Might the Globalization Button Turn the European Social Bohemia off?[1]

Octavian-Dragomir Jora
FIBE – ASE, Bucharest

It is often argued that while ambitious and expensive social spending was in the past compatible with competitiveness, ongoing globalisation makes the reconciliation of EU social and economic goals more difficult. Lisbon addicted at the level of discourse, Europe is still performing unevenly, but on the whole rather poorly. The Hampton Court Summit in October 2005, hosted under the auspices of the EU British Presidency, was one of the first concerted attempts to address the issue of EU global coherence.

The subtle approach

The luxurious Hampton Court Palace has been existing long before the world became global, and Europe became "social". Almost half a millennium since its inauguration, the edifice has been in 2005 a one day host for the European leaders, brought together in order to throw light on whether the anxieties caused by globalization are more properly cured within the capitalistic market logic rather than in that of the feudally scented privileges. Since then, the European Union has mainly improved its anxiety awareness.

Hampton Court will probably remain more notorious in history as the residence of King Henry the VIIIth, than for the October 27th 2005 Summit, tight on producing God knows what revolution of understanding in a Europe that continues to perceive as threats the precise phenomena which disclose the fallacies of many of its politicians.

The Europe of the beginning of the third millennium after Christ, rather than being a Single Market, vast and free, looks, in many respects, more like a frustrated stand up tragic-comedy. The EU-25 leaders quarrelled long wondering how the 2007-2013 budget should look like. Well, it shouldn't be too big, but then again, neither too small. It should contain neither too generous agricultural expenditures (for the French farmers, *biensûr*), nor too scarce; having neither rebate nor lack of it (for Englishmen, of course). In the end, The European Council reached agreement on an overall figure of 862,4 billion euros for the EU's long-term budget in December 2005 and after the European Parliament threat to vote down the deal and demand of an extra 12 billion, and via a series

[1] This article expands on issues treated by the author in analysis hosted by Piata Financiara – Romanian financial and banking monthly.

of trilateral meetings between Parliament, Council and the Commission a final deal was reached on 4 April 2006[1].

Anyway, the big and sole certitude is that it's never ok with Europe. The Union still bears the burden of one unborn Constitution that suffers in backstage, in the absence of one unborn European *demos*. Another embarrassment is the lack of a vision for the development "social model" of the future Europe. Equally disturbing are the "patriotarde" inconsistencies towards the free movement within the Single Market (noticeable in the field of services or in that of workforce mobility). Last but not least, Europe is dazzled by the mumbo-jumbo phobias on the theme of the so called tax and social dumping, expressed by some of the "full-time privileged" from the old member states towards the eastern new recruits.

In 2005, the British hosts' merit, whose *kingdom* holds the *presidency* of the Community, was that they have one of the few relatively sound discourses regarding the EU reform. They offered, on the occasion of the Summit, a simultaneous translation of this European dialogue of the deafs. The opening argument stated by Prime Minister Tony Blair has purposely dodged the intra-community quarrel.

The British presidency from the second half of 2005 has emphasised the role of globalization, pleading, indirectly, in favour of solving indigenous frustrations by focusing the debates on exogenous threats that the former made the latter happen. The European Union is vulnerable to pressures imposed by the global market competition. The British thesis, highly refined from the point of view of political art, was the following: *internal severance leads to delayed reactions against global competition. Be it merely for this reason that we may solve our internal issues, firstly!*

The European *malentendu*

One of the fair definitions of globalization refers to the diminution and, finally, abolition of restrictions imposed by the State upon commercial and capital border-cross flows, as well as the to the more and more integrated and complex system of production and exchange which, consequently, comes into existence[2].

For those who still carry a drop of breath in their lungs after such a formulation, there is one more bewilderment: all fine and dandy; however who should fear globalization? One answer as fair as the aforementioned definition may sound like that: the one who fears competition, may it come from abroad, from beyond the county, from beyond the block in which lies his *petite boutique*, or just around the corner. On the other

[1] This secured an extra 4 billion euros and an additional 2,5 billion euros in the European Investment Bank funds for reaching the Lisbon objectives and equally ambitious and ambiguous goal.

[2] Based on the very concise definition of Cato Institute columnist, Ted Carpenter, in "Globalization is Grrreat!".

hand, no sane consumer suffers because of the multitude of options available. And if so, there is always someone there to remind him of the communist “planned abundance”.[1]

In the Europe of the beginning of the third millennium, globalization is an issue as long as there are politicians that simply don’t get it that the laws of the *villageois* economics also apply to the global village: the consumers mercilessly arbitrate among producers that compete against each other to fulfil their desires. The issue here is who stops them from fulfilling the desires of the consumers. If we are talking about pure bad management, then, tough luck! If though the institutional premises of competitiveness are out of order, the tough luck bears the name of *Social Europe*!

The French-German *Antante* that governs the Union has prepared an infernal offer for the competitiveness of the European enterprises. What kind of reforming ideas can these two *big states- big regulated economies* produce, when they believe that lowering taxes means playing with fiscal dumping fire and moderate compulsory payroll taxes are nothing more than dangerous sparks of social dumping?[2]

Let’s focus on the *françois*: public expenditure that swallow half of the economy, almost one thousand state controlled companies, one public wage sheet that holds one out of five employees, a sclerotic labour market strongly defended by unions, unsustainable and over indebted social and health insurance systems. The *Deutsch* come close by, though they do seem to show signs of an early wake-up, though muddled by the tough governance of CDU-SPD big coalition spurred from the autumn 2005 elections.

All that overwhelming “social” concern, trademark of the modern Europe, means additional costs for the businesses that operate in such unfriendly business environments. On the other hand, all that tacit French-German appetite for *harmonious red tape* on all levels (quality, social, environmental standards) is perfectly explainable as the competition between institutional treatments for economic agents may let you, proactive State, jobless: the budgetary crop drops down together with the capital drain. Moreover, that means unemployment.

---

[1] A subset of great Ludwig von Mises concept of “planned chaos”. In order to acknowledge his works, see www.mises.org.

[2] See a very brief and convincing comment in Grant M. Nulle’s “The Franco-German Alliance Against Market Freedom”, available at www.mises.org.

British prudence

If you have in the EU an almighty European Commission that still dictates community standards for economic agents to comply with[1], limiting their ability to compete through costs or that could still threaten the states with "irresponsible" tax initiatives that, if they lower the taxes they would kiss the EU funds good bye, how could you tame the Indian and Chinese producers that are not is your jurisdiction and simply do it cheaper?

It is obvious that in the light of the new tests that the European economy was submitted to, the EU leaders summoned by the British EU Presidency could do little but to agree with the idea that Europe must be put back on track. And this can only mean accepting global competition, since the isolation in a protectionist and bohemian fortress is not an option.

The means thought to revive European competitiveness are also uneven. Commission President, Mr Jose Manuel Durao Barroso, speaks of less bureaucracy for the European companies, of more money for R&D, of a more efficient use of energy and even of a fund specially dedicated to help the workers hit by the fierce global competition change their profession.

Indeed, it was impossible not to raise a thrill with the appraisement that EU-25 is exposing itself to the risk of being threatened by the fact that the number of unemployed could reach nine million souls. The foresight was exploited by the French officials that continue to insist on the fact that the cure rests in the salvation of traditional social security schemes from the claws of the merciless "Anglo-Saxon capitalism".

For a clear mind, figures are not allowed to seem more dramatic that the causes that lie behind them. It is hard to say how much of this unemployment figure is caused by the *natural errors of the market* and how much by *bad policy making* within the labour market, that make natural adjustment impossible or at least unappealing. And then, what is to be done? Should one allow the market to act freely or should one spend more public money for the purpose of correcting the very damages caused by *reform adverse* politicians?

The idea of a fund designed to absorb the shocks induced by globalization – which, by the way, would not mean additional contributions but would be nurtured from the amounts left unspent from the common budget – was, of course, met with enthusiasm by the *Francois*, with coldness by the *Deutsch,* for whom the internal need for reform requires prudence towards the payments to the common budget, and with vigilance by

[1] See, e.g., a lucid comment on that in Tupy, Marian, *EU Enlargement. Costs, Benefits and Strategies for Central and Eastern European Countries*, Cato Policy Analysis, No. 489, September 2003, available on www.cato.org.

the Brits. Blair did not hide his suspicion that this kind of fund could be used to obscurely subsidise the companies found inadequate by globalization.

Les "bleus" sont rouges

The previous impression from the Hampton Court Summit, and not at all diluted afterwards, is that between the French government and the majority of its other companions in the Union, a huge abyss has emerged. The Frenchmen seem to have collected all the anti-economic arguments on the market that survived in full global capitalistic era.

For instance, Paris demands, up to the very edge of political hysteria, protection for European farmers (more precisely *French speaking farmers*) against the cheaper agricultural products coming from other parts of the world. This threatened to blow off the common European position regarding the reduction of subsidies and custom taxes, that was expected to take the numbness out of the general commercial negotiations within the WTO Ministerial Conference in Hong Kong. Hypotesis confirmed. The Doha Round collapsed in June 2006 due also to EU reticence in issuing a goodwill position toward opening its agricultural markets in exchange for the opening of the industrial and service markets by the developing countries. In spring 2005, hand in hand, Berlin and Paris gave it another shot, forcing the Commission to take it slowly with the liberalization of services in the internal market, as they feared the invasion of cheap workers from the New Europe invading the rigid (guess whose fault?) French labour market that irremediably corrupted the Services Directive. Moreover, France has made a pact with other countries with highly developed textile industries for the protectionist undertaking of re-imposing import quotas for clothes made in China. Following the same pattern, French authorities came up with a list of ten strategic sectors, in which the take-overs of domestic companies by multinational corporations are banned for fear of consequent restructuring of the former. In that, there was no emotion concerning the breaking of both natural and legal principle of free movement of capitals. And nor was more substantive the attitude towards Turkey because of the same economical and social phobias.

Traditionally, the EU was designed by France as the perfect tool for dominating the continent. But then, enlargement has diluted its influence. Given the internal failure, France, once the acceleration pedal of the Union, became its brake. Economically at least, because, from the point of view of the political centralization/integration, the EU is regarded with hope by one Paris that "can not allow Europe to become a simple free trade area". That is, for the government of one country in which populism is the second official language and where the economy gasps for air precisely because of that ambition. That is why the contemporary global economy, defined by the focus on information and services, should not be allowed to unravel the *archaic industrialism* that Paris is struggling to preserve in the name of "social peace".

Exhausted because of the elections in 2007, French politicians started marching on the easy path of winning electorate with blurry offers of temporary social security designed to work only for the duration of a single electoral mandate. There is a distinguishing sensation that France is always "before elections".

In France, *free market economics* is taught as an Anglo-Saxon academic course in which economic ideas are coloured by nationalistic brushes. But no matter what the politicians of the Seine are campaigning for, the economic laws never need democratic support in order to function. Much less, in the global world of nowadays, prosperity can not be gained by votes. However, one could neither accuse the politicians alone for not knowing what to "offer", as the citizens are equally guilty for not knowing what to "demand". In other words, between *"L'Etat c'est moi"* and *"L'Etat c'est nous"* there is absolutely no difference as long as the economy is moiling and toiling *"dans un mauvais Etat"*. Bad economics leads to bad politics, and bad politics are the language of the Burden State.