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Commentary

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Balancing Openness and Protection: How can the EU budget help?

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In May 2018, the European Commission is expected to publish its proposal on the EU's post-2020 funding strategy, a seven-year budget known as the Multiannual Financial Framework (MFF). This proposal comes at a time when, despite strong signs of economic recovery, European citizens' attitudes towards the EU's global trade and investment agenda remain mixed. In this commentary, the authors argue that the EU and its member states should use the context of the MFF review to better address European citizens' concerns about the downsides of globalisation.

Concerns about downsides of globalisation in the EU

The EU has traditionally been a strong advocate of open markets, with the Commission regularly highlighting its positive contribution to the prosperity of EU citizens. The EU has remained committed to the international trade order and the framework of the World Trade Organization (WTO). However, as the financial and economic crises triggered high levels of inequality and unemployment, views on free trade have shifted in the EU, with citizens openly questioning its socio-economic benefits.[1]

Acknowledging this, the Commission's discourse on trade has evolved as well. Recent publications recognise that the aggregate benefits of free trade also come with distributional drawbacks. The 2017 'Harnessing Globalisation' reflection paper clearly states that "there is a risk that globalisation would (…) contribute to further widening inequalities and social polarisation."[2] These developments have also been supported by the 'Open but Protective Europe' narrative that has gained momentum since the election of the French President Macron.[3] Yet a new approach to shield citizens from the downsides of globalisation has so far failed to materialise at EU level, as the assumption is that action in this area is the responsibility of national governments.

The absence of a more assertive EU strategy could, however, put European integration at risk. First through economic fragmentation. Faced with increasing pressure to protect 'industrial champions' and sustain local jobs, national policymakers could be tempted to respond to the rise of protectionism globally by introducing similar mercantilist measures. This 'trade war' scenario advanced by US President Trump could, however, put the EU single market at risk and will undoubtedly affect Europe's overall prosperity. Second, through a political backlash. As Brexit has recently shown, the perceived inability of the EU to provide an adequate response to global trends, such as the rise of global competition, deindustrialisation, or migration flows, could lead to political instability.

EU tools aimed at reducing vulnerability

As existing economic structures evolve, new trade deals are struck and worldwide economic integration further progresses, EU citizens are increasingly being divided up into winners and losers. To remedy this, the EU already provides a number of tools (such as Cohesion Policy but also programmes like Erasmus+) to better equip its citizens to deal with the impact of structural changes in the global economy. Among these, specific funding tools such as the EU Structural Funds (including the European Social Fund and the Youth Employment Initiative) also pay specific attention to areas particularly impacted by these developments.

Although endowed with a very limited budgetary capacity (€150 million per year) outside of the standard MFF, the EU also currently has a dedicated instrument to deal with the adverse consequences of globalisation: the European Globalisation Adjustment Fund (EGF).

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[1] A 2016 survey from the Bertelsmann Foundation conducted in Germany found that there is a "clear decrease in the fundamentally positive opinion of trade": https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/NW_Attitudes_global_trade_and_TTIP.pdf

[2] European Commission, "Reflection Paper on Harnessing Globalisation", May 2017, Brussels, https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-globalisation_en.pdf

[3] Huguenot-Noël, Robin (2017), "The French presidential election: an (E)U-turn in the making", EPC commentary, European Policy Centre (EPC), Brussels, http://www.epc.eu/pub_details.php?cat_id=4&pub_id=7630

Between 2007 and 2016, the EGF supported 140,000 redundant workers and assisted 3,000 young people in finding a job in regions with high youth unemployment rates. However, the use of the EGF has been limited due to its focus on specific restructuring operations and because national governments often were reluctant to make use of the EU funds available.[4]

Finally, in the wake of the financial and economic crisis, the EU has been developing new tools aimed at reducing the vulnerability of the European and Monetary Union (EMU) to the fluctuations of the global economy. This includes the creation of two multi-hundred billion euro mechanisms, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), which paved the way for the establishment of a fully-fledged European Monetary Fund (EMF). But as the remaining high levels of (youth) unemployment indicate, the EU's response has also shown the limits to its ability to mitigate the most adverse impact of the crises on member states' social welfare systems.

Transforming the EGF in a social net for external shocks

The EU's post-2020 MFF will be subject to significant pressures as 'new priorities', such as migration, climate change or security, are put high on the agenda. At the same time, Brexit is expected to unbalance the EU budget, thereby further limiting Europe's investment capacities. The debate will focus on how EU funding tools, such as the Investment Plan and other financial instruments, but also redistributive spending such as Cohesion Policy or the Common Agricultural Policy, can contribute to the EU's overall objectives.

How can the EU's investment policy square the circle of open markets and inclusive societies with limited funding? First, there is a need to acknowledge the discrepancy between the ambition of the EU's policy objectives and the budget available to achieve them. Because the EU's social budget currently represents only 0.3% of total public social expenditure in the EU, a wider assessment should be made as to what the EU's added value is in responding to changes induced by globalisation.[5] This would involve putting more effort into revising both the method through which trade deals are negotiated as well as their content (e.g. by further developing social and environmental provisions). When it comes to funding instruments and building up resilience, the priority for the EU should be to find new ways to empower sub-national actors, such as regions.

Before entering into important discussions about the funding available for the EGF, the Commission should clearly define the process through which shared objectives can be supported by EU action. A first step would be to develop new tools to assess the (territorial and social) distributional impact of EU trade deals to identify the areas wherein EU spending could more effectively support governments and regions. A second step involves reviewing the scope for EGF support. First, by allowing regions to apply independently for funds and second, by not only including the effects of trade-related policies but of innovation-driven globalisation as well. As part of this, the EGF should be integrated into the MFF so as to reduce the time needed to process the application and accelerate the disbursement of funds.[6]

The current debate about strategic priorities for the post-2020 MFF offers a timely opportunity for the EU to consider how EU funds can help tackle the rise of populism across the continent. These concrete actions would go precisely in that direction by showcasing that, contrary to populists' claims, economic openness and social protection objectives are not necessarily mutually exclusive but may in fact reinforce each other.

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[4] For example, the United Kingdom is, despite requests from potential beneficiaries, among the few countries that have never used the EGF. Hungary and Latvia are other countries having never applied for EU support in the context of the EGF.
[5] European Commission, "Reflection Paper on the Future of EU Finances", June 2017, Brussels, https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf
[6] Cernat, Lucien and Federica Mustilli (2017), "Trade and labour adjustment in Europe: What role for the European Globalisation Adjustment Fund?", DG TRADE Chief Economist Notes, European Directorate for Trade, European Commission, Brussels, http://trade.ec.europa.eu/doclib/docs/2017/may/tradoc_155512.pdf