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Dear reader,

We are delighted to finally be able to present the third issue of Embedded.

It is a great pleasure to publish this volume that consists of a handful of carefully selected contributions that spans the evermore inspiring interdisciplinary fields of economic sociology and political economy. This issue catches the great diversity of topics within the two disciplines and it is our hope that you will enjoy its multifaceted academic content.

Our main intention with Embedded is to create a forum that facilitates serious and innovative reflections on issues related to the disciplines. In achieving this we first of all owe the Diversity Pool at CBS our sincere gratitude for sponsoring the journal for the third time in a row. Their financial support has been vital for the materialisation and the continued existence of the journal. Secondly, we are yet again grateful for the assistance from writing consultant Thomas Basbøll with whom we hope to cooperate in the future. Thirdly, we truly appreciate the help received on proof-reading from our former co-editor Milda Saltenyte. In addition we welcome the advice received on academic content from PhD student at DBP Iver Kjar. Finally, we are once again delighted that our graphic designer Sara M. Flyvbjerg has taken on the task of creating the layout for this third issue. We are grateful for her persistent effort in making the journal look inviting.

The last group of people that we want to extend our gratitude to are the three authors and Professor Richard Swedberg who kindly agreed to be interviewed for this issue. While we thank all of them for their collaboration, we are particularly happy to bring an interview with Professor Swedberg as he is one of the key figures behind the renewal of economic sociology and hence a great source of inspiration for initially creating this journal. In the next issue you can look forward to an interview with leading IPE scholar Mark Blyth from Brown University.

In the present issue of Embedded we include a Call for Articles and welcome contributions from scholars and particularly talented students with an interest in the fields of economic sociology and political economy.
So what do we present to you in this issue?
Continuing the series of interviews with world class scholars we are proud to present an interview with a leading figure within contemporary economic sociology, Professor Richard Swedberg from Cornell University. The conversation covers what research he is currently involved in, people and works that have been influential inspirations for his ideas, where he sees his discipline going and finally what he is most proud of throughout his academic career.

In the first article, PhD from the University of Warwick (PaIS) Ben Jacoby expands the concept of economic rationality by including a more embedded understanding of economic behaviour drawing on the concept of axio-rationality. He argues that the decision on what ends to maximise is not only a matter of economics narrowly defined but is also deeply dependent on larger socio-political factors.

Next, Hubert Buch-Hansen, Associate Professor at The Copenhagen Business School and Angela Wigger, Assistant Professor at Radboud University Nijmegen, critically reflect on how competition and neoliberal competition regulation have contributed to exacerbating the economic, political, social and environmental crises that we currently face. It is argued that the only way to solve these crises is to reconsider prevailing notions of competition and its role in society.

Finally, Toke Handberg Jeppesen, MA student in International Political Economy at the University of Warwick, reviews the abandonment of capital controls in Denmark and the influence of financial markets on Danish public policy. It is suggested that although the inflation rate is heavily constrained, the outer pressure rarely affects government budget or its spending. On this basis, he proposes that Danish policymakers still have a say in the globalised financial world.

Enjoy reading,

The Editors
EMBEDDED ISSUE 4, 2013
CALL FOR ARTICLES!

Embedded is excited to make a Call for Articles from students and professors alike for our next issue, to be released during September of this year.

We strongly encourage all students, particularly Master’s and PhD students, as well as professors with an interest within the fields of economic sociology and/or political economy to submit an article proposal by way of a one page abstract by June 1st, 2013.

• The abstract should outline your proposed article and whether or not it is based on prior research (e.g. Bachelor’s project, Master’s or PhD thesis etc.), giving the editors a solid foundation upon which to judge the article’s suitability for Embedded.

• Should the article be chosen, an editor will be assigned to you and responsible for further communication and assistance.

• The deadline for the submission of a completed article is July 10th, 2013. Articles should be between 30.000 and 45.000 characters.

• We also offer writing assistance to students on an as required basis to facilitate the completion of accepted articles.

As we continue in our endeavour to make Embedded a popular platform for scholars and students to share their perspectives, we look forward to receiving proposals from suitable candidates interested in being published in this young and progressive academic journal.

Abstracts, articles and questions can be sent to embedded.editors@gmail.com

Otherwise, please consult our website embeddedjournal.wordpress.com

Kind regards,

The Editors
INTERVIEW
WITH PROFESSOR
RICHARD SWEDBERG

Cornell University, New York, September 17, 2012

It seemed an obvious choice to interview Professor Richard Swedberg as the second in this series of stellar scholars within the fields of political economy and economic sociology. Professor Swedberg’s intellectual merits have had a great impact on the conception of this journal, as he played a crucial role in institutionalising economic sociology as an academic discipline by launching the programme for new economic sociology back in the mid-1980s. He has contributed extensively to the research areas of economic sociology (including law and the economy), as well as general sociological theory. Throughout his long career, Professor Swedberg has published an impressive amount of books, edited volumes and journal articles. Some of his most important works have been on the writings of Classics such as Weber, Schumpeter, Durkheim, Tocqueville and Saint-Simon. His long list of publications includes the books Economics and Sociology (1990)\(^1\), Max Weber and the Idea of Economic Sociology (1998)\(^2\) and Tocqueville’s Political Economy (2009)\(^3\). He has also published the edited volumes The Sociology of Economic Life (1992, 2001, 2011)\(^4\), co-authored with his long-lasting colleague Professor Mark Granovetter, as well as The Handbook of Economic Sociology (1994, 2005)\(^5\) together with Professor Emeritus Neil Smelser. Professor Swedberg is currently involved in putting theorising or how to learn to theorise on the agenda within sociology and the social sciences.

Professor Swedberg was born in Stockholm, Sweden in 1948, and received a law degree (juris kandidat) from Stockholm University in 1970. He finished his PhD in Sociology from Boston College in 1978. In 1996 Richard Swedberg was appointed “Professor of Sociology, especially Economic Sociology” at Stockholm University and since 2002 he has been working at the Department of Sociology at Cornell University.

Interview conducted by Alexander Kladakis
Thank you for meeting us.

Thank you. I am very happy to be interviewed for two reasons. The first reason is that it comes from Copenhagen Business School. I am an admirer of the Copenhagen Business School, which I think is a very creative and interdisciplinary school, and I have several very interesting colleagues there. The second thing I want to say is that a journal of this type, the Embedded student journal, is a very great idea, and I hope you will continue to produce such interesting issues.

As a starting question I would like to hear if you could describe your academic background? What has been your path?

I am a Swedish citizen and I have worked since 11 years at Cornell University which is situated in upstate New York. Before that I worked at Stockholm University where I was Professor of Economic Sociology for a number of years. My two main research streams have been economic sociology and somewhere in the background all the time social and sociological theory. During the time in Stockholm I was particularly involved in getting economic sociology launched in the sense that economic sociology was basically invented as an academic subdiscipline around the turn of the century by a number of scholars of which Max Weber was the most prominent and important. It then fell into oblivion and it really was not coming to life again until the mid-1980s where I was very much engaged in that effort together with a colleague and a friend Mark Granovetter and some of the other people that you are reading in economic sociology today like Neil Flickstein, Wayne Baker, Viviana Zelizer and Nicole Woolsey Biggart and others. So that is a little bit about my background.

That leads us to the next question. What research are you currently involved in or what are you doing at the moment?

I am doing two things. The first thing is that I am very interested in the current financial crisis. I did a paper on the collapse of the Lehmann Brothers and at that point I was extremely interested in what it was exactly that nearly made the world economy blow up. At one point Ben Bernanke goes to the US congress and says that there might not be an economy in one week. So it was a very peculiar thing that was happening and I was very interested in understanding this peculiar thing. I was not that interested in understanding the sub-prime mortgage market or something like that. It was pretty obvious that there were lots of shenanigans going on and that there were lots of new modern very complex financial instruments being used. Those things did not really interest me that much. What interested me back then has remained my main interest; which is the financial crises and how confidence is
constructed. How do you lose it and what happens when you lose it? And finally, how do you restore confidence, which is the process in reverse but of course does not take place in reverse. I wrote a piece on the Lehmann Brothers and I have also written a piece on the early part of the European financial crisis. I am continuing to follow the so-called European financial crisis or what is really stage two of the general financial crisis, in the sense that Europe and the US both went through a crisis in 2008-2009 – but only Europe has been in a crisis since that time.

So, that is one of my research streams. The other research stream has more to do with my social theory background, yet it is related to economic sociology. Since about two years ago I have been extremely involved or practically obsessed with the idea that the current attempts to use social theory, to use theory, to teach and learn theory, are all very wrong and that the key to doing this is to move from theory to theorising. In theorising the idea is to focus on the very early stage of the research process and how you do that. I have written an article on this which appeared in 2011 in *Theory and Society* and I am now doing a book about it where I am trying to push ahead with the ideas. So those are my two big research streams.

**In connection with your research and work could you reflect a bit upon the people, books or ideas that have been influential inspirations?**

Yes, so let me take them then in order. For the financial crisis I found that you of course have to read what economists are writing. However, I find economists quite uninteresting and those that I find more interesting are the non-academic and practical economists. By that I mean people who are active in the big financial markets and seem to understand it. People like that could be people like George Sorros. He has obviously a series of good books that he has written on the crisis. Timothy Geithner, Paul Volcker and Bernanke are also well worth following. Of the academic economists there are occasional articles and books that are interesting and someone like Paul Krugman is interesting to follow. I find much more interesting information in the newsletters of financial firms, in Bloomberg News, in Financial Times and so on than I find in the ideas of academics. Those are the ones that I think are much closer to the action and much more inspiring and interesting.

On theorising I find that sociologists have written very little on the topic. There are exceptions like Howard Becker and Andy Abbott who both have written one book each, which are very good. Otherwise I find much more inspiration in what philosophers and what cognitive scientists have said. Among philosophers particularly the American philosopher Charles Peirce is extremely inspiring.
Then I have two other sources that I find very inspiring when you are thinking about the issue of creative theorising as theorising in a new way and not just repeating what has already been said. One of these sources is literature not only novels but particularly poems. The point of the poem is not to be explicit but to be implicit, leaving the explicit part to the reader. The other source of inspiration is when artists are talking about art. I especially find painters extremely interesting when they describe what they are doing. Those are really the sources I am surrounding myself with and in a sense trying to drown myself in.

One of the latest books that I got was actually the book called Yes is More\(^7\), which is by the Danish architect Bjarke Ingels and he has some very interesting ideas. He was the topic of a recent article in the *New Yorker*, otherwise I would not have known about him but he seems to have a lot of interesting ideas.

**This whole issue of theorising is very interesting, but do you really think that it is something which is very essential and important to take up again as a sociologist or as a social scientist?**

Yes, I do think so. I do not think that any of the social sciences are particularly creative at the moment. There have been times when sociology was leaping forward enormously fast and there have been times when it has been pretty sleepy. I think sociology is very sleepy and it surely does not have to do with the methods. The methods are very good and they continue to be developed and you also have new technical tools like the computer and so on that has made it much easier to carry out huge calculations and the like. So the problem is the way that people are looking at things and that is another way of saying theory. Either you can continue to sort of bury the social sciences or you can try to do something new. I do not have much doubt about the fact that creative theorising is what is needed in social science. I have more doubts about things like whether what I am arguing is that the correct thing to argue? If it is correct what I am arguing, will other people pick it up? Those kinds of things are of concern to me. However, it is not to be doubted that the general diagnosis that sociology, political science and anthropology are way behind such sciences as cognitive science, genetics and neurophysiology in terms of being innovative.

**So in that sense you see theorising as an important new subject to emphasise more instead of the big focus today in sociology on methodology?**

I think you need two parts. You need theory and methods as well as the obvious third one of empirical facts. The methods part is doing fine. Today you have courses where you teach students methods. In graduate school, they go through two or three
methods courses and they come out pretty well versed in it. They know how to handle the data. However they do not have the equivalent skills in terms of theory. People do not really know how to handle theory and they are being taught theory in a very peculiar way. For instance old and very good studies like *The Protestant Ethic* is not a book on theory but is held up as a book that is of great theoretical interest. Current education in theory and the current teaching that students get is very confusing and does not really help them. So in combination with the fact that methods are so demanding and difficult, it is natural for students to spend much more time on the methods than on the theory. They are confused by the theory and their teachers are also insisting very much that they get the methods part right while they do not really know how to handle the theory part.

**Maybe the difficult thing about theorising is that it is rather intangible? It can seem difficult to make a guidebook or any guidelines for how the process works.**

Well the article I wrote contains the steps that you follow and the book that I am writing also contains steps. Basically, it says this-is-how-you-begin, then-you-do-this and then-you-do-that. In the beginning you should follow these steps, but after a while you should stop following them as you should have developed the skills so the whole thing is much more floating. But I do not really see the situation that it is so intangible. I think that a problem we are having is that when you learn methods you do not read a book and sort of say okay now I know how to do regression analysis. You have examples where you train yourself and you learn it by doing. That is really what you need to do with theory also. You have to develop exercises and train yourself in the exercises. When you are writing a book with tips for how to theorise you are not really presenting final theories you are instead telling people that when you are for instance biking and coming to a curve you better lean on to the side if you do not want to be flung off to the side. That is very different from telling the person that when you come to a curve, you should immediately begin to calculate the angle at which you should hold your body according to the law of gravity and so on.

Basically I do not think it is such an enormously difficult problem. I think there are much more difficult problems in social science. Like what is meaning? What is language? How can human beings understand each other? These are incredibly difficult topics and if you start digging into something like causality that is an enormously complicated topic. Social science is filled with a lot of really difficult topics. If you are thinking about theorising, it does not seem to be such an enormous challenge to me. If you want to be able to teach people to become Max Weber or Albert Einstein it is a very different thing. Then you are really talking about teaching people to be
enormously creative. I am talking about making people competent as theorisers and being a competent theoriser also means doing a little bit new. It does not mean that you are a pioneering theorist or something like that. You will work well beyond the paradigm of sociology looking at people in groups, human beings interacting and so on and so forth.

**We also touched a bit upon this previously but could you mention current scholars that you find inspiring?**

I think there are novel streams of thought in for example Europe. You have the people around Jens Beckert at the Max Planck Institute who is very interested in studying the role of values and valuation in economic sociology. Also, Max Planck has recently established an office or a small centre at Sciences Po in Paris which is studying financial crises so you are likely to get something interesting out of that. At Uppsala University in Sweden you have Patrik Aspers, a new professor who is an economic sociologist and just now, he is putting together a group of young interesting scholars. He has some of the same interests as Jens Beckert in valuation and so on but he also has quite a few of his own topics that are interesting. Some of them grow out of his study of the textile industry and others grow out of his interest in Martin Heidegger’s notions of ontology.

In the United States there continues to be sophisticated network analysis of economic phenomena. It continues to be the fact that there is a lot of interaction between economic sociologists and cultural sociologists. You increasingly find people like Fred Wherry and Lyn Spilmann who are analysing economic topics by bringing in very strong emphasis on cultural factors. I am not pretending to give you a survey of what is going on. And as you notice, I am not mentioning Latin America, Africa, Asia and Russia. In all of these parts of the world there are sociologists who are doing economic sociology but those are some of the novelties that I see. I may be a little bit disappointed in the fact that so little attention has been paid to the financial crisis both in the United States and in Europe. On the other hand you have a very vivid and renewed interest in capitalism as a sociological phenomenon. Lars Mjoset in Norway just recently edited a volume about capitalism in the Nordic countries. Recently, a volume on capitalism in the Baltic countries was published and in Germany Wolfgang Streeck has behind him a continuous set of studies of German capitalism which are of extremely high quality.

**You sort of addressed this already, but what are your thoughts on where the discipline is going and now we are talking economic sociology and surrounding fields?**
Economic sociology at this point is very firmly institutionalised and you find it in a series of major universities in Europe and in the United States. So in that way you have a normal science. In the sense of Thomas Kuhn, you have a series of topics that were broached initially by the so called pioneers in the 1980s like Mark Granovetter looking at embeddedness, Neil Flickstein focusing on fields, Viviana Zelizer focusing on culture and people like Mark Mizruchi and others who were bringing in networks which are something that is also part of the embeddedness approach. There was organisational sociology from the beginning and all of these things are continuing to develop today.

When we initially started the so called new economic sociology in the 1980s the thought was among Granovetter, myself and some other people that there would be much more cooperation between economic sociologists and economists, but I have seen very little of that taking place. It seems like the economists are developing in a lot of directions and one of the directions is to use sociological concepts but not to read sociology. Another direction that I find promising is a more empirical one namely that you stop starting out with a theory and instead start out with facts. This direction is in a sense much closer to the economic sociology programme but still there are very little links between the two. In my mind, economic sociologists could have much better links with economic historians or economic anthropologists but I see very little of that developing. Therefore I think economic sociology will develop during the next 10 years pretty much like it developed during the last 10 years. There will be a series of good articles and monographs but I do not really see any major new perspectives or something like that.

That is a pity and also a real shame.

Yes it is a little bit of a pity. I would have preferred, which is in a sense what is implied in the theorising project, much more wild ideas among the economic sociologists, new ideas and so on. But on the other hand you never know what is brewing. You never know what is happening.

Possibly there might be potential for new developments within the field, but the question remains how come it be difficult for economists and sociologists to be able to cooperate? Especially now that economists have started to question their own discipline.

I think the economists have pretty much monopoly on what constitutes the economy and they are very arrogant about it. They do not think they need economic history, sociology and anthropology. I would think that sociologists would be pretty happy to cooperate with economists but I think this is a one-sided desire. Economists
could not care less what sociologists do. On the other hand, it is also the case that if economic sociologists could prove that their type of analysis is really superior to that of the economists, the economists would come around. It might take some time to break through cultural and ideological barriers but they would come around. However, economic sociologists have not really produced those earth-shattering studies yet I think that would bring them around. They do not really have a price theory and if you think about the number of economists and the division of labour in economics you can quickly understand why it is so easy to find an economic expert on something and so difficult to find a sociological expert on something. Also, those who teach economic sociology basically have to know everything. We have to know gender and the economy, we have to know firms, we have to know capitalism, we have to know finance, we have to know money. We have to know pretty much everything and that is a very difficult thing to do. Economics was in this stage perhaps in 1870 but has a very advanced division of labour today.

**You have of course contributed extensively to this research field. In your opinion what is your most important contribution to science at this point? Or in other words what are you most proud of having contributed with?**

I have tried to do different things. *The Handbook of Economic Sociology* was for example an attempt to help institutionalise economic sociology. Some of my other writings are of a more theoretical nature and the one that I would like to be remembered for once I am six feet under is my book on Max Weber. I think it was important to dig out the research programme for the kind of economic sociology and interpretative economic sociology that Max Weber had developed. And the second thing that I am proud of is my work on theorising. I do think that theorising is extremely important. The article, or the book that will come out, is something that anyone can read and go on with as they like. I think those are the two things that I would be happy if people paid attention to.
NOTES


AXIO-RATIONALITY: THE EMBEDDING OF RATIONALITY

Ben Jacoby*

ABSTRACT
Expanding the concept of economic rationality as outlined in economics textbooks, this article argues that research in economic behavior must also look at what ends actors attempt to maximise. The article proposes that the determination of such ends is not a matter of economics narrowly defined, but involves state activity that puts forward a certain conception of what goods individual economic subjects are to look out for. Falling back onto the notion of embeddedness, here the embeddedness of rational action, allows us to add more insightful qualifications to what goods are to be maximised. In short, rationality is not only an economic concept, but a deeply social and political one because it is itself inevitably embedded into larger socio-economic structures.

INTRODUCTION
Complementary to the understandings of the term ‘embeddedness’ as institutions being part of a larger socio-economic context (Polanyi 1957; Granovetter 1985:481), this article argues that the concept can also be applied to approaches that go beyond institutions and analyse how different ways of making sense of the world are reproduced at the individual level (Best and Paterson 2010). In other words, instead of seeing institutions as being the object i.e. at the receiving end of embeddedness, I claim that they can also be the subject i.e. at the giving end of embeddedness. Institutions are not only embedded in a larger set of societal values, they are also embedding the very ways in which people make sense of their lived environment (Garfinkel 1974). As such, this article sets out the concept of ‘axio-rationality’ (Hobson and Seabrooke 2007:17; Seabrooke 2007:403) as a heuristic tool that allows human conceptions of economic phenomena to be influenced by external institutional factors. Rationality, or the ways in which people understand their economic actions, is not merely an independent and hence constant concept, but is allowed to vary according to the external context. Against the economics textbook

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Axio-rationality: The Embedding of Rationality

depiction of rationality as universally applicable and context-independent, hence as 'disembedded' (Lacher 1999), this notion offers a more subtle reading of socio-economic behaviour.

To visualise such an addition, I relate back to the logo of this journal that is made up of two concentric circles, the inner one representing institutions, the outer one mirroring the larger context into which institutions are embedded. According to the same rationale, I add a third circle towards the centre to demonstrate the complementary level of analysis that is introduced by the concept of axio-rationality. The way in which people make sense of their economic environment and hence act upon it depends on the exact manner of how they interpret surrounding institutions (Soeffner 2004). In the context of economic phenomena, this means that instead of assuming the static definition of rationality in terms of utility-maximisation, axio-rationality asks questions about what object it is that should be maximised. It is here the notion of embeddedness comes in, as pointing towards the contingency of a particular manner of how to interpret economic life, of what to maximise. As will be put forward in this article, the issue with traditional economics textbook definitions of rationality is that they leave the most crucial question open, namely, enquiries about the object to be maximised. As such, axio-rationality draws attention to the wider social mechanisms that inform people about the moral end of their maximisation efforts, about why to maximise certain economic outcomes and not others.

What is at stake here is the concept of economic rationality in terms of its heuristic value and the positioning of its limits. Once the definition of economic agency is subject to variability, the universal nature of economic behaviour in the form of ‘rationality’ is rejected (Zafirovski 2000) for a concept that is able to account for external influences upon how people make sense of economic phenomena. In other words, the embedding of rational behaviour into a larger institutional background opens space for the latter to act upon the very definition of what such ‘rationality’ is supposed to mean in terms of the object to be maximised.
This article provides an extended notion of rationality called ‘axio-rationality’, as it essentially embeds the way people behave into a set of larger issues of social meaning upon which it is contingent (Boudon 2002:22). Such a method then pulls ‘rationality’ out of the technical domain of textbook economics into the domain of the political conditions of what such behaviour is meant to be.

Only a very particular form of ethnocentrism, which assumes the guise of universalism, can lead us to credit economic agents universally with the aptitude for rational economic behaviour, thereby making disappear the question of the economic and cultural conditions in which this aptitude (here elevated into a norm) is acquired … (Bourdieu 2005:5)

This point of entry regards economic behaviour and rationality as contingent upon a wider societal context of ways to understand or make sense of a particular economic system (Bieler and Morton 2008:110). The next section outlines how the human being inevitably relies on particular interpretations of the external world when making economic decisions.

**THE HUMAN MIND**

The opening of the human mind to different sets of sense-making provides a critique of the conception of rationality as defined in economics textbooks (de Goede 2003:80) as offering a context independent or dis-embedded reading. I argue that such an understanding entails a conception of rationality that artificially extracts the economic sphere from its social environment (Zafirovski 2000:186). However, following current scholars in both economic sociology and political economy, the social and the political spheres need to be seen as deeply connected to the economic domain of human activity (Beckert and Streeck 2008). What this article tries to outline is an understanding of the economic subject that allows for variability in the various ways in which the human being makes sense of the (economic) environment. Accordingly, this conception allows for accounting for the embeddedness of rationality into various socially institutionalised contexts.

Berger and Luckmann ([1966] 1971) claimed that even though the materiality of human nature is a limiting factor of what the individual subject can do and be, it cannot be seen as strictly determining the way by which the human mind makes sense of the collected experiences, present and past. Some political economists have fallen back onto Braudel to make this point about the elasticity and indeterminacy of human life (Germain 1996). The whole idea is not only that reality is constructed, but also that it can be constructed in different ways. In order for this to be possible, a necessary condition is the indeterminacy or plasticity (Berger and Luckmann [1966] 1971:66) of the human mind. The construction of what we think of as ‘real’
takes place in the mind (Grafstein 1997:1042), as opposed to the material world uniformly imposing itself on us, hence rendering us passive recipients of what is real. In this sense, the constructivist line followed here is anti-essentialist (Alker 1990:163). Subsequently, if there is no naturally given or unique way to consider and make sense of the economic domain, such patterns of sense-making are contingent upon the wider socially constructed context. In other words, rationality is embedded into larger structures that inform it. As Hollis and Smith (1991) state, “understandings are largely determined by external social factors. Consequently … the actor’s own understanding is an area of underdetermination” (in Yee 1996:206).

Through ‘habitualization’ (Garfinkel 1974), the construction of a particular type of rationality or axio-rationality involves patterns of repetition; the setting up of agreed modes of interpretation. What is crucial here are the interactive features in the process whereby a particular set of interpretations of the lived environment are institutionalised over others (Berger and Luckmann [1966] 1971:70; Soeffner 2004:20). Indeed, this is where the notion of embeddedness fully comes into the analysis pointing towards the interactions between a particular type of axio-rationality and the institutional context. If people act according to the premises of the theories that make sense to them (Bates et al. 1998), the focus shifts towards processes that act upon such interpretations. However, that is not to say that agents are denied creativity in the ways that they act upon the facilitated conceptions.

This process is interactive as it involves at least two individuals or actors without meaning that every agent has the same amount of power in the determination of the outcome. Constructivist theory often stresses how modes of explanations in the form of theories can take on a quasi-own existence in the form of institutions that act as external forces upon the individual. This is certainly a useful heuristic observation, but what I am mostly concerned with here is the definition of economic axio-rationality itself. In the process of adopting a certain set of everyday theories, moral judgements are formed about those that are right and those that are wrong. In other words, setting up a particular mode of rationality involves statements about the good and the bad; statements about a specific view of morality. ‘Original violence’ (Laclau 1990:34) is performed against alternative conceptions of good individual and collective life. Stated bluntly, the modes of explanation chosen are qualified as good and those conceptions of the experienced world that are not adopted are denominated as bad.

An interpretation of the economic world is not only a description of how things are. Its judgements about good and bad also constitute a prescription of how things should be, hence they function as guides to action (Cox 1981:128). Based on moral assumptions, the constructed conceptions promote certain types of behaviour
which are consistent with the explanation at hand. In other terms, everyday theories not only interpret the world, they also construct it in material terms in a way so as to fit the theory (MacKenzie 2006). Thus, the normative aspects of societal conceptions of good life are larger than what could be expected. Constructivism is not only about the interpretation of reality, it is also about the processes of (re)production of reality and everyday practice (Soeffner 2004:23). In consequence, it is about the definition of economic agency itself.

In this article the concept of ‘axio-rationality’ (Hobson and Seabrooke 2007:17; Seabrooke 2007:403) is introduced as a method of challenging a naturalist view set out in economics textbooks that considers people as interpreting economic affairs according to one particular logic (Hay 2002:8). Indeed, the contribution embeds the ways in which economic agents make sense and act into a larger set of patterns of institutional understandings. As such, axio-rationality is not a universal way of thinking and acting, but is a notion that pays attention to wider social factors specific in space and time. The addition of ‘axio’ draws attention to such a contingent/embedded reading of rationality.

AXIO-RATIONALITY: MEANS AND ENDS

This section sets out a short review of the concept of human rationality and argues that while the traditional rational choice perspective is worthwhile starting from, it does not tend to engage in a discussion about the limits of its domain of applicability because it sees itself as self-sufficient or universally true (Abell 2003b). Indeed, the plasticity of the human mind and the context that sets out one relatively uncontested definition of economic behaviour are taken as points of departure to show how economic agency is necessarily embedded into an environment of moral judgements about the ends of human activity (Seabrooke 2007:404-405). I thus claim that the multiplicity of normative environments logically entails the possibility of varieties of rationalities. Rationality as a calculated method to maximise utility is a valuable heuristic tool, but only in clearly delimited cases where the wider social context is insignificant to the researcher. In order to go beyond those boundaries, the more general notion of axio-rationality built upon the Weberian concept of axiological rationality (Boudon 2001:93) offers a more refined understanding as it puts economic rationality into a domain of moral values. The question must be put into a larger context in order to explain market behaviour in a more complex way and in a way that explains how and why people conceive of a certain type of rightfulness in the first place.

Economics textbook rationality is defined as a mode of action where agents try to maximise the utility that they retrieve from activities and decisions (Frank 2002:82,
A classic example is the way a person can make sure that he or she attains the highest level of satisfaction from buying apples and pears in a context of fixed prices, fixed resources (Frank 2002:63; Besanko and Braeutigam 2011:106) and fixed preferences, *ceteris paribus* (Hey 2003:73). In other words, rationality and the models developed around it answer the question of how. Assuming the parameters are given, how can I get maximal satisfaction in a certain situation? The question is a distributive one of allocating resources between apples and pears to maximise the overall utility. What is at stake are the means of achieving a certain target, it is about the way of how to achieve something very specific: maximising utility or minimising dissatisfaction.

In a case where the parameters are externalised and given (Yee 1997:1010), rational choice theory is applicable. In other words, rational choice is a method useful in a situation where the assumption of dis-embeddedness holds. Examples here include a game of chess where rules are predefined and do not change over the course of action (Fierke and Nicholson 2001:20). The aim is fixed (win the game), the rules are fixed (those written in the chess handbook) and preferences are fixed (each player wants to win the game). Observe that all those parameters are externalised and so are not influenced by the progress of the game *per se*. Rational choice theory is able to offer answers to questions internal to the set of rules, in this case in relation to how to move the pieces to win the game, thus offering answers to pragmatic issues. The apparent technicality of rational choice is derived from the externalisation of parameters that would otherwise need to be handled in relation to a social and moral i.e. moral/metaphysical context. Or as it has been put, it is “an approach that assumes away most of the complexity of political actors” (Olson 2001:191). In other words, rational choice offers a dis-embedded reading of rationality.

As rational choice leaves these questions to other disciplines with its methodology (methodological individualism) not attempting to answer them, its conception of rationality is instrumental. Rational choice scholars are not concerned with moral elements, they take them as externally given and stable and therefore unworthy of analysis (Satz and Ferejohn 1994:74). The analysis is valuable, but only in a context where this assumption is valid. If the aim is to look into the meanings of housing and mortgages over time, such an approach, however, becomes less useful. Consequently, it is in this sense that rational choice is a toolkit under the condition that the analytical limits are acknowledged.

Not all recognise such limits (Levitt and Dubner 2005). Just like a hammer is a tool to drive in nails, rational choice is a tool to maximise utility (in the eyes of the analyst and the individual person). The question of why or about which moral ends of what to maximise and for what reasons is not dealt with in either case. To
exemplify this I go back to the chess game once more. There may be reasons for making specific moves and therefore the why is not entirely excluded at first sight, but it only relates to the internal rule setting and could be reframed into a how question. “Why do I move the tower by two positions to the right?” would typically be answered by “because that way you will shield off your queen and win the game!”; so the actual question is: “How do I need to move the tower in order to shield off my queen, as doing the latter will minimise my dissatisfaction, hence allowing me to win the game?”

The rational answer is always subject to the overarching aim to minimise the risk of losing one’s own pieces and to maximise the chance of stealing one’s opponent’s pieces. Concerns of the external why are taboo, like “why are we playing this game now? What is good in us playing this game here?” Meta-technical issues relative to the end of economic action cannot be discussed because the rational choice model relies on those parameters to be fixed and are therefore externally given. Inside such a tightly held or dis-embedded model, it is theoretically easy to account for rational behaviour, as one can always posit new aims that make actions appear rational. In this sense, it has been claimed that “much of what is ordinarily described as non-rational or irrational is merely so because the observers have not discovered the point of view of the actor” (Coleman 1990:18 in Abell 2003a:255-256). If such a perspective is adopted, the whole approach runs into the danger of becoming tautological. Finally, the applicability of this approach (Bates et al. 1998:23) is related to two conditions; given preferences fixed in time and given ends fixed in time. In such a situation, and only then, the theory is able to come to one and only one optimising conclusion (Nash 1950). Looking back at the notion of indeterminacy of the mind such an approach to rationality constitutes a limited heuristic tool.

I have stated that the human mind cannot be seen as imposing a single manner on how to make sense of everyday environment and potentially this leads to varieties of behavioural patterns. Thus, the moral and political judgements necessary to form a community can differ. The definition of moral ends answer the question of why as it provides a sense of which ends are good and which are bad. ‘Objective rationality’ as described in economics textbooks must therefore be complemented with ‘subjective rationality’. People act because they follow what are in their eyes “good reasons” and even if Boudon rejects that such a conception contains elements of morality (1989:173-177), this is exactly the claim that I put forward. What a morally defendable aim is, and thus also a good reason or end, involves a contest over different conceptions of good life as presented above (Dryzek 2000:74). It involves processes of exclusion as violence is performed on some conceptions of what is morally incorrect or deviant. In this sense, axio-rationalities mirror specific moral conceptions of the world that come with a specific understanding that promotes certain sets of actions over others.
Contrary to textbook rationality, this approach starts from the indeterminate mind that posits open-ended preferences and aims, both being concepts of the moral domain. Preferences are judgements on what is good and bad behaviour. Accordingly, they are judgements about proper ‘taste’ (Bourdieu 1979) or ‘manners’ (Smith [1759] 2010) at the individual level and ends are moral convictions about desirable collective outcomes. None of those can be explained by rational choice approaches, they can only be understood with reference to a wider body of morality (Watson 2005). Consequently, it is necessary to integrate the wider social issues that prescribe ends.

The concept of axio-rationality is a step towards embedding rationality i.e. a particular technical procedure of maximisation (cf. the chess game) into a context of the institutionalised assumptions that make sense of the world (Campbell 1987:25). As such, it points towards the contingency of ‘rationality’ and towards its embeddedness (Granovetter 1985) into a moral and political order of ends. Textbook rationality cannot be seen as a sufficient explanation when it comes to societal questions such as those that economic sociology and political economy are interested in. It delimits itself from the social world through an externalisation of parameters of moral ends. Thus, the really interesting question is not whether people are rational or not, but what the overarching reason or end for their behaviour is.

Indeed, axio-rationality turns towards the social conditions of economic action (axio-bit) meaning that economics textbook rationality is only one possible ‘rationality’ among others. I extend the concept without denying the heuristic usefulness of rational choice theory (Grafstein 1997) under the specific conditions stated above. Axiology, a term referring to the philosophical study of value and comprising ethics and aesthetics as studies of the ‘good’ and the ‘bad’, has fallen back onto bringing out the moral aspects of the context in which human activity takes place (Jacobsen 2003:43). Whereas rational choice theory takes this environment as fixed and as a result reduces its field of operationability, axio-rationality is open to a discussion of ends and morals that inform individual preferences and collective aims.

To sum up, the contingent character of axio-rationality posits various statements. First, it enables varieties of rational behaviour, the concept of axio-rationality being one that is influenced by the ideational sphere outside of the maximising domain (Blyth 2002:10). Second, contingency also means that the sense-making environment constructed in time and space can lead to a change in the precise meaning that rational action takes on. Interpretations of economic phenomena can change over time because they are constructed and because agents possess the capacity to imagine alternative futures (Germain 1996:202). There is thus a more or less implicit struggle over the conceptualisation of good life (Martin 2002:17). It is in
this sense that some institutions might be able to exercise power over the moral bases of a community (axiology) and influence the mode of interpretation and action of individuals (axio-rationality). As noticed in the very beginning, this notion is also an extension of the concept of embeddedness. In the following section, the argument goes further in explaining how this degree of indeterminacy and embeddedness of axio-rationality invites state facilitation of certain conceptions of economic phenomena and hence of a particular definition of what constitutes proper economic agency.

**THE STATE AS A FACILITATOR OF MORAL ECONOMIC GUIDELINES**

Once I have introduced axio-rationality as describing the possibility of variations in rationality through its political and social contingency, the attention of the argument turns towards the state. The latter is a central and recognised institution in most developed economies and is acting in the field of economic axiology (Bell and Hindmoor 2009) i.e. it facilitates moral ends related to the economy. Through its policymaking and accompanying discourse, the state plays a crucial role in the contingency of axio-rationality. Here state policies are most important, but also the constitutive nature of the state as an institution is central.

With the detour of a discussion of concepts about the human mind and the outlining of how a certain mode of maximisation is inevitably embedded into a field of moral conceptions about good and bad, this paper connects concerns about state policy with the embeddedness of rationality. Indeed, the state is seen as (part of) the institutional context of which a certain type of rationality is embedded within. If the human mind is indeterminate and people look for moral guidance (which ends and why) in the social world, it is logical to suggest that state policies play a role in setting the agenda for potentially legitimate codes of conduct. Streeck has forwarded the notions of ‘rule-makers’ and ‘rule-takers’ in this context where state policy produces sets of particular interpretations of economic phenomena and also of the economic agent per se. Still, the enactment of rules is always open to contestation (Streeck 2010:12).

Another way into this is by looking at the beliefs of policy-makers about the morality of policies, i.e. of the depictions of the good and bad ends of public policy (Jensen 2003:527) and especially those that concern the social and political management of economic matters. Indeed, in the current era, one of the main functions of the state is the management of the economy and hence also of the exact moral definition of economic agency. The exact way in which this is done depends on the interactive and discursive (Becker 2010:254) relationship between the state and the individual subject. What I put focus on here is the way in which the state comes into this study
once a constructivist approach is adopted. Or as it has been put, I am interested in why “[t]he state is now built upon daily life; its base is the everyday” (Lefèbvre 2005:123).

The state is a player in the economy that directly relates to the mass of the population and establishes a more or less direct relationship with the general public (Steffek 2003:250). The state not only legislates over the economic activities on national territory, it also sets out normative judgements about the ends of individual economic agency or about the “good reasons” for economic behaviour (Boudon 1989:174).

In democratic settings, the state is meant to represent the population and guard them against potential dangers. This is exactly what the term ‘management’ of the economy by the state means.

Because the state is a highly institutionalised actor and is regarded as the overseer of the economy, individuals turn to the state for moral guidance (Becker 2010:256). In consequence, all state activity is value-laden because the individual understands it as facilitating moral direction on economic behaviour. It prescribes moral and political messages by narrowing the domain of the conceptually possible (Langley 2008). As such, state interventions and statements inevitably carry political weight. Even if legislation might be technical, it comes with connotations of good and bad. State policies are always promoting desirable (i.e. good) conceptions and rectifying deviant (i.e. bad) behaviour. When it comes to economic matters, households are confronted with policies that more or less directly influence their financial situation in the form of taxes, allowances and various regulations in all of the existing markets. As such, the outcomes of state legislation act as guidance for how the ideal-typical economic subject is to behave. In other words, the institutional setup of the state is not only itself embedded into yet a larger social environment, but it also constitutes the context for the embedding of a particular type of rationality of everyday actors.

Following from the concepts of modes of interpretation and axio-rationality, this section has tried to unpack why the state matters. Indeed, state action is important as it influences the very way individual agents make sense of their economic environment and their own behaviour within it. In other words, what is at stake is the exact definition of economic agency and thus the type of axio-rationality. The question raised here is about what people are trying to maximise and not if they in their own view are attempting to put themselves in a comparatively ‘better’ position. The determination of ‘better’ is what comes into focus in the argument here. What is it that economic activity should lead the individual to? It becomes obvious that this is a question that is not to be answered by economic theory but by philosophy (Watson 2005). As state policies set forth certain conceptions that
depict a certain definition of the economic subject and hence of axio-rationality, state interventions are inevitably political in the sense that they promote certain economic sets of moral assumptions over others. Therefore, contrary to the economics textbook understanding of rationality as dis-embedded, axio-rationality represents an opening towards the external influences that affect the making of a particular ideal-typical economic man.

**CONCLUSION**

This article has presented the reasoning behind the move to apply the notion of embeddedness, not only to institutions, but to extend it to the domain of economic rationality. In this way, it has introduced the notion of axio-rationality as allowing for the ways in which individuals make sense of economic phenomena to be influenced by wider social sets of meaning (Abdelal et al. 2010:6). Studying the human mind through a constructivist lens leads the scholar to realise that the traditional perspective on rational choice is dis-embedded as it does not allow for human rationality to be influenced by external factors. Indeed, the very condition of *ceteris paribus* is an acknowledgment of such a dis-embedding strategy. Against such an understanding, the notion of axio-rationality embeds the ways in which people make sense of their economic environment into a larger set of conceptions, the latter being influenced by institutions such as the state.

In terms of methodological implications, the notion of axio-rationality alerts the scholar to pay close attention, not only to the behaviour of certain actors of interest, but also at the wider institutional and ideational context in which such activity takes place. Relating back to the debate and the usefulness of rational choice methodology, I agree with Abell (2003b) that sociologists ought not to reject the notion altogether as it has relevance and that economists ought to open up their analytical framework to offer a more embedded view on economic behaviour. In other words, the suggested rapprochement between economics and sociology could be performed around a discussion of the notion of axio-rationality as it combines a focus on the individual with an integration of wider social factors. The discipline of economic sociology could then be the fruitful ground for such debates to be carried out.

At the same time however, the notion also calls into action researchers more familiar with the literature on political economy, especially in comparative political economy. Indeed, once rationality is not taken as a quasi-natural way of reasoning, the process of the (re)production of particular modes of economic behaviour becomes political as one conception inevitably marginalises others. In a comparative research design, this enables the scholar to draw out the processes of how ‘state
actors have discursively constructed’ a certain reading of what constitutes proper economic individual behaviour (Schmidt 2005), and how such efforts marginalise alternative definitions of the economic subject. The political characters then not only lies with the distributional consequences of policy-making with ‘who gets what, when, and how’ (Laswell 1936), but also in the making of a particular ‘socially constructed economic man’ (Watson 2011), as some variant of how to make sense of the world is favoured over others.
NOTES

1. Boudon considers Adam Smith to have applied the concept of axio-rationality (Boudon 2002:24-25).
REFERENCES


REFLECTIONS ON COMPETITION, COMPETITION REGULATION AND THE CURRENT CRISES

Hubert Buch-Hansen and Angela Wigger*

ABSTRACT
Economists, politicians, business leaders and opinion makers are convinced that competition enhances efficiency and maximises social welfare. As a result conditions conducive to the maximisation of competition have been created throughout developed capitalist societies. This article explains how competition came to enjoy such an exalted status in Europe and then challenges conventional wisdom by bringing into focus the downsides of competition. It argues that excessive competition and neoliberal competition regulation have contributed to intensify the economic, political, social and environmental crises currently facing humanity. The implication of the argument is that these crises can only be solved if prevailing notions of competition and its role in society are reconsidered.

The game, mechanisms and effects of competition, which we identify and enhance are not at all natural phenomena; competition is not the result of a natural interplay of appetites, instincts, behavior. … [C]ompetition as an essential economic logic will only appear and produce its effects under certain conditions which have to be carefully and artificially constructed. … Competition is therefore an historical objective of governmental art and not a natural given that must be respected. (Foucault 2008:120)

INTRODUCTION
For what in fact is competition? It is absolutely not a given of nature. The idea that competition produces all sorts of positive effects has been hegemonic for some decades.¹ Economists, politicians, business leaders and opinion makers almost all universally agree that competition enhances efficiency and maximises social welfare. As a consequence of this widespread consensus, conditions conducive to the maximisation of competition have been created throughout developed capitalist

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societies: not only companies, but also employees, public administrations, hospitals, schools and universities have increasingly been exposed to the logic of competition. Never before has competition been fiercer than it is in the contemporary socio-economic order.

The metaphysical status assigned to capitalist competition as the most efficient organising mechanism of markets finds its precepts in neoclassical economics, building on what Adam Smith in *The Wealth of Nations* called the ‘invisible hand’ of the market. In line with Smith, mainstream economics textbooks praise harsh competition as a way to increase the competitiveness and to improve the performance of entire economies. In the words of two neoclassical economists, “competition benefits almost everyone” and is “the permanent driving force behind individuals as it rewards successful activities and penalizes laziness and failure” (Eekhoff and Moch 2004:1). The theoretical benefits of competition furthermore serve to legitimise the opening of markets worldwide: to compete freely eventually requires unimpaired market access. Put on a par with a natural selection process, in which the uncompetitive, weak and inefficient perish, unconstrained competition is believed to establish a Darwinian form of ‘market justice’. Neoclassical economists refer in this respect to ‘perfect competition’ (Neumann 2001). Although perfect competition is widely understood to be an utopian theoretical construct that in all respects fails to adequately describe the nature of real world competition (see Stanford 2008), neoclassical economists act ‘as if’ perfect competition could be achieved. To let go of perfect competition as a central point of departure in their models and in their policy prescriptions would cost too much theoretically (Rist 2010:41).

In this article, we first outline how competition came to enjoy such an exalted status in Europe and then offer some reflections on competition and competition regulation in the context of the economic, political, social and environmental crises currently facing humanity. We suggest that excessive competition and the neoliberal type of competition regulation have contributed to intensify these various crises, and hence are part of the problem rather than the solution.

**THE RISE OF THE COMPETITION STATE**

This current status of competition should be understood in the context of the ascendancy of neoliberal ideas and policies after the 1970s, when the era of ‘embedded liberalism’ came to an end (Ruggie 1982). As pointed out by Overbeek, the era of post-war capitalism:
Can be characterised as Fordism when considered at the level of the organization of production, as the era of the Keynesian welfare state when looked at from the level of society and state, and as the *Pax Americana* when looked at from the perspective of the overall organization of the capitalist world system. (1990:87)

Fordism, which had initially emerged in the United States, was ‘exported’ to Europe (especially Germany, France and the United Kingdom) after the Second World War and entailed mass production techniques and mass consumption of standardised goods. The Fordist growth model fuelled the post-war period of economic growth in Europe and was stabilised by what Jessop has dubbed the ‘Keynesian Welfare National State’. The latter was *Keynesian* in the sense that it sought to promote full employment through counter-cyclical demand management policies (e.g. active fiscal policies); it was a *welfare* state insofar as it promoted the expansion of universal welfare rights to all citizens; it was primarily oriented towards the *national* level; and it was statist in the sense that state institutions would compensate for the failure of markets to deliver economic growth or full employment (Jessop 2002:59-61). The Pax Americana world order entailed the construction of national welfare states that were based on compromises between organised labour and national industrial capital, combined “with a measure of re-liberalization in the international sphere. Trade, however, held priority over money capital” (Overbeek and Van der Pijl 1993:6). To some extent, this world order entailed “Keynes at home and Smith abroad” (Gilpin 1987:355).

The era of embedded liberalism, stretching from the 1950s to the early 1970s, is also known as ‘the golden age of capitalism’ (Hobsbawm 1994). In this period the advanced capitalist economies experienced high economic growth rates, a massive increase in productivity, unprecedented levels of world trade and low unemployment rates. It was also an era in which the prevailing view on competition was very different from that of today. It was widely acknowledged that capitalist economies cannot function without competition, leading to the introduction of competition laws in a number of European countries. At the same time, it was also acknowledged that cutthroat competition is highly destructive and thus needs to be restricted or muted. Governments interfered in the markets with active industrial policies, in some cases with a view to promote internationally competitive ‘flagship companies’, in other cases to ensure the survival of strategically important enterprises in specific industries (Hall 1986). The invisible hand of the market (competition) was in other words supplemented with the visible hand of far-reaching state intervention.

In line with this, the competition laws of the core European countries allowed for a significant degree of flexibility with respect to the regulation of cartels and monopolies. This was also the case at the supranational level. The Rome Treaty of 1957,
establishing the European Economic Community, contained rules that aimed at the protection of competition in the common market while at the same time potentially allowing for various anti-competitive practices (Buch-Hansen and Wigger 2011). By the early 1970s, capitalism’s golden age came to its end. The world economy entered a deep crisis, which, especially after 1973, was reflected in sharp decreases in output, productivity and export growth combined with increasing unemployment and inflation in all industrial countries (for figures see Glyn et al. 1990:43-47). Limits to the possible expansion of Fordist production methods, growing discontent among workers, the emergence of multinational companies that could avoid national controls, as well as rising oil prices were among the most important causes of the crisis. In addition to this, high unemployment rates resulting from the economic crisis rendered the rather generous Keynesian welfare states very expensive.

Following Jessop (2002), in response to the economic slump and a gradual and partial transformation of the Keynesian welfare national state into a ‘Schumpeterian workfare post-national regime’ was initiated. In a similar vein, Cerny has suggested that a neoliberal ‘competition state’ gradually appeared after the 1970s:

Rather than an attempt to take certain economic activities out of the market, to ‘decommodify’ them as the welfare state was organized to do, the competition state has pursued increased marketization in order to make economic activities located within the national territory, or which otherwise contribute to national wealth, more competitive in international and transnational terms. (1997:259)

Whereas the state in the embedded liberal period sought to shield internationally uncompetitive domestic companies from outside competition, while providing social protection for its citizens, the competition state does the opposite:

The state and state actors have, in effect, become key promoters of globalization and therefore of global competition as the primary requirement for the achievement of economic growth … The underlying aim of state intervention in the twenty-first century is therefore not to replace the market, but to make it work more efficiently. Government promotion of competition … is the most fundamental and indispensable means to this objective. (Cerny 2010:159)

This transformation was premised on a major shift in the balance of power between social forces. Whereas the post-war societies were underpinned by compromises between organised labour and nationally oriented industrial capital, the neoliberal competition state is a result of transnational capital becoming re-empowered vis-à-vis organised labour. This allowed its representatives to advocate neoliberal policies, comprising of different sets of regulation facilitating the expansion of free markets and free competition, including the rollback of the welfare state, a monetarist focus
on keeping inflation low, reduced taxes and fiscal austerity, as well as reduced labour costs in the form of wage repression and deregulation. The shift towards neoliberalism was premised on broader processes of deindustrialisation and technological change, as well as the growing transnationalisation of ownership structures and production circuits through subcontracting and outsourcing, thereby marking a gradual and partial transition towards ‘post-Fordism’ (cf. Jessop and Sum 2006). Neoliberalism, in short, sustained a capitalist order in which the dynamics of competitive accumulation of capital could proceed largely unhindered and uncontained.

As part and parcel of this shift, European competition regulation was profoundly transformed. This could be witnessed both at national and at EU level where competition regulation was increasingly refocused to benefit internationally competitive companies, whereas the interests of employees and not-so-competitive companies were increasingly disregarded. In the European Community, the neoliberal type of competition regulation gained particular momentum when free market hardliners Peter Sutherland (1985–1989) and Leon Brittan (1989–1995) assumed leadership in the Directorate General responsible for the European Commission’s enforcement of EC competition rules. The changed course (which has ever since been followed by consecutive competition commissioners) became manifest in an aggressive prosecution of cartels, state aid and public monopolies and the adoption of a neoliberal merger control regulation (Cini and McGowan 2008).

Whereas the Commission tolerated certain forms of cartels until the 1970s, it started to prosecute them with unparalleled vigour from the mid-1980s onwards. Another central target was the prohibition of different forms of direct and indirect state aid such as subsidised loans, tax concessions, guaranteed procurement, financial guarantees and export assistance. By further specifying the conditions for state aid, the Commission narrowed the leeway for protectionist industrial policies at member state level. The imperatives of unfettered competition were also expanded to state-owned public utility sectors and networked industries, such as telecommunications, energy, postal services, water and transport – all sectors that were previously exempt from the need to compete under EC competition law (Wilks 2005). Despite fierce member state opposition, the Commission endorsed so-called privatisation directives under the Treaty’s Article 106(3), a hitherto virtually unused provision, allowing it to issue directives in the field of public enterprises and monopolies without the approval of the Council. Privatisation was also a high priority when the Commission took over the role of guiding the Central and Eastern European Countries through the transition to free-market capitalism in the 1990s.

Finally, the EC merger control regulation that was adopted in 1989, and revised in 2003, moved the powers to control large mergers from the national to the suprana-
tional level (Cini and McGowan 2008). It entailed a purely neoliberal text, giving primacy to undistorted competition in assessing anti-competitive mergers, leaving no room for industrial and social policy considerations. At national level, a similar neoliberalisation of competition regulation took place, a prime example being the reform of the British merger control system (Buch-Hansen 2012).

In sum, neoliberal competition regulation can be seen as an important component of the competition state, which has contributed to continuously intensify the forces of competition. In the context of the many crises that confront societies today, neoliberal competition regulation seems to get further entrenched. As will be outlined below, EU institutions such as the European Commission, reiterate ad nauseam the need for strict competition control safeguarding free competition as a central engine to economic recovery.

COMPETITION AND THE CURRENT CRISES

There are several crises confronting our societies: first, an economic crisis of low growth, huge deficits and high unemployment; second, a social crisis of massive and growing inequality; third, a political crisis consisting of a weakening of democracy; and fourth, an environmental crisis driven by wasteful production and excessive consumption threatening to destabilise the climate (Speth 2008). In what follows, we will reflect on competition and neoliberal competition regulation in relation to each crisis. While we do not believe that competition and competition regulation alone have caused any of these four crises, we suggest that competition and competition regulation have contributed to intensify each of them.

First, excessive competition, or what we have referred to as ‘over-competition’ (Wigger and Buch-Hansen 2012; see also Brenner 2006), is one of the root causes of the current global economic crisis. Over-competition relates to the problem of over-accumulation, notably the lack of attractive possibilities for capital owners to reinvest past profits in real economy production at a particular historical juncture and location (Robinson 2010). Fierce competition can lead to lower profit rates, rendering further investment unattractive (Gordon 1980). As a result, investments are channelled elsewhere. As a matter of fact, investment relative to GDP development has slowed down in the Western industrialised regions and capital moved from the non-financial to the financial sector. As observed by Harvey, “heightened competition between producers started to put downward pressure on prices (as seen in the Wal-Mart phenomenon of ever-lower prices for US consumers). Profits began to fall after 1990 or so in spite of an abundance of low-wage labour.” The result was that “more and more money went into speculation on asset values because that was where the profits were to be had” (Harvey 2010:29).
In the rat-race for ever higher returns on investment, also non-financial companies increasingly targeted financial markets (Krippner 2005:182). This significantly strengthened competition for short-term profits in the financial markets, at the expense of productive reinvestment of past profits and the creation of employment. The historically unprecedented global wave of mergers and acquisitions prior to the outbreak of the global economic crisis is also illustrative of this: more than a third of these mergers were triggered by finance capital and strongly speculative in nature (Wigger 2012). Giant financial bubbles were created, which, like all bubbles, were destined to burst. The rest, as they say, is history.

Second, while neoclassical economists might be correct to point out that competition leads to “a high degree of wealth in society” (Eekhoff and Moch 2004:4); their theories ignore the important question of how gains are distributed among people in society (Crouch 2011:56). Yet, competition creates and enhances inequalities in wealth and power, which extend from individuals and groups to classes and geographical regions in the world. Competition thus reaches much further than corporate rivalry. Entire territories (states, regions, cities or local townships) compete to create a business-friendly regulatory climate to attract and secure capital – and in this competition some societies come out as winners, while others lose out. Moreover, as Marx noted, “[t]he battle of competition is fought by cheapening of commodities. The cheapness of commodities depends on all other circumstances remaining the same, on the productivity of labour […]” (1965:626). The price of competition is ultimately paid by employees in the form of lower wages, longer working days, worse working conditions or redundancies. In today’s globalised production chains, competition is “the greatest disciplinary force confronting workers” (Albo, Gindin, and Panitch 2010:79). In the presence of a reserve army of unemployed, competition pits not only capital and labour against each other, but also labour against labour. Alongside the fragmentation of labour, competition for jobs or for keeping jobs, as well as the individualisation of the wage relationship has severe repercussions for the organisational and bargaining power of labour, and in a wider sense, solidarity in capitalist societies.

Third, neoliberal competition regulation is part of the crisis of democracy. Whereas democratically elected politicians previously had a large say on the regulatory practices of many national competition authorities in Europe, this is no longer the case. That is, competition rules have increasingly come to be enforced by ‘politically independent’ (neoliberal newspeak for ‘democratically unaccountable’) authorities. At EU level, the Commission’s neoliberal type of competition regulation has regularly led to political contestation, most notably from organised labour and governments concerned about the economic survival of less competitive domestic companies and industries. Such contestation has however been largely ineffectual. As a matter of
Reflections on Competition, Competition Regulation and the Current Crises

Fact, as pointed out by Erne, “EU competition policy making is completely insulated from the citizens that are affected by the decisions of the EU and from the directly elected parliamentarians” (2008:122). The system exemplifies what Gill and Law (1989) referred to as ‘new constitutionalism’. Shielded from democratic influence, the Commission is under no pressure to consider the views of those losing from neoliberal regulatory practices – a situation it has taken full advantage of. Competition regulation is constitutive of the EU’s long-standing democratic deficit, but also more generally of the political crisis.

Fourth, the global environment is incapable of sustaining the ever-growing impact of our economic activities. These activities are causing the oceans to acidify, temperatures and the sea level to rise, ice caps to melt, forests to disappear and natural disasters to occur more intensely and frequently. While competition alone cannot be blamed for this environmental crisis, competition (and policies fostering competition) contributes to worsen the global environmental crisis. As pointed out by Magdoff and Foster, “competition and the drive for profits causes many companies to cut corners regarding worker and environmental safety” (2011:30). Among other things, many companies seek to improve their competitive position by ‘externalising’ their costs, for instance by polluting or selling unsafe products, thereby shedding their liabilities outside the market place. Likewise, they seek to differentiate their products “in ways that are wasteful, useless, or even destructive: massive (and often misleading) advertising, excess packaging (to make products look ‘bigger’), and artificial obsolescence (where products are artificially designed to wear out or become useless prematurely)” (Stanford 2008:137). The neoliberal type of competition regulation in Europe, which departs from efficiency gains in the form of lower prices for consumers as the central point of reference for anticompetitive conduct, does not pay attention to such negative ‘externalities’ at all. On the contrary, protecting rampant consumerism is sacrosanct to this form of competition regulation.

IN CONCLUSION

As pointed out in this article, competition in the era of neoliberal capitalism does not only involve companies. Regions, states and cities compete for business investments; universities compete for students, hospitals for patients, citizens for jobs, while the logic of competition and efficiency gains has also been projected on other public and semi-public institutions. Competition, in other words, has become all-pervasive, forcing the citizens of the competition state to behave as competitors. In the thrall of the welfare promises of neoliberalism, the call for fierce competition as a route to salvation in the current crises seems to mesmerise people of all political persuasions. The ‘Compact for Growth and Jobs’, recently adopted by European Heads of State or Government, meant to complement the harsh austerity measures
implicit in the Fiscal Compact, also thrives on the rhetoric of free competition as the way forward (European Council 2012).

Endorsing the rhetoric of strict competition (regulation) may appear less painful than the tight austerity packages and the ongoing onslaughts on social rights and wage depression, particularly in times of economic slump and recession when lower prices appear much needed. More intense competition as an alleged panacea for the current crises does however neither substitute nor halt the draconian cuts in public spending. As pointed out by the Group of Lisbon (1995:97) more than a decade ago, the desire to win the war of competition may involve “sacrificing the interests of the most vulnerable people” in European societies. Competition “contributes to the development of social exclusion: the noncompetitive people, firms, cities, and nations are left behind. They are no longer the subject of history” (1995:98).

It is time to break with the one-dimensional neoclassical/neoliberal view and to recognise that competition is not a remedy to rising poverty and social exclusion. Neoliberal values such as egoism and self-sufficiency eclipse values such as tolerance, mutual aid and solidarity. Against the backdrop of the multiple crises currently facing us – crises that are all exacerbated by competition and neoliberal competition regulation – the competition state has become untenable. Rather than having competition as the overriding logic, it is time to explore alternatives that give priority to environmental sustainability, equality and cooperation.
NOTES
1. The present article is based on previous works, in particular Buch-Hansen (2008); Buch-Hansen and Wigger (2011); Wigger and Buch-Hansen (2012).
REFERENCES


20 YEARS WITHOUT CAPITAL CONTROLS: IMPLICATIONS OF INTERNATIONAL CAPITAL MOBILITY FOR PUBLIC POLICY IN DENMARK

Toke Handberg Jeppesen

ABSTRACT
In recent decades academics have argued that financial markets, through international capital mobility, assert a pressure on welfare states to roll back grandiose public policy. As one of the Nordic welfare states, Denmark’s public policy should be highly affected. This article traces whether financial markets, within the sovereign bond market, have constrained Danish public policy. It is shown that international capital mobility asserts a strong but very narrow pressure on Danish public policy. While financial market actors heavily guard the inflation rate, government tax and spending remain unconstrained. Furthermore this article argues that market participants also pay attention to Denmark’s historical commitment to stability-policies, which limits the external pressure even more. This suggests, contrary to earlier thoughts, that Danish political authority still has ‘room to move’ in the age of globalisation.

INTRODUCTION
In 2001 a Danish tax commission highlighted the need to restructure tax policy as a consequence of globalisation (Skatteministeriet 2001). A move from tax on mobile to immobile sources was suggested in order to decrease the chance of capital moving abroad. In 2005 another Danish commission presented the future tasks of the Danish welfare state in an internationalised world (Velfærdskommissionen 2005). Integration in financial markets and growing transnational capital were presented as (pressing) challenges. With the mobility of capital, it was claimed that capital flies to the places with the highest return – Denmark, it was argued, does not happen to

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be one of them. The following argument was that grandiose public policy based on high taxes and high government spending would need to be rolled back in order for the return of investment to increase. Denmark had to decrease its welfare spending in order to be a frontrunner in globalisation.

Denmark abandoned its capital controls in 1992 and since then foreign capital has multiplied. While the literature tends to focus on direct investment, research on the influence of financial markets on public policy lacks analysis. In 2011 foreign market participants held 34% of all Danish government bonds (Nationalbanken 2012). As a higher interest rate on government bonds makes government operations more costly, it seems worthwhile investigating whether the financial market’s investment in Danish government bonds constrains public policy. I therefore address the question: has the growing international capital mobility reduced the ‘room to move’ for Danish political authority? I hereby address a question within the field of economic consequences of globalisation for political authority.

I argue that international capital mobility asserts a ‘somewhat strong, but somewhat narrow’ influence on the ‘room to move’ for Danish political authority within the government bond market. With a focus on the differences between macro- and micro-public policies, I show that Danish public policy is only constrained to maintain inflation stability. Secondly, other macro-policy indicators such as government budget balance and the current account are only occasionally constrained. Thirdly, there appear to be no constraints on how the Danish government spends its money. Fourthly, the case reveals that after the financial crisis constraints on Danish public policy have almost vanished despite the conditions of zero-growth. This points to the need to take into account the role of ideas within the operation of financial markets. Finally, this analysis suggests that the external pressure on Danish public policy within the sovereign bond market may not be as large as previously thought.

I will structure my argument in the following way: the next section reviews the literature, summarises Mosley’s ‘somewhat strong, but somewhat narrow’ theory and draws some important lines regarding the application of the framework to Denmark. In the next three sections, I develop my argument through the analysis of three time-periods – 1992-2001, 2001-2008 and 2008-2012. The last section illustrates that Mosley’s framework needs an extension to capture the full financial market effect on Danish public policy. A section is therefore devoted to self-critique and perspectives on the analysis. The final section concludes.
REVIEW OF THE LITERATURE

The economic consequences of globalisation on states have, in recent decades, attracted the attention of many scholars. In particular, academics have asserted the influence of growing international capital mobility and trade on welfare states, particularly on how public policy and welfare state policies may be constrained (Goodman and Pauly 1993; Andrews 1994; Epstein and Gintis 1995; Garret 1995; Schulze and Ursprung 1999; Mosley 2003, 2005).

Two broad schools of thought emerged from the debate – the ‘convergence school’ and the ‘divergence school’. The former emphasises that with growing trade and financial internationalisation, the welfare state is under pressure (Andrews 1994; Schulze and Ursprung 1999; Drezner 2001; Tanzi 2002; Wildasin 2003; Mosley 2003:6). It is argued that with capital and production gaining an international dimension, the allocation of the two is more diffuse (Hirschman 1970). If states wish to keep production and capital within their borders, domestic incentives for firms and capital to remain allocated in the country need to be put into practice. The public policy recommendation flowing from this logic emphasises tax reduction (demand-side), cuts in government spending (supply-side) and macroeconomic stability (Schulze and Ursprung 1999:308; Drezner 2001; Mosley 2005). International capital mobility has in this way constrained the number of policy instruments available. When all states compete for capital and the same logic of public policy reform applies to all countries; a race to the bottom can occur.

The ‘divergence school’ focuses on government’s incentives through intervention in the market (Garret and Michel 2001; Mosley 2003:9; Allan and Scruggs 2004). Two primary arguments have emerged. The first argument claims that if production and capital are mobile, unemployment for workers will rise in the welfare states, because capital and production will move abroad. Labour will require compensation transfers for the loss of jobs. Instead of cutting the budget, governments will have to intervene in the market. The intervention, it is contended, will be country specific, so the politics can diverge (Alber and Standing 2000). The second argument comes from endogenous growth theory. Growing competition between countries will require better labour skill and growth in human capital to attract and keep companies. Therefore, governments will have to invest in education and technology. Instead of a tax run to the bottom, divergence theorists argue that governments will increase spending in different ways. Welfare retrenchment is not a necessary outcome of internationalisation and public policy does not need to converge (Garret 1995; Mosley 2003:9; Mosley 2005).

Both contributions have been supported empirically (Garret 1995; Iversen and Cusack 2000; Mosley 2003:16). With the lack of clarity, academics speculated, how can we progress from here and how can we better understand financial market and
government relations (Garret and Mitchel 2001; Mosley 2003)? Mosley argues that we need a clearer idea about how the financial market operates and by which means government politics can be constrained in order to progress (Mosley 2003:15).

**‘SOMewhat STRONG, BUT SOMewhat NARROW’ THEORY**

Mosley suggests a dynamic approach to the relationship between financial market and government. She argues that international financial market pressure comes from international financial market participants evaluating policy outcome (Mosley 2003:17). The key is the external market price (the interest rate on government bonds), which investors charge to governments for their domestic policies (Mosley 2003:30).1

In order to understand how the financial market can constrain government policies; Mosley divides the implications of the financial market into two categories – the strength and the scope (Mosley 2003:28). The strength refers to the capacity of market actors to punish governments. The level of capital market openness and the use of similar information models determine the strength of the reaction. Mosley argues that a higher level of capital mobility would cause a stronger reaction by market participants.2 Similar information models refer to whether or not market actors react to the same indicators. If they respond to the same indicators, the reaction would be stronger because they all respond to changes in the same indicator. Mosley finds that capital openness in the world is generally very high and that international financial market actors in most cases rely on the same information models (Mosley 2003:47). Therefore, it is expected that financial markets have the ability to punish substantially.

The second indicator – scope – establishes the incentive for reaction, which determines the investment risk for an investment in government bonds.3 Mosley argues that three types of investment risk exist. Default risk, which is a result of a borrower not paying back the required payments. Secondly, investors face inflation risk, which is the risk of inflation weakening the investment. And finally currency risk, which is a risk of disturbance in the exchange rate of the country that the asset is deployed in. Mosley argues that “when default risk is highly salient, investors will use a wide range of information about a government’s willingness and ability to pay to assess the possibility of non-payment” (Mosley 2003:17). But if default risk is not likely to occur, the marginal benefits of deploying more information vanish. Investors will in this case rely on information shortcuts. Mosley draws a line between developed and developing countries. She argues that the default risk in the developed world is much lower – there is no reason to suspect that developed countries will not repay their loans.
To sum up the framework provided by Mosley; international financial markets assert a ‘somewhat strong but somewhat narrow’ pressure on political authority. ‘Somewhat’ implies that divergences might occur, but only within a limited number of indicators for developed countries. In other words there is still ‘room to move’ for public authorities in developed countries.

CONCEPTUALISING INTERNATIONAL CAPITAL MOBILITY

International financial markets encompass many tools: equities, bonds, derivatives, foreign exchange and direct investment. Following Mosley, this article focuses on government bonds, because it provides the most probable place for international financial pressure on governments due to the direct link. Mosley shows that in 2002 bonds constituted between one-third and one-half of an investor’s portfolio (2003:27). On the other hand, a government is highly dependent on the ability to borrow money: “In the sovereign debt market, national governments borrow funds in order to compensate for revenue shortfalls or to fulfil other economic management objectives” (Mosley 2003:18). A government paying a higher interest rate spends a larger proportion of its budget on payments. The increased payments cost will make it more costly to sustain the public policy mix.

In this way, we employ a framework where market actors set a price to the government for their policy through the government bond market. If they wish to punish a government for its policy mix, they do so by increasing the interest rate and vice versa.

APPLYING THE THEORY TO THE CASE

Denmark abandoned capital control in 1992. At the same time it maintained a pegged currency strategy to the D-mark and later to the Euro. These two commitments limit the range of policy instruments accessible for political authorities. With a generous welfare state system, extensive public social security and a large number of public employees/civil servants, fiscal policy and its financing play a key role in Danish public policy (Goul-Andersen 2011:5). The implication of the pegged currency is that the currency risk of an investment in Danish bonds becomes de-linked and somewhat arbitrary. It might still matter, but since it cannot be directly asserted to Danish government bonds, this article will focus on inflation risk. This suggests that market actors evaluate an even narrower set of indicators. The overall hypothesis for Denmark is then: The influence of international financial markets on public policy is somewhat strong but somewhat narrow.
How can this be operationalized in the case of Denmark? The main financial market variable is the interest rate on government bonds. This article will focus on, as Mosley does, the interest rate of 10 year government bonds.\(^8\) Due to the focus from 1993 to 2012, it seems appropriate to focus on longer trends rather than day-to-day volatility.\(^9\) Therefore, quarterly and yearly changes in yields of government bonds will be focused on.

What indicators should be used to account for public policy? Mosley adopts a broad definition, which includes both macro- and micro-policy. Inflation rates, government budget balance and current accounts are the macro-indicators (Mosley 2003:74).\(^10\) These indicators provide key information for market participants because they have information on the overall condition of the economy. In the micro-policy area the focus moves on to how governments spend their money. Two indicators are of importance. On the demand-side, government tax revenues/GDP is the indicator, while the supply-side constitutes government spending/GDP. In Denmark these are key variables used to sustain a social democratic welfare state. If these variables change and the financial markets respond, it can be doubtful whether the state still has 'room to move'.\(^11\) As investors care about getting their money back, an increase in government spending and unfinanced tax reliefs should be punished with a higher interest rate on government bonds.

In the next three sections the influence of international capital mobility through financial market operations on Danish public policy will be asserted using the indicators outlined.\(^12\)

**THE BEGINNING: 1992-2001**

When Denmark abandoned capital control in the early 1990s the Danish economy was still recovering from the problematic 1980s. During the 1980s Denmark suffered from mass unemployment, very high inflation, government budget deficit and growing debt (Goul-Andersen 2011:7). In addition, the interest rate on Danish government bonds had remained above 8% for a long-time; as it still was in January 1993, figure 1 (Hansen and Pedersen 2003). After 1993-1995 Denmark began a period of almost 15 years of economic prosperity. In 1993 a social democratic government came to power. While the Social Democrats tried with a more active Keynesian policy, they did not change the former liberal government's policy of extensive inflation control (Goul-Andersen 2011:24). The government remained in power until 2001.
Figure 1: The interest rate on 10-year government bonds

The general tendency of the yield on government bonds from 1993-2001 is a downward trend. Figure 1 displays the tendency of the yield. It shows a drop in Danish government bonds of more than 2% in the period. The substantial changes in the bond yield in the first time period are the 2.5% point drop in 1993, the rise of the same amount in 1994, the long haul towards an interest rate on 4% in 1999 and the sudden rise after 1999. This suggests that the market pressure on public policy decreased in the period.

In the area of macro-policies, Denmark witnessed a positive and stable trend towards the year of 2008 followed by some years of turbulence in the aftermath of the financial crisis (figure 2). Besides a jump in the inflation rate around 2008, the rate remained stable around 2%. Secondly, the government budget shows a long positive trend until the crisis. It reached a climax in 2006 and 2007 of 5.2% of GDP, as figure 2 displays. Unlike the two other macro factors for the Danish economy, the current account remained in surplus after the crisis. The key question that the following section will tackle is whether we can attribute these changes to the framework Mosley puts forward? Is the market’s positive reaction due to extensive macro-policy control?
Figure 2: Evolution in macro-policy indicators in Denmark

Note: Data on the Danish government budget balance existed only from January 1996. The black line is indicating the trend. The dotted line is the average. (Source: Tradingeconomics.com)
The promising start

The interest rate dropped just after the abandonment of capital control. It is most likely that foreign demand for Danish bonds caused the yield to go down because the pool of capital to borrow from increased.\textsuperscript{13} This explanation can be supported by the fact that none of the macro-indicators showed any sign of change. Hansen and Pedersen show in their investigation of the Danish economy in the 1990s that a lower interest rate on bonds in 1993 led to lower pressure for balanced-budget policies (2003:65). At the same time the newly elected Social Democratic government launched a new supply-side policy. Figure 3 illustrates the change in government spending (vertical-axis). To kick-start the economy, the government increased expenditure by 1 % point from 1992 to 1993. This is displayed in the figure with an increase from 26 to 27 % in government final consumption. The move towards a larger welfare state remained unpunished or unnoticed by the market. After dropping controls on capital, Denmark experienced a period with less external pressure – macroeconomic stability was rewarded while the market did not punish a larger increase in the government's role in the economy.

Figure 3: Government final consumption expenditure as % of GDP

Note: The black line is a forecast line based on expenditure data from 1984 to 2011. (Source: Tradingeconomics.com)

The global bond market correction

After a drop in the external pressure, the Danish government witnessed a tightening of its ‘room to move’ in the summer of 1994. The bond yield rose 2.5 % points. Even though the inflation rate rose from 1 to 2 % and the current account surplus reached the highest in a decade, it was not only a reaction to inflation policy that led to the massive changes in external pressure. First of all, a number of Western
countries experienced raised interest rates on government bonds during this period (CNN 1994; Mosley 2003:177). The financial market reaction came due to an economic bubble in the US. Many borrowers got ‘margin calls’ because of the rise in the interest rate, so they had to sell the government bonds in order to finance the higher interest rate. With a smaller pool of money and a market in mania, market participants were sceptical about the security of their investments. The interest rate on Danish government bonds increased too. This illustrates that Denmark is highly vulnerable to fluctuations in the US government bond market. But it does not explain why Denmark was hit harder than other Western economies: Denmark was affected twice as much as the United Kingdom, even though the Danish economy had indicated better signs than the UK (Mosley 2003:190).

In September 1994 an election was coming up and the left-wing coalition partner to the Social Democrats pressured the government to slow down its neoliberal macro-stability strategy. The left wing coalition partner wanted to cut unemployment through unfinanced fiscal expenditure. This would however worsen the balanced-budget. Market participants were sceptical about whether the Social Democrats would abandon the low inflation target and the balanced-budget goal (Mosley 2003; Ravling 2011). Facing rising costs, the Danish finance minister announced resistance to the pressure from the coalition partner. As a probable consequence, the interest rate did not rise to Swedish standards (Mosley 2003:170). It seems likely that external pressure had constrained Danish public policy.

The long haul
After the first turbulent years, the next five years were calmer. The inflation rate remained stable, the government deficit went down to zero for the first time in decades and the current account remained positive. This trend seemed to be rewarded by the market participants. The interest rate dropped by more than 50 %. This is supported by official documents that assert a positive reaction in the financial markets to Danish macro-stability policies (Velfærdskommissionen 2005; Det Økonomiske Råd 2009a, 2009b). It is also worth noticing that Denmark seems to have accumulated legitimacy in the financial markets – the fall in external pressure was first rewarded after 10 years of macro-stability, notably the inflation rate. This suggests that market participants also operate on historical circumstances. Together with the supply-side of public policy, the demand-side remained stable throughout the five years. However, this should not be taken as a consequence of market pressure. Figure 4 portrays the stable development in the tax revenue (vertical-axis). The Danish tax revenues remained relative stable at 32 % of GDP in the period. As Albrekt Larsen and Goul-Andersen point out, it is more likely that a growing economy altered the pressure for further government intervention (2004:130ff).
The sudden jump

From 1999 to 2001 the tax revenue fell 2% points. Was this due to market pressure? Probably not, because the financial market pressure increased in the same period. In 1999 the interest rate increased by almost 2% points. If market participants evaluated the tax reform at all, they evaluated it negatively. It is more likely they did not react to it at all.

What could have caused the sudden rise? It is argued that the inflation rate was most likely the reason. It rose more than 1% within half a year in 1999. Two other factors contribute to the macro-stability explanation. The Danish government budget increased to surplus, which should have lowered the inflation risk. Secondly, when the inflation rate fell after a turbulent year, the interest rate on government bonds followed and began a new long-term downward trend. It is thus apparent that market participants strongly react to movements in the inflation rate.


When the Danish minister of finance, Thor Pedersen, famously said in 2006, “we can buy the whole world”, he captured quite well the spirit in the country. Of course there was a lot of irony to the comment, but it stemmed from a unique situation in the Danish economy: the external pressure was modest or falling slightly, the state budget revealed a surplus of 5% points of the GDP and the unemployment level had hit a record low (Goul-Andersen 2011:30). The interest on government bonds remained stable at 4% from 2001 to 2008. Denmark had continued its boom years from the 1990s and was portrayed in Europe as an economic miracle (Goul-Andersen 2011:1).
In 2001 a liberal government took over and remained in office until 2011. Even though they liberalised credit policy and cut the tax rate, this period was characterised more by a consolidation of the welfare state than a retrenchment of it (Goul-Andersen 2011; Goul-Andersen 2006). The political climate was characterised by possibilities rather than limitations. Were any constraints on public policy present?

Denmark had maintained its very stable inflation rate. The Danish Welfare Commission pointed out that the reason for the stable relationship with the financial markets was the macro-political consistency (Velfærdskommissionen 2005:20). To further understand the downward trend in the external pressure; one must look at the global anticipation of Denmark as a role model within the EU (OECD 2004, 2006). This most likely boosted the investor’s confidence in Denmark. As a result, it is unlikely that the financial markets could have influenced how the government spent its money. Goul-Andersen shows that the demand-side of public policy generally changed in this period to a more risky variety. Tax policy gradually changed from being ‘fully financed’ to ‘room to move’ (Goul-Andersen 2011:28). In order to stimulate the economy and move under the threshold of full employment, the government cut taxes. If market actors cared about how governments spent their money, this move should have been punished. However nothing happened. Denmark could, like Thor Pedersen articulated, pursue everything.

Towards the end of the period, tax revenue increased (figure 4) while the supply-side remained stable (figure 3). This could have reinforced the positive market evaluation of Denmark, but the market did not react. It is unlikely that Denmark pursued this demand-side policy due to financial pressure. The government installed a compulsory pension scheme, which was under government surveillance and therefore part of government revenue (Rangvid 2011). In addition, Goul-Andersen (2011) points out that tax revenue might also have increased due to a slowdown in the housing market. Denmark had become one of the countries in the world with the strongest connection between the housing market and consumption possibilities – a ‘bonanza’ economy (Goul-Andersen 2011:32). Therefore, revenue should be seen as an effect of falling dynamics in the economy that naturally led to higher government revenue.

THE RECESSION: 2008-2012

By September 2008 the booming years had come to an end. Towards the end of the period, a credit liberalisation policy from 2004-2007 had created a housing bubble (Det Økonomiske Råd 2009a, 2009b, 2011; Goul-Andersen 2011). In combination with the financial crisis, the Danish economy was thrown into years of trouble. When the government implemented expansionary fiscal policies designed for
times of full employment and not for times of crises, a policy failure was exposed (Goul-Andersen 2011:35). In figure 2, the fall in the balanced-budget draws a clear line between the bonanza years and the crises years. While the recession created an internal pressure for enlargement of government spending, it tells us very little about the external pressure on public policy. One should have expected a negative reaction from the financial market. In fact the opposite occurred. The interest rate on government bonds actually fell by 2 % points.

When the financial crises hit Denmark in 2007, inflation began to rise. In September 2008 it hit its highest point. The expansionary policy created growing prices (Goul-Andersen 2011:30). The interest rate on government bonds followed – market participants became increasingly sceptical about the safety of Danish assets. However, the amount of scepticism was not significantly large. When inflation more than doubled, the interest rate increased only by 25 %. This reaction of financial market actors fits with the explanation of a history of inflation control that was traced in section 3. Market participants do not seem to react 1 to 1 to changes in the inflation rate.

The dramatic rise in inflation was replaced by an even more dramatic hold. With the recession came a fall in consumption and prices.17 It seems likely that the financial market anticipated this by strongly lowering its interest rate on government bonds. After these dramatic years inflation has since stabilised at around 2.5 %, while the yield has continued a historical downward trend. The external pressure on the government became minimal after 2009, which is quite surprising. While inflation has stabilised, the government budget has changed from a significant surplus to a deficit. Although Denmark has been running an increasing current account surplus, it cannot account for the huge decrease in external pressure that Denmark experienced. The supply and demand-side indicators reveal that the constraining effect by international capital mobility was absent. As a natural policy output in times of recession, government spending has increased. These transfers are unfinanced as the government budget deficit reveals. Tax policy has even decreased by 1-2 %, which should have enlarged the investment risk. Even when the financial crisis hit Denmark in 2008 and government spending grew by 4 % points of the GDP, the market did not react. Again, financial market actors do not seem to be concerned about how the government spends its money and how government spending is financed.

Since the sovereign debt crisis rolled over Europe, market participants have bought more Danish government bonds. As a Danish newspaper revealed in 2010, “we have the best bonds in the world” (Børsen 2010). Investors tend to come to Denmark because the bonds are viewed as safe haven assets. It seems that somewhat more than just a stable inflation rate has caused the absence of financial market pressure. This
notion is reinforced by the fact that Danish two-year government bonds in August hit a negative interest rate (Børsen 2012). Currently, investors are actually paying money to hold Danish bonds. Changes in the external environment seem to influence the decision of market participants’ allocation of investment. The sovereign debt crisis has left the financial market in uncertainty. Participants seem to care more about getting their money back rather than simply about the interest rate. It is important to note that inflation policy is still constrained by market participants’ desire for low inflation, while all other public policy has room to move. For market participants, change in the inflation rate appears to be ‘the’ information shortcut.

In the last five years international capital mobility decreased its constraining effect on Danish political authority despite the dark outlook. The framework of Mosley can explain a significant part of the external pressure on Denmark, however it can not account for the whole development in the financial markets in the recent period. The next section is devoted to reflecting upon this.

**BEYOND NUMBERS**

Behind Mosley’s framework lies an assumption that investors are rational maximisers. While this cost-deduction framework is very easy to use, it does not capture the full human decision-making process. In the case of Denmark, the public policy choices regarding both macro- and micro-stability tend to increase the investment risk. But why do investors reward this by lowering the interest rate? In order to explain investors’ preference for Denmark in a situation where the forecast for the Danish economy remains dark, one could, together with changes in the external environment, look at ideational circumstances. Firstly, it makes sense that under the current sovereign debt crisis, investors look for safe havens. Secondly, a question still remains, namely why choose Denmark: a country that has one of the darkest outlooks in Northern Europe and where unbalanced public policies will remain for years to come (Goul-Andersen 2011:47)? In financial markets a common idea seems to be established that Danish bonds are safe assets. Denmark has built up trust in the financial market regarding macro-policy management. This corresponds with the findings of an inflation history legacy during the long haul of the 1990s. Investors seem to go beyond the current numbers and allocate investment where the market has agreed it is safe.

It is important to note that the information of inflation stability matters. However there appears to be another layer of facts that investors draw upon when they allocate investments. At least in times of panic in the financial markets, this seems to matter for the view of investors on Danish government bonds. The paradox of this suggestion is that the ‘room to move’ has increased for the Danish government
CONCLUSION
During the past 20 years, Denmark has participated fully in the globalised economy. With international capital growing and moving faster than ever, academics and politicians have raised serious concerns about the future of the welfare state. It has been stated that financial markets, in a world where the cost of exit is very low, would punish Denmark for its public policy. In this article, the question of implications of international capital mobility on public policy has been investigated in the sovereign bond market. With the interest rate on government bonds as the access port of financial markets to constrain public policy, this article has shown that there is still ‘room to move’ for political authority: international capital mobility asserts a somewhat strong but very narrow pressure on Danish public policy.

Firstly, since the abandonment of capital control in 1992 Denmark has paid enormous attention to the inflation rate. Policies regarding inflation are largely and heavily constrained by the financial markets. In the bond crisis of 1994, the jump in the inflation rate in 1999, and during the financial crisis the market has immediately punished a rise in the inflation rate by raising the interest rate. On the other hand, in times of inflation stability the financial market has lowered its constraints and thereby made room for other policy choices. The stable inflation rate in the last 20 years has played a very important role in lowering the external financial pressure on Denmark.

Secondly, the market does not seem to pay much attention to government budget balances and the current account. These indicators probably reinforce the positive effect of a stable inflation rate, but by themselves, they do not seem to be constrained much. Only in 1994, during the global bond crisis, did the government budget balance seem to be constrained. Thirdly, financial markets do not appear to be concerned with how the Danish government spends its money. Neither the supply-side nor the demand-side of public policy appears to be constrained. Fourthly, since 2008, the pressure on public policy has hit a new low despite an uneven inflation rate and huge budget balance problems. While it makes sense that investors search for safe harbours, it raises questions about what kind of information they base their choice of allocation on. It appears that Danish bonds have become a safe haven asset as perceived by investors and not because of Danish public policy. This suggests a reality, which is contrary to the position of the convergence literature and Danish commissions: the political authority still has ‘room to move’ in an internationalised world.
NOTES

1. In this way, if we focus on how market participants evaluate government policy, Mosley argues, we also focus on how external pressure from financial markets affects public policy choices (Mosley 2003:15).

2. If investors do not have the ability to exit they can only convert their assets to money, but they do not have the ability of moving their assets to another market (Mosley 2003:25). In this view, capital mobility becomes a background condition for asserting the influence of international financial markets on political authority.

3. Mosley argues that market participants have incentives to economise their use of information. Due to the outlook for the highest return and the cost of collecting information, market participants deploy different information depending on the information cost (Mosley 2000:743).

4. In the final chapter Mosley notes that the framework she uses on the sovereign bond market could probably be extended to other financial market instruments. These are also important, but the sovereign bond market is the most direct pathway to influence public policy decisions (Mosley 2003:317).

5. Underlying this distinction is the fact that investors are always willing to lend money to governments – they just charge a higher price if they doubt the creditability. Why then not use flows instead of interest rate? Mosley explains: “[a] price measure (interest rate) is more appropriate than a flow measure (such as capital inflows/gross domestic product [gdp]), because responses to policy outcomes occur in the form of price changes, rather than quantitative shifts” (Mosley 2003:19).

6. The Mundell-Flemming triangle suggests that a country with free capital movements and fixed exchange eludes monetary policy effectiveness (Flemming 1962; Mundell 1963). The supply of money and the interest rate must be used to maintain the pegged rate. Monetary policy becomes a matter of adjustment. In the case of Denmark, monetary policies are used in accordance to the Euro countries. Fiscal policy becomes the main tool to adjust the economy (Mosley 2003:11).

7. With no capital controls and no reason to suspect that market actors’ information models should be different in the case of Denmark, the possible strength of financial market influence should be strong. As one of the northern liberals and frontrunners within globalisation market actors should treat Denmark like other developed countries (Goul-Andersen 2011:5).

8. 10-year government bonds are used as a standard instrument in financial markets. Therefore it is also used here (Mosley 2003:19).
9. Day-to-day changes in prices might also affect governments. This analysis focuses on continuation of price-level changes.

10. After interviews with participants in the financial sector, Mosley contends that market participants prefer a stable yearly inflation rate around 2%. The participants also hold that inflation control and government budget is the most important macropolicy (Mosley 2003:56). In addition to the three macro-policy indicators, Mosley finds in her analysis a strong correlation between US government long-term securities and government bonds in other countries. This is because of its position as a global safe haven asset (Mosley 2003:73). Mosley also mentions the role of credit rating agencies in evaluating investment options. She notes that credit rating agencies might be an information shortcut. But she does not incorporate credit rating agencies in the explanation of financial pressure on developed countries (Mosley 2003:140). Therefore, their role are also absent in this analysis.

11. As Mosley notes macro and micro-policies might be connected. Though, in an empirical analysis she finds very low correlation between macro and micro-indicators. Both on the supply and demand-side of fiscal policy, she finds a low correlation (Mosley 2003:91).

12. The paper is structured in three parts in order to control for the overall influences of government/political changes and economic prosperity/recession changes on the market evaluation of government bonds. Finally it is worth noticing that no major structural or institutional changes occurred in the period. As Goul-Andersen (2011) mentions, the welfare state became more established in the period and signs of retrenchments were weak.

13. Mosley argues that relative to a small pool, a larger pool gives more opportunities for governments to borrow cheaper money (2003:30).

14. The combination of excessive loans in the US and the American Fed raising the interest rate by 0.25% had huge consequences. With the interest rate being low for a couple of years and a higher government bond yield, investors borrowed money and invested them in ‘safe’ government bonds.

15. This finding is in line with Mosley’s empirical research. She finds a high correlation between interest rate on 10-year government bonds and the interest rate on the 10 year American T-bills (Mosley 2003:90).

16. This includes ‘flexible loans’, which is a loan with a flexible interest rate, and ‘interest only–loans’ that is a loan without repayments for 10 years. These loans created a big increase in consumption largely financed by loans and not of income (Rangvid 2011; Goul-Andersen 2011:33).
17. The Danish economy dropped 6.1% of GDP from summer 2008 to summer 2009 (Goul-Andersen 2011:31).

18. In the search for safe allocation of capital, investors fly from south to north with money. It makes sense to allocate safe investment here compared to the southern euro-zone countries, because the return of the investment remains uncertain.
REFERENCES


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