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Book Review

Bridging the Prosperity Gap in the EU
The Social Challenge Ahead

edited by Ulf Bernitz, Moa Mårtensson, Lars Oxelhei and Thomas Persson

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reviewed by Michele Raitano[1]

The book "Bridging the Prosperity Gap in the EU", edited by Ulf Bernitz, Moa Martensson, Lars Oxelheim and Thomas Persson, focuses on the crucial issue of how to reduce economic wellbeing discrepancies among EU countries. The authors note that, as a dramatic aftermath of the Great Recession started in 2008, the prosperity gap between rich and poor countries – and between rich and poor individuals within each country – has increased so much as to cast doubts on whether the concepts of economic integration and solidarity can be combined. Indeed, the relationship between economic policies and fiscal rules – carried out at the EU level –and social policies – carried out at the national level with soft, non-binding EU coordination – is highly asymmetrical, thus strongly limiting the scope for redistribution between states, on the one hand, and among individuals, on the other. The recent commitments towards a European Pillar of Social Rights and the anti-poverty targets stressed in the Europe 2020 strategy do not seem enough to effectively reverse the current trend of an increasing social deficit in the EU and help bridge the prosperity gap within the EU. In the wake of such a worrisome picture, the contributors to this interesting book inquire the possibility of addressing this huge social challenge, reducing differences across countries, and avoiding a possible EU collapse from several perspectives and disciplines.

To this end, the book includes 9 chapters – plus a detailed introductory chapter which points out the main research questions – in which the issue of the prosperity gap between countries is assessed from different perspectives; besides, some, mostly EU, policy suggestions are proposed so as to restore the balance of the roles played by market integration and social protection.

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The book is well-structured and full of original and, usually, under-emphasized insights, regarding, for instance, the capacity of social dialogue to strengthen EU legitimacy (Chapter 6), the role trust plays as a driver of gaps in well-being (Chapter 9), and the effectiveness of effective institutions to improve social cohesion through positive effects on social capital and trust (Chapter 10). Some chapters focus more explicitly on political challenges brought about by recent events, such as those related to the emergence of populist right-wing parties across almost all EU countries (Chapter 3) and to the effects of austerity programmes on voters' preferences (Chapter 5). Other chapters take a right-based approach to assess recent trajectories of social security systems (Chapter 8) – also related to workers' mobility across countries (Chapter 4) – labour market institutions (Chapter 7), and, more generally, social rights (Chapter 2).

The general conclusion of the book is that the EU may re-gain legitimacy only if it proves capable of reducing the prosperity gap, which has been deepening since the emergence of the Great Recession, by designing an actual new path for the EU to make the dream of a social Europe come true.

The research agenda pursued in the book is, therefore, clear; therefore, those who are interested in the building of a real social Europe fostering social cohesion cannot possibly disagree with nearly any of the statements made by the contributors.

However, despite the range of issues raised by the editors, certain crucial issues have been neglected, which, in my opinion, should also be considered in order to paint an exhaustive picture of the current social Europe stance, on the one hand, and of the main obstacles that need to be removed to effectively increase social cohesion, on the other.

In particular, the book lacks the deepening of two phenomena – one related to micro distributive characteristics and the other to macro structural features – the drivers and implications of which should be carefully investigated to foster a parallel increase in economic growth and social protection/cohesion.

First, the many contributors of the book focus almost exclusively on the prosperity gap between countries, without taking into consideration an equally important increasing prosperity gap, i.e., that associated with the increasing socio-economic inequality within almost every EU country. And the increase in "within-country" inequality, starting from relatively high levels, even before the crisis, in many countries might represent a driver of the diminishing confidence that many EU citizens feel for both national and EU political institutions.

From this perspective, the responsibilities of austerity programmes are clear, and their impact may be undervalued if average gaps between countries are considered alone. Furthermore, the role of the EU as a constraint to social cohesion should not only be assessed in relation to the limits imposed by austerity programmes to redistributive measures or through cuts in social spending. In order to truly assess how EU actions might help foster social cohesion, the question to be asked is how EU policies influence market equilibria. To foster ~~a~~ highly inclusive growth, indeed, redistribution does not suffice, and one may ask what the features of the equilibria engendered in the markets are – firstly in the labour market – before possible redistribution may be implemented. From this perspective, frequent suggestions, such as increasing labour market flexibility and decentralising bargaining, or ineffective actions, such as contrasting tax competition among countries, might have contributed towards both exacerbating both functional distribution between wages and profits and reducing labour share and market income inequality, as reflected in the upward trend of Gini Indices of market incomes in almost all major EU countries since the 1980s. To this end, what should be highlighted more are the responsibilities of EU policies in the processes that have risked an increase in market inequalities and a decrease in the redistributive role played by national governments.

Additionally, certain constraints to the social dimension arising from belonging to the European Monetary Union (EMU) should be more clearly emphasised. Indeed, even if the authors focus on the entire EU, instead of on countries belonging to the EMU, what should be stressed are the consequences of the asymmetrical and incomplete EMU implemented as well as the need to design more effective policy proposals.

As correctly pointed out by the authors, the EU budget is too limited to allow the EU to improve solidarity between and within countries and innovative tools – e.g., an EU-based unemployment benefit scheme should be soon implemented, which jointly transfers resources to countries that need it more and, within countries, to more disadvantaged individuals. However, apart from the possibility of introducing these redistributive tools, which clearly clashes with the current political sentiment in the EU, some basic lessons from the optimal currency area theory originally proposed by the Nobel Prize winner, Mundell, in the early 1960s should be kept in mind to highlight the steps necessary for reducing the prosperity gap in the EU.

Indeed, it is widely accepted that, if structural economic conditions of EU countries are not similar – which, on the contrary, have further diverged in recent years – there are only two options to reduce asymmetries between countries. The first one is a sort of 'low equilibrium' option and, unfortunately, this is what has, so far, been followed by the EU. In other words, increasing workers' mobility and labour market flexibilization to increase the cost-competitiveness of disadvantaged countries. However, this option is very painful for many citizens in these countries: even if it might bridge the average prosperity gap between countries – as measured, e.g., by the GDP growth rate – it is also likely to increase prosperity gaps within countries, worsening social cohesion. The second option is the 'high equilibrium' one, that should have, instead, been pursued by anyone who cares about the future of the EU; in other words, strengthening the EU budget and complementing the Monetary Union with an effective Fiscal Union, where a significant portion of national budgets is shared among countries. This 'high equilibrium' option would, indeed, help restore legitimacy in EU building, weakening the appeal of anti-Europe parties and fostering the idea of EU solidarity and social cohesion. However, paraphrasing the words of the editors of the book, presently, the dream of this type of EU is unlikely to come true in the next few years.