Chapter 6
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NEO-KEYNESIAN POLICIES IN INTEGRATED EUROPEAN ECONOMIES: WHAT POLICY CAN BE NATIONAL AND WHAT MUST BE EUROPEAN?

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Abstract

This chapter discusses the scale and scope of economically integrated countries' room for national political maneuvering in an international economic integration area. The outset is that competition drives prices and expensive national regulations down, thus imposing a ceiling on cost-driving national policies. To limit a following "race-to-the-bottom," EU minimum standards set a floor to the extent to which competition can push down such policies. Between this floor and ceiling each country have remaining degrees of freedom for national policy making, including how much taxes can be collected to pay for public expenditures. Hence, to support cost driving policies economically integrated countries need to "pull together" not only to make competition work in non-discriminatory manners, but also to provide revenues to pay for the welfare state, tackle rising inequality issues, and to stimulate economic growth. However, common or coordinated fiscal policies may be difficult to agree on when countries have different needs and views on what is the best policy. Not only long-term and short-term economic interests are confronted, but also domestic winners and losers from free trade, and the visions of the EU as a neo-functional or an intergovernmental regime.

Keywords: Europeanization, European integration, policy formation, regulation, public and private capital, welfare state

Introduction

International economic integration reduces each nation state's freedom to choose policy independently of others. Unilateral cost-driving regulations and taxes, and macro-economic stimulation, may lead to price increases at home, creating problems for import and export competing industries. Competition drives prices and expensive regulations down, thus imposing a ceiling on cost-driving national policies. To limit a following "race-to-the-bottom," European Union (EU) minimum standards set a floor to the extent to which competition can push down such policies. Between this floor and ceiling each country have remaining degrees of freedom for national policy making, including how much taxes can be collected to pay for public expenditures. For macroeconomic stimulation, there are also significant import leaks to other countries, the more open an economy is, weakening its effect on the national economy. Hence, national autonomy to formulate policy based solely on domestic preferences is balanced against and changed in favor of the benefits expected to accrue from trading in larger markets, to achieve higher economic standards of living. Economically integrated countries need to agree on industrial and economic policies and to "pull together" not only to make competition work in non-discriminatory manners, but also to provide revenues to pay for the welfare state, and to stimulate economic growth. This chapter discusses the scale and scope of economically integrated countries' room for national political maneuvering in an international economic integration area. The first section outlines how international economic integration sets limits to national policy formation. The second section discusses the processes of Europeanization and globalization. The third section focuses on varieties of policy-making for economically integrated countries. Finally, conclusions and policy implications are discussed.

ECONOMIC INTEGRATION AND NATIONAL POLICY FORMATION

The dominating neoliberal international economic system of the past few decades pressures countries to become more similar in a number of economic, social and political affairs, especially within the EU (Austvik 2015:117-121). In microeconomic policy, the Single Market (SM) integrate national markets into a European market, with corresponding harmonization of domestic policies. EU regulations and standards apply equal for all in a non-discriminatory manners. Ideally, the SM is intended to operate as one perfectly competitive market with the same rules and regulations across the Community, similar to a national market. This (theoretically) first-best situation, as defined in economics, exists when markets are unified across borders, and firms adjust production where their respective marginal costs equal a common price, with no national discrimination. With this point of departure, SM policy should be based on competition law and regulation, and (only) correct market distortions (caused by, for example, externalities or monopoly power), so that there will be consistency between companies' desire to maximize profits and the EU desire to maximize European welfare.[1] This is at the core of social efficency in regulatory economics .[2]

However, in the real world, perfect markets are rarely possible. Economics may first of all give insight into the processes around and the purpose of interventions, describing important forces operating towards optimality. Mostly we live in a second-best world where policy measures generally aim for second-best solutions. In a second-best economic integration area, compromises between theoretical first-best solutions and the real market are adopted and recognized, acknowledging that integrated markets are not influenced only by rational economic behavior, efficiency goals and the needs to correct market failures, as defined in economics, but also by diverging institutional, cultural and historical situations and interests. As Lefeber and Vietorisz (2007) note, the economic "efficient pursuit of one particular goal may conflict with the realization of some other, equally or more important social interest. Hence, (economic) efficiency for its own sake cannot be a policy goal." In an economic integration area economic, political, social, and cultural institutions and policies tend to become more similar, but not equal, over time (Bennett 1991), appearing as continuous sequences of negotiations, interpretations, and adaptations (Dolowitz & Marsh 2000:15). While countries converge in policy formation, diverging income distributional and historical situations, levels of economic development, institutional and cultural path-dependencies and identities

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[1] Under regulation, a "visible hand" is introduced to correct the imperfect market's "invisible hand." By regulating the framework and conditions for how firms may operate, the public authorities seek to achieve what is considered optimal for society. The incentives and disincentives given for pricing and production should create mechanisms that lead to efficient allocation of resources and "acceptable" distribution of income. There are many ways of regulating markets and the behavior of firms, which may result, *inter alia,* in principal–agent problems and gaming between the regulator and the regulated (Train 1991, Austvik 2003).

[2] "Social efficiency" is defined in economics as the optimal distribution of resources in a society, taking into account all external and internal costs and benefits. This occurs when marginal social benefit equals marginal social cost (as opposed to the optimization of private costs and benefits). Social efficiency is closely related to the concept of Pareto optimality, which is a situation where it is impossible to make anyone better off without making someone worse off.

retain differences and indicate that the same policy is not always desired by, or possible for, all.

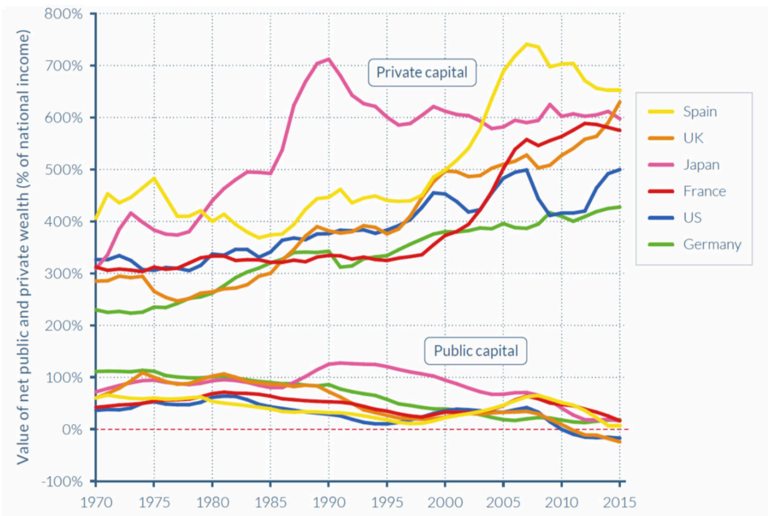
Accordingly, most countries seek an optimal rather than maximal degree of openness and real harmonization of policies with others in their economies. National interests concerning degrees of autonomy and sovereignty, conflicting interests between and within countries, and inertia in markets and politics often contribute to a slowing down of the integration processes. In some areas (for example in agricultural products) complete global free trade may never become a reality. From the outset, the different second-best national situations (as defined in economics), the divergent understanding of rules and regulations (with or without intent), and the gaming around these rules and regulations when it comes to interpretation and implementation hamper a full harmonization of policy practices. Hence, a static economic equilibrium model demonstrates the benefits of free trade in an infinite future. To understand the process of policy harmonization, however, the understanding must become dynamic and more social sciences must be applied.

Within the EU, rules and regulations narrow the room for national political maneuvering through legal harmonization, and emplaces a floor on how far down international competition can push cost-driving regulations and taxes. At the same time, as politics shape markets, markets also shape politics. International markets contribute in determining a ceiling to the national room for political maneuvering. One example is how global free movement of capital gives countries little room for political maneuvering in unilateral national regulations (such as the implementation of a so-called Tobin tax or increased capital requirements for banks), even if international regulations does not forbid neither a unilateral tax or increased equity for banks. To be implemented, policies must be coordinated with more countries as the international capital market restrains national credit and monetary policies. Partly this now takes place for increased bank equities. Hence, international competition as well as supranational harmonization of laws and regulations push governments to solve common problems through common institutions (Drezner 2001:60). Expansionary macroeconomic policies must largely be coordinated with other countries, especially the large ones such as the US and Germany, and gradually also with new economies like China, and discussed in fora like the G-20. The more a country is exposed to international competition, the more probable it is that policy will converge with other countries with the same international exposure, and domestic change must often be done via international cooperation.

While international economic integration represents a win–win situation on aggregated national levels, some countries may win more than other countries. Equally important, it represents a win–lose situation at domestic sectorial levels, causing conflicts, as seen as parts of the reason for various reactions against elites in both the US and Europe. It has also led to a fall in government revenues as a proportion of total value creation in most countries, while private income has increased, cf. Figure 1. World Inequality Report 2018 (WIR2018) demonstrates a number of long-term redistributional effects after the substantial market liberalizations that have taken place since the 1980s. Following the works of Thomas Piketty (2012), it shows how income and wealth in almost all countries in the world has become increasingly more unequally distributed, and is now approaching pre-World War I levels. WIR2018 argue that economic inequality is largely driven by the unequal ownership of capital, and "a very large transfers of public to private wealth occurred in nearly all countries, whether rich or emerging. While national wealth has substantially increased, public wealth is now negative or close to zero in rich countries." Most growth in national income has gone to the private sector, while public revenues and expenses has not increased. The belief in supply side industrial and macroeconomic policies, market liberalization, privatization and competition as drivers for economic growth, has led to a weakening of the possibilities and role for governments to tax and regulate economies with demand side (or Keynesian) policies.

At the same time, most industrialized countries today are welfare states, implying that the most important aspects of people's living standards, education and health should be universally secured. Gøsta Esping-Andersen (1992) distinguishes between three main types of welfare societies; the social democratic (in the Nordic countries), the conservative (in Germany and most of Continental Europe) and the liberal (as in the UK, US and

Switzerland). The Nordic welfare models are mainly based on the public paying for the welfare benefits through the tax collection system as a "Single Payer." Others are financed through various forms of insurance schemes, which then distribute welfare benefits and services. NGOs and individuals can also be part of a welfare system. Independently of the financing of the system, the welfare state is based on the principles of equality, fair distribution of wealth, and public responsibility for those who cannot manage to achieve a minimum level of living by themselves. The extent of the welfare state (what, how and how much it covers) has increased over time, and also the cost of it, and is now an essential part of all welfare states' budgets (mix economies). How much the population pays in the form of taxes, fees or deposits and how much it gets from social security and benefits is central to political debates in all countries. This takes place at the same time as the ability of individual governments to tackle inequality, to maintain and develop welfare states, as well as demand side, or Keynesian, macroeconomic policy, has become more limited. The income side of states that are economically integrated is largely tied to global and European markets and regulations, and the regime for this will contribute in determining the extent and form of their ability to finance their welfare systems.



Source: World Inequality Report 2018.

Figure 1. The rise of private capital and the fall of public capital in rich countries, 1970–2016.

Accordingly, economic integration makes the nation state subject to international regulations and market mechanisms, and not just the one that regulates activities of others. What previously most often were national political questions about the rules for economic policy, has become also a commercial, legal and international question of what should and could be policy. At the same time, it is difficult to always make good supranational decisions to the benefit of all. National interests concerning degrees of autonomy and sovereignty, conflicting interests between and within countries, and inertia in markets give limitations to both the global system's and EU's ability to make good common decisions. One example is the scope of the euro-zone, where a single monetary policy appears unfit for those countries that are in rather different economic situations than a core country such as Germany. As countries in the euro area cannot anymore devaluate/depreciate their currency to repair for the loss of competitiveness and overspending, some of them (such as Greece) try internal devaluations (domestic wage and price cuts), strong austerity measures and borrowing money from the surplus euro economies and others. The result is destabilizing unemployment and strong distributional economic effects among persons, regions, governments and countries in Southern Europe and between the North and the South of the EU. While political ambitions made the euro-zone as large as it is, economic theory of an optimal currency area indicate that it should be smaller to work according to its premises.

EUROPEANIZATION AND GLOBALIZATION

Although a frequently used word, Europeanization is not a precise term to describe how countries integrate. Johan P. Olsen (2003:923-924) discusses five uses that should not be competing definitions, but rather understood as simplifying assumptions for a broader meaning. Robert

Ladrech (2001:3) has defined it as "a set of processes through which the EU political, social and economic dynamics become part of the logic of domestic discourse, identities, political structures and public policies." The compatibility between EU and domestic policy has increased with structural convergence between institutions and policy (Cowles, Caporaso & Risse, 2001) but also through dynamic processes of adaptation. Globalization has similarly been defined as "norms, institutions, and laws that support global capital accumulation along neo-liberal principles" (Laxer 1995). The processes can lead to a "re-evaluation of interests, re-formulation of conflicting issues and adoption of new perspectives or knowledge" (Claes 2002:300). Hence, Europeanization and globalization have exerted an influence on legal matters, institutions, as well as on norms and ideology as a continuous process. In this context, the EU is a much stronger regime than the WTO, and especially the International Monetary Fund (IMF), giving countries less freedom of action in relation to EU rules and regulations than in the relation to the two global institutions.

At the same time the EU, being a confederation albeit with federal aspects, is weaker to make supranational decisions than a federation like the United States. Although EU policy is more liberal than the mixed economy established by European Keynesian Social Democrats in the post-war II period, it represents a form of mixed economy, rather than a rebirth of the laissez-era policy of the 19th century (no or few public interventions). Unlike in the 19th century, it seeks to reconcile the values of individual freedom and economic growth, with social justice and an even distribution of income. A government should allow markets to work freely if they meet key social goals, and to intervene if they do not. EU's liberal economic approach often allows markets to reach the goals where previously the public was directly involved, for example through state-run businesses and direct interventions. The goals in themselves do not necessarily need to be different, although markets and EU systems of unbundling of businesses, competition and regulations (market liberalization) set a number of boundaries and opportunities for what policy goals and policies can be.

How the EU can or will develop within this liberal paradigm is not obvious. There are more variants of a liberal economic system. Keynes, for example, was also a liberal, but an interventionist liberal, compared with today's dominant perceptions of the state's more neutral role in economic policy. As a variant within the interventionist liberal paradigm is Peter Hall and David Soskice (2001) "Varieties of Capitalism." They argue that there is more than one outcome and choice of policies within a liberal economic regime. John Ravenhill (2014:263) similarly states that «Globalization produces a variety of common pressures to which competing models of capitalism are differently exposed; this exposure tends to promote a dual process of convergence, accentuating the difference between liberal market economies and coordinated economies». Debates about the design of a liberal economic system and types of capitalism, as in Hall and Soskice, and Mjøset and Clausen (2007), shows that liberalism may not necessarily be orthodox. Different variants of economic liberalism must be compatible with the basic ideology of the EU system, albeit contrary to proposals for a change to a non-liberal economic system (such as in Elster and Moene, 1989).[3] Hence, how the EU develops dependsboth on situation, ideological perspective and it's evolution, and will help define the scope of action and political choices for the nation states, as well as for EU's overall economic developments.

Whether the EU will be able to make common decisions to the benefit of all depends on whether it represents a common European identity (common patriotism, desire for cooperation, common values), positions, interests and needs, to give it ability and legitimacy to control and decide over others. Is there such a European identity that enables the EU to represent all the inhabitants from north to south, from east to west? Will the diversity of the EU (language, culture, history and situations) strengthen or weaken its legitimacy and solidarity between member states? To answer, we need to look at its history. While in the 1950s and 1960s, only six countries

[3] The Norwegian tripartite cooperation is such an example, consisting of employers and workers organizations (called the parties) and the state. The cooperation mainly involves employment and wage issues, but may also affect other parts of the state's economic policy. The tripartite cooperation is often understood as corporatism as a political ideology or practice that gives organized interests systematic influence over social and economic developments. This includes a frontier model based on that wage growth must be adjusted to what international competing industries can afford. In this model, wage growth should not be much higher than by the trading partners, as it would weaken the competitiveness of national industries.

were relatively similar in the Community, and homogenization of policies across nation states had much rationality. Now there are almost 30 countries that are more geographically dispersed and different. Income and wealth differences, internal migration, external immigration (refugees), transnational investments and financial crises have contributed to weakening confidence in EU's ability to provide economic and social security and democracy for all. It has contributed to Brexit and other anti-EU turmoil. Currently, not only national economies, but also the EU is under pressure for change. The unrest in many countries, is not only about how the UK and other nation states are to adapt to existing EU law. Equally relevant is how such developments may change the EU. After euro crises, refugee crises and Brexit, it is more open how the EU is moving forward. Here are some alternative (simplified) scenarios:

1. *Muddling through*. The EU continues as now and improves incrementally existing policies in the Single Market and the euro-zone. If higher standards for taxation is established, it could help national governments to tackle inequality and welfare state expenditures. Otherwise, to be robust, this scenario assumes that the problems that have arisen are temporary.
2. *The FTA option*. The EU is gradually repositioning itself in a direction (albeit not fully) of a Free Trade Area (FTA). Migration is restricted within the SM, possibly also the free flow of capital, and the Eurozone is reduced in scope. A disintegration scenario opens up for bilateral agreements within the SM. More integration is postponed on the EU level, but not necessarily abolished for the longer future.
3. *Differentiated integration.* Formally, differentiated integration is accepted in a multi-speed model (forms of á-la-carte or in concentric circles). This complicates and weakens the EU, but issues such as external trade policy (the customs union) could be retained. If countries formally get the option of different forms of membership and not just as exceptions, more options could be developed than what is now simply called membership and non-membership.

4. *More federalism*. More integration, strengthening EU decision-making authority and introduction of a common fiscal policy. A common (or harmonized) fiscal policy can be used as counter-cyclical instrument, and transfers from strong to weak economies (in practice from northern to southern Europe) could be possible at the European level. More integration requires more supranationality, and transfers of power to EU decision-making bodies, either from the nation states, or as direct taxation of citizens. France's President Emmanuel Macron has suggested ideas based on such ideas, but it does not least require support from German Chancellor Angela Merkel to be realized (and paid for).

Scenario 1 can be the outcome if the EU is unable to make decisions (except for the higher tax elements). It may involuntarily lead to scenario 2. Scenario 2, however, can also be chosen voluntarily. Along with Scenario 3, Scenario 2 represents an intergovernmental approach to EU developments. Both increase the degree of input democracy, but weakens the EU as a decision making body. Scenario 4, in turn, represents a neo-functional approach, where the EU is seeking to integrate itself out of the problems, as with the establishment of the Single Act in the 1980s and the SM in the 1990s. This increases the degree of output democracy.

Most likely, actual outcomes will be some combination of the four scenarios. Partly, what is perceived to be a reasonable, desired and likely development depends on whether one should place an intergovernmental or neo-functional perspective on what the EU is and should be. On this issue, different perspectives may exist among political and economic elites in the population of a country, in the population itself, organizations. A change of ideology may lead to a change in the weighting of preferences and the behavior of institutions, electorate and state structures. In Europe, most political parties, the public and many administrations did, for example, move their basically consensus-oriented social democratic and Keynesian interventionist economic ideology in the 1990s, in a direction that favors more (political "hands off") liberal solutions. This has, inter alia, resulted in a number of New Public Management (NPM) arrangements of unbundling of businesses, competition and regulations of public utilities and services. These include liberalization of markets for telecommunications and energy, privatization of publicly owned companies, in some cases privatization of health care, and more, combined with lower taxes and public spending cuts.

Views from constructivists and institutionalists can be added to this debate. Neo-functionalists and constructivists argue that merging of identities and preferences over time will increasingly lead to more political similarities across countries, and the transfer of power to common institutions to make it work, which is to the benefit of all. Intergovernmentalists and institutionalists explain, however, that resistance to economic integration and the policy converges needed to make such integration a reality remains, citing instances where nation-states and their domestic institutions resist and undermine the gradual transfer of power out of their domains. The bargaining and consensus-building techniques in international organizations are considered by these critics to be refinements of intergovernmental diplomacy where important domestic political autonomy is retained, rather than the ultimate transfer of power to a supranational entity. Nation states may see themselves served by changing the real content of the common policy through delays, innovative interpretation and implementation, and/or find compensatory domestic steps, or put forward new external requirements. Only when economic situations become common a common policy will work adequately, and a full political convergence can take place.

This is reflected in the differentiation of the EU. As the number of member states have increased and the competence of institutions has expanded, the same policy for all has become increasingly difficult to implement. Most Member States participate fully in the Single Market and the Economic and Monetary Union (EMU). However, many MS do not have the euro as its currency (like Sweden, Denmark), some have formal exceptions related to the SM (like the UK before Brexit), and many implement SM rules and regulations in de facto rather different ways. At the same time, among non-MS, some have the euro as its currency without participating in the SM (like Montenegro), and some participate almost fully in the SM (like the European Economic Area, EEA, countries). Turkey participate in EU's customs union, but not in the SM. While attempts to make transatlantic and external services agreements (like TTIP, GATS and TISA) have failed, comprehensive trade agreements are made (like with Canada). At the same time, some non-MS have mainly a WTO membership to regulate their economic relations with the EU (like Russia). With the exception that a few countries are still not members even of the WTO (like Belarus), there is a continuum in European economic integration for countries between being full members of both the SM and the EMU with the same de jure and de facto policy at the one extreme, and (only) a WTO-membership at the other. This continuum is a way of phrasing differentiated European economic integration as a normal state of affairs. For example, Brexit will most likely mean that the UK moves from one differentiated economic integration model with the EU, as a MS, to another differentiated model, as a non-MS. While the political change is significant, the economic difference between before and after may be small (soft Brexit) or quite large (hard Brexit).

Until 2016, much of the debates about global order were about structure and questions whether the United States should actively lead or retire from its hegemonic role in world economy and politics. This is still a theme. However, from 2016, attention has shifted from problems between countries to problems within countries. Populists challenge elites where the truth about the system is expressed as a social construction of the mighty. Many countries do not want the supranational governance that a tighter international regime will imply. The most powerful expression of this is Britain's decision to leave the EU (Brexit), and the election of Donald Trump as American president. The problem is that without a comprehensive international economic regime, countries with open economies will be ruled by international markets and commercial actors. Francis Fukuyama's argument in "The End of History and the Last Man" that Western liberal democracy can be the final form of man-made governance is heavily challenged. In order to create more stability, it is necessary that established political and economic parties and elites do more than to "rebrand" themselves and their ideas. The system must develop a policy that makes Europeanization and globalization more worthy for the interests of the middle and working classes to continue to evolve as a framework for strong welfare states for the majority.

VARIETIES OF POLICY-MAKING

Globalization, Europeanization and the expanding influence of international organizations continue to reshape national public administrations as well as international relations. The pressures for convergence at the supranational scale make the interplay between national and supranational preferences and priorities central. The dynamics of an international economic integration process indicate that lower level of integration pushes for higher levels of integration over time, and trading countries must become more alike in their policies if free trade is to work. Greater integration would speed up growth in a period of recession, but also reinforce the speed of structural change, as reviewed by the Organization for Economic Cooperation and Development (OECD) (2005). From a liberal economic perspective, cooperation is the best response to interdependence and achieving economic win-win solutions. Within single sectors, however, all countries and companies try to reap the benefit of trade in general, and to avoid the problems trade creates for own country/companies, to the disadvantages of other countries/companies. In strategic trade theory, the orthodox liberal understanding of the benefits of trade is replaced by a more interventionist approach, sometimes colored by realist/economic nationalist attitudes (Krugman 1988). Hence, the challenge for an integration process is to prevent unemployment in non-competitive sectors from growing too much when processes are developing rapidly. In such a situation, not only long- and short-term interests are confronted but also winners and losers from trade liberalization. Integration processes should, as a consequence, take time in order to give people, businesses and society time to adjust. The "rich" world has actually given itself half a century after WWII for this adjustment, while new market economies and developing countries are pressured for much faster adjustments.

At the same time, as interdependencies deepen it becomes increasingly more difficult for participants not to reach agreements that further integration. However, the more complex the situation becomes in scale and scope, the more difficult it will be to reach de facto comprehensive supranational arrangements, and as a result, the expansion of maneuvering rooms for national adaptation. International demands about the harmonization of political form and process, but not necessarily about political convergence, makes it possible for countries to have the same policy in terms of rules and regulations, but with rather different political content. In this context, Hirst, Thompson & Bromley (1999) argue that "there are still opportunities for the development of governance mechanisms at the level of international economy that neither undermine national governance nor hinder the creation of national strategies for international control." Europeanization and globalization create political convergence between countries, but different traditions and ideologies also retain divergences. The rules are interpreted, reformulated and implemented within political perspectives, ideology, traditions and path-dependences as continuous processes. Consequently, the effects of the international economy on domestic policy must be understood in the interaction between and relative weight of factors that affect policy. Institutional interests may tip the balance to be more important than economic interests in one situation; other times, institutions need to change due to changed production profile. Ideology can win over industrial policy and economic interests at one time, while exogenous changes in the international political economy may change ideology at another time. Government policies change gradually or abruptly depending on the type of regime (Austvik 2018: 426-430). In general, the principles of political convergence between countries in an economic integration process more clearly define long-term new deals and developments than in the short-term.

Paradoxically, the greater the degree of autonomy a country chooses in an economically integrated world, the less influence it will possess over its own situation. This is because international rules of competition and market mechanisms in many situations de facto may overrule (irrelevant) national decisions, and a country is increasingly "pushed around" and eventually forced to adapt. One extreme example is North Korea, wanting something close to autarky rather than economic integration with the world. The result is substantially lower economic standards, with the following need to close borders to prevent people from trade and/or escape, police control and an authoritarian regime. As a consequence, North Korea must (mostly) act reactively in their policy making to the outside world, albeit the country from time to time makes proactive (even though not always credible) threats. Eventually, the regime will most likely prove unsustainable. Another example is air transportation becoming increasingly cheaper as a form of technical, and not political, initiated trade liberalization. Domestic markets were earlier served by (protected) national airliners. Increasingly these have been subject to international competition. When the difference between domestic and international prices and quality of services have exceeded an acceptable threshold (to be defined), national air traffic policy has eventually converged across countries. A national air policy independent of international regulations is no longer sustainable.

Accordingly, the increased international economic interdependence and complexity of decision-making indicates that more, not less, albeit different, political competence is required for maintaining a maximal degree of national autonomy in comparison with the situation in the 1970s and 1980s, especially for small countries. This is important wherever in the continuum between the WTO and the SM/EMU for European and global economic integration a country positions itself. In this continuum, the choice between maintenance or a change of existing policy and economic and political structure depends on interests, traditions and values, and/or the active creation of visions and ideology. Transnational integration reshapes public administrations as well as international relations. Desires about common regulations are put forward, and administrations receive results they both like and dislike. In a neo-functionalist view, public managers, as in, for example, the EU Commission, are the driving force towards more integration. In an inter-governmental view the counter-parts are more often other nations and governments. Whatever is the reality and each country's desire, the actors relative competencies in economics, policy, politics and law are crucial to which extent national goals can be reached, some times individually, some times together with others.

Conclusion and Policy Implications

Europeanization and globalization is relatively new in a historical context. The first phase came with the industrial revolution and free markets in the 19th century. After strong setbacks and conflicts in the period 1914-45, the next major phase came with the new international regime after World War II. The third major phase came after the collapse of the Soviet Union in 1991, with the US as a continued global hegemonic superpower in a dominant liberal Western-controlled economic system. Ideologically, the system returned to the time when Adam Smith formulated his arguments about the primacy of the invisible hand of the market and David Ricardo about everyone's benefits from international trade, while Karl Marx and the planned economy is "out." What is special about the third phase is the strong economic growth, its global scope, the speed of change, and thus the strength and speed of the redistribution of income, power and influence that in recent years has created waves of reactions in Western democracies. Some of the political challenge lies in the fact that in democracies integration must be positive for a majority in order for the processes to be supported in elections. If it's not, politicians who want more nationalism get stronger support. In a democracy, voters will vote on other decision makers if they do not regard themselves as well served by the system as the elite manages. Acceptable distribution of income, and respect for the distributional effects that the modernization of societies causes, as for example outlined in Lipset and Rokkan (1967), are prerequisites for national, and thus also international, political stability, with internal and external security policy spillover effects.

Europeanization and globalization take place in parallel. The establishment of the liberal trade regimes (such as the WTO globally and EU regionally) can be seen as schemes similar to and after the French Revolution just over 200 years ago. While the economic integration at that time took place at national level in France, and thereafter between neighboring countries, it now takes place on continents and globally. Neither then nor now, are the benefits of economic integration gained immediately, but mainly after there has been time for readjustments of people and capital. Some manages and/or wants change quickly, some late, and some never. In periods, and to some extent also permanently, there may be strong conflicts of interest between different types of winners and losers in the processes. Experiences about setbacks in economic integration processes that did not manage such changes, have especially been seen in the late 1800s, and between the two world wars. Until 1870, world trade was virtually free, both in terms of products and input factors. Due to the depression following the war between France and Germany (1870-71), the countries chose a more protectionist line. In the interwar period, the same happened. The inter-war period stands out as the worst example of how things can go wrong if the international economic regime does not work.

The EU had also tendencies of disintegration in the 1970s and 1980s. Since non-tariff and hidden trade barriers were not affected by EC-agreement at the time, it was not in fact a complete Single Market, even though it was in the name. Failure to regulate domestic policy that affected competition made Member States introduce hidden barriers to trade as a substitute for the tariffs. However, rather than long-term disintegration, the solution ended up with more integration through the establishment of the internal market and the EMU. Today, the EU has problems again, in particular, the gap between northern and southern Europe is high. Distributional issues and migration are conflictual issues within countries. At the same time, world trade tends towards more bi- and regionalism than multilateralism under the WTO. The question is open again, in the tension between more integration in the form of a common fiscal policy as proposed by President Macron, and degrees of disintegration, as expressed by Brexit and other protests. From an orthodox liberal economic perspective, it can be difficult to understand these challenges. However, this is not only a question of finding the economically most rational first-best solutions in a market-liberal understanding, but also how values, power, influence and distributional issues are balanced. Politicians internationally have after the financial crisis/euro crisis accepted that the current economic system needs to be improved. However, this applies so far mainly to correcting “regulatory errors” more than “structural” challenges of the system. If the societies fail to cope with the distributional and social impacts of a liberal European and global economic order in an acceptable manner, more severe setbacks can take place

Today, international flexible capital make more money than more inflexible labor can from free movement of labor (WIR 2018). The effect of an inadequate international regime for international finance and taxation is that, today, we are seeing trends of strongly increasing income inequalities where capital owners receive an increasing share of economic growth. WIR2018 argues that «tackling global income and wealth inequality requires important shifts in national and global tax policies,” including income as well as inheritance taxes. It suggests more transparency, progressive taxation, and that a “global financial register recording the ownership of financial assets would deal severe blows to tax evasion, money laundering, and rising inequality…While land and real-estate registries have existed for centuries, they miss a large fraction of the wealth held by households today, as wealth increasingly takes the form of financial securities.” The strong focus on shareholder and stock market values, and a financial sector growing faster than the real economy, spread financial culture throughout society and make decision-making processes increasingly dependent on fast and global financial capital, with consequences for welfare and everyday life (“financialization”).

Europe and the world need a functioning European and global trade regime as well as a better financial regime. The situation is different from in the 19th century and the interwar period, as the considerations that modern welfare states today have, given the social and distributional aspects of economic activity, as well as activity itself, were less important for policy, leading to subsequent unacceptable social and economic inequalities, and macroeconomic instability. The role of politics in both national and international economics was moderate and controversial. Today, although there is disagreement about degree and form, there is a consensus that the state has a role in regulating economic activity and the necessity of an international regime that makes predictable rules for the movement of goods, services and capital. This consensus made state interventions possible during the 2008 financial crisis and the euro crisis in 2010, as opposed to after the stock market crackdown in 1929. The Bretton-Woods conference in 1944, establishing the current system, sought to combine realism and liberalism from power relations which existed then. The search for new/revised Bretton-Woods regimes is due to gradually greater imbalances in this system, and because Western economic hegemony is challenged by the strong growth in countries such as China, India, and others. At the same time, any disintegration in Europe would weaken its external competitiveness and combined political influence. That can push higher forms of integration within the EU faster than the internal dynamics would have done without such an "external enemy." The situation can also lead to degrees of protectionism for the EU as a block towards low-cost countries, with the need to strengthen common trade policy. This may result in trade wars, for example between the EU, North America, China and others, for example, if the EU and/or the United States perceive Asian goods so cheap and of high quality that unemployment rises unacceptably.

However, even if one can expect backlashes and stagnation in European and global economic integration processes, it is hard to see that permanent disintegration is attractive to any country after industrial structures and labor markets have been adjusted to international markets and prices. The financial crisis in 2008, the euro crisis in 2010 and other shocks have shown that the system is not good enough today, which has aroused political will to adjust it, but so far not to a more fundamental revision. Crises are often the basis for major changes, as the chaos of the interwar period was a direct precondition for the Bretton-Woods agreement and a new economic order after WWII. As long as major crises are avoided, today's international economic system is likely to continue to a large extent as it is, with adjustments. Whenever possible, parties will seek to influence how the system works, and find creative adjustments to its own benefit, and to avoid disadvantages. A new major crisis could provide a basis for more fundamental reforms that better reflect real economic situations and new global economic powers. A breakdown in the international economy and society, similar to what the Second World War was an expression of, however, seems less likely in the mutually dependent world that has been established. In any case, it will be a test of the assumption that international economic integration, at least within the EU as the most advanced international economic integration area, creates such strong mutual dependence between countries that the system (in some form) as a common interest will survive.

These challenges are concerns both to the European and the global economic regimes, as well as to the nation states. For the EU, sectorial conflicts, and the balancing between short- and long-term interests, can make it difficult to continue integration at the pace neo-functionalists wants. An economic setback with a high unemployment can, to some extent, be helped by protectionist measures, internally as well as externally. The speed of adaptation to new markets and prices for manufacturers and workers indicate that this could be a reasonable strategy in certain situations. Any country wishing to reduce the effects of international markets or policy on the domestic situation can reduce its international exposure, using direct or hidden protectionist measures where possible. At the same time, a common macroeconomic stimulation policy, or one coordinated across EU Member States and/or globally, can also help the situation. Budget increases with higher taxes used to increase government expenditures across Member States would increase activity. Structural changes may take place more strongly and quickly, while protectionism will slow it down. Countries and parties may have different views on what is the best strategy. In a recession not only long-term and short-term economic interests are confronted, but also domestic winners and losers from free trade, and the visions of the EU as a neo-functional or intergovernmental regime.

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