

(i.e., support that is more targeted towards those in need) than the alternative. The assumption of better overall labour market performance is based on macro-differences in labour market performance between roughly comparable countries or regions with different policies²⁷ and by the micro-level results of specific ALMP. However, irrefutable evidence of the positive impact on labour market performance would require an empirical comparison, under the same circumstances, of the actual outcomes for two comparable groups: one group with ALMP and a control group without ALMP. Such comparisons are almost always impossible to obtain, since ALMP are unlikely to experiment for academic purposes by slicing up the target population and discriminating between two comparable groups.

The *equity* strand of ALMP is closely related to the efficiency argument, in the sense that the overall efficiency of ALMP results from their effectiveness in being tailored towards the desired beneficiaries of activation. As such, ALMP should avoid as much as possible the side effects that have typically plagued general employment measures, namely 'dead weight loss' and 'crowding out'. Dead weight loss refers to the situation where an employment measure benefits a worker or job seeker (or his/her employer) who would have found similar gainful employment anyway. Crowding out refers to the situation where an employment measure benefits a worker or job seeker at the expense of another applicant who does not benefit from the same support. Both efficiency and fairness suggest that ALMP should be targeted in such a way that both these external effects are minimized. Indeed, the whole policy logic of the shift to ALMP in the flexicurity model is to abandon employment measures that are too broad and to concentrate on closely targeted activation strategies.

An important caveat should, however, be added. Some degree of deadweight loss and crowding out is intrinsic to all types of active employment policies. While efficiency and effectiveness are important policy considerations, one should not forget the policy choice that underlies all ALMP measures. Every ALMP by definition represents the political will to favour the labour market position of a particular group of beneficiaries. Whether this political will is effective and efficient vis-à-vis other groups and the labour market at large is not necessarily the only evaluation criterion. This is particularly relevant in assessing the EGAF, which represents a policy choice to single out and support those categories of workers who lose their jobs through the negative consequences of globalization.

Moreover, two additional elements should be taken into account in the efficiency/effectiveness debate on ALMP. First, there will be an efficiency and effectiveness gain where the ALMP, in spite of the intrinsic potential of dead weight loss and crowding out, speeds up the matching process between supply and demand on the labour market. Time matters. Second, in assessing the impact of ALMP, one should avoid the 'lump of labour fallacy' that has misguided so many countries in adopting early retirement policies. There is no fixed amount of labour where the job of one person comes at the expense of

²⁷ Comparing, for instance, the profiles and paths of the unemployed towards re-employment.

another, or where the departure of a worker automatically opens a slot for a job seeker. On the contrary, employment generates more employment as it triggers more demand effects in the economy.²⁸

While the preference of one category in an ALMP measure may therefore go to the detriment of another at the micro-level of the firm, the macro effect on the labour market may still be positive for both. The micro effect is real and immediate for the people concerned, whereas the macro effect develops gradually and does not necessarily benefit the victims of the micro effect. At the end of the day, it is again a policy choice has to be made to target the labour market position of a particular group. While such a policy choice is inevitable, it also requires a deliberate reflection on costs and benefits, taking into account both efficiency and equity.

5. THE EGAF: A BRIEF OVERVIEW²⁹

5.1. ORIGIN AND MAIN PURPOSE

The intellectual and political origins of the EGAF lie across the Atlantic, in the United States. Ever since the Kennedy administration, the United States have had a federal programme of 'Trade Adjustment Assistance' (TAA) aimed at offering assistance to eligible workers who are adversely affected by trade. Available assistance includes job training, Trade Readjustment Allowances, job search, relocation, and other services concerning re-employment. The economic necessity and effectiveness of TAA is heavily debated among researchers and its empirical support is patchy at best. But political support for the programme has never disappeared, as the budget, scope and beneficiaries of TAA have consistently grown over the decades.³⁰

In the European Union, a European programme for direct assistance to displaced workers was advocated in the influential 2003 Sapir Report '*An Agenda for a Growing Europe*'. The report's authors saw the displacement assistance as an attractive European complement to national employment policies. They had no qualms in recognizing the essentially political purpose of their proposal: 'To the extent that EU policies contribute to increasing job security, they could also contribute to alleviating the pain generated, *inter alia*, by wider and deeper EU integration.'³¹ In other words: European TAA from its very inception was conceived as a measure to help the public accept the downsides of international and European economic integration. Its primary economic rationale was

²⁸ This well-known economic principle is now also recognized by union researchers: G. Bosch & S. Schief, 'Older employees in Europe between "work line" and early retirement', *Transfer* 4 (2007): 590.

²⁹ This section briefly describes the state of the law on 1 Apr. 2009. For a more comprehensive and up-to-date analysis, see M. De Vos, *European Globalization Adjustment Fund. The policy and law of trade adjustment assistance in the European Union*, forthcoming.

³⁰ For critical assessments, see D. Frouing, *Trade Adjustment Assistance: A Flawed Program* (The Heritage Foundation, 2001); S. James, *Maladjusted. The Misguided Policy of Trade Adjustment Assistance* (Caro, 2007); D. Markheim & J. Sherk, *Trade Adjustment Assistance: Getting Reform Right*, (The Heritage Foundation, WebMemo 1682, 2007); H.F. Rosen, *Strengthening Trade Adjustment Assistance* (Peterson Institute, PB08-2, 2008).

³¹ A. Sapir et al., *An Agenda For a Growing Europe Making the EU Economic System Deliver*, (2003).

not the labour market reintegration of displaced workers as such, but the overall openness to international trade and to European integration. This understanding is crucial for evaluating the relevance or irrelevance of what eventually became the EGAF.

Commission President Barroso proposed the creation of a European Globalization Fund in a letter on October 2005 before the Hampton Court Summit. It was stated that this fund would provide a European response to those adjusting to the consequences of globalization, acting as a sign of solidarity from those who benefit from open trade to those who face the sudden shock of losing their job. The proposal was endorsed at the December 2005 European Council, where there was general agreement among European leaders on the need to address the adverse effects of changing trade patterns on workers. The EGAF was passed by Council Regulation 1927/2006 on 20 December 2006 (hereinafter: the EGAF Regulation), and the fund has been operational since 1 January 2007.

The EGAF symbolizes first and foremost the European Union's desire to show that it is doing its part to address the negative consequences of globalization. Clearly, as we have seen, the European Union's response is not and cannot be a repudiation of globalization as such. On the contrary, the preamble to the EGAF Regulation emphasizes the Union's support for external trade and underscores that a long-term and sustainable European strategy for trade policy is the fundamental answer to the drawbacks of globalization. It can therefore be safely stated that the EGAF is an attempt to provide symbolically for globalization relief so as to make globalization more acceptable to the public that is increasingly concerned with its impact. As such the EGAF is not only there to help those who suffer the negative effects of globalization, but also globalization itself.

Secondly, and equally symbolic, the relief provided to the victims is intended to be dynamic and active, aimed at the return of these individuals to the labour market through ALMP. The EGAF is designed to help fund a flexicurity policy for generating employment security for workers who lost their job because of globalization. The EGAF therefore allows the EU to lead by example in its own flexicurity agenda. In short, the EGAF is an emblematic reminder of the nexus between flexicurity and globalization.

The remainder of this section will briefly explore the legal construction of the EGAF. The subsequent section offers critical perspectives that demonstrate both the limits and the drawbacks of this symbolic standard bearer of flexicurity.

5.2. SCOPE AND TARGET GROUP

'With the aim of stimulating economic growth and creating more jobs in the European Union', the EGAF is established:

to enable the European Union to provide support for workers made redundant as a result of major structural changes in world trade patterns due to globalization where these redundancies have a significant adverse impact on the regional or local economy (Article 1.1 EGAF Regulation).

Member States can apply for financial support to the European Commission, that examines applications and sends them to the European Parliament for the ultimate budgetary decision.

The Commission's official 'Guidance for submission of applications' (hereinafter: the Guidance³²) requires applicants to provide a reasoned analysis of the link between the planned or actual redundancies and the major structural changes in world trade patterns. Relevant statistics and data, at the most appropriate geographical and sectoral level, should be provided to support the contention that the redundancies are connected to major structural changes in world trade patterns due to globalization. In particular, clear evidence needs to be provided to demonstrate that the redundancies follow on from factors such as a substantial increase of imports into the EU, a rapid decline of the EU world market share in a given sector, or a delocalization to third countries.

A financial contribution from the EGAF may be provided where major structural changes in world trade patterns lead to serious economic disruption, notably a substantial increase of imports into the European Union, or a rapid decline of the EU market share in a given sector or a delocalization to third countries, which results in a minimum number of redundancies over a certain reference period. The number and the period differ with the level at which the impact is assessed (Article 2 EGAF Regulation):

- (a) At least 1,000 redundancies over a period of four months in an enterprise in a Member State, including workers made redundant by suppliers or downstream producers.
- (b) At least 1,000 redundancies, over a period of nine months, particularly in small or medium-sized enterprises, in a NACE 2 sector in one region or two contiguous regions at NUTS II level.
- (c) In small labour markets or in exceptional circumstances, an application may be considered admissible even if these conditions are not entirely met, when redundancies have a serious impact on employment and the local economy.

It should be noted that the cited intervention criteria refer to 'world trade patterns' as opposed to European trade patterns, implying that shifts in intra-European trade patterns can never lead to the intervention of the EGAF. This interpretation is corroborated by the exclusive reference to 'imports into the EU' and 'decline of EU market share', both of which again point to trade patterns between the EU and the rest of the world. The exclusion of European trade patterns is remarkable, since the European Union's own economic integration, especially in the wake of the recent enlargements, can be seen as part of globalization and as a form of internal globalization.

The Guidance specifies a number of intervention criteria, notably for the identification and the calculation of dismissals in relation to the reference period. Dismissals are understood to hinge on notification of dismissal, covering all workers who have been notified by their employer of his/her intention to terminate the employment contract.

The Guidance also elaborates quite extensively on the need for the applicant to break down and describe the categories of workers affected by the redundancies. This

³² Consulted on the internet, January 2009.

should allow for a more careful assessment of the actual cause of the redundancies for which an intervention is sought.

Guidance is clearly needed for the open-ended exception of 'small labour markets' or 'exceptional circumstances', with a 'serious impact on employment and the local economy'. However, the reader finds little more than confirmation that the applicant should justify its interpretation of the event as falling under this exception. This obviously leaves room for flexibility but also for a wide margin of discretion.

5.3. ELIGIBLE ACTIONS

The EGAF is designed to co-fund active labour market measures that form part of a coordinated package of personalised services designed to re-integrate redundant workers into the labour market. (Article 3 EGAF Regulation):

- (a) for job-search assistance, occupational guidance, tailor-made training and re-training, including information and communication technology skills and certification of acquired experience, as well as for outplacement assistance and entrepreneurship promotion or aid for self-employment;
- (b) for special time-limited measures, such as job-search allowances, mobility allowances or allowances to individuals participating in lifelong learning and training activities; and
- (c) for measures to stimulate in particular disadvantaged or older workers, to remain in or return to the labour market.

It is abundantly clear that the EGAF cannot finance passive social protection measures in the form of mere income support. It also clear that the EGAF Regulation lists the cited ALMP as mere examples. Other types can therefore also be proposed for funding. Besides that, there is very little in the EGAF Regulation to steer the process, apart from the self-evident confirmation that non-discrimination should permeate the process (Article 7). A lot is therefore apparently left to the Commission and the European Parliament in deciding applications. The Guidance understandably goes to great lengths in requesting applicant countries to specify the target groups, the proposed personal services and their costs. But it does not offer any indication regarding the desired type, efficiency or effectiveness of the proposed ALMP.

An important report by the European Foundation for the Improvement of Living and Working Conditions did not hesitate to offer advice on the type of ALMP the EGAF should and should not sponsor, apparently assuming discretionary power as a matter of course. Since displacement is the focus, it is argued that the type of measures should be somewhat different from ALMP measures dealing with unemployment in general.³³ For this author, no such *a priori* attitude seems necessary. What matters is that the services are

³³ European Foundation for the Improvement of Living and Working Conditions, *European Restructuring Monitor Report 2007, Restructuring and employment in the EU: The impact of globalization*, 63.

'personalized' and therefore able to generate effect in the particular case, irrespective of the cause of unemployment.

Similarly, the report warns strongly against the EGAF supporting temporary wage subsidies for displaced workers, citing heavy dead weight loss and crowding out as the subsidized workers may find work regardless of the subsidy. In that case, it is argued, wage subsidies work as employer subsidies and are unfair towards other job seekers. This is a good illustration of the efficiency and equity debate surrounding ALMP measures, as outlined above. However, it fails to take into consideration some elements of the equation: the political will to promote the employment of the particular group of workers displaced through globalization, the time gains when supported workers find new jobs sooner than without ALMP, and the beneficial impact of their employment for the economy and the labour market as a whole. These elements nuance the picture substantially and may tilt the balance in favour of temporary wage subsidies, especially since these have shown robust employment results at micro-level. In other words: the combination of political priority, rapid results and overall benefits may justify the support of temporary wage subsidies in spite of their intrinsic limitations.

In any event, from a legal perspective, the EGAF Regulation does not exclude or restrict any type of ALMP as long as it matches the broad categorization cited above.

5.4. PROCEDURE

The Member States and the Commission drive the procedure. It is up to the Member State, not to any employer, worker or union suffering the effects of globalization, to submit the application for EGAF intervention with all the information as required by the EGAF Regulation (Article 5) and the Guidance developed by the European Commission.

The Commission 'evaluates and proposes as quickly as possible, the amount of financial contribution, if any, that may be made within the limits of the resources available' (Article 10 EGAF Regulation). The actual decision on an application is taken by the European Parliament, upon the proposal of the European Commission (Article 12 EGAF Regulation). When making its assessment:

- the Commission shall assess, in consultation with those Member State(s), whether the conditions for making a financial contribution under this Regulation are met (Article 5.5);
- the Commission shall particularly take into account the number of workers to be supported, the proposed actions and the estimated costs (Article 10.1).

It is therefore clear that the Commission must verify whether the formal conditions for making financial contribution are met and that it has some discretionary power in interpreting these conditions. However, it is unclear to what extent the Commission (and/or the European Parliament) can make value judgments regarding the choice of protected

workers or the choice of ALMP. This is an important issue as applications organized by Member States are likely to reflect their policy choices and priorities. Does the Commission (and/or the European Parliament) have the legal authority, beyond the marginal case of avoidance of abuse and patent failure, to decide applications on its assessment of their intrinsic merits?

6. THE EGAF: A CRITIQUE³⁴

6.1. A PROBLEMATIC SCOPE

As we have seen, the EGAF is there 'to provide support for workers made redundant as a result of major structural changes in world trade patterns due to globalization where these redundancies have a significant adverse impact on the regional or local economy' (Article 1.1 EGAF Regulation). The use of EGAF resources is therefore dependent on no less than six cumulative conditions that all require fulfilment:

- The redundancies should be the *result* of major structural changes in world trade patterns, that is, should be *caused* by such changes.
- The required cause of the redundancies is a change in 'world trade patterns', as opposed to *mere European or regional trade patterns*.
- The required change in world trade patterns should be *structural*, as opposed to *cyclical*.
- The required structural change in world trade patterns should be a 'major' one, as opposed to *minor or average*. The preamble of the EGF Regulation refers to 'the shock of serious economic disruption'.
- The required major structural change in world trade patterns should be due to '*globalization*'.
- The number of redundancies should correspond to any of the three options offered.

Given the fluidity and elusiveness of the term 'globalization', it is quite startling to find the concept without any clarification whatsoever in the EGAF Regulation. The connection to world trade patterns implies, one supposes, a focus on shifts in international trade. The Commission, in its Guidance with application instructions to the Member States, mentions 'factors such as a substantial increase of imports into the EU, a rapid decline of the EU world market share in a given sector, or a delocalisation to third countries'. This is illustrative, but it remains unclear as to what underlying currents of such trade shifts actually classify as 'globalization' for the sake of the EGAF.

³⁴ This section briefly describes the state of the law on 1 Apr. 2009. For a comprehensive and up to date analysis, see M. De Vos, *European Globalization Adjustment Fund. The policy and law of trade adjustment assistance in the European Union*, forthcoming.

And this is only the beginning. Assuming that a shift in trade patterns qualifies as 'globalization', EGAF intervention can be justified only if it is the *cause* of the redundancies for which an active labour market response is desired. The combined expertise of economists in the world has difficulty establishing whether job displacements are actually caused by trade effects. Indeed, the establishment of such a causal relation is essentially impossible, since there will always be several factors that interplay in causing redundancies, especially in the context of international trade. The plain fact that similar companies in similar markets can perform differently in the face of international competition proves that the impact of globalization is in part always dependent on the managerial and entrepreneurial reaction to it. It is therefore clear that the causal link with globalization, upon which the intervention of the EGAF depends, is intrinsically unfathomable and prone to reward failed companies and failed policies. By helping displaced workers, the EGAF risks also paying for bad policies and bad management. As we shall see, this risk for externalization of policy and management costs is further compounded by the partly political procedure that drives the EGAF's application process.

Whereas both globalization and its causal link to redundancies are open concepts and prone to manipulation, the EGAF further requires distinguishing between cycles and structures, and between major or other changes in world trade patterns. Is there really anyone who seriously believes that the realization of these cumulative conditions can be established objectively? Only the minimum number of redundancies has been set by the EGAF Regulation, but even then there is room for discretionary choices in 'small labour markets or in exceptional circumstances'. It really beggars belief to find the preamble to the EGAF Regulation boldly declaring that:

Actions under this Regulation should be defined according to strict intervention criteria relating to the scale of economic dislocation and its impact on a given sector or geographical area.

The scope of the EGAF Regulation is simply unbearably vague and therefore leaves too much room for discretionary policy choice. Given the partly political nature of any application process driven forward by Member States, this is truly problematic. At the very least, a transparent and public set of parameters interpreting and applying the conditions of the EGAF Regulation would be desirable. This is not currently available, in spite of the Commission's best efforts to offer extensive guidance for the application process.

The Commission has indeed made a valuable effort to streamline the application process to the EGAF through a standard set of instructions.³⁵ The applicant Member State is asked to provide a reasoned analysis of the link between the planned or actual redundancies and the major structural changes in world trade patterns. Relevant statistics and data, at the most appropriate geographical and sectorial level, should be provided to support the contention that the redundancies are connected to major structural changes in world trade patterns due to globalization. In particular, clear evidence needs to be

³⁵ Application for a contribution from the European Globalization adjustment Fund (EGAF), available at <http://ec.europa.eu/employment_social/EGAF/keydocs_en.html>.

provided to demonstrate that the redundancies follow on from factors such as a substantial increase of imports into the EU, a rapid decline of the EU world market share in a given sector, or a delocalization to third countries. Data related to delocalization to third countries should demonstrate there is a substitution of production previously carried out within the EU by production in a third country.

These instructions contain useful guidance for the analysis of the cumulative conditions discussed above. However, they do not clarify how the Commission interprets these conditions in practical terms. Such an interpretation and practical guidelines are urgently needed to counter the unbearable lightness of the EGAF Regulation's scope.

6.2. A PROBLEMATIC TARGET GROUP

While ALMP measures are no zero-sum game, they inherently imply a degree of trade-off between the interests of the targeted and promoted group on the one hand, and the general mass of unemployed or job seekers on the other hand. As we have seen, policy-makers should therefore carefully consider efficiency and equity when taking the political decision to promote the labour market position of a particular group through ALMP.

It should be stressed here that the number of workers who lose their jobs through the effects of globalization are but a small percentage of the enormous overall churn in economies and labour markets characterized by a continuous process of job creation and job destruction.³⁶ The OECD estimates that international trade accounts for between 4% and 17% of all permanent layoffs in Canada, the United States and the EU15. But even this modest figure is based on the broadest of assumptions about annual displacement rates and intensity of international competition at sector level.³⁷ Such an approach is light years away from determining the actual role of international trade in particular displacement cases, as required by the EGF.

What then is the rationale and justification for targeting scarce taxpayer money towards that rare and elusive bread of workers who are displaced due to globalization? This question is particularly relevant since even the perspective of the displaced worker himself does not warrant a specific focus on displacement through globalization. Indeed, as a leading scholar in the field has remarked:

For most displaced workers, what matters is the kind of job lost and the kind of job regained. Why the job was lost does not matter much at all. If workers and consequences are alike, across differing causes of job loss such as increasing foreign competition, technological change, downsizing, then policymakers should consider adjustment policy for all displaced workers, and broaden eligibility beyond 'trade-displaced workers'.³⁸

³⁶ On job creation and destruction, see S. Davis, J. Haltiwanger & S. Schuh, *Job creation and destruction*, Cambridge (The MIT Press, 1996).

³⁷ OECD, *Helping workers to navigate in 'globalised' labour markets*, OECD Policy Brief, June 2005.

³⁸ L. Kletzer, *Job loss from imports: Measuring the Costs* (Washington DC: Institute for International Economics, 2001), 6.

Let us begin by recognizing the differences in labour market position between displaced workers and the unemployed in general. Having lost their previous occupation, displaced workers suffer what is known as a loss of firm-specific capital:³⁹

- A job may be the outcome of a long process of searching for and trying out various jobs before finding one that matches the worker's skills and personal preferences. Thus when this job is lost it may require another lengthy matching process. This may be particularly problematic for older workers.
- The skills of the displaced workers may be linked to the lost job and be specific to that place of work, that is, containing much firm-specific human capital which is not marketable on the external labour market. This firm-specific capital may be acquired by on-the-job training or experience at the workplace and so is likely to be strongly correlated with the length of service at the firm.
- Employees with long service may have accrued seniority rights that will be lost upon losing the job. These include job security rights and seniority wages.
- The loss of a job can be a very stressful event both in financial and social terms. This is a problem itself and may impact negatively on the chances of getting a new job, particularly for older workers with long seniority.

Since displaced workers are objectively distinguishable from the generally unemployed, there is little risk of their favourable treatment through targeted ALMP running into discrimination claims. However, this legal justification is only the beginning. ALMP are labour market policies in favour of a particular group and it is from this labour market angle that their justification should primarily be considered.

One argument in favour of a European policy for displaced workers is that it fills a gap. National active labour market policy is often aimed at combating unemployment in general. Few national measures are specifically designed for displaced workers and fewer still for those who are displaced because of the negative impact of globalization. Since the EU itself, through its internal and external free trade policies, is an active agent in the globalization game it would make sense to have a European response to the transition costs of free trade for identifiable workers.⁴⁰ This argument is tantamount to justifying regulation for the sake of regulation. It does not address the economic or labour market rationale for targeting displaced workers in ALMP regulation. Precisely that rationale is one of the key weaknesses of a policy that, like the EGAF, channels assistance towards job displacement through international competition.

Research in the US has indeed shown that the economic costs of job loss do not vary significantly by sector, specifically when comparing those sectors that are subject to

³⁹ European Foundation for the Improvement of Living and Working Conditions, *European Restructuring Monitor Report 2007, Restructuring and employment in the EU: The impact of globalization*, 74.

⁴⁰ European Foundation for the Improvement of Living and Working Conditions, *European Restructuring Monitor Report 2007, Restructuring and employment in the EU: The impact of globalization*, 63.

foreign competition and those that are not. The economic costs of job loss vary mostly by individual characteristics and local labour market conditions. The economic cause of unemployment is of limited relevance for the subsequent labour market performance of the unemployed.⁴¹ There is thus little substantive reason to target assistance to globalization related job losses. Displaced workers do sustain subsequent economic loss in labour market changes but that loss is mostly short-term and related to the macroeconomic environment underlying their displacement.⁴² From these perspectives at least, the case for targeting displaced workers looks weak at best.

The key difference in the circumstances of displaced workers and the unemployed in general is, of course, that the soon-to-be displaced workers currently hold a job. The period of notice, formal or otherwise, before the actual job loss may offer a useful window of opportunity for the implementation of ALMP measures. However, the fact that the intended beneficiaries are persons who were employed before their actual or impending redundancy suggests an intrinsic labour market potential that many unemployed may not have. Why favour a group whose labour market position is better than many of the unemployed? The probability of the EGAF engendering a deadweight loss of funding towards workers that would find work anyway is arguably greater than with measures aimed at the unemployed. How fair is the EGAF, given the massive needs of the otherwise unemployed?

The issue of fairness and efficiency is further exacerbated by the dependence, as a rule, of EGAF intervention on massive redundancies of at least 1,000 employees. The crowding-out effect of ALMP measures as discussed above – that is, their selection of the beneficiary at the expense of another job seeker – is more significant when there are a large number of other job seekers in the local labour force. Consequently, if the restructuring is large relative to the local labour market – as will often be the case with the requirements for EGAF intervention – the risk of crowding-out will become more problematic. EGAF intervention therefore runs the risk of promoting the re-employment of displaced workers with a negative impact on the short-term job prospects of weaker groups in unemployment, such as the young, older workers or immigrants.

In a cynical confirmation of old fortunes, globalization adjustment may thus continue to entrench the favourable position of *insiders* on the labour market, while further reducing the changes of labour market entry for *outsiders*. This cannot and should not be the goal of the EGAF. There is a crucial need for complementary reform at Member State level, to stimulate more job creation in general, to optimize job intakes on the labour market and to develop general activation in unemployment insurance. Without such reforms, which are much more profound and structural than globalization adjustment,

⁴¹ European Foundation for the Improvement of Living and Working Conditions, *European Restructuring Monitor Report 2007, Restructuring and employment in the EU: The impact of globalization*, 82.

⁴² European Foundation for the Improvement of Living and Working Conditions, *European Restructuring Monitor Report 2007, Restructuring and employment in the EU: The impact of globalization*, 72–73; see L. Klerzer, *Job loss from imports: Measuring the Costs* (Washington DC: Institute for International Economics, 2001).

the intrinsic trade-off of these policies between the displaced workers and other job seekers becomes socially untenable.

The economic case for targeting workers displaced through globalization is thus weak, while the risk of perverse effects is strong. The main rationale for the EGAF is therefore clearly political. The EGAF is a political showcase to illustrate the EU's social agenda in the face of globalization. It addresses public perceptions about globalization in the hope of ensuring their support for a process that has widely benefited European economies and societies as a whole. As stressed above, the gains from globalization benefit the economies and societies as a whole. They remain often unseen or unappreciated by the individual or the general public. The losses from globalization on the other hand are specific, identifiable and easily highlighted in the media. The limited and specific losses, rather than the important and general gains, tend to monopolize the attention of the public. Displaced workers and their unions are a loud and visible minority. In this context, the EU has resorted to an action that is, at least from an overall economic and labour market perspective, essentially symbolic in nature while potentially pernicious in its effects.

6.3. A PROBLEMATIC PROCEDURE

The unbearably open-ended scope and the questionable substantive merits of the EGAF programme, in terms of economic logic, labour market efficiency and equity, render its procedure crucially important. A programme that is essentially political in nature runs the risk of being steered politically. This is especially true since, as we have seen, the required causal relationship between globalization and worker displacement is excessively hard to establish objectively.

Given this background, it is not particularly comforting to find the Member States in the charge of the submission of cases to the EGAF. There is a systemic risk of 'cherry picking' and political gerrymandering if the EGAF's assistance can only be obtained through Member State intervention. This risk goes beyond the plain fact, emphasized above, that the EGAF risks becoming a tool to pay for failed policies at Member State level. The decision to submit or not to submit an application to the EGAF will always contain an element of national political choice, depending on the time and circumstances of the case. It is something the EGAF could really do without. One only has to look at the list of applications publicly reported by the EGAF to realize that they typically involve well-known companies and the occasional national champion. This is an uncomfortable feeling for the EU citizen who is supposed to see the EU act to support the weak, rather than the strong, in the struggle of globalization. Finally, when Member States write applications there is an increased likelihood that the proposed ALMP will translate the political favour of the moment, maybe even the preferred partner – public or private – of the moment. Transparency, efficiency, legitimacy, equity, and the market for employment services: all would be better served and better seen to be served by a more decentralized process involving the workers or their companies directly.

There is one final argument against the Member State monopoly in submitting applications: speed. There is a strong case for starting the ALMP for displaced workers as soon as possible, even prior to the actual displacement process. The period of notice, formal or otherwise, before the effective job loss offers an important window of opportunity to avoid or anticipate the impending loss of labour market capacity that follows from redundancy. As we have seen, displaced workers indeed suffer from a loss of 'firm-specific capital' that reduces their status on the labour market. Effective ALMP will seek to address this decline rapidly while at the same time preferring a high-quality solution with long-term benefits to a quick fix with long-term risks. This is particularly true for workers with long tenure at the firm, as a recent report from the European Restructuring Monitor has emphasized. For these workers:

the importance of an early start to job search may not be obvious and their lack of recent experience of external job search suggests that assistance may be necessary. Thus all involved parties (the appropriate public administrations, the social partners and the workers themselves) should grasp the window of opportunity that the notice period offers. In order for this to function properly it is vital that clear and early information on the impending job loss is provided.⁴³

Whereas speed is essential, it seems clear that the intervention of a national government and the necessary application procedure at EGAF level are likely to slow things down. A national government will have difficulty to intervene formally before the contours of a restructuring are clear, that is, after the internal information, consultation, and negotiation procedures have been exhausted. This delay now runs the risk of being further extended through the necessity of a separate application and approval procedure before the EGAF. If the EGAF money is to be spent effectively, the application process must be able to bear fruit in terms of ALMP during the window of opportunity offered by the notice periods of the affected workers. This should be a priority for the EGAF administration. It may require such measures as urgency procedures, upstream application during the consultation phase at the company and prior to actual dismissal, or upfront payment by the Member State during or prior to the EGAF application process.

7. CONCLUSION: PROPAGANDA OR PANACEA?

Are flexicurity and the EGAF a matter of globalization propaganda or genuine labour market improvement? The fairest answer is that they are both. There is no doubting the European Union's seriousness of commitment to flexicurity. Indeed, the TEC elevates the main tenets of flexicurity to a constitutional principle: it commits both the EU and the Member States to 'developing a coordinated strategy for employment and particularly for promoting a skilled, trained and adaptable workforce and labour markets responsive

⁴³ European Foundation for the Improvement of Living and Working Conditions, *European Restructuring Monitor Report 2007, Restructuring and employment in the EU: The impact of globalization*, 75.

to economic change'.⁴⁴ Where else do you see a particular labour market policy orientation enshrined as quasi-constitutional principle?

The choice of flexicurity also ties in neatly with the unique European blend of labour market regulation, seeking to provide social protection while not repudiating but embracing the market economy. It offers a nice brand and a win-win approach to an otherwise dull and technocratic EES.

However, there can be little doubt as to the fundamental purpose of flexicurity: it is first and foremost about sustaining, supporting and adapting to globalization. Flexicurity is not just there to provide dynamic employment security for the victims of globalization: it is also there to help globalization itself. That is the perspective one should bear in mind when evaluating the EGAF. On its own merits, the EGAF is truly an example of how *not* to promote ALMP. Its scope is unbearably vague, its economic rationale highly questionable, its labour market effectiveness truly problematic, and its societal legitimacy patently contestable. Indeed, it is quite possible – as we have seen – that globalization adjustment will actually continue to entrench the favourable position of labour market insiders at the expense of the existing outsiders. But that is really a side show. The EGAF is primarily a marketing tool to sustain support for globalization by a sceptical and even hostile public opinion. If it succeeds in that purpose, then its rationale and justification are truly overwhelming, given the massive and crucial importance of globalization for the future prosperity in the entire European Union.

But the big picture alone cannot be the sole consideration. We cannot play games with displaced workers or with the general mass of unemployed. For their sake, and for the sake of labour market performance and social justice, the many fundamental problems with globalization adjustment should be addressed. At the level of the European Union this will require a more rigorous and transparent framework and practice. At the level of the Member State it will require systemic development of ALMP so as to offer across the labour market what the EGAF supports for workers displaced by globalization. This brings the story full circle to the EES, to flexicurity and to its national implementation. Only in combination with a general and effective EES can the EGAF become acceptable labour market policy.

⁴⁴ Article 125 TEC (*my italics*).