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THE 1992 PROJECT FROM A SMALL COUNTRY PERSPECTIVE

by

Jan Otto Andersson

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Jan Otto Andersson
Department of Economics
Åbo Akademi,
20500 Turku/Åbo
Finland

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1. <u>The conventional welfare arguments</u>

The economic welfare arguments for the Internal Market project of the EC are derived from classical integration theory as well as from more recent theories, based on oligopolistic competition and dynamic long-run effects. The new arguments tend to strengthen the conclusions of the old: a country (A) which liberalizes its trade and its factor movements together with other countries (B) gains; a country (C) that remains outside such an integration area loses. The main reasons are four.

1. A and B can exploit their comparative advantages more effectively by 'creating' trade between them; C will loose market shares and thereby some of its gains from trade. As far as the potential mobility of factors of production between A and B is improved, the importance of their respective comparative advantages decreases, but the overall effective use of their resources is improved even further.

2. The firms in A and B are able to use economies of scale - and also of scope - more effectively, and the A+B area will therefore attract investments into industries characterized by large economies of scale (and/or scope). C will be relatively less attractive as an investment area.

3. Competition between firms is increased in the internal market of A+B. This increased competition would a) keep down monopolistic prices and profits to the advantage of the buyers, and b) force the firms to be more active in improving their efficiency and their products. In C the high prices generated in the protected sectors tend to weaken the price competitiveness of its unprotected, export-competing, industries.

4. Due to the direct improvement in the income level of A+B, deriving from the effects mentioned above, the savings and investments will be permanently higher, leading to a higher level of economic growth for an extended period.

Thus there seem to be overwhelming economic arguments for the 1992 project, and especially for the small EFTA-countries to participate in the creation of a single European market for goods, services, capital and labour. (Cecchini 1988, Baldwin 1989, Krugman 1988, Pintado et al 1988.)

Another type of argument, often used in favour of a creation of a large common market and an economic and political union, is that the integration/internationalization of the national economies is an inevitable process, and that, therefore, the small nations rapidly are loosing their economic autonomy and so have to accept the fact of transferring central parts of their decision-making to supranational bodies, such as the EC.

2. Small country experiences from the 1980s

On the other hand, the experiences of 1980s are not particularly bad for the small countries, especially those belonging to EFTA. Comparing unemployment rates gives a favourable picture for the EFTA-countires, and for the very smallest countries (Iceland and Luxembourg). Among the small EC-countries, those that probably are most 'internationalized' (Belgium and Ireland) are also those with the largest unemployment problems.[1]

Unemployment rates in the 1982-89, lowest and highest annual rates (OECD)

Austria	3.1 - 3.8	Belgium	9.1 - 13.0
Finland	3.5 - 5.4	Denmark	7.8 - 10.4
Iceland	0.3 - 1.7	Greece	5.8 - 8.1
Norway	2.0 - 5.1	Ireland	11.4 - 17.5
Sweden	1.3 - 2.9	Luxembourg	1.3 - 1.7
Switzerland	0.4 - 1.0	Netherlands	7.6 - 15.4
		Portugal	5.4 - 8.7
Germany	6.7 - 8.3		
France	8.2 - 10.5		
Italy	9.2 - 12.2		
Spain	16.4 - 21.5		
UK	6.5 - 11.8		

The reason for the low levels of unemployment is not to be found in government deficit spending in the EFTA-countries. The net public debt of the Nordic EFTA-countries has been very low throughout the 1980s, whereas it has been high, and on the increase, in most EC-countries.

Net public debt in 1982 and 1989, percentage of nominal GNP/GDP, (OECD, figures not available for all relevant countries)

	1982	1989		1982	1989
Finland	-1.9	-1.9	Belgium	92.6	122.3
Norway	-4.7	-24.3	Denmark	26.4	20.6
Sweden	4.4	3.0	Netherlands	31.3	56.4

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[1] These differences can also be seen in the percentage changes in total civilian employment, which were the following in some European countries between 1979 and 1986:

Austria	-0.8	Belgium	-2.6
Finland	7.8	France	-1.6
Iceland	15.8	Germany	-1.0
Norway	11.4	Ireland	-5.4
Sweden	2.1	Netherlands	6.5
Switzerland	3.8	United Kingdom	-3.4

OECD in Figures 1988 p 12-13.

Germany	19.8	22.1
France	17.8	24.7
Italy	63.4	95.0
Spain	14.6	29.8
UK	42.1	28.9

Is the picture of a good economic performance for the small EFTA-countries tarnished by a comparatively slow productivity growth? OECD has calculated the avarage annual changes in "total factor productivity" in the business sector, as the rise in productivity which cannot be ascribed to increases in labour or real capital inputs (OECD 1989, p.116). The figures give an indication of the difficulties facing all countries during the 1980s. A comparison of the five EFTA-countries (all but Iceland) on the one hand, and the five small EC-countries included in the study (Belgium, Denmark, Greece, Ireland and the Netherlands) on the other, show a somewhat higher growth for the former in 1979-88: 1.1 and 0.8 per cent per year are the respective unweighted averages. Of the large EC countries France, Spain and the UK had a higher total productivity growth, Germany and Italy a lower, than the EFTA-average. The US had a particularly slow productivity growth, despite its large size. When taking into account the initially high industrial productivity of the EFTA-countries their growth performance must be seen as relatively good.

In a study made by **Jan Fagerberg,** trying to explain the national differences in economic growth rates, it is shown that the crucial factors has been three: the size of the technology-gap, the growth in national technological capacity, and the share of investments in GDP. A tendential increase in the share of exports in GDP was actually negatively related to economic growth. (Fagerberg 1988, p 449-450) The four clusters, formed on the basis of their levels of productivity and technological activity, included countries of very different size.[2]

3. National systems of production and regulation

This brief survey of the theory of economic integration and of the experiences of the EFTA- and EC-countries suggests several questions:

> How important is the size of the internal market for the economic performance of a country? Is more economic integration as clearly an economic advantage as the theory generally suggests?
>
> Can it possibly be the case, that after a certain (country and time specific)

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[2] The four clusters included the following countries.
Cluster A: Switzerland, the United States, Germany and Sweden.
Cluster B: France, UK, Netherlands, Austria, Finland, Italy and New Zealand.
Cluster C: Norway, Belgium, Canada, Australia and Denmark.
Cluster D: Spain, Ireland, Greece, Hong Kong, Argentina, Brazil, Mexico, Taiwan and South Korea
Thus all four clusters - i.e. all types of economic growth experiences - include small and large countries (if Canada belongs to the latter). (Fagerberg 1988, p 444)

level of integration/internationalization further denationalization may hurt economic performance? Does the rule "lagom är bäst" (everything in moderation) apply to integration/internationalization, although not being supported by the theory of economic integration?

Is there any important aspect lacking from the dominant integration theory, which should be included in order to make it less extreme in its normative conclusions?

How 'inevitable' is the process of integration/internationalization? 'Must' the EFTA-countries become a part of the Internal Market-process?

It is difficult to deal with these questions in an exact and short way. The intent of this paper is only to underline their relevance. I will do so by complementing the standard economic theory with an institutionalist or 'regulation theoretical' approach. In particular I think it is fruitful to relate to the concepts developed by **Gérard de Bernis**, the main representative of the Grenoblois branch of the French regulation theory.

de Bernis understands integration as the establishment of a **coherent productive system**, sustained by a set of institutions, a **mode of regulation.** The system must be capable of reproduction and of stable development. It need not to be self-sufficient, but it must be able to procure necessary imports, without having to surrender the coherence of the processes of production and circulation and its capability of continuous development. One feature of a modern productive system is the existence of a "union of payment", a single currency valid for all economic transactions within the territory.

According to this view integration is **not** the same as 'open borders' or internationalization. **Integration means the establishment of a common mode of regulation, a common money, common rules and institutions.**

There are two possible cases which approximately can correspond to these criteria. One is a political and economic empire, in which one centre manages to impose common rules and a common currency on a large, multinational territory. The other is a nation state, which is capable of retaining a certain self-reliance, at the same time as it cooperates with other similar states in establishing a code of conduct on the international level. Correspondingly is it possible to distinguish between two types of international integration; one being the extension of a dominating productive system to include dominated and disintegrating productive systems; the other being the creation of supranational institutions for cooperation between nation states, with a similar degree of development and similar goals.

The following thesis will be central to my presentation, as I will partly argue in its favour and partly use it as a link in my argumentation: **Small countries are able to get along relatively well in the capitalist world economy, when they are integrated internally, thanks to which they are able to participate relatively openly in the international economic intercourse.** A corollary to this is, that **a small country that is integrated into a larger economic area in a way that erodes its national sytem of production and regulation, is in danger of having to completely give up its efforts to regulate the economy nationally, or to**

restore its national system, but now in a situation, where it will have to use quite strong and costly measures of protection. I will argue that at least the Nordic countries are economies, which could be described as **peninsular**, which means that they have preserved a certain economic autonomy, despite their smallness.

4. Peninsular democratic corporatism

Adopting a concept like de Bernis's productive system, may easily result in an acceptance of a certain economic determinism as to the necessary size of nation states. Is there not at any point of time a certain minimal size that is necessary for the establishment of a coherent and modern productive system? Already **Friedrich List** thought that a viable national economy should be large and variegated. Thus, according to him, the Netherlands, Switzerland and Denmark were too small to constitute stable national economies, and should be integrated into a large pan-German economy.[3]

Several small states, from Switzerland and Sweden to South Korea and Taiwan, have, of course, succeeded relatively well in the world economy. Are we to attribute this to the existence of effective small national systems of production and regulation or to the integration of these small countries into some larger politico-economic units? Contrary to what is often expected, the successful small countries seem to have been able to develop coherent national systems of production and regulation. This coherence is manifested in different ways. I will mostly use Finland as a typical example, although the other EFTA-countries could probably have served equally well.

1. The existence of strong linkages between the economic sectors, and the establishment of complete vertical chains from research and development, over the production of means of production to the production of sophisticated final products.

The Finnish forest industry is linked to forestry in the peasant economy, to transportation on both land and sea, to the production of forestry machinery, to paper and saw mill equipment, to the packaging, chemical and graphic industries, to building components and furniture etc.

2. The marginal position of foreign control over natural resources, industries and financial institutions.

The proportion of the industrial labour force employed by foreign owned firms,

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[3] In the case of Denmark, which I know best, the period after the publication of List's Das nationale System der Politischen Oekonomie, and especially after the loss of Schlesvig-Holstein in 1866, was characterised by the development of a very particular and self-centred national capitalism, an early variant of the now so popular 'flexible specialization', dominated by small local and often co-operative firms, joined by a tightly knit network of railways.

most of which are Swedish, was only 3 per cent in Finland in 1983. Compared to 'nationalistic' France, where some 20 per cent of the employed, in companies with more than 20 employees, work in foreign subsidiaries (de Bernis 1987, 1069) this proportion is very low. The activities of foreign banks on the Finnish credit market has been restricted and foreign ownership of natural resources has been strictly regulated.

3. The proportion of the final demand going to imports is not as high as one would expect from the openness and the small size of the economy.

Despite the rather unfavorable climates the EFTA-countries have a high degree of national self-sufficiency in the production of food. The Finnish imports of goods as a percentage of GDP was 21.8 in 1986. The corresponding figure for the ten times larger UK economy was 23.0. A comparison of the EFTA-countries import-penetration and some of the EC-countries is given in the following table:

Total imports of goods as % of GDP 1986 (Source: OECD in figures 1988)

Austria	28.5	Belgium	58.6
Finland	21.8	Denmark	27.7
Iceland	28.9(!)	Germany	21.3
Norway	29.1	Ireland	47.3
Sweden	24.8	Netherlands	43.0
Switzerland	30.3	UK	23.0

In the Finnish case the necessity to import crude oil is the most important lack of self-sufficiency. The oil and gas are bought from the Soviet Union in exchange for different manufactured goods, especially ships for arctic conditions. It is perhaps worth mentioning that thanks to the Norwegian surplus production of oil and gas, the EFTA-countries, taken as a whole, produce about the same amount of energy as they consume.

Among the EFTA-countries Austria is in a particular position by being economically oriented towards only one major power, West Germany, from which more than 40 per cent of Austria's imports originate.

4. The EFTA-countries are all characterized by a high degree of inclusive corporatism and national economic coordination.
They are managing their economies by different variants of what Katzenstein calls 'democratic corporatism'.[4]

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[4] According to Katzenstein democratic corporatism has three distinctive features. First, an ideology of social partnership permeates everyday policies. Second, interest groups are well organised and concentrated. Third, political bargaining is voluntary, informal and continuous.

"All states share in some of these characteristics, but none exhibits all of them fully - in this sense democratic corporatism can be found everywhere and nowhere in the industrialized countries. But different countries exhibit democratic corporatism to to different degrees. ... The small European states, with their open

If we disregard Switzerland, only Denmark has a level of unionisation that come close to that of the EFTA-countries, but even Denmark's unions are not as vertically organized as those of the other Nordic countries. The business interests are organized in a centralized way in the EFTA-countries, especially in Switzerland (Katzenstein 1986, 90). Due to the 'democratic corporatism' of these countries economic policies are typically easy to coordinate on a national level. Finland, e.g. belongs to those countries in which adjustments in wages and employment take place rapidly **thanks to** the high degree of unionization and centralized income policies (Tyrväinen 1988, Pohjola 1988)

5. The EFTA-countries (perhaps with the exception of Austria) have preserved a relative independence regarding monetary policies.

The Nordic countries operate systems in which their national currencies are tied to a basket of currencies. The proportions in the basket are determined on the basis of the (changing) importance of different currencies in the foreign trade of each country. Such a system reduces the swings that would follow from being linked to only one of the major currencies. They have also used devaluations (e.g. Finland 1977-78, Sweden 1982, Norway 1986) and revaluations (e.g. Finland 1989) in order to restore competitiveness or to contain inflation.

Thus, it seems, we have come across a group of highly industrialized, "peninsular", countries, which despite their smallness and openness to foreign trade, have been able to preserve a certain autonomy of economic policy and to avoid the high rates of unemployment, typical of the 1980s in Europe in general. There seems to exist a third alternative between self-imposed autarky of the Albanian type and the loss of economic sovereignty often ascribed to countries such as Ireland and Belgium. It has been possible to participate strongly in international competition, especially on the product markets, and at the same time maintain/develop a relatively coherent and diversified national system of production and regulation.

5. Small nations and the 'information society'

Another type of economic determinism is to consider the nation state as a form particularly adapted to the modern industrial society, which necessarily will be undermined by the development of a post-industrial information society. It has become customary to think that agricultural society fostered local cultures and identities, the industrial society national unity, and that today the coming of a new society, based on rapid communications, necessarily implies the dominance of supranational, even global, modes of identification.

It is of course a matter of fact that the absolute levels of international intercourse has been increasing as a consequence of better transports and communications. However, internationalization has not always been dominant in a relative sense. The development of the capitalist world economy is actually best interpreted as an uneven and combined process of integration and disintegration, nationalisation and

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and vulnerable economies, exemplify a democratic corporatism that among the large industrial states only West Germany approaches." (p 34) internationalisation. Periods of 'free trade' shift with periods of 'protectionism', extroversion with introversion, on both the national and the global scenes. The ratios of foreign trade to national production has been fluctuating over long periods, without any dramatic tendency to rise.[5] This is also true for factor mobility between countries and continents.

The so called post-industrialist information-society will certainly imply an increased spread of mass produced information and culture internationally, but we should not forget several forces that will strengthen the nation state. The increasing need for education, social services and health-care is still best satisfied in a national context. The ever stronger demand for more sophisticated products and services usually implies that the cultural and geographic proximity between the buyer and the seller must be maintained. The new information technologies can be used for improving national (and inter-nation state) administration and planning systems, as well as those of the transnational firms. Even though the fight against environmental deterioration must be international, it also means that the states must be empowered with instruments to control pollution on their own territories. The possibility of increased communication and mobility creates as many needs to monitor and control these flows, and the easiest way to do this is probably at the national level in cooperation with other nation states.

The greater the role of innovation and rapid technological adaptation becomes, the more important a close interaction between users and producers will be. The development of effective channels of information is time consuming and involves learning. It is difficult to establish markets for immaterial goods, which tend to promote organized and close links between the parties. **Bengt-Åke Lundvall** has

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[5] It is always fascinating to look at statistical ratios for long historical periods. The following are the highest and lowest ratios of exports to GNP for UK and Finland for a period of more than one hundred years. The figures for the UK are from Flora (p.436-438), and for Finland from Hjerppe (p.206-210). The figures from 1987 are calculated from OECD statistics. (Irregular small ups and downs are not included.)

United Kingdom				**Finland**			
Lowest		Highest		Lowest		Highest	
1870	31.4	1872	34.6	1870	13.5	1873	19.1
1878	29.8	1882	34.2	1875	16.0	1880	23.9
1886	32.0	1889	34.5	1892	14.6	1906	24.2
1901	27.0	1913	38.3	1908	19.5	1913	25.5
1918	21.8	1920	39.3	1918	3.5	1925	25.6
1933	17.5	1937	20.3	1931	20.7	1937	26.0
1942	9.0	1951	30.5	1945	3.6	1951	28.6
1974	28.6	1967	19.7	1967	19.3	1981	33.6
	1987	25.6			1987	24.6	

convincingly argued that such links can most easily be developed in conditions of geographical and cultural proximity, i.e. in a national, and we could even add small nation state, context.

> "When the technology is complex and ever changing, a short distance might be important for the competitiveness of both users and producers. Here, the information codes must be flexible and complex, and a common cultural background might be important in order to establish tacit codes of conduct and to facilitate the decoding of the complex message exchanged. ... In the absence of generally accepted standards and codes able to transmit information, face-to-face contact and a common cultural background might become of decisive importance for the information exchange." (Lundvall 1988, 355)

One effect of the crisis of fordism seems to be a tendency towards fragmentation and decentralisation in the world economy[6] as well as within the major states. The rise of regionalism both on the level of Western Europe as a whole, and inside all the large European states, is a consequence of the crisis of global and large state fordism/keynesianism. The most adequate response to the problems of stagnation and restructuring has often been seen as regional corporatist arrangements (e.g. at the länder-level in FRG).[7] Is it possible that a politico-economic unit of the size of a typical EFTA-country is better suited to deal with the problems arising from the demands of 'post-fordism'? Can a new version of democratic corporatism in a small country context give the best answer to the new challenges? This leads us to a critical assessment of the 1992-project.

6. <u>1992 - a neoliberal or neofordist project?</u>

It is obvious that two different visions of Europe are manifested in the Single Market-project. One is neoliberal (and mostly non-federalist) and the other neofordist (and federalist). An assessment of '1992' must therefore be an assessment of both these visions plus the assessment of the problems arising from the divergences between these two visions.

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[6] "..we have **not** witnessed movement toward an increasingly 'open' international economy, with productive capital buzzing around the globe, but we have moved rapidly toward an increasingly 'closed' economy for productive investment, with production and investment decisions increasingly dependent on a range of institutional policies and activities." (Gordon 1988, 63)

[7] These processes of post-fordist fragmentation and regional corporatism are being studied by Leslie Budd, City of London Polytechnic. I have had the privilege to read his unpublished reports on decentralisation as a form of corporatism in the cases of France and West Germany. Similar processes and demands can be seen in all large EC-countries.

According to the liberals, the essence of the White Paper on 'The Completion of the Internal Market' adopted by the EC Commission in 1985, is the mutual recognition of different norms. Instead of the time- and endurance-consuming process of finding single Euro-norms before trade can flow freely, the Internal Market will accept the standards accepted in any of the member-countries. This possibility is seen by the liberals as a means of reducing the regulatory powers of the governments. In order to give the full flavour of this argument I will make a lengthy quotation from a booklet by **Victoria Curzon Price:**

> "In my view, far from constituting a threat to national sovereignty, this process forces governments to take account of the wishes of large numbers of consumers, rather than the desires of small numbers of producers. **It restores sovereignty to the people, where it belongs.**
>
> This is indeed an exciting prospect: governments submitting to market competition in this way will be a sight to see. And the beauty of it is that there is no need for tedious negotiations in Brussels, no need for ponderous majority voting, no need for a nanny Commission to oversee it all. It is a matter of free choice - governments, parliaments, industrial pressure groups, trade unions and 'public opinion' can choose either to move with the market or live masochistically with self-inflicted wounds. In a word, the principle of free competition based on differences does away with the necessity for a whole layer of bureaucracy. Instead of abandoning sovereignty to Brussels, our governments have, in principle, agreed to share it with consumers - yet another instance of the federal principle of devolution at work." (Curzon Price 1988, 17)

This vision of a borderless European market for goods and services, capital and labour, as a means of promoting devolution and deregulation, stands in a glaring contrast to the neofordist vision, which aim it is to recreate the fordist dynamic lost on the national level, on the level of the EC as a whole. The leading idea is that the reason for European stagnation is the limitation of the national markets, and that the only way to compete with the United States and Japan is to homogenize the European markets. The main mechanism of revitalization is thought to be the establishment of truly European firms, which will be able to exploit economies of scale to the utmost. Decreased costs and increased competition will drive down prices, making European goods more competitive on the world market. The increased international competitiveness is thought to improve the possibilities for coordinated expansive macro-economic policies, leading to higher levels of employment.

This vision is connected with a demand for the strengthening of the powers of the federal authorities. The EC should be transformed into an economic and monetary union, with one common currency, one central bank, a harmonized system of taxation, a coherent and active trade policy, a common industrial and competitiveness policy, a development and research policy on the Community level, regional policies and a common social policies. The neo-fordists sees the creation of a borderless internal market not as the final result of the process of integration, but as a way to enforce the necessary reforms on the road to the pre-crisis goal of full economic and political union. They resolutely resist the danger of EC 'being allowed to dilute itself in the global market' (Rigaud 1989), and strive - if we allow ourselves to use concepts from the regulationist approach - to create a European productive and innovative system, with a European mode of regulation, indeed a new European nation state. "In fact, after having invented the **Community** and the **Single Market**, it is up to us to invent the **Multifarious European Nation**, and the institutions which, respecting its diversity, give it the balance, 'the power and the glory'". (Pisani 1989, 13)

This project has become the cornerstone for a growing part of the European Left. It gives stronger promises to conquer unemployment then the neoliberal "free competition between both firms and states"-perspective. It can be linked to demands for democratization of the Community, and for harmonization upwards of technical and social standards. It also provides an optimal blend of (European) internationalism and nationalism (visavis the US, Japan, the Third World). It is the president of the Commission, **Jacques Delors**, who has come to embody this neo-fordist project, and it is worthwhile to listen to him, in order to see how clearly his vision is related to the tradition of corporatist fordism:

> "When all is said and done, this is what the 1992 deadline is about: paving the way for a European industrial relations area; it must not be dominated by legislation imposed from above, but fuelled by the dynamic of social dialogue between the two sides of industry: the European Trade Union Confederation, the Union of Industries of the European Communities and the European Centre of Public Enterprises. Relaunched on my initiative in January 1985, the Val Duchesse meetings enabled the Community's employers and trade unions leaders to agree on the essential guidelines: coordination of macro-economic policies, revival of growth, formation of a European network of infrastructures, arrangements for introducing new technologies in the firm (with special emphasis on information and training for workers)." (Delors 1989, 21)

In this neofordist vision the Community is already homogenous enough to sustain corporatist structures of a kind that is difficult to maintain even on the level of the European nation states. It believes it to be possible to negotiate on an EC level between organized capital and organized labour, and to translate the results of these negotiations into effective policies. This, indeed, would mean the recreation of fordist forms of regulation on a wider scale than ever seen before.[8]

Besides the neoliberal and neofordist visions/scenarios, there is a third possibilty. (I disregard the possibilty of a new and open 'postfordist' mode of development in the coming years.) If compromises between the two projects cannot be struck, and if the economic and political situation becomes too unsettled, the danger of a setback of the whole process becomes acute. It is quite likely that we will witness a situation in which institutional confusion and conflicting perspectives impedes the realization of the grand designs of both the neoliberal and the neofordist vision. The efforts to incorporate both the EFTA-countries and the East-central European countries into the Internal Market, will only make it more difficult to administer it.

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[8] The disconcerting results of the Val Duchesse discussions, and the use of them made to delay rather than to speed up legislation, are pointed out by Grahl and Teague (1989)

7. The prospects from an EFTA-country point of view

All the three prospects are problematic from an EFTA-country point of view.

A neo-liberal EC striving to create a single market with a minimum of Community-regulation, seemingly fits the traditional free trade cum national sovereignty stance of the EFTA-countries. However, they would be unsettled, on the one hand, by the rule to accept the standards approved by any of the EC-EFTA-members. Until now they have created standards suited to their special geographic and cultural conditions, and the prospects of being forced to lower consumer protection is hard to accept.[9]

On the other hand, and probably more important, there are the risks that a neoliberal Europe could undermine the national consensus and the corporatist compromises, which hitherto have made up the strength and flexibilty of the EFTA-countries. The national identification of capital and highly qualified labour is likely to diminish, and new alliances across the national borders between different corporate interests will emerge. Instead of the traditional small state industrial relations and income policies, the trade unions would be forced into a position, where they concentrate on narrow sectorial interests and/or general 'European' agreements. The abilities of the states to pursue a policy of high employment would be diminished. Completely free capital movements would tend to undermine the remaining autonomy of the national monetary policies. Especially the high tax EFTA-countries would come under pressure to reduce their ambitions as welfare-states, leading to possible disruptures in their modes of democratic corporatism. The coherence of the old national systems of production and regulation could be weakened in such a way, that an effort to restore them would be very expensive in terms of necessary protective measures.

The neofordist prospect is problematic because it is difficult to find a mechanism by which the EFTA-countries can participate in the construction of a strong federal Europe without loosing their national sovereignty (and most of their political influence) in the end. Theoretically their best option would probably be to have an economically strong and dynamic EC, enjoying the favourable demand conditions through free trade agreements, and at the same time maintain their national productive systems, not allowing the larger EC-firms to take control over their firms and resources.[10] Such an option would, however, depend on the good-will of a strong European Community, and on the possibility to retain their "advantages of

[9] It has even been astonishingly difficult to agree upon common Nordic norms, despite the geographical and cultural affinities, and despite decades of Nordic cooperation and mimicking.

[10] One should not of course underesimate the considerable strength of the large EFTA-corporations. According to Fortune's last list of the 500 largest industrial corporations outside the US, 49 have their headquarters in an EFTA-country. The corresponding figures for West Germany and France were 53 and 39. But it is probable that many of these firms could loose their national identity, if their stocks could be freely sold on an international market.

small size obscureness..[11]

I am, however, doubtful as to the possibilities of the neofordist project to succeed. On the one hand, the homogenity and consensus needed for the project is conspicuosly absent, and, on the other, it may be the case that most of the hoped for scale economies have already been exhausted in the European context.[12]

The third prospect is that of an unsettled situation. It is quite likely that the European Community will remain an unfinished and volatile project, lacking a coherent productive system on the Community level <u>and</u> on the level of the nation states.If the neo-fordist project is not able to impose itself on a still fragmented Europe, with weak federal institutions, or when the neo-liberal project creates its own problems, as the process of deregulation and national and regional rivalry undermines those institutions that have constituted the national productive systems, it is probably economically advantageous not to be too closely involved. The best option for the EFTA-countries would therefore be to maintain - and to modify - their national modes of regulation in order to cope with perpetual economic and political uncertainty.

8. Conclusions

The standard theory of economic integration does not take into account the need to 'institutionalize' markets, and the role of the nation states in the creation of integrated and adaptable systems of production and regulation. It overlooks the 'cultural' and 'social' element in economic transactions. It therefore underestimates the costs of national disintegration which follow the establishment of a multinational 'internal market' for commodities and factors of production.

Despite the standard theoretical disadvantages of a small size economy, many small nation states have been able to perform relatively well in the world economy; not only when the international economy has been expanding and liberalized, but also times characterized by international depression and disintegration.[13] One reason for

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[11] I am grateful to Immanuel Wallerstein for this term, which he used a personal conversation concerning the Finnish case.

[12] This point is forcefully argued by Davis et al (1989), from which the following quotation is taken:

> "It follows that the view that the likely consequences of 1992 will be the standardization of European production in a smaller number of plants, offering the consumers a reduced choice of products but also the benefit of lower prices from greater scale economies, is in most cases mistaken. It also follows that the idea that an appropriate response to the approach of 1992 is to promote transnational mergers with the view to benefitting from such rationalization is erroneous... there are few scale economies that would become available by extending production beyond the levels of output which are already attained in a fragmented Europe." (p 2)

[13] The Nordic countries and Switzerland succeded relatively well in

this has been their ability to maintain a coherent system of production and and adapt the mode of regulation in response to new - often external - challenges. It is very difficult to describe the necessary conditions for the maintenance of a certain national economic autonomy, and to pinpoint the 'optimal' level of internationalization/integration, although it is possible to point out extreme cases (Albania - Ireland). The Nordic countries seem to have been able to find a favourable balance in most situations. They have represented what I have tried to describe as 'peninsular democratic corporatism'.

The creation of a large internal European market once again forces the Nordic countries to scrutinize this balance. Are the standard economic welfare arguments for international liberalization so strong in this case, that it is worth risking the disruption of the national modes of regulation of the small countries? Contrary to the situation when the free trade areas were established, they now have to decide whether to transfer important parts of the decision-making to European institutions. The choice has to be made in a situation, when the future of these institutions is still open. On the one hand the new institutions would have to be effective and democratic, and on the other hand the small countries are afraid of loosing their political influence to the large ones. The two goals are very difficult to advance at the same time.

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overcoming the crisis of the 1930s and strengthened their democracies during those difficult years. (See e g Simon 1939)

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