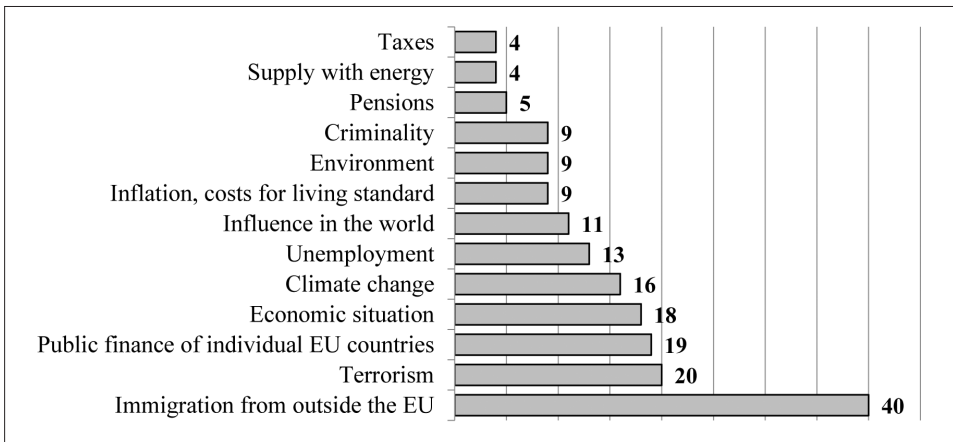


Figure 1.2. Which are currently the two main problems for the EU? Answers in %
 Autumn Survey 2018
Source: Eurobarometer 90, November 2018; max two answers.

Right wing parties made use of distrust evident in these polls, criticising both parliament and traditional parties for their neglect of issues like immigration which is identified as by far most important concern of respondents. Populist parties were able to exploit marked increases in migration in many EU member states with alarmist and xenophobic propaganda which resonated particular with poorer households that were often competing for housing and employment with migrants. The situation worsened with the sudden influx of refugees in 2015 (Figure 1.3).

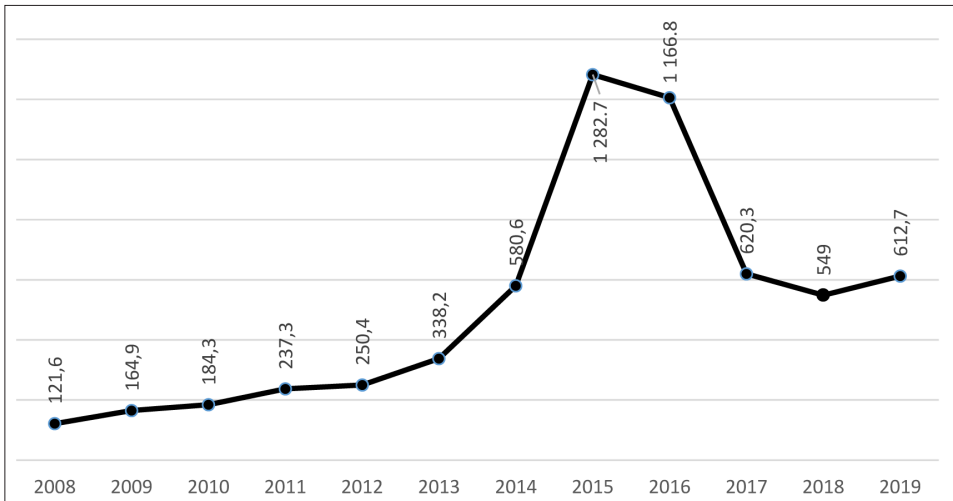


Figure 1.3. New asylum applications in thousands in the EU
Source: Eurostat, 2019.

On the one hand, there were impressive signs of welcome from some state authorities and from civil society in face of the plight of refugees, in particular in Germany. However, the picture has changed in the meantime. Populist parties and other right-wing organisations make much of media stories of criminality among young North-Africans, of supposedly higher health and social benefits for migrants and the associated burden on German taxpayers. Migrants, as ‘Others’ – particularly those with distinctive cultures and religious beliefs – provide convenient vehicles for the mobilisation of xenophobic hatred and the marketing of simplistic populist messages.

1.2. Democracy, nationalism and populism

In Western Europe, after the Second World War, the efforts of representatives of legal, political, philosophical sciences and many political leaders focused on building such democracy that would prevent the recurrence of extreme forms of

nationalism. In the past, nationalism, combined with racism and xenophobia, constituted the ideological basis of fascism and its most extreme form – Nazism. The goal of strengthening democracy was to build safeguards that would balance the political powers and increase the role of non-elective institutions or those relatively non-accountable to voters like constitutional courts designed not only to defend individual rights but also democracy in general against the return of extreme forms of nationalism. In short, in post-war Europe the perception of nationalism was definitely negative in most European countries, and distrust of unlimited national sovereignty and acceptance of liberal democracy was widespread. In the last thirty years of the 20th century, subsequent countries overthrew authoritarian regimes (Spain, Portugal, Central and Eastern Europe) and returned to liberal democracy (Müller 2016).

After 1945, nationalist movements were clearly weakened in Europe but that does not mean that they completely disappeared. Their return to politics occurred at the beginning of the 21st century. Today we are dealing with a wave of nationalism, known as the extreme right. We wrote about the factors that revived nationalist sentiments and the creation of new nationalist movements and parties in section 1.1. Below we will focus mainly on those aspects of European nationalism that are related to the policy of the European Union and the European integration processes.

The European Union built an anti-totalitarian and anti-populist political order on the foundations of distrust of national sovereignty. By limiting the “will of the people” it became particularly sensitive to the allegations of political actors speaking on behalf of the nation as a whole, whose participation in politics was diminished (Müller 2016).

In fact, nationalists and populists are not interested in increasing the political participation of the people, but in gaining the support and legitimacy of power based on the belief that the source of power is and should only be the nation. Meanwhile, the post-war order of Europe is based on the idea of keeping the “nation” at bay.

The negative attitude of the majority of Europeans towards contemporary nationalism is not only the result of historical experience, but also the criticism of political agenda and the ways in which nationalist parties and their leaders operate, based on demagoguery and populism. In language practice, both of these terms are used synonymously and understood as “flattering the masses, referring to the psychology of the crowd, preying on irrational hopes, building political influence and its mass foundation on awakening emotions, illusions and claims, promises without coverage, etc.” (encyklopedia.pwn.pl). In addition, the populism based on the stereotype of a simple man and the wisdom of simple people (nation) perceives people not only in social categories, but also in religious ones, and opposes them to the power, elites and strange groups (in terms of class, religion, ethnicity) which is usually associated with intolerance and xenophobia. Appeal to the wisdom of the nation is characterised by both nationalist parties who oppose democracy and

those who claim to be the defenders of democracy in their agendas. The latter are usually parties with neo-fascist provenance.

It is worth emphasising the fact that in everyday language the concept of populism is often abused. It is used in various meanings to describe any manifestations of extremism, which leads to the lack of distinction between different political qualities, e.g. the extreme right and extreme left. It is also not enough to define populism by referring to “anti-elitism” if we do not explain what underlies it.⁵ Jan-Werner Müller argues that populists who see themselves as the sole representatives of the nation’s interests are characterised by the rejection of pluralism. And further indicates that the inevitable consequence of populists gaining strong power is the creation of the authoritarian state. In turn, Dani Rodrik (2018) combines populism with uneven development and capitalism crises that aggravate inequality. According to this author, economic measures are needed to reduce inequality and strengthen the sense of security. The lack of reaction will deepen nationalist sentiment and may lead to conflict and violence. This conclusion also applies to today’s European Union where economic and social inequalities – especially in the times of crisis – stimulate nationalist tendencies and reinforce precisely those political forces that are not aptly called populist today.

Before we take a closer look at the party’s nationalist projects in the 21st century Europe and their views on democracy, we will briefly characterise the concept of nationalism and the controversy that arises around it.

The dictionary definition points to the following features of nationalism. “It is the belief that the nation is the most important form of socialization, and national identity is the most important component of the identity of the individual, combined with the imperative to put national solidarity over all other relationships and obligations, and everything that is national over everything that is foreign or cosmopolitan; political ideology, according to which the basic task of the state is to defend national interests, and its territorial scope should correspond to the areas inhabited by a given nation (encyklopedia.pwn.pl).

It is clear from the above definition that nationalism lies in the fundamental contradiction to liberalism because it refers to values that are the opposite of the axioms of liberalism. Above all, it puts the good of the nation above the good of the individual, which means a moral imperative to sacrifice the life, rights and dignity of the individual to achieve the goals of the collective. The nation is recognised as the highest sovereign of the state, and the nation-state the most appropriate form of organisation of the community united by a community of origin, language, history and culture. All political actions are evaluated through the prism of the good and interests of this nation. Nationalism usually proclaims elitism, often combined with xenophobia and ethnocentrism, racism and anti-Semitism.

5 Not all critics of the elite are populist. Criticism of the ruling elite can be a manifestation of an attitude of civic engagement.

In extreme form, it recognises the right of own people to conquer and rule other nations, to nationalize them and destroy their culture.

In practice, nationalism takes various forms in space and time. Perhaps there are as many different types of nationalism as there are countries and cultures. The kind of nationalism we are dealing with depends to a large extent on the historical conditions in which the nation-forming process took place and the factors that had a dominant influence on the formation of the nation.⁶

Nationalisms can be described according to various characteristics and types such as Eastern and Western, particularistic and universalistic, illiberal and liberal, reactionary and progressive, aggressive and defensive.

Breakdowns multiply conceptual entities, while the differences between “really existing nationalisms” are not as sharp and clear as is often claimed. Seemingly diverse forms of nationalism may in some respects – as Wang Shaoguang (2003) writes – “resemble each other, but they differ from each other. In a sense, all forms of nationalism are “unstable amalgams” (Spencer, Wollman 1998: 270) that combine wandering elements and are constantly changing (p. 6).

The above-mentioned author, searching for the properties underlying the various forms of nationalism, assumed that contemporary nationalism is based on four pillars (Table 1.1). The main components of nationalism are:

(1) A national population understood as community, existing in three variations: Ethnic, Cultural and political-legal community, and Sovereign state;

(2) People’s psychological attachment: a national population based on a sense of belonging, such emotion is linked to longing for self-esteem, sympathy with national in-group, affection for homeland, and zeal for its defence. It may take the form of humiliation, anxiety, and pride;

(3) People’s loyalty to the national community: loyalty rang on a continuum between supremacy of nation balanced to universalism. From treating nation as an absolute priority to direct one’s primary obligations to all human beings;

(4) The people’s attitude toward out-groups. No matter how benign nationalism is in form, it must delineate where the boundaries of the nation begins and ends. Nations may assume one of the following three stances toward others: xenophobia, arrogance, confidence.

6 This criterion allows to distinguish between the political and civil nationalism, if a given nation developed as a result of consolidation of various social groups and geographical territories due to centralisation of state authority. If in the process other factors were more important, e.g. culture, community of origin, language, we speak about cultural or ethnic nationalism. Another criterion of the classification of nationalism is attitude „to others”. There are nationalisms allowing assimilation of people from outside the national community, living within the borders of the same national state and nationalisms seeking their rejection.

Table 1.1. Four dimensions of nationalism

Nature of "Nation"	Ethnocentric	Culture	Sovereign State
Source of National Sentiment	Humiliation	Anxiety	Pride
Strength of National Loyalty	Supreme	Balanced	Universalism
Stance toward the Others	Xenophobia	Arrogance	Confidence

Source: Wang Shaoguang (2003).

Wang Shaoguang (2003) summarized the discussion on various forms of nationalism as follows: "It is noticeable that a particular feature along one dimension of nationalism is not necessarily associated with a certain feature along another. For instance, the feeling humiliation does not always translate into xenophobia and national pride is not always manifested in national prejudice. Rather, those features may be blended into myriads of combinations or what we call 'really existing nationalisms', which can never be squeezed into the straitjacket of any dualistic model" (p. 10).

The typology presented above organises the discussion on the criteria for the division of nationalisms, but does not solve many problems that arise when we analyse the relationship of nationalism with politics, culture, economy or attitudes, values and the identity of the individual. The broad meaning given to the concept of nationalism limits the possibility of indicating the range of phenomena and processes to which it refers.

In the first half of the 19th century, nationalism meant the pursuit of national liberation; it was the doctrine of emancipation, freedom and sovereignty of peoples. The nationalist attitude expressed a deep love of the homeland, readiness to sacrifice for the national cause and sensitivity to the problems of oppressed national groups. The first nationalists were called fighters "for the freedom of ours and yours". However, the positive associations of nationalism and freedom began to disappear in the second half of the seventies of the nineteenth century. Nationalism began to be associated with the ruthless form of struggle for national interest and the policy of territorial expansion.

Today, we are living in times when the meanings of concepts are re-evaluated. The word "nationalism" occurs in a variety of contexts. It is associated with both national liberation struggles and the policy of territorial conquests. What's more, attachment to the nation, as nationalism could be defined, is part of our mentality, self-expression, because it gives people a sense of identity, solidarity, a shared history, allows self-identification.

Michael Billig (2008) claims that nationalism (the author calls it banal) permeates everyday social life to a greater extent than we realise. It is so common that it is unnoticed because it has become the norm. Banal, everyday nationalism does not preach nationalist ideology. The author writes: "The constant waving of the flag guarantees that regardless of what will be forgotten in today's infor-

mation overload, we will not forget about our home countries. The plebiscite, organised by daily deixis or sports supporting recreates the nation state. If we are constantly prepared for the threats of the future, then this is not preparation filling the reservoir of aggression. It is a form of reading and writing, understanding and treating it as something natural. It is a form of life in which we are constantly encouraged to relax at home within our own country. This form of life is constantly renewing national identity with its innocent and dangerous looking potential” (p. 126).

Division into nations, the existence of a well-established national identity in individual countries and parties representing national interests are fact in the European Union. They do not threaten democracy, which is by definition a concept of a creative, free dispute in which reaching agreement over divisions and the ability to cooperate is a value. Extreme and aggressive nationalism against “others” is a threat to this. It is an ideology that opposes political pluralism and individual freedom. Organisations referring to thus understood nationalism are in fact anti-democratic and totalitarian in their quest to control social life. Agendas of these organisations containing populist slogans are often the façade behind which are private interests, radicalism and extremist activities.

Nationalist parties are accused of being protest parties. And indeed, it is clear from the review of their agenda documents that they are. They are based on the criticism of the existing economic, socio-political order. However, they do not have a positive program that would explain what changes they intend to make, what goals they have and by which methods they could achieve. Without a positive program, with a slogan referring to the nation’s hard-to-measure and changeable will, which is easy to control from above, nationalist parties appear as political entities whose purpose is mainly to seize power.

What do nationalist parties accuse of liberal democracy and the EU? On what arguments do they build their legitimisation? In his 2017 book *W drodze do władzy...* (*The way to power...*), Pawel Malendowicz indicates that democratic countries do not activate citizens in the political sphere, they consolidate social passivity. Citizens stopped being an entity in politics because it reduced them to the role of voters, and more specifically passive performers of the will of enlightened elites. Through marketing tools, dominant parties appropriate the political scene, organise a spectacle whose sole purpose is to stimulate consumption, treat the citizen as a customer, and politics as a tool to provide the consumer with the goods he expects.

Another accusation of nationalists against democratic states relates to the implementation of the idea of freedom. According to nationalists, freedom of the beginning of the 21st century is the dominance of one narrative imposed by the elites. It is individual freedom limited by the framework of politically correct discourse, but not the freedom of the community. Nationalism proposes anti-individualist freedom and the return of nations or parties declaring their representation to the power which they were deprived of in the modern age.

In the criticism of liberal democracy, however, the entire catalogue of its “distortions” being a consequence of the neoliberal market economy comes to the fore. According to nationalists, they cause liberal democracy to transform into liberal non-democracy. In this respect, they criticise the European Union, pointing out that the establishment of a single market and monetary union, without political integration, has led to the shaping of policies by undemocratically elected, technocratic institutions, primarily the European Commission, the European Central Bank and the Court of Justice of the European Union.

Speaking of the collapse of democracy, nationalists quote indicators of trust to the political class, institutions and democratic procedures. Decreases in trust indicators for elections, the judiciary and the media illustrate, in their opinion, the breakup of liberal democracy. It should be added here that numerous scandals involving political elites and mainstream party politicians have affected the loss of confidence in politicians and formal democracy procedures. They contributed to the increase in support of anti-systemic parties. In the agenda of nationalist parties, the most common elements (apart from the supremacy of the nation and loyalty to it) referred to the perception of globalisation as a process threatening the nation and treating homosexuality, abortion, secularism and immigration as undesirable, contrary to the interests of the nation. The agendas analysed also revealed the paradoxes of nationalism. E.g. claims and demands were directed “from the nation” represented by its vanguard, to the sovereign that is “to the nation”.

“These parties were not free from paradoxes also in the aspect of their activity. They were anti-EU, but this did not prevent them from using grants financed from the European Union budget for the activities of European political parties. It is also a paradox of the Union itself, which finances those who would like to destroy it. Finally, the very concept of the national democracy system remains a paradox. In the socialist countries created after World War II, power was exercised by ‘workers’ parties, but workers were against them. Similarly, in a state ruled by a party declaring that it represents the values and interests of the nation, will the nation have the right to question its party ‘representation’ and will it not turn against its nation?” (Malendowicz 2017: 237).

Democracy, implemented after World War II, was based on three principles: social balance (minor social inequalities), economic balance and political balance. It was shaken as a result of enforced European integration, so-called democratic deficit in European institutions, a sense of oligarchy of political life and general disappointment with promises related to the emergence of a social state. Also, fears related to globalisation and the emergence of a global free market and migration has brought new nationalist, populist and national-populist movements and parties to life.

It can be argued that the neoliberal turn destroyed the liberal ethos. It was neoliberalism that has promoted attitudes of egoism and rivalry among people, leading to such a scale of income and property inequalities that seem insurmountable.

The presented diagnosis does not suggest that the only reaction to economic, political and social imbalances and divisions as well as mistakes made in the process of EU integration is the seizure of power by nationalists and populists, who after gaining a majority in parliament proceed to build an authoritarian state (e.g. Poland, Hungary, Turkey). Nationalism and populism, especially when combined, are particularly dangerous to democracy. They are part of the dispute between those who want more openness in one or many areas (e.g. trade, borders, towards minorities, etc.) and those who want more closure and restrictions of freedom.

Can democracy cope with the growing crisis? Jan-Werner Müller (2017) argues that although democracies permanently generate crises they have resources and mechanisms at the same time needed for self-correction. Further he argues that the basis for self-correction is realising the fact that “technocracy and populism seem like two extremes opposed to each other – and yet they share an important characteristic: they are both forms of anti-pluralism. Technocrats hold that there’s only one correct policy solution; populists claim that there is only one authentic will of the people (and only they represent it); whoever disagrees with them, reveals themselves as traitor to the people. For both sides there is no point in exchanging arguments, no space for debate, and, in the end, no real need for an institution like parliament” (p. 15f).

Anti-pluralism of both options leads the author to the conclusion that what legitimizes them is “the belief that there is really no place in the community for disagreement”. The primary task of populism theory will therefore be to identify actual populists and distinguish them from those political players who criticise the elite but do not use *pars pro toto* logic.

A similar thought in relation to practice is made by former Commissioner for Employment, Social Affairs and Inclusion, Laszlo Andor (2019), when he writes “lumping everything together as ‘populist’ does not help us understanding the seriousness of the threats to democracy and human rights. It has never been properly explained why nationalist, authoritarian, far right and neo-fascist tendencies should not be called nationalist, authoritarian, far right, or neo-fascist, but populist instead.

In a European context, it is important to distinguish between those who insist on going back to the national framework (mainly on the right), and those who prefer further and faster integration and solidarity as a solution (mainly on the left). On the right, we have to distinguish between Euro-sceptics and Europhobes, and the existence of anti-EU, left nationalism also has to be acknowledged. Looking at substance and not only style requires attention to historical background and economic foundations. Less morphology and more political economy will help progressives to better analyse nationalist and far-right tendencies and to develop more effective strategies against right-wing extremism in the name of humanity, equality and solidarity” (Andor 2019).

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2. The harmful impacts of market dogmatism and austerity policy

2.1. From the welfare state to the “competition state”

Causes of the current crisis go back to the world-wide economic deregulation, which rapidly increased the amount of speculative investment. However, large parts of the population did not benefit from the growing prosperity and the positive aspects of the changing economic world but face winners and losers and a growing inequality. Rising inequality fuels social tension, is economically harmful and it harms democracy. The losers in the more and more globalised world lost confidence in politics and in the democratic institutions and turned to the growing right-wing populism (Giebler, Regel 2017).

On the other hand, big companies were the winners, and they could compel governments to support their competitive forces by reducing the tax load and protective labour regulations. In consequence, even the EU Member States started a tax race to the bottom, favouring the rich and capital. Market dogmatism became the ruling ideology neglecting the problem of a weak domestic markets. While the masses lost their income position, public and private poverty increased (Euro-Memogroup 01/2018). Reduction of taxes for rich people lead to fewer state resources, with the consequence that welfare states were at risk continuing their former level social protection of the poor and unemployed (Eißel, Rokicka, Leaman 2014).

The consequences of this paradigm change to neoliberalism led to growing dissatisfaction, which in part is soaked up by populist right parties. Nevertheless, there are alternatives. Wallerstein argues that there – in principle – are two ways out of the dilemma. One is the establishment of a non-capitalist, authoritarian world-system that will use force and manipulation rather than steering by market forces. The

second is the change in the value of our civilisation. It is an alternative which is based on two axioms: firstly, recognition that the market spoils democracy, breeds inequality and neglects justice, and secondly, the market works best when it is regulated (Wallerstein 2011). Nevertheless, do we have the time and space to wait till a more plausible and attractive ideology rises to replace market dogmatism, like Sheri Berman (2019) suggests? There are no answers to the question of whether new political concepts will be attractive enough to gain support. Anyhow, we are not allowed to leave the response to the crises to populist movements, but must mobilise effective influence on the public opinion by independent mass media and scientific work which clearly can show that market dogmatism and austerity policy is the misleading way to regain economic stability, employment and shared wealth, and thus contribute to maintaining solidarity and democracy.

In the economic situation of a widening inequality and a weak demand-side it made no sense to invest in production and services. Therefore, the rich intensified their search for alternative investments, creating what Susan Strange (1986) called “casino capitalism.”⁷ The boom of financial investments ended in the bankruptcy of Lehman Brothers and the biggest financial crash since the 1930s. Nevertheless, finance capital succeeded in avoiding huge losses, by urging respective states to finance expensive rescue packages. These bailouts increased budget deficits and overall debt, threatening several European countries with insolvency.

In the context of crisis, state debt had become an object of speculation. Bets were made against economically weak countries, on their possible insolvency or on their leaving the euro-zone. Due to rising risk premiums, interest rates on government bonds in the southern periphery and in Ireland rose to astronomical heights. Public debt rose for predictable cyclical reasons, but also it became more expensive to refinance new borrowing. In the end, the national debts of the crisis states reached their limits. Financial investors were no longer willing to grant loans on affordable terms to heavily indebted European countries.

2.2. Greece as a laboratory for austerity policy

The most prominent country in the debt crisis is undoubtedly Greece as a laboratory for neoliberal strategies. Concerning the impact of speculation on state bonds, we see Greece in the most awful situation: Facing its low ranking by the

7 In 1986, Susan Strange proposed a metaphor for casino capitalism. The author emphasised the growing role of speculative capital in the late twentieth century. Capitalism seemed to her to be like a casino that offers very risky instruments of enrichment. Although inside it remains a peculiar bubble in which it is impossible to control the course of events in any way, it is an attractive alternative to the unprofitable ‘traditional’ means of investment (Strange 1986).

financial rating agencies Greece had to pay incredible high interest rates as risk premium to avoid insolvency of the state. Since late 2009, Greece has been facing an extreme debt crisis. Before, not only Greece but all euro zone crisis states had to pay interest rates of about 5% and below. This changed dramatically mainly in the case of Greece, which was hit by the highest interest rate for its bonds by incredible 48.6%, whilst Portugal and Ireland as the next problematic cases were “only” hit by a maximum of 13.5% resp. by 12.5%. Others crisis countries remained with their interest rates below the 10% mark.

Table 2.1. Harmonized long-term interest rates

Country	March 2015	March 2018	March 2019
Germany	0.23	0.53	0.01
Ireland	0.80	1.01	0.67
Greece	10.52	4.27	3.67
Spain	1.23	1.33	1.12
France	0.51	0.84	0.44
Italy	1.29	1.97	2.69
Portugal	1.74	1.79	1.34

Source: <http://www.ecb.europa.eu/stats/money/long/html/index.en.html>
(accessed: 10.04.2019).

Greece has not been able to find enough investors willing to lend it money to service old debt under the previous conditions. Therefore, in order to get money at all, Greece has been forced to offer higher interest rates to its creditors. The financial markets became even more cautious about Greek debt. If Greece already had problems, then how would it be able to repay even higher obligations in the future. This raised interest rates on Greek debt even further which Greece would have had to offer on new loans if the Euro Community and the IMF had not intervened in early 2010. However, even currently Greece is punished by the international creditors, as the overview on current interest rates (see Table 2.1) indicates.

The European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) followed – as so-called troika – market dogmatic strategies to fight the immense public debt, which should remain below 60% of GDP, following Eurozone stabilization criteria.

The Troika argues that the crisis countries had created cumulative mismanagement due to lack of budgetary discipline, and a high propensity to consume large debts by high wages lost competitiveness. It follows an equally simple euro rescue philosophy: The states should, in particular, cut back the general consumptive government expenditures, i.e. the pensions, the number of public staff, and

Table 2.2. Development of total public debt

Country	Public Fiscal Balance as % of GDP			Public Debt as % of GDP		
	2008	2010	2017	2008	2010	2017
Greece	-10.2	-11.2	0.8	109.4	146.2	176.1
Italy	-2.6	-4.2	-2.4	102.4	115.4	131.2
Portugal	-3.8	-11.2	-3.0	71.7	96.2	124.8
Ireland	-7.0	-32	-0.2	42.4	86	68.4
France	-3.3	-6.9	-2.7	68.8	85.3	98.5
Spain	-4.4	-9.4	-3.1	39.5	60.1	98.1

Source: Eurostat and European Commission, <http://ec.europa.eu/eurostat/> (accessed: 10.07.2015); Bundesbank monthly reports 2/2019, pp. 5*, 6*.

the public welfare.⁸ As the EU Commission stated: “Full and timely implementation of the comprehensive policy package agreed during the mission should ensure further progress towards fiscal consolidation, financial stability and improved competitiveness. In particular, the ambitious medium-term fiscal strategy and the enhanced privatisation programme are expected to keep the economic adjustment programme on track. However, there are significant implementation risks, which, if not properly addressed, would endanger the success of the programme in restoring competitiveness and debt sustainability.”⁹

Each of the meanwhile three aid packages for Greece was accompanied by strict adjustment demands. In addition to requirements to cut pensions and raise sales taxes, measures that the Greek government had already accepted, the Troika memorandum demanded that creditor representatives return to Athens with full access to ministers and a veto over relevant legislation. Last but not least, Greece should sell several harbours and regional airports. “This Eurogroup list of demands is madness,” Nobel laureate Paul Krugman wrote on his blog. “It’s a grotesque betrayal of everything the European project was supposed to stand for.”¹⁰

The ongoing rise of the public debt (see Table 2.2) shows that the forced austerity policy was far away from being successful. Despite its promises, it had negative impacts with Greece reaching an enormous amount of 176.1% debt of its GDP in 2017, followed by Italy and Portugal having summed up their public debt to

8 See among others reports of IMF on Greece: <https://www.imf.org/external/pubs/ft/scr/2013/cr1320.pdf> (accessed: 18.12.2019).

9 EU Commission, The Economic Adjustment Programme for Greece – Fourth Review – spring 2011; http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/op82_en.htm (accessed: 18.12.2019).

10 krugman.blogs.nytimes.com (accessed: 18.12.2019).

131.2% respective to 124.8% of their GDP. Only because of the harsh cuts in state expenditures Greece could reduce its annual new credits down to 0.8% in 2017 from – 11.2% in 2010.

The negative impact on Greece is visible, when expenditures on salaries and pensions for civil servants were shortened from 25.2 billion euros (2009) to 20.5 billion euros in 2014. Furthermore, dismissal encompasses at least of 11.000 civil servants in Greece by the end of 2014. The domestic demand collapsed, about 100.000 companies went bankrupt and the Greeks lost an average of 30% of their income. The country now has around 500 000 families without any labour income. Unemployment exploded to 26.5%, about one million people lost their jobs (Table 2.3).

Table 2.3. Development of general unemployment rates

Country	2007	2008	2009	2010	2011	2012	2013	2014	2017
Ireland	4.7	6.4	12	13.9	14.7	14.7	13.1	11.3	6.7
Greece	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5	21.5
Spain	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5	17.2
France	8.0	7.4	9.1	9.3	9.1	9.8	10.2	10.2	9.4
Italy	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7	11.2
Portugal	9.1	8.8	10.7	12	12.9	15.8	16.4	14.1	9.0

Source: <http://ec.europa.eu/eurostat/> (accessed: 10.04.2019).

The situation is dramatic with the young Greek generation, which paid a very high price. Within the seven years after the start of the crisis their official unemployment rates went up to over 50%, more than doubled comparable the negative trend in Spain.¹¹ Facing the dark outlook half a million of Greeks has already left their country, with 88% of them being academics.

If we look at the impact of austerity measures on the health system of the country, the political mantra, which consequently demands Greece to reduce health costs, only can be described as cynical because of fatal consequences for the population (Stuckler, Basu 2014: 59–71; Kadritzke 2014: 29–31). The International Monetary Fund (IMF) also called for a cap on expenditure in the public health sector. An arbitrary limit should be achieved of a maximum of 6% of the GDP (in comparison to an average in the EU of 9 %!). The health care reform brought savings of bn. 1.5 billion euros but with the consequence that many people lost their access to health services. The impact of the rigid austerity policy on the health of people makes the fatal consequences visible: The infant mortality rate rose from 2008 to 2010 by 40%. The number of suicides in Greece increased from 2007 to

¹¹ <http://ec.europa.eu/eurostat/> (accessed: 10.07.2015).

2012 at 45.4%.¹² It is worth noting in this context, in particular, that Greece up by 2007 had one of the lowest suicide rates in the whole of Europe. However, not only the suicide rate increased during the years of crisis but also the murder rate rose between 2010 and 2011 by almost 45%. However, the deadly austerity is not only reflected in these aspects. The radical cuts of publicly funded health care programs had major impact on – for example – the HIV protection programmes. They were cut down, which is against the backdrop of increased new infections in Greece particularly tragic since 2010–2011, when there was a significant increase (52%) of new HIV infections, mainly of drug users. This impact of austerity policy is particularly in discrepancy with the recommendations of the World Health Organisation, which recommends 200 sterile needles for each drug-addicted person annually. By the budget cuts, however, only about three needles per year were provided. By radical output restrictions on drugs, there was in Greece in phases a lack of antibiotics and insulin. Even the outbreak of certain diseases such as malaria and the West Nile Virus are a threat following the massive cuts in the health system.¹³ The Greek health care system has become so severely limited in its ability to act, that foreign relief organisations that were originally exclusively addressed to refugees now need to help large parts of the Greek population. The case of Greece shows that recession is painful, and austerity can be fatal.

Table 2.4. GDP per capita in PPS EU28 = 100

Country	2007	2010	2017	Country	2007	2010	2017
Ireland	148	130	181	France	108	108	104
Greece	93	84	67	Italy	107	104	96
Spain	103	96	92	Portugal	81	82	77

Source: <http://ec.europa.eu/eurostat/> (accessed: 10.01.2019).

However, this painful impact of the austerity policy was not paid off by the promised recovery of the economy. Just the opposite: “Overall, the austerity policies on the Greek economy were a shock. Consumption of Greek households fell from 2010 by an average of 7.7% annually. Both, the car as well as the housing market collapsed. Investments fell by 19.6% in 2011 and by 15% in 2012 and also resulted in an outflow of deposits from the Greek banking system more than 65 billion euros. All this accelerated the recession and had a destabilizing effect on the political system. (...) The country needs investment to return to a growth path” (Troost 2014).

12 *Leben ohne Perspektiven. Selbstmordrate in Griechenland steigt rasant*, n-tv, <http://www.n-tv.de/ticker/Selbstmordrate+in+Griechenland+steigt+rasant+article11330116.html> (accessed: 9.09.2013).

13 Following OECD statistics in 2011 expenditures for the health care sector were 9.1% des BIP, in comparison Germany: 11.3%, and the OECD average: 9.3%. See: <http://www.oecd.org/els/health+systems/oecdhealthdata2013+frequentlyrequesteddata.htm> (accessed: 18.12.2013).

To sum up, the financial subsidies of the ECB and also from IMF did not support the people or companies in Greece but directly was spent to a high extent for the German and French banks which had given most of the state loans to Greece. Unprecedented cuts in Greece as a condition of the Troika for further loans has already led to a reduction of state expenditures with the effect that many fields were hit negatively, like cutting back pensions, dismissing public servants, reducing health care and closing schools.¹⁴ According to the latest edition of an OECD study, the number of people living in a household with no earned income doubled in Greece, Ireland and Spain. Even low income households have experienced the greatest loss of income in proportion in many OECD countries. Particularly Estonia, Italy, Greece, Ireland and Spain were hit severely. The proportion of people, who reported that they do not always have enough money to buy enough food, rose insufficient. Governments need to take more effective social policies to fight against future crises. The OECD study assumes that social spending continuously will be under the pressure of fiscal consolidation after a short rise in the first years of crisis in many countries.¹⁵

To sum up, austerity policy has had a negative impact on GDP and thus on employment due to the substantial cut in forced government spending. Furthermore, debt has not decreased as assumed, but has increased. If, on the other hand, governments would have used loans instead of reducing debt to finance public investments, the economic effects would have been much better, as a simultaneous calculation by a research group of the Friedrich Ebert Foundation (Germany) has found out. The researches could show that public investment contributes to higher economic growth and to an increasing capital stock (Behrend et al. 2019).

After years of austerity policy, Europe will never be the same. On the 5th of July 2015, the Greek people made their choice in a referendum and denied carrying the burden of the forced harmful austerity measures any longer. It is not surprising that the people in the affected southern EU countries therefore are distressed. There is empirical prove, even by scientists within the IMF, that austerity policy worsens the economic performance. Examining the short-term effects of fiscal consolidation on economic activity researchers of the IMF could show that the changes in fiscal policy motivated by a desire to reduce the budget deficit and not by responding to prospective economic conditions had negative results. They suggest that fiscal consolidation has contradictory effects on private domestic demand and GDP (Guarjardo et al. 2011: abstract).

In the end, the result of the austerity policy is an economic fiasco, a humanitarian catastrophe for millions of poorer Europeans, and politically a significant factor threatening democracy and the very future of the EU. The reaction of Europe's electorates to the insecurity generated by policy-failures at the level of the EU and of member states

14 Closing of 1056 schools and of 800 school libraries and supporting courses; decreasing budget for education: 2009: 2.9% des BIP, 2011: 2.7%, 2015: 2.2%; see general secretary of Greek Teacher's Association OLME Themis Kotsifakis, "Hessische Lehrerzeitung" (HLZ), 1.02.2012.

15 http://www.oecd.org/berlin/soc_glance-2014-sum-de.pdf (accessed: 18.12.2014).

is evident in the deepening distrust of the EU, above all in those countries where the economic crisis has led to a severe social crisis, as in Greece (see Table 2.4). Market dogmatism is, directly or indirectly, critically responsible for this increased distrust and the risk it represents for democracy and solidarity in the EU. The distrust was exploited by extreme right parties. They pretend to promote the interests of the people against the political establishment. The populist message has allowed political parties of the authoritarian right to enter the political mainstream in society.

Facing the facts among others, the head of German Institute of Economy, Berlin, stated: "A look at the catastrophic collapse of the economies and societies of the countries in crisis, and the disappointing development in the whole of Europe and Germany leaves little doubt that the European crisis policy as a whole must be regarded as a failure" (Fratzscher 2014: 12). In an open letter to German chancellor Merkel famous economist wrote: "The humanitarian impact has been colossal – 40% of children now live in poverty, infant mortality is sky-rocketing and youth unemployment is close to 50%. (...) The collateral damage will kill the Eurozone as a beacon of hope, democracy and prosperity, and could lead to far-reaching economic consequences across the world. Today we need to restructure and reduce Greek debt, give the economy breathing room to recover, and allow Greece to pay off a reduced burden of debt over a long period of time. Now is the time for a humane rethink of the punitive and failed program of austerity of recent years and to agree to a major reduction of Greece's debts in conjunction with much needed reforms in Greece. (...) Now is the time for a humane rethink of the punitive and failed program of austerity of recent years and to agree to a major reduction of Greece's debts in conjunction with much needed reforms in Greece".¹⁶

Furthermore, a fair tax system is more than overdue: following a recent study by Tassos Giannitsis and Stavros Zografakis, which was supported by the Macroeconomic Policy Institute (IMK) of the German Hans-Boeckler-Foundation found that between 2008–2012, during the worst of Greece's financial crisis, the tax burden on the poor increased by 337% while the burden on upper-income classes increased by only 9%. The country's poor lost 86% of their income, while the rich lost between 17–20% (Giannitsis, Zografakis 2015).

The economic crisis thus created more social inequalities as the financially weaker social groups, such as public sector employees and pensioners, shouldered the majority of taxes while the richest strata paid very little in taxes. So far the austerity policy with its main focus on cutting back public expenditures is more than inadequate.

What is needed is a recovery program addressed to better technology, f. i. in the future energy (solar!) market, in improving the infrastructure in Greece as important tourism location, huge ship repairing facilities (being close to Suez channel)

16 H. Flassbeck, Th. Piketty, J. D. Sachs, D. Rodrik, S. Wren-Lewis, <http://www.analyzegreece.gr/topics/greece-europe/item/276-th-piketty-j-sachs-h-flassbeck-d-rodrik-s-wren-lewis-austerity-has-failed-an-open-letter-to-a-merkel> (accessed: 11.07.2015).

etc. based on financial aid in the spirit of solidarity and on a fair taxation system. However, this will take time, which we should give the Greek government. Concerning a more detailed strategy, the German trade union (DGB) recommended: “Who states the opportunity to stimulate the economy with credit-financed investment, commits suicide for fear of death. Economies that are forced to always present a balanced budget slow down unnecessarily their growth and also worsen their tax base, while they increase their spending. Anyone planning to reduce its debt through austerity, ultimately only achieved an increase in the national debt.”¹⁷ The trade union’s proposal therefore is: Launching a tax-financed ‘Marshall Plan for Europe’, in which every year additional investment amounting to bn. 260 euros (about 2% of GDP) would be made over a period of ten years. A European Future Fund would issue bonds that will be guaranteed by all participating Member States. The initial capital for the fund would come from a one-time capital levy. Investments required concern sustainable energy production, the reduction of energy consumption, sustainable industries and services, education and training, research and development, modern transport infrastructure, low emission cities and towns, the efficiency of public administrations. It also requires the equitable participation of all groups in society towards a better future.

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3. Rising inequality in Europe

3.1. Introduction

The scale, dynamics, and mechanisms of social inequality are among the basic, classic areas of interest for social scientists. Researchers analyse selected aspects of this issue based on various databases, both in cross-sectional terms, presenting a description of multidimensional differences between individuals and social groups, as well as in a dynamic approach, analysing the mechanisms of creating social inequalities.

The need to monitor the scale and dimensions of inequalities is due to the role and function they play in society. In addition, knowledge about inequalities needs updating because, along with the civilisation changes that are typical of late capitalism (e.g., globalisation, change of power relations, migration, change of stratification systems, the emergence of new technologies), new social divisions emerge, taking the form of inequalities.

It should also be emphasised that the discussion about social inequalities is always, implicitly or explicitly, implicated politically and axiologically, and individual authors present different theoretical, methodological and ideological orientations when explaining the causes and consequences of inequalities. In addition, inequalities are defined in different ways, from negating or limiting an individual's life chances to structural approaches that consider socioeconomic living conditions.

This chapter focuses on economic inequalities (income disparities, poverty, unemployment, and real wage development) in European Union (EU) countries. Using the available data and literature, we try to answer three questions:

How unequal is the EU in three dimensions: within member states, among member states, and within the EU as a whole?

Which income groups in each Member State are the main beneficiaries of economic growth?

What are the main causes and consequences of increasing inequalities? In particular, does the increase of inequality threaten democracy as a result of contributing to the rise of support for extremist views, populism, and authoritarian governments?

First, we will present how unequal the European Union is in the light of data from household surveys. Then we will present data that uses national accounts and tax returns to correct the insufficient representativeness of rich people and the underestimation of capital revenue in the survey data.

3.2. Description of inequality in Europe

Eurostat, the EU's statistical office, has been publishing official data on inequality and poverty since 2005, using the Gini Coefficient, the S80/S20 indicator and the at-risk-of-poverty rate.¹⁸ In 2017, the Gini coefficient for the EU-28 was 30.7%.¹⁹ The highest income disparities among the EU Member States (with a Gini coefficient of at least 35% – as shown in Figure 3.1) were recorded in Bulgaria and Lithuania. The second group of countries, with a Gini coefficient above the EU-28 average (in the range of 31% – 34.5%) included Estonia, Italy, Romania, the United Kingdom, Greece, Portugal, Spain and Latvia. Lower on the list were countries where income was more evenly distributed: Slovakia, Slovenia, the Czech Republic, Finland and Belgium, as well as Iceland and Norway, where the Gini coefficient was 26% or less.

Income inequalities within countries may also be illustrated through the income quintile share ratio.²⁰ High values for this ratio suggest that there are considerable disparities income inequality for the entire European Union had been falling until 2009. In 2010 it reached 30.5, increased again to 31% in 2014 and has been falling slowly since then. The increase in inequalities before 2010 was largely due to the accession of Romania and Bulgaria, two relatively poor and populated countries, to the Union in 2007. In general, as calculated by Michael Dauderstädt and Cem Kelttek (2017), inequality for the entire Union in the EU-27 is much higher than inequality in the EU-25.

18 The poverty rate is a measure of relative poverty. This is the percentage of the population that earns less than 60% of the median income.

19 Eurostat data for the entire EU is calculated on the basis of average national rates, weighed by population.

20 The income quintile share ratio is calculated as the ratio between the income received by the top quintile and the income received by the bottom quintile.

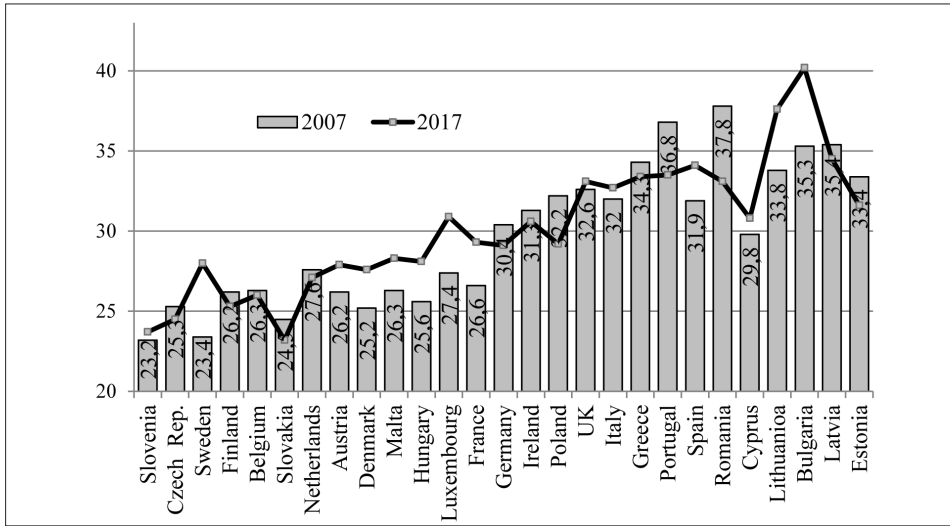


Figure 3.1. Gini-coefficient

Source: <http://ec.europa.eu/eurostat/> (accessed: 10.01.2019).

As Figure 3.1 illustrates, increases and decreases in income inequality between EU countries vary widely. Over the past 10 years, a significant increase in the Gini coefficient has taken place in Bulgaria, Sweden, Lithuania, Luxembourg, Denmark, Hungary, France, Malta, Spain, Austria, and definitely smaller increase in Cyprus and Italy. A large decrease was recorded in Romania, Portugal, Poland, Estonia, as well as Germany and Greece. In the third group of countries there was a very slight decrease or a slight increase in inequality within 2%.

The presented data shows that the increase in inequality occurred not only in countries conducting liberal economic policy, but also in countries perceived as social democratic (Sweden, Denmark), both in richer and poorer, democratic and authoritarian countries.

Income inequalities within countries may also be illustrated through the income quintile share ratio.²¹ High values for this ratio suggest that there are considerable disparities in the distribution of income between upper-income and lower-income groups.

The official Eurostat figure for the S80/S20 ratio for the EU continues to vary around the value of 5. In 2017, it was 5.1; ten years earlier, it was 5. This signifies that, on average, the income received by the top 20% of the population with the highest incomes was more than five times as high as the income received by the 20% of the population with the lowest incomes. As with the Gini Coefficient, after a long period of stagnation, the S80/S20 ratio for the entire European Union also starts to fall slightly. As Figure 3.2 illustrates, there were wide inequalities in the distribution

²¹ The income quintile share ratio is calculated as the ratio between the income received by the top quintile and the income received by the bottom quintile.

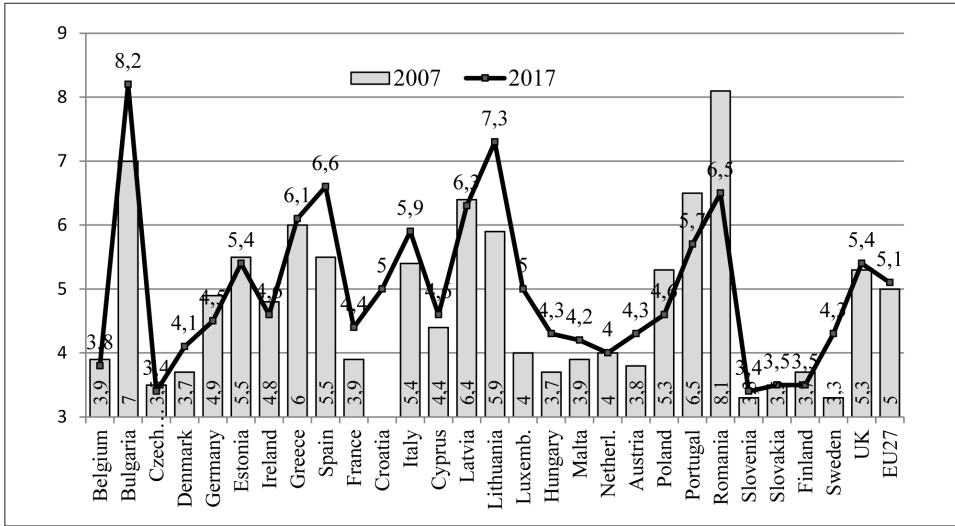


Figure 3.2. Income quintile share ratio (S80/S20)
Source: <http://ec.europa.eu/eurostat/> (accessed: 10.01.2019).

of income between countries in 2017. The income inequalities share ratio varied considerably across the EU Member States, from 3.4 in Slovenia and the Czech Republic to more than 6.0 in Greece, Latvia, Romania, and Spain, and more than 7.0 in Lithuania, peaking at 8.2 in Bulgaria.

Data on economic inequalities are important for estimating relative poverty. The extent and depth of poverty vary depending on the distribution of economic resources. The relative poverty rate is the proportion of people in the population that have an income lower than 60% of the median. In this sense, in 2017, 22.4% of Europeans were poor. In seven years, the relative poverty rate coverage across the Union fell slightly.

However, the figures calculated for the EU-28 conceal considerable variations across the EU Member States (see Figure 3.3). In nine Member States, namely Romania (23.6%), Bulgaria (23.4%), Lithuania (22.9%), Latvia (22.1%), Spain (21.6%), Estonia (21.0%), Italy (20.3%), Greece (20.2%), and Croatia (20.0%), one fifth or more of the population was viewed as being at risk of poverty. Among the EU Member States, the lowest proportions of people at risk of poverty were observed in the Czech Republic (9.1%) and Finland (11.5%).

Over the past seven years, the percentage of citizens at risk of poverty increased in seven countries (Luxembourg, Greece, the Netherlands, Spain, Italy, Estonia, and Cyprus), with a relatively large increase in Greece and Luxembourg, and a clear decline in Latvia, Poland, Bulgaria, and Romania.

The systems of social benefits provide protection against poverty and social exclusion. In 2017, social transfers reduced the at-risk-of-poverty rate among the population of the EU-28 from 25.6% before transfers to 16.9% after transfers, thereby lifting 8.7% of the population above the poverty threshold.

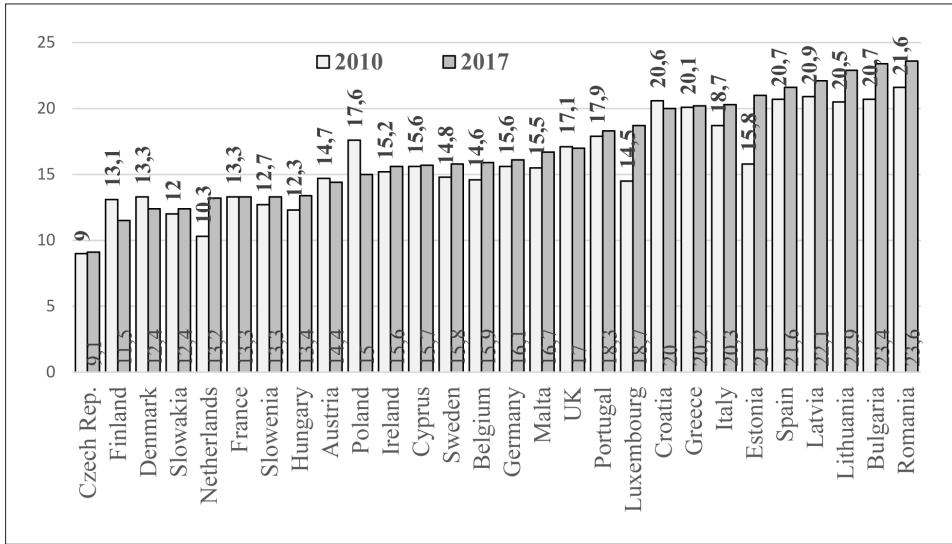


Figure 3.3. Poverty in the EU 2010–2017 after social transfers
Source: <http://ec.europa.eu/eurostat/> (accessed: 10.01.2019).

The impact of social transfers (excluding pensions) on poverty reduction varied across countries. Looking at the impact in relative terms, half or more of all people who were at-risk-of-poverty in Finland, Ireland and Denmark moved above the threshold as a result of social transfers. At the other end of the scale, in countries like Greece, Romania, Italy and Bulgaria, the impact of social benefits moved, at most, 20% of people above the poverty threshold (see Figure 3.4) – in Greece (15.8%), Romania (16.61%), Italy (19.4%) and in Bulgaria (19.8%).

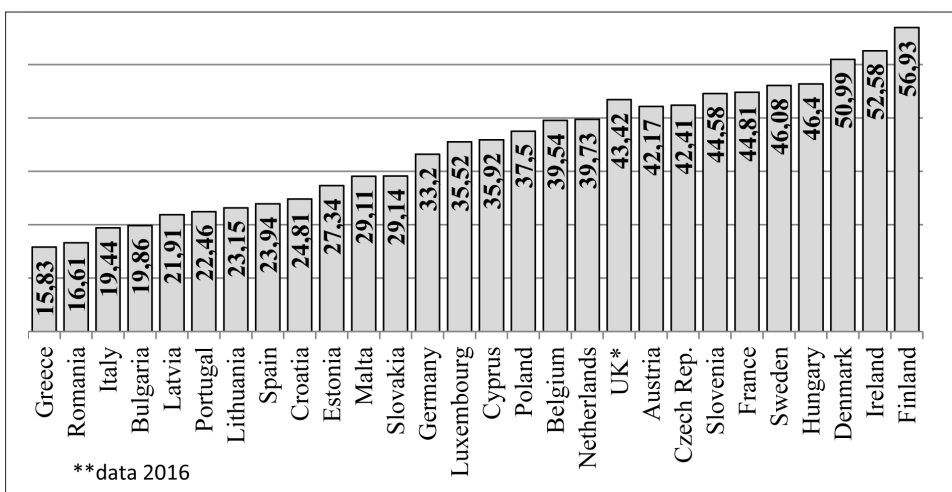


Figure 3.4. Impact of social transfers (excluding pensions) on poverty reduction 2017
Source: <http://ec.europa.eu/eurostat/> (accessed: 10.01.2019).

Economic inequalities are not limited solely to disparities in income distribution between higher- and lower-income groups, property inequalities, or the risk of poverty. They also include access to the labour market. Unemployment is seen as the main source of poverty, and for many unemployed, it means living below the poverty line.

Data on unemployment in EU countries published by Eurostat show that the lowest unemployment rate in 2017 was in the Czech Republic (2.9%), and the highest in Greece – 21.5%. The number of unemployed people is also very high in Spain (17.2%), and very low in Germany, Malta, Hungary, and the UK (see Figure 3.5).

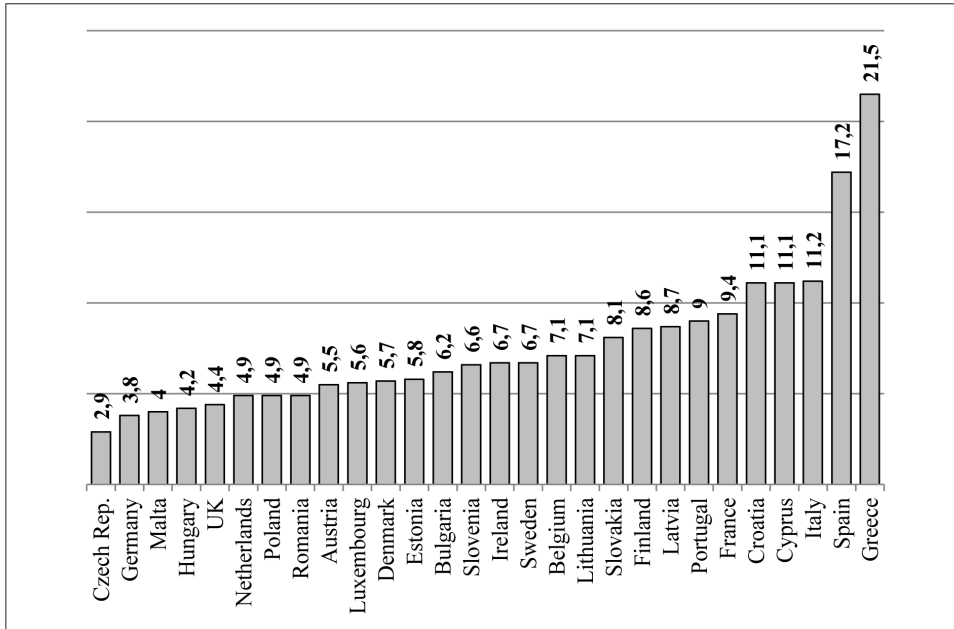


Figure 3.5. Unemployment in the EU – 2017

Source: <http://ec.europa.eu/eurostat/> (accessed: 10.01.2019).

An important reason for poverty and social exclusion is not only the lack of work but also low earnings from work.

The data (see Figure 3.6) show that in high-income European countries, there is an increasing low wage sector despite the economic recovery and falling unemployment. In Europe (excluding Eastern Europe), real wage growth declined from 1.6% in 2015 to 1.3% in 2016, and it further declined to about zero in 2017, owing to lower wage growth in countries including France and Germany, and declining real wages in Greece. In Eastern Europe, by contrast, real wage growth recovered from its 4.9% decline in 2015 and continued to increase thereafter, from 2.8% in 2016 to 5.0% in 2017.²²

²² Real wage growth was calculated using gross monthly wages, rather than hourly wage rates, which are less frequently available, and fluctuations, therefore, reflect both hourly wages and the average number of hours worked.

Over almost a decade, the highest increase in real wages occurred in Bulgaria (7.3%), Romania was second (5.2%), and Poland third (2.8%) (i.e., after taking into account the expected inflation in each of these countries). In Western European countries, real wage increases were definitely lower (below 1%). The countries with a real fall in salaries are Greece – a decrease of 3.1%, Italy – a decrease of 0.6%, the UK – a decrease of 0.5%, and Spain – a decrease of 0.3%.

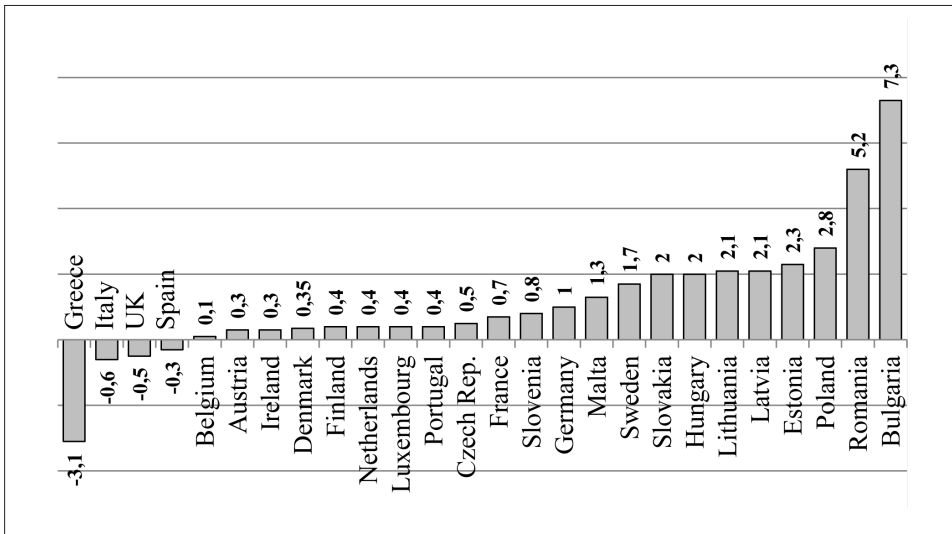


Figure 3.6. Real wages development – 2008–2017 (%)
Source: ILO, Global Wage Report 2018/2019: 217f.

A clear increase in wages in the economies of Eastern European countries was caused by the decisive actions of the governments in relation to the minimum wage, on the one hand, and on the other, by the situation on the labour market, which is increasingly becoming an employee's and not an employer's market.

Slow wage growth in high-income countries in 2017 has been the subject of intense debate. Attempts have been made to explain why real wage development is so low despite GDP growth and falling unemployment. The following possible explanation were pointed out: the intensification of global competition, the increase of low wage sectors, and above all, the decline in the bargaining power of workers and their trade unions.

Summing up the previous considerations, if we consider the issues of economic inequality in EU countries, and more precisely, dimensions such as income disparities, poverty rate, unemployment rate and real wage development, based on Eurostat and ILO data, we can see that countries above the average present more coherent benchmarks than countries that have achieved the highest values in the distinguished dimensions.

Table 3.1. Ranking of countries according to indicators: Gini-coefficient, at-risk-of-poverty rate, unemployment rate and real wage development (2017)

Country	Gini-coefficient Coefficient	At risk of poverty	Unemployment	Real wage development
Belgium	5	13	17	22
Bulgaria	28	27	13	1
Czech Republic	3	1	1	14
Denmark	7	7	11	19
Germany	12	10	2	11
Estonia	19	17	12	4
Ireland	16	18	15	20
Greece	23	26	28	26
Spain	25	22	27	23
France	14	5	23	13
Croatia	15	21	24	.
Italy	20	24	26	25
Cyprus	17	19	25	.
Latvia	26	23	21	5
Lithuania	27	25	18	6
Luxembourg	18	14	10	16
Hungary	10	20	4	7
Malta	11	11	3	10
Netherlands	6	4	6	17
Austria	8	9	9	21
Poland	13	12	7	3
Portugal	24	16	22	15
Romania	21	27	8	2
Slovenia	2	6	14	12
Slovakia	1	3	19	8
Finland	4	2	20	18
Sweden	9	8	16	9
United King- dom	22	15	5	24
	High level of inequality, poverty and unemployment and low/negative real wage development			
	Moderately low inequality, poverty and unemployment, and relatively high real wage development			
	Low inequality, low poverty, and/or low unemployment rates			

Source: authors' own compilation.

In Table 3.1, on a scale from 1–28, the countries are ranked from lowest to highest regarding inequality, poverty, and unemployment, according to the Gini-coefficient. The situation is the reverse for the ranking of countries according to real wage development, where 1 is the country with the largest fall in wages, and 28 is the country with the highest wage increase.

The group of EU countries with a relatively high level of inequality, poverty, and unemployment, and low or negative real wage development, includes Greece, Spain, Italy, Portugal, and Ireland, which are positioned close to the middle of the ranking. Three countries – Germany, Malta, and Poland – are above the European average in all analysed dimensions (moderately low inequality and poverty, low unemployment, and relatively high real wage development).

In other cases, we see quite diverse settings. The following model dominates in this group: less inequality, less poverty, and low unemployment rates, and almost zero or a small increase in wages. It is typical for the Czech Republic, Denmark, the Netherlands and Austria. Indicators for Finland and Belgium follow a similar pattern (low inequality, poverty, and real wage development, and high unemployment) and for Estonia and Romania (high inequality and poverty, low unemployment, and real wage development). An interesting case is Great Britain. In no other country are high inequality and moderate (at a medium level) poverty accompanied by high unemployment and very low levels of real wage development.

Yet another set of indicators characterise France. Its population has a medium level of inequality and wage development, but it stands out from the other countries due to its low level of poverty risk, despite high unemployment.

These systems of dimensions of inequality should be treated as a contribution to further in-depth research and analyses. What is particularly interesting is the question about the causes of such inequality distributions and their economic, social and political consequences, as well as the question regarding the extent to which inequality, poverty and unemployment, together with real wage increases or decreases, threaten Europe's social and political cohesion.

Eurostat data for the entire Union reveal that after a period of stagnation, since 2015, there has been a slight fall in inequality. The slight decline in average intra-country inequality, and the economic growth in many poorer member states, are indicated as the reasons for this decline (Bruegel Institute). It is also due to the fact that, in contrast to wage earners, the rich and capital owners lost income because of their engagement in speculative investments and were hit by the financial crisis of 2008. As incomes in Poland, Romania, and other Central and Eastern Europe (CEE) countries were growing significantly faster than in Western Europe, inequalities in the Union as a whole decreased slightly. It is clear that incomes in CEE countries are still below the EU average; however, their quicker growth means that the income gap between the poorest and richest in Europe has somewhat narrowed.

Despite this positive trend, it is pointed out that the decline in inequality and poverty rates is not enough to counteract trends that threaten the social and political

cohesion of the Union and democratic governance. When describing the scale and types of economic inequalities, one cannot ignore the ongoing discussion on measuring the distribution and dynamics of inequality. Some economists claim that these figures are either overstated or understated, and even unreliable.²³ The literature on the methodology used in income research is extensive, and here we will focus only on a few selected threads.

Firstly, some researchers believe that income is not the best measure of inequality in well-being; secondly, the multiplicity and diversity of data obtainable from various sources poses a challenge for methodologists to harmonise them; and thirdly, the data most often collected using surveys do not apply to individuals but to larger groups, such as households, families or tax entities.

French economists Thomas Blanchet, Lucas Chancel, and Amory Gethin, from the World Inequality Lab, indicate in the report “How Unequal is Europe?” that difficulties in measuring income distribution are not the result of a lack of data per se. “In fact, there is a fair amount of data available, at least since the 1980s. The problem is that these data are scattered across a variety of sources, taking several forms, using diverse concepts and different methodologies. In the end, we find ourselves with a disparate set of indicators that are not always comparable, are hard to aggregate, provide uneven coverage, and can tell conflicting stories” (Blanchet et al. 2019: 2).

On the other hand, Dauderstädt and Keltek (2017) indicate the methodological consequences of the EU statistics income, which is defined as household income based on a household survey (SILC – the EU Survey of Income and Living Conditions) and measured in PPP (Purchasing Power Parities). As a result of using such a methodology, income is usually overestimated in poorer member states, since many things are cheaper there. Moreover, estimating the increase in income inequality based on data from household surveys lowered the actual level of inequality due to underrepresentation of the richest people in the samples.

Likewise, when we measure the distribution of income by different indicators, caution is also required. Indicators like the Gini Coefficient and the S80/S20 ratio measure relative inequality. Other indicators, like standard deviation, look at absolute inequality. In a broader sense, it means that the choice of indicator is not value-free.

The methodological weaknesses in measuring economic inequalities that should be recognised do not undermine the fact that an increase in income inequalities in many countries is taking place. The research from Blanchet et al. shows that the extent of inequality among and within European countries is greater than it appears from Eurostat’s findings. The basis of their conclusions is their own dataset on pre-tax and post-tax income inequalities in Europe from 1980 to 2017,

23 Differences in various definitions of ‘income’ and the consequences of their choice are described in: Kennickell (2009). A guide explaining data on income and economic inequalities can be found in Stone et al. (2014).

created based on surveys, tax data and national accounts, combined with their own novel, harmonised methodology.

Blanchet et al. analysed the distribution of income in 38 European countries. The main conclusions are as follows. First, income inequalities are deepening in Europe. On average, in the 38 European countries for which they collected comparable data, 10% of the highest earners get 34% of the net national income. In 1980, this share was 29%. They go on to say that “per adult income in Eastern Europe is about 35% lower than the European average today. This is the same value as in the early 1980s, before the fall of the USSR. In Southern European countries, per adult average incomes have been declining relatively to the continental average since the 1990s and are now 10% below the average. Northern European countries were 25% richer than the average in the mid-1990s and are now 50% richer” (Blanchet et al. 2019: 4).

Regarding the question of whether European integration has contributed to reducing inequalities between the Member States, the authors of the report answer that European integration, as a result of the enlargement of the Union, in particular, the accession of the former communist countries, is in itself associated with a gradual increase in income disparities across EU members. The EU’s cohesion policy, access to the common market and new technologies, as well as economic reforms, are expected to level this disproportion. Another question is why income levels in Eastern European countries remain significantly below the level in EU-15 countries despite much higher growth rates in these countries after 2004, and high (in proportion to GDP) transfers from the EU.

Building on the information that the majority of net beneficiaries to the EU budget have a negative net foreign income (NFI) (of 3–6% of their GDP), and the net payers to the EU budget are constantly characterised by positive NFI transfers (of 2–3% of their GDP), the Blanchet et al. suggest that a relatively large proportion of outflows from Eastern European countries are attributed to Western European countries, which are the main direct foreign investors in Eastern Europe. Eurostat analysis shows that if only Western European countries got half of these transfers, this would be enough to offset the net contributions of wealthier countries to the EU budget.²⁴

The second conclusion of the report relates to within-country inequalities. The data quoted in the report documents that since 1980, 10% of the highest-paid people in almost all countries lie to the left of the 45-degree line, implying that in all countries (except Belgium), the top 10% shares have increased over the period. The figure also reveals significant differences in national trajectories. In countries closer to the 45-degree line, such as France, Iceland or Spain, inequalities have only increased moderately. In Bulgaria, Poland, or Ireland, on the other hand, the top 10% income shares have increased much more” (Blanchet et al. 2019: 29). The above changes are shown on Figures 3.7–3.8.

²⁴ EU Commission data for 2010 FDIs within Europe: <https://tinyurl.com/yanz62hl> (accessed: 10.12.2010).

researchers note that the differences also widened after 2000. Brzeziński (2017) finds the reasons for this increase in the rise in entrepreneurial income, which clearly grew after the introduction of the tax and flat tax reforms in 2004. Other reasons mentioned are globalisation, low competition, and high profit margins.

The French economists' use of a methodology to measure inequality that was different to Eurostat's brought results that contradicted official statistics. As a reminder, according to Eurostat data, the highest inequalities are noted for Bulgaria (with a Gini-coefficient of 40.2), followed by Lithuania (37.6) and Latvia (37.6). Eurostat data also show that income inequality in Poland is decreasing. Between 2005 and 2017, a significant reduction in income inequality and a decrease in the Gini-coefficient from 35.6% to 29.2% were observed. In 2017, the EU average was higher by 1.5%.

The new method of analysing income inequality that combines survey data with economic indicators and data from tax returns has obvious advantages, as well as disadvantages. The survey data involve net disposable income (after personal income tax), while tax data refer to gross income (before tax). Therefore, they do not include social transfers, only pensions. The actual level of inequality (regarding the actual amounts disposable) is, therefore, different and difficult to compare across EU countries due to differences in tax systems and social policies.

Estimates of income inequality measures, based solely on survey data, can significantly underestimate actual figures. In turn, calculations based on tax data may overestimate the results (Brzeziński 2017). From this point of view, the main problem of the French research seems to be the comparability of data from different countries. Estimating their reliability is difficult due to the occurrence of phenomena such as tax optimisation²⁵ and the black economy.

The difficulties associated with harmonisation and comparability of data underlying the measurement of income inequality should not discourage further attempts, however. Conflicting, questionable results should be verified in subsequent studies. Technological opportunities make it possible to create extensive databases and develop methodologies. Accurate measurement is a basic condition for understanding income inequality, as well as its social costs and benefits.

3.3. Causes of the inequality growth

The above description of income inequalities in the European Union (carried out mainly on the basis of Eurostat data) shows that inequalities are increasing in many member states, and if there is a decrease, it is small. Obviously, the societies of

25 Tax optimisation, in a negative sense, involves using legal loopholes, transferring profits to tax havens, and using intra-corporate prices to understate reported income in order to avoid paying taxes.

EU member states are unequal not only due to the distribution of income but also in many other dimensions, such as wealth (see: Blair, Wallman 2001; Stiglitz 2012), health (Lynch, Smith, Kaplan, House 2002), life expectancy (Wilson, Daly 1997), political participation (Armingeon, Schädel 2015), ability (Sen 1992) and education (e.g., Neckermann, Torche 2007). Inequalities in these dimensions often overlap and interact with trends within society, and at the same time, they affect the individuals' status and life chances. There are more and more publications on these connections and intersecting influences of various dimensions of inequality, representing sociological and political science approaches, in addition to economic analyses.

The complexity of inequalities and their various manifestations, causes and effects, make models that explain inequalities increasingly complex, and it is increasingly difficult to verify them based on empirical data. Variables such as cultural factors or technological progress are hardly operational.

The most important cause of the increase in inequality, which all the other causes indicated in the literature are associated with, is the transformation of capitalism and the extent to which the welfare state can compensate market processes. Classical theories of social inequality that refer to industrial societies focused on the vertical nature of social inequality. It was a function of the individual's relationship to work or capital and the resulting benefits in the form of money income, interest, rent and profit.

As Machin and Stehr stated: "Observations about changes in the basis of inequality in contemporary society do exist, but in the majority of cases, vertical social hierarchies are effectively retained. In so-called multidimensional theories of stratification (cf. Barber 1968), the dimensions usually identified as stratifying individuals, such as occupation, income, occupational prestige and education, are for the most part viewed as derivatives of class. Descriptions of new forms of social inequality, therefore, amount to a further elaboration and evolution of the logic of the industrial social structure and a perpetuation of its inherent contradictions (cf. Stearns 1974: 17)" (Machin, Stehr 2016: 21).

The transformation of a capitalist society is described by features such as globalisation, networking, increased risk, consumption, and McDonaldisation. All these characteristics refer to the qualitatively new economic, socio-cultural and socioeconomic structures that dominate the modern world, which emerged at the end of the twentieth century and that are still evolving. The basis of its functioning is economic globalisation, which has led to the emergence of a global market for goods and services as a result of merging national economies into one system. In the economic sphere, it is constituted by processes such as:

- the creation of a global financial market, deregulation and liberalisation of banks;
- the institutionalisation of international trade;
- the domination of the global economy by transnational corporations (TNCs);
- the geographical disjunction of the value-added chain on a global scale;
- the rapid increase in FDI (Foreign Direct Investment);

- rapid technological progress (automation, robotisation, and the development of artificial intelligence);
- the creation of the fourth sector of the economy;
- McDonaldisation;
- the redefinition of the state's role: less regulation, less redistribution (Flejterski, Wahl 2003).

How do the above-mentioned processes affect increase the income inequality?

The development of the financial market and the increasing capital employed in financial institutions promotes income inequalities. "Detachment of the financial sector from the real economy sector means that high profits achieved through financial transactions are speculative and short-term in nature, and the investment risk incurred is camouflaged by various hedges" (Woźniak 2013: 229). Financial speculation and innovation allow quick enrichment of entities associated with the financial sector.

The rapid development of finance contributes to inequality, including (1) through the wide availability of credit, which can be used by high-income people to increase wealth, mainly by increasing investment returns; (2) through the expansion of stock markets. People with high incomes always have a better chance of owning shares than people with lower incomes and more benefit from dividends from shares and profits from the capital market; (3) and through the functioning of the capital market, based on principles such as (a) value for stakeholders, which means paying out as much profit as possible to shareholders, (b) excessive pressure on the short-term perspective (earning on short-term fluctuations in share prices) and (c) financing economy and securitisation, which means the autonomy of the financial sector in relation to the traditional function of allocating savings and its separation from the sphere of the "real" economy. And although the latter is a place where added value arises, the financial market is becoming the main source of profits. Thus, it goes beyond the traditional role of supporting the development of manufacturing companies.

Deregulation of the sector also increases income inequality by increasing salaries for already high-paid financiers (Tanndal and Waldenström 2017). Moreover, the experience of recent years shows that the costs of financial crises are ultimately borne by entities not associated with the creation of *casino capitalism*. As Galbraith (2007) predicted, in the short term, the effects of the financial crisis are severe for banks, but in the long run, income inequalities will increase in the whole of society. As a result of the transfer of the financial crisis to the sphere of public finances, there may be limited investment in human capital, a drastic reduction in middle-class assets, government subsidies for the financial sector, and a lack of control over the sector.

It should be emphasised here that an effective and properly regulated capital market is an important element in building the economy and increasing its efficiency. Keeley writes: "To be sure, financial sectors are essential to ensuring that capital and resources flow from those that have them to those who need them and to help

balance risk with reward. But there is increasing evidence that their usefulness diminishes at a certain point or when they favour certain activities over others – for example, providing credit rather than facilitating financing through stock markets. Not only are such financial sectors bad for inequality, they're also bad for growth – in effect, they deliver a larger slice of the benefits of economic growth to a small number of high earners, many of whom work in finance itself” (Keeley 2015: 59).

A re-structuring the foundations of the capital market in three key areas: domination of shareholder interest, short-term logic and financialisation of the economy is needed.

The existing institutional environment is favourable for the expansion that banks have experienced. The institutionalisation of international trade as a result of the establishment of three major organisations – the World Trade Organisation (WTO), the World Bank (WB) and the International Monetary Fund (IMF) – means that the global market, instead of being a mutually beneficial exchange platform, becomes a tool of exploitation. According to many critics the activities of these organisations primarily serve the interests of powers, private corporations and investment funds, and through the imposed shape of reforms, they secure operations to save their capital located abroad (Haližak, Kuźniar, Simonides 2003: 17).

Stiglitz (2004) points out that the IMF imposes conditions on the granting of loans to restore the balance of payments, which involve making major changes in economic policy. It forces countries in crisis to quickly rebuild currency reserves and budget surplus (e.g., by raising taxes, reducing budget spending and privatisation, even of strategic and socially important areas such as social security, energy, education and water supply) at the expense of causing severe recession and impoverishing society as a result of the restrictive monetary and fiscal policy applied.

Apart from the banks, the main actor in global economic processes is transnational corporations, who are responsible for both positive and negative aspects of these processes. As a result of liberalising the flow of goods, services and capital across national borders, and the development of communication and transportation methods, the role of transnational corporations in the modern economy is increasing. The assets of many companies exceed the GDP of medium-sized countries, and corporations are responsible for 80% of global FDI and 70% of global trade. Due to the market and political power of corporations, production decisions affect the economy of the whole country – they determine the level of employment, the level of market monopolisation or the exchange rate, and they put the state under pressure to downsize taxes on profits with the threat of exit options. In the 1990s, the impact of transnational corporations²⁶ on income inequality was particularly evident in Southeast Asia, where the value of these businesses' foreign direct investment increased sevenfold (Liberska 2002).

26 A transnational corporation (TNC) is “any enterprise that undertakes foreign direct investment, owns or controls income-gathering assets in more than one country, produces goods or services outside its country of origin, or engages in international production” (Biersteker 1978: xii).

The release of the exchange of goods and capital between developed and developing countries caused negative effects, such as income polarisation, the abuse of a dominant position, exploitation of the labour force and deliberately locating production in poor countries. It should be emphasised that the negative implications of the global functioning of corporations are not only the domain of emerging markets. In Europe, the income of highly qualified employees in large corporations increased, while the wages of employees employed in traditional sectors of the economy decreased. The result of the internationalisation of competition is that employees had to accept a fall in salary, transfer to jobs requiring fewer qualifications, or even job loss. In many countries, this state of affairs has caused an increase in social frustration.

The geographical disjunction of the value-added chain on a global scale has become a permanent element of the global economic landscape. Fragmentation involves dividing previously integrated operations into geographically dispersed production blocks. Recognising the positive aspects of the inflow of FDI, such as employment growth or technology transfer, governments are trying to offer more favourable investment conditions compared to other countries (e.g., Sinn 2003). In order to attract and retain business, governments use the “race to the bottom” tactic to deregulate the business environment or reduce tax rates by sacrificing quality standards and employee safety, violating regulations, or paying low wages. In conditions of increasing competition across geographical areas, nations, or companies in a given trade and production sector, the race to the bottom means pushing for the lowest wages that can be paid for the given workforce.

Authors who emphasise the “dark side of globalisation”, such as Joseph Stiglitz (2002, 2004), claim that the chase for ever-cheaper sites for manufacturing is causing rising inequality (race to the top) and low-wage misery. Globalisation is also responsible for reducing redistributive activities and shrinking social security systems. The two most important consequences of the added value chain dysfunction for income inequality are the weakening of the function of the state, which due to tax competition minimises its role in modelling social and economic cohesion, and the enrichment of the managerial staff of the largest companies.

As mentioned earlier, Foreign Direct Investments (FDIs) are considered safe and are the favoured form of international capital flows, in addition to being a source of financing for restructuring and development. However, research shows that the impact of foreign capital on the functioning of the economy of the host country, including the creation of income inequalities, does not allow such unambiguous conclusions to be drawn. In a country attracting FDIs, they worsen income distribution mainly by raising wages in the relevant sectors compared to traditional sectors (Girling 1973; Rubinson 1976; Bornschier, Chase-Dunn 1985; Tsai 1995). As a result of the competition created by FDI, domestic companies collapse and unemployment increases. In addition, new jobs are created in regions with the highest saturation of foreign investments, not in regions with a particular risk of unemployment, which contributes to deepening devel-

opment differences. Foreign investment in peripheral regions, especially those related to the transfer of innovation, encounter obstacles such as the problem of technology absorption by local entrepreneurs and high costs for investors (Zachorowska 2006).

After the change of the economic system in the countries of Eastern Europe, a huge sales market was opened, which largely favoured the inflow of capital into fields of low technology. It seems that this trend has continued, and in the case of industrial investments, it leads to the advantage of capital absorption over production (Weresa 2002). A significant number of foreign enterprises have implemented innovations only at the level of adapting enterprises to the sale of final products. For many foreign investors, the main motive behind their activities is the sale of the parent company's products on the local market.

A factor with particularly clear implications for income inequality is rapid technological progress (automation, robotisation, and the development of artificial intelligence). Its role in increasing income inequality is that it increases the demand for qualified work more than for low-skilled and unskilled jobs. The pay bonus for qualifications and education increases as long as the supply of qualified employees does not grow quickly enough (e.g., Acemoglu 2000). This process is reinforced by the globalisation mechanisms described elsewhere (e.g., OECD 2011: 24–26), which increase both competition in the unskilled worker segment and unequal access to growing education (e.g., Gregorio, Lee 2002). Other major risks that rapid technological progress creates are disparities in the distribution of income between regions that are poorly equipped with modern infrastructure and suitably qualified workforce and those that do not have these problems.

Technological progress increases the demand for highly competent employees and services. As a result, the workforce employed in the information and high technology sectors is growing, while employees in traditional sectors are constantly decreasing. Changes in the employment structure, which involves the transfer of labour resources to the sphere of advanced services, and which are largely targeted at enterprises (banking services, insurance, consulting services, advertising, IT services and telecommunications techniques, etc.) leads to the formation of a new social structure – the fourth sector of the economy.

According to Richard Florida, the industry-agriculture-service triad does not explain real, contemporary economic phenomena, and it also does not facilitate making optimal investment decisions. Florida is best known for his concept of the creative class. This group of people works mainly for the service sector and is a metropolitan phenomenon. The creative class drives economics, is deeply rooted in it, and changes it. Florida claims that the ability to create new ideas and better methods of production affects the raising of living standards and increased productivity, but it also increases inequality, deepening segregation and deteriorating the middle class (Florida 2002, 2005, 2017).

Many countries are currently undergoing such structural changes in employment in rapid acceleration. Eurostat data document a clear shift in employment to-

wards services. In 2018, three out of four people employed in EU countries worked in services. Even 17 years ago, this proportion was 2:3.

“The shift towards a service economy is a long-term trend that was already observed in the EU in the second half of the 20th century. Employment in services accounted for 74% of total employment in the EU in 2017, compared with 66% in 2000, while employment in industry decreased from 26% in 2000 to 22% in 2017 and agriculture halved from 8% to 4%. As regards value-added, services generated 73% of total value added in 2017, industry 25% and agriculture 2%.”²⁷

The service sector in the European Union countries is becoming more and more diverse, not only due to the type of services provided but also because of the revenues generated. Analysis of wage inequalities in individual branches of the service sector conducted on a European scale shows that in advanced services, the level of remuneration is high, and the relative variability of earnings is small. In turn, in areas such as scientific, technical, professional and educational activities, wage disparities are higher. In traditional service industries, i.e., accommodation and gastronomy, trade and repair, supporting and other services, a low level of earnings and significant wage disparities between countries were observed.

Another phenomenon related to the creation of income inequalities in the era of globalisation is McDonaldisation, which is identified with the uniformity of social life and the standardisation of products and services offered in order to maximise efficiency. According to Georg Ritzer, in every sector of society, increased emphasis is placed on efficiency, predictability, calculability (quantitatively), the replacement of humans by nonhuman technology (man from the subject becomes the contractor of the subject) and control over uncertainty.

Based on the theory of rationalisation and the ideal type of Max Weber’s bureaucracy, the developed model assumes that rationality and efficiency are the most effective ways to achieve goals. Despite its advantages, this model, adapted to the reality of the world of the 21st century, suffers from the irrationality of rationality. Weber called the irrationality of formally rational systems “an iron cage of rationality”.

The radical rationalisation of economic processes and the introduction of standard procedures leads to the objectification of both producers of goods and services, as well as their recipients, dehumanising employees and blocking creativity. Some call this process a form of 21st-century slavery. A McJob is fast, efficient and, for low pay – employees work like robots, following strict rules, mechanically performing

27 Among the Member States, the share of agricultural employment in 2017 was highest in Romania (24% of total employment), Bulgaria (19%), Greece (11%) and Poland (10%), while the highest shares for industrial employment were recorded in the Czechia Slovakia and Poland (both 31%) and Romania (30%). Service activities represented 80% of total employment or just over in the Netherlands, the United Kingdom, Belgium, Malta, France, Denmark, Cyprus and Luxembourg. For Germany, the value of the index is 74.5% (the EU average), which means that employment in industry is still of great importance in this country; <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/WDN-20180810-1> (accessed: 18.12.2019).

the same activities every day. One of the economic advantages of McDonaldisation is obtaining increased profitability. However, the desire to popularise McDonaldisation in new areas of life raises questions about this system's sources of profitability. It is clear that systems based on common principles taken from fast-food restaurants bring profit due to the exploitation of the low-paid classes, among others.

The phenomena and processes listed above negatively impact income inequality. Their impact on the scale and depth of inequalities depends on the role of the state in the modern market economy. Through the taxes it collects and the benefits it pays out, the state plays a major role in reducing inequality. However, the state's role has been evolving, with a general trend towards policies to reduce regulation and redistribute less.

The discussion on the role of the state in the economy is also subject to cyclical fluctuations which are largely dependent on events in the global economy. It oscillates between two dominant currents: the liberal trend, which proposes limiting the role of the state in the economy to the necessary minimum, and the trend proclaiming the need for state interference in economic processes. The Great Depression of the 1920s became the driving force for Keynes, who criticises market imperfections and proposed the need to correct them through regulation and state intervention. The oil crisis of the 1970s, in turn, contributed to the spread of Friedman's economy based on criticism of Keynesianism, which proposes tightening monetary policy and strengthening market mechanisms.

Up to the mid-1990s, taxes and transfers played a growing role in reducing inequality. However, from that point on, neoliberal economics dominated economic practice, leading to the weakening of state institutions and uncontrolled, destructive deregulation, increasing the level of social fragmentation, reducing the middle class, and the economic crisis of 2008.

The impact of the state on inequalities is largely based on systems of taxes and transfers. The changes that took place in tax systems, even though income taxes had become more progressive, were not fully compensated for by the increase in social transfers, because as a rule, the overall redistribution of tax systems and benefits grew more slowly than inequalities in market revenues (before tax and social transfers). As a result, the redistribution of taxes and transfers has had, on average, less and less impact on income inequality over the past two decades (Chancel et al. 2017; Huber et al. 2017).

Moreover, very high earners ("the 1%") have opposed the trend towards increasingly progressive taxation, obtained a very considerable fall in their tax burden. For at least 30 years, governments have been lowering the top tax rate for top earners (in the 50s and 60s in the US, the top tax rate was above 90%; now it is 35%). Business taxation also fell.

Across many OECD countries, the share of national income taken by the top 1% of earners has risen in recent decades, sometimes sharply. As justification, it is pointed out that lower tax rates on high earners boosts economic growth. "Against that, many economists argue that there are limits to the amount of extra revenue that higher taxes can bring in. Higher taxes do inhibit growth, they argue, and they also increase the

incentives for high earners to engage in aggressive tax planning, which allows them to reduce the share of income and wealth exposed to tax” (Keeley 2015: 61).

Joseph Stiglitz (2019) summarises the discussion between economists as follows: “In rich and poor countries alike, elites promised that neoliberal policies would lead to faster economic growth and that the benefits would trickle down so that everyone, including the poorest, would be better off. (...) Well, after 40 years, (...) growth has slowed and the fruits of that growth went overwhelmingly to a very few at the top. As wages stagnated and the stock market soared, income and wealth flowed up, rather than trickling down. (...) How can wage restraint – to attain or maintain competitiveness – and reduced government programmes possibly add up to higher standards of living? Ordinary citizens felt like they had been sold a bill of goods. They were right to feel conned.”²⁸

To sum up, the phenomena and processes described above, which are the basis for the transformation of income inequality in modern societies, do not exhaust the list of determinants of inequality growth. For example, the analysis did not include factors that are conducive to an increase in wage and income disparities, such as an increase in the popularity of non-standard forms of employment or a decrease in union membership. Income distribution is a result of many complex processes, not only economic ones (on which our analysis mainly focused), but also social, cultural and political processes. In the case of the latter, which is difficult to measure, it is not easy to precisely define the role they play in increasing income inequality compared to other factors. Stiglitz (2012: 52) asks: “if markets were the principal driving force (of inequality), why do seemingly similar advanced industrial countries differ so much?”. This is because markets alone do not shape economic inequalities; inequalities are deeply rooted in the processes that take place in society, in its institutions and the values that are in force in them, which favour elite tendencies (which privileges the elites and impair the lowest classes) or egalitarian tendencies (Rehbein 2015: 153).

Economic inequalities may result from “the failure of the state” in areas such as migration policy, social, health and educational policy (rising costs of basic public services), unfavourable policies towards national minorities, clientelism, and the implementation of the vision of democracy that ensures or does not provide citizens with sufficient opportunities to participate in public life.

Among the cultural and social sources of inequality, the following are usually indicated: the role of the media in promoting an ideology, inheriting social positions, the intensity of social mobility, norms, and values dominating in society, and the perception of inequality.

Subjective well-being and occupational mobility can also be analysed. Economic inequality is also affected by climate change, which aggravates existing inequalities. When it comes to civilisation threats, Ulrich Beck (1986: 48), co-creator of modern theories of inequality, claims, that “poverty is hierarchical, smog is democratic.” The

²⁸ www.socialeurope.eu/the-end-of-neoliberalism-and-the-rebirth-of-history (accessed: 18.12.2019).

author thus emphasised the fact that the global risks to which we are all exposed can be effectively levelled only if they coexist with the pursuit of greater economic equality and the mitigation of social differences. The results of research on the social consequences of climate change contradict this, however, as they indicate that the effects of climate change are not evenly distributed and that they overlap and deepen existing inequalities.

The World Bank Report states: “the poor will be hit first and hardest. That is means that the people who are least responsible for raising the Earth’s temperature may suffer the gravest consequences from global warming. That is fundamentally unfair.”²⁹

The discussion on economic inequalities is closely linked to the issue of costs and benefits that are associated with it. It is significant that, until the financial and economic crisis, the mainstream discourse strongly promoted the economic benefits of neoliberal global capitalism. Recently, however, we can see a slow shift of reflection towards the threats it brings and recognition of the correction of economic processes by the state. It is no accident that it coincides with the emergence of right-wing nationalism as a political force that builds its support on the dissatisfaction of the losers of globalisation and transformation.

3.4. Consequences of increasing inequalities

From an economic point of view, the most important potential economic cost of high and growing inequalities is the weakening of economic growth. At the turn of the 20th and 21st centuries, in the extensive literature devoted to this issue, it was difficult to find a clear answer to the question about the relationship between inequality and economic growth. In recent years, however, studies showing that income (and wealth) inequality reduces economic growth and economic efficiency have increasingly dominated debates. Since the middle of the second decade of the 21st century, there has been growing evidence – from the OECD, WB, and others – that excessive inequality is bad for growth.

Even studies conducted by the IMF, which are free from left-wing bias, show that if the income share of the top 20% (the rich) increases, then GDP growth actually declines over the medium term. In contrast, an increase in the income share of the bottom 20% (the poor) is associated with higher GDP growth. One example of such an analysis verifying the thesis about the negative impact of inequality on the rate of economic growth is the study by Dabla-Norris et al. (2015) related to the International Monetary Fund. Using the model in which they took into account data from 159 countries for the period 1980–2012, they prove that if the income

²⁹ See the op-ed piece by World Bank Group President Jim Yong Kim (2013).

share of the top 20% grows by 1%, GDP growth falls by 0.08%. And if the income share of the poorest 20% grows by 1%, GDP growth accelerates by 0.38. (Dabla-Norris et al. 2015).

According to the authors of the IMF report, the negative impact of inequality on growth and the efficiency of management occurs through, among others:

1. Limiting the access of the poorer part of the population to education, bank loans and well-paid jobs. This is contrary to the principle of equal opportunities and the sense of social justice. It can threaten social peace;
2. Reducing aggregate demand since the rich have a lower propensity to consume than the poor or the middle class;
3. Limiting social cohesion, which leads to internal conflicts and insecurity;
4. Lowering the level of investment. Inequalities cause economic, financial and political instability, which scares off investors;
5. Inequalities increase the political power of the wealthy elites who are not interested in politics which favour the poorer sections of society;
6. The lack of or insufficient actions to reduce poverty and level out income disparities, which tend to increase without an informed policy aimed at eliminating them.

According to the IMF report, the income shares of the poor and the middle class are the main drivers of growth. It suggests that policies that focus on the poor and the middle class can mitigate inequality. Irrespective of the level of economic development, better access to education and health care and well-targeted social policies can help raise the income share for the poor and the middle class.

In recent years, empirical knowledge about the consequences of economic inequalities has developed extremely quickly. Progress is not limited to studying links between inequalities and the market, but also other phenomena and processes in society and politics.

The first research showing that health was worse and violence more common in societies with large income differences was published in the 1970s. Since then, much evidence has been accumulated to prove the harmful effects of inequality. Richard Wilkinson and Kate Pickett, in *The Spirit Level* (2010), convincingly present the negative, causal impact of income inequality, not only on health but also on many other social problems. "Countries with bigger income differences between rich and poor tend to suffer from a heavier burden of a wide range of health and social problems. Physical and mental health are worse, life expectancy is lower, homicide rates are higher, children's maths and literacy scores tend to be lower, drug abuse is more common and more people are imprisoned. All these are closely correlated with levels of inequality both internationally and among the 50 states of the USA" (Wilkinson, Pickett 2010).³⁰

³⁰ <https://www.socialeurope.eu/the-costs-of-inequality> (accessed: 10.12.2010).

Income inequalities, like the intensity of social problems analysed by Wilkinson and Pickett, are gradual. They are determinants of social position. They form a hierarchical system in which the increase in income inequality translates into greater distances between people measured by (non-material) status determinants. Research shows that income inequality has a negative impact on intergenerational mobility, which means there is little chance for the economic promotion of children from poor families (Putnam 2015). It is positively correlated with crime, especially against property (Rufrancos et al. 2013). In turn, increased crime negatively affects social capital, including trust, which may slow down economic growth and development. Income inequality is also associated with lower civic participation (participation in associations and organisations) (Lancee, Van de Werfhorst 2012) and with less support for democracy (Krieckhaus et al. 2013).

Economic inequalities affect political participation (Shore 2016). Studies by Jan Rossett (2016) show that increasing income inequality is associated with a decreasing election turnout. Thus, it affects political representation. This is a fact supported by empirical data. It should be noted, however, that the reverse hypothesis – that the lack of extreme inequality in household incomes favours democracy (cf. Huntington; Solt 2008) – requires in-depth analysis and verification. This hypothesis is based on the assumption that wealthier people are better educated and participate more in political life. However, if authoritarian governments reduce income inequality through direct social transfers, participation in elections of poorer citizens (beneficiaries of transfers) increases, which translates into an electoral result that supports authoritarian governments.

Inequality threatens democracy and suppresses the expression of political alternatives that could undermine existing inequality patterns; but in turn, democracy is threatened by authoritarianism if poorly educated people, prone to the influence of populism, participate in elections. As far back as the nineteenth century, John Stuart Mill warned of the weaknesses of democracy, pointing to voters' lack of knowledge. He believed that individual social classes should have a different number of votes depending on the level of education. The condition of democracy is also affected by the "vices and stupidity of the rulers" (Alexis de Tocqueville). However, the most important danger to democracy, pointed out by both thinkers, is the tyranny of the majority, which can lead to dictatorship. Obtaining a parliamentary majority as a result of democratic elections raises the risk of appropriating the attributes of the executive and judicial power, which can lead to absolutism. Moreover, democratic absolutism can enjoy the support of the majority of society, as is the case in Poland. Universal elections do not guarantee that voters' representatives will respect fundamental rights, including those enshrined in the constitution.

Based on OECD data, Werner Raza (2018) indicates processes that are omitted from the mainstream narrative, which he considers important to explain the political implications of inequality, especially the emergence of right-wing nationalism. He states that the greatest threat to liberal democracy is the erosion of the middle class, which since Aristotle's time has been considered the rock of democ-

racy, the basis of its social and political stability. The development of capitalism led to the rise and gradual expansion of the class that demanded the introduction of the rule of law and democracy. In modern global capitalism, the middle class loses its position in terms of both finance and prestige. The basic process that reduces the socio-economic position of OECD medium-sized employee groups is employment-polarisation and wage dynamics between different levels of workforce skills. In support of his thesis, Raza quotes the following data:

“The OECD Employment Outlook (2017) underlines that in contrast to high and low-skilled jobs, the share of middle-skill jobs in total employment has been declining in every region of the OECD world during the last two decades (see Figure 5). On average, the decline amounted to 7 percentage points. Wages followed suit and declined not only for low skilled jobs but also for middle skilled jobs both in the US (Autor 2015: 18) and the EU (Guschanski, Onaran 2016: 32)” (Raza 2018: 9).

Writing about the consequences of employment and pay polarisation, Raza indicates that: “there are two winner and two loser groups: while the working class in emerging economies, as well as the global super rich (the top 1 percent of the distribution), have benefitted, the working classes in the OECD world and the global poor, particularly in Sub-Saharan Africa, have seen their incomes stagnate during the last 30 years” (Raza 2018: 8, Milanovic 2016). The share of middle-class income, i.e., income from the four medium-income distribution deciles, fell sharply over three decades from 1980. The dominant interpretation assumes that benefits for workers in emerging economies, and especially in China, have taken place at the expense of the working class in OECD economies. The dominant response to these changes was fear, which was exploited by right-wing nationalism.

Middle and working-class frustration and dissatisfaction, along with stagnation and/or declining income, are based on concerns about the lack of prospects for changing adverse trends and improving living conditions. Anxiety over the future has been largely rooted in the belief that technological development will eliminate mid-qualified professions, such as salesmen, operators of various devices, accountants or low-level specialists, and that automation will develop labour markets in favour of well-educated people. As a result, the disparities in education will increase, and the chances of lower-class children having fair access to high-quality education will decrease, which in turn will make their professional future and living standards highly uncertain. In addition, the observed growing stratification in society is accompanied by a growing sense of social injustice and, above all, a sense of rejection by the liberal elites. Empirical studies document that the above-mentioned fears are strongly correlated with voting for, or the intention to vote for, populist parties in Europe (Algan et al. 2017).

Christophe Guilluy, in the book “No Society” (2018), states that globalisation not only changes the social structure through the erosion of the middle class, but it also polarises societies. Western societies are deeply divided into cosmopolitan elites and a populist-oriented majority. If this division cannot be overcome, liberal

democracy may be overthrown. In his essay in “Der Spiegel” (January 2019), Romain Leick gives examples of events that have led to the extreme polarisation of societies. The author mentions the British referendum on withdrawal from the European Union, Donald Trump’s victory over his liberal competitor in the USA, the implosion of the classical party system in France, the successes of Alternative for Germany in the Federal Republic of Germany, the government coalition in Italy between “Lega” and “Five Stars Movement”, and political blockades in the Netherlands, Belgium, Scandinavia or Spain. The deep division between opponents and supporters of authoritarian, conservative and moderately eurosceptic ruling parties in Hungary (FIDESZ) and Poland (PIS) runs along the division line into winners and losers of the neoliberal economy implemented in these countries during the transition from a centrally controlled economy to a market economy.

The deep dividing-lines between the elite and the masses overlap to a large extent with the territorial division into metropolises and peripheries. Large cities are geographically concentrated centres that produce advanced technical knowledge and innovation.³¹ They are multicultural and diverse clusters of people with a higher average level of education than the rest of society. The characteristics of the periphery, i.e., to a large extent, small towns and villages, are the opposite of the social characteristics of a metropolis. In addition, they are environments affected by depopulation as a result of migration and demographic processes. They share a belief in a lack of prospects for the future and a negative attitude towards migration. In the middle, there is a social vacuum between the “ordinary people” and the elites. The middle class disappears. Some of its members, mainly people with higher education, move up the social hierarchy. The larger group experiences a decline in social status, moving down the stratification ladder at various rates. The lower strata are stigmatised by the elites, who often manifest a sense of superiority, inferring that those sections of society are uninformed, unaware, irrational.

The structural divisions deepen and consolidate the economic effects of both intra-EU and external migration. The following data show the scale of migration that has swept across Europe in recent years. The number of people residing in the EU Member States with non-EU citizenship as at 1 January 2018 was 22.3 million, which represented 4.4% of the EU-28 population; the number of people with the citizenship of another EU Member State was 17.6 million. On the other hand, if we consider the country of birth, there were 38.2 million people born outside the EU-28 and 21.8 million people born in an EU Member State other than their current EU country of residence. In absolute terms, the largest number of foreigners lived in Germany (9.7 million people), the United Kingdom (6.3 million), Italy (5.1 million), France (4.7 million) and Spain (4.6 million). In relative terms, a high percentage of foreigners (at least 10% of the resident population) was recorded in

31 According to Richard Florida, metropolises accumulate as much as 20% of the global population, produce as much as the two-thirds of the global GDP and generate as much as 85% of the world’s innovations.

Luxembourg, Cyprus, Austria, Estonia, Latvia, Belgium, Ireland, Malta and Germany. On the other hand, foreigners constituted less than 1% of the population in Poland and Romania (0.6% each) and Lithuania (0.9%).³²

The link between migration and income inequalities is obvious. The map of migratory dislocations perfectly illustrates economic disparities between countries. Some countries in Central and Eastern Europe, such as Romania, Latvia and Lithuania, have lost more than 10% of their workforce due to emigration, mainly the well-educated sections of society. In turn, low wages in poorer countries attract foreign investment in labour-intensive and low-skilled industries. In the opinion of Michael Dauderstädt (2017), in richer member states, the influx of immigrants increases inequality because the wages of low-skilled workers are under pressure from immigrant jobseekers and the threat of losing their jobs as a result of offshoring, i.e., transferring some production to low-wage locations.

However, the assessment of the effects of migration by the inhabitants of individual EU countries in 2018, after halting the wave of migration from Africa and the Middle East, is unclear. French polls suggest that a majority believe that immigration has a negative impact on the country's economic growth (54%), the future of the state (55%), national identity (58%), social cohesion (64%), and security (66%). The respondents stress economic immigrants in particular. Seventy-one percent believe that they exert a downward pressure on wages, and 60% think that immigrants should be selected according to the needs of the country. Sixty-four percent of respondents replied that accepting more immigrants into the country was "undesirable". What positively distinguishes the opinions of the French is advocating the reception of refugees (61%) and some migrants who reach the Greek, Italian and Spanish shores (51%).³³ In turn, representative polls in Germany suggest that the majority of Germans regard immigration positively and believe that migrants enrich German society, notably, native Germans even more often than others. East Germans and men, in general, were more sceptical of migration, notably men, including groups that had little contact with migrants.³⁴ Commenting on the results of the study, Thomas Bauer, chair of the Council of Economic Experts, explained that the results were a counterweight to media discourse which focuses on the negative experience of citizens in dealing with immigrants. The respondents' responses do not fully confirm the "right turn" in social attitudes to immigration.

32 https://ec.europa.eu/eurostat/statistics-explained/index.php/Migration_and_migrant_population_statistics (accessed: 1.01.2018).

33 INSTITUT D'ÉTUDES OPINION ET MARKETING EN FRANCE ET À L'INTERNATIONAL: The survey was conducted by the IFOP centre between November 23rd and 26th 2018 on a representative sample of 1015 French adults. The results were published by the weekly *Journal du Dimanche* on 2.12.2018.

34 Sachverständigenrat deutscher Stiftungen für Integration und Migration (SVR) conducted a representative study of the attitudes of nearly 9300 people from July 2017 to January 2018 on issues related to migration in the context of education, the labour market and social relations. The results were published by the weekly *Die Welt* on 2.12.2018.

Opposition to the influx of refugees and economic immigrants was the basis for the success of AfD, a party rooted in disappointment relating to developments in Germany since unification, not just those openly hostile towards immigrants. Despite growing public support for this anti-system and eurosceptic group of right-wing populists, particularly in eastern Germany, AfD's electoral successes in Brandenburg, Saxony and Thuringia did not lead to its participation in any regional governments.

The scale of recent migration in the European Union has exacerbated Europe's political crises, revealing the obvious truth that the successful integration of migrants depends on the willingness of the different social groups and categories to accept them. This readiness varies considerably from context to context. The main political challenge is, therefore, to seek a stable compromise between the winners and losers of globalisation. In practice, it means striving to alleviate economic disparities. This is an extremely difficult task because, as Zygmunt Bauman stated, "power might have been globalised, but politics is still local, as before." This situation has led to a crisis of democracy, which is, in fact, a crisis of democratic institutions, because they are not equipped to deal with the challenges of today's world. The result is that faith in the effectiveness of democracy and confidence in power decreases.

This gives populist parties of the far right a chance to take advantage of social discontent. In principle, these parties do not propose effective solutions to complex social and economic problems. They build their popularity on providing simple answers that put the blame for all difficulties on refugees, immigrants and the EU. Their dominant narrative refers to the reconstruction of the national community based on stable, lasting values, anchored in tradition and national identity.

To sum up, we would assert that the growing political support for right-wing nationalism and populism in the EU member states is a threat to democracy per se, but to a far greater extent for Eastern European countries than for countries in which democracy evolved as the result of a long process, marked by domestic struggles as well as by international conflicts. Today, Western societies widely share democratic values, opposing nationalism and populism. However, it is worth noting that the bourgeoisie in the G7 countries seems to be capable of abusing democratic institutions and deploying the rhetoric of populism in order to maintain its essential hegemony. Brexit is one good illustration of this and the vulnerability of liberal democracy.

An optimistic position suggesting that support for right-wing nationalism and populism is not a threat to democracy was formulated by Ronald Inglehart and Pipa Norris. Analysing the cumulative results of the European Social Survey from 2002–2014, they showed that in European societies, economic uncertainty and distrust of rulers and authoritarian values are strong predictors of voting for populist parties (Inglehart, Norris 2016). They say this is probably a transient cultural phenomenon rooted in conservative values. It finds supporters among older

people with lower levels of education, mainly men and rural residents, and along with the generational change, it will be replaced by a new ideology of liberal and cosmopolitan values.

Another view is presented by Werner Raza (2017). Writing about globalisation, inequalities and the future of democracy, the author wonders “whether a recovery of a socially inclusive democracy by way of promoting an alternative political project is feasible” (Raza 2017: 14). He indicates three key and closely related trends of neoliberal globalisation: (1) the global economy is under the dominant influence of international capital groups. The subordination of the labour force to capital has weakened the bargaining power of the labour force in both wage negotiations and many other areas of public policy. (2) The new dominance of financial capital and transnational corporations has enabled the implementation of the neoliberal program for the constitutionalisation of economic policy at the international level, limiting the political space available to national governments. (3) The polarisation of employment and growing inequalities of income and wealth have undermined the economic outlook of both the middle class and workers, leading to the rise of right-wing nationalism in Europe and the United States. The three trends highlighted by the author refer to three areas that should be considered when thinking about a progressive political strategy: economic globalisation, national sovereignty and democracy. Dani Rodrik (2011) concludes that, of these three basic issues, only two can be achieved simultaneously. Raza distinguishes three model socio-economic formations that can be implemented in the future:

1. The liberal-cosmopolitan model, in which the emphasis is on strengthening global institutions for the democratic management of globalisation,
2. The authoritarian-nationalist model, aimed at maintaining economic globalisation and a nation-state with authoritarian features,
3. The democratic-regionalist model, which combines democratic governance at local, national and potentially at macro-regional levels, and which is aimed at the selective de-globalisation of economic activity.

In conclusion, the author writes: “Which of the three strategic trajectories outlined above will unfold in the time to come, is obviously open to anyone’s guess. Internationalist inclinations of both the traditional political left and cosmopolitan liberals notwithstanding, we have argued that a democratic global governance project is unfeasible. Authoritarian nationalism is undesirable, though the unpleasant contours of the latter’s trajectory are looming on the horizon. This leaves progressives of various sorts with promoting a democratic regionalist model. The only conclusion that we can draw with some certainty is that the next phase of capitalist development will be marked by heightened levels of conflict and crisis. History suggests that in such periods societal trajectories are comparatively more open, which eventually offers opportunities for progressive political change” (Raza 2018: 16).

Conclusion

Anticipation of the future is based on a good diagnosis of the present. If we look at Europe, we can see that, with the exception of the cases of post-communist countries such as Poland, Hungary and Russia, and the emerging economy of Turkey, authoritarian rule has not established itself as the norm in Europe. This does not mean that populism is not growing in both Eastern and Western Europe, nor the number of supporters of right-wing nationalist parties. Although they are not in power, their presence can be interpreted as a signal that there are increasing problems that need to be addressed. After more than thirty years of neoliberal reforms, the bourgeoisie's economic and political power remains exceptionally strong. Income and property stratification are growing rapidly as a result of the stagnation of real wages and salaries and the rapid rise of capital's share of national income. The poor continue to have problems with access to education, health care or financial services. The social structure is changing; the middle class is losing ground and social mobility is decreasing. Today, it is becoming increasingly obvious that global processes cannot be stopped. One can only slow them down and try to eliminate the negative phenomena of globalisation, such as the financialisation of the economy, manipulation of the fiscal system, and deregulation of the economy while weakening the supervisory and control functions of the state. All of which leads to extreme inequalities. The solutions offered by authoritarian nationalist forces – resisting globalisation and promoting a new protectionism on the part of nation states – cannot solve the problem of extreme inequalities. However, it is a powerful political vehicle for mobilising hostility towards foreigners as “others” and towards immigration and multiculturalism.

The answer to the question of how to solve the problem of a more equitable distribution of income is a challenge for the forces of civilisation. Reforms are needed to reduce inequalities both within and between countries. Anthony Atkinson (2014) described ways to reduce inequality at the national level. In “Inequality: What Can Be Done?” he made numerous suggestions regarding almost all categories of causes of inequality, such as changes to tax and spending, employment, pay and wealth policies.³⁵ At the EU level, measures to reduce regional divergences in economic development are essential (Dauderstädt 2018). Arguably, a critical precondition for rolling out a more effective policy of regional convergence would be a substantial increase in the EU's Structural Fund and, by implication, in the pooled resources represented by the Multiannual Financial Framework.

35 See: *The 15 Proposals from Tony Atkinson's 'Inequality - What can be done?*, <https://www.tony-atkinson.com/the-15-proposals-from-tony-atkinsons-inequality-what-can-be-done/> (accessed: 18.12.2014).

“In its new medium-term financial plan for 2021–2027, the EU should give high priority to promoting growth, employment and social security in the poorer member states on its periphery, and adopt appropriate fiscal policies (e.g., a eurozone budget and eurozone finance minister) to support investment activity, stabilise banks in all countries by introducing EU-wide deposit insurance, and protect sovereign debts from market panic.” (Dauderstädt 2018: 4).

Without a substantial increase in the European Union’s fiscal resources, the dangers of the continuing *divergence* of economic development between the member states increase the chances of both political fragmentation and nationalist-populist resentment. The real challenge is to break the ideological thrall of market dogmatism over the institutions and policy preferences of the Union. The neoliberal narrative of market efficiency versus the meddling state has to be replaced by a positive narrative of the essential public goods provided by nation-states and by multi-lateral collaboration, rooted in a new imperative of sustainable development that combines the core objectives of social and ecological justice with pragmatic economic priorities (Kołodko, Koźmiński 2017). The obstacles to such a transformation are considerable, given both the embeddedness of neoliberal anti-statism in the political cultures of the older member states and the legacy of a deep suspicion towards state authorities in the newer, post-communist states. This does not alter the urgency of removing the toxic social effect of inequality on political and economic discourse. Authoritarian populism is more likely to perpetuate or exacerbate economic and social inequalities, and indeed to fan international conflict. To survive, therefore, European civilisation must focus its efforts on reducing the corrosive effects of income and wealth inequalities.

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4. EU strategies to combat regional inequality and poverty

4.1. Introduction

The EU has changed its function from being merely an economic common market to a social union. However, the austerity policy put into practice in response to the budget crisis of many member states as a consequence of the financial crisis from 2008 counteracted this goal. To regain solidarity and cohesion, therefore the objective of social inclusion and solidarity should be on the top of the agenda again. The key word is convergence and improving competitiveness. EU's regional policy is therefore addressed to less developed regions, concentrating funds on the areas and sectors where they can make the most difference. Furthermore, leaving the still existing regional disparities in place would lead to unwanted migration: the better trained people would leave their country and search for jobs and higher income in the better-off countries. This has a double negative effect: The less developed regions will be deprived by brain drain, missing qualified workforce for their own future investments and for economic progress. On the other side, the migration to highly developed centres will increase problems of traffic and prices for housing. This can be essentially observed after the enlargement by the Central and Eastern former socialist states, belonging to the poorest states in the EU. It is not astonishing, that in those regions, where the emigration, mainly of young qualified people, has created heavy concerns about the future of the mostly elderly remaining residents. Because of the leave of many young people the situation in these districts went worse: Leisure facilities, shops and even schools were closed. Thus, despite the helpful regional programmes of the EU, the remaining residents were disappointed by their worsened condition of life. In this situation extreme right wing parties could succeed by pointing out that the political elites don't care for them but just in contrast support refugees instead of them. Immigrants, the own governments and the EU became scapegoats in

populist propaganda. With regard to this situation it would be necessary that the regional funds should be enlarged. Furthermore, politicians of the democratic parties should be more present and talk to the people in the disadvantaged areas to counteract the harmful influence of the extreme right parties.

The objectives of regional funds are mainly addressed to those areas where GDP is less than 75% of European average. In addition, there are some other objectives like improving education and employment or regional cooperation. The Europe 2020 strategy changed again its targets with concrete objectives concerning fighting the climate change, and winning higher employment rates.

To improve the results, the EU funding is no longer addressed to the central states but to the decentral level. This would increase the chance to engage citizens in their own affairs and aiming at tailor-sized strategies, and, furthermore, allow better control for the EU.

The hope aside economic and social objectives of EU's convergence policy is to contributing to social peace in Europe. The question then is, whether these goals had led to a harmonious development of convergence in Europe. Despite some successes, there are doubts because we face welfare chauvinism and eroding solidarity between the rich and the poor regions, and still there are regional losers and winners. Furthermore, political reactions to the budget crisis counteracted EU's convergence policy objectives. In the end many Europeans are still remaining in poverty and are disappointed by the EU, and feel pushed aside, neglected by the political elites. This made it is easier for populist parties of the extreme right to gain the support of these disadvantaged groups. In addition to distrust the political elites in their own states, and of the EU in general, the relative high wave of immigration is perceived by those disadvantaged people as a twofold threat. They are afraid of more competitors within the social security system and second, the threat is perceived in relation to their identity.

4.2. The objectives of convergence

Standards of living vary within the EU and also within each country. In some regions of the EU, GDP per inhabitant in PPS is less than 50% of the EU average; in other regions it is 25% higher than the EU average. The entry of the 12 new Member States has led to a dramatic increase in regional disparities in GDP per inhabitant.

The cohesion policy focuses heavily on regions with a GDP per inhabitant below 75% of the EU average to bolster a nascent trend towards more convergence, while continuing to invest in the competitiveness of the other regions and support more territorial cooperation. Of course, funds that are eligible for the poorer regions are welcomed as financial support and might help to develop better infrastructure and living conditions in the backward regions.

Moreover, there is the hope of avoiding or minimizing harmful migration effects on both, the poor regions through de-population and the better-off regions through costs of high agglomeration (more traffic problems and rising rental fees in the cities) at the same time. On the one hand, de-population could leave backward regions without any medical care or skilled workforce. Over 35% of the EU's budget is used to boost the economies of these regions, and in turn strengthen the EU as a whole.

It is up to the European Parliament and the Council of the European Union to define the tasks, priority objectives and the organisation of the Structural Funds (the Regional Policy framework), through the ordinary legislative procedure and consultations.

Table 4.1. People at risk of income poverty after social transfers in %

Country	2008	2018	Country	2008	2018
Czech Rep.	9.0	9.6	Luxembourg	13.4	18.3
Finland	13.6	12.0	Malta	15.3	16.8
Denmark	11.8	12.7	Ireland***	15.5	15.6
Netherlands	10.5	13.3	Poland	16.9	14.8
Slovakia*	10.9	12.4	Portugal	18.5	17.3
France	12.5	13.4	Croatia	..	19.3
Slovenia	12.3	13.3	Italy	18.9	20.3
Austria	15.2	14.3	Greece	20.1	18.5
Hungary	12.4	12.8	Estonia	19.5	21.9
Belgium	14.7	16.4	Latvia	25.9	23.3
UK**	18.7	17.0	Lithuania	20.9	22.9
Cyprus	15.9	15.4	Spain	19.8	21.5
Sweden	13.5	16.4	Bulgaria	21.4	22.0
Germany	15.2	16.0	Romania	23.6	23.5

*2016, **2017, ***2016.

Source: Eurostat news release 158/2019, 16.10.2019.

Poverty is mainly a consequence of unemployment and relatively low social transfers. Without any hope for an improvement in their social situation in future, mainly the young, mobile and better-trained workforces leave their country in search for a better life in wealthier EU-states (Tables 4.1–4.2).

Even though some countries and regions have achieved better labour market conditions in recent years, there are still states and regions, where it deteriorated, like in Spain, Greece, and Italy, where we are confronted with long-term youth unemployment rates of over 50% (Eurostat, Regional Yearbook 2018: 80).

In the case of Italy, it is called the *mezzogiorno*-effect, and it causes a hindrance for future development as a consequence of this brain drain. And it is obvious: lacking a skilled workforce, companies are not willing to locate production in

these regions. That happened even in Germany after the re-unification. Between 2001 and 2010 about three million East Germans went to the West, leaving many districts in East Germany even without any medical care.

Table 4.2. Youth unemployment rate, 2005–2017

Country	2005	2017	Country	2005	2017
Netherlands	6.6	5.9	Latvia	14.1	12.3
Luxembourg	6.8	6.6	Belgium	14	12.6
Sweden	10.4	6.8	Ireland	11.8	12.9
Austria	10.1	8.4	Poland	18.4	12.9
Germany	13.8	8.5	Hungary	17.1	13.3
Malta	15	8.8	France	13.2	13.9
Denmark	5.9	9.1	Slovakia	20.2	16
Slovenia	9.7	9.3	Spain	14	16.4
Czech Rep.	16.9	10	Cyprus	17.9	17.6
Lithuania	10.7	10.2	Romania	18.4	17.8
Portugal	12.3	10.6	Croatia	17.9	17.9
Finland	9.5	10.9	Bulgaria	26.8	18.9
Estonia	13.5	11	Greece	18.5	21.3
UK	8.9	11.4	Italy	20	24.1

Source: <http://ec.europa.eu/eurostat/> (accessed: 10.01.2019).

Nearly the same facts can be observed in Poland, for example, where more than two million mostly young well-trained people left between 2004 and 2010, mainly in the direction to the UK and Germany. In addition, even wealthier centres could experience unwanted developments because of over-agglomeration with unbearable traffic, problems of supply (with drinking water etc.), and increasing prices for land and houses. Thus, EU funding and support for sustainable development in backward regions could contribute to social coherence and to prevent the harmful effects of migration. The question is whether the funds and support can really achieve their ambitious targets of cohesion.

4.3. The goals of EU's regional funding

Article 158 of the Treaty of Amsterdam, which entered into force on 1 May 1999, states that, “in order to strengthen its economic and social cohesion, the Community shall aim at reducing disparities between the levels of development

of the various regions and the backwardness of the least favoured regions or islands, including rural areas". The summit at Lisbon (2000) continued this concept. Since then, full employment and social cohesion were at least equally entitled as long-term goals for the European economy. Last but not least, at the spring summit of Barcelona two years later (2002) the heads of the member states, among others, decided on the obligation to eradicate poverty and social exclusion by 2010.

The most important tools to fight poverty and social exclusion and to achieve more cohesion are the ERDF (European Regional Development Fund) and the ESF (European Social Fund).

The cohesion policy must be adapted to the particular needs and characteristics of individual regions in terms of the problems and opportunities which derive from their specific geographical situation. The territorial dimension includes the following themes:

- the contribution of cities (urban areas) to growth and jobs (in order to promote, e.g. entrepreneurship, local employment and community development);
- supporting the economic diversification of rural areas (e.g. the synergy between structural, employment and rural development policies);
- cross-border, transnational and interregional cooperation, which is focused on the aims of growth and job creation (e.g. the Baltic sea rim).

On the whole, the EU regional policy is an investment policy. It supports job creation, competitiveness, economic growth, improved quality of life and sustainable development.

The program period from 2000 to 2006 included three objectives financed by a total sum of bn. 235 Euro (in 1999 prices), with two-thirds supporting objective 1 (The European Anti-Poverty Network (EAPN) 2006):

- Objective 1: Areas where GDP is less than 75% of the EU average;
- Objective 2: Areas undergoing economic and social conversion;
- Objective 3: Adapting and modernizing systems of education, training and employment.

For the program period from 2007 to 2013, the cohesion policy focuses on three main objectives: convergence – solidarity among regions, regional competitiveness and employment, and European territorial cooperation. The funding helps improve transport and internet links to remote regions, boost small and medium-sized enterprises in disadvantaged areas, invest in a cleaner environment and improve education and skills. EU funding is also invested in innovation, developing new products and production methods, energy efficiency and tackling climate change. Member States, where the Gross National Income is lower than 90% of the EU average can also benefit from the cohesion fund, but not the same amount. A phasing-out system is granted to Member States which would have been eligible for the Cohesion Fund if the threshold had stayed at 90% of the GNI average of the former 15 Member States. The highest sum was due for convergence of the

poorer regions with the objective to reduce regional disparities in terms of income, wealth and opportunities. With the challenges of climate change, the EU's demographic changes and the recent economic crisis still very much in evidence, the EU changed its goals for regional support during the last program period from 2014–2020. Again, the regions were ranked and split into three groups:

- less developed regions (where GDP per inhabitant was less than 75% of the EU-27 average);
- transition regions (where GDP per inhabitant was between 75% and 90% of the EU-27 average);
- more developed regions (where GDP per inhabitant was more than 90% of the EU-27 average).

Because of concerns regarding climate change the proposed European Regional Development Fund (ERDF) would channel resources towards energy efficiency and renewables, innovation and support for small and medium-sized businesses (SMEs). Minimum amounts are earmarked for investments in energy efficiency and renewables for all regions.

The scope of the Cohesion Fund will remain largely similar to the last period, with support for:

- investment, to comply with environmental standards energy projects, providing a clear benefit to the environment, for example by promoting energy efficiency and the use of renewable energy;
- investment in trans-European transport networks, as well as urban and low-carbon transport systems. For the first time, part of the Cohesion Fund will contribute to the Connecting Europe facility – for a competitive and sustainable European transport system.

The ERDF focuses its investments on several key priority areas. This is known as 'thematic concentration': innovation and research; the digital agenda; support for small and medium-sized enterprises (SMEs); the low-carbon economy.

The ERDF resources allocated to these priorities will depend on the category of region.

In more developed regions, at least 80% of funds must focus on at least two of these priorities; in transition regions, this focus is for 60% of the funds; this is 50% in less developed regions.

As before the main addressees are those regions where the GDP per inhabitant is below 75% of the European average. The following Figure 4.1 clearly shows that the Eastern regions (in the Baltic States, Poland, Czech Republic, Slovakia, Slovenia, Hungary, Croatia, Bulgaria, Romania, Malta, and Cyprus) and southern regions in Portugal, Spain, Italy, Greece, Malta and Cyprus are eligible to receive financial support, because they belong to the less developed regions with GDP per inhabitant below 75% of the EU average.

In comparison to the last funding period, several regions, mainly in central Europe have lost the right to claim for these funding, due to the fact that the rich countries refused to increase their contributions to the funds.

When we compare the GDP per capita over the last decade, we see a general trend: all of the poorest regions of the European Union have improved their economic situation, while many rich regions reduced their distance to the average GDP.

Greater convergence can also be observed. Nevertheless, without the neoliberal reaction to the finance crisis followed by a budget crisis in nearly all Member States, the effect could have been greater. High emigration rates are doing massive damage to the prospects of the poorer regions. The EU could help to minimize this damage in poorer regions by increasing its regional funds and help to develop the economic development. Table 4.3 indicates that there were positive results with regard to the cohesion goal.

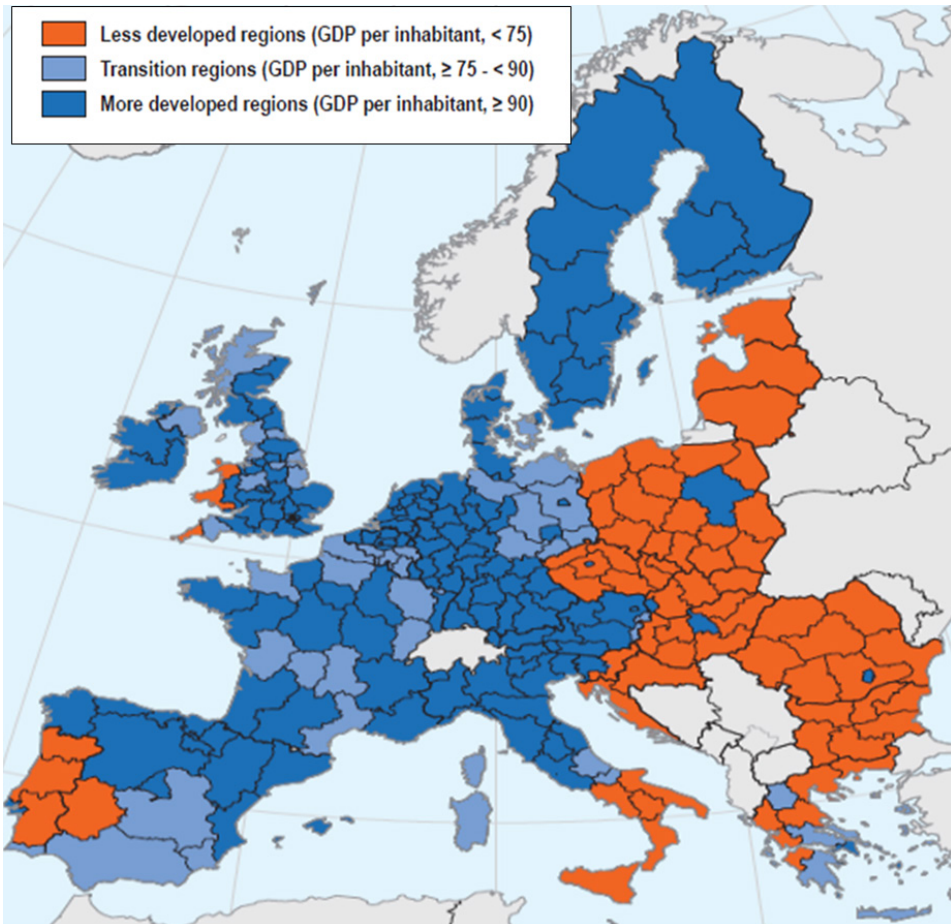


Figure 4.1. Eligible regions for the funding period 2014–2020

Source: Eurostat: Regional Yearbook 2018: 18.

Nevertheless, increased funds and more participation – following the EU’s governance concept – by poorer regions and people to engage in their own destiny could help to achieve increased positive effects. Possible improvements of the economic situation in poorer regions might lead to less emigration (of mostly young better-trained people) and help to stop harmful depopulation with its many negative effects like closing shops and leisure facilities etc. (Figure 4.1).

Of course, it is not an easy challenge to reduce population decline in poorer and less favoured regions. However, in case the people in these regions recognise that the EU regional policy is effective through real improvements of their living conditions, trust in the EU and in democracy as well could be regained. As we may learn by the regional election in Thuringia/Germany (October 2019), votes for the extreme right AfD had increased with the level of de-population.

Table 4.3. Regional GDP (PPS per inhabitant in % of the EU28 average)
NUTS 2 regions (selection of 32 poorest and 32 richest regions)

Poorest regions		2005	2016	Richest regions		2005	2016
Mayotte	FR	23	33	Karlsruhe	DE	135	137
Nord-Est	RO	23	36	Trento	IT	135	122
Sud-Vest Oltenia	RO	27	42	Noord-Brabant	NL	135	133
Severozapaden	BG	28	29	Lazio	IT	138	110
Yuzhen tsentralen	BG	28	34	Valle d’Aosta	IT	140	122
Severen tsentralen	BG	29	34	Lombardia	IT	141	128
Sud - Muntenia	RO	29	46	Zuid-Holland	NL	141	128
Sud-Est	RO	30	50	Prov. Antwerpen	BE	144	139
Severoiztochen	BG	32	59	Bolzano/Bozen	IT	144	149
Nord-Vest	RO	33	51	Salzburg	AT	144	154
Centru	RO	34	54	Outer London-W and NW	UK	144	137
Yugoiztochen	BG	35	43	North Eastern Scotland	UK	144	144
Lubelskie	PL	35	47	Bratislavský kraj	SK	146	184
Podkarpackie	PL	36	48	Åland	SE	146	131
Podlaskie	PL	37	48	Stuttgart	DE	147	162
Warmińsko-Mazurskie	PL	38	49	Hovedstaden	DK	154	159
Świętokrzyskie	PL	39	49	Helsinki-Uusimaa	FI	154	144
Vest	RO	39	60	Groningen	NL	156	128
Észak-Alföld	HU	40	43	Bremen	DE	159	155
Észak-Magyarország	HU	41	45	Berkshire, Buckingham -shire and Oxfordshire	UK	160	151
Opolskie	PL	42	55	Utrecht	NL	162	149
Dél-Dunántúl	HU	43	44	Southern and Eastern	UK	163	217
Dél-Alföld	HU	43	48	Praha	CZ	169	182

Východné Slovensko	SI	43	53	Noord-Holland	NL	169	133
Kujawsko-Pomorskie	PL	44	56	Wien	AT	169	153
Malopolskie	PL	45	62	Darmstadt	DE	170	160
Łódzkie (2013)	PL	46	64	Île de France	FR	171	175
Zachodniopomorskie	PL	46	57	Oberbayern	DE	172	177
Lubuskie	PL	46	57	Stockholm	SE	172	173
Stredné Slovensko	SI	46	61	Inner London - East	UK	177	176
Latvija	LV	50	64	Hamburg	DE	217	200
Pomorskie	PL	50	56	Rég. Bruxelles	BE	238	200

Source: <http://ec.europa.eu/eurostat/> (accessed: 10.01.2019).

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5. Better regulation and more democratic culture through the governance concept in the European Union

5.1. Introduction

During the 1990s the economic project of the European Union was facing new demands. European citizens complained about a lack of social aspects and insisted that the Community not only had to create a common market for the sake of businesses, but at the same time should protect workers, consumers, health and the environment. Following these criticisms, it was acknowledged that it was necessary to adopt a protocol for social policy to the Maastricht Treaty on the European Union (1992). By the Treaty of Amsterdam (1997), the protocol was implemented in the treaty itself and became a separate chapter (XI Social Policy). The Treaty of Amsterdam was also supplemented with a chapter on employability (chapter VIII) in which a new method was introduced for realizing the aims of the European Employment Strategy. The subjects for social policy were expanded by the Treaty of Nice (December 2000). The necessity for the convergence of social security as a part of the further development of the Europe Community was also affirmed in the Lisbon Strategy (March 2000). With the enlargement of the EU to 28 Member States socio-economic disparities between Member States increased, showing many countries in the East with GDP per capita far below the EU average.

New tasks since then have been included “to promote throughout the Community a harmonious and balanced development of economic activities and a high degree of convergence of economic performance, the raising of the standard of living and quality of life and economic and social cohesion and solidarity among member states” (Article 2 of the Basic Principles). Since Lisbon, full employment and social cohesion were at least equally as important as long-term goals for the

European economy. At the same time the EU changed how it rules with a new method based on the European Employment Strategy the Open Method of Coordination (OMC).

Following the principle of subsidiarity, local and regional actors started to play a more important role in implementing the EU goals of cohesion, aiming at tailored strategies to meet the specific structures of the regions and towns, and to engage more citizens in their own destiny. The EU has changed its traditional vision and acknowledged that municipalities and regions are vital instruments that directly contribute to achieve the complex and ambitious goals of the Community. Hierarchical management and regulation are outdated because of the rising complexity of challenges and tasks. Nevertheless, participation needs more than the right to engage the civil society. Without adequate and own financial resources, the offer of broader participation is of minor value.

5.2. Outdated structures

The EU practices a wide range of decision-making by using a broad diversity of tools, like primary law, international agreements, and non-written sources of European law: supplementary law, unilateral acts, conventions and agreements, regulations, the European decision, directives, and atypical acts. Without doubt, European law is at the heart of what makes the European Union special. Without it, European countries and citizens would rely on free cooperation and goodwill.

In 1957, the European Community was founded as a supranational economic organisation, the European Economic Community, by the original six Member States (France, Italy, Germany, and the three Benelux States. In the meantime, the economic project was criticised because of neglecting social goals. That is why the EU amended – mainly since the 1980s – its treaty by several goals like rights for worker, gender equality, and combating poverty and social exclusion etc. (see Figure 5.1).³⁶

The necessity for the convergence of social security as a part of the further development of the Europe Community was also affirmed in the Lisbon Strategy (March 2000). The Lisbon summit in 2000 adopted a strategy that focused on employment (more and better jobs) and that was designed to make the Union “the most competitive and dynamic knowledge-based economy in the world by the year 2010.”³⁷ One year later, the Gothenburg Council completed this strategy by linking it with sustainable development following, among others, the ambitious goals of the Kyoto Protocol, among others.

³⁶ https://europa.eu/european-union/about-eu/history_en (accessed: 18.12.2010).

³⁷ http://europa.eu.int/growthandjobs/intro_en.htm (accessed: 18.12.2010).

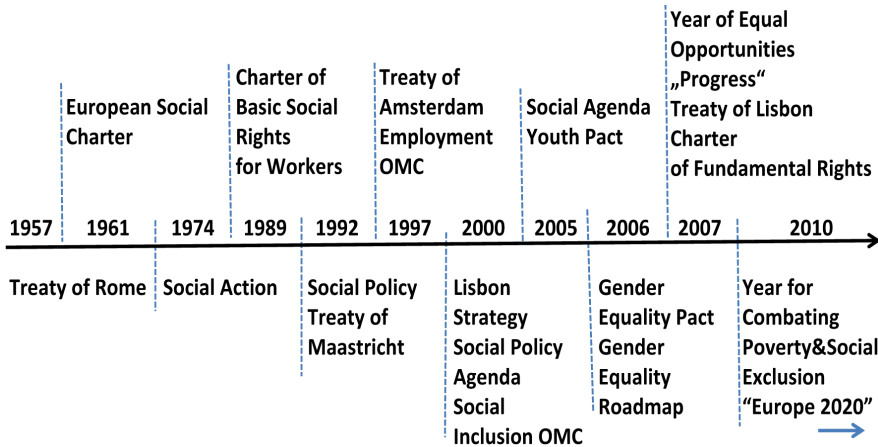


Figure 5.1. Development of EU social policy as driving force for new method of governance
Source: original by Beryl Ter Haar, University of Leiden 2015.

Further new challenges created by increased global competition with new economic powers, like China and India require policies centred on improving the competitiveness of the European workforce, which depends on a strong educational foundation. In addition, measures must be taken to provide better education and training for the high numbers of low-skilled adults and to combat high rates of youth unemployment. This must be done to meet the challenges of the on-going technological revolution towards a knowledge-based economy as well as the challenges from old and new competitors in the world market. Additionally, Europe must face an ageing population associated with increasing gaps of qualified workforce (Eißel, Grasse 2009: 129–150). It is necessary to address these challenges in order to improve the long-term sustainability of Europe’s social systems.³⁸ Last but not least, the EU regional policies must be addressed to reduce the high socio-economic disparities between Member States and between regions guaranteeing convergence.

In the Treaty on the European Union, these new tasks and integration aims of the European Community are formulated precisely: “to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life and economic and social cohesion and solidarity among member states.”³⁹

Nevertheless, there is an imbalance between market and social goals. On the whole, the EU not only suffers from democratic deficits because of the low power

38 http://europa.eu.int/growthandjobs/intro_en.htm (accessed: 18.12.2010).

39 Article 2 of the Basic Principles.

of the Parliament and the weak democratic legitimacy of the Commission, but also – because of the precedence of the European Court of Justice; the primacy of economic freedom is another democratic deficit. This severely restricts the scope for social policy and could have contributed to the dissatisfaction of citizens with the EU. The core of the single market law encompasses the competition law and fundamental freedoms, such as monopoly control and antitrust control, the prohibition of state aid, public procurement law, and the unrestricted mobility of capital, goods, services and people. These instruments are “by their nature based on market creation and thus against (state) measures to limit the market” (Seikel 2019: 6). Over time, fundamental freedoms dominated. In fact, this led to the subordination of social rights to economic freedom, and this causes a “curtailment of democratic freedom” (Seikel 2019: 6).

Confronted with a quantum shift resulting from globalisation and the increase in the knowledge-driven economy, the heads of Member States stressed that these changes required not only a radical transformation of the European economy but also a challenging program to modernise the social welfare and of education systems. Therefore, a new method, based on the European Employment Strategy was introduced in the Lisbon Strategy: the Open Method of Coordination (OMC). This new strategy has made decision-making in the EU more complex. To execute its goals, the EU of course still uses “hard law” instruments, such as directives and decisions, but there is an increasing number of “soft law” measures, such as the OMC or various Community Programs, which provide a framework and funding for national strategy development and policy coordination between Member States. All EU institutions (the Parliament, the Council of the EU, the Commission as well as the Social Partners) and NGOs participate in this process, which is perceived as a mutual learning of best practices through transnational collaboration.

5.3. Complex policy decision-making

Responding to contentious challenges and proposing new tasks, the EU makes policy decisions in a range of complex ways. New treaties are agreed upon by the Member States only while new strategic directions are established by the European Council. Of course, there are still some areas of policy, for instance, tax policies, which remain almost entirely in national competence. Whether the current debt crisis in the euro zone will lead to a transformation of national sovereignty concerning budget rights and finance policies is an open question, for it will demolish the highest right of Parliament. Currently, the EU has either no or very few powers in this area, even if the European Central Bank is willing to give loans directly to states which are suffering most from the crisis due to its legal rights and obligation outside of its competence (of guaranteeing a stable Euro and fighting inflation).

In other areas, such as agriculture and competition, Member States were fundamentally replaced by the EU many years ago. All in all, the balance of powers between the EU and its Member States has changed over time. An important example is environmental policy and the fight against climate change, in which the EU initially had no formal powers. In the wake of the Kyoto Protocol, the EU might be perceived as the leading actor in the world. Moreover, other fields, like higher education have been progressively transplanted from national to EU level, most recently by the Bologna Process, which introduced comparable structures for higher education in all Member States. The EU's supranational political institutions, the European Commission and the European Parliament, often play a very important role in these changes. Nevertheless, in certain policy areas, like monetary policy, the European Central Bank, as a particularly specialised institution has the principal role. In most areas, the European Commission is responsible for proposing policies and laws to achieve the goals set by the European Council and/or guarantee that laws are properly applied.

On the whole, the Commission, which should work in the interests of all Member States and citizens, has a leading role in ensuring that policies at the European level are decided in a way that is evidence-based, and which is as transparent and accountable as possible. The Commission has to pay special attention that actions are taken at the right level due to the obligation of the subsidiarity principle of the Amsterdam Treaty. On the other hand, the EU Commission has to follow both the guidelines agreed by the European Council and the basic decisions made in conferences by the heads of government of the Member States. Thus, decision-making is complicated: there are currently 28 national governments that must be involved. Furthermore, "a wide range of non-state actors such as trade unions, interest groups, and non-governmental organisations (NGOs) will mobilise to try to shape policy decisions. And always in the background is the balancing act that decision-makers in Brussels (and Strasbourg, Luxembourg, and Frankfurt) must manage between the various levels of the system that we know as the EU – the 'European' level, the national level, and the sub-national level (local and/ or regional governments)" (Warleigh-Lack, Drachenberg 2009).

European-wide rules, normally proposed by the Commission, must be agreed upon by national ministers in the Council and members of the European Parliament. Even if the decision-making process takes a long time, it is necessary that the regulation be kept under constant review and adapted to keep pace with the fast-moving world. The wide standards and complex set of rules must respond to new and emerging transnational challenges, such as health pandemics, terrorism, and illegal migration. Thus, better regulation programs need to include a mix of different actions and necessities:

- First, to introduce a system for assessing the impact and improving the design of major Commission proposals;
- Second, to implement a program of simplifying and reviewing legislation for to eliminate outdated regulations and make laws clearer, more understandable,

and user-friendly. New laws have developed progressively over the past 50 years and have become highly complex, which is confusing many citizens and organisations;

- Third, and most importantly for the development of governance concepts, all Commission initiatives need consultation. The Commission has an obligation to consult widely before proposing legislation. For better regulation and acceptance of the designing of laws, regulations and policies, it is necessary to consult a range of stakeholders.

Broad consultations are the best way to ensure that all interests and a broad spectrum of society should have been taken into account. The Commission had a long tradition of extensive consultation with employers' organisations and trade unions (the European Economic and Social Committee). This committee, in turn, proclaims to be a bridge between Europe and organised civil society.⁴⁰ In the meantime, the Committee has broadened consultations through various channels: workshops with organisations from civil society, permanent consultants, and expert groups that make the consultation an integral element of impact assessments and practicability. Through formal negotiations and consultations with regional and local authorities, as representatives in the Committee of Regions, this broad involvement of stakeholder consultations not only helps respond to different interest groups, but also includes their specific knowledge in specific areas to improve regulations and mobilise endogenous potential.

All these changes and developments made the EU significantly change decision rules over time, moving away from the orthodox Community method of law-making to a variety of different mechanisms and revisions to the method itself, summarized under the term governance. To better regulate and make Europe work better, the European laws and regulations must be well-targeted, correctly implemented at the right level and proportionate to the need. That is why, after amendments to the EU treaty, the Commission's proposals for regulation have to follow the two principles of proportionality and subsidiarity.

Despite this promise for change in decision-making, the austerity policy of EU reacting on the debt crisis since 2008 was just moving in a diametric other direction as the favoured concept of OMC and governance promised. Instead of broad participation and consultations with stakeholders, the external control and command of budget and financial policy are executed by a smaller number of institutions and even a very small number of people. In the case of countries like Greece, Spain, Portugal and Ireland which applied for assistance, three representatives, the so-called Troika (International Monetary Fund, European Central Bank and EU-Commission) decided, whether the decisions on finance policy follow the hard obligations of cutting back expenditure and imposing new or higher taxes to regain a balanced budget in the future. Thus, the crisis has somehow introduced harder and greater controls on the budgets of those countries which want to be

⁴⁰ www.eesc.europa.eu (accessed: 18.12.2008).

under the “rescue umbrella” of the European Stability Mechanism and accept the conditions of the European Financial Stability Facility (EFSF). The EFSF’s mandate is to safeguard financial stability in Europe by providing financial assistance to euro area member states. Providing loans to countries in financial difficulties will heavily interfere with their formerly autonomous rights because the EFSF is authorised to use the following instruments:

- it can intervene in the primary and secondary debt markets;

Intervention in the secondary market will be only on the basis of an ECB analysis that recognises the existence of exceptional financial market circumstances and risks to financial stability;

- it can act on the basis of a precautionary program;
- it can finance the recapitalization of financial institutions through loans to governments.

Both citizens and national parliaments are nearly totally excluded in these decisions, which contrast with the governance issue of the EU.

5.4. The broad meaning of governance from the EU’s perspective

The term “governance” corresponds to the so-called post-modern form of economic and political organisations and is very versatile. According to the British political scientist Roderick Rhodes (1999), the concept of governance is currently used in contemporary social sciences with at least six different meanings: the minimal state, corporate governance, new public management, good governance, social-cybernetic systems and self-organised networks. In addition, the governance concept needs to be equipped with tools from political economy in order to be able to incorporate important aspects of interests, power and conflict. The way forward for governance theory would seem to involve the inclusion of political economy analysis of context as it affects beliefs and dilemmas (Kjaer 2011: 101–113).

On the whole, the term governance is used to describe political change in style. The term indicates that hierarchical management and regulation, as classical forms of government, are outdated and that the state is no longer the only player. Due to the rising complexity and variety of current political and societal systems, negotiations, corporations, networking and market forces participate as stakeholders in the decision-making process (Benz 2007). Because of this enhanced participation, the spread of governance as a reaction to the functional demands of complex societies and to deficits in classical government in the decision-making processes is perceived as a step to more democracy. Nevertheless, we have to raise the question of whether the more horizontal decision-making modes and relationships of governance really

involve democracy or any qualitative improvement of democracy. Despite the possible positive results concerning the efficiency and effectiveness of the governance concept, this new mode of regulation can, in practice, lead to a weakening of established democratic institutions. This will be the case when the selection of those playing a part in the decision-making process only includes the elites or mighty private lobbyists while excluding minorities or groups which are in a weaker position (Papadopoulos 2004). Given the threat of a selective and elitist inclusion in deliberative processes, transparency is therefore highly demanded.

The European Commission established its own concept of governance in the “White Paper on European Governance,”⁴¹ in which the term “European governance” refers to the rules, processes and behaviours that affect the way in which powers are exercised at the European level, particularly regards openness, participation, accountability, effectiveness, and coherence. These five “principles of good governance” reinforce those of subsidiarity and proportionality. The first steps towards this concept of governance might be seen in the “Open Method of Coordination (OMC)” – replacing in part the traditional way of law-making – by directives and benchmarks, which include fewer or no sanctions if a goal is not reached. It leaves the implementation of objectives to Member States. In addition, the EU wants citizens and organisations of the civil society to engage in various fields of interest, in which their knowledge and competence are helpful to reach tailored goals. Last but not least, to increase transparency in decision-making, the influences of political and societal groups, and the evidence-based effects of decisions are perceived as a new task for the EU Commission.

In this context, the EU Commission speaks of “better regulation” and “smart regulation” to indicate the desired characteristics of new modes of governance. These new modes imply:

- Participation: Having more and different actors participating in the policy-making process;
- Multi-level: Policy coordination involves actors from various levels of the political system;
- Subsidiarity: Policy design is decided at the lowest, most appropriate level;
- Deliberation: Policy learning and policy transferability are part of the policy-making process;
- Flexibility: The use of soft law ensures flexibility to adopt policy strategies quickly if needed;
- Knowledge creation: Some new modes of governance use tools like benchmarking or peer review, which can lead to the creation of new knowledge.

Better regulation is engaged in many fields. It concerns sustainable development, climate change, management of resources, economic and social cohesion, economic growth, economic recession, research and development, and job creation.

41 Communication from the Commission of 25 July 2001 “European Governance – A White Paper”, COM(2001) 428 final, *Official Journal* C 287 of 12.10.2001.

5.5. The principle of subsidiarity

To match the economic and social challenges of more intense global competition, and to adequately respond to high (in particular, youth) unemployment, rising poverty, an ageing society, and the threat of climate change, the advantages of market forces, which mostly concern productivity, or efficiency, or the fast adaptation to changing demands, are not sufficient. The market is obviously unable to coordinate the coherent dimensions of current environmental, social and economic responsibilities for future generations of European citizens. Obviously, an appropriate response must be the task of public policies at all levels – EU, national, regional, and local. The ‘sustainable’ imperative, in particular, has drawn attention to the notion of local and regional strategic capacity, as it needs tailored strategies to meet the specific structures of the environment, traffic systems, energy use, etc., and to engage more citizens in their own destiny. Furthermore, regional and local governance play a greater role when facing an increase in economic changes, which require higher flexibility in a globalised world. Free trade is no longer impeded at national borders; it exposes regions and towns directly to worldwide global competition. New economic structures are developing within a new regional setting that no longer cares about national borders since free trade agreements and the European common market have blurred the protection formerly provided by tariff and non-tariff barriers. Thus, globalisation means, first of all, regionalisation or even glocalisation, putting the global and local spheres together. As all markets are local, due to their diversity of cultures and mentality, and as diversification of markets will increase with higher socio-economic standards, the global players will have to respond to the challenges of augmenting diversification. In the coming decades, it may demonstrate that focusing business activities on an attractive regional market will prove to be more profitable than acting globally. Moreover, the growing importance of science transfer, human capital, specialised production and the cluster-building of companies puts more emphasis on conditions of local and regional infrastructure and on hard and soft skills available at the local level. Paralleling the growing importance of national sub-units, the globalisation of markets and the advancement of international business structures and networks with high flexibility and mobility of capital, management and technology – within not only big business but increasingly medium and small-scale business – is reducing considerably the power of the nation state to influence the economy. Above all, experiences have shown that far-reaching reforms grow from small local innovations and they are not developed centrally as great, uniform designs (Henckel et al. 1999). Cities have always been the source of social and technical innovation. They are the focus of change, they provide the technical infrastructure for settlements, they encompass the social capital and the scientific environment to meet the needs of citizens and businesses.

It is evident that the regional and local level is a category of social modernisation. The perception of the link between modernisation and decentralisation concerns largely the objective of enhanced opportunities for grassroots citizens to participate. It aims at achieving more innovation capacity for the sake of tailor-made development strategies. As Daniela Huebner, the EU-Commissioner for Regional Policy, puts it quite clearly, "Regions have become the primary spatial units where knowledge is transferred, local innovation systems built and where the competition to attract investments takes place."⁴² The complex co-ordination of different activities such as public-private partnerships or research consortia requires geographical proximity to institutions, authorities, capital, research or labour. As a result of these multi-faceted objectives and demands, processes of regionalisation at both national and EU level have augmented the importance of the region and its role in political, economic, social, and environmental development, while pushing regional cooperation at the same time.

Nonetheless, the EU has long neglected the role that regions and municipalities as actors could and should play to respond to the enormous challenges and to meet severe socio-economic problems. However, over the past few decades, the EU has changed its vision and acknowledged that municipalities and regions are vital instruments that directly contribute to achieving the complex and ambitious goals of the Community. To achieve higher performance and win the acceptance of actions, the EU Commission has to enhance its competence through consultations, including regional and local actors.

That is why new elements introduced by the reform of the cohesion policy aim at a greater decentralisation of responsibilities (Tosics 2005). As part of the EC Regulations of 1988, regions must be involved in the preparation of development plans for structural objectives and in the assessment, monitoring and evaluation of the measures. A monitoring committee at Brussels, composed of representatives from the regions, Member States and the Commission, was set up for each Community support framework and each official program. The framework regulation on goals and tasks of the Regional and Structural Funds was revised after 1999, and stipulates in Article 4 that structural assistance is needed through close consultations between the Commission, the Member State concerned, national, regional, and local authorities and institutions. Additionally, they must engage the economic and social partners.⁴³ This refers to partnership consultations, which cover the preparation, financing and monitoring of operations, as well as ex-ante and ex-post evaluation. This obligation in general is fully in line with the EU's legal framework of the Amsterdam Treaty: "the Commission should [...] consult widely before proposing legislation and, wherever appropriate, publish consultation documents".

42 Danuta Huebner, EU-Commissioner for regional policy in a speech 26.04.2007.

43 *Official Journal* of the EC, No. L 193/8, 31.07.1999.

In addition, the increasing role of the de-central units resulted from the subsidiarity principle established by the Treaty of Maastricht (1992), which, in its consolidated version following the Treaty of Nice 2003, clearly means: “The Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore, by reason of the scale or effects of the proposed action, be better achieved by the Community”. The principle of subsidiarity was established more or less as a response to critics against the mega-bureaucracy in Brussels being too far away from the citizens. Hence, more engagement of the regions and the local level in European affairs would enhance legitimacy for the Union.

The Lisbon Process (which started in 2000) was a quantum jump because the regional and local actors were perceived as indispensable in the preparation of the National Lisbon Strategies. Regional and local involvement is needed in the preparation of the National Lisbon Strategies, as only these actors can ensure the use of local opportunities, address local needs, and give the necessary weight to environmental and social aspects. The European Council of March 2005 underlined that greater ownership of the Lisbon objectives on the ground is necessary, involving regional and local partners, particularly in areas, where proximity matters such as innovation and the knowledge economy, entrepreneurship, and support for small and medium-sized enterprises.⁴⁴ Economic development is driven by the availability of research institutions, innovative businesses, talents and skills – and the new way they interact with one another. In such a context, public investment policy is most effective when implemented by local and regional authorities, which best know the potential, the strengths as well as the weaknesses of their territories.

Thus, in the latest debate over how to achieve the ambitious goals of the Lisbon process, the EU has recognised the possible and necessary functions of the sub-national units. Aware of this background, the Commission declared in 2002 that it would establish from that year onwards a more systematic dialogue with European and national associations of regional and local government at an early stage of policy shaping. In addition, the Commission promised to launch in 2002, pilot “target-based contracts” within one or more areas, as a more flexible means of ensuring the implementation of EU policies. In particular, the “Committee of the Regions” should play a more proactive role in examining policy, for example through the preparation of exploratory reports prior to Commission proposals. Furthermore, more emphasis should be put on organizing the exchange of best practice on how local and regional authorities are involved in the preparatory phase of European decision-making at the national level.

Finally, the Commission aimed at reviewing the local and regional impact of certain directives so as to report on the possibilities for more flexible means of application. The Commission considered a more systematic approach to allow such

44 https://www.cvce.eu/en/obj/conclusions_of_the_brussels_european_council_22_and_23_march_2005-ene763cf50-ad91-4e4d-a7d8-e88f81e29490.html (accessed: 23.03.2005).

flexibility for some parts of Community law. The Member States, on the other hand, should examine how to improve the involvement of local and regional actors in EU policy-making and promote the use of contractual arrangements with their regions and localities.

On the whole, the expansion of the Union's activities has reached closer to regions, cities, and localities, which are now responsible for implementing EU policies in a wide range of areas. The stronger involvement of regional and local authorities in the Union's policies also reflects both their growing responsibilities in some Member States and a stronger engagement of people and grassroots organisations in local democracy. Yet, the way in which the Union currently works does not allow for adequate interaction in a multi-level partnership, one in which national governments fully involve their regions and cities in European policy-making. Regions and cities often feel that their role as an elected and representative channel interacting with the public on EU policy is not exploited in spite of their increased responsibility for implementing EU policies.⁴⁵

Despite these complaints, the increased participation in decision-making normally has been interpreted as a democratic act following bottom-up pressure. Additional political causes might be traced back to limits to the central state's steering capacity on the one hand and evaporating shelter and protection of its sub-units on the other. Following a top-down-strategy, central states and the EU are passing down responsibilities to regions and municipalities. Thus, central governments could free themselves from the demands and criticisms of their citizens who demand adequate strategy to fight against the problems like increasing poverty and unemployment. In addition, the EU could win greater acknowledgement and could work against its disappearing legitimacy when engaging the regions and municipalities in the decision-making process. Furthermore, the increasing participation at de-central political level not only contributes to more democracy but it might achieve more efficiency through activating the endogenous potential of more citizens when implementing common European goals.

5.6. Involving civil society

It is obvious that civil engagement is contributing to a greater number of successful measures in many areas, for example, to reach environmental goals like the fulfillment of the ambitious objectives of the Kyoto Protocol. Furthermore, the new Central and Eastern EU Member States need to develop democratic institutions and

⁴⁵ Commission of the EC, European Governance, A White Paper, Brussels, 25.07.2001 COM(2001) 428 final:12.

a democratic culture, conscious of the traditionally strong role of an authoritarian central state in the socialist past. This might be attained through more self-government of their cities and regions, which would help increase direct citizen participation. As the objective of its “Tempus Program”, the European Union encouraged the development of civil society in the countries of the former Soviet empire, as part of their preparation for membership. Through collaboration between the old members and the new members, the exchange of best practices was designed to help stabilise democratic culture and to develop new institutions in the transformation process to a market society. Only a decade after the downfall of the Berlin wall and the end of socialism in Europe, the Commission had identified the reform of European governance as one of its four strategic objectives to deal with future development. Political developments since then have highlighted that the European Union faces a double challenge: there is a need for not only urgent action to adapt governance to the existing treaties but also a broader debate on the future of Europe in view of the next Inter-Governmental Conference.

This necessary broader debate on the European future should involve more citizens, consultation a broad spectrum of stakeholders, and provide opportunities for input from representatives of regional and local authorities, from civil society organisations, businesses and their associations, individual citizens, academics and technical experts, and interested parties. The principal aim is to encourage more involvement of interested stakeholders through a more transparent consultation process, which will not only enhance the Commission’s accountability but increase steering capacity thanks to engaging stakeholders’ knowledge in their own affairs. Therefore, civil society plays an important role in giving voice to the concerns of citizens and delivering services that meet people’s needs. Churches, religious communities and welfare organisations have a particular contribution to make, mostly for those suffering from exclusion or discrimination like minorities, the unemployed, the poor and families. These organisations help mobilise people and engage in the support for those in need. Besides, these groups which make up civil society often act as an early warning system for the direction of political debate. Non-governmental organisations further play an important role even at the global level in development policy.

With regard to the observation that, already within the existing Treaties, remote European institutions lose acceptance, the Union must start adapting its institutions and establishing more coherence in its policies so that it is easier to see what it does and what it stands for. A more coherent Union will be stronger at home and a better leader in the world. It will be well placed to tackle the challenge of enlargement.

It proposes, therefore, opening up the policy-making process to get more people and organisations involved in shaping and delivering EU policy. It promotes greater openness, accountability and responsibility for all those involved. This should help people to see how Member States, by acting together within the Union, are able to tackle citizens’ concerns more effectively.

The Commission cannot make these changes on its own. Introducing changes requires effort from all the other institutions, central government, regions, cities, and civil society in current and future Member States. The White Paper on Governance is primarily addressed to them. It proposes a series of initial actions. Some of these should help the Commission to concentrate its action on clear priorities within the tasks conferred on it by the Treaty: the right of initiative, execution of policy, guardian of the Treaty and international representation.

The target is clear: the Union must renew the Community method by following a less top-down approach and complementing its policy tools more effectively with non-legislative instruments. It aims at better involvement and more openness. No matter how EU policy is prepared and adopted, the way this is done must be more open and easier to follow and understand. To begin with, the Commission should provide up-to-date on-line information for policy preparation through all stages of decision-making. It should establish a more systematic dialogue with representatives of regional and local governments through national and European associations at an early stage in shaping policy. It necessitates a stronger interaction with regional and local governments and civil society. As Member States bear the principal responsibility for achieving this, the Commission, for its part, should bring greater flexibility into how Community legislation can be implemented in a way which takes account of regional and local conditions. The Commission should establish and publish minimum standards for consultations on EU policy and establish partnership arrangements, which in return, commit the Commission to additional consultation for more guarantees of the openness and representativeness of the organisations consulted. Transparency is the keyword here.

5.7. Transparency

The transparency register, set up by the Commission in 2008 contains more than 4000 organisations that seek to influence European policy. On 23rd June 2011, the Commission and the European Parliament launched a joint initiative to give a further boost to transparency in the EU decision-making process. The transparency register provides more information than ever before on those who seek to influence European policy. The new register extends its coverage well beyond traditional lobbyists on any organisation or individual engaged in influencing EU policy-making and implementation. This is a key step towards the EU's goal of more participatory democracy. The registered individuals and organisations will also have to provide more information than before, such as the number of staff involved in advocacy, the main legislators' proposals they have covered, as well as the amount of EU funding they received. By signing up for the transparen-

cy register, organisations will commit to a common Code of Conduct pledging, for example, always to identify themselves by name and the entity they work for, and not to give information dishonestly. The complaint mechanism and measures to be applied are also outlined to those who break the Code of Conduct. In the end, all organisations, whether trade or professional associations, NGOs, think-tanks or others who have nothing to hide, will be in the register and will provide the public and institutions with information about their work. The daily work of those not registered will be made more difficult, in particular, through the requirements of the European Parliament. Diana Wallis, Vice-President of the European Parliament said: "I feel that we have finally accomplished a goal all working groups set ourselves several years ago, and today, by launching this joint register for interest representatives between the Commission and the Parliament, I hope that we will help to instil a more solid culture of transparency in Brussels."⁴⁶

To sum up, the new transparency register presents an important milestone in creating greater transparency around EU lobbying activities. However, it will only be effective if it is used properly and in the spirit of the Code of Conduct that accompanies it. The renewed register will be a test of the commitment of all parties involved in lobbying for greater openness. The access, participation and consultations of lobbyists on European decision-making not only follow a code of ethics, but they might well give European citizens a better view of how the collaboration and consultations of lobbyists influence European regulations. Nevertheless, even in the future it will remain difficult to identify the different effects and power they have to influence EU policy-making, which is supposedly stronger with large enterprises and powerful organisations.

5.8. The Open Method of Coordination

To increase participation following democratic aspects and aiming at higher efficiency, the EU has developed the above-mentioned Open Method of Coordination (OMC). This method rests on soft law mechanisms such as guidelines and indicators, benchmarking and the sharing of best practices. This means that there are no official sanctions for those Member States which were reluctant to achieve the goal. Rather, the method's effectiveness relies on a form of peer pressure and naming and shaming, as no member state wants to be seen as the worst or the last one in a given policy area. New modes of governance are often deployed as a complement to the Community method as well as a substitute for it, and they are often the most effective when combined with it.

⁴⁶ https://ec.europa.eu/commission/presscorner/detail/en/IP_11_773 (accessed: 23.06.2011).

The OMC was first applied in the EU employment policy, as defined in the Amsterdam Treaty of 1997, though it was not called this at the time. It was officially named, defined and endorsed at the Lisbon Council for the realm of social policy. Since then it has been applied in the European employment strategy, social inclusion, pensions, care, immigration, asylum, education, culture and research, and its use has also been suggested for health as well as for environmental affairs. The OMC was also frequently debated in the European Convention. The ideal-type OMC as defined by the Lisbon strategy works in several steps:

1. The Council of Ministers agrees on (often very broad) policy goals and then fixes guidelines for the Union, combined with specific timetables for achieving the goals that they set in the short, medium and long terms.⁴⁷
2. In the next stage, these European guidelines are translated into national and regional policies by setting specific targets and adopting measures, consider national and regional differences. Where appropriate, specific benchmarks and quantitative and qualitative indicators to measure best practices are agreed upon.
3. Finally, periodic monitoring, evaluation and peer reviews are organised as mutual learning processes.

However, the OMC differs significantly across the various policy areas to which it has been applied. In practice, the OMC instrument is used differently according to the specific conditions of the policy areas, and thus the OMC template provided by the Lisbon Strategy is not always followed entirely. Consequently, there is not one OMC, but many. There may be shorter or longer reporting periods, guidelines may be set at EU or Member State level and enforcement mechanisms may be harder or softer. On the whole, the new Modes of Governance are not homogenous, and some of them are not necessarily new inventions as such, having existed for years at the national or international level. The politics of EU decision making will remain complex.

Generally, the OMC is more intergovernmental than the traditional means of policy-making in the EU – the so-called community method. Because it is a decentralized approach through which agreed policies are largely implemented by the Member States and supervised by the Council of the European Union, the involvement of the European Parliament (EP) and the European Court of Justice (ECJ) is very weak. It will return the EU to the institutional balance of the early days of the Community method with a role for the Commission, Council, Member States, and interest groups, but almost none for the EP or the ECJ. Formally, at least, the European Commission has primarily a monitoring role; in practice, however, there is considerable scope for it to help set the policy agenda and persuade reluctant Member States to implement agreed policies. At first glance, the Open Method of Coordination takes place in areas that fall within the exclusive responsibility of national governments, such as employment, social protection, social inclusion,

⁴⁷ Like the energy policy objectives by 2020: 20% less CO₂-emissions, 20% more renewable, 20% more efficiency of energy use.

education, youth, and training, where the EU itself has no, or few, legislative powers. Despite this competence of Member States, the OMC is sometimes seen as a tool for the Commission to interfere in national policy areas. The Commission has established for itself a significant role as initiator, driver, and agenda setter in the OMC, above all, in the field of education and training. European integration in this policy area has increased significantly since the OMC started to be used as a form of governance.

Historically, the OMC can be seen as a reaction to the EU's economic integration in the 1990s. This process reduced Member States' options in the field of employment policy. However, they were also increasingly unwilling to delegate more powers to European institutions and thus designed the OMC as an alternative to the existing EU modes of governance leaving the implementation to be defined by Member States. The Open Method of Coordination thus allows Member States to adapt the objectives to their own administrative and political culture and to implement the goals tailored to their given standards and conditions. In addition, proposals need to have a full picture of the impacts. They can then be tailored to have the best effect and to minimize negative side-effects.

Furthermore, the use of New Modes of Governance (NMG) in the European Union is an attempt to respond to the legitimacy debate around the EU and a recognition that a limit to integration had been reached with the Community method.

5.9. Better regulation complying with the proportionality principle

The EU's "Better Regulation policy"⁴⁸ aims at simplifying and improving existing regulation to better design new regulation and reinforce the respect and effectiveness of the rules, all of which are in line with the EU's proportionality principle. Governance and better regulation are on-going processes – they will continue. Making good laws and regulations is a challenge: public authorities at every level need to provide citizens and consumers with the security they expect, while at the same time creating the conditions to allow our businesses to compete more effectively and be more innovative in a highly competitive global environment. The European Commission is committed to striving for excellence in policymaking and regulation. Much has been done in recent years, but there is more to do. The European Commission will continue to work closely with the other European institutions, the Member States and regional and local authorities to deliver on this challenge.

⁴⁸ https://ec.europa.eu/commission/news/better-regulation-principles-2019-apr-15_en (accessed: 15.04.2019).

The European Union has, over the years, developed a sophisticated body of legislation which continues to deliver economic development, environmental protection and improvement of social standards, notably through the completion of the internal market. As progress towards these objectives is being achieved, it has also become clear that the way in which the EU regulates has considerable impact on whether it meets these objectives efficiently.

In the context of the renewed Lisbon Strategy, which refocused on growth and jobs, the Commission has therefore launched a comprehensive strategy on better regulation to ensure that the regulatory framework in the EU contributes to achieving growth and jobs, while continuing to consider the social and environmental objectives and the benefits for citizens and national administrations. The Better Regulation strategy is, therefore, based on three key action lines:

1. promoting the design and application of better regulation tools at the EU level, notably the simplification and reduction of administrative burdens and impact assessment;
2. working more closely with Member States to ensure that better regulation principles are applied consistently throughout the EU by all regulators;
3. reinforcing the constructive dialogue between stakeholders and all regulators at EU and national levels.

To improve the quality of its policies, the Union must first assess whether action is needed and, if it is, whether it should be at Union level or at the level of the Member States and regions following the subsidiarity principle. Where Union action is required, it should consider a combination of different policy tools.

When legislating, the Union additionally needs to find ways of speeding up the legislative process. It must find the right mix between imposing a uniform approach when and where it is needed and allowing greater flexibility in the way that rules are implemented on the ground. It must boost confidence in the way expert advice influences policy decisions. With regard to these challenges, the Commission therefore has to promote greater use of different policy tools (regulations, “framework directives”, co-regulatory mechanisms) to further simplify existing EU laws and encourage Member States to simplify the national rules which give effect to EU provisions. In addition, there is a demand for more transparency and openness by publishing guidelines on the collection and use of expert advice, so that it is clear what advice is given, where it comes from, how it is used and what alternative views are available. Finally, more effective enforcement of Community law is necessary not only for the sake of the efficiency of the internal market but also for strengthening the credibility of the Union and its institutions. To achieve these goals, the Commission should establish criteria to focus its work on investigating possible violations of Community law and define the criteria for the creation of new regulatory agencies and the framework within which they should operate.

Better regulation also has a strong external dimension. In a global market place, rules developed elsewhere impact on European business and rules applied in other markets can have implications for imported products and services in Europe.

International cooperation and dialogue are essential – not only to provide high levels of consumer, social and environmental protection – but also from a business perspective. Just as the drive to create the single market in Europe was fuelled in part by the desire of business to eliminate unnecessary small differences in regulations between Member States, international regulatory cooperation is motivated by the desire to reduce and eliminate unnecessary bureaucracy between trading partners.⁴⁹ The Commission has regular meetings on regulatory matters with Europe’s key trading partners, in particular, with the USA, and it has benefited from that dialogue in identifying good regulatory practices, like cost-benefit analysis.

5.10. “Smart Regulation”: a new strategy of governance

The Communication “Smart Regulation in the EU” (October 2010) sets out the Commission’s plans to further ensure the quality of regulation. Smart regulation aims at regulating where there is a need to do so while keeping costs to a minimum. The new key word now is “smart regulation,” replacing or modifying the former version of “better regulation”. The previous Commission took up the challenge of improving its decision-making processes through its “Better Regulation” agenda. It left a lasting mark, bringing about important and necessary changes how the Commission works. Wide public consultations and impact assessments have become an inherent part of how the EU prepares legislation. Citizens, businesses and authorities are benefiting from a simpler regulatory environment with lower administrative burdens. Building on these achievements, the Commission needs to go further. Smart regulation is not about more or less legislation – it is about delivering results in the least burdensome way – somehow learning by the US example.⁵⁰

The Commission’s efforts to reduce regulatory burden, including administrative burden, are part of its smart regulation agenda. Smart regulation should ensure that European laws benefit people and businesses. The reduction of regulatory burdens should make European enterprises more competitive on a global scale. The Commission had launched a further initiative to minimize regulatory burden specifically for SMEs and to adapt EU regulation to the needs of micro-enterprises, since SMEs play a key role in economic growth accounting for 99% of enterprises and providing more than two-thirds of private-sector

49 https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-andhow_en (accessed: 18.12.2010).

50 <http://montin.com/documents/smartregulation.pdf> (accessed: 18.12.2010).

employment. Unleashing their growth potential will be of particular benefit to the European economy.

“In the context of the Action Programme, administrative burdens that have been targeted and measured have been estimated at EUR 124 bn. covering 72 EU legal acts in 13 domains which were assumed to impose 80 % of administrative burdens stemming from EU law.

The European Parliament and the Council recently agreed on a compromise concerning the Commission’s proposal (February 2009) allowing Member States to exempt micro-entities (max. 10 employees) from EU accounting obligations which are more fitted to the situation of bigger companies. The agreed measures will allow more than 5 million small businesses in Europe to benefit from a simple system of financial reporting.”⁵¹

To reduce administrative burdens, the High-Level-Group of Independent Stakeholders on Administrative Burdens was set up in late 2007 to advise the Commission with regard to the Action Programme for Reducing Administrative Burdens (for businesses) in the EU. Its main task has been to provide advice on administrative burden reduction measures which were suggested in the context of the Action Programme. “The most prominent feature of the mandate is the report on best practice in Member States to implement EU legislation in the least burdensome way (‘Europe can do better’).”⁵² The exchange of good practice in the implementation of EU legislation might boost the reduction of administrative burdens for businesses in some Member States as well as in the EU as a whole. In the HLG’s report, ‘best practices’ refer to practices that consistently show results that are superior to those achieved with other means. The best practices featured in the report are intended to perform as benchmarks. They should be used as a point of reference for evaluating the performance or level of quality of the implementation of EU legislation.

The evaluation even concerns future effects. The Commission therefore evaluates the impact of legislation during a whole policy cycle (like the Europe 2020 Strategy⁵³) when a policy is designed, when it is in place, and when it is revised. As smart regulation is a shared responsibility of all those involved in EU policy-making, the Commission works with the European Parliament, Council and Member States to encourage them to apply smart regulation in their work.

51 http://europa.eu/rapid/press-release_MEMO-12-116_en.htm (accessed: 18.02.2009).

52 http://europa.eu/rapid/press-release_MEMO-12-116_en.htm (accessed: 18.02.2009).

53 On 3 March 2010, the European Commission has launched the Europe 2020 Strategy to go out of the crisis and prepare EU economy for the next decade. Europe 2020 is the EU’s growth strategy for the coming decade. Concretely, the Union has set five ambitious objectives – on employment, innovation, education, social inclusion and climate/energy – to be reached by 2020. Each Member State has adopted its own national targets in each of these areas. Concrete actions at EU and national levels underpin the strategy. The Commission’s proposal on a new strategy follows a public consultation that attracted some 1500 comments. The strategy builds on what has been achieved and the lessons learned. See: http://ec.europa.eu/europe2020/index_en.htm (accessed: 18.12.2010).

“On the basis of its work the HLG has produced a checklist for good implementation of EU legislation. The checklist is addressed to (public) authorities responsible for the implementation of EU legislation, and the HLG recommends that they take some time to go through the checklist when working on implementation in order to avoid burdensome elements to the widest possible extent. The checklist covers issues such as the objective of the legislation, the exchange of best practice implementation, the use of impact assessments and evaluations, the extent of leeway for implementation, the use of derogations or lighter regimes, active and passive gold-plating, risk-based approaches, the end-user focus, digital solutions and re-use of data.”⁵⁴

5.11. Conclusion

On the whole, the governance concept that is used by the European commission presents a democratic and efficiency aspect. This can be perceived as an indicator that the widespread opinion that there are contradictions between democracy and efficiency is widely mistaken. Engaging more people in the decision-making process helps improve both democracy and steering capacity. In many cases, better regulation needs the engagement of far more actors than just the EU Commission, the EU Council, and the ruling majority in the parliaments of Member States. For instance, it is evident that without including regions and the local level with their citizens and NGOs in implementing the strategies, the ambitious goals of fighting climate change cannot be achieved.

On the other hand, it is contradictory to all efforts on better and smarter regulation that we are facing a revival of centralized decisions and an attempt even to exclude national parliaments in fields which belong to their highest value, namely to decide on the public budget in the case of the debt crisis in the euro-zone. Despite this fact, we surmise that the process of more consultation and participation cannot ever be stopped. Decision-making will and must be nearer to the people as long as politicians tackle increasing distrust in state institutions. The problem is acknowledged by national parliaments and governments alike. It is particularly acute at the level of the European Union. Many people are losing confidence in a poorly understood and complex system to deliver the policies that they want. The Union is often seen as remote and at the same time too intrusive. Yet, people also expect the Union to take the lead in seizing the opportunities of globalisation for economic and human development and in responding to environmental challenges, to unemployment, to concerns about food safety, to crime and regional conflicts.

54 http://europa.eu/rapid/press-release_MEMO-12-116_en.htm (accessed: 18.02.2009).

They expect the Union to act as visibly as national governments. Democratic institutions and the representatives of the people, at both national and European levels, can and must try to connect Europe with its citizens. This is the starting condition for more effective and relevant policies aiming at real governance concepts and would help to regain trust in the EU.

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6. The case of Germany: reasons for the growth of “Alternative für Deutschland” (AfD) in the former GDR

6.1. Introduction

The results of the elections clearly indicate that in the former GDR the far right-party, AfD (Alternative für Deutschland), has more support than in the west of Germany. There are two main reasons for this: Firstly, there are clear empirical data that even after 30 years of re-unification, the eastern population is still hit by higher unemployment and poverty. Despite all the promises of the government and politicians, there has been no change or improvement in the situation. The second aspect concerns the relatively high number of refugees, who are perceived as competitors in the social security system. There is a widespread saying in east: “For the refugees, you (politicians) will do anything but you have neglected us”. The high and rising xenophobia in the former GDR is a consequence of the historical lack of interaction with foreigners. This is in stark contrast to the multicultural towns in West Germany, where it is normal for children from kindergarten onward to spend time in the company of people from many cultures. Foreign children are accepted, and they not seen as endangering other Germans’ identities. The situation is quite different in East Germany: most cities have a very low percentage of foreigners, which makes it easier to reject them.

Even if in Eastern Germany the amount of xenophobia and the support for the extreme right is higher than in the West, we should not neglect that in the West is a non-acceptable number of voters for the AfD at the expense of the former main parties the Christian Democrats and the Social Democrats. This is a real threat to democracy.

6.2. Failing convergence despite the German system of interstate equalisation

Since the reunification of Germany in 1990 and after the accession of the five new Laender from what had previously been the German Democratic Republic, the Federation now consists of 16 states with a total population of over 80 million. However, there are large differences in area, population and financial means. West Germany had established an outstanding financial system to guarantee equivalent living conditions in all parts of the country in the spirit of solidarity. This system forces the richer states to pay for the poorer ones through the “interstate equalisation system”. However, this spirit of solidarity changed to a spirit of competition: the richer Laender were no longer willing to share their surplus above the average tax receipts with the poorer ones because this would punish their engagement in economic growth and minimize respective the efforts of the poorer Laender. In 2005, the complaints of the richer Laender succeeded in reforming the interstate payments (see below). Nevertheless, these financial transfers had contributed to more equal living conditions in all western states.

The division of fiscal and legislative responsibilities forms the centre of every federal constitution. For responsibility and accountability to be real, congruence of political and fiscal powers is indispensable. In other words, devolving power to decentralized units is worthwhile only if the necessary taxation powers go with it. This is known as the principle of connexity. As long as the central government controls the financial strings, decentralisation is but facade. The one who pays the piper calls the tune – this is as much a truism in politics as anywhere else.

Germany’s constitution therefore guarantees that the Federation and Laender receive appropriate levels of funding. The procedural regulations in this regard are divided into four phases:

1. First, the entire tax revenue is distributed to the two levels of government – namely the Federation and all the Laender – and the municipalities receive a supplementary grant of revenue (vertical distribution).
2. Next, the total Laender portion of tax revenue is assigned among the various Laender (horizontal distribution).
3. In a third stage, there is equalisation between poor Laender and rich Laender (financial equalisation among the Laender).
4. In addition, poor Laender also receive funds from the Federation (supplementary federal grants).

While the Basic Law distinguishes between the right of each layer of government to legislate on specific taxes, as well as the right to appropriate the proceeds of taxes, in practice, the two are tied together. The exclusive federal power to legislate on taxes is restricted to customs duties and fiscal monopolies. The power to legislate on all taxes whose revenue is shared is concurrent; in practice, this means

that the Laender can use the Bundesrat as their vehicle for shaping federal tax legislation. The major feature of German revenue-raising arrangements is the constitutionally mandated sharing of tax revenues (Rentzsch 2009). Nevertheless, even after the redistribution of tax receipts, economic and social differences among the German states remain evident.

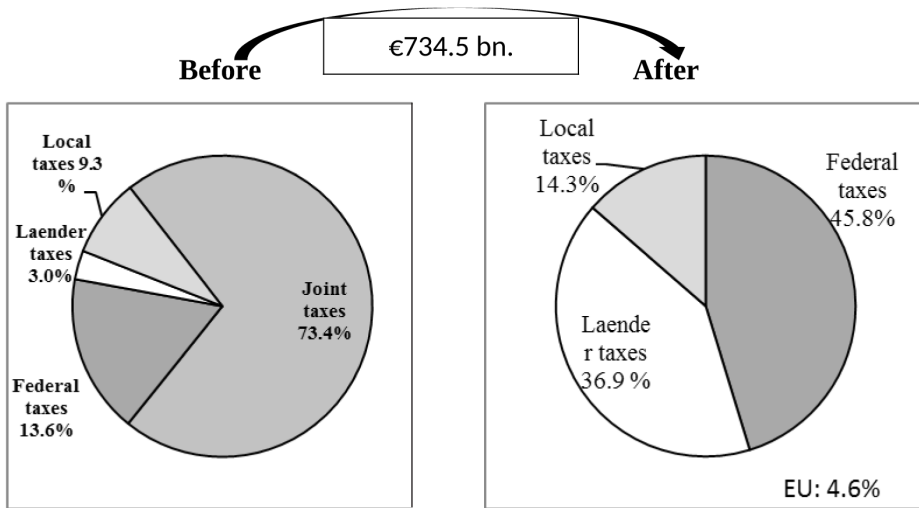


Figure 6.1. Tax re-distribution 2017

Source: Bundesbank, monthly report, February 2019: 60 and Federal Statistical Office 2018: 279.

That is why Germany introduced the interstate equalisation system, which forces the rich states to support the poor ones. This system ensures that fiscally weak states also have adequate financial resources to fulfil their tasks and develop their sovereignty. Aligning the revenue of the Laender is intended to create and maintain equal living conditions for the entire population in all parts of Germany (Figure 6.1).

The starting point for the financial equalisation among the Laender is the financial capacity per inhabitant of the various Laender. The financial capacity of a Land is the sum of its receipts and (64%) of the receipts of its municipalities. In principle, all types of Laender and municipality revenue are considered when determining the financial capacity. However, there are exceptions to this rule.

The exact size of the adjustment payments to a poor, fiscally weak Land depends on the amount by which its financial capacity per (fictitious) inhabitant falls below the average financial capacity per inhabitant. The difference from the average is topped-up partially, but not completely. A linear-progressive topping-up schedule is used to calculate by how much the difference is topped-up.

Similarly, the size of the adjustment amounts which a rich, fiscally strong Land has to pay depends on the amount by which its per-capita financial capacity

exceeds the average fiscal capacity per inhabitant. The difference from the average is skimmed-off partially, but not completely. A linear-progressive skimming-off schedule is used, which is symmetrical to the topping-up schedule. To ensure the sum of the adjustment amounts correspond with the sum of the adjustment payments, the adjustment amounts are either increased or decreased by a corresponding percentage.

The regulations are designed to ensure that the order of the Laender, in terms of financial capacity per inhabitant, does not change as a result of the financial equalisation among the Laender. However, the financial equalisation among the Laender is not intended to do away with their fiscal autonomy and sovereignty. This is why differences in receipts among the Laender are only reduced and not fully compensated.

Take the example of a fiscally weak Land with a financial capacity per capita that is 70% or 90% of the average before financial equalisation. Once the financial equalisation system has been applied, this increases to 91% or 96% of the average. On the other hand, a fiscally strong Land with 110%, 120% or 130% of the average financial capacity per inhabitant before equalisation has between 104% and 109% afterward.

Furthermore, federal grants will be received for special needs. These serve to compensate specific special burdens of individual inefficient states. They are small Laender, with relatively higher costs for the political administration or Laender with higher social spending.

In principle, the system of financial equalisation among the Laender assumes that the financial requirement per inhabitant is the same in all the Laender. This assumption is not appropriate in the case of the Laender of Berlin, Bremen and Hamburg, which are city-states. The city-states are simultaneously both municipalities and Laender in their own right. They have a much higher financial requirement per inhabitant than the normal Laender. Therefore, for the purposes of the equalisation system, their populations are notionally increased by 35%. A comparable method is exercised concerning the three sparsely populated Laender of Brandenburg, Mecklenburg-Western Pomerania and Saxony-Anhalt, which also have a slightly higher financial requirement per inhabitant. Their populations are therefore slightly notionally increased for the purposes of the financial equalisation.

General supplementary federal grants further reduce the gap between the average financial capacity per inhabitant in the poorer Laender which remains after financial equalisation among the Laender. These supplementary federal grants go to Laender whose financial capacity per inhabitant, after financial equalisation, is less than 99.5% of the average financial capacity per inhabitant. The shortfall is made up proportionally. This means that a financially weak Land, whose financial capacity per inhabitant stands at 70% or 90% of the average before financial equalisation, has 97.5% or 98.5% of the average per capita financial capacity, once the equalisation and general supplementary federal grants have been applied (Table 6.1).

Table 6.1. Interstate equalisation since 2005

Financial power per capita of each state before interstate equalisation as a % of the average	Financial power per capita of each state after interstate equalisation as a % of the average	Financial power per capita of each state after interstate equalisation plus federal supplements as a % of the average
70	91	97.5
80	93.5	98
90	96	98.5
100	100	
110	104	
120	106.5	
130	109	

Source: www.bundesfinanzministerium.de (accessed: 18.12.2005).

The difference from the average for the Laender is therefore considerably and clearly reduced overall. As we can see from the following Table 6.2 East German states (with Berlin as a former divided town) were on the top of receivers of both transfers from the richer states and federal supplements. The Laender receiving such federal grants for special needs bear sole responsibility for their use.

Since the 1980s, increasing disparities in economic development among the Laender generated doubts about the existing regulations of inter-Laender financial equalisation. In the post-reunification period, the difficulties were made even more significant. While initial transitional financial arrangements were made in the wake of reunification and were undoubtedly accepted, the continuing economic disparities between East and West and among the poor and wealthy states in the former West Germany caused a growing uneasiness with the equalisation system. The wealthy Laender believe that the system subsidises economic and financial mismanagement among the poorer Laender and penalise the Laender that are better economic managers (Merten 2007).

The result is that there have been calls for the further reform of German federalism and a lawsuit of the most important donor Laender (Hesse, Baden-Wuerttemberg, and Bavaria) with the Federal Supreme Court. Following the directive of the Supreme Court, after the application of all elements of financial equalisation, the economically strong states should not be in a worse position like the financially weaker ones (Table 6.2).

As the Court underlined, the financial responsibility of the Laender should not be removed by financial equalisation. This is the reason why differences in revenues between states may only be alleviated but not entirely cleared. Donor Laender, in the meantime, can keep a greater amount of their above-average tax revenues. This is supposed to give a better incentive for successful economic activity.

Table 6.2. Interstate equalisation system in 2010 and 2017 (million euros) – in Germany

Leander	2010	2017
Bavaria	-3511	-5887
Baden-Wuerttemberg	-1709	-2779
Hesse	-1752	-2480
Hamburg	-66	-40
North Rhine-Westphalia	354	1243
Saarland	89	198
Schleswig-Holstein	101	239
Lower Saxony	259	696
Rhineland-Palatinate	267	392
Bremen	445	692
Mecklenburg-W.	399	523
Brandenburg	401	607
Saxony-Anhalt	497	539
Thuringia	472	641
Saxony	854	1184
Berlin	2900	4233

Source: Federal Ministry of Finance (BMF): Finanzbericht 2018: 267.

6.3. Poor economic conditions in the former GDR

After the re-unification the much poorer East German states were eligible to benefit from the transfers of this system of interstate equalisation, too. The starting point from a socialist system to a market system was experienced as shock-therapy for the former GDR. Market economy structures, free pricing, and the privatisation of state enterprises were among the accompanying phenomena of the unification process. Here are some data concerning the starting point of economic development in comparison to West Germany, which indicate that the former GDR was in a relatively poor economic condition (Becker 1995; Eißel 1993).

- Assessment of the competitiveness of former state companies in a market society: only 2% were already fit; 48% might be developed to reach competitiveness in the near future; the rest would need heavy investments and 30% should be liquidated;
- Productivity: about one-third of the level in comparison to West German level;
- Loss of customers because of the socialist 'Council for Mutual Economic Assistance (CMEA)' decided to transact their mutual trade by currency (instead of goods exchange).

“In 1990 the GDR economy suddenly lost almost all of its customers, namely the domestic customers, because the GDR citizens only wanted to buy Western goods. It lost many foreigners from the east, because the socialist economic group CMEA decided at the beginning of 1990 in Sofia to convert the internal trade to foreign exchange. The Hungarians then bought Japanese cars instead of GDR cars. And it lost its West German customers because products made in East Germany were not cheap goods when the wages in the east had to be paid with Western money” (Schröder 2007: 18).

- Wages increased immediately by 20% and after the currency union by an additional 50%,
- The exchange rate within the context of the monetary union of 1.8:1 between Mark of the GDR and the German Mark for credit balances, 2:1 for debt, and 1:1 for wages, salaries, scholarships, pensions, and rents followed political and less economic considerations (Ritter 2006: 165f).

Because of these relatively bad conditions, many socialist companies could not survive and were liquidated, mainly within the first 15 years after reunification. Low productivity was a handicap for eastern Germany’s economy from the very beginning, and it was worsened by the currency union, which only could have provided better competitiveness if the exchange from the old East-Mark to the Deutschmark would have followed market rules of devaluation. But of course, political reasons did not allow such a harsh downfall of the former East German currency. Furthermore, increasing wages by 70% in the first year after reunification worsened the profitability of Eastern production. One strategy might have been to subsidise Eastern wages, but there was limited political support for such a strategy (Tables 6.3–6.5, Figure 6.2).

Table 6.3. Balance of Liquidations or Foundations in the Economy per 100,000 Inhabitants

Year	East Germany	West-Germany	Year	East Germany	West Germany
1991	882	147	1999	82	89
1992	499	170	2000	39	108
1993	265	167	2001	24	97
1994	211	139	2002	22	89
1995	191	143	2003	118	57
1996	69	120	2004	245	135
1997	116	128	2005	67	43
1998	118	125	2010	-9	30
			2015	-82	-45

Source: IMF Bonn.

During 25 years after re-unification the GDP per head in the former GDR doubled from 32% of the GDP level in West in 1991 to 68% in 2015. However, this means it still only reached a level of two-thirds, even though the productivity in East Germany, as a % of the West Germany increased more rapidly: from 34.1% in 1991, to 63% in 2000 and 74% in 2015.

Table 6.4. Economic conditions in Germany in euro

Year	GDP per head			Unemployment in %		
	West-Germany	East Germany		Year	West-Germany	East-Germany
	absolute	absolute	as % of West	1990	7.2	2.7
1991	22,687	7,342	32	1994	8.1	14.8
1995	25,206	14,626	58	1998	9.2	17.8
2000	27,959	16,785	60	2000	7.6	17.1
2005	30,226	19,155	63	2005	9.9	18.7
2010	34,059	22,532	66	2010	6.6	12
2015	39,187	26,829	68	2015	5.7	9.2
2017	41,659	28,343	68	2018	4.8	6.9

Sources: Federal Statistical Office, February 2017; www.statistik.arbeitsagentur.de (accessed: 12.12.2018); Federal Ministry for Economy Affairs and Energy 2018.

The consequence of these bad economic conditions hurt the Eastern workforce, with unemployment rates twice as high as the average in the West, and a negative balance of migration with mainly better-trained people leaving home. Additionally, the income position of the population remained relatively low, and poverty rates remained at a high level.

Table 6.5. Available income per head

Year	West Germany	East Germany	
	absolute	absolute	as % of West
1991	13,788	7,247	52.6
1995	15,317	11,400	74.4
2000	16,598	13,091	78.9
2005	18,546	14,778	79.7
2010	20,100	16,572	82.4
2015	22,312	18,466	82.8

Source: Federal Statistical Office. Datenreport.

The upsurge of unemployment – unknown in the GDR due to politic – to 15.4% and a standard of living that was about half of the average in West Germany, needed spontaneous financial support by the federal state and the western Laender (To-faute 1993; Ragnitz 2004). Thus, they immediately established the German Unity Fund to support investments in the inadequate infrastructure (motorways, rail, tele-communications). It started with €115 bn and the sum gradually increased to €162 bn. in 1994, 60% of the fund was addressed to the Eastern states, and 40% to their local level.

The federal state contributed by €50 bn., the Western states by €16 bn., and the rest of the enormous €95 bn. by taking loans from banks (Zinsmeister 2009: 146–160). At that time the idea of a solidarity fund paid by all Western citizens was discussed, and in the euphoria of the reunification, it was believed that it would find huge support. Nevertheless, Chancellor Kohl declared that all the costs could be paid by pocket money and soon East Germany would be a flourishing region in three to four years.⁵⁵

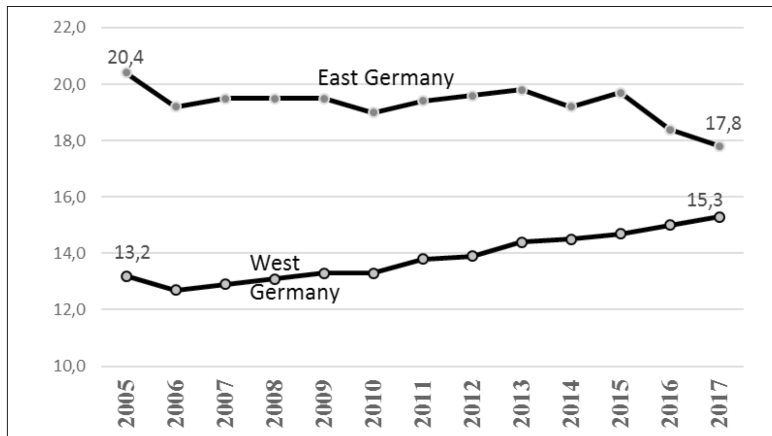


Figure 6.2. Development of relative income poverty in %
Source: www.amtliche-sozialberichterstattung.de (accessed: 18.12.2018).

The reality of the development showed that Kohl was totally wrong. East Germany was ongoing hit by a high unemployment rate, de-population and a remaining low living standard.

That is why, in 1993, the federal government and the minister-presidents of the Laender, firstly increased the fund and decided on the so-called “Solidarity-Pact I”, which was to start in 1995 and end in 2004 (Czada 1995). With €94.5 bn. the new Laender and their towns were able to pay to overcome ecological problems, to modernise their infrastructure, and restore buildings. However, again, the results

⁵⁵ Helmut Kohl: Fernsehansprache von Bundeskanzler Kohl anlässlich des Inkrafttretens der Währungs-, Wirtschafts- und Sozialunion, 1.07.1990.

of the enormous transfers from West to East were poor as the data show that unemployment and poverty remained high. Thus, it was clear that there was a need for a continuing fund, which was named “Solidarity Pact II”. This fund ended in 2019, and it covered a sum of €156.5 bn. Its central aims concerned supporting companies, improving infrastructure (roads, motorways, railways, communication systems), and creating a new public administration following Western laws. The estimates for the total costs (as of 2014) of the German unit, including the social transfer, range between €1.3 trillion and €2.0 trillion, which is an annual increase of about €100 bn (Weidenfeld, Korte 2009: 369). A large part of this is social benefits which are financed through transfers in pension and unemployment insurance. The construction aid from specific programs to improve the infrastructure and to support enterprises in the area of the new Laender, the construction of east adds up to around €300 bn. The highest costs were due to upgrading pensions and unemployment benefits: before 1990, pensions in East Germany were at one-third of those in West Germany. By adopting laws from the west of the country, pensions increased to a level of 70% of the salary after 45 years of work. In the GDR pensions were mainly paid by the socialist state companies, which stopped after East Germany became a market society. Thus, the social security system in the west had to take on these payments. Unemployment in the GDR was unknown (instead, there was overemployment due to socialist ideals), but after the shock therapy of entering the market, nearly one in six lost their job. In addition to the West-German financial support, East Germany received support from the EU’s Regional and Structural Funds. Those who are 25% below the EU average of GDP per capita are eligible.

After German reunification in 1990, the EU played a key role in building up East Germany. Between 2000 and 2006 EU subsidies and regional aid of around €23 bn. went to Mecklenburg-Western Pomerania, Brandenburg, Saxony-Anhalt, Thuringia and Saxony. In the meantime, the sum of the EU subsidies from the European Structural Funds increased to €43 bn. in 2015.

With regard to the specific German Aid programme it is currently not clear what will happen after the end of the “Solidarity Pact II” in 2019. While politicians in East Germany demand ongoing financial support by the west, many politicians in the West declared that there should be no continuance.

Not paying for the unification costs through taxes, in particular, special supplements to the income tax but taking loans increased public debt in Germany far above the limits set by the regulation in the Euro-zone, which should be limited at a maximum of 60% of GDP (Zinsmeister 2009: 146–160).

The consequence was a change of the German constitution, which forced all political levels (federal, state and local) to guarantee a balanced budget starting in 2020. It means that no further borrowing would be allowed (Table 6.6).

Table 6.6. Development of Public Finance

Specification	1991	2000	2010	2015	2018
Debt as % of GDP	41.3%	60.2%	82.5%	71.3%	61.9%
In bn. €	595.9	1210.9	2011.7	2157.9	2069.0
Tax Receipts in bn. € as % GDP	337.9 22.0%	467.4 24.4%	548.7 22.0%	643.5 22.1%	807.7 24.2%

Source: Deutsche Bundesbank monthly report 7/2013: 54 and 12/2019: 58.

The question now is what are the effects of this enormous financial support to fight the huge difference in economic conditions in the former GDR? If we take the data on poverty rates from 2010 to 2017 it clearly shows that some East German states improved their situation, whilst most remained at the bottom of the ranking (see Table 6.7).

Table 6.7. Risk of Poverty in % 2010 and 2017 (measured by federal median)

WEST	2010	2017	EAST	2010	2017
Baden-Wuerttemberg	11.0	12.1	<i>Brandenburg</i>	16.3	15.0
Bavaria	10.8	12.1	<i>Thuringia</i>	17.6	16.3
Hamburg	13.3	14.7	<i>Saxony</i>	19.4	16.8
Hesse	12.1	15.4	<i>Berlin</i>	19.2	19.2
Schleswig-Holstein	13.8	14.8	<i>Saxony-Anhalt</i>	19.8	21.0
Rhineland-Palatinate	14.8	15.6	<i>Mecklenburg-W.</i>	22.4	19.4
Lower Saxony	15.3	16.7	West Germany East Germany	13.3 19.0	15.3 17.8
Saarland	14.3	16.8			
North Rhine-Westphalia	15.4	18.7			
Bremen	21.1	23.0			

Source: Federal Statistical Yearbook 2012: 179; 2019: 190.

Only the city-state of Bremen in West Germany, which had heavy losses in its former shipbuilding industry, currently heads the ranking of regional states which are still hit by poverty rates above the average. Most of the eastern states did not successfully address the poverty of their residents, which was mainly caused by unemployment. Some improvements have only happened during the last three years. Regions hit by depopulation lack a qualified workforce and necessary services, like health care. This in turn, makes it very difficult to attract investors, and without investments – and thereby a positive outlook for jobs in the future – the brain drain to the west cannot be stopped. We know these effects from the case of South-Italy and other regions of the world. On the other hand, migration to centres of production and the service sectors have negative agglomeration effects, because of the increase in traffic and rising prices for flats and houses.

Over the last few years, the relatively high exodus, which was typical for the time until 2010, has nearly come to an end. Between 1991 and 2010, approximately three million of the former 17 million inhabitants of the former GDR left their homes. Because East Germany needed administrative staff to establish the regulations of the West, and because a qualified workforce was wanted to meet the new challenges of a market society, there was migration from west to east, but it did not compensate the loss of the population. The balance of migration, in the end encompasses 1.2 million people.

6.4. Conclusion

Three decades after the fall of the Berlin Wall, East and West Germany are moving closer in terms of the unemployment rate, productivity, and life satisfaction. However, there are also sharp dividing lines, which might be crucial for state elections with the threat of relatively high support for the extreme right party, AfD. These are the findings of a representative survey by the Allensbach Institute for Demoscopy on behalf of *Frankfurter Allgemeine Zeitung* (FAZ 23.01.2019). The people of East Germany are much more sceptical about democracy than West Germans. Only 42% of respondents in East Germany stated that the democracy practiced in Germany was the best form of government. In West Germany this approval was 77% (Table 6.8).

Table 6.8. Do you believe that the democracy that we have in Germany is the best form of government or is there a better one?

Specification	West	East
Democracy is the best form of government	77%	42%
Other forms of government are better	10%	23%
undecided	13	35

Source: Allensbacher Archiv. IfD-Umfrage 11093.

The confidence that the state will fulfil its tasks is also significantly lower in East Germany than in West Germany. Thus, two-thirds of West Germans, but only one in two East Germans, trust that fundamental rights such as freedom of expression are effectively protected. 56% of West Germans, but only 39% of East Germans are convinced that the courts judge independently.

A study by the Friedrich Ebert Foundation in 2016 on the spread of right-wing populist and right-wing extremist attitudes takes a special look at potential voters of AfD and discusses possible explanations for the differences found between East and West Germans. It concerns, in particular, East German regions with fright-

eningly high approval rates for the AfD, in particular, in Saxony, where this party became the strongest force and won three direct mandates.

Meanwhile, a normalisation effect is emerging. Increasingly right-wing extremist, ethnic positions are adopted, but in a more moderate way; racist and nationalist statements are not only acceptable again, but in some places, they are recognised as mainstream.

Table 6.9. Preferences for parties

	<i>West</i>	<i>East</i>
CDU/CSU	37	28
SPD	15	16
Liberals	7	4
Greens	23	10
Left	7	17
AfD	9	21
No answer	2	4

Source: Allensbacher Archiv. IfD-Umfrage 11097. January 2019.

Even more than in the west, right-wing populism in the east of the republic is met with more support and less resistance in broad society.⁵⁶ The rhetoric and ideology of right-wing populism can be described essentially in two dimensions: a vertical dimension, on which “we down here” (the simple, hard-working man) are placed against “those up there” (the elites, the politicians, the media or simply the “system”), and a horizontal dimension in which “we” are against “the others”. “The others” are different social groups that are quite flexible; they are considered deviant, alien, unequal and abnormal. The construction of these social groups occurs through the attribution of characteristics such as ethnic or cultural origin, religion, gender, sexual orientation or identity, disability or social status, e.g. due to homelessness or long-term unemployment. Currently Muslims and asylum seekers are main targets of rejection (Salheiser 2017). There are three reasons behind the relatively high level of rejection of foreigners in the east: first, residents there have had limited interaction with to foreigners during their whole life, while western cities could be made up of a quota about 40% foreigners, and children learn in kindergarten that it is normal to meet different cultures. Second, people in East Germany are characterised by authoritarian education, perhaps due to their long experience of undemocratic regimes. Third, hit by higher unemployment and poverty rates than in the West, many people in the former GDR feel neglected by the political elites. They are more likely to perceive immigrants as additional

⁵⁶ Beate Küpper, Rechtspopulistische Einstellungen in Ost- und Westdeutschland, in: Institut für Demokratie und Zivilgesellschaft (IDZ) DOI: 10.19222/201702/9.

competitors in the social security system, saying “for them they do anything, but what about us” (Küpper, Häusler, Zick 2016: 143–166). However, it would be wrong to neglect that even in West Germany right populism has arrived in the centre of society (Decker, Kiess, Brähler 2016).

In the literature, three main theses can be identified to explain why populism has won so much support. Nevertheless, complex phenomena such as right-wing populism should focus on the interaction of the three approaches, and not to discuss the approaches isolated (Küpper, Berghan, Rees 2019: 197).

For many scientists it is highly evident that neo-liberalism, economic or cultural modernisation produced many losers, who are the main group of supporters of right-wing populism (Ptak, Ralf 2018). Tougher global competition is experienced as worsening working conditions, and reducing wages, and a reduction in the tax load on capital and the rich. Furthermore, there is the constant threat of jobs being moved to other countries. At the same time, cheap labour from all over the world arrives more easily in Europe and causes direct competition, not only for work but also for housing. In addition, when these immigrants are perceived as strangers, it adds feelings of socio-economic and cultural threat.

The second approach assumes that the increase in right-wing populism is due to the developments and impositions of modernity, which leave behind some sections of the population, those who simply cannot keep up with the changes. Thus, socioeconomic developments create fears of social decline or at least blocking a positive future for their children. Under these conditions, cultural developments, which are more cosmopolitan and open to liberal values, create a feeling of disorientation (in the sense of anomie). In consequence, the belief that “previously, people were better off because they knew what they had to do” leads to nostalgic and at the same time, authoritarian reactions.

The third approach takes a critical look at democracy, its processes and institutions, both nationally and at the European level. Supposed incrustations, undemocratic structures, etc. provoke protest. Accordingly, it would need democratic reforms, a stronger involvement of citizens, and possibly also new forms of democratic negotiation to counter populism. Unfulfilled promises of democracy, not only regarding participation but also fair distribution, lead to distrust in democratic structures. If we want to understand these populist criticisms against the ruling elites in Brussels and the European Union, we have to analyse the impacts of the rising inequality (Manow 2018).

We may additionally learn that helping poorer regions to develop their own economy needs more than financial subsidies. This is true not only in the case of the former GDR after the reunification with West Germany but also in other regions of the world. Of course, financial support contributes to improving actual living standards, but without the promising outlook of well-paid job opportunities in the future emigration – mostly of young better-qualified workforces – will continue. What is needed are investments in the future, oriented toward a competitive economy, plus more investments in infrastructure, education, and

research and development. This strategy to reduce inequality needs collaboration from all actors, States, companies, and civil society within the richer and the poorer regions.

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7. Case study UK: populism in Britain – the bitter harvest of financialisation, value-extraction and inequality

7.1. Introduction

Britain has long been regarded as an eccentric, but pragmatic country, the birthplace of democracy in the modern age; its House of Commons was dubbed the “mother of parliaments”, its quirky constitution was the object of affectionate amusement, its monarchy a symbol of stability with a proud theatrical tradition, its historical (self-)importance now tempered by self-deprecating irony and Pythonesque humour. This popular image of likeable eccentricity has now arguably evaporated as a result of the astonishing dystopian spectacle of self-harm and self-isolation that is the Brexit-Tragedy. Our European neighbours have been subjected to a daily demonstration of political stupidity and chaos, otherwise associated with the banana republics, and as lampooned in Woody Allen’s eponymous film, *Bananas*.

Brexit is very likely to spawn a string of satirical films with a rich cast of clowns and villains. Earnest political scientists have been provided with a wonderfully rich case study where they can illustrate the comparative merits of plebiscitary and parliamentary democracies. For the immediate participants in this wasteful and unnecessary drama – UK citizens in Britain and in the rest of the EU, EU-citizens in Britain and elsewhere – colossal challenges lie ahead: real material consequences of the new separation, of increased tribalism and of increased issues of trust. Above all, the intellectual and psychological challenge of explaining to the next generation of voters how the defection of the UK from the EU, which was opposed by 89% of all economists, by 90% of all academics, by a majority of industrialists, by a majority of trade associations and by majorities in both the House of Commons

and the House of Lords, could generate the chaos that has befallen British society since June 2016: How on earth could the “mother of parliaments” preside over this kind of political, lower case “economic”, social and cultural car crash?

My point of departure is that a convincing account of Brexit must use an historical lens in the first instance and an interdisciplinary framework of analysis which is somehow capable of coping with the multidimensional determinants of this “omnishambles”. As a political economist, I will focus predominantly on factors derived from the economic history of Britain and the rest of Europe and the management of economic processes by the dominant social forces over time. At the same time, I will attempt to draw on the concepts and insights of sociologists, social psychologists, anthropologists and cultural historians to avoid convenient, but misleading “certainties”. A key point of departure for this and other related analyses, therefore, is the hyper-complexity of the social and economic relationships of a globalised political economy and the heuristic value of a broad but selective set of factors for the understanding of such relationships in a process of flux.⁵⁷

Explaining the peculiarities of an individual political economy like that of the UK demands both a comparative/contrastive framework of analysis and a strong focus on developments over time. This should allow us to assess the degree to which Britain can be judged to be more or less eccentric, to what extent it converges with or diverges from general patterns of development, and whether it has more or less in common with political economies in comparator groups of states like the OECD or the European Union.

There is no doubt that the UK is currently displaying structural deficiencies as both an economic culture and as a parliamentary democracy, deficiencies which it may indeed share with many advanced states. These deficiencies have come most obviously to the fore since the outbreak of the global financial crisis of 2008. They include weak cyclical recoveries, poor levels of growth of both GDP and productivity, stagnating real wages, lower levels of private and public investment, deficitary external balances, low levels of net savings and higher levels of private debt; public debt rose sharply in the years of the global financial crisis and the pan-European recession of 2009, in large measure as a direct result of the need to prevent the collapse of over-indebted private banks and even more severe recessions. In the ideological context of orthodox monetarism and the primacy of budgetary consolidation, macro-economic policy – in line with EU, OECD and IMF policy preferences – was dominated by the imperative of deficit- and debt-reduction by public authorities and, in the absence of sufficient tax revenues, in severe cutbacks in state expenditure throughout the economic cycle.

57 A valuable tool for visualising economic complexity and for maintaining a healthy level of scepticism about simplistic models of “market efficiencies” or supply-sidism is the Observatory of Economic Complexity: <https://oec.world/en/resources/about/> (accessed: 18.12.2016).

Budgetary austerity was – with the partial exception of 2009, when the automatic stabilisers of statutory welfare obligations applied – pro-cyclical and counter-productive in every EU country, and as such deeply damaging to the medium-term economic and social development of the region. Fiscal austerity made the macro-economic conditions worse. Austerity was the common ground of a regional body (the European Union) and the informal bloc of advanced states (OECD) which maintained either constitutional, statutory or informal allegiance to the monetarist belief in the need to “crowd in” private investment through lower public demand for credit.

While the global financial crisis and the weak recovery have seen a partial erosion of this belief, in particular, within the IMF, they have as yet failed to shift the primary policy focus away from the fixation on inflation and the role of the state debt, which mainstream economists continue to see as the central cause of concern in national economies.⁵⁸

While the UK mirrors many of the deficiencies of other advanced economies, which have arguably contributed to the rise of populism and higher levels of distrust in many of them, it is important to identify the indicators of politico-economic performance which have influenced the particular shape and intensity of UK populism, culminating in the 2016 referendum result and the nightmare of Brexit and of Britain’s defection from multilateral and supranational collaboration with its European neighbours.

7.2. Britain’s singularity: the blessing and the curse of history

Britain’s awkward relationship with the rest of Europe is rooted, to a very considerable extent, in its physical separation as a group of Islands on the western edge of the continent; less vulnerable to invasion, favoured by a temperate climate, well-resourced with water, rich soils, coal and other minerals, it enjoyed relative stability as a political economy through the late Middle Ages and the Renaissance. Centralised statehood with a common jurisdiction, a common currency, standardised weights and measures facilitated the early emergence of agricultural surpluses, centres of trade, commerce and banking, of ship-building, and of a ruthlessly efficient naval fleet protecting a globally active merchant

58 It is noteworthy that several important EU policy makers (Macron, Draghi) and policy advisors (Germany’s Five Economics Institutes) have recognised very belatedly that some kind of fiscal stimulus is necessary to avoid a further dip in growth and investment; *The Guardian* 1.10.2019; *Financial Times* 28.10.2019.

fleet. The early dominance of Spanish and Dutch maritime power was effectively neutralised in the 17th and 18th centuries through the dominance of the slave trade, the superiority of British industrial capitalism and the gradual acquisition of a vast collection of overseas territories under an increasingly bureaucratised imperial administration. These overseas territories functioned as sources of mineral exploitation and cheap labour and as captive markets for British manufacturing exports (c.f. Hobsbawm 1968; Kiernan 1969). Above all, they provided a significant additional competitive advantage for the conduct of the British state's international economic relations and its (hegemonic) advocacy of "free trade". The cumulative effect of the economic and political superiority of the British Empire until the First World War was *the emergence of the City of London as a critical financial hub* for the processing of the capital reserves of both the UK and much of the rest of the world, as well as for the associated financial services of insurance, commercial law, shipping and auditing.

The favourable function of the City of London in the facilitation of Britain's extended dominance in industrial and commercial capitalism and in the state's territorial expansion nevertheless contained the seeds of the future weakening of the UK's political economy; the rates of return on invested capital from the trade in industrial goods, from shareholdings in the wide range of joint-stock companies and from industrial and sovereign bonds generated a set of expectations among investors that was more marked than in rival political economies. These expectations, in turn, generated a degree of complacency among market-dominant industrial enterprises and a preparedness to invest less in either additional or modernised capacity, to extract more value from existing assets and to plough a good proportion of capital reserves into (speculative) financial securities. The implied trend here is indicated both by the sharp fall in the volume of gross investments from around the turn of the 19th to the 20th century and in the overall weaker dynamic of investments as a proportion of GDP over the course of the 20th century.

Before the outbreak of the First World War, the socio-economic effect of a heavy reliance on the financial returns of paper securities, processed by the City of London, was the reliance of a relatively large percentage of UK households on this and other forms of rentier income. The relative stability of British society, British capitalism and the British empire was shaken fundamentally by the catastrophe of two world wars and the economic damage they wrought on living standards, politics and civilisation across the European region as a whole. Even if the growth trends of GDP were weakening before 1914, the militarisation of national economies, of production, employment, investment and consumption priorities interrupted that trend dramatically between 1914 and 1945, as indicated in the six charts below: a decline in per capita GDP (national productivity) in the combatant states, in contrast to the static growth pattern of neutral Sweden, Denmark and Norway (Figure 7.1).

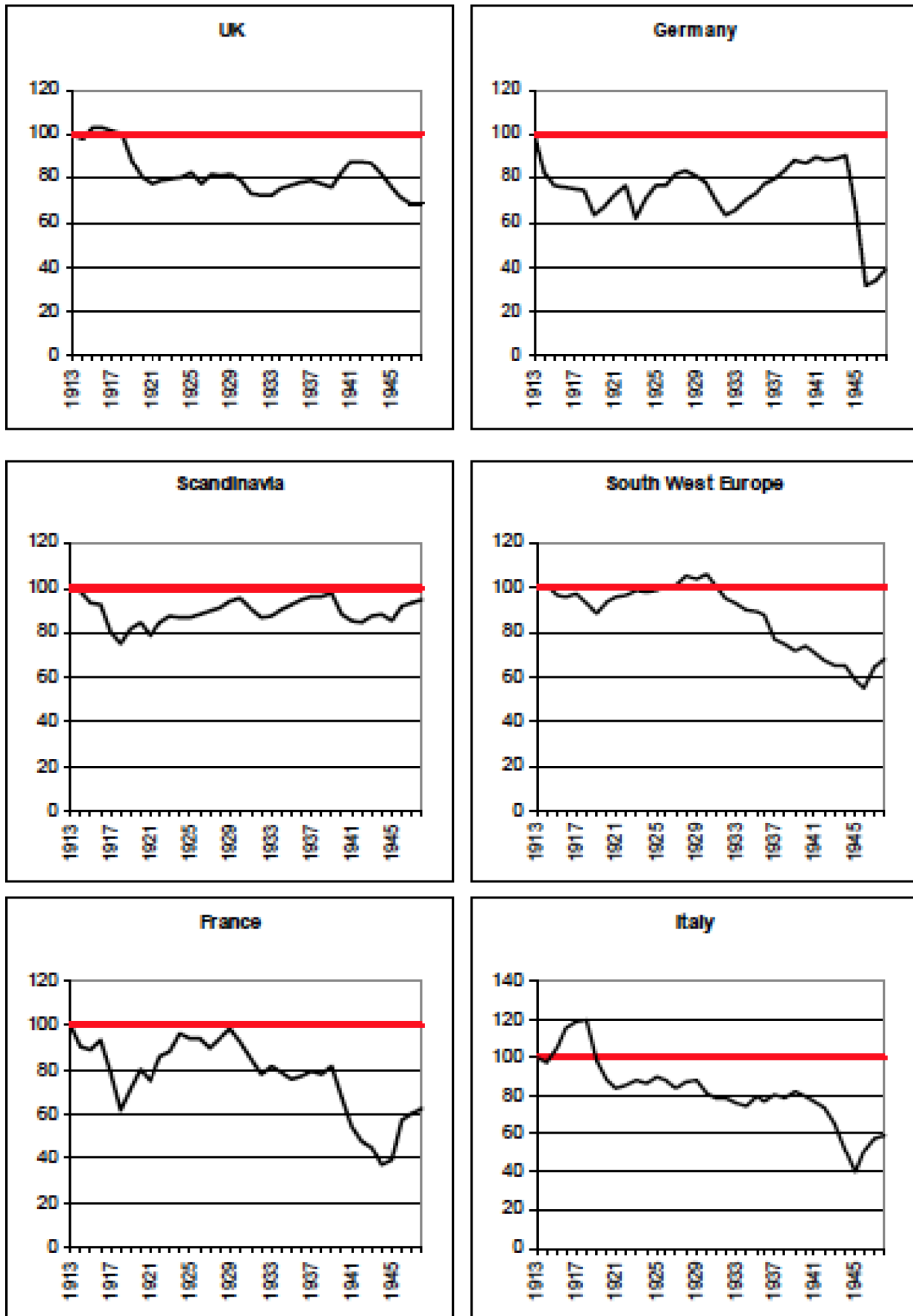


Figure 7.1. Per capita GDP in the UK, Germany, Scandinavia, South-West Europe, France and Italy 1913–1950, relative to 2% growth trend (1913 = 100)

Source: Ritschl & Straumann (2009).

The development of all the main European political economies that were caught up in the maelstrom of war, inflation, recession, unemployment and further war was decisive, most notably in shaping both the physical and technical architecture of recovery after 1945 and the social psychology of political actors and their respective populations. This was above all evident in the evolution of the UK's political economy, whereby victory was more of a hindrance than a favour. In simple terms, there were distinct advantages associated with having lost the war – for Germany, Italy and Japan – inasmuch as these countries were constrained militarily and economically by the conditions of peace and, psychologically, by the humiliation of defeat and, in Germany's case, the shame of complicity in genocide. Conversely, there were arguably considerable disadvantages attached to Europe's victorious powers, most notably Britain. It was objectively impoverished by the cost of war, in particular, by its indebtedness to the USA through the Lend-Lease system, but politically vindicated as a military power defending human rights and democracy in Europe.

British economic history and thus the prehistory of the UK's relations with its European neighbours, of Thatcherism, of the financialisation of the UK economy, the Great Financial Crash and the new wave of Euroscepticism and populism can only be properly explained by reference to the *cultural narratives that accompanied Britain's particular recovery* after the Second World War, its particular retreat from colonial rule and its particular variant of resource-intensive consumerism. The remarkable rise in the standard of living of the majority of UK households in the 1950s and 1960s, supported by a widely envied National Health Service, extensive social housing programmes and welfare services and the real increase in the stock of national wealth (see Figure 7.2) was filtered through an undeniable lens of national pride in the real sacrifices of the wartime generation in an undeniably just war. The heroes of Dunkirk, the Battle of Britain, the Eighth Army in North Africa and the final assault on mainland Europe in 1944 were lionised in print, in popularised histories, in schoolboys' "war mags", in music and, above all, in films. The stories, true and fictional, became the ideological foundation of the country's processing of its history and the history of other states. They also functioned as psychological cushions capable of absorbing economic and political shocks and deflecting attention from the real contradictions, still persisting in British society.

The stories, which have their parallels in most national or regional communities, confirm George Orwell's perception that "history is written by the winners", in both official accounts and particularly in the collective memory. In the case of Britain, which shared the laurels of victory in two colossally destructive wars, they became a potent foundation for a mythology of national achievement and identity that persists in its national political culture right up to the present day, as a filter for interpreting events and institutions, even when the "hero" generation has passed. This is evident in the ubiquity of the "war film"

on UK television channels; not a weekend goes by, not a public holiday comes and goes, without the showing of films celebrating British military triumphs or heroic escapes in Europe, North Africa or South Asia between 1939 and 1945, supported by similar films involving US armed forces. The imbalance is crass, the underplaying of the role of other forces, other races, is culpable – but worryingly effective.

The reason for focussing on the dominance of war in the narratives of collective memory in the UK is twofold: firstly, it highlights the *extremely selective* pattern of (English) nationalism in processing a “them-and-us” view of national and international relations; secondly, it suggests a *national mind-set of entitlement* in the management and exploitation of the post-war world. This notion of entitlement can be used to help explain the idiosyncrasies of Britain’s politico-economic and socio-cultural development up to the present existential crisis of Brexit.

The critical paradox of the UK’s development involves the evidence of *recovery in the context of relative decline*. Figure 7.2 indicates the catastrophic loss of produced assets as a proportion of GDP (from just under 4:1 to just over 2:1) as a result of the interwar depression and the Second World War, followed by thirty years of steady recovery to 1980 (3.3: 1). The thirty-odd years of post-war peace are often circumscribed by the notion of a golden age of growth, of the *trentes glorieuses*, but it is a notion which applies least to the UK, whose *relative position as a trading industrial economy slumped* in relation to its main rivals.

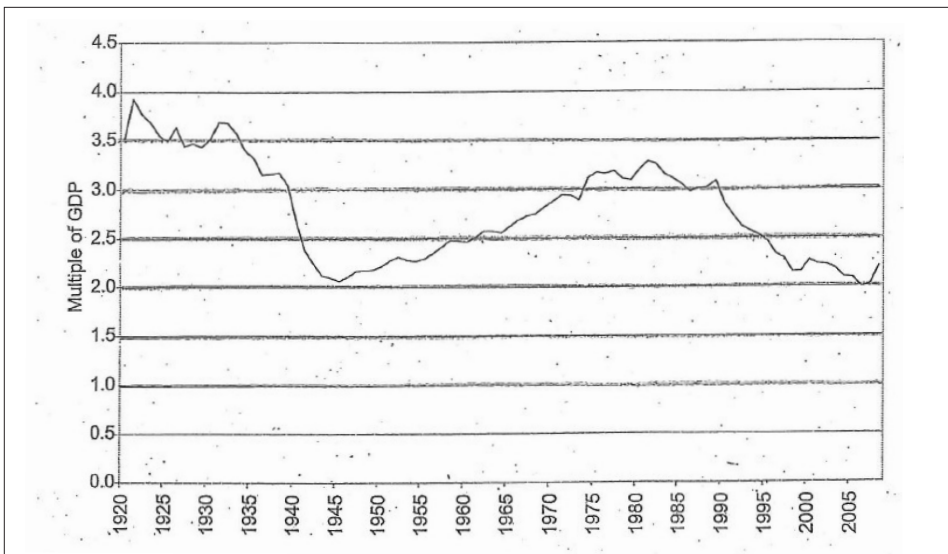


Figure 7.2. Ratio of produced wealth to GDP in the UK 1920–2005

Source: Weale (2012).

Table 7.1. Share in the value of world exports of manufacturers 1950–1979 in percentages

Country	1899	1929	1937	1950	1960	1970	1979
United Kingdom	33.2	22.9	21.3	25.5	16.5	10.8	9.7
France				9.9	9.6	8.7	10.5
Germany				7.3	19.3	19.8	20.8
Japan				3.4	6.9	11.7	13.6
United States				27.3	21.6	18.5	15.9

Source: Gamble 1981: 17.

Table 7.1 demonstrates the scale of this decline in terms of Britain's share of manufacturing trade; the "workshop of the world", which accounted for a full third of global manufacturing exports in 1899, yielded first place to the United States in 1950, slumping to fifth place behind France, Japan, the United States and Germany by 1979, having presided over a slump in just 30 years to less than a tenth of world exports. The persistence and the scale of the decline reflect the longer-term process which Gamble (1981: 3–44) dubs "the hundred years of decline" – the title of his book's first chapter. This perception is echoed in most of the critical economic histories of the UK since the end of the 19th century. Much of the blame is placed on the unwillingness of both private companies and the state to invest. Tony Judt is scathing about the serial neglect of forward planning in industry and commerce:

"British factory managers preferred to operate in a cycle of under-investment, limited research and development, low wages and a shrinking pool of clients, rather than risk a fresh start with new products in new markets" (Judt 2004).

Corelli Barnett (2011) quotes a Figure of just 9.5% of GNP (sic) as the UK's ratio of investment in industry and infrastructure for 1950, compared to a full 19% for Germany. The World Bank's long series data show that the investment ratio had risen to 16% by 1960 and then rose significantly in line with other OECD countries up to the outbreak of the 1974/75 crisis, albeit from a lower base, peaking at 26.2% in 1974. The investment performance of the UK beyond this point was consistently below the average for EEC/EC/EU countries, as demonstrated by Figure 7.3.

One of the critical and predictable consequences of this relative underinvestment was weaker than average growth in this otherwise uniquely expansionary period in European economic history, but above all weaker growth of labour productivity – GDP per capita/hour (Table 7.2). This combination of factors accounts for the weakening of both price and quality competitiveness of UK manufactured goods on the global market and the slump in the UK's global export share from one third (1899) to one quarter (1950) to less than 10% in 1979; by 2017, this share had fallen to just 2.5%, according to WTO data. While the Bretton Woods system of fixed exchange rates benefited most participants, the nexus of low investment and weak productivity growth will have hindered exports decisively, because the Sterling rate was maintained at an artificially high level, eventually forcing the UK

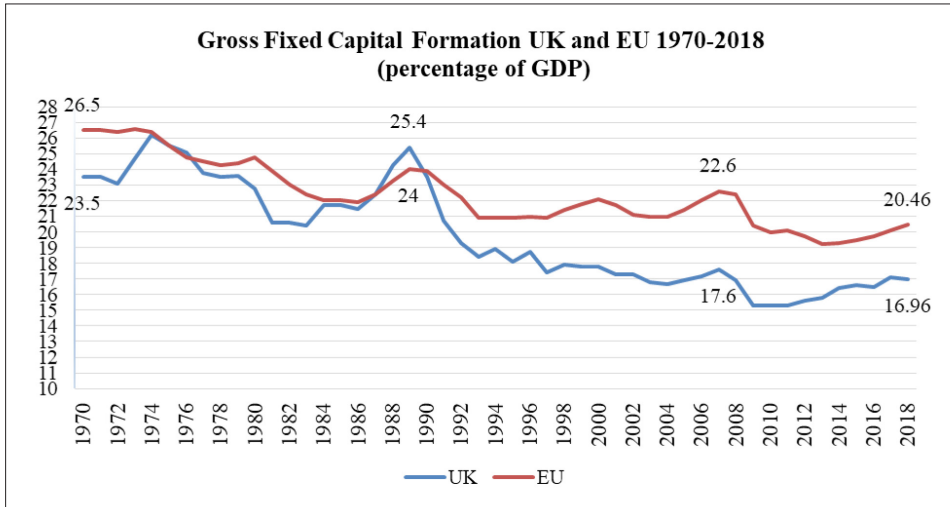


Figure 7.3. UK investment ratio in comparison to EU since 1970
Source: World Bank.

government to devalue the pound in 1967. When the USA withdrew its support from the system of fixed exchange rates in 1971, Sterling lost ground against most major currencies (Figure 7.4), as shown in the weakening of sterling as a reserve currency in the 1970s and 1980s. The cumulative effect of the relative weakening of the British economy within the OECD group of advanced states was the emergence of

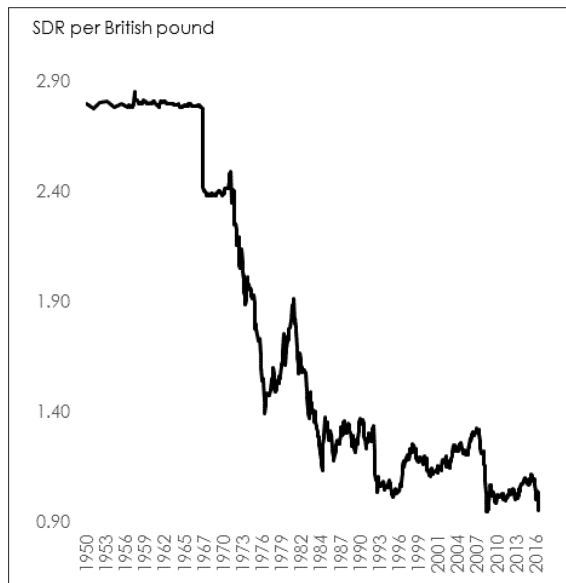


Figure 7.4. Slump in the value of the pound 1950–2016
Source: IMF IFS.

an increasingly chronic deficit in the balance of trade in goods which, apart from the brief period of North Sea oil production and export in the late 1970s and early 1980s, continued its downward trend. This is reflected in the UK's external balances as a proportion of GDP (Figure 7.5). After 1985, the UK has had trade and payments deficits every year, averaging 2.7% of GDP; in the first quarter of 2019, the current account deficit had reached 5.5%.

Table 7.2. Growth of GDP per capita (per hour) 1870–1976 in selected economies

Country	1870–1913	1913–1950	1950–1976
France	1.8	1.7	4.9
Germany	1.9	1.2	5.8
Italy	1.2	1.8	5.3
Japan	1.8	1.4	7.5
United States	2.1	2.5	2.3
United Kingdom	1.1	1.5	2.8

Source: Gamble 1981: 16.

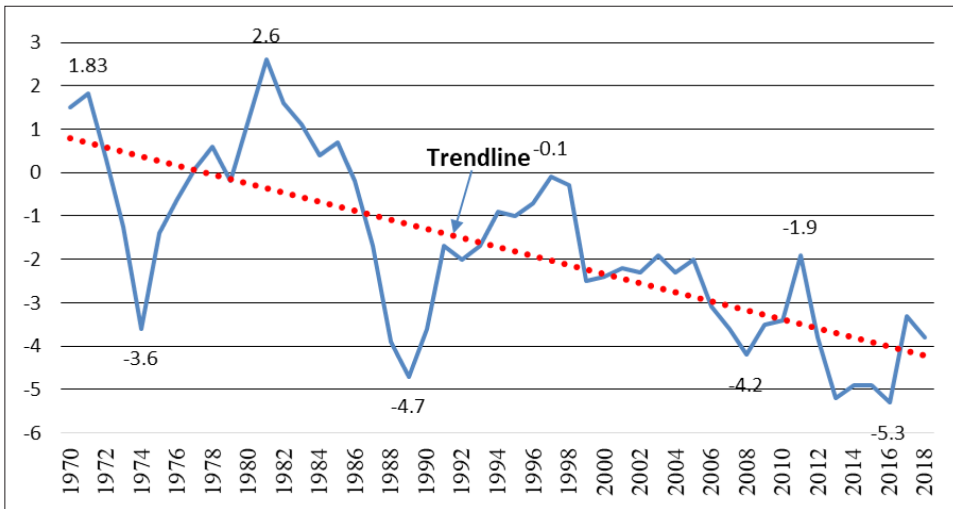


Figure 7.5. UK current account balance in % of GDP 1970–2018

Source: World Bank.

The increasingly chronic scale and persistence of the UK's external deficit in goods and services has clear historical roots: in one hundred years of low investment in physical and human capital; in the cultural complacency of political and economic elites, protected for too long by the convenience of captive colonial markets and, after 1945, bolstered by the psychology of the victor and the expectation that its great power status should continue to attract respect and commitment from

states that were not nuclear powers, nor permanent members of the UN security council, nor custodians of a reserve currency. However, the reality of three decades with an average current account deficit close to 3% of GDP indicates unequivocally that the economy was consuming and continues to consume considerably more than it produces in goods and services; the *British have, for more than three decades, been living beyond their means*. Avoiding national bankruptcy has only been possible by inducing foreign investors to purchase large quantities of sterling assets, predominantly – but not entirely – financial securities, i.e. via the Capital Account. This, in turn, has made the economy (qua non-banks) increasingly dependent on the financial services sector and the City of London as an historically established hub for recycling global capital reserves. Whereas the City, before the crisis decades of the 1970s and 1980s, had fulfilled a largely conventional *servicing* role for the intermediation of financing between lenders and borrowers, it increasingly took on the macro-economic role of stabilising the UK's external balances. This new pivotal role for the UK financial services sector has not simply increased the power and influence of banks and other financial institutions over the state, over non-banks and private households, but reversed the service-role, such that the real assets of agriculture, industry, commerce, infrastructure, public services and families are “financialised” as sources of value-extraction.

The process of “financialisation” was accelerated by the deregulation of financial services in the UK and the United States in the mid-1980s, and was accompanied, secondly, by the extraordinary *shift in the responsibility for the production of money from central banks to private financial institutions*, dubbed “the privatisation of money” by Mary Mellor (2010: 31–57) or the private “production of money” (Pettifor 2017: 24ff). There is a colossal irony in this fateful and dangerous process, inasmuch as the EU – or indeed Europe in the wider sense – was persuaded to introduce a system of monetary and fiscal governance rooted in the assumption of the supremacy of state central banks and the primacy of price inflation as the main enemy of the economy. The Maastricht Treaty of the European Union and its central pillar of a European Currency Union took as its theoretical and institutional point of departure the model of the (autonomous) Bundesbank and its well-known policy preferences of tight fiscal controls on states and the management of the money stock by the manipulation of short-term central bank rates of interest. But, it adopted this (ordoliberal-monetarist) model at precisely that moment in the evolution of global capitalism when it could be shown to have failed as a theoretical model (Leaman 2001 etc.) and when its impotence was being demonstrated on a daily basis by the antics of vagabond capital, as it proceeded to create money “out of thin air” (Mellor 2010 etc.), unhindered by exchange controls and regulatory regimes.⁵⁹ The imposing facades of the Bank of England, the Bundesbank, the

59 The concept of the “regulatory regime” in the era of supply-side neoliberalism confers rather too much respectability on what was essentially a permissive and negligent level of oversight by sectoral, national and supranational authorities; it was, after all, the negligence and the

Banque de France and the Federal Reserve Bank, suggested solidity, probity and power, but *concealed a new powerlessness in the control of the money stock, credit, the allocation of financial resources and the managerial regulation of the macroeconomy* – above all powerlessness to limit the financialisation of social existence in Britain and elsewhere.

7.3. Financialisation and the new hegemony of disorder

There is arguably a strong causal link between the economic processes involved in the “hegemony of disorder” involving financialisation and the emergence of populism in Britain. It is difficult to overstate the fundamentally disruptive effect that the subordination of the UK economy to the commercial imperatives of the financial services sector has entailed: maximisation of rates of return/rates of profit (RoR) and maximal expansion of areas of activity for financial intermediaries.

A definition of financialisation is necessary at this stage of the analysis. Here a distinction between the micro and macro levels is helpful.

At the micro-level of the individual bank or investment fund, financialisation involves the transformation of any process, service, any real or paper asset, any data-set, any intellectual property, website domain, etc. into a commodity with an exchange value, as long as such a transformation promises a favourable return when the “commodity” is resold. Commodification – historically applied to goods and services that either enhance human well-being or satisfy a “need” – are in this new context of financialisation applied to units of value which are either tangential or irrelevant to, or destructive of human welfare. At the macro-level, financialisation involves the subordination of all productive and commercial activity to the dynamic of exchange as a vehicle for generating a surplus of sales revenue over

associated reassurances of regulators that contributed massively to the catastrophe of 2008–9. The same can be said for the neoliberal or ordoliberal “order” that emerged from the period of rapid deregulation in the 1980s. The conceptual clothing draped around the abandonment of exchange controls, capital gains restrictions, monopoly control, employment protection, mutual funds protection, mortgage rules, profit-shifting, offshoring restrictions and other protections, together with the repeated invocation of the efficiencies to be derived from “self-regulating markets”, were suspicious enough for heterodox economists at the time. When the neoliberal house of cards collapsed in September 2008, it came as no surprise to those sceptical voices (Huffschmid, Keen, Pettifor); the wreckage of supply-side, monetarist and neoliberal constructions revealed rather a “hegemony of disorder” (Leaman 2017), a theocratic system of beliefs unburdened by the inconvenience of evidence. This underlined the fundamental role of a “hegemonic narrative” in the Gramscian sense, to which a majority of citizens could subscribe, maintaining the temporary dominance of socially powerful elites.

cost, the extensive use of debt (money-production) as a vehicle for acquiring or creating new assets, the primacy of (short-term) higher returns over longer-term “patient” investment strategies. The traditional intermediation function – between savers and borrowers – of retail banking gives way to *the activism of investment banking* and “asset management”. The increasing short-termism of financial markets, where the duration of share- or bond-holdings shrinks from years down to months, down to days or even nanoseconds (c.f. high-speed trading) underscores the fundamental shift in the systemic logic of financialisation (c.f. Huffschmid, Leaman). Above all, financialisation involves the extensive “de-coupling” of financial services from real, productive, welfare-enhancing investment, and the creation of an increasingly self-referential system of financial speculation, of “casino capitalism” (Strange 1986 etc.) which is at best “socially useless” (Turner 2013; Haldane 2010) or more realistically, economically and socially destructive.

7.4. Financialisation: politically irresponsible, economically destructive and socially corrosive

The decline into casino capitalism in the UK and elsewhere was the result of deliberate policy decisions: by the USA in the abandonment of fixed exchange rates in 1971, by the German Bundesbank in its monetarist management of the stagflationary crises of the 1970s and 1980s, by the abandonment of exchange controls by the Thatcher government in October 1979, by the deregulation of financial services in the City of London in October 1986 and by the deliberate choice by most OECD states to allow the self-regulation of the financial services sector. Thatcher’s Financial Services Act of 1986 was, typically, justified in terms of removing “restrictive practices” and promoting international competition in the sector (Thatcher 1993: 311f).⁶⁰

The invocation of competition, of the new freedoms bestowed on financial and other markets and the efficiencies that would flow from deregulation, represented a new (and seductive) rhetoric of the “neoliberal revolution”, the purpose of which was, however, to conceal a new permissive irresponsibility in macro-economic oversight, above all in the toleration of high levels of market concentration, of abusive monopolies, rent-extraction, tax-avoidance and volatility. Indeed, City

⁶⁰ It is perhaps ironic that, while the Thatcher government accepted the self-regulation of the City of London, she emphasised the need for state regulation of Britain’s utilities after privatisation (Thatcher 1993: 680ff).

trading could be seen to be increasingly reliant on the unpredictability of market movements and the associated gains that could be made from hedging against the risks of volatility. Poor oversight, above all, allowed a political attitude of benign neglect towards so many features of casino capitalism, above all to the delusion that the boom would continue forever, that rates of return of over 20% for financial corporations were sustainable and that the ballooning of private debt was no matter for political concern. This political neglect applied, in particular, to the mounting evidence of Ponzi-style financial “engineering”, of tax fraud and international money-laundering.

Permissive neglect is certainly a more accurate description of the neoliberal political “management” of the economy. This is perhaps best illustrated by reference to the demonisation of state debt in the catechism of supply-sidism, and monetarism; state indebtedness accordingly threatened the economic health of the economy, above all by “crowding out” private investors from credit markets, while private debt was a sign of a willingness of private entrepreneurs to take calculated risks in their investments and a confidence that bank credit or bond issues could be repaid out of future earnings. While Keynes, his successors and other heterodox economists would have identified the fundamental flaws of this analysis, mainstream economists proceeded from assumptions of rational expectations in the allocational efficiencies of (financial) markets, compounding the delusion of the relative harmlessness of private debt and the greater evil of public debt; modern monetary theorists and other statist economists see things exactly the other way round. While economic history contains a few examples of bankrupt states which have required fiscal salvage plans, they are the exceptions that prove a more general rule that sovereign states are far less likely to fall into insolvency than private enterprises.

Be that as it may, the evidence for the damage done by the permissive neglect of supply-sidism is overwhelming. The 2008 crisis is just one example of this evidence. The broader evidence points to the preparedness of all OECD states, all EU states, above all Britain, to let the carousel of monetary/financial accumulation continue and to preside over the most culpable levels of misallocation in the country’s history. It was a process of misallocation, based on a herd belief in the sustainability of asset bubbles, just as long as the “liquidity factories” (banks, shadow banks) could continue creating new tranches of credit, i.e. adding to the money stock. The ballooning of private debt in the UK since 1979 (formation of the first Thatcher government) was dramatic, as Figure 7.6 clearly shows.

A fundamental irony of British supply-sidism in the Thatcher/Major/Blair years is that the name of Adam Smith was frequently invoked to justify the programme of deregulation and privatisation; the *Adam Smith Institute* – a high-profile research body and UK think-tank – embodied this apparent return to classical political economy. And yet Adam Smith stressed the major distinction between the virtue of innovation and value-creation and the evil of unproductive rent-extraction. It is not unreasonable to suggest that Smith might have accepted the formulation

of the “dead hand” of rent-extraction which hindered productive innovation and value-creation. and the “invisible hand” or genuine market-competition. Smith would certainly have raised serious doubts about the deformation of British capitalism by financialisation. Chief of his concerns would have been the emergence of monopolism and other parasitic forms of accumulation

Britain led the way in pushing through neo-liberal reforms, notably in the extensive privatisation of state assets, many of them natural monopolies like the gas, power and water utilities or public transport networks and hubs (airports, ports).

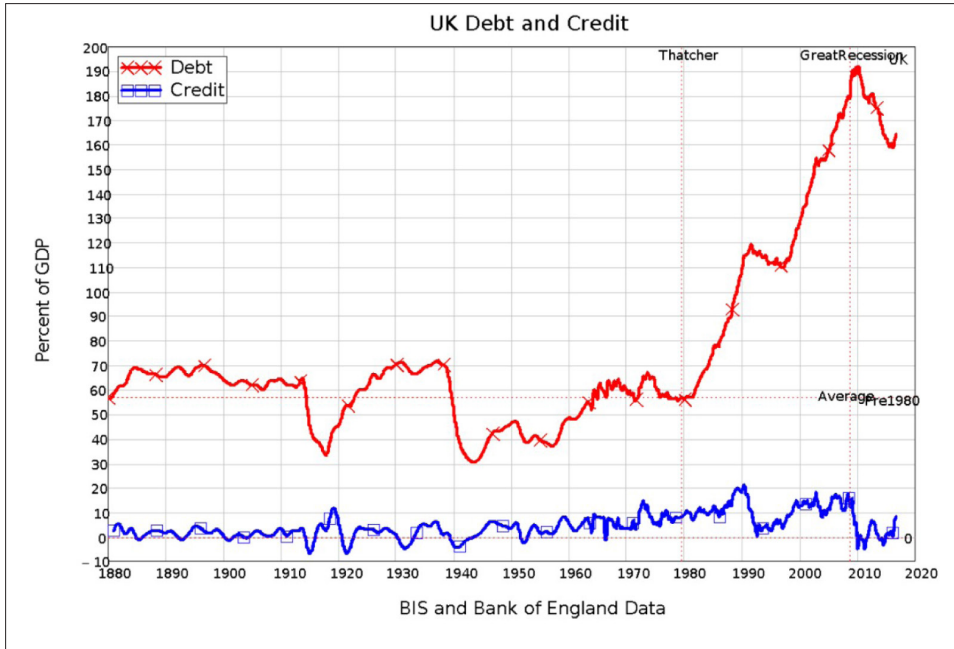


Figure 7.6. Private debt in Britain 1880–2018

Source: Steve Keen. Monopoly income streams. Parasitism and the return of the rentier.

While telecommunications became increasingly subject to the competitive influence of cable and satellite technologies, most utilities remained natural monopolies, inaccessible to genuine market competition and its associated price efficiencies. The solution to the problem of the abuse of monopoly-pricing in such utilities was the political regulation of rates of return through price/tariff changes with regular adjustments according to set formulae. Such regulatory systems operated on the assumption that there must be continuity of supply, provision for modernisation and long-term investment and (implicitly) a guaranteed return on capital (c.f. Stern 2003: 22). It is unsurprising that the performance of such regulated monopolies has ensured higher returns on capital than applies to the SME sector (Candeias 2009); their revenues represent monopoly rents guaranteed for given contractual periods.

It is unsurprising that there was keen interest in the acquisition of utilities with monopoly income streams. Their transition from strategic public assets, essential to the maintenance of economic and social life, to commodified, globally tradeable assets is a perfect illustration of the process of financialisation. Most of the major public utilities in the energy, railway and water sector have ended up in the hands of foreign corporations, with most of them registered offshore for tax purposes!

The privatisation of the regional water monopolies is instructive of the damage inflicted on the UK economy. While the Thatcher government accepted liability for £4.9 billion of water company debts in 1989 prior to privatisation in 1990, the ten separate private companies have accumulated over £42 billion in debt (Figure 7.7). Firstly to finance the purchase of other utility companies, secondly and scandalously to pay for dividend payments to institutional shareholders and their own directors (Figure 7.8).

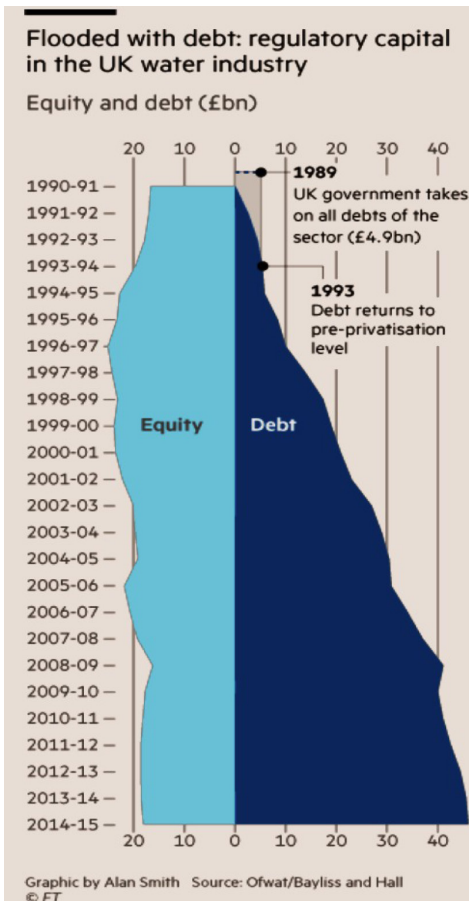


Figure 7.7. Water company debt
Source: *Financial Times*.

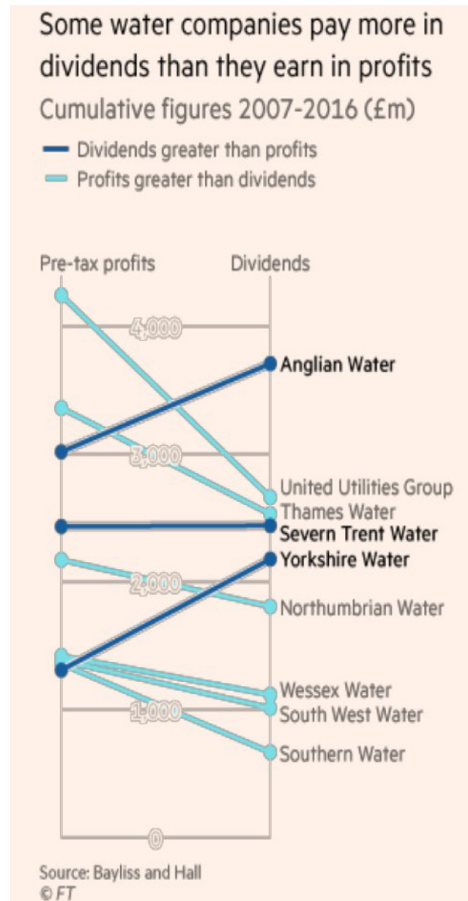


Figure 7.8. Dividends exceed profits
Source: *Financial Times*.

Apart from the obvious economic illiteracy of (re-)licensing natural monopolies, there are several additional dimensions to the UK's sell-off of some 180 state holdings since 1979:

- Many of the privatised units had clear strategic importance for the maintenance of the country's physical and social infrastructure: ports, airports, power production and distribution, gas and water supply, sewerage, steel-making, some prisons, the probation service, care homes, children's homes, social housing stock;
- The transfer of core services from public control to private corporations also removed the direct answerability to democratic controls; public institutions at central, regional and local level were left with, at best, indirect means of regulating, monitoring and assessing the performance of private water companies, private care homes, private sewerage operations etc. It was thus a clear dilution of democratic answerability, particularly at local level where municipal authorities were increasingly vulnerable to arbitrary reductions in central government grants.⁶¹

The political economy of housing in the United Kingdom has a very particular relevance for the emergence of authoritarian populism among poorer and under-privileged sections of British society. House Ownership – “the Englishman (sic) in his Castle” – was identified by Margaret Thatcher's generation within the Conservative Party and by her policy advisors as a powerful vehicle for mobilising working-class support for the Tories:⁶²

- The sale of local councils' social housing stock under the “Right to Buy” legislation, which was forced upon those councils by central government, created in the short term a considerable flow of revenue of approximately £4.8 billion, only half of which was ever used to build replacement social housing, leaving the remainder to finance both recurrent and capital expenditure or to replace revenue lost through supply-side tax reductions.
- The inducement to buy social housing units at discounts of up to 50% of the market valuation, was clearly irresistible for over 2 million households which availed themselves of the offer. Furthermore, the sales were marketed using the narrative of houses as an asset that would accrue in value in real terms. This represented a critical step in the commodification and financialisation of housing and housing-related services in the UK and in the United States, where housing remains a key feature of human welfare and security, as

61 In contrast to several European countries, including Germany, the UK has no constitutional or statutory arrangements, granting local authorities a guaranteed proportion of key tax revenues like VAT, Corporation Tax or Personal Income Tax. Local councils nevertheless have a statutory duty to guarantee basic services, like housing and social care; in the context of austerity cuts since 2010 of over 20% of central government grants to local councils, the latter have been forced to close countless facilities like libraries, swimming pools, women's refuges, support for music and other cultural activities, in order to protect the core.

62 There is strong evidence that ‘homeowners are much more pro-Conservative than private renters and social housing tenants’, notably among older voters (Ansell 2019: 112).

covered by Article 25 of the United Nations Charter of Human Rights. Housing became increasingly driven by both the relative scarcity of supply and the instrumentalisation of housing as a vehicle for capital accumulation by investment funds and of housing debt as a vehicle for speculation and fraud.

- The decline in the overall stock of social housing was of the order of 40% over the period since 1980 and continues to have a very significant effect on the dynamics of the housing market. With widening disparities of income distribution, notably a decline in the “wage share” of national income, the demand for affordable housing by poorer households remained at best constant and, with the recent stagnation of real incomes, considerably greater. The provision of such affordable housing has fallen predominantly to private landlords, many of whom availed themselves of generous levels of debt as a multiple of income in the new credit boom. The quality of the privatised housing units was generally higher; the desirability of such affordable homes in villages and smaller rural communities removed a key source of accommodation for poorer, younger sections in rural communities, while the less attractive housing stock in less attractive locations remained unsold.
- Local councils still have a statutory obligation to house homeless families with children, a duty that often involves councils paying for temporary, crowded and substandard accommodation at relatively high rental and administrative cost (House of Commons 2019). There was a gradual decline in temporary, emergency accommodation under the Blair/Brown governments, but the decline was abruptly reversed with the formation of the first Cameron administration in 2010 and its severe cuts in welfare expenditure and grants to local authorities. The number of homeless households has increased persistently since 2011, reaching a total of 83,700 households in December 2018 and including some 124,900 children (*ibid.*: 3), a truly dramatic state of affairs in the sixth most prosperous country in the world. At the same time, overall homelessness and rough-sleeping have increased.⁶³
- The existential effect of homelessness (and its corollary: the lack of affordable housing) on families and their individual members is severe, as documented by homeless charities like Shelter or anti-poverty organisations like EAPN.⁶⁴ The fiscal effects on local authority budgets are considerable and perverse; unable to house the homeless in their reduced stock of social housing – for which there are very long waiting-lists – local councils are obliged to house families either evicted by private landlords or refused tenancies because they receive welfare benefits and are a greater risk as insecure tenants (Collins et al.).

63 Government statistics estimated 4.700 rough sleepers in the Autumn of 2018, 15% of whom were women, 6% people under 25 years of age.

64 Shelter estimated that there were some 320,000 homeless people in Britain in late 2018, a rise of 8.7% 2016 to 2018 (Liam Reynolds 2018), https://england.shelter.org.uk/__data/assets/pdf_file/0020/1620236/Homelessness_in_Great_Britain_-_the_numbers_behind_the_story_V2.pdf (accessed: 18.12.2018).

- The shortfall of affordable housing, indeed the serial failure to ensure that sufficient housing of all types is built or that empty houses are made available for occupation has been an increasing problem in the UK, arguably because of the manipulation of housing scarcity by both private housing corporations and housebuilders. Market efficiencies have exacerbated the crisis, with the blame placed firmly on the Conservatives' ideology of the "Right to Buy"; one article by Guardian journalist, Andy Beckett, is entitled *The Right to Buy: the Housing Crisis that Thatcher Built* (2015). Forty years after the "Thatcher revolution", the dream of a property-owning democracy has become a dystopian and dysfunctional nightmare of homelessness and insecurity: "Our housing system *has been allowed* (my emphasis JL) to degenerate to such an extent that secure and affordable housing is increasingly unavailable to working-class people, and in many places middle-class people too" (Beswick 2019). This has been statistically demonstrated by a recent study by the Institute for Fiscal Studies, which shows that the ratio of home ownership as a percentage of all households declined markedly from 73.3% in 2007 to just 65% in 2018 (Cribb et al. 2018); moreover, the situation for young people had become considerably less favourable:

 - "As long as they had a 10% deposit, in 1996 over 90% of 25- to 34-year-olds would have been able to purchase a house in their area if they borrowed 4½ times their salary (the maximum that most lenders will now allow).⁶⁵ By 2016, that proportion had fallen substantially. Even with a 10% deposit, only around 60% of young adults would have been able to borrow enough to buy even one of the cheapest homes in their area" (Cribb, Simpson 2018).
 - Housing has been identified as a problem area which contributed significantly to support for the Leave campaign. Indeed, UKIP and Conservative Leave-supporters exploited housing dissatisfaction in their anti-immigrant narrative.⁶⁶ While most of that narrative was based on blatant falsification of the facts, competition for scarce, affordable housing in the main areas of EU- and non-EU immigration is certainly seen by some academic commentators as a plausible determinant of EU-Scepticism and support for Leave (Wadsworth et al.: 14; Spratt 2019; Ansell et al. 2019). The evidence can be found. Firstly, in the *perceived competition between British citizens and migrant households from EU countries for scarce affordable housing* and, secondly, in the widening regional disparities in house prices in the UK and the associated difficulties for intra-UK migration.

65 The standard multiple of income offered by banks and building societies in the 1960s and 1970s was between 2.5 and 3.

66 This is clear from UKIP's website discussion on housing: 'The UK does not have a housing problem - it has a demand problem, with demand being fuelled by mass uncontrolled immigration'; https://www.ukip.org/ukip-manifesto-item.php?cat_id=9; see also Julian Brazier on the *Conservative Home* website: <https://www.conservativehome.com/platform/2017/07/julian-brazier-mass-immigration-is-helping-to-collapse-home-ownership-no-wonder-young-people-a-re-in-revolt-as-i-know-to-my-cost.html> (accessed: 30.07.2007). Tabloid headlines frequently emphasised the effects of migration on housing, e.g., in the *Daily Mail*: *Migrants Spark Housing Crisis*, 19.05.2016.

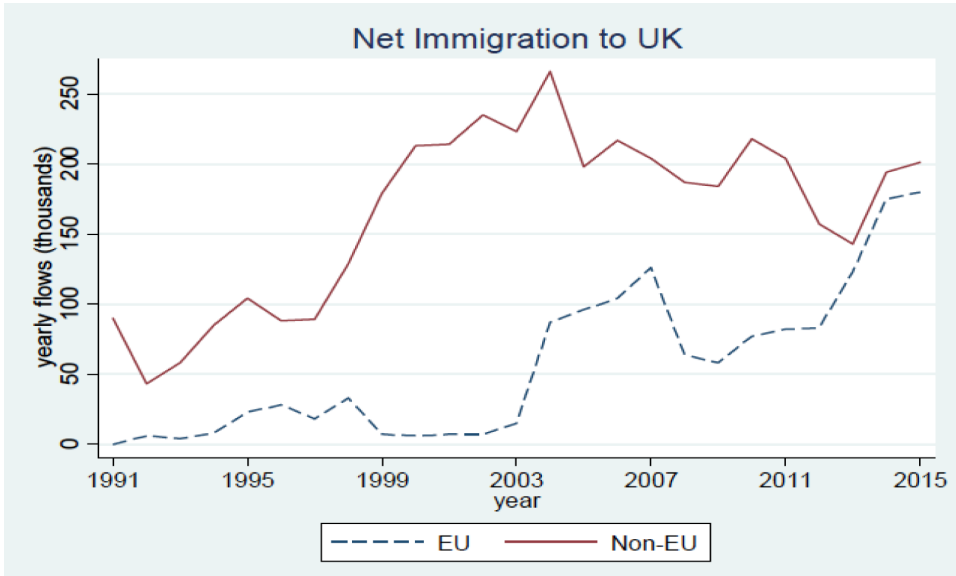


Figure 7.9. Net-immigration to the United Kingdom 1991–2015

Source: <https://migrationobservatory.ox.ac.uk/resources/charts/emigration-immigration-net-migration-uk-1991-2014/> (accessed: 18.12.2014).

- The population of the UK rose by 7.34 million in 2000 to 66.238.000 in 2018, a rise of 12.3%; this was the highest rise in absolute terms in Europe and only slightly behind Sweden, which saw a 15% rise in the same period to 10.2 million. As Figure 7.9 shows, intra-EU migration rose sharply with the 2004 enlargement, at which time the Blair-government adopted the most permissive immigration regime of all EU states. In the same period, housebuilding overall trailed consistently behind government targets. It is reasonable to conclude that the scale of immigration will have put additional strain on housing demand, in particular, where the supply of affordable new homes came nowhere near satisfying the spike in migration after 2004.
- With regard to the development of house prices, a recent comparative study of the UK and Germany by Blaseio et al. (2019) reveals widening regional disparities of house prices in the UK, compared to a less volatile Germany.
- The trend lines indicate two key periods in the UK housing market – 1994–2002 and 2006–2015 – where the spatial inequalities widened. While house prices rose on average more dynamically in the UK, in part because of the commodification/financialisation of (housing) property,⁶⁷ the gap between prices in the core urban centres and the periphery widened; these were periods in which UK financial institutions encouraged the greater use of private.

⁶⁷ The financialisation of land is nevertheless also noteworthy in the broader context of the deformation of Britain's political economy.

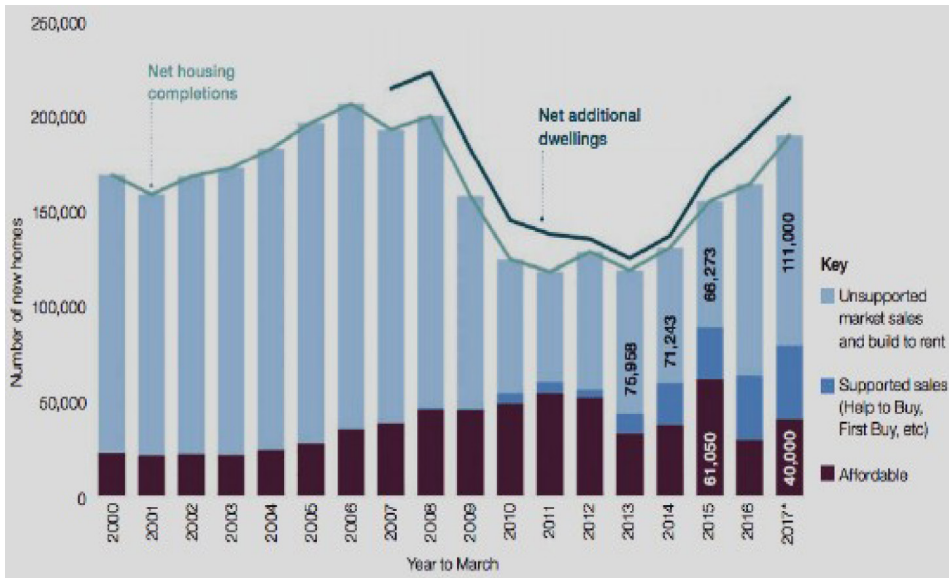


Figure 7.10. Net housing construction – in the UK 2000–2017
Source: *The Guardian* 4.10.2017.

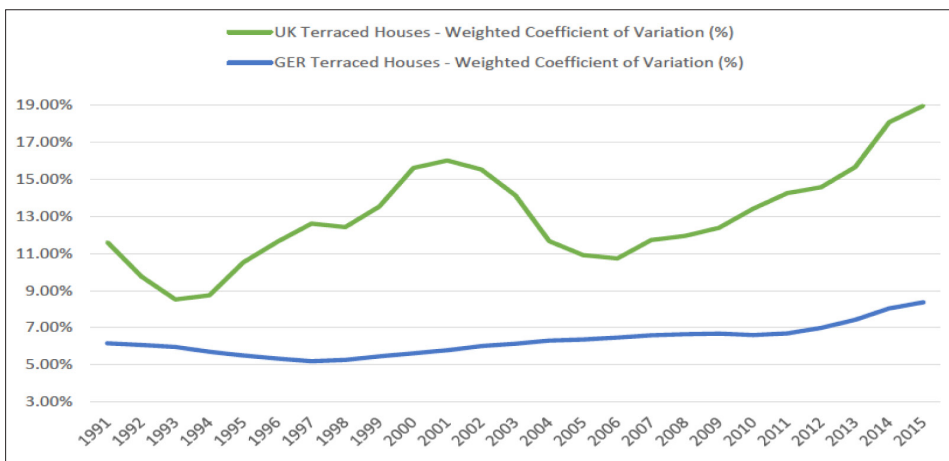


Figure 7.11. Regional price inequalities of terraced houses in Germany & UK
Source: Blaseio et al. 2019.

household debt with generous mortgage-lending predicated on rising house prices. Given that the core urban centres, in particular, in London and the South East, had lower levels of unemployment and higher levels of productivity and skilled work, they exercised a “pull-factor” for unemployed individuals in peripheral regions and centres. This, in turn, generated higher demand and higher prices for accommodation in the more affluent areas, which made

intra-UK migration an expensive risk for economic migrants, in particular, the segment of skilled, house-owning unemployed people in poorer regions, for whom house prices in target work- and housing-markets became prohibitively high. The result – a vicious circle in an unbalanced housing sector – was much lower household mobility in the UK compared to other countries, like Germany. Frustrations in the UK's asymmetrical housing market thus became a major source of resentment, which intensified in the wake of the 2008 crisis and the sluggish economic recovery in the UK and the rest of Europe.

7.5. The weaponisation of insecurity in British political culture before the 2016 referendum

There is a very strong consensus among academic and other observers that immigration within the European Union's Single Market guarantee of Freedom of Movement was a critical determinant of the "No"-Vote in the June Referendum in Britain. While the ideologues of the United Kingdom Independence Party (UKIP) and the euro-sceptic wing of the Conservative Party may have stressed the "virtues" of economic nationalism with its rhetoric of "taking back control" and the restoration of sovereign legislation and jurisdiction, most opinion polls indicate that immigration from central and eastern Europe and the fear of a further wave of Turkish migrants decisively influenced the majority of the 17.4 million Britons who voted to leave the EU. The *undeniable reality of competition for affordable properties to rent or buy* was reinforced by a string of propagandistic myths about the economic and fiscal damage wrought by migrants from central and Eastern Europe, notably from Poland, the Baltic states, Bulgaria and Romania, alongside the documented catalogue of lies and distortions about Brussels⁶⁸ and the ostensible threats of a "federal Europe". The deception, the lying, the exaggeration was deliberate and well-documented⁶⁹ but it was effective; it was boosted by the market dominance of right-wing print media and by worryingly uncritical reporting of Brexit debates by the BBC and other broadcast media. The tabloid press, alongside established right-wing publications like the *Daily Telegraph* and *The Spectator*, printed a relentless stream of toxic distortions, untruths and shameful simplifications, pushing indeed for the most extreme versions of Brexit, promoted by the misleadingly named

68 See, for example, *Europe's Integration Myths*, https://www.globsec.org/wp-content/uploads/2018/05/GLOBSEC-guide-for-successfully-debunking-myths_Future-of-Europe-Programme_Globsec-Policy-Institute_May-2018.pdf (accessed: 12.05.2018).

69 C.f. the BBC Documentary, 'The Uncivil War', <https://www.bbc.co.uk/news/entertainment-arts-46741907> (accessed: 12.05.2018).

European Research Group (ERG) within the Conservative Party, i.e., no association with the EU Customs Union, Single Market or ECJ Jurisdiction.

More interesting for this analysis is the degree to which the spatial inequalities of the housing sector can be correlated with other features of imbalance and inequality in Britain. The list of constituencies with the highest Leave vote can be mapped fairly accurately onto regions with lower relative house prices, with higher levels of low-skilled employment⁷⁰ and/or unemployment, with lower levels of educational attainment⁷¹ and lower levels of GDP per capita.

Table 7.3. Regional disparities in economic productivity and voting patterns (Figures for 2016)

Region	Per capita productivity £ 000s	Remain %	Leave %
London	46.5	59.9	40.1
South East	28.7	48.2	51.8
East of England	24.0	43.5	56.5
South West	23.1	47	52.6
North West	23.1	46.3	53.7
West Midlands	21.8	40.7	59.3
East Midlands	21.2	41.2	58.8
Yorkshire	20.7	42.3	57.7
North East	19.2	42.0	58.0
Scotland	24.8	62	38
Wales	19.1	47.5	52.5
Northern Ireland	20.0	55.8	44.2

Source: Office for National Statistics.

The highest Leave votes per region were clearly in the East and West Midlands of England, in Yorkshire and the North East, regions that were critically affected by the process of deindustrialisation in the 1980s and beyond. The extensive closure of coal mines, of steel foundries, of shipbuilding, heavy engineering, automotive plants, light engineering factories, fish-processing etc., was heavily concentrated in the Midlands, Yorkshire and the North East. Furthermore, the partial revival of manufacturing and the growth of service sector employment was correspondingly weakest in these regions as demonstrated by Figure 7.12 below, taken from a study of divergent economic development in British cities. It is no coincidence that cities which experienced negative employment growth,

70 UK Commission for Employment and Skills 2014: 7.

71 See Hutchison et al. 2018: 14.

recorded some of the highest Leave votes in the country, like Sunderland (61.3%), Stoke-on-Trent (69.4%) and Hull (67.6%); the constituency results for England's highest Leave votes are even more stark, with only 7 out of 103 constituencies voting to remain in the EU.⁷²

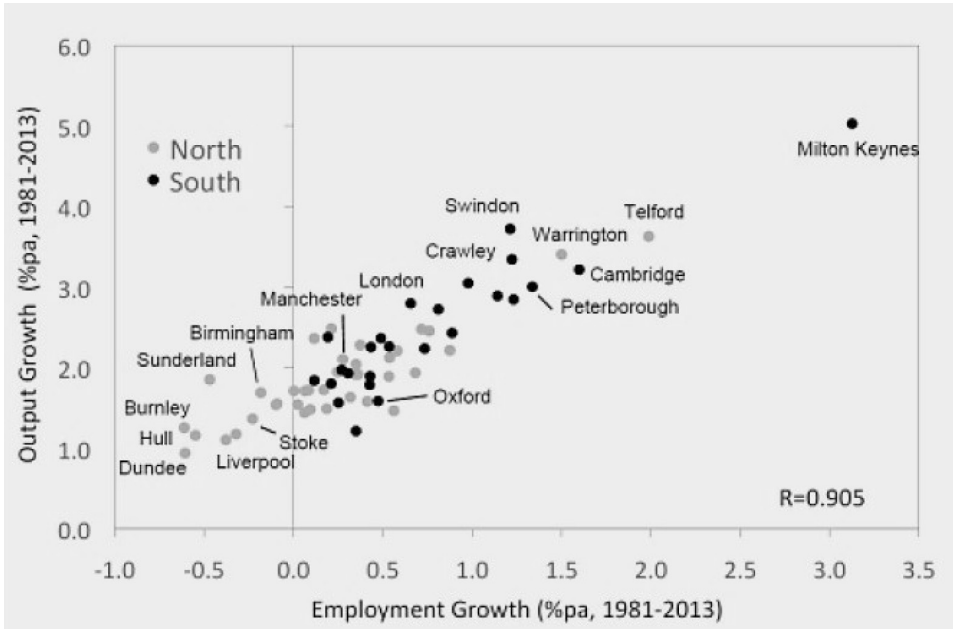


Figure 7.12. Employment growth divergence in the UK 1981–2013

Source: Martin et al. 2014.

The spatial disparities in economic performance, employment patterns, skills and sectoral trends (e.g., deindustrialisation) help to explain the Brexit-vote in 2016 but they also reflect a broader pattern of inequalities that has had an increasingly negative effect on the nature of social and political culture in Britain. The centralisation of wealth and political power in London, the radial transport network of roads and railways which is centred on the London hub, the arbitrary conduct of industrial, regional and fiscal policy by London-centric administrations have only been marginally altered by the establishment of regional governments in Scotland, Wales and Northern Ireland; subsidiarity, above all fiscal subsidiarity, remains extremely weak in Britain; the potential for generating centres of innovation and prosperity in the periphery thus remains limited – and despite repeated rhetorical expressions of intent to create a “northern hub” by recent Conservative politicians.

72 There are interesting exceptions to the Leave majorities outside London and the South East, where the established maritime cities, like Glasgow, Bristol, Newcastle and Liverpool, showed clear majorities for Remain, suggesting a cultural openness that comes from both ethnic diversity and dependence on trade.

Table 7.4. Regional and local disparities in referendum vote

Top Twenty Leave Areas (%)		Top Twenty Remain Areas (%)	
1. Boston (East Midlands):	75.6	1. Lambeth (London):	78.6
2. South Holland (East Midlands):	73.6	2. Hackney (London):	78.5
3. Castle Point (East of England):	72.7	3. Haringey (London):	75.6
4. Thurrock (East of England):	72.3	4. City of London (London):	75.3
5. Great Yarmouth (East of England):	71.5	5. Islington (London):	75.2
6. Fenland (East of England):	71.4	6. Wandsworth (London):	75.0
7. Mansfield (East Midlands):	70.9	7. Camden (London):	74.9
8. Bolsover (East Midlands):	70.8	8. Edinburgh (Scotland):	74.4
9. East Lindsey (East Midlands):	70.7	9. East Renfrewshire (Scotland):	74.3
10. North East Lincolnshire (Yorkshire & the Humber):	69.9	10. Cambridge (East of England):	73.8
11. Ashfield (East Midlands):	69.8	11. Southwark (London):	72.8
12. Havering (London):	69.7	12. East Dunbartonshire (Scotland):	71.4
13. Hartlepool (North-east England):	69.6	13. Oxford (South-east England):	70.3
14. Tendring (East of England):	69.5	14. Hammersmith & Fulham (London):	70.0
15. Stoke-on-Trent (West Midlands):	69.4	15. Lewisham (London):	69.9
16. Doncaster (Yorkshire & the Humber):	69.0	16. Richmond-upon-Thames (London):	69.3
17. Cannock Chase (West Midlands):	68.9	17. Westminster (London):	69.0
18. Basildon (East of England):	68.6	18. Kensington & Chelsea (London):	68.7
19. Barnsley (Yorkshire & the Humber):	68.3	19. Brighton & Hove (South-east England):	68.6
20. Harlow (East of England):	68.1	20. Stirling (Scotland):	67.7

Source: Press Association, quoted in: BreakingNews.ie., <https://www.breakingnews.ie/world/20-areas-in-the-uk-that-recorded-highest-leave-and-remain-votes-in-the-brexit-referendum-897432.html> (accessed: 18.12.2018).

Financialisation has, if anything, reinforced the centre-periphery imbalance and, with it, the social inequalities that affect so many areas of life in Brexit-Britain. It should be noted that this analysis supports the key finding of the pioneering work by Wilkinson and Pickett (2009) that “more equal societies almost always do better” and that inequality is strongly associated with a range of social and political deficiencies, e.g., lower levels of life expectancy, social mobility, higher levels of crime, imprisonment, poverty and material deprivation. The rising Gini-coefficient, starting with 0.25 in 1979 and reaching 0.36 in 2007 shows a clear deterioration of income inequality during the period of permissive neo-liberalism under Thatcher, that was significantly not reversed under “New Labour” and the Blair/ Brown administrations. The financial crash of 2008 and the sluggish recovery saw in the next years a slight fall in the Net Gini score but then rising again. There are currently still 23 EU countries with more favourable Gini scores than the UK’s 34.2 in 2018. Only Romania, Latvia, Lithuania, and Bulgaria had higher inequality measured by Gini-coefficient of equivalised disposable income.

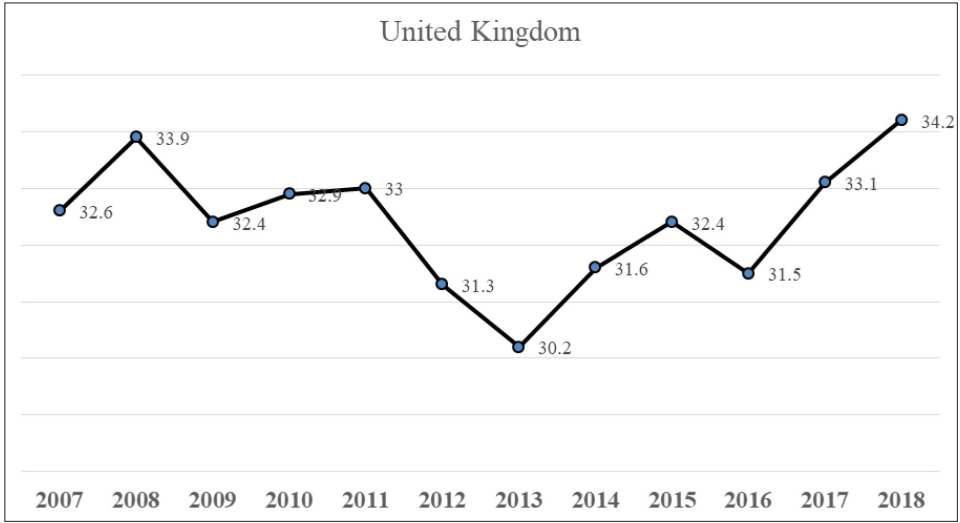


Figure 7.13. Gini-coefficient of equivalised disposable income in the UK 2008–2018
Source: Eurostat <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&code=tessi190&language=en> (accessed: 18.12.2018).

A clearer indicator of income inequality is provided by an examination of the share of particular deciles (10% groupings) or percentiles (1%) of national income, where the particular advantage gained by higher income groups under Britain’s financialised capitalism is revealed. Figure 7.14 shows the doubling of the share of the top percentile of the distribution from 3–4% in the 1960s and 1970s to 8% in 2017.

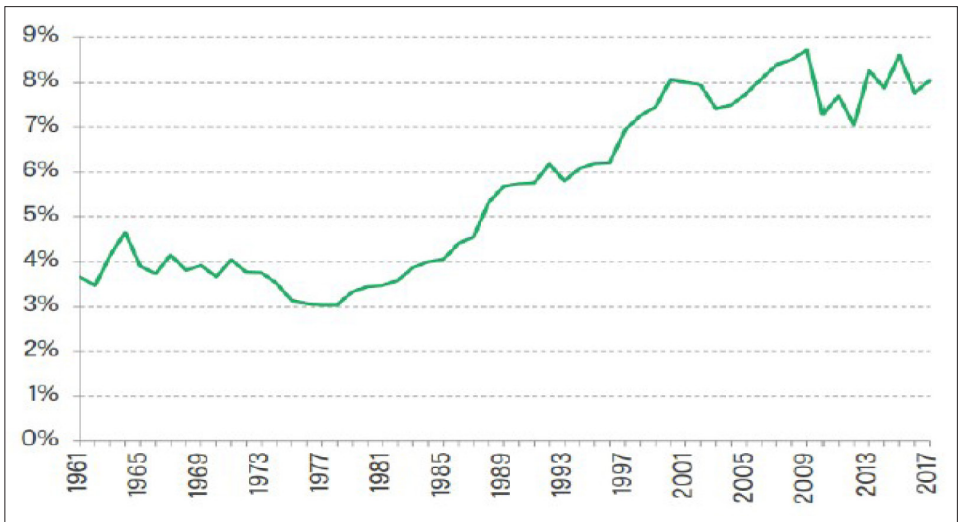


Figure 7.14. Share of top percentile of population in the UK of net household income 1961–2017
Source: House of Commons Library.

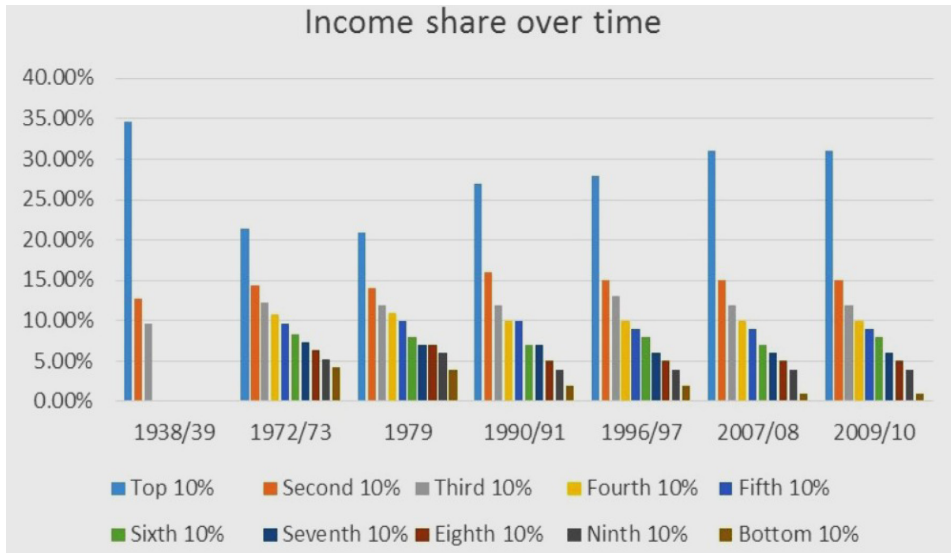


Figure 7.15. Growing inequality in the UK 1972–2010 by decile
Source: Equality Trust.

Figure 7.15 shows the evolution of inequality over time in terms of the share of national income enjoyed by individual deciles. In particular, the stretching of the disparity between the income share of the top and bottom deciles. The material effect of these widening disparities is a marked divergence of life expectancy between the top and bottom segments of the income distribution:

“People living in more affluent areas live significantly longer than people living in deprived areas. In 2014–2016, males living in the least deprived 10% of areas in England and most deprived areas, and for females, the gap was 7.4 years. The gap in healthy life expectancy at birth is even greater – about 19 years for both males and females, and those living in the most deprived areas spend nearly a third of their lives in poor health, compared with only about a sixth for those in the least deprived areas.

Socio-economic inequalities in life expectancy are also widening in both sexes. as a result of greater gains in life expectancy in less deprived populations. Between 2011–2013 and 2014–2016, the difference in life expectancy between the most and least deprived widened by 0.3 years among males and 0.4 years among females, and life expectancy among the most deprived females fell over this period” (Raleigh 2018).

Data from Eurostat indicate that the UK has a relatively high number of households that are at risk of poverty at 22%, but only 4.6% of households suffering from real material deprivation; nevertheless, 34% of UK households are currently “unable to face unexpected financial expenses,”⁷³ underscoring both the country’s low aggregate savings ratio of 4.49% of national income (EU: 9.44%; Eurozone: 11.7%; 2017

73 https://ec.europa.eu/eurostat/statistics-explained/index.php/Material_deprivation_statistics_-_early_results (accessed: 18.04.2019).

figures and high levels of household debt (2018: 87.9%) or an average of £15.400 (€17.250) per household. Credit card debt – a significant driver of consumer demand since 2016 – has risen, but so has the default rate, from 12.7% in the final quarter of 2018 to 22.9% in the first quarter of 2019 (Figures from *The Guardian* 7.01, 18.04.2019). The default trend indicates increasing difficulties at the bottom end of the income distribution, exacerbated in the case of the UK by the prevalence of short-term lending for the poorest households where the debt carries an exorbitantly high (annualised) rate of interest. “Pay-day-lending” with interest rates of 1300% (QuickQuid) or 1790% (Satsuma) is accessible online and advertised regularly on commercial TV channels; as its very name suggests, it represents short-term lending for *working households*, as well as households on welfare.

Researchers at the *Institute for Fiscal Studies*, which charts the trends in poverty and social exclusion note that “the composition of those in severe poverty is more tilted towards social renters and workless households than for those in headline income poverty. But these trends are changing: just as private renters and *working households are making up an increasing share of those in headline income poverty* (my emphasis JL); they are also making up an increasing share of those in severe poverty” (Bourquin 2019a: 8).

The same research group has examined the “specific rise of in-work-poverty” in the UK and produced a series of results which help to illustrate the “increasing prevalence of insecurity in the lives of households in the bottom fifth of the income distribution”. It confounds the assumption of poverty being limited to work-

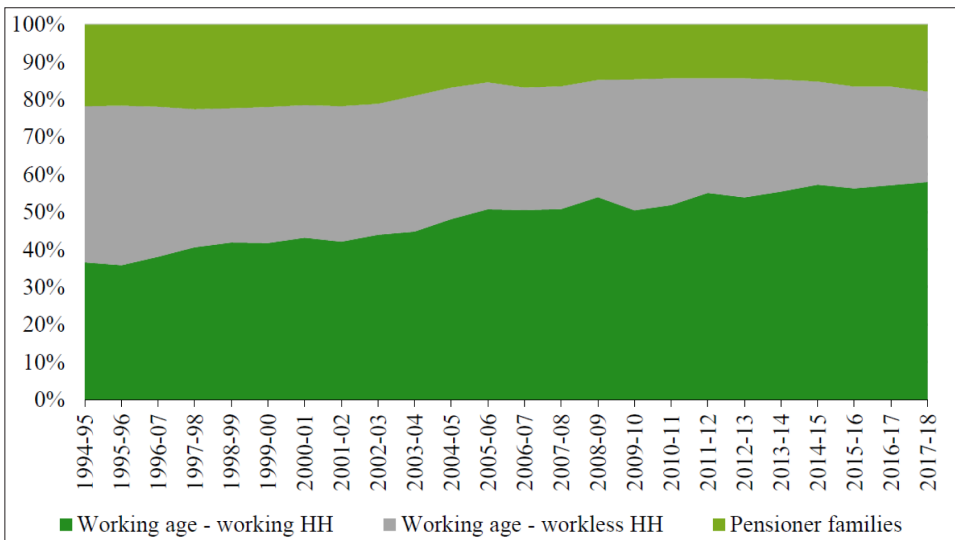


Figure 7.16. Percentage of households in relative poverty after housing costs according to category: pensioner HH, workless HH, working HH 1994–2018

Note: Pensioners defined as women aged 60+ and men aged 65+. Source: Authors’ calculations using the Family Resource Survey, 1994 to 2017.

Source: Bourquin et al. 2019b: 12.

less households that are dependent on state welfare benefits. Figure 7.16 demonstrates convincingly “that the ‘working poor’ now make up the largest segment of households in poverty.”⁷⁴

Bourquin et al. (2019b) are right to point out that the increased number of working households in poverty is in part a consequence of both lower levels of pensioner poverty and the increased levels of overall employment in the UK economy (data for the overall labour market participation ratio vary, but a recent OECD Figure for the UK puts the current Figure at 78.3% of the working-age population). The increase in formal household economic activity nevertheless conceals very important developments in part-time, short-term and precarious contracts for an increasing proportion of the working population. By 2018 part-time employment in the UK had risen to 23% of total employment (EU28: 19%) with a strong gender bias (Men: 9.6%; Women: 38.6%; Figures from Eurostat). “Zero-hours” working arrangements now cover 2.4% of all employment, or 780,000 jobs, and are on a rising trend. Short-term contracts are seen increasingly as both sources of personal insecurity (Heyes 2018) and as economically counter-productive (UCU 2019). The rise in “precarity” associated with these particular trends in the UK labour market (shared by other EU states, it should be noted) reinforce the other elements of insecurity, like high housing costs and weaker rights of tenure for housing tenants; the 53% increase in evictions between 2010 and 2017, often characterised as “no-fault evictions” or “revenge evictions” (for tenants that demand repairs), has led to some moves to increase tenant protections against ruthless landlords; c.f. *New Statesman*. March 28. 2018). The marked reduction in the power of organised labour has also played an important role in not preventing the growth of exploitative behaviour by employers, banks, loan-sharks and landlords.

This brief outline of the rise of economic and social insecurity in Britain both before and after the Great Financial Crash attempts to explain the surprising ease with which the radical Eurosceptic fringe of British political culture was able to capture the imagination of large sections of an otherwise, quiescent and politically inactive electorate⁷⁵ in a theatrical show of defiance in the June 2016 referendum. most marked among older age-groups. The complacency of the Remain campaign – that glibly assumed that the electorate was either fully aware of the advantages of EU-membership or too apathetic to vote – contrasted with the strategic cunning of the Leave campaign which had a sophisticated programme of targeted

74 It is important to note that the regional distribution of in-work poverty does not map onto the pattern of disparities analysed earlier in this analysis; indeed Bourquin et al. show a strong concentration of poor in-work households in London and the South East, reflecting both the (precarious) employment status of predominantly service sector workers and the disproportionate cost of housing in the region.

75 Turnout at UK general elections since 1965 has been consistently below 70%, while the EU-Referendum in 2016 produced a turnout of 72.2%; in the case of 65+ year olds the turnout was 90%, who voted decisively to leave the EU, while the turnout for the age-group of 18–25 year-olds 73% of which voted to remain, was only 64%.

propaganda, aimed at the most promising demographic sections; the sophistication was most clearly evident in the extensive use of social media and “data-mining” in order to identify individuals with recognisable political susceptibilities and prejudices, who could, therefore, be persuaded to vote Leave. The systematic repetition of a limited set of populist political messages – excessive immigration, £350 million weekly cost of EU-membership and restoring national sovereignty – was conducted with a *deliberate disdain for facts and a truly toxic rejection of “expert” opinion*, which was then and is still heavily stacked against the Leave-arguments!

The Leave-strategists relied shrewdly on the ignorance and prejudices of their target groups according to the guiding principle that “the receptiveness of the great mass of the people is only very limited, understanding is small, while forgetfulness is great.”⁷⁶ It is noteworthy that, on the day *after* the Brexit-Referendum, the Google search-engine was overwhelmed by British citizens, asking “What is the EU?” (c.f. *Washington Post* 24.06.2016)!!!

This is not the place to conduct a forensic examination of the cognitive disorder that arguably informed the Leave vote. However, it is appropriate to attempt to draw causal linkages from the indicators of disorder in British economic and political history, in the extreme selectivity of the collective memory of that history and the history of Europe, in the extreme social disorder triggered by the advent of Thatcherism, deregulation, deindustrialisation and financialisation, in the particular disorder generated by the Great Financial Crash and the failure to manage it politically.

The three-and-a-half years of feverish and noisy debate over Britain’s relationship with Europe has reflected a broader trend of authoritarian nationalism – a trend not fully captured by the term “populism” – which has emerged as a result of a general and highly problematic “paradigm” shift from pragmatic post-Fordist, welfare Keynesianism to a radical paradigm of supply-side deregulationism, dubbed “neoliberalism”. The promised results of this quasi-religious shift to “market efficiencies” and Pareto-maximising competition between private agents, freed from the shackles of statism, have been worryingly disappointing and, for critical heterodox economists, entirely predictable. Neoliberalism was never a coherent body of evidence-based theory, but little more than a theocratic ideology, driven by the interests of powerful economic agents seeking to restore their hegemonic control of global capitalism. In doing so, they confirmed the trenchant observation of Wallerstein and others that all capitalist enterprises have an inbuilt “tendency towards monopoly” (Wallerstein 1983). Indeed, highly permissive programmes of deregulation and privatisation in most OECD economies have allowed the emergence of colossal transnational natural monopolies in key public service sectors – water, power, gas, transport – with associated high rates of return via monopoly income streams; as monopolies, they have predictably sweated their assets and avoided the need to invest too intensively; the UK is a perfect and extreme example

76 Adolf Hitler, *Mein Kampf*, Book 1: 198.

of this economic folly. At the same time, private corporations in other sectors have strengthened their market share, engaged in processes of capital concentration via mergers and, predominantly, acquisitions, while at the same time pursuing the short-termism demanded by the “shareholder-value” imperative and the extensive financialisation of ownership structures, asset classes and the processes of exchange. Again, these trends have been promoted by the UK’s strong support for (global) permissive deregulation of controls over capital; Wall Street and the City of London have evidently “taken over Main Street” (thus Foroohar 2018).

However, far from the UK emerging as the dominant hegemon of European capitalism, the new permissive paradigm has compounded the historic weaknesses of British capitalism – low investment, low productivity, poor price-competitiveness, external deficits – and rendered the UK’s political economy chronically dependent on the City of London (qua *The Finance Curse*, Shaxson 2018). This dependence could be concealed within the process of EU enlargement and “deepening” before the Great Financial Crash but has been revealed in the deeply contradictory process that is Brexit: in a period, in which international cooperation, regulatory and fiscal harmonisation and remedial action against climate catastrophe is more urgent than ever, the UK has elected to defect from cooperation in an act of self-destructive stupidity which can only expose its fundamental structural economic weaknesses more dramatically.

That nationalist right-wing forces within British political culture have promoted the restoration of “Global Britain” and bi-lateral economic diplomacy with the weapons of xenophobia, distortions and fabrications, above all with the unscrupulous weaponisation of the insecurities of many sections of a disorientated and economically illiterate population, is a matter of national shame which will blight the country’s economic destiny in the short-term and secure it a much-diminished status in the European family of nations as a pariah state.

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8. Case Study Poland

8.1. Poland and the European Union Disputes and controversies

In 2019, 15 years had passed since Poland's accession to the European Union. In 2004, eight Central European countries – the Czech Republic, Estonia, Lithuania, Latvia, Poland, Slovakia, Slovenia and Hungary, as well as two Mediterranean countries – Malta and Cyprus, joined the Union, which consisted of 15 members. The enlargement of the Union to the East was an important event, not only because of the scale of the undertaking, but also its symbolic significance – the unification of Europe divided by the Cold War. Generally, the Union's foreign policy, which extended the area of direct neighbourhood stability, opened up new markets, and strengthened the EU internationally, was supported by the EU-15 residents.⁷⁷ This was despite the fears that the fifth enlargement raised, which were mainly due to the socio-economic and political dissimilarity of the countries of the former socialist bloc, the institutional and legal preparation of the Union for enlargement, as well as the costs of enlargement.⁷⁸ In the candidate countries, “the

77 In spring 2002, the majority (52%) of respondents in the EU-15 were, in principle, in favour of enlargement, but 46% thought that fewer members should be accepted and spread over time; only 20% supported enlargement unconditionally. The result was lowered by France, the only country of “the fifteen” in which there were more opponents of enlargement (49%) than supporters (41%). Enlargement was supported by 46% of Germans, 42% of Brits and as many as 76% of Greeks. The number of opponents in no country, except France, exceeded 32%. The majority of EU residents believed that the EU was not prepared enough for enlargement: 39% believed it was ready, and only 3% believed it was very well prepared. Standard Eurobarometer 58, December 2002, Flash Eurobarometer 140, March 2003.

78 “The cost of enlargement for my country will be very high,” said 68% of those surveyed in the EU-15 shortly after the Copenhagen Summit. At the same time, in January 2003, 39% of Poles thought that the cost would be borne primarily by the accession countries, including Poland. Flash Eurobarometer 140, March 2003.

return to Europe” slogan was associated with optimism and the hope of regaining freedom and democratic governance. This does not mean that there was no fear of the economic effects, such as price increases, land and real estate purchases by foreigners, as well as the loss of subjectivity, being “poor, unknown, and despised.”⁷⁹

Poland had been preparing for accession for over 10 years. Applying for membership in the European Union is set out in the articles of the Treaty on European Union (TEU). The TEU defines the conditions (Article 49) and rules (Article 6 (1)) binding for each applicant country. These criteria were defined in detail by the European Council at the Copenhagen Summit in 1993 just after the entry into force of the Maastricht Treaty which contained the provision that any European country may apply for membership of the Union.

The criteria for a candidate country are the following:

- political criteria, which include the requirement that the candidate country achieve stability of institutions that guarantee democracy, the rule of law, respect for human rights, and respect for and protection of minorities. This is called the first Copenhagen criterion, which, until the entry into force of the Amsterdam Treaty (AT), had no legally binding force. The AT communitarised it, specifying the conditions for acquiring membership by introducing to Article 49 of the TEU a direct reference to Article 6 clause 1 TEU (the Union is founded on the principles of freedom, Democracy, respect for human rights and fundamental freedoms, and the rules of law which are common to the member states);
- economic criteria, which include the requirement for a well-functioning market economy and the ability to cope with competition and pressure from market forces within the Union;
- volitional criteria, i.e., the will and ability of the candidate country to accept and perform the obligations arising from membership of the European Union, as well as to adapt to the objectives of the Political, Economic, and Monetary Union. The basic measure of this ability is the alignment of national law with the *acquis communautaire*.⁸⁰

Before starting accession negotiations, a candidate state must meet the first criterion, i.e., have democratic institutions that guarantee the rule of law. It was formulated mainly for fear of the return of authoritarianism in the countries of Central and Eastern Europe that had freed themselves from communist regimes.

Let us look at how Poland meets the EU membership criteria from the perspective of 15 years of membership.

In the opinion of Anna Radwan-Röhrenscheff (2019: 1) the founder of the Europa Institute: “The first decade of membership was a time of learning and evolution. Poland increasingly took responsibility for the fate of the European project. From a newcomer, it became a respected and influential member of the EU. This

79 See: Grzymiski (2016).

80 https://eur-lex.europa.eu/summary/glossary/accession_criteria_copenhagen.html?locale=pl (accessed: 18.12.2014).

was confirmed by economic data, opinion polls and Polish initiatives such as the Eastern Partnership. Poles held prestigious EU posts, including president of the European Parliament and president of the European Council. Those were years of Polish ambition and vision combined with pragmatism”.

The capital of a responsible and stable state built by the Polish government between 2008 and 2011 was reflected in the favourable course of budget negotiations for Poland for the years 2014–2020. Poland obtained more than EUR 5 billion, more funds than in previous periods. Funds for the cohesion policy, of which Poland has become the largest beneficiary, also increased.

After eight years of rule by the centre-left party Civic Platform in 2015, the right-wing party – Law and Justice – took power. From that moment, the growing conflicts between the Polish government and the European Union began, and as Radwan-Röhrenschef writes: “the country’s position in Europe and internationally has weakened significantly. It has lost the strength and attractiveness built up in previous years. From a predictable country it has been demoted to the awkward category, together with Britain” (2019).

It was when the Law and Justice (*Prawo i Sprawiedliwość* – PiS) majority government started to exercise power (without a coalition partner) that Poles became painfully aware of how fragile democracy was and how easy it was to lose the achievements and potential of the Polish European policy. They also realised how easy it is to change the institutions that guarantee democracy if the ruling majority does not face strong resistance from civil society.

Before we present the subject of Poland’s disputes with the Union, let us look at the broader European context, consistent with the Law and Justice takeover.

A migration crisis has been growing in the Union since 2015 (see Chapter 9). The EU members differed in their views on how to solve the crisis, arguing about the mechanism of relocating refugees. The migration crisis was limited but the influx of immigrants increased the number of populist and far-right groups in Europe.⁸¹ The biggest changes until the end of 2018 are illustrated in Figure 8.1.

According to the last election results at the end of 2018, support for populist parties exceeded 50% in three countries: Hungary, Greece, and Italy. Poland ranked fourth in terms of support for populists. This result is based on the results of the 2015 election and joint support for the Law and Justice party and Kukiz’15. The lowest support for populist parties in 2018 was maintained in Malta, Great Britain, and Ireland.

The parties included in the populism index are linked by anti-liberalism. Many of them claiming to be democratic have a narrow understanding of democracy as the will of the majority. In exercising power, they do not comply with democratic rules, such as separation of powers and other principles of the rule of law.

81 In the latest edition of the index, the average support for parties classified as populist in 33 European countries amounted to just over 22%, and these types of groups won the support of about 71 million voters (27%).

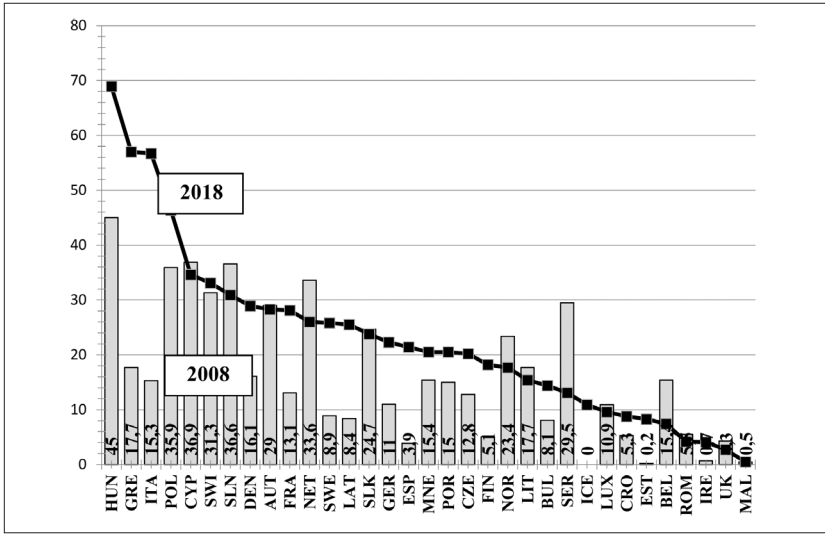


Figure 8.1. Percent of votes for populist parties 2008 and 2018

Source: Timbro (2019). Authoritarian Populism Index.

Table 8.1. The twenty most popular populist parties in Europe by percentage of votes in recent elections⁸²

Country	Party	Full party name	Last election	Re-sult	Ideology
Hungary	FIDESZ	Fidesz – Magyar Polgári Szövetség	2018	49.3	right-wing populism
Poland	PiS	Prawo i Sprawiedliwość	2015	37.6	right-wing populism
Greece	Syriza	Synaspismos Rizospastikis Aristeras	2015	35.5	left-wing populism
Italy	M5S	Movimento Cinque Stelle	2018	32.7	left-wing populism
Switzerland	SVP	Schweizerische Volkspartei	2015	29.4	right-wing populism
Austria	FPÖ	Freiheitliche Partei Österreichs	2017	27.4	right-wing populism
Cyprus	AKEL	Anorthotiko Komma Ergazomenou Laou	2016	25.7	left-wing populism

82 The full names of the political parties and their country of origin: Fidesz (Hungary), PiS – Prawo i Sprawiedliwość (Poland), Syriza (Greece), M5S – Movimento 5 Stelle (Italy), SVP – Schweizerische Volkspartei (Switzerland), FPÖ – Freiheitliche Partei Österreichs (Austria), AKEL – Anorthotikó Kómma Ergazómenou Laou (Cyprus), SDS – Slovenska demokratska stranka (Slovenia), DF – Dansk Folkeparti (Denmark), Podemos (Spain), NSD – Nova srpska demokratija (Montenegro), Jobbik (Hungary), PS – Sannfinländarna (Finland), SD – Sverigedemokraterna (Sweden), LN – Lega Nord (Italy), FrP – Fremskrittspartiet (Norway), KPV LV – Kam pieder valsts? (Latvia), FN – Fron National (France), PVV – Partij voor de Vrijheid (Netherlands), AfD – Alternative für Deutschland (Germany).

Slovenia	SDS	Slovenska demokratska stranka	2018	24.9	right-wing populism
Spain	Podemos	Podemos	2016	21.1	left-wing populism
Denmark	DF	Dansk Folkeparti	2015	21.1	right-wing populism
Serbia	NSD	Nova srpska demokratija	2016	20.3	right-wing populism
Hungary	JOBBIK	Jobbik Magyarorszáért Moszgalom	2018	19.1	right-wing extremism
Finland	PS	Sannfinländarna	2015	17.6	right-wing populism
Sweden	SD	Sverigedemokraterna	2018	17.5	right-wing populism
Italy	LN	Lega (Lega Nord)	2018	17.4	right-wing populism
Norway	FrP	Fremskrittspartiet	2017	15.2	right-wing populism
Latvia	KPV LV	Kam pieder valsts?	2018	14.3	right-wing populism
France	FN	Front National	2017	13.2	right-wing populism
Netherlands	PVV	Partij voor de Vrijheid	2017	13	right-wing populism
Germany	AfD	Alternative für Deutschland	2017	12.6	right-wing populism

Source: own elaboration.

The report by Timbro (2019) states that with the exception of Jobbik in Hungary, all the other parties can be classified as typical authoritarian populists. Among the 20 most popular populist parties according to support in recent elections, Poland's Law and Justice (PiS) ranks second. In June 2016, Brexit supporters won the referendum on the United Kingdom leaving the EU, scoring 51.89%. A year later, negotiations began on this issue; they are ongoing. However, it is worth noting that, despite the dominance of right-wing populists, some of the most successful parties are left-wing populists.⁸³

At the same time, security challenges emerged in the EU (e.g. terrorist attacks, the war in Syria, conflicts in Libya, Russian military aggression against Ukraine). A re-evaluation of the relations between the EU and its member states and the United States began after Donald Trump took office as President. Flashpoints concerned climate policy (the US withdrawal from the Paris agreement); trade relations (the US imposed tariffs on European countries, including on steel); the broken nuclear agreement with the US against Iran; and the NATO dispute, in which the Trump administration demanded increased military spending by other Alliance countries.

Poland's attitude to the most important European problems most often contradicted the proposed solutions. Political activity was mainly focused on defending internal politics. Polish diplomacy was characterised by low efficiency, and it ceased to actively co-shape European policy.

⁸³ <https://populismindex.com/wp-content/uploads/2019/02/TAP2019C.pdf> (accessed: 2.02.2019).

After PIS took power, the crisis around the changes in the judiciary system became the main axis of the dispute with the EU. The European Commission takes the view that PiS reforms undermine EU treaties, posing a threat to the principle of judicial independence, expressed in Article 19 paragraph 1 of the Treaty on European Union in relation to Article 47 Charter of Fundamental Rights.

8.2. Poland and the Copenhagen political criteria

In the opinion of EU institutions, Poland does not currently meet the key criterion for the existence of a democratic state of law – the independence of the courts. The first activities of the European Commission in the area of violating the rule of law in Poland took place as long ago as January 2016. The crisis began when PiS started filling subsequent positions of judges of the Constitutional Tribunal (in the case of three of them, unconstitutionally, in the opinion of the Venice Commission, among others), the government's failure to recognise certain Tribunal decisions, and several amendments to the laws regulating the functioning of this court. In addition, the election of Julia Przyłębska as President of the Tribunal was also in violation of procedures. The European Commission then carried out an assessment of the legal status in Poland and sent recommendations, which Poland only partially adopted, as it had done with the recommendations of the Venice Commission.

During the ongoing dispute over the Constitutional Tribunal, in July 2017, the Sejm, in which PiS has the majority, passed laws on the National Judiciary Council, the Supreme Court, and the system of common courts. Numerous amendments led to the retirement of several dozen Supreme Court judges, including its first president, Małgorzata Gersdorf, and to the strengthening of the position of the minister of justice.

In relation to the above-mentioned laws, the European Commission has issued recommendations on the rule of law four times. They twice included instructions on court laws that were not respected. In view of the deepening conflict and the lack of prospects for reaching a consensus, in December 2017, the European Parliament and the European Commission decided to start the procedure provided for in Article 7 item 1 of the Treaty on the European Union aimed at establishing the existence of a clear risk of a serious breach of European values by a member state.

Court laws are also the subject of preliminary questions to the European Court of Justice (ECJ), which were submitted by the judges of the Polish Supreme Court. They concerned, among others, the retirement age of judges at 65. The Court of Justice of the European Union has ruled that the provisions regarding the reduction of the retirement age of Supreme Court judges are contrary to European Union law because they violate the principle of the irremovability of judges.

There were also other disputes before the Tribunal, e.g., on tree felling in the Białowieża Forest. The EC declared the felling to be inadmissible and referred the case to the ECJ, which issued a final judgment in 2018 suspending activities in the Forest. The Polish side complied with the verdict.

The consequences of Poland's disputes with the European Union over the rule of law have been and will be of a different nature. The belief that starting the procedure under Article 7, will not have negative implications for Poland is illusory. The scale of the Commission's actions proves that Polish "reforms" are seen as a serious problem that threatens the cohesion of the Union. To complete the procedure stating the risk of violating the Union's values, the consent of 4/5 of member states in the European Council and 2/3 of votes in the European Parliament are necessary. However, the unanimity of the European Council is necessary for possible sanctions, i.e., depriving Poland of the right to vote. Now the stake in the game is to bring the vote to the Council meeting. If it is possible to collect 4/5 of the votes, Poland will bear severe costs, though they will be difficult to measure. Achieving such a definite majority of countries that negatively assess the attitude of the Polish government would hinder the creation of intra-EU coalitions for Poland. Measurable consequences of the reduced ability to attract allies would result in the country having no, or a very limited impact on decisions taken in sensitive areas for the entire Union and member states, such as reforms of the euro area, deepening integration within the Union, the future of the common market, energy policy, and the EU budget effective from 2021 to 2027.

The issue of negotiating a new EU financial perspective is a non-legal dispute between Poland and the European Union, which will certainly grow in the near future. The first draft budget constructed by the European Commission was definitely more favourable to the countries of the south than Central and Eastern European countries. Until now, the method of distributing funds was defined by the so-called "Berlin method", which is based on the wealth of a given country expressed in GDP per capita. Poland is in favour of maintaining it. However, to identify recipients of funds in the future, Brussels is considering much more complex indicators, including youth unemployment, education level, environmental status, and emigration rate. The Polish side strongly opposes the possibility of making funding dependent on compliance with the rule of law or readiness to accept immigrants. The original draft budget will undergo many changes, and its final shape must be accepted unanimously – a veto from at least one country means the need for further negotiations.

In addition to the stability of institutions that guarantee democracy and the rule of law, political criteria for belonging to the Union also include respect for human rights and respect for and protection of minorities. These rights are partly expressed in the EU treaties and the Charter of Fundamental Rights. In assessing this criterion, the European Union is also based on the provisions of the European Convention on Human Rights.

The Ombudsman is the Polish appeal body regarding the violation of individual rights and freedoms, annual reports submitted to the Sejm and Senate by the Ombudsman are the source of knowledge about the activities of the Ombudsman's Office and the state of respect for human and civil rights and freedoms in Poland (Article 212 of the Constitution). The last 582-page report for 2018 shows that in Poland, many of the previously known threats related to the observance of freedom and protection of human rights increased, and new phenomena have appeared. The report reads:

“(1) The process of change continued, leading to a violation of the balance of powers, discrediting the role of the judiciary and, as a result, limiting the exercise of the citizen's right to an independent and unbiased court. (2) The position of the individual in relations with the state and public institutions continued to weaken. Threats to the protection of the right to privacy and the right to freedom of assembly grew. Difficulties in accessing healthcare services continued. The support system for people with disabilities and the elderly was not effective enough. (3) We have seen violations of the rights of people experiencing discrimination and violence in many areas of life.”⁸⁴

If we choose the freedom of assembly as an example of the violation of rights guaranteed to citizens, then its limitation resulted from the introduction of provisions regulating the procedures for meetings organised periodically. They favour so-called cyclical assemblies, against which, in practice, it is impossible to counter-manifest.

In turn, “the changes introduced in the functioning of public radio and television have subjected this sphere to political control. The constitutional body of the National Broadcasting Council, which safeguards freedom of speech and the right to information, has been limited in its competences by the non-constitutional body, i.e., the National Media Council, which violates the constitutional guarantees of the freedom of social media and the freedom to express views and to obtain and disseminate information”. And further on, spokesman Adam Bodnar writes: “The constitutional right to health protection is still being implemented at an unsatisfactory level. Citizens perceive the public health care system as bureaucratic, inefficient and not very patient-friendly.”⁸⁵

In Poland, the rights of women are also violated as they are prevented from exercising their full sexual and reproductive rights. Restrictions on access to contraception, a restrictive right to abortion, and difficult access to legal abortion verify the thesis that reproduction policy in Poland is based on reproductive coercion, which makes it difficult for women to decide about their own fertility and having/not having offspring (Dzwonkowska-Godula 2019).

84 <https://www.rpo.gov.pl/sites/default/files/Informacja%20Roczna%20Rzecznika%20Praw%20Obywatelskich%20za%20rok%202018.pdf>:6 (accessed: 20.12.2019).

85 <https://www.rpo.gov.pl/sites/default/files/Informacja%20Roczna%20Rzecznika%20Praw%20Obywatelskich%20za%20rok%202018.pdf>:8 (accessed: 20.12.2019).

These are just some of the systemic problems outlined in the report that are reflected in the complaints considered by the Ombudsman's Office.

8.3. Poland and economic criteria

Reports, studies, and analyses regarding the economic situation in Poland published by the Ministry of Entrepreneurship and Technology show that the macro-economic situation of Poland is favourable. Basic indicators reflecting the economic results show that the economy is developing at a rapid pace. From 2003 to 2017, Poland's GDP per capita increased by 81%, and exports exceeded €200 billion per year. The forecasts regarding GDP formation, industrial and construction production, inflation, unemployment, and foreign trade are also optimistic.⁸⁶ Although the Polish economy is slowing down somewhat, it still is going to be one of the most dynamic in the EU, according to the forecasts of the European Commission and the World Bank.

Economic forecasts for the EU 28 published by the European Commission show that for Poland, economic growth is expected to be 4.2% this year, while in 2020, a slowdown is forecast. GDP is expected to increase by 3.6% (Figure 8.2).

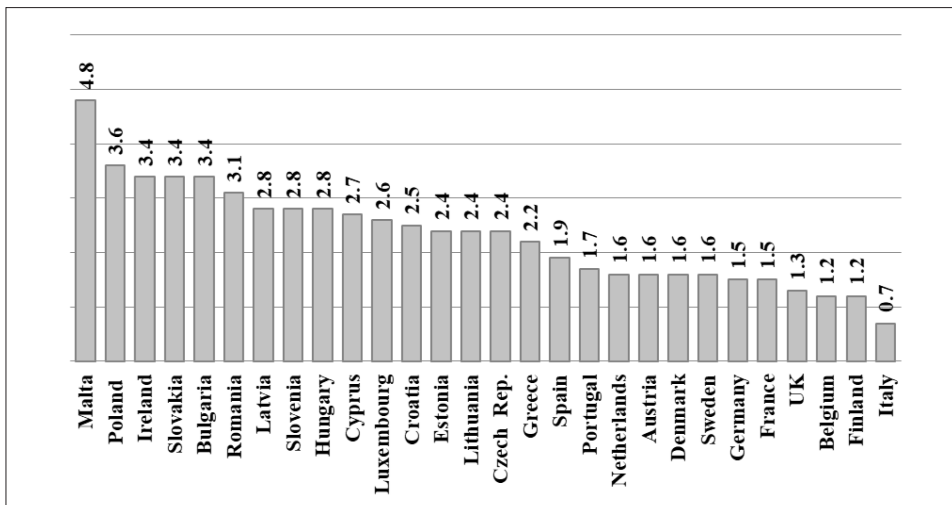


Figure 8.2. GDP growth in the EU – Forecast for 2020

Source: European Commission.

⁸⁶ <https://www.gov.pl/web/przedsiębiorczosc-technologia/sytuacja-gospodarcza-polski> (accessed: 18.12.2017).

For the four years that Law and Justice have been in government, the growth of the Polish economy has been due to growing private consumption. The sources of financing demand are rising wages (in Poland, unemployment is at its lowest ever – 3.8%) and social transfers.

The transfers from the EU budget, which finance public investments, also play a vital role. Thanks to the EU's support, Poland has received funds worth almost twice the country's annual budget. According to the analyses of the Ministry of Development, each year since Poland's accession to the EU, GDP growth increased by a quarter, i.e., about 1 p.p. (Morawski 2019).

Dynamic economic growth results in an increase in taxes to the state budget, which in turn contributes to reducing the public finance sector deficit. In 2018, it fell to 0.4% of GDP. In the years to come, the deficit will be higher as a result of the budget being burdened with social transfers. It is expected to reach 1.6% of GDP in 2019, and a year later, it should slightly decrease to 1.4%.

In the election year, the government announced further social transfers and fiscal instruments that burden the budget. As a result of their implementation, the deficit will probably not exceed the level of 3% of GDP, which is allowed in the EU. Nevertheless, the government's intentions contradict EU recommendations to balance the budget in good times.

A synthetic picture of the economic policy of Law and Justice is presented by Marek Belka (2019), who distinguishes the following features:

1. "A conscious increase of the role of the state in the economy which manifests itself both in the increase in the share of tax revenues in GDP as well as in expanding the state's domain (nationalisation, an informal increase of influence in the private enterprise sector).
2. Generous social policy financed primarily by increasing burdens on entrepreneurs.
3. Subordinating economic and social policy to the political interests of the ruling party, stimulating demand during a time of prosperity.
4. Weakening the foundations of the economy, e.g., meddling in the energy sector, striving to nationalise banks, diminishing the role of local governments, or degrading the civil service.
5. Using economic "supplies" created by predecessors and which grow naturally in times of prosperity for current needs."

The author emphasises that Poland's economic success under the PiS government was due, in part, to the good economic situation in Europe and the world, and to the economic policy of its predecessors, who had implemented economic situation stabilisers. The contribution from PiS is the correct assessment of the short-term possibilities of the economy, which is able to cover increased expenses for social purposes. While criticising the way social policy is implemented, Marek Belka indicates that it has led to the significant and socially justified redistribution of income.

8.4. Poland and volitional criteria

Under the concluded agreements, Poland, as a member of the European Union, is obliged to accept the EU *acquis*, perform the obligations arising from membership of the Union, and adapt to the objectives of the Political, Economic and Monetary Union. This principle is intended to guarantee the stability of the principles developed in the Union over the years.

Poland has had serious delays in implementing European directives, but regarding the implementation of its obligations arising from EU membership, the biggest conflict was its response to the migration crisis. For political reasons, Poland did not accept the refugee quota. In September 2015, the EU Council established a temporary emergency relocation system. Under two decisions adopted at that time, Member States undertook to relocate people in need of international protection from Italy and Greece. The decisions obliged the member states to distribute up to 120.000 refugees among themselves in two years (until 26 September 2017), of which Poland was to receive about seven thousand people. Ultimately, the relocation involved fewer people, only just over 32.000, and only those member states that had not symbolically participated in the process of admitting refugees were brought before the EU court of justice. The European Commission referred the case against the Czech Republic, Hungary, and Poland to the CJEU in December 2017. It justified its request due to these three countries' refusal to fulfil their obligations regarding the reception of refugees from EU member states struggling with a mass influx of arrivals from Africa and the Middle East.

Poland's accession to the eurozone seems less urgent. It has undertaken to introduce this currency but has not set a date for its adoption.

The key issue is the climate. At the June EU summit, the project of achieving climate neutrality by 2050 was blocked by Poland, the Czech Republic, Hungary, and Estonia. The Polish government is afraid that the transformation, which is aimed at achieving climate neutrality, will be costly for the Polish economy, which is heavily dependent on coal. Prime Minister Mateusz Morawiecki suggested that the blockade does not mean severe opposition to the construction of an economy aiming at carbon neutrality, Poland needs time to think. It also needs a detailed calculation of the costs of neutrality as well as a precise definition of the compensation mechanisms for the member states leaving the coal energy system.

The volitional criteria of belonging to the Union can also be analysed in terms of a candidate country's willingness to join the Union and then being a member of the Union, and vice versa, the will to accept a candidate country and, in the long run, its acceptance by the member states of the Union. The political concepts of PiS and how they are put into practice, such as departing from the principles of democracy, disrespect for the law and institutions of the state, subordination of the public media

to the party, the use of techniques to “criminalise” the opposition, and defamation of the European Union are met with concern, a lack of understanding, and ostracism.

Poland is becoming isolated in Europe and is facing difficulties finding allies among the member states. The Czech Republic, Slovakia, and the Baltic States have distanced themselves from Poland. Even Hungary, which itself does not currently meet many member state criteria, does not always support Poland’s position. The PiS government’s actions have already led to two “27:1” situations in which Poland acted in defiance of the entire Union. The first case concerned the extension of the term of office of Donald Tusk as the President of the European Council; the second was the blocking of the EU report on the situation of fundamental rights in the EU, formally called “the conclusions on the application of the EU Charter of Fundamental Rights in 2017”. The official position of the Ministry of Justice mentions the protection of Christians and Jews⁸⁷ as the reason for the block; unofficially, the dispute concerned the non-compliance with the law of sexual minorities (LGBT). The annual report was vetoed for the first time. The document signed by the 27 EU countries has no legislative power. However, vetoing it is of great political importance. It is a manifestation against the values commonly shared in the EU, signed by the representatives of all the other EU member states.

8.5. Polesxit?

The declarations of PiS on EU membership resemble the position of the British government before the referendum on leaving the Union: “We are part of Europe, and we want to be in the EU, but on our terms”. This approach, together with the atmosphere of reluctance towards EU institutions built over the years, determined the outcome of the referendum in Great Britain. The PiS government, consciously or not, is implementing a similar policy. Despite the fact that PiS leaders declare support for Poland’s presence in the European Union, which, as they say, should be understood as of Europe of homelands, their proceedings and decisions taken undermine the credibility of intentions and the will to respect the principles binding in the Union. The negative attitude of the government towards European integration is manifested in its loosening ties with the EU institutions, growing criticism of both the development directions and principles of the functioning of the Union, a lack of involvement in reform and conceptual activities regarding the future of the EU, among others (Wilkin ed. 2017). Poland is governed by a euro-sceptic party which was democratically

87 <https://www.gov.pl/web/sprawiedliwosc/oswiadczenie-ministerstwa-sprawiedliwosci> (accessed: 11.10.2018).

chosen by Poles, 90% of whom declared support for Poland's membership in the European Union. It is worth asking if Polish society is changing its attitude towards the Union, and if not, what is the character of Polish Euro-enthusiasm.

Support for Poland's membership in the European Union has been very high (see Figure 8.3). Since 2014, the acceptance of Poland's presence in the EU has not decreased to a level below 80% in surveys of the Public Opinion Research Centre (CBOS). In March 2019, support of membership reached a record high of 91%. Only one in twenty respondents is against membership in the EU. "After 15 years of membership, public assessments of the balance of integration for Poland are definitely positive. Overall, over three-quarters of respondents (78%) believe that Poland's presence in the EU brings our country more benefits than losses. One in ten thinks that the positive and negative effects of membership are equally strong, and only 7% think that losses prevail" (CBOS 2019: 1).

Compared to other EU countries, Polish society is declaratively one of the most pro-EU in Europe (Eurobarometer 2017).⁸⁸ Poles see many benefits of EU membership, mainly related to the economic sphere and infrastructure.

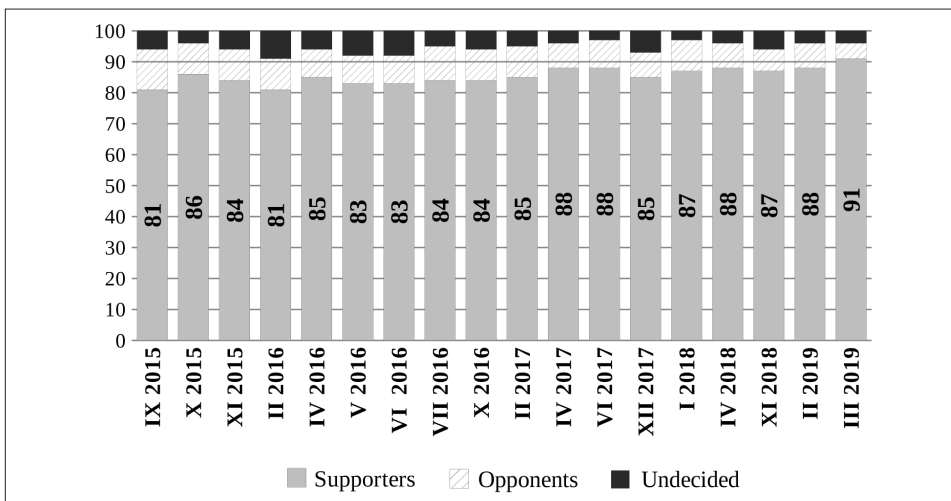


Figure 8.3. Attitude to Poland's membership in the Union (%)

Source: CBOS 4/2019.

The results of CBOS, Eurobarometer, the European Social Survey, and many others suggest that forecasts of Poland's withdrawal from the Union's structures, often expressed by politicians and in press articles, are unlikely. They do not have the support of the vast majority of society. However, this does not mean that a Polesxit can be excluded. According to Joanna Konieczna-Salamatin (2018), attachment to the Union is not based on a solid foundation, i.e., trust in the Union, positive

⁸⁸ http://www.europarl.europa.eu/poland/pl/strona_glowna/eurobarometr_1/eb_2018/eurobarometr-87-polakow-doceniam-korzy-ci.html (accessed: 1.02.2018).

emotions towards the Union, or a belief in the need for deeper integration. She states that the trust in the EU strengthens together with respect for democracy as a form of governance, and vice versa, acceptance of authoritarianism is positively correlated with distrust of the Union.

Therefore, the greater the group of people who distrust democracy, the more people will vote against the EU. Previously, sympathy for the EU resulted from a lack of trust in Poland's own elites. Today, part of Polish society prefers to arrange the country in its own way, with a strong authority that they trust. Konieczna-Salamatin also argues that politicised religiosity and tolerance of strangers has an impact on attitudes towards the Union. The greater the commitment to church life and the stronger dislike of strangers, the more sceptical the attitude towards the EU. Social status does not differentiate attitudes towards the Union.

The media have a real impact on political views and democracy. The report by Joanna Popielawska and Jan Szyszko (2017) that analysed narratives about the European Union among Internet users, politicians and experts, includes data documenting how often the European Union is the subject of debate, who publishes content related to the Union, who speaks the most about it and whether the context of the content is positive or negative. Of the many applications, out of necessity, we have chosen only a few that characterise the main trends.

A negative narrative about the European Union dominates among Internet users, with Facebook being the main forum for online debate about the Union. The content published there, referring to specific political ideologies, is mostly pro-government or anti-EU. The passivity of supporters and the over-activity of EU opponents is demonstrated by the fact that the five profiles with the broadest coverage are right-wing and critical of the Union.⁸⁹

Regarding politicians, Popielawska and Szyszko (2017: 7) write: "The Union and its policies and institutions are the targets of a direct attack or part of a narrative in which politicians attack their opponents. This is characteristic of both the ruling power and the opposition. As a result, the political debate about the European Union in Poland is taking place in a negative context, and the EU is treated in an instrumental manner in it". Disputes about the Union are mainly used for political purposes within the country.

Criticism of the government's actions regarding EU institutions only intensifies the Polish authorities' attack on the policies of the EU elite. PiS politicians will paint a convincing picture suggesting the anachronism of European Union structures, their inefficiency, and threats related to European integration, while they criticise the Union itself for interfering in Poland's internal affairs. "At the centre of the ruling narratives is the sovereignty of Poland and its democratically elected authorities who have full right and legitimacy to carry out the necessary changes

89 These are: the profile of Janusz Korwin-Mikke (Facebook), History you didn't learn at school (Facebook), TVP_info (Twitter), History you don't know yet (Facebook) and the Congress of the New Right (Facebook).

expected by Poles. The criticism of the government by the Union is, in fact, an attack on all of Poland, fueled by denunciation by the opposition” (Popielawska, Szyszko 2017: 8). In turn, according to pro-European groups, criticism of EU institutions is caused by the policy of the ruling party, which is in violation of EU treaties. The compromise on the basic values of the Union has led to the marginalisation of Poland in the Union and threatens to reduce EU funds and cause Polesxit.

Admittedly, there are divisions due to political preferences among experts, but their statements are most often balanced, pragmatic, and objective. For example, the Polish government’s proposal of reforming the Union by strengthening nation-states at the expense of EU institutions, in the opinion of most experts, involves many dangers. Apart from the fact that no other member state is interested in the idea of the Union returning to the four freedoms of the single market, the proposed changes will favour the strongest economic member states. Weaker countries will suffer losses as a result of the protectionism of Western European countries.

If the experts’ narrative is ideological, then the preferences are reflected in presenting EU institutions as being highly politicised and hostile to the ruling power in Poland.

In turn, the preferences of experts related to the opposition parties are reflected in pointing out the weaknesses of the government’s arguments. The argument of the opponents of the Union – that Poland pays for or will be a net payer in the future – undermines the main reason for our presence in it. The fact is, however, that we get huge development funds from Brussels, and although it is an important argument, it is not the only benefit. We will benefit from membership even if we start paying extra to the EU budget – due to market access, legal facilitation, freedom of movement, economic security, etc.

To sum up, Polish Euro-enthusiasm could turn into Euro-skepticism if the message about the European Union were to be dominated by a narrative that indicates the Union as the main force responsible for reducing funding and weakening Poland’s economic benefits. This scenario corresponds to the interests of the ruling party, PiS, because the values and principles of the EU become a factor that limits the freedom of the party’s reform activities (the so-called “good change”, in the words of the party’s election slogan).

Another scenario leading to the deepening of European integration is Poles’ increasing belief that the EU is a joint project which Poland is a co-author of, even if today the country is facing the task of renewing democratic discourse and rebuilding the rule of law.

In April of 2019, in an interview with *Rzeczpospolita*, Jean-Claude Juncker, the President of the European Commission, when asked if it is possible for Poland to leave the EU if PiS wins the Sejm election in October, replied: “There will be no Polesxit. [...] Poland is with us because we share common values”.

Juncker’s optimism does not change the fact that the rulings of PiS have changed Poland, but the European Union is also changing. Priorities which will be serious challenges for subsequent governments in Poland are changing. An ambitious

climate policy, strategic autonomy in the dimension of security, and strengthening the eurozone will require existing policies to be redefined. The future of Poland in the European Union will depend on how they will be defined, how much of the EU will remain in Poland, and how much it will be possible for Poland to be in the EU.

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9. Rising xenophobia facing immigration

9.1. The challenge

“The global population of forcibly displaced increased by 2.3 million people in 2018. By the end of the year, almost 70.8 million individuals were forcibly displaced worldwide as a result of persecution, conflict, violence, or human rights violations. As a result, the world’s forcibly displaced population remained yet again at a record high” (UNHCR 2019). Till now the highest increase was between 2012 and 2015, driven mainly by the Syrian conflict. “But conflicts in other areas also contributed to this rise, including in the Middle East such as in Iraq and Yemen, parts of sub-Saharan Africa such as the Democratic Republic of the Congo (DRC) and South Sudan, as well as the massive flow of Rohingya refugees to Bangladesh at the end of 2017” (UNHCR 2019: 4).

The EU and primarily Germany is one of the preferable destinations for refugees. Under normal conditions, most of the European countries need immigration facing the aging society and the need to engage qualified workforce. Furthermore, there was a widespread welcome culture when more than a million of asylum seekers crossed the border to Germany. Volunteers spent food and clothing for the arriving refugees. Over time however, this attitude has changed. In view of a growing number of migrants, more and more people turned against the “tide” incited by right-wing populists. In addition, the increasing criminality of the mostly young men from North-Africa contributed to changing the welcome-culture to rising xenophobia. This is, in part pushed by some politicians of the far right.

Nevertheless, the German constitution guarantees the right of asylum and is therefore obliged to help. The problem is that in this respect Germany faces a lack of solidarity in the European Union when it wants other member states to accept a certain quota of refugees, too. The main regulation on how to manage migration

to the EU is inscribed in the Dublin Regulation.⁹⁰ This convention as a European Union (EU) law determines the EU Member State responsible for examining an application for asylum seekers seeking international protection within the EU under the Geneva Convention and the EU Qualification Directive. It is the cornerstone of the Dublin System, which consists of the Dublin Regulation and the EURODAC Regulation,⁹¹ which establishes a Europe-wide fingerprinting database for unauthorised entrants to the EU. The Dublin Regulation aims to “determine rapidly the Member State responsible [for an asylum claim]” and provides for the transfer of an asylum seeker to that Member State. Usually, the responsible Member State will be the state through which the asylum seeker first entered the EU. The problem now is that the refugees do not care about staying in the country of the EU they entered (Italy, Greece, Spain, Malta), but they try to reach mainly Germany in secondary migration. On the other hand, many Member States, including Germany, refused to effectively support Greece, Italy etc. where most of the refugees entered Europe, to manage the inhuman conditions and overtaxing situation. In contrast, the Bavarian sister party of the Christian Democrats, the CSU, through their federal minister for internal affairs threatened to turn back at the border these secondary migrants, who had already been registered in the other countries.⁹² This nationalist concept was opposed by German chancellor Merkel, who insisted on a European solution. Even after reaching some compromises at the EU meeting, the CSU remained opposed to Merkel threatening to end their partnership in the government. In the end, the wish of both conservative sister parties to remain in power meant that a deal was struck. Camps would be created at the Austrian border, making it possible to send back those refugees to Austria which had already been registered there or who had no chance of getting asylum. This would be done by an agreement with Austria. The SPD, as a junior partner in the government agreed to this strange compromise as long as these camps are not run like prisons. The welcoming culture of Germany, which earned so much admiration around the globe, has ended. Even Merkel, a former exponent of humanitarian politics, is forced or even willing (?) to move to the right side of “fortress” Germany to remain in power.

Furthermore, the EU member states have found only a poor compromise: they want to strengthen Frontex, to create detention camps on the EU’s external borders or even in neighbouring countries, and leave nearly all other policies, in particular, the fair distribution of refugees to the individual member states. There is a threat that the EU as a union of solidarity is at risk. The great idea and its development are in danger. The minimal agreement found by the heads of the EU Member States is approaching the concept of “fortress Europe” neglecting humanitarian aspects.

90 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3A23010503_1 (accessed: 18.12.2019).

91 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R0603m> (accessed: 18.12.2019).

92 <https://www.dw.com/en/bavarian-conservative-csu-defies-angela-merkel-on-migration-policy/a-44221670> (accessed: 18.12.2019).

With the high number of refugees coming to Europe and reports on crimes of newcomers, more and more people perceive refugees as unwanted. They are scapegoats for the social and economic misery, first hand of those people, whose situation has worsened during several years. This is true in the case of many former socialist countries, where many people have experienced a harmful change to a market society. Nevertheless, even in the wealthier countries of the west an increasing number of people vote for new right-wing parties, which attack refugees and the ruling elites at home and in Brussels. These right-wing parties, which were outside the society, now have reached its centre.

On the whole, we have a controversy situation: on the one hand, there is still the demand for immigration mainly by capital organisations and the willingness to act in a humanitarian treatment of refugees by a large number of people. On the other hand, we face a rising success of right-wing parties in elections, even winning a majority in Hungary and Poland. The refusal and even attacks against refugees affect primarily Muslims and young low qualified people from Africa.

9.2. The background of mass immigration to Europe

The war in Syria and the Taliban bombings in Afghanistan and Pakistan led to hundreds of thousands of refugees fearing for their life and trying to find a safer place to live. Aside from the threat of war, endangered “human security” is an important reason for flight. Endangered human security concerns people who are in situations of extreme vulnerability, whether due to social, political or economic marginalisation. From the perspective of human security, what matters in terms of security is not so much that states and societies should be involved in guaranteeing peace from external threat, but rather that they should guarantee the minimum conditions for people to be and feel secure in their societies by ensuring social peace. “The guarantor of national security is no longer military power, but favourable social, political and economic conditions, promotion of human development, human rights and inclusive policies” (UNDP 2004: 141). Extreme poverty, a demoralising outlook of finding a well-paid job in the future, hunger, and a lack of medical support drove many African migrants to flee the violence and hunger and make perilous desert crossings to reach the Mediterranean Sea. Then they try to cross this meanwhile deadliest sea on dilapidated boats that have carried thousands upon thousands before them to their deaths.

Even if there are fewer war activities in the future, there will still be the additional threat of climate change and extreme weather conditions with heavy floods in one part of the world and extreme drought in other parts. Together with rising sea levels,

the negative impact of climate change on the supply of food will lead to increasing numbers of refugees seeking a sustainable life in better regions. African countries are among the poorest in the world, and it should not be a surprise that the desperate young generation seeks a better future, mainly in Europe. On average, Africans had a GDP per capita of \$ 1.896 in 2018,⁹³ which is about 20 times less than the EU average of \$ 37.417.⁹⁴ Nevertheless, this average does not tell the truth when looking at the worst living condition in 23 African states with less than \$100 GDP per capita in 2018, and even 9 countries with less than \$50 GDP per head.⁹⁵

The number of asylum seekers has fallen to a relatively low level since its height in 2014/15 when more than a million came to Europe. Stricter control has been “successful”. From 2014 to June 2018, 3.831.455 asylum seekers entered the EU. Most of came from Syria (938.770), followed by Algeria (451.650), Iraq (321.695), Pakistan (150.805), Nigeria (142.200) and Albania (137.985).⁹⁶ More recently, however, rescue vessels with hundreds of Africans have been prevented from arriving in European harbours, while the rescue ships of private NGOs, as well as the search plane “Moonbird”, are now impounded in Malta and Italy.

Furthermore, some search and rescue teams from these ships have been accused of cooperating with smuggler gangs which send desperate refugees on unsuitable rubber dinghies on this risky trip. The idea of hardliners in Europe is to prevent Africans from starting their risky trip across the Mediterranean Sea because there will be no more private rescue teams. Control of the sea should only be in the hands of military guards like Frontex or the Libyan coast guard. The latter will take survivors back to detention camps in Libya, from where up to 90% of people crossing the Mediterranean Sea to Europe depart. “Europe poured in aid to help migrants in Libya – but for thousands, life is still hellish and many prefer to risk staying on the streets.”⁹⁷ Of 32 awful camps, only seven are under the control by the Libyan state; the others are run by private organisations. Torture, rape and even murder are daily experience in these refugee detention camps.

The result of the new agenda of “protecting” European borders is that the number of refugees and migrants who died at sea trying to reach Europe decreased in 2018 as compared to 2017. According to data from the European Commission, 2.160 people died trying to reach Europe in 2018 as compared to 3.129 deaths in 2017.⁹⁸ The number of people who died on their trip through the Sahara is unknown. Because the EU has financed a transit camp in the Sahara town of Agadez (Niger), where currently about 600 African people are registered and because

93 IMF, World Economic Outlook 2018.

94 <https://tradingeconomics.com/european-union/gdp-per-capita> (accessed: 18.12.2019).

95 IMF, World Economic Outlook 2018.

96 <https://ec.europa.eu/eurostat/statistics-explained/pdfscache/1275.pdf> (accessed: 18.12.2019).

97 *The Guardian*, <https://www.theguardian.com/world/2019/nov/03/libya-migrants-tripoli-refugees-detention-camps> (accessed: 3.11.2019).

98 <https://www.undispatch.com/european-union-releases-facts-and-figures-for-migrant-and-refugees-arrivals-in-2018> (accessed: 18.12.2018).

the military forces of Niger intensified their control on the normal transit routes through the Sahara, attempt to reach Libya through the Sahara now take riskier routes. That is why the numbers of dead on this riskier route through the Sahara are unknown. Thanks to the camp in Agadez, we must now realise that Europe's border now extends into Africa.⁹⁹

Despite the fact that the number of asylum seekers is falling dramatically, countries like Italy, which is now ruled by a right-wing coalition, and Malta, where many boatpeople first entered Europe, are no longer willing to allow refugees to enter their harbours. While in October 2015, 433,620 refugees sought asylum in the EU, in October 2016 this number was 35,939 and in April 2018 there were only 12,599. Despite that reduction creating only minor problems, several EU countries are still unwilling to receive an appropriate quota of asylum applicants, indicating at the same time a lack of solidarity in the EU with those countries that have a relatively high number of refugees like Germany, which hosts 41.3% of all asylum seekers.

Poland, in particular, with only 29,650 asylum applicants, Czech Republic with 4,770 and Slovakia with a mere 810 belonged to the group of unsupportive objectors. Aside from the escalation of right-wing parties, which want people to believe that getting rid of refugees will solve nearly all social and economic problems, it seems that those countries with a low quota of foreigners are strong opponents to accepting asylum seekers, perhaps because they lack experience of a multi-cultural society.

9.3. Emergence of populist right-wing parties

We can see the emergence of right-wing nationalism as a political force worldwide and even in Europe, which has prompted fears that liberal democracy is at risk of sliding towards illiberal and authoritarian forms of government. As this nationalism strengthens, it poses a threat to socially inclusive democracy and solidarity in Europe. The cause of this emergence of nationalist and right-wing parties is related to the ruling neo-liberal belief that markets and the withdrawal of the states would better help to overcome an economic crisis and would be supportive for higher growth rates. "The credibility of neoliberalism's faith in unfettered markets as the surest road to shared prosperity is on life-support these days. And well it should be. The simultaneous waning of confidence in neoliberalism and in democracy is no coincidence or mere correlation. Neoliberalism has undermined democracy for 40 years" (Stiglitz 2019).¹⁰⁰

99 See the TV-report of the German *Monitor* of 5.7.2018; <http://mediathek.daserste.de/Monitor/Monitor-vom-05-07-2018/Video?bcastId=438224&documentId=53840900> (accessed: 5.07.2018).

100 The end of neoliberalism and the rebirth of history by Joseph Stiglitz on 26.11.2019.

The increasing inequality of working and life situations is one cause of the growing right-wing populism (Giebler, Regel 2017).

A failed anti-social crisis policy has supported the rise of new right-wing populist parties. The background to this attitude can be seen in the example of the Brexit decision, although there are similar feelings in other parts of the EU. Neglected by the welfare state and increasingly disappointed with the traditional ruling parties, many people turned to the populist parties. The widening gap between rich and poor, the decline of the middle classes, and the new phenomenon of the working poor then became the key factor for a profound crisis of political representation. Within the “neglected masses” a deep distrust in the traditional parties and in the rule of the political elites created the basis for emerging populist parties and the steady rise of right-wing nationalism. Furthermore, right-wing and nationalist parties attack the EU as being an institution that is inadequate to overcome the social crisis.

In this situation the huge number of immigrants is perceived as competitors for rare working places, and they are considered additional entrants in the welfare system. The right-wing parties and populist movements made use of the rising xenophobia. Their current successful slogans concentrate on three goals: (1) stopping immigration and send the refugees back, (2) insisting on national solutions to the misery without the (“helpless or even blocking”) EU and (3) getting rid of the ruling elites. The slogans are the same almost everywhere: “We want our country back” (UKIP), or “We will bring back our country and our people!” from the leader of the German AfD Gauland. The dangers are seen in migration and failing policies by the elite in the own country and the EU. European scepticism is widespread not only in the United Kingdom, the Netherlands, Poland and Hungary but also in Germany.

With regard to the last elections for the European Parliament in 2019 the Social Democrats and the Conservatives have lost 65 seats, while the nationalist and populist parties could double their seats. “Right-wing and nationalist parties have gained a sizeable number of seats in the European Parliament. In Italy, France, Poland and Hungary they were even in the majority.”¹⁰¹ The newly formed Identity and Democracy (ID) group has 73 members of the European Parliament (MEPs) in the 751-seat assembly ahead of its new session in July. Replacing the Europe of Nations and Freedom group, which had 36 seats in the previous parliament, the new ID group includes:

- Italy’s Lega (League) party with 28 MEPs,
- France’s Rassemblement National (National Rally) with 22,
- Germany’s Alternative for Germany (AfD) with 11,
- Austria’s FPÖ (Freedom Party) with 3,
- Belgium’s Vlaams Belang (Flemish Interest) with 3,
- Finland’s PS (True Finns) with 2,
- The Czech Republic’s Freedom and Direct Democracy with 2,

101 <https://www.euractiv.com/section/eu-elections-2019/news/how-strong-is-right-wing-populism-after-the-european-elections/> (accessed: 18.12.2019).

- Denmark’s People’s Party with 1,
- Estonia’s Conservative People’s Party with 1.

The 29 MEPs of the UK Brexit Party and Spain’s new Vox party have not signed up to join the ID group. Vox preferred to join the European Conservatives and Reformists Group (ECR). Nigel Farage’s Brexit Party has not yet made an alliance (Table 9.1).¹⁰²

“These far-right groups across Europe want to devolve power back to EU member states, curb immigration and stop the spread of Islam. Italy’s League and France’s National Rally are at its head.”¹⁰³

The massive immigration to Europe in the years since 2015 gave a push for these xenophobic and nationalist parties, because a rising number of European citizens perceive immigration as the main obstacle to regaining general and social security. First hand, supporters for the right-wing parties are unemployed Europeans. 43% of them believe that immigrants take jobs away from local workers; the European average was 35%. Those whose financial situation deteriorated since a longer period saw immigrants as a greater threat to the labour market. Furthermore, in the meantime the majority in all countries expect immigrants to take advantage of health care and social benefits more than the native population, while they themselves bear the tax burden.

Table 9.1. European Parliaments with right-wing populist parties

Year of election	Seats in parliament	Radical Right right-wing populist seats	Participation in government
Hungary 2018	199	Fidesz 134; Jobbik 26	Absolute Majority
Poland 2015	460	PiS 235	Absolute Majority
Germany 2017	631	AfD 94	
Denmark 2015	179	DF 37	
Austria 2017	183	FPÖ 51	
Finland 2015	200	True Fins PERUS 38	
Latvia 2014	100	National Alliance 17	Participation in Government
France 2017	577	FN 8	
Italy 2018	630	Lega 125	Participation in Government
Netherlands 2017	150	Freedom Party 20	
Belgium 2014	150	New Flemish Alliance 33	
Sweden 2014	349	Sweden Democrats 49	
Greece 2015	300	Golden Dawn 18	
Slovakia 2016	150	Slov. National Party 14	Participation in Government

Source: https://en.wikipedia.org/wiki/List_of_active_nationalist_parties_in_Europe (accessed: 18.12.2019).

¹⁰² <https://www.dw.com/en/far-right-parties-form-new-group-in-european-parliament/a-49189262> (accessed: 18.12.2019).

¹⁰³ Ibid.

We must be aware that the states' neoliberal strategies in reacting to increased competition in a more globalised world have led to an increase of xenophobia in many countries. As UNESCO has pointed out: "Two causes are put forward, to explain the resurgence of xenophobic and racist movements towards the end of the twentieth century" (UNESCO 2001).¹⁰⁴ Because of the gradual internationalisation of the labour market during the postcolonial era new migration patterns have developed. Increased competition between states as consequence of globalisation has led states to reduce their tax load on the global players with the consequence that the impoverished states downsized their services in areas of social welfare, education and healthcare. These reductions particularly hit the segments of the population living on the margins of society. These groups are often in direct competition with migrants for welfare services, and they are the main breeding ground for xenophobic and racist ideologies. Migrants became scapegoats for severe economic inequalities. Given the numerous losers in the global economy and the simultaneous welfare cuts in the face of growing inequality, tax donations to the rich, rescue of the banks, and the dismantling of workers' rights, it is easy to find support for right-wing populism, with a mix of lies and truths against the political elite or the establishment. In addition, the right-wing parties denigrate the press ("the lying press") and despise people with attitudes in solidarity as "good people". Even in the case that supporters of these parties did not fully share their ideology, many citizens communicated their disappointment by teaching the ruling elites a lesson. The governments first should care for its own population and should provide better protection against foreigners.¹⁰⁵ The promise of salvation, to restore the good old times, to create jobs for the "forgotten", relies on the simple strategy: "foreigners out" (in Germany that would be about one-fifth of the population with migration background). However, this attempt to find a scapegoat for its own predicament in immigration policy excludes the causes of misery. Like almost no other topic, "refugees" has been central in last years and gave impetus to right-wing populism. The media disproportionately reported on the "flood of refugees" coming to Europe, while some politicians of traditional parties put it on their agendas, sometimes because they thought it could help win back support. This is in part due by describing the immigration as a "refugee tsunami" like for instance conservative Germany's Federal Minister for Interior Affairs Horst Seehofer¹⁰⁶ did.

Of course, it was a huge challenge when over a million refugees entered Europe and mainly Germany in such a short time, and it caused many problems. Pictures of crowds of people entering the EU, then being herded into shelters,

104 <http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/xenophobia> (accessed: 18.12.2001).

105 Xenophobia, <http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/xenophobia/> (accessed: 18.12.2001).

106 <https://www.dw.com/en/germanys-horst-seehofer-warns-of-refugee-wave-bigger-than-in-2015/a-50713279> (accessed: 18.12.2015).

with the corresponding conflicts and being hopelessly doomed to doing nothing, increased fears and rejection (see Tables 9.2–9.4). Nevertheless, the rising xenophobia in many European countries is first hand aimed at Muslims due to a number of specific reasons. One reason for the change from initially welcoming culture to the rising rejection of refugees is due to jihadist terror attacks and obviously the relatively high number of crimes committed mainly by young male refugees. The jihadist terror attack in Paris 2015 with 93 deaths and the attack one year later using a car in Nice with 87 deaths, and 2015 London bombings with 52 killed persons are extreme events. Furthermore, terrorist attacks (included unsuccessful ones) were experienced in many other European countries. “In 2016, a total of 142 failed, foiled and completed attacks were reported by eight EU Member States. More than half (76) of them were reported by the United Kingdom. France reported 23 attacks, Italy 17, Spain 10, Greece 6, Germany 5, Belgium 4 and the Netherlands 1 attack, 142 victims died in terrorist attacks, and 379 were injured in the EU. Although there was a large number of terrorist attacks not connected with jihadism, the latter accounts for the most serious forms of terrorist activity as nearly all reported fatalities and most of the casualties were the result of jihadist terrorist attacks.”¹⁰⁷ Together with the nearly daily TV-reports on the war crimes of the so-called Islamic State in Iraq, Afghanistan and Syria, Nigeria etc. people increasingly believe that the threat is arriving with jihadists. This news mobilised ancient, deep-seated stereotypes of cultural history that the strange man from the Orient always has a knife behind his back and robs women (Küpper et al. 2019: 195).

Another reason for people rejecting Muslims is due to the suppressive and arrogant behaviour that the men have toward women. Europeans have learned and developed a gender attitude that increasingly respects women – even if they are still disadvantaged in many areas, like equal pay. Against this friendlier gender attitude, Europeans see that Islamic women are heavily suppressed by the very traditional understanding of their role. The headscarf, or even the total concealment of the face by a burka, is seen by Europeans as a symbol of this suppression. Additionally, as a prominently visible symbol of Islam, it ignites debates about the acceptance of Muslim ways of life. There is a widespread demand for the headscarf to be banned for teachers, educators and judges. This different culture, together with the fear of jihadist terrorists, is one reason to reject Muslims coming to “Christian Europe”. The level of rejection reflects the social structure. Less educated, older and poorer people show a more negative attitude towards Muslims than young and better-off people. This is related to the perception of incoming refugees as competitors in the social security system among others. Only a minority see it as an expression of religious self-determination in a pluralistic society.

107 <https://www.europol.europa.eu/newsroom/news/2017-eu-terrorism-report-142-failed-foiled-and-completed-attacks-1002-arrests-and-142-victims-died> (accessed: 18.12.2017).

Table 9.2. Immigration is more of a problem (%)

Hungary	63	Belgium	36
Greece	63	Germany	35
Malta	63	Netherlands	34
Bulgaria	52	Romania	33
Italy	51	UK	31
Cyprus	50	Lithuania	28
Czech Rep.	49	Ireland	26
Latvia	41	Portugal	26
Croatia	39	Spain	26
France	38	Denmark	24
Slovenia	38	Finland	22
Poland	37	Sweden	19
Austria	37	Luxembourg	17
Estonia	37	EU 28	38

Source: Special Eurobarometer 469: Integration of immigrants in the European Union. Fieldwork October 2017. publ. April 2018.

9.4. Peaceful multiculturalism at risk

Despite these awful reports on crimes committed by Muslims and jihadists attacks, the fact is that between 2007 and 2017 most terror attacks in the European Union were committed by separatist and ethno-nationalist movements accounting for about two-thirds of all attacks that happened during these ten years. The share of religious motivated terror attacks was 16.1%, while right and left-wing anarchist attacks was about 14% (*Handelsblatt* 20.03.2019: 24f). Jihadist attacks, unlike separatist attacks, can happen anywhere, and they may lead to greater awareness of the uncertainty of a threat. Furthermore, they have led to more deaths than the other attacks. “But guaranteeing and strengthening security must necessarily go hand in hand with the respect of fundamental rights. In a European Union founded on the respect of human dignity, democracy, the rule of law and Human Rights, the protection and promotion of citizens’ security and the respect fundamental rights are complementary and must mutually strengthen each other” (Mascagna 2019: 1). Populist right movements ignore this mutual side of protection.

Table 9.3. Percentage of people willing to accept Muslims or Jews as members of their family

Country	Muslim	Jews	Country	Muslim	Jews
Netherlands	88	96	Austria	54	65
Denmark	81	92	UK	53	69
Sweden	80	92	Slovakia	47	73
Belgium	77	89	Italy	43	57
Spain	74	79	Poland	33	57
Portugal	70	73	Bulgaria	32	55
France	66	76	Greece	31	35
Finland	66	82	Romania	29	39
Ireland	60	70	Hungary	21	57
Germany	55	69	Czech Republic	12	51

Source: PEW research centre (2018).¹⁰⁸

Compared with Western Europeans, people in Central and Eastern Europe are less accepting Muslims. Their national identity excludes people born outside the country. According to a survey conducted by the Pew Research Centre, between 2015 and 2017 in 34 Western, Central, and Eastern European countries.¹⁰⁹ Western Europeans are more likely than Central and Eastern Europeans, to say they would accept Jews or Muslims into their family. “The continental divide in attitudes and values can be extreme in some cases. For example, in nearly every Central and Eastern European country polled, fewer than half of adults say they would be willing to accept Muslims into their family; in nearly every Western European country surveyed, more than half say they would accept a Muslim into their family. A similar divide emerges between Central/Eastern Europe and Western Europe with regard to accepting Jews into one’s family.”¹¹⁰ Again, western societies show, on average, a greater acceptance. According to an article from BBC News online, “Anti-Semitism is getting worse and Jews are increasingly worried about the risk of harassment, according to a major survey of 12 EU countries. Hundreds of Jews questioned by the EU’s Fundamental Rights Agency said they had experienced a physical, anti-Semitic attack in the past year, while 28% said they had been harassed.”¹¹¹ France is identified as having the biggest problem with anti-Semitism, Germany, the UK, Belgium, Sweden and the Netherlands also saw incidents.

According to an article in *The Guardian* (5.02.2019), “Anti-Semitism is rising sharply across Europe, as France reported a 74% increase in the number of offenses

108 https://www.pewforum.org/2018/10/29/eastern-and-western-europeans-differ-on-importance-of-religion-views-of-minorities-and-key-social-issues/pf-10-29-18_east-west_-00-15/ (accessed: 29.10.2018).

109 *Ibid.*

110 *Ibid.*

111 <https://www.bbc.com/news/world-europe-46439194> (accessed: 29.10.2018).

against Jews in 2018 and Germany said the number of violent anti-Semitic attacks had surged by more than 60%.¹¹² The Figure confirms the results of three recent Europe-wide surveys showing Jewish people feel at greater risk, and are experiencing markedly more aggression, amid a generalized increase in racist hate speech and violence in a significantly coarser, more polarised political environment.

The PEW survey went on to say, “In a separate question, Western Europeans also are much more likely than their Central and Eastern European counterparts to say they would accept Muslims in their neighbourhoods. For example, 83% of Finns say they would be willing to accept Muslims as neighbours, compared with 55% of Ukrainians. And although the divide is less stark, Western Europeans are more likely to express acceptance toward Jews in their neighbourhoods as well”.

In the case of Germany, the first immigration wave was related to the booming economy in the 1960s and a shortage of labour. The Federal Republic solved this problem with the help of “guest workers” with many coming from Turkey. Because the political and economic situation in their homelands worsened in the 1970s, many Turkish families remained. Today they are German citizens. Many more Muslims fled civil wars (as in Syria), violence in disintegrating states (the former Yugoslavia), and terror in their own country (Afghanistan) or state repression (Iran).

How widespread Islam really is in Germany cannot be determined exactly. The state does not cover all religions. Several researchers estimate that about 4.5 million Muslims live there, meaning that one in twenty people in Germany is Muslim. However, the average German perceives the situation quite differently: they estimate the proportion of Muslims in the population to be four times higher.

The number of Muslims varies greatly in the sixteen federal states. One-third of all Muslims live in North Rhine-Westphalia, while Baden-Württemberg, Bavaria and Hesse also have large Muslim populations. Muslims live mainly in cities, less in the countryside. Very few of them live in the new federal states. When, before the 1990s, many of them immigrated. Germany was still divided into two parts, so the GDR was not an emigration destination for them. Muslims feel extremely connected to Germany. According to a 2017 study by the Bertelsmann Foundation, Muslims feel extremely connected to Germany. Accordingly, the majority of Muslims often interact with people outside their own sphere of religion and are actively involved in working life. Only 5% of all Muslims in Germany are unemployed, for non-Muslims, there are 7%. More than half of all Muslims are involved in German clubs, mostly in sports. Nevertheless, many Muslims encounter rejection. More than one in three Muslims said they felt discriminated against during the year prior to questioning. In the case of immigrant Muslims, as many as one in two felt that they were excluded from German society because of their origin. Anti-Muslim attacks have steadily increased in the past few years worldwide.

112 <https://www.theguardian.com/news/2019/feb/15/antisemitism-rising-sharply-across-europe-latest-figures-show> (accessed: 15.02.2019).

The Federal Criminal Police Office counted such attacks on mosques between 2001 and 2016.

Many cases are not reported to the police or they are classified differently in the statistics. German authorities registered at least 950 attacks on Muslims and Muslim institutions such as mosques in 2017 with 33 people injured in these attacks.¹¹³

If we consider the current situation in Germany, we have to face the fact there is ongoing rejection, despite the fact that West-Germany (in contrast to former GDR) had a long period of peaceful multicultural living together. The majority of Muslims, coming from Turkey as workers and from Iran as intellectuals, fleeing during the Shah Reza regime, are now in the third-generation Germans, integrated into society as workers or even entrepreneurs.

However, this peaceful multicultural society is now at risk. A representative survey of the Protestant church from August 2018 indicates that 53.7% of Germans disagree with the statement “the Islam is compatible to Germany”. Only one-third said yes, they belong to Germany, while 13.1% were undecided. In East Germany the rejection of Muslims was even higher, at 61%.¹¹⁴ As the extreme-right party of AfD focus on criticising immigration, it should not be a surprise that this party has relatively high support among the electorate of the former GDR. As the head of the AfD Alexander Gauland, put it during the election campaign: “we will get our country and our people back.”¹¹⁵ However, this xenophobia is not only seen in Germany but also in many other countries of the EU.

Table 9.4. Different perception of religions (%)

Religion	A threat	Enriching
Islam	51	29
Judaism	19	53
Atheism	18	48
Christianity	10	73
Buddhism	10	60

Source: Bertelsmann Stiftung – Religionsmonitor 2013.

According to the Pew Research Centre, “Attitudes toward religious minorities in Central and Eastern Europe go hand in hand with differing conceptions of national identity”. They go on to say “In Western Europe, by contrast, most people don’t feel that religion is a major part of their national identity. In France and the

113 <https://www.politico.eu/article/germany-islam-950-attacks-on-muslims-recorded-in-germany-last-year/> (accessed: 18.12.2019).

114 <https://www.ekd.de/umfrage-positionspapier-islam-zusammenfassung-37824.htm> (accessed: 24.09.2018).

115 <https://www.br.de/bundestagswahl/afd-politiker-gauland-ueber-merkel-wir-werden-sie-jagen-100.html> (accessed: 24.09.2018).

United Kingdom, for example, most say it is not important to be Christian to be truly French or truly British.”¹¹⁶

In contrast, for most people in Central and Eastern Europe being Christian (whether Catholic or Orthodox) is a key component of national identity, at the same time perceiving Christianity as a European value, connoting the exclusion of others. This attitude disregards the “Charter of Fundamental Rights of the European Union” which includes respect for cultural and religious diversity; prohibitions against discrimination based on religion and sexual orientation; the right to asylum for refugees; and guarantees of freedom of movement within the EU. However, since the enlargement of the EU in 2004, when it welcomed Central and Eastern states, the understanding of “Western” values has changed towards being less receptive to religious and cultural pluralism than they are in Western Europe. Since masses of immigrants entered Europe from predominantly Muslim countries, articulations of opposition to the EU’s conception of European values have not only become stronger in Central and Eastern Europe, but they have infiltrated the West, too. This is clearly seen by the rise of extreme right-wing parties in nearly all EU member states demanding the right to reject the ideology of multiculturalism. Nevertheless, there is more openness toward multiculturalism in the West than in the East.

This is also true in the case of allowing gay and lesbian couples to marry legally. The majority of people in Western countries are in favour of same-sex marriage, and nearly all of these countries have legalised the practice. The opposite is shown in Central and Eastern European countries where the majority in nearly all countries oppose such marriages. Concerning the support for legal abortion, the survey of Pew Research Centre shows the same differences between East and West.¹¹⁷

9.5. Humane alternatives to risky migration and xenophobia – needed steps to reduce harmful migration

What should and could the European countries undertake, to peacefully deal with the dramatic situation of migration and rising xenophobia. To fight harmful emigration and flight, it is clear the crucial goal must be to win peace again

116 https://www.pewforum.org/2018/10/29/eastern-and-western-europeans-differ-on-importance-of-religion-views-of-minorities-and-key-social-issues/pf-10-29-18_east-west_-00-15/ (accessed: 29.10.2018).

117 Ibid.

in conflicting regions of the world and to support countries, mainly in Africa, to overcome their desperate economic situation. Of course, to stop war for instance in Syria, is a difficult task for it needs the engagement of many actors like Russia, Turkey, Syrian government, Iran, and the USA. On the other hand, European countries, mainly France and Germany, which are among the five largest exporters of heavy weapons, should stop their arms exports to war regions to end the severe cause for flight. Furthermore, the EU should change its agrarian policy, which ruins many African farmers by highly subsidised exports of food, but support their development. This would help to reduce the need for emigration on the perilous route to Europe. Less immigration to Europe as a consequence of these alternatives would help to reduce the rejection of foreigners. Furthermore, the EU and the Member States need more political and financial engagement in disadvantaged regions to support restoration of acceptable life conditions, working places, and help to stop depopulation as a serious cause for distrust in democratic institutions and of the rise of right-wing parties. Last but not least, the EU should make use of all its legal instruments and financial tools against governments, which deteriorate democratic culture, the free press, and weakening of judicial independence.

Respecting the socio-economic background of the distrust in the political elites, Slavoj Žižek, a Slovenian psychoanalyst, a Marxist, and one of the most exciting contemporary European philosophers, concluded that it is not that the refugees endanger our society, but global capital is a threat to the entire world order. “The ‘rich world’ urgently needs to address the reasons behind mass migration, rather than its symptoms.”¹¹⁸ Therefore, he demands to fight the economic reasons for flight and terror. It is clear that we need a global and national poverty reduction strategy, a policy that distributes wealth equitably. We need more progressive taxation of high incomes, assets and inheritances, more public investment in education, health and infrastructure, and an end to the tax race to the bottom.

Fair trade with poor countries

The EU should fight unfair trade mainly with the poorest continent, Africa. In his book *The Chances of Globalization* (2006), Joseph Stiglitz, a former employee of the World Bank and Nobel laureate, said that unlike the euphoric promises of free trade theorists, the corresponding deregulation and opening of markets in globalisation have not led to greater prosperity for all. Only a few developing countries have succeeded in using globalisation, in particular, China and some countries in East Asia. However, in his view, what is necessary, above all, is fair conditions around the globe. The North, in particular, the US and the EU, must finally adopt a subsidy policy to end the detriment of the South and implement fair trade (Stiglitz 2002).

118 <https://www.rt.com/op-ed/442485-migrants-poverty-rich-zizek/> (accessed: 18.12.2019).

The fight against poverty requires other ways than market and free-trade theories. The trade between the EU and Africa continues an imperialistic strategy of exploiting its raw materials while at the same time exporting highly subsidised food from EU farmers that African farmers cannot compete with. The independence that African countries gained seems only to be political independence. However, commercial and financial colonialism, in the form of neo-colonialism or Commercial Colonialism, continues as strongly as ever.¹¹⁹ The group “Trade Unionists against the EU” complain that the EU practises “a brutal neo-colonial relationship with the third world, particularly Africa.”¹²⁰

The most obvious and damaging example is, of course, the European Union’s Common Agricultural Policy (CAP), which takes up half the EU budget and lavishes subsidies onto the EU’s biggest landowners at the expense of millions of the poorest farmers in Africa. The subsidy regime allows the EU to dump thousands of tons of heavily-subsidised food into Africa every year. This effectively blocks African producers from exporting their own products because they cannot compete with the lower prices made possible by the CAP (*Independent* 16.05.2006). As a result, it is now estimated that Africa imports well over 80% of its food when, not so long ago, Africa was totally self-sufficient in food production (*The Zimbabwean* 25.09.2017).

Here are some examples, published by the British newspaper *The Independent* and Trade Union against the EU: “European farmers are guaranteed a price for their sugar three times higher than the world price and there are restrictions on foreign imports - backed up by import tariffs of 324%. Export subsidies, meanwhile, allow surplus EU sugar to be dumped at bargain prices in African countries. (...) Mozambique loses more than £70 m a year – equivalent to its entire national budget for agriculture and rural development – because of restrictions on importing into Europe coupled with the dumping of cheap exports at its door, while 12,000 workers in Swaziland have lost their jobs because the local industry cannot compete; and South Africa also loses £31m a year. (...) While chicken producers in Europe do not receive direct payments, the grain that feeds the birds is subsidised, substantially reducing the cost of farming” (*Independent* 16.05.2006). “Kenya, Nigeria and Senegal have been hit by cheap, subsidised imports from Europe while the £30 paid to British farmers for every tonne of wheat they produce inflates the price of breakfast cereals, bread and other goods in Britain.

Thousands of tonnes of surplus powdered milk from the EU are dumped in West African countries such as Mali at a cheaper price than local cattle owners can sell at, devastating the economy and driving them out of business.”¹²¹

119 <http://www.tuaeu.co.uk/how-the-eu-starves-africa/> (accessed: 18.12.2019).

120 *Ibid.*

121 *Ibid.*

“Unwanted EU chicken thighs and wings are often frozen and exported to Africa where they are sold for rock-bottom prices. Chicken farmers in Senegal and Ghana used to supply most of the country’s demand – now their market share has virtually disappeared because subsidised imports are 50% cheaper” (*The Zimbabwean* 25.09.2017).

As Claire Godfrey, trade policy adviser for Oxfam, said: “Not only does the Common Agricultural Policy hit European shoppers in their pockets but (it) strikes a blow against the heart of development in places like Africa.”¹²² It shows that flight to Europe and the huge number of African refugees are – in most cases – economically motivated. Those who exclude huge groups of the population from welfare and social participation, and those who undermine governments should not be surprised when societies collapse and people become extremists or try to reach wealthier countries.

The European Commission is now attempting to impose a ‘free trade’ deal, which African trade unionists have described as the latest ‘colonialist scramble’ for the continent.

TUC-Africa general secretary Kwasi Adu-Amankwah said that the proposed Economic Partnership Agreements (EPA) would allow the continued exploitation of the continent by European big business. The colonial economic structure, which is set up to export raw materials and import manufactures remained. “Structural adjustment foisted on Africa with the active involvement of the European Union has killed off the little industrial capabilities countries mastered immediately after independence”. He warned that the terms of the agreements would only make it harder for Africa to achieve the 2030 Sustainable Development Goals of the United Nations. The alleged market access offered under this and previous trade agreements, was ‘contrived’. As the tariffs came down on African raw materials, they went up for manufactures. “It is highly disingenuous to conceive of free trade between the poorest continent on Earth and the world’s most powerful trading bloc as the solution” (*Morning Star* 16.07.2016).

“Therefore, it is clear that these EPA’s are designed to open up the markets of all African, Caribbean and Pacific countries for EU exports, exposing third world producers to overwhelming competition from the world’s most powerful and rapacious transnationals.”¹²³

Summing up, the trade balance of the EU with Africa was negative until 2015, when it became positive for the first time. In 2016, imports from Africa amounted to € 116.9 bn., and exports from the EU to Africa were € 143.9 bn., mainly concerning machinery and vehicles.¹²⁴ In his book *The New Harvest: Agricultural Innovation in Africa*, Calestous Juma (2015) argues that there are at least three ways in which EU

122 Quoted in the *Independent*, <https://www.independent.co.uk/news/world/politics/eu-subsidies-deny-africas-farmers-of-their-livelihood-478419.html> (accessed: 16.05.2006).

123 <http://www.tuaeu.co.uk/how-the-eu-starves-africa/> (accessed: 18.12.2015).

124 http://ec.europa.eu/eurostat/statistics-explained/index.php/Africa-EU_-key_statistical_indicators#Main_tables (accessed: 18.12.2016).

policies affect Africa's ability to feed itself: tariff escalation, a lack of innovation and food export preferences. "African agriculture is currently at a crossroads, at which persistent food shortages are compounded by threats from climate change. But, as this book argues, Africa can feed itself in a generation and help contribute to global food security. To achieve this Africa has to define agriculture as a force in economic growth by: advancing scientific and technological research; investing in infrastructure; fostering higher technical training; and creating regional markets. To govern the transformation Africa must foster the emergence of a new crop of entrepreneurial leaders dedicated to the continent's economic improvement.

This new edition of *The New Harvest* by Juma provides ideas on how to implement a series of high-level decisions adopted by African leaders to place agriculture at the centre of the continent's long-term economic transformation. It puts agriculture in the context of the Science, Technology and Innovation Strategy (STISA-24) adopted by African presidents in 2014. More importantly, this edition provides a policy framework that could be adopted for other sectors such as health, industry and green innovation. Incorporating research from academia, Government, civil society, and private industry, the book suggests multiple ways that individual African countries can work together at the regional level to develop local knowledge and resources, harness technological innovation, encourage entrepreneurship, increase agricultural output, create markets. and improve overall economic performance."¹²⁵

Stopping ruthless people smugglers

Of course, the EU is right to aim at stopping criminal tug gangs and widespread bribery and corruption within state structures that support ongoing dangerous migrations. Tug allegiances are often ruthless and brutal – yet their business is booming: The tug industry is experiencing a global boom. The risk of the smugglers is small; their profits are high. Waves of desperate people are slipping across international borders every year and smugglers are making billions from an industry built on human misery. The secretive nature of this dark and deadly trade means experts can provide only an educated estimate of the profits it generates for the criminals involved. But the International Organisation for Migration's (IOM) best assessment is that it's worth a staggering US\$10 billion a year. "It could even be more. We do not have reliable figures." says Frank Laczko, the director of the IOM's Global Migration Data Analysis Centre in Berlin. Laczko is a global leader in migration research and despairs about what the world still doesn't know: how many people are engaged in smuggling, how many people are smuggled each year, and how many migrants are

125 <https://oidabooks.com/product/the-new-harvest-agricultural-innovation-in-africa> (accessed: 18.12.2014).

dying during their journeys. The several thousand deaths in the IOM documents each year is presumed to be just a fraction of the true figure.¹²⁶

It is a business in which the networks are becoming more professional, as security experts report. At the same time, smugglers are acting more ruthlessly. Experts in Africa and the EU border agency Frontex complain about this. The smugglers accept that their “transport commodity” dies of thirst or drowns, or that the women are raped. The IOM has calculated that since 2000, at least 60.000 migrants have died or gone missing while fleeing. Since January 2014 alone, the number of victims is 20.000.¹²⁷

The migrants often know what they are risking. They accept that they depend on greedy profiteers of misery. They know the stories of people coerced into forced labour or prostitution. This is well-known from the detention camps in Libya. However, the refugees want to use their chance for a better life. But even if the desperate people are able to do it again, they are far from safe. The Mediterranean is considered the deadliest escape route in the world. During the dangerous route across the Mediterranean Sea 16.607 had died or gone missed by April 2018. Although the number of crossings has fallen sharply compared to 2016, the risk has increased: in the previous year, there was one death for every 88 people who managed to reach the coast of Italy, Malta, Greece, Spain or Cyprus.

Stopping arms export to Africa

The famous Stockholm International Peace Research Institute (SIPRI) complained in its last yearbook, that the volume of international transfers of major arms from 2014 to 2018 reached its highest level since the end of the cold war. Aside USA, Russia, and China France and Germany belonged to the five largest suppliers (SIPRI Yearbook 2019, summary, p. 8).

“Global security has deteriorated markedly in the past decade. The number, complexity and lethality of armed conflicts have increased, and there has been prolonged and shocking violence in large parts of the Middle East, Africa and South Asia. The world total of forcibly displaced people is over 65 million and has been climbing sharply in recent years. Further layers of complexity exacerbating human insecurity are the internationalisation of what often start as purely internal conflicts, the nexus of criminal violence and the activities of a multitude of armed groups, and the impact of climate change. (...) There were seven active armed conflicts in sub-Saharan Africa in 2017: in Mali, Nigeria, The Central African Republic, the Democratic Republic of Congo, Ethiopia, Somalia, and South Sudan.

126 <https://publications.iom.int/books/migrant-smuggling-data-and-research-global-review-emerging-evidence-base>, see also: <https://coconuts.co/yanon/features/the-10-billion-industry-built-on-human-misery/> (accessed: 7.07.2017).

127 https://www.focus.de/politik/praxistipps/schlepperbanden-so-funktioniert-das-milliar-dengeschaeft-mit-menschenschmuggel_id_7243249.html (accessed: 7.07.2017).

A number of other countries experienced post-war conflict and tension or were flash points for potential armed conflict, including Burundi, Cameroon, Gambia, Kenya, Lesotho, Sudan, and Zimbabwe.¹²⁸

Following the publication of the Stockholm International Peace Research Institute (SIPRI) fact sheet, the three largest importers in Africa between 2013 and 2017 were Algeria (52 % of African arms imports), Morocco (12 %) and Nigeria (5.1%). The top five arms importers in sub-Saharan Africa were Nigeria, Sudan, Angola, Cameroon, and Ethiopia. Together, they accounted for 56% of arms imports to the sub-region. In particular, Nigeria had an enormous increase in arms imports by 42% between 2008 and 2017.¹²⁹

All states in sub-Saharan Africa received 32 % of total African imports between 2013 and 2017. Russia, China and the USA were by far the major exporters to Africa. However, EU member states were among the exporters, too. Among the 25 largest world arms exporters in the period 2013–2017 were France (with a share of 6.7%), Germany (5.8%), and the UK (4.8%), with Spain, Italy, Netherlands, Sweden, Finland, and Portugal together making 8.8%. France, in particular, which is the third-largest arms exporter in the world behind the United States and Russia, according to SIPRI- is engaged in increasing arms exports worldwide, and to Africa (by more than 20% of its exports),¹³⁰ even though it has taken the lead in several initiatives aimed at preventing and countering illicit flows of conventional weapons.¹³¹ While Algeria's major arms supplier is Russia, its neighbour and rival Morocco is France's best weapons client (bn. 8.6 € between 2011 and 2015).¹³² However, currently about 60% of French sales go to the Middle East. They are facing criticism from lawmakers and rights groups for selling arms that are being used in the conflict in Yemen.¹³³ Unlike in many other Western countries, no parliamentary approval is required for arms sales in France. Only a committee headed by the prime minister and a handful of other cabinet officials must agree to any sales. Once approved, the details are rarely reviewed or made public.

Even the German government, which has decided to reduce arms export, is engaged in African conflict regions. This stands in stark contrast with its development aid policy. German companies sold about € 4.2 billion worth of armaments in 2015 (excluding small arms and ammunition). The most important customers were countries in the crisis zone in the Middle East and North Africa, in particular,

128 Dan Smith's introduction, in the SIPRI yearbook 2018, summary.

129 https://www.sipri.org/sites/default/files/2018-06/yb_18_summary_en_0.pdf:7 (accessed: 18.06.2018).

130 <https://www.defensenews.com/global/europe/2017/05/18/france-sees-14-percent-increase-in-foreign-arms-exports/> (accessed: 18.05.2017).

131 <https://www.defense.gouv.fr/content/download/453467/7156832/file/2016-FranceControArmTrade.pdf> (accessed: 18.12.2016).

132 <https://bigthink.com/strange-maps/mapping-the-worlds-biggest-weapons-exporters-nil-and-their-best-customers> (accessed: 18.12.2015).

133 <https://www.alaraby.co.uk/english/news/2018/7/4/france-arms-sales-to-middle-east-double-fueling-conflict> (accessed: 4.07.2018).

Saudi Arabia, followed by Algeria, Egypt, and Qatar. Between January and April, 54.3% of all arms export licenses went to states that were not members of the EU or NATO. The export of small arms to third countries multiplied in the period from January to April 2017 compared to the same period of the previous year: from € 51.597 to € 7.831.969.¹³⁴ Based on the SIPRI data there has been a boom in arms exports in recent years, but with a small reduction in German exports (see Table 9.5 and *Handelsblatt* 11.07.2018).

At the same time the international arms trade has become more and more confusing. Despite strict restrictions, rifles, including German-made ones, reach dictators and crisis states. SIPRI found that the US, Russia, France, Germany and the UK are the largest arms exporters in the world. These five states produce 75% of all weapons sold. But what is particularly frightening is that none of the five supply only democratic states. “These facts are scary. As early as 2008, the news magazine Spiegel asked a question that today has lost none of its relevance: How far is Germany jointly responsible for the slaughter in African countries.”¹³⁵

Table 9.5. Value of arms exports from Germany from 2000 to 2017 SIPRI Trend Indicator Value (TIV)* in millions

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
TIV	1610	895	902	1660	1126	2068	2764	3310	2380
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
TIV	2521	2725	1351	847	738	1774	1764	2535	1653

* The statistics show the value of armaments exports from Germany in the years between 2000 and 2017 according to the SIPRI Trend Indicator Value (TIV) in millions.

Source: <https://de.statista.com/statistik/daten/studie/152204/umfrage/entwicklung-der-ru-estungsexporte-aus-deutschland-seit-dem-jahr-2000/> (accessed: 22.04.2000).

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134 <https://africa-alliance.org/deutsche-waffen-fuer-afrika> (accessed: 11.07.2018).

135 Ibid.

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10. What should and could be done to regain democracy

The flood of violence, stupidity, cruelty, hate speech and images of violence are desperately counterbalanced by all sorts of “good news”, but it hasn’t the capacity to rein in the painful impression, which I find hard to verbalize, that there is something wrong with the world. Nowadays this feeling, once the sole preserve of neurotic poets, is like an epidemic of lack of definition, a form of anxiety oozing from all directions.

The Tender Narrator. Olga Tokarczuk Nobel Lecture
The Nobel Prize in Literature 2018

The quoted motto being a phrase from the Nobel lecture by Olga Tokarczuk indicates that after years of social and economic success of liberal democracy we are now dealing with the commonly shared sense of being lost. The West as an ideology, a form of social organisation and civilisation faces subsequent shocks. The 2008 economic crisis, terrorist attacks, migration wave, growth of populism and nationalism, Trump election, Brexit and the climate crisis are changing the economy, politics, culture and lifestyles. The world is becoming a community of fate, and at the same time is falling apart politically and information-wise, suffering from a deficit of leadership and responsibility.

Contemporary books on democracy have titles such as: *Post-democracy* (Crouch 2004), *Defekte Demokratie* (Merkel, Puhle, Croissant et al. 2003), *Simulative Demokratie* (Blühdorn 2013), *How Democracy Die* (Levitsky, Ziblatt 2018), *How Democracy Ends* (Runciman 2018). The titles and content of the books show that existing forms of representative democracy have weakened to such an extent that we are increasingly talking about their erosion and crisis. Much has been written about how democracies transform in new hybrid forms of dictatorship. It was pointed out that democracies die in silence thanks to democratically elected leaders, autocrats coming to power not in the company of generals, but in the company of skillful and clever lawyers (Levitski, Ziblatt 2018).

There has been a debate on how much freedom in democracy should be granted for the enemies of freedom. It has also been pointed out that young democracies are threatened – those whose institutions are not well rooted, strongly demarcated and not capable of defending themselves. It is much more difficult to undermine democracy with representative governments, strong guarantees of human rights and institutions guarding them. In addition to weak democratic institutions, social inequalities, social discontent, or a decline in support for key gatekeeper political parties contribute to the erosion of democracy. Levitsky and Ziblatt (2018) show the threat

of the interception of independent arbitrators by political parties with authoritarian inclinations. When courts are manned with own people and law execution bodies are subordinated, governments remain free to do anything they want unpunished.¹³⁶

Control over state institutions and respect for their prerogatives is not the only field in which the game of democracy is taking place. The European Union itself has been struggling for years with allegations of democracy deficit which mainly results from differences in understanding the integration process in Europe and its evolution. Today, we are dealing with the erosion of treaty provisions and the growing opposition of the member states governments to the further transfer of competences to the supranational level. In the case of the Union, the situation is particularly complex since the axiological problems of challenging by many groups in the Union its fundamental values (Copenhagen criteria) and functional problems (extensive bureaucracy and technocratic management, faith in the effective power of regulations themselves) overlap with serious structural crises as real problems that need to be solved.

As a result, there is an increase in euro-sceptic sentiment based on the belief that the elites are breaking away from the masses, and the integration process is clearly weakened by the scarcity of activities that go beyond particular interests, oriented towards the good of the community. Anti-EU and populist rhetoric fall on fertile ground. Nationalist, anti-democratic parties are becoming a real force threatening the cohesion of the European Union. Eurobarometer research (2019), carried out at the request of the European Commission on a sample of almost 28.000 Europeans are documenting that the Union's popularity is falling. Unsurprisingly, 37% the British people want to leave the Union, the opinions of citizens of countries such as the Czech Republic (24%), Austria, France and Greece (in each of them the percentage of supporters leaving the Community was 21%) are surprising. The number of supporters of staying in the Community is also falling – from August 2018 to March 2019 it decreased by 5 percentage points (from 81 to 76%).

Democracy is based on values that must be defended, such as advocating against wars and authoritarian governments, fostering socio-economic development measured by quality of life indicators (health, education, income, etc.), protection of interests and fundamental citizens' rights, providing them with a wider range of personal freedoms than other forms of governance, and a relatively high level of political equality. Therefore, in favor of democracy, we mean a representative system functioning in civil society, ensuring political pluralism, equality before the law, rule of law, civil rights and human rights.

Today, the threat to democracy is not only about controlling state institutions and respecting their prerogatives, but first and foremost the abandonment of the greatest democratic gains – the sphere of social law covering labour and union

136 The authors distinguish four useful “warning signs” present among opponents of constitutional democracy: first, rejection of democratic principles by word or deed, second, refusal to recognise opponents as legitimate political opponents, third, tolerance or support for violence, and fourth, showing a tendency to limit the civil liberties of political opponents.

rights, retirement and education, reproductive and cultural rights, as well as related civil and human rights.

All in all it shows that the democratic system of the European Union needs to be corrected. EU democracy is threatened by a lack of control over the financial sector, dangerous clauses in trade treaties, and opaque lobbying by large corporations. The trajectory of European integration in conjunction with the progress of globalisation has led to a situation where the quest for social justice is at stake. Instead of a market harnessed by democracy, forcing it to care for fair distribution of goods, we are dealing with democracies immersed in the market which are forced to obsessively pursue competitiveness. The sense of insecurity created by this situation has become a key element for the development of both left and right populism in Europe (Van Parijs 2016).

Changes are also needed to defend democracy in the member states of the Union. The main conclusions of the report 'Protecting democracy in the EU' (Möllers, Schneider 2018) in relation to countries breaking the rule of law boil down to the following recommendations:

- The task of protecting democracy in the European Union cannot be left only to the institutions of the Union;
- Politicians and the societies of all Member States must create the feeling that the fall of democracy in one is a problem for others;
- Therefore, international support for civil society at risk is necessary, thereby increasing the capacity for independent reform of these countries.

The most important message of the report is the postulate of creating a culture of interfering and conducting more lively political polemics at both the political-institutional and social level. According to the authors of the report, the reactions of the Polish and Hungarian governments to the Union's interventions show that legal actions are not sufficient in themselves. Such instruments, as Article 7 of the EU Treaty or the tools at the disposal of the European Commission should also be launched when they have little chance of success. Their political and symbolic significance is important. The authors of the report believe that combining the procedures of Article 7, extending the scope of the infringement procedure regarding intra-state systemic deficiencies and reforming the EU structural and investment funds should be considered. Making the allocation of EU funds dependent on compliance with certain conditions in the Member States would be a means of pressure on countries that benefit from EU support, including Poland and Hungary.

What is clear is that targeted support of the political opposition for instance in Poland, Hungary or Romania through the EU is highly problematic, because these governments are elected by the majority of the voters in a democratic way. It would be interference in internal affairs and a call to coup d'état, which is certainly not the right of the EU (Möllers, Schneider 2018: 74ff). However, it would not be ineffective for the EU to purposefully strengthen civil society forces or the establishment of financial special programs for civilisational projects. If the institutional or political solutions are exhausted, financial sanctions would also be considered.

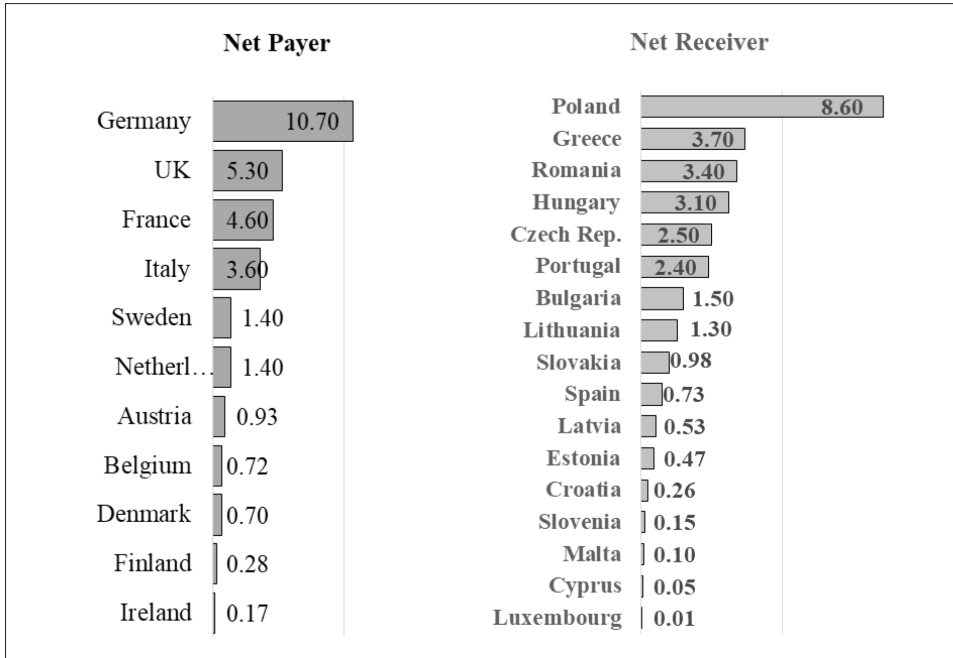


Figure 10.1. EU: Net Payer and Net Receiver 2017 in bn. euro

Source: EU-Commission 2018.

The cutback of financial resources can motivate the member states to change their behavior, as has already been requested by the foreign ministers of Germany, the Netherlands, Finland and Denmark (Schepele 2015: 19f). For instance, the EU could drastically cut financial support for countries like Poland, which is receiving the highest amount of EU subsidies. It is not plausible why the Union at the same time continues to spend 140 billion euro for roads, railways, and co-finance social projects in the budget period from 2014 to 2020 as long as the country is damaging at the same time the rule of law and basic values. The counterargument thereby is that a cut of subsidies would punish people, but not governments. Nevertheless, this counterargument seems weak, as long as the majority of the people support an authoritarian government (Figure 10.1).

However, the new nature and shape of these proceedings would have to follow clearly defined criteria, consider the context and leave sufficient room for action to countries in need of support. The system is democratic if it allows the parliamentary minority to come to power, the report says. This requirement implies the fact that three areas require special observation – freedom of opinion and the media, institutions of law regulating the functioning of political parties and electoral law, and the independence of the judiciary as institutional guarantees of fair political competition. The reform of mechanisms for protecting democracy at European level should cover all these areas.

More democracy in the European Union means more civil society. Hence, the need for actions will strengthen democratic attitudes at the level of the whole Union without the need to create permanent organisational structures. The civil community is not limited to being only occasional voters. It is also a much more permanent group of people watching. Blogging, writing on Twitter or protesting on the streets, whose activity does not end only with the election campaign. In addition to expressing their power in the ballot box, citizens have a number of options, further strengthened via the Internet. As a powerful tool for transparency, increasing visibility and mobilisation, it facilitates access to information, dissemination of its various interpretations and organisation of activities (Van Parijs 2016).

Another postulate strengthening democracy and shaping a positive attitude towards the European Union is transparency in communication understood not only in terms of visibility but also comprehensibility in showing the results of its action. However, this is not about promises of a half percentage point higher economic growth in exchange for submitting to the yoke of the global market through treaties such as TTIP. It is about effective social protection, recognised by European citizens, as fair, implemented without harm for long-term prosperity.

Summing up the above considerations, if we want to identify solutions to improve democracy, it is worth pointing typical economic and cultural causes for voting for extreme right parties and supporter for xenophobic attitudes: first, hit by relatively high unemployment and low income facing at the same time an increase in inequality, people living in those regions feel neglected by the ruling elites. The euro-zone crisis, and the consequent 'austerity' packages in debtor states and 'bail-outs' for banks in creditor states had worsened the ongoing process of inequality since the mid-1980s. Mostly this concerns low developed regions in the country side and in the eastern and southern regions of Europe with relatively high depopulation and its negative consequences (like closing down shops, leisure facilities, medical care etc.). And it concerns mostly lower educated people, because the economic downturns and public spending cuts combined with mass immigration had led to greater competition for low-skilled jobs and greater competition for declining public services. "Together these factors produced growing support in national elections for parties that combined anti-EU positions with anti-austerity and/or anti-immigration policies and anti-establishment populism" (Martill, Staiger 2018: 24). The average support for populist right parties in the Member States of the EU in national parliamentary elections doubled from 2008 to 2016 from 7.5% up to 15% (Hix, Benedetto 2017). Some of them vote for the extreme right parties as protest not totally sharing their ideology. Others even share the nationalistic and xenophobic slogans of these parties, in most cases because they need a scapegoat for their misery and favour autocratic regimes. Furthermore, xenophobia is more probably in cases of not having much contact to foreigners like it is in the opposite case in the cities where children grow up in a multicultural surrounding. The wish of cultural identity first hand is addressed against those foreigners with visible quite different culture and religion like it is the case with Muslims. The

problem is that some conservative parties and governments took over some of the slogans of the extreme right parties to win back support in elections. Somehow, this has opened the way for the extreme right parties from outside to the centre of the society. To put it short, economic impoverishment and identity crisis endangers democracy and peaceful living together in Europe.

Therefore, it is necessary to minimize the gap between post-industrialised richer societies with a liberal-cosmopolitan attitude of its majority and the poorer societies and groups of people, which are suffering from globalisation, being under the permanent threat of unemployment, fear of alienation, and react by national-oriented attitudes. The EU should therefore increase its social policy activities to show that the poorer and unemployed Europeans are not forgotten but of special concern. This would need to change the superiority of market laws but to introduce the principle of social policy first in amendments of the EU treaties. Social and, in particular, workers' rights should be on the top of EU system above freedom of market. The European Union should significantly increase the blessings of the Union so that everyone should feel that the EU cares for the well-being of its citizens. That would be essential for the eastern Member States, which suffer from free movement in the EU. Between 1989 and in 2017 Bulgaria lost a total of 21%. Lithuania 23, and Latvia even 27% of its population by emigration, which are missed for improving their economy and is harmful in an aging society. Among others, the introduction of a Europe-wide basic security or a minimum wage system, EU child benefit, and EU unemployment insurance, at least for teens, would be accurate tools to change the attitude towards the EU to the positive side. The problem is that a social union will create an additional burden for the wealthier Member States, for they have to bear the financial compensation. However, without a change to more European solidarity, the great project of the EU would be in massive danger.

In conclusion, it is worth also to say that the goal of the postulates proposed is not to return and restore traditional forms of democracy but the renaissance of the latter at all levels of political life. Without this democratic revival (in the new external circumstances), the "leadership elites" will continue to cut off from ordinary people's lives, which will translate into increased support for anti-democratic parties. The European Union is not condemned to stray into ever greater injustice. Its existence may still make sense.

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