WHY WE NEED A GLOBALISATION ADJUSTMENT FUND

Loukas TSOUKALIS

Hellenic Foundation for European and Foreign Policy, Athens

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More than fifty years after it all began, regional integration in Europe has developed into a complex system with no precedent in history and no rival in other parts of the contemporary world: a peaceful revolution for which we Europeans have every reason to be proud. [1]

Stripped down to its bare essentials, this new European system is characterised by open borders, joint management extending to many aspects of the everyday life of citizens, and solidarity among its members.

Regional integration has served as an instrument – surely not the only one – for peace and security in a crowded part of the world with a long and turbulent history. This was done mainly in an indirect fashion, concentrating on low politics at least in the earlier phases. Some would call it functionalism at its best and at its most ambitious. Regional integration has also contributed to greater prosperity. Economists agree on this, although nobody can completely isolate the welfare effects of increased economic interdependence through European integration. After all, on the big questions economics provides imprecise answers at best.

Since the turn of the century, this European political system has delivered a common currency, replacing twelve national currencies with a long history behind them, opened its doors to ten new members, and negotiated yet another revision of the treaties, this time called a constitution. Whatever the difficulties encountered – and they are, surely, many – it is not a bad record by any standards, especially for a political system usually criticised as being extremely slow, inefficient and overly bureaucratic.

The European political and economic map has changed radically, and for the better. Yet, Europe is now going through a phase of self-doubt and pessimism about the future. Has the European project reached its limits – or perhaps worse, are we already in reverse

[1] This is an abbreviated version of a contribution commissioned by Policy Network for a larger project on the European Social Model.

gear? The problems we are currently facing have much to do with the poor economic situation and the growing feeling of insecurity among many of our fellow citizens in times of rapid change. They also have to do with the weakening of the old consensus about the main objectives of European integration.

Lessons from Lisbon

Regional integration started basically as an economic affair, though with strong political undertones. Economics remains today the backbone of it all. For many years, integration helped to sustain a succession of virtuous circles, which helped strongly growing national economies while also bolstering the essentially permissive consensus of European citizens about further integration. Love of Europe has always had a strong pecuniary dimension, and it has depended on the ability of European and national institutions to deliver the goods. It was fine as long as it lasted. The performance of several European economies, most notably the three biggest economies in the eurozone, has been disappointing for a long time. Stagnating economies with few jobs and ageing populations are a recipe for disaster, not only for generous national welfare systems but also for the European project more generally.

We need more growth and more jobs, especially at the upper end of the knowledge scale – it is worth remembering that Europe is losing thousands of post-doctoral researchers to America every year and most of them never come back. And we need to adjust our policies to meet those goals. Neither the internal market nor EMU have so far succeeded in injecting much needed dynamism to many of our national economies. For some time, there has been broad agreement among economists and, judging from official rhetoric, also among politicians that Europe needs economic reform, mostly in the direction of supply-side measures, in order to generate more growth and jobs; and this should go beyond the further implementation of the internal market programme.

Economic reform has been on the agenda for several years: it constitutes a key element of the Lisbon agenda agreed by our political leaders back in the year 2000. But unlike earlier experience with economic integration, the so-called Lisbon process does not rely on common laws and regulations, which have been an integral part of the internal market programme, or on the centralization of policies, as happened with monetary policy, for example, in the context of EMU. And rightly so, it can be argued, since the Lisbon process touches on many aspects of labour market and welfare policy among other things where diversity and subsidiarity remain the name of the game; hence the emphasis on the role of the European Union as an external catalyst and facilitator rather than a law-maker.

Five years later, there are lessons to be drawn. Peer pressure, benchmarking and soft coordination, which are all distinguishing features of the Lisbon process, have shown their limitations. The consensus on the general direction of economic reform has proved fragile: when the external catalyst collided with domestic political realities, it was the latter that almost invariably prevailed. Naming and shaming of those countries lagging behind in the implementation of measures solemnly agreed upon at the European level, through the publication of indicators by the Commission, does not work unless the shaming part is internalised by national political systems – and this has hardly happened until now.

The EU can and should provide a useful forum for debate as well as a basis for comparing national experiences and possibly also a soft version of benchmarking. At the same time, it can and should provide a broad policy framework. It is important, however, to recognize the limitations of such an exercise in which the final responsibility lies with member states, while the role of the EU is limited to 'soft' coordination at best. There is a huge difference between the Lisbon process on the one hand, and the internal market and EMU on the other. It would not be wise for Europe to be seen by citizens as having responsibility for things it has no real power to deliver. Having said that, we may want to explore the use of financial incentives through the common budget as a way of strengthening the Lisbon process.

A Globalisation Adjustment Fund

For the European Union to be an effective agent of reform, it needs a stronger caring dimension. Technological change and increasingly global markets, combined with the rise of new economic powers, such as China and India, are rapidly changing the world economic scene. Many people expect to benefit from the new opportunities created: from higher growth, better jobs and cheaper goods. But there are also those whose livelihood is threatened by new technologies and stronger competition. While the benefits are diffuse and usually take time to materialise, the costs are more immediate and concentrated. This is hardly an easy combination in political terms.

Poor economic performance, social *angst* and failure to develop a credible political discourse for reform have created a vicious circle in several European countries. Nowadays, there is widespread fear of change and pessimism in many parts of Europe. An increasing number of people consider themselves as losers, potential or imaginary losers as well; and they, of course, resist change. They are also the ones who are now turning against European integration perceived by them as a vehicle of change and the dreaded globalisation.

In recent years, European institutions have often served as a convenient scapegoat for unpopular decisions at home. We are paying the price for this shortsighted behaviour. Confidence in common institutions and the role of regional integration as a key factor of stability and prosperity for all Europeans has suffered as a result.

We need a new political discourse that breaks the vicious circle, while also recognising that we all have a stake in the European project. And we need concrete measures at the EU level in order to convince citizens that Europe is willing and able to support those negatively affected and help them to adjust to a more competitive environment.

The face of European solidarity is already familiar to those living in the less developed countries and regions of the Union. Structural and Cohesion Funds have played a crucial role in this respect, and they should continue doing so in the future. But European solidarity should also become more visible to other parts of the EU. This is crucial in times of rapid change and painful restructuring affecting significant numbers of people in the labour market.

The proposal of the European Commission to set up a Globalisation Adjustment Fund is a good example of the kind of action that the EU should adopt to help the process of restructuring by concentrating on the employment consequences of large scale redundancies. The aim is to soften the negative impact of globalisation on laid off workers and to improve their chances of finding new and better jobs by providing money for training and relocation. The emphasis is on protecting and empowering people: helping redundant workers move, set up new businesses, acquire new skills, and undergo on-the-job education and training. And this is, of course, very different from trying to protect jobs.

It will be a new fund open to all member states. This will make it more visible and thus help to deliver a stronger political message. On the other hand, it will not require new bureaucracy, since the Globalisation Adjustment Fund should be able to use existing instruments. The obvious candidate is the European Social Fund operating in a decentralised manner through member states and with a long experience in providing money for training, outplacement and relocation. The European Social Fund concentrates on long-term preventive actions, while the new fund will be called upon to react to crisis and help people who have lost their jobs because of international competition. The line of demarcation between the two will need to be made as clear as possible.

Since the EU is responsible for external trade policy and hence for decisions that lead to market opening for all member states, there is a logic in also undertaking part of the responsibility for restructuring caused by international competition. In practice, it will be, of course, difficult to isolate the effects of globalisation on worker dislocation. To what extent are job losses due to extra-European or intra-European competition, or due to many other possible causes? If the criteria for selection are defined too narrowly, there will be a risk of marginalising the new fund; if too widely, available resources may not prove sufficient. As always, it will be largely a question of money. But we shall also need strict and precise criteria to evaluate the requests for EU support.

The European Commission has proposed that the new fund will not have an annual budget inside the financial perspectives and that resources will only be called upon when required and subject to an annual ceiling. It will therefore operate as a kind of crisis mechanism to deal with significant economic and social shocks caused by a shift of production outside the Union or by import competition. The final decision will rest with the Parliament and the Council, following a Commission proposal.

The Commission refers to certain thresholds that will be necessary to justify European intervention: the number of workers hit by redundancy in the sector and the region concerned as well as the rate of regional unemployment. It proposes to employ resources only for training, outplacement and relocation expenditures, which suggests that there will be no provision for daily allowances for people who have lost their jobs. In this respect, the proposal is different from the trade adjustment facility already operating in the United States for many years. Presumably, the Commission wants to stress that the aim is to help workers find a new job, while the rest remains the responsibility of national welfare systems.

The proposal to set up a Globalisation Adjustment Fund has many merits. It is addressed to those who suffer from globalisation and economic restructuring, thus also providing yet one more answer to those who criticise European institutions as being exclusively concerned with market liberalisation. It is backed up by real money and not just declarations, which has been so often the case with European social policy. It is intended to promote change, instead of trying to resist it, thus allowing for greater openness to international trade. Last but not least, the measures proposed will be complementary to action already taken at both national and regional levels, thus going beyond sterile discussions about centralisation and subsidiarity.

In other words, Europe is trying to combine the language of reform with measures of solidarity, and in so doing it will be heeding the message sent to it by citizens who clearly want to see a more caring Europe. The setting up of the Globalisation Adjustment Fund could have an important symbolic value in this difficult phase of European integration. It should not, however, be limited to symbolism. There is a real problem that needs to be addressed.

Criticism of the proposal can come from many different angles and political quarters. Some will point to the risk of rewarding failure, meaning failure to adjust on time to a rapidly changing environment. This criticism can be answered by pointing out that the Union will be helping workers to find new and better jobs and not supporting companies. Others will warn of the danger of mismanagement and hence the wastage of scarce resources: heavy bureaucratic procedures, overlapping responsibilities and imprecise criteria for the selection of worthy projects. The devil always lies in implementation, even more so when European institutions are concerned. Therefore, defining a flexible, effective and transparent framework for the new fund will be of essence. The preventive management of economic restructuring could also be strengthened through the new programmes of Structural Funds.

Criticism is also likely to come from representatives of the two extremes of the spectrum: those who argue that restructuring should be left to institutions at the national level or below – perhaps only to the market – to take care of, and those who believe that the scale of the problem for EU-25 is so big that action at the Union level can make no real difference. The EU will need innovative policies to deal with problems originating perhaps outside the conventional framework of EU competences and also to make the most of limited resources. It will be a difficult challenge, but worth taking.

Loukas Tsoukalis is Professor at the University of Athens and the College of Europe, Bruges; President of the Hellenic Foundation for European and Foreign Policy (ELIAMEP); Special Adviser to the President of the European Commission. The views expressed here are strictly personal.