

# CEPS Policy brief

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## Is Social Europe Fit for Globalisation?

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### Introduction

This policy brief picks up the main observations and arguments included in a study undertaken by CEPS for the Directorate-General for Employment, Social Affairs and Equal Opportunities of the European Commission. It was presented by Iain Begg at a major Commission conference in Brussels on 16 April 2008,<sup>2</sup> which had broad attendance by officials, media people and researchers, and was concluded by a keynote speech by José Manuel Barroso, President of the Commission. The conference took place at a time of emerging financial crisis and rising oil and food prices, aspects emphasised by some speakers as elements throwing new light on some of the arguments in the report. Hans-Gert Pöttering, President of the European Parliament, stressed that promotion of knowledge and innovation constitutes an important condition for enhancing the competitiveness of the European economy. Thus, the Union should take on a leadership role in combining globalisation with social policy, fighting climate change and fostering environmental stability. Mr. Barroso, in his conclusions underlined the necessity of a renewal of social policies based on equal opportunities, access and solidarity.

### Globalisation is more an opportunity than a menace...

1. The study argues that globalisation is much more an opportunity for added growth than a social menace. Yet, the benefits of globalisation cannot just be assumed to happen, and with an increased pace of change it is inevitable that there will be losers as well as winners, with marked social consequences.

### ...and the European social model is not doomed

2. The European social model is not doomed – far from it – and the idea that only free market approaches are consistent with sustained prosperity is clearly wrong. Indeed, the success of the smaller open economies testifies to the scope for prospering, even with extensive and generous welfare states.
3. The principal benefits of globalisation stem from the scope it affords on the supply side for increased specialisation, enhanced diffusion of technology and a competitive spur to innovation and productivity growth. Consumers gain from lower prices and increased choice, while an often overlooked benefit on the demand side is that emerging markets offer rapidly growing sales opportunities for European companies.

<sup>2</sup> Videos of the conference proceedings, speeches and presentations are available on the following website: [http://ec.europa.eu/employment\\_social/spsi/simglobe\\_en.htm](http://ec.europa.eu/employment_social/spsi/simglobe_en.htm).

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This policy brief is extracted from the study *Is Social Europe Fit for Globalisation? A Study of the Impact of Globalisation* (published by the European Commission and CEPS, Brussels, March 2008), conducted for the Directorate-General for Employment, Social Affairs and Equal Opportunities of the European Commission under contract VC/2005/0228. CEPS acted as the lead contractor in the project, assisted by Fondazione Rodolfo De Benedetti, University of Bocconi, Milano; Deutsches Institut für Wirtschaftsforschung (DIW), Berlin; the University of Nottingham and TARKI Social Research Centre, Budapest.

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## Globalisation is not a zero-sum game...

4. It has also to be repeated that globalisation is not a zero-sum game. Nevertheless, in assessing the benefits of globalisation and the social impact, three issues need to be taken into account:

- The gains are not uniformly distributed across individuals, regions and countries.
- The costs of globalisation are more likely to be concentrated in the short run, while the benefits will take longer to materialise. So the very speed of the globalisation process is part of the policy challenge.
- The gains will not accrue automatically, but will depend instead on successful adaptation, which in turn means undertaking appropriate and timely competitive, regulatory and social reforms.

## ...but there are undeniably adverse consequences

5. The potential threats from unfettered globalisation encompass distributive impacts, such as adverse consequences for specific groups and regions, issues of cultural hegemony, potential environmental damage and geo-political disruption. Threats may also arise to the stability of public finances and from social tensions associated with migration.

6. Still, even for some of those who might be seen as victims of globalisation, it is important to stress the following:

- There are offsetting effects such as the boost to real incomes, which benefit from lower prices of imports.
- Job losses resulting from international competitive effects are small in scale compared with normal 'creative destruction' in product and labour markets.
- The pressures on social protection budgets from population ageing are much more extensive – in fact, off-shoring low value jobs and focusing on high value jobs can be seen as a logical answer to a declining labour force.

## What is globalisation?

7. As a phenomenon of the late 20<sup>th</sup> and early 21<sup>st</sup> centuries, there can be little doubt that globalisation is something that resonates widely. But it is not easy to pin down conceptually or empirically. It comprises the integration of markets and supply chains, the development of a global capital market, the rapid spread of new or enabling technologies and the progressive lowering of costs

of transactions across national borders. It also encompasses cultural convergence and other dimensions that often arouse contestation.

8. Among the examples cited in the study, stocks of foreign investment have risen tenfold as a proportion of GDP since 1970. A three-minute phone call between New York and London that would have cost \$293 at today's prices in 1931 and \$1 in 2001 is now just a few cents – for a vastly better connection.<sup>3</sup> Total freight costs for trade between developed countries until recently accounted for less than 4% of the value of trade.<sup>4</sup> A composite index of globalisation, compiled by the Swiss Institute for Business Cycle Research, shows that globalisation has been on an interrupted upward trend since 1970 (Figure 1) and shows no sign of abating.

9. More recently, there has been an upsurge in the extent of migration into the EU, prompted in part by conflicts in other parts of the world, but attributable more to economic motives as workers in other countries seek better opportunities than are available at home. In many EU-15 countries, immigration from the recently-acceded member states has also been substantial, fanning fears about the social consequences and burgeoning demands on host-country social protection systems, despite the compelling evidence that migrants do not abuse these systems.

10. The process of globalisation, including its drivers and social consequences, is summarised and illustrated in Figure 2.

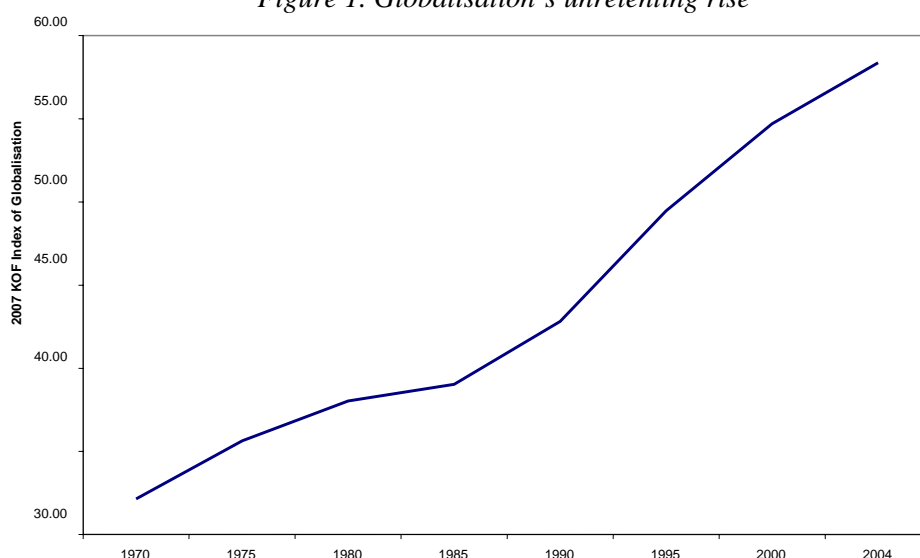
11. Globalisation is not a static phenomenon, however, and there is no certainty that it will either continue along the same path or remain a predominantly American-led and neo-liberal phenomenon. Indeed, it has already acquired more of an 'Asian face', notably with the emergence of China (and now India) as rapidly expanding economies. As they evolve from low-cost competitors in mass markets to become major consumer markets, they can be expected to become progressively more innovative and to contribute to the development of new technologies, rather than simply importing technologies.

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<sup>3</sup> See A. Krueger, "Globalization and International Locational Competition", Lecture at symposium in honour of Herbert Giersch, Kiel Institute, 11 May 2006.

<sup>4</sup> See the website of the Roundtable of International Shipping Associations (<http://www.marisec.org/shippingfacts/worldtrade/costs.php>). The recent increase in the price of oil will have resulted in some increase in transport costs but not on a scale capable of modifying the 'rules of the game' in international trade.

Figure 1. Globalisation's unrelenting rise



Source: Swiss Institute for Business Cycle Research website (2007).

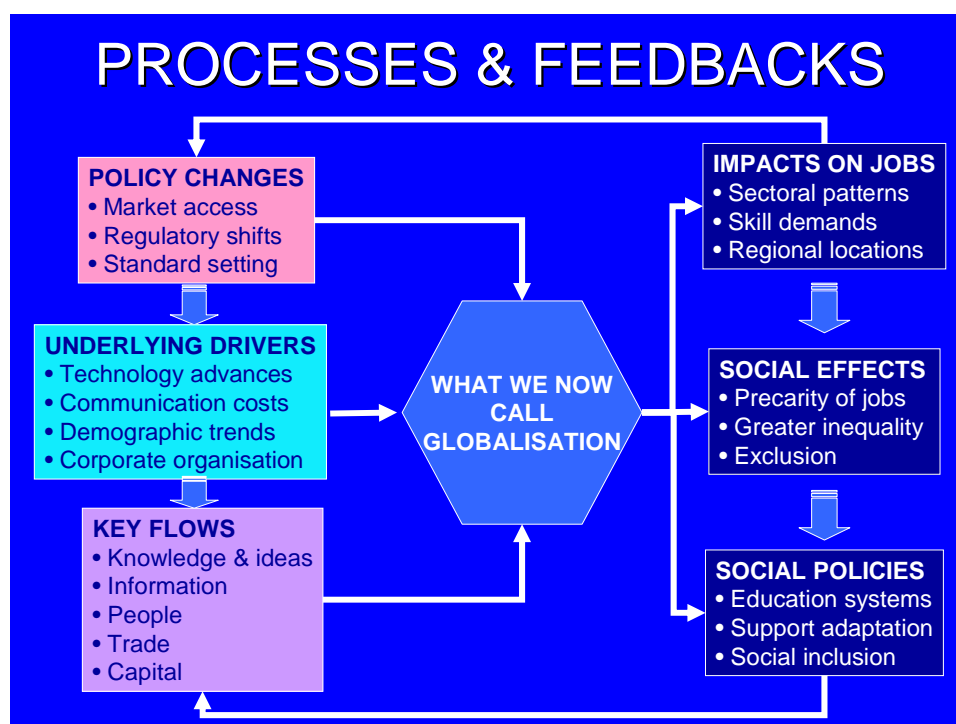
12. Increasingly, too, businesses are finding new ways of subdividing economic activity among nations. In particular, an emerging trend is for tasks within the value chain to be 'unbundled' and traded between nations, rather than whole products or services. As a result, the crude idea that it is the unskilled who lose from globalisation while highly qualified workers gain has to be replaced by a more subtle analysis. India today competes not just on the cost of its unskilled workers in producing mature mass-manufactured goods such as clothing, but also in skill-intensive areas such as software development and medical diagnostics.
13. Many in Europe fear these developments and are pessimistic about the outlook for the values, institutions and policies that have underpinned post-war Europe's success and way of life. Opinion polls testify to the strength of these fears, with more EU citizens regarding globalisation as a threat to their jobs rather than an opportunity. Some argue that – to use a much touted expression – a 'race to the bottom' in social policy and provision is inevitable.
14. Nonetheless, the empirical evidence for an erosion of social provision is, quite simply, striking because of its absence. Social protection outlays as a proportion of GDP have remained remarkably stable over the last two decades and it is noteworthy that some of the most successful economies in northern Europe achieve high employment rates and enviable degrees of equity, while also retaining large public sectors. Similarly, the data show continuing progress towards widely supported social aims such as diminishing gender imbalances in pay and increasing employment rates, even though these gaps remain sizeable. The

inference to draw from these observations is that it is not the magnitude of extensive welfare provision, but how it is configured that most affects competitive success.

### What are the core policy challenges?

15. Many of the fears surrounding globalisation are greatly exaggerated and even where justified tend to rest on an incomplete analysis of the process. It follows that to view globalisation as an inexorable and threatening force is simply unwarranted. This message has to be repeatedly articulated and 'sold' to citizens. Still, it is clear that globalisation will be a bumpy ride, that it cannot be ignored as a major determinant of the well-being of Europeans and that it will require extensive and sensitively applied adjustment policies.
16. The most important message for policy-makers is that in order for the EU and its member states to ensure that the balance of effects of globalisation is as positive as possible, a range of policy responses will be required. A core challenge is to achieve economic flexibility with better social protection, so as to foster an environment capable of making the best use of the opportunities offered by globalisation. In this context, social policy has a vital role to play, not least in endowing people with capabilities, with an emphasis on active policies that intervene early rather than passive, reactive policies. The policy challenges of globalisation can be grouped under three main headings:
  - equipping the economy to compete in the globalising age,
  - smoothing adjustment and
  - improving socio-economic governance.

Figure 2. Schematic overview of the process of globalisation



17. The Lisbon strategy is in many ways a response to globalisation, insofar as its primary aims are to reposition the EU in the global economy; yet it is important to recall that the strategy also has as key goals creating employment and assuring social cohesion.
18. But a strategy that ‘only’ targets growth and jobs may not be enough and will need to be complemented by effective policies to protect those who lose from globalisation. Much can be achieved by retraining and other active policies aimed at redeploying workers, although there will be some groups beyond the reach of such measures. Modernised solidarity policies should therefore be seen as an essential weapon in the policy armoury. The governance challenge is to put in place mechanisms that achieve these aims without imposing an undue burden on competitiveness.
19. Thus, while labour market policies have to be at the forefront of an adaptation strategy, a coherent and complementary strategy for social protection and social inclusion remains vital. The ease with which adjustment can be achieved will also be shaped by the degree to which member state governments are prepared to cooperate, both within the EU and in wider fora. Regulatory fragmentation and the dominance of national regulatory regimes could result in a zero- or negative-sum game, the prospect of which reinforces the importance of effective coordination processes at the EU level. The governance challenge is to ensure that the existing processes (including the Lisbon agenda, the

sustainable development strategy and the open method of coordination of social protection and social inclusion) are ‘owned’ and accepted by member states, but also do not conflict in their aims and orientations.

### Globalisation will increase uncertainties...

20. Adjusting to globalisation implies policy developments that will in turn have social impacts and create uncertainties that need to be managed as social risks. Labour turnover can be expected to grow higher, putting a premium on the transferability and adaptability of skills, but also on suitable forms of flexibility in the workplace as well as on promoting individuals’ participation. Although active labour market policies are seen as part of the answer, they are not a panacea and need to be complemented by other policies. Moreover, they are often costly and are prone to inappropriate incentives. An implication is that policy learning and experimentation are needed to find solutions that are effective, as well as attuned to conditions in the different member states.

### ...but policy measures should favour the capacity to adjust

21. Many reforms, notably the reforms envisaged in the Lisbon agenda, will improve the benefits/costs ratio of globalisation in the long term, yet have a short-term impact – often negative – on social cohesion that makes them politically awkward to implement. In this perspective, however, it is important that

whatever the measures envisaged for countering negative social impacts, they should favour and not hamper adjustment to changing conditions.

22. Compared with the US, the EU has been shown by the EU's Economic Policy Committee to be less effective at re-employing workers who lose their jobs as a result of restructuring (whether induced by globalisation or not). At the same time, there are marked differences between member states in this regard, with the implication that there are lessons to be learned from those that manage best.
23. To the extent that it is the lower skilled who are most vulnerable to the effects of globalisation, there are grounds for labour market policies aimed specifically at these groups. Yet, it has also to be recognised that globalisation does not stand still. The most probable scenario for globalisation is that the main trends will broadly continue over the next 15 years. Hence, it is reasonable to expect further increases in trade intensity, financial market integration and the spread of technology. Whether and how the very speed of this process can and should be slowed down may be part of the policy consideration at the highest level, but is regarded as beyond the scope of social policy and of the study discussed here.
24. Nevertheless, solutions are needed to the 'catch 22' problem that many of those most affected by globalisation are the least able to reconnect to the labour market. A way forward is an 'active inclusion' policy in which there is support for minimum incomes and access to quality social services, as well as labour market support. Services such as childcare may well be part of the equation, not least for target groups such as female migrants.
25. In addition, early intervention to improve the quality of basic education should be part of a shift in emphasis in the welfare state to prevent the emergence of social problems.

### **Globalisation is not the only rationale for reinventing the welfare state...**

26. Responding to globalisation is only one rationale for reinventing the welfare state and it would miss a trick if it meant no more than 'compensating' those who suffer most from more intense international competition. Policy mechanisms and institutions have to be adapted to the changing economic

environment, recognising that the ensuing social effects are not always directly attributable to globalisation, but result from the reactions of employment and wage formation.

27. The core of a social policy response is in the following main policy domains: education and training, immigration policy, labour market reforms and the reshaping of social protection. There is in addition an international governance dimension to consider, especially in the light of the EU's commitment to international obligations as part of its sustainable development strategy.
28. With regard to training and skills, these can and should be enhanced by due attention to the level of education of vulnerable target groups. It is especially important to extend adult training and learning beyond those who already have a high level of educational attainment.
29. In relation to migration, there is an evident need for new and more comprehensive policies to promote the social integration of different types of migrants into the economy and society of the host country. An active approach to the inclusion of immigrants should therefore be part of solidarity. Furthermore, given that national migration policies are bound to have externalities for other member states, establishing common principles and approaches is a pressing matter.

### **...and the challenge is to respond to new paradigms and associated risks by reconfiguring it in ways consistent with the values espoused by the European social model**

30. Drawing on insights from various contributors to the analysis of how social Europe is changing and what makes it likely that a country will prosper in the globalised economy, a number of characteristics can be identified. These are summarised in Table 1.
31. The challenge facing welfare reform is not about defending or opposing levels of social expenditure or casting doubt on specific benefits or rules. Successful welfare states respond to new paradigms and associated risks not by cutting back, but by reconfiguring in ways consistent with values such as those espoused by the European social model. Our fond hope is that the discourse on globalisation can be altered to reflect this analysis.

Table 1. Synthesis of the changing focus of social policies in response to globalisation

Outdated or increasingly less effective approaches	Approaches consistent with benefiting from globalisation
<i>Different components of flexicurity</i>	
Strong protection of existing jobs	Support for the individual to redeploy
Passive income support for the unemployed	Active labour market policies
Easy access to early retirement	Encouragement of older workers
Rights to a range of social services and benefits	Conditions on eligibility
Protections linked to employment	New interpretation of social justice
<i>Economic activity model</i>	
Male, full-time breadwinner	Gender mix with flexible working times
Industrial policy that promotes ‘champions’	SMEs and new sectors
Manufacturing as a core activity	A knowledge economy
Regulated labour and product markets	‘Better’ regulation; flexibility in managing
Stability	Growth
Physical capital	Human capital and research
Marginalisation of migrant workers	Economic and social integration of migrants

Source: Authors’ compilation.

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 European Credit Research Institute (ECRI)  
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