

CONFERENCE ON THE FUTURE OF EUROPE: TOWARDS A NEW SOCIAL CONTRACT AND A EUROPE THAT WORKS FOR EVERYONE

There has been a noticeable trend of decreasing wellbeing and trust in institutions among citizens in the last couple of years. The current social contract has placed greater burdens and more risks on individuals and has contributed to increasing inequality, thus leading to a drop in the public mood, increasing support towards populist parties as well as more protectionism and nationalism. This paper analyses the problems embedded in the current social contract and gives recommendations regarding which reforms should be part of a renewal agenda, namely a heightened emphasis on social policies targeting the most vulnerable groups and focusing on re-skilling and reintegrating workers. Although long overdue, the Covid-19 pandemic represents a window of opportunity to rethink the social contract at a national and European level. The Conference on the Future of Europe is an excellent occasion for all parties involved, especially citizens, to debate major relevant themes regarding what a new social contract should enable and include.



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Introduction

From an overall, macro perspective, many countries are better off than they were 10 or 20 years ago in terms of Gross Domestic Product (GDP) and job growth. Their economies are now more prosperous, in part, due to technological and scientific advancements. However, a closer assessment focused on how people are doing as individuals – the inequality between them as well as their wages, purchasing power, social rights, and general wellbeing – might tell us a different story.

A 2020 report by McKinsey Global Institute¹ which studied 22 advanced economies shows that,

although employment has risen, labour markets are polarised and wages have stagnated. Moreover, although goods and services are cheaper, housing and other basics are becoming more expensive. Institutional and individual savings have declined, institutions have shifted the responsibility for outcomes to individuals, and there is considerable inequality among socioeconomic groups. In other terms, the rising tide has not lifted all boats.

The “social contract” is a term that refers to the implicit agreement about what citizens receive back from their governments after paying taxes. It will be used in this paper to refer not only to the relationship between Member States’ national

¹ McKinsey Global Institute, “The social contract in the 21st century” (5 February 2020): <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-social-contract-in-the-21st-century>.

governments and their citizens but also to the connection between European citizens and the European Union. The social contract has experienced changes and is currently heavily contested. After the Second World War, the European welfare state transformed from a poverty relief system to a more universal one, as the war impacted not only the lower-income class but the rich as well. At the time, there was a political understanding – called embedded liberalism by some – within advanced democracies that brought together open markets, safety nets, and compensation for those who, for one reason or another, could not win the market game. However, another phase which developed after the 1980s gave way to a conditional system in Western societies in which individuals absorb most of the risks and external shocks.²

The three major crises that Europe has gone through in the last decade, namely the financial crisis, the refugee crisis, and the Covid-19 pandemic, have shaken the grounds on which social policies rely; this has fuelled people's unhappiness with the current system. A recent UN report shows what a devastating impact Covid-19 has had on labour markets that were already fragile, and it makes the case that this long-standing employment crisis will damage the social and economic fabric even more without a renewed social contract.³ Moreover, many social policies rely on younger generations paying for older ones, thus creating an imbalance between what younger Europeans are expected to deliver and what the current social contract is offering them. In addition, other challenges like the 4th industrial revolution and climate change are having a drastic impact and will continue to have an effect on citizens' lives, from labour markets to their health and prosperity. Presumably, worse-off people will again be the most impacted.

Even before the novel coronavirus started infecting people around the world, some academics, policymakers, and organisations were making the case for a renewed social contract. There had been many signs (e.g., declining trust in political leaders, lower electoral participation, the rise of populist and radical political forces, more mass protests) that citizens do not feel fulfilled by what they get back from paying their taxes or being good citizens of their states. According to the Edelman Trust Barometer, in 2019 “only one in five felt that the system is working for them, with nearly half of the mass population believing that the system is failing them.”⁴ In 2020, their report showed that “a majority of respondents in every developed market do not believe they will be better off in five years' time and 56 percent believe that capitalism in its current form is now doing more harm than good in the world.”⁵ The 2021 report clearly confirms a trend of decreasing trust and stands as a warning of an epidemic of misinformation and widespread mistrust of societal institutions.⁶

One of the solutions to these pressing issues, all of which have massive implications for the health of our democracies, is a renewed social contract based on public consultations. National governments and the European Union have to rethink how citizens' wellbeing could be improved before populists can destroy what was built with so much effort by prior generations. The crises that have accompanied the spread of the virus – and during which fiscal stimulus packages have been given at unprecedented levels – present us with a window of opportunity as well as the question: what will the social contract look like after the pandemic comes to an end? What can we do in this uncertain context to not only get rid of the virus but also restructure the system and develop antibodies against populist and authoritarian surges?

2 “Covid-19 has transformed the welfare state. Which changes will endure?”, *The Economist* (6 March 2021): <https://www.economist.com/briefing/2021/03/06/covid-19-has-transformed-the-welfare-state-which-changes-will-endure>.

3 United Nations Department of Economic and Social Affairs, “A changing world of work: implications for the social contract” (March 2021): https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/PB_94.pdf

4 The 2019 Edelman Trust Barometer: <https://www.edelman.com/trust/2019-trust-barometer>.

5 The 2020 Edelman Trust Barometer: <https://www.edelman.com/news-awards/2020-edelman-trust-barometer>.

6 The 2021 Edelman Trust Barometer: <https://www.edelman.com/trust/2021-trust-barometer>.

As I will argue, a new social contract should prominently include three issues: first, a new equilibrium between pro-growth policies and social policies; second, a focus on the most vulnerable groups (e.g., low-skilled workers, minorities) and on addressing the issues these groups are facing, particularly in the context of the pandemic; and third, more opportunities for re-skilling and reintegrating for those confronting job loss and exclusion as a result of the current health and economic crises. All in all, we should see these times as an opportunity to restore and enhance the solidarity bases of our European society.

Responsiveness and responsibility

In his work, Peter Mair has emphasised the widening gap that appears to be forming between responsive governments and responsible ones in many Western democracies.⁷ A responsive government is one which acts as the people's representative, listening to and translating citizens' opinions in policy-making processes. A responsible one governs, taking into account what is best for everybody and considering the middle- and long-term future. Ideally, what gives legitimacy in a representative democracy is that parties both act responsibly and behave responsively.

However, it could be argued that what we have seen over the last 20 or 30 years is increased tension between these two tasks, especially under the pressure of globalisation and the liberalisation of capital flows. In rebuilding the post-pandemic future, leaders need to get over the idea that governing can be kept separate from public opinion and that citizens will indefinitely understand the need to implement certain policies that do not seem to be in their (immediate) favour. Eventually, their unhappiness will translate into believing the tempting promises of populist parties and leaders, who may seem closer to them,

understanding their current needs and opinions and communicating with them more directly and in a simpler, more interactive way.

In a 2018 study, Linde and Peters⁸ show that by being responsive, governments build a "buffer" of support, or a reservoir of good will, which allows them to also make decisions that are more responsible rather than responsive when it is needed. This way, there does not have to be a compromise between the two tasks but rather a fine balance.

Voters' behaviour speaks for itself

That surveys have noticed decreasing trust in institutions and disapproval about the current system among citizens comes as no surprise, as what we continue to see around the world stands as proof that the public mood has dropped. The challenges facing Europe, and the West in general, are increasingly felt through the attitudes and electoral behaviour of citizens.

For example, Brexit has shown not only the strength of Euroscepticism and the opinion that decisions were made at too far a distance from British citizens, but it has also made clear their stances on immigration and multiculturalism as well as their anti-establishment political preferences. Some point out that one of the main drivers for Leave voters was rooted in the inequalities produced by globalisation and the current form of capitalism, which produces winners and losers, with the losers being left without a solid safety net.⁹ As Colantone and Stanig¹⁰ argue, Brexit is the consequence of economic globalisation without proper compensation for those left behind. The vote was merely an opportunity to express frustration with a system that, objectively and subjectively, had stopped working for a significant part of the population.

Across Europe, there has been increasing support for populist parties and figures. Empirical

7 Peter Mair, "Representative versus Responsible Government", Cologne: Max Planck Institute for the Study of Societies (2009/08): <http://hdl.handle.net/10419/41673>.

8 Jonas Linde & Yvette Peters, "Responsiveness, Support, and Responsibility: How Democratic Responsiveness Facilitates Responsible Government," *Party Politics* 26, no. 3 (May 2020), pp. 291–304, DOI:10.1177/1354068818763986.

9 Sara B. Hobolt, "The Brexit vote: a divided nation, a divided continent", *Journal of European Public Policy*, 23:9 (2016), pp. 1259–1277, DOI:10.1080/13501763.2016.1225785.

10 Italo Colantone & Piero Stanig, "Global Competition and Brexit," *American Political Science Review* 112, no. 2 (2018), pp. 201–218, DOI: 10.1017/S0003055417000685.

research shows that citizens who vote for populists are not only disappointed by how politics works, but they have deep feelings of discontentment regarding societal life in general.¹¹ Other current trends include the restructuring of partisan space, especially in national parliaments but also in the European Parliament, the decline of major mainstream parties (especially of the Social-democrats), and increasing support from the working class towards more authoritarian, conservative cultural values.

Narratives around migration have also had considerable importance in voting behaviour. Citizens feeling unprotected in the face of economic shocks, having fewer opportunities and lower incomes, tend to fall more easily for populists' arguments about why immigrants are a main part of the problem. As research has shown¹² economic uncertainty triggers authoritarian and exclusionary tendencies. Therefore, there has been growing support for parties with strongly negative stances on immigration, such as those in the UK, France, and Germany. In some countries, they have actually gained formal power: e.g., Hungary, Austria, Greece, and Italy.¹³

The inequality that arises from the economic crises that Europe and the rest of the world have been going through, coupled with increased international trade and globalisation, has given way to stronger support for protectionism and nationalism and the rise of charismatic populist leaders who put these into practice (or at least argue in their favour).

However, the policies promoted and implemented by the majority of populist parties and leaders do not lead to actual increased wellbeing. In *Welfare, Populism and Welfare Chauvinism*, Bent Greve explains how “the puzzle is voters' behaviour, such as voting for parties with an agenda of welfare chauvinism that might imply less welfare state, which conflicts with what they actually need in order to have a high quality of life.”¹⁴

Therefore, national governments and the European Union have to rethink what citizens should receive as well as the social contract in place. In a recent book entitled *What We Owe Each Other*, LSE Director Minouche Shafik captures the necessity of immediate action regarding the current social contract: “The political turmoil we observe in many countries is only a foretaste of what awaits us if we do not rethink what we owe each other.”¹⁵

European Union, beware the risks ahead!

The aftermath of the Covid-19 pandemic will deepen the challenges we have seen so far. Against the “we are all in the same boat” rhetoric, reality has shown us that it has not been so. True, the virus can infect anyone, rich or poor, young or old. However, the implications differ from one socioeconomic group, nationality, race, gender, or age range to another. Only some countries get to vaccinate their citizens, older people or those with comorbidities have been more at risk of developing severe symptoms, young people have experienced increased mental health problems, some workers have continued going to work, others have worked or studied from home, and some have lost their jobs. The list continues. As a consequence, inequalities will rise, societies risk fracturing even more, and social cleavages will be exacerbated.

The European Union has acted as a whole body in many respects, with Member States coordinating their responses and showing solidarity. However, there have been inconsistencies, and criticism towards its response to the pandemic has not ceased. A survey conducted by Kantar at the end of April 2020 shows that more than half of EU citizens were not satisfied with the measures taken against the coronavirus up to that moment.¹⁶ More recently, the way the EU has handled the vacci-

11 Bram Spruyt, Gil Keppens & Filip Van Droogenbroeck, “Who Supports Populism and What Attracts People to It?”, *Political Research Quarterly* 69, no. 2 (2016), pp. 335–46, DOI: 10.1177/1065912916639138.

12 Ballard-Rosa, Cameron, Mashail Malik, Stephanie Rickard & Kenneth Scheve. “The economic origins of authoritarian values: evidence from local trade shocks in the United Kingdom,” *Annual Meeting of the International Political Economy Society* vol. 17 (2017).

13 Bent Greve, *Welfare, Populism and Welfare Chauvinism* [1st ed.], Bristol University Press (2019): www.jstor.org/stable/j.ctvhrd13m.

14 *Ibid.*, p. 2.

15 Minouche Shafik, *What We Owe Each Other: A New Social Contract*, Princeton University Press (2021), p. 26.

16 European Parliament, Eurobarometer - Public opinion in the EU in time of coronavirus crisis: <https://www.europarl.europa.eu/at-your-service/en/be-heard/eurobarometer/public-opinion-in-the-eu-in-time-of-coronavirus-crisis>.

nation campaign has been particularly criticised.

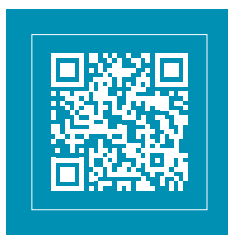
From an international perspective, a great power competition has also been accelerating. Some states or other actors in the global arena, such as multinationals, have been caught in the middle of this rivalry and suffered the consequences. The European Union's endeavour to be a more powerful, geopolitically and strategically relevant actor or, in other words, to have strategic autonomy and sovereignty, matches the general spirit of the population.

However, securing supplies, from medical to technological, and thus being more self-reliant, must match plans based on coordination and cooperation with other partners and in the face of emerging powers. Signing trade agreements and pursuing diplomatic relationships with like-minded states must be part of a carefully and strategically thought-out plan. Rather than maximizing gains, political leaders have to pay more attention to minimizing losses as well.

Recommendations on the renewal of the social contract

According to Eurobarometer, at the end of 2020 the majority of people believed that the economic situation would worsen and only one in five respondents believed that the national economic situation would improve over the coming year.¹⁷ Even more importantly, half of respondents want to see the fight against poverty and social inequalities at the top of the European Parliament agenda.

One of the solutions to the problems discussed so far is a renewal of the social contract at both a European and national level. The Porto Social Summit in May 2021¹⁸ represented an important chance to discuss the implementation of the European Pillar of Social Rights and its Action Plan at a political level and debate issues concerning major challenges, such as unemployment, inequalities, and the digital and green transformations.



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In addition, the Conference on the Future of Europe is an opportunity for citizens to participate in the debate regarding the EU's future and what reforms and measures should be implemented in the medium and long term. The conference is to last about two years, and it is organised jointly by the European Parliament, the EU Council, and the European Commission. Though officially

launched on Europe Day 2021, shortly after the Porto Social Summit, the Conference's digital multilingual platform has been online since 19 April.¹⁹ It allows citizens to raise ideas, comment, and argue their views on any topic they consider important for the future of the EU. Therefore, it is an excellent opportunity for all parties involved to debate the big

themes regarding how a renewed social contract should look. It will also ensure that the social contract is "made in Europe", as the challenges encountered during the pandemic are, although similar, unique to each region. So should be the path to recovery. However, this debate should be real and not avoid contentious points. Otherwise, the Conference will only be a PR moment that will neither solve anything nor send a signal to those left behind about who among their political leaders have really started to pay attention, seeking to address their concerns.

We have already discussed some of the general issues that have to structure the agenda and the conversation around the future of Europe and new social contract, both at the national and European level. Beyond empathy and responsiveness, a new welfare state should be imagined, and this should mean more social investment, not more austerity or cuts.

In addition, here are three ideas about what a new social contract should include:

First, two fronts must be simultaneously addressed, namely ensuring economic productivity and growth while tackling the challenges individuals face. As Dani Rodrick puts it: "a new strategy

¹⁷ European Parliament, Eurobarometer - Parlemeter 2020: A Glimpse of Certainty in Uncertain Times: <https://www.europarl.europa.eu/at-your-service/de/be-heard/eurobarometer/parlemeter-2020>.

¹⁸ More information on Porto Social Summit: <https://www.2021portugal.eu/en/events/porto-social-summit/>.

¹⁹ <https://futureu.europa.eu/>.

must abandon the traditional separation between pro-growth policies and social policies.”²⁰ Therefore, governments and institutions will have to see public services more as investments rather than liabilities. A new type of embedded liberalism should emerge at the end of the consultation.

Second, considering that tight budgets will define the 2020s, social contract spending will have to match the real scope of social problems. Interventions must be better targeted at the groups that need them the most and are most vulnerable, such as low-skilled workers, minorities, youth, and women. Redistribution is back, and the privileges that the wealthy and elderly have seen so far will be questioned. Social investment should be preferred to old-style social consumption policies.

Third, an important focus should be on re-skill-

ing and reintegrating those people who have lost their jobs, thus helping them to bounce back. Let’s not forget that automation will have a massive impact on jobs, and people need to be trained to adapt faster and find meaningful ways to live their lives. This should also happen through a stronger dialogue and partnership between states and private firms. The transitions towards digitised and green economies should have job creation and lagging communities at their core.

The time for a new social contract has arrived, and we as a community shattered by the pandemic are now drafting the agenda for meaningful change. Let’s work hard to make everyone feel included – this is our only chance to strengthen liberal democracy. ■

²⁰ Dani Rodrik & Stefanie Stantcheva, “The Post-Pandemic Social Contract,” Project Syndicate (11 June 2020): <https://www.project-syndicate.org/commentary/new-social-contract-must-target-good-job-creation-by-dani-rodrik-and-stefanie-stantcheva-2020-06>.

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Radu Magdin is an international analyst, consultant, and think tanker. He worked as an honorary advisor to the Romanian prime minister and advised the Moldovan prime minister on a range of strategic issues, from political strategy and communications to reforms implementation and external affairs. He was a NATO Emerging Leader with the Atlantic Council of the United States (2014), a Forbes Romania Trendsetter (2014), and a Warsaw Security Leader (2015). Magdin has a PhD on resilience to Russian information operations. Since 2019, he has also been lecturing at Romania’s National School of Political and Administrative Studies (SNSPA) on “Global Competition and Strategic Communications” and “Global Communication Campaigns”. Magdin serves as a national contact point for the European Commission’s IDEA advisory service.

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