

European Union and Globalisation : “May the Fund be with us” !

Yann Echinard¹
Damien Tresallet²

In the current debate over the advantages and disadvantages of growth in international trade between Europe and its partners, commentators regularly argue that globalisation is taking away domestic jobs and increasing unemployment. As a result, the issue of globalisation has become one of the most studied topics in European economic literature. Even after two centuries of research (following the publication of David Ricardo’s seminal study of “comparative advantage”), economists remain cautious about defining the economic outcomes of globalisation too precisely. While early theories of international trade as well as those written in the 80s concluded free trade had an overall positive effect on employment, some empirical research carried out in the last few years has suggested the opposite. Paul Samuelson’s 2004 study, for example, has provoked further academic debate on this topic. The debate rages not only in academic circles but also at the top levels of government. What is the real impact of globalisation on employment? What steps can be taken to reduce job losses? How do we share the benefits of economic openness equally?

Europe wants to make the most of the benefits offered by globalisation and free trade, but its citizens also wish to avoid the economic and social costs which may be associated with it. To this end, the European Union has tried to marry economic openness with an adjustment policy to minimise the negative consequences of globalisation (Echinard, Farvaque et Laurent, 2007). To accept strengthening the European union’s integration, its member state citizens must be confident the Union can achieve this balance. The fear of the perils of economic change, coupled with rising concerns (whether well founded or otherwise) about the Union’s extension to the East were facts that counted when the European Union Constitution was rejected by France and the Netherlands in 2005.

Several recent studies have examined the attitudes of Europeans to globalisation (BBC World, 2007; European Commission, 2007; Fabry (dir.), 2007). While the techniques used to measure

¹ Maître de conférences en Sciences Economiques, Grenoble Universités, CREPPEM.

² Chargé de recherche, Fondation pour l’innovation politique, Paris.

opinions may be subject to bias flowing from the selection of participants, the formulation of the questions, or even the conditions in which the survey takes place, **all of these surveys produced some similar results.**

The surveys showed that generally speaking, Europeans value free trade and economic liberalism as much as, and even more than Japanese and Russians do. Nevertheless, they see globalisation as a threat to their economic prosperity, particularly as a result of the relocation of companies previously based in Europe to countries beyond Europe. Interestingly, when asked to choose between two alternative definitions of globalisation, they generally define it as an opportunity, and not as a constraint (European Commission, 2007), suggesting, therefore, that Europeans do not see protectionism as the solution to their concerns.

The picture becomes more interesting when you consider attitudes on a country by country basis. Then you find the citizens of so called Old Europe, particularly the Germans and the French, see globalisation more as a threat than do the Poles, Estonians and Latvians who are, by contrast, much greater enthusiasts for Europe and its open markets.

The 2007 attitudinal survey conducted by the *Fondation pour l'innovation politique* clearly showed that those surveyed wanted new mechanisms to preserve economic equality between workers across Europe. For them, it's the World Trade Organisation and the European Union that must regulate economic globalisation and its potential negative impacts through new rules of competition.

This survey also showed that the inhabitants of the bigger European countries (Germany, France, Italy and Spain) consider inter-dependance between economies to be growing too quickly, whereas in the newer member states, citizens want to see it increase to ensure more of their population can reap the benefits of it.

These results suggest that if the EU wants to continue to hold the confidence of its citizens, it will need to look at new instruments to manage the impact, real or perceived, of an open market. The creation of the European Adjustment Fund in December 2006 showed that Brussels and European governments were willing to address the concerns of its citizens.

Following repeated calls from the French Government, the Fund was established on the basis of proposals developed by the European Commission in 2005 to assist workers who lose their jobs as a result of a relocation to find a new job as quickly as possible. The Fund was allocated €500 million in 2007, and the precise allocations for each case are decided by the Commission on the basis of relatively subjective criteria.

While the European Adjustment Fund (EAF) is a brand new mechanism for Europe, the United States has had a similar system in place since 1962. The Trade Adjustment Assistance system enjoys an annual budget of \$2 billion to support professional training as well as cover the costs of income and health insurance. That this initiative was picked up from the American model after four decades of inaction in Europe suggests **there is still a lot of room for innovation and the development of public policy in this area**, despite suggestions by economists and some politicians that nothing can be done. It also suggests that it might be time to review Europe's constant dismissal of the American market as too economically rationalist or liberal to influence European policy making.

The first year of operation of the EAF has shown it to be working well, even in an environment of a rapidly evolving and unpredictable market in which relocations still occur

without employee or local authority consultation, making it difficult to put in place a system to find new jobs for those workers made redundant.

Officially, the EAF spent about €73million in 2007, or about 14.6 % of its total budget on]. Seven countries benefitted from it: Finland, France, Germany, Italy Malta, Portugal and Spain. An examination of the expenditure reveals interesting patterns. **First, the seven countries are member states using the euro**, which seems to confirm the greatest economic difficulties experienced in largest countries of the eurozone (Le Cacheux, 2005 ; Mathieu et Sterdyniak, 2007).

Secondly, there are commonalities among the industries which receive assistance from the EAF. Textile, automobile and mobile phone industries are the only sectors to have been granted assistance at this stage.

That the textile industry has sought assistance is of no surprise given the obvious economic advantage to be gained by relocating the industry to countries with cheaper labour costs. By contrast, the automobile and mobile phone industries are those which are generally seen as the product of globalisation, fuelled by rapidly-growing consumer demand in Asia and Latin America for transport and communication. In view of this, the Fund is proving to be an essential economic tool, benefiting both high-end technological industries as well as the more traditional industries often thought of as bad fits for Western service oriented economies.

Despite strict criteria limiting access to the EAF and the complexity of the process of application, more than ten countries applied to the Fund in its first year. This fact alone shows the important role the EAF can play in the European market. Beyond, the establishment of the EAF shows that the EU can be both look after its workers displaced by economic growth, while encouraging economic growth across Europe's borders.

Bibliography

BBC World Service, (2007), « Widespread Unease About Economy and Globalisation », *Global Poll, Globescan Inc., Programm on International Policy Attitudes.*

Commission Européenne, (2005), « Restructurations et emploi : anticiper et accompagner les restructurations pour développer l'emploi – le rôle de l'UE », *COM (2005) 120 final*, 31 mars.

Commission Européenne, (2007), « Eurobaromètre 67 standard », *TNS Opinion et social*, novembre.

Echinard Y., Farvaque E., Laurent A. (2007), « Le Fonds Européen d'Ajustement à la Mondialisation : présentation et analyse », *Revue du Marché Commun et de l'Union Européenne*, n°511, septembre, p.491-497.

Fabry E. (dir.), (2007), « Les Européens face à la mondialisation », *Fondation pour l'innovation politique*, Paris.

Le Cacheux J., (2005), « Politiques de croissance en Europe », *Revue Economique*, vol. 56, n°3, pp. 705-714.

Mathieu C., Sterdyniak H, (2007), “Comment expliquer les disparités économiques dans l'UEM ?”, *Revue de l'OFCE*, vol. 102, pp. 314-352.

Samuelson P., (2004), « Where Ricardo and Mill Reboot and Confirm Arguments of Mainstream Economists Supporting Globalisation », *Journal of Economic Perspectives*, vol. 18, n°3, Summer, pp. 135-146.