Political Economic Realities of Today's Capitalism

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NORALV VEGGELAND

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PREFACE

This book, On Political Economic Realities of Today's Capitalism, consists of ten articles, which all been published earlier separately in different journals, *but never as a contribution to a coherent approach making political economic realities transparent and understandable as path dependent stories*. The author also define and provide examples of problem-solving innovations in varying fields and contexts, which are appropriate to understand different national policies.

Neoliberalism is in the book is defined as the pattern in the stream of management decisions and political action within a framework of deregulated free market concept. This definition goes back to the Nobel Prize winner Milton Friedman. Neoliberalism as an ideology, embedded and dominant in the political regimes of former UK Prime minister Margret Thatcher and US President Ronald Reagan, survives today among political and economic elites. However, translated and led by different national administrative traditions and paths, New Public Management (NPM) was differently absorbed, accepted and adjusted to national and international politics. The book discuss those processes and their economic and social consequences. It states that the social democratic countries, despite their traditional Keynesian and state acceptance, have partly lost their ground values. The NPM state of values is a threat to the universal welfare state model of Nordic type.

More accurately, during the previous century, the particular Nordic welfare state model developed on a set of common norms, values and lifestyles feature; following the contemporary administrative tradition of those countries. In our global age, however, and because of embracing Europeanization and New Public Management pressure, the original administrative model has been transformed, reformed and adjusted. A long range of good common governance initiatives remain though.

The book analyzes "Political Economic Realities of Today's Capitalism". It is based on an analytical research notion that inspire comparatively analyses of European politics. Hence, administrative social strategy approaches get conceptualized as a path-dependent modification of both the Keynesian social democratic administrative and democratic tradition and neoliberal orthodoxy in the framework of the European Union regulatory regime. Politics and administrative strategies are changing fast in our globalized time. Updated research knowledge is needed.

I take this opportunity to give a special thank to Inland Norway University of Applied Sciences who gives me room and time for reseach and academic writings.

Lillehammer 6. August 2017.

Noralv Veggeland

1 NEOLIBERALISM. ADMINISTRATIVE MANAGEMENT STRATEGIES OF OUR TIME

Abstract

"New public management" (NPM) was ostensibly intended to create "a government that works better and costs less"; "aptitude maximized, expense minimized" a slogan of nearly two centuries before. So what do we have to do is critical to approach three decades or so of NPM reforms and new management strategies. The conclusion expressed in my paper is this: NMP leadshigher public costs, loss of accountability and an increasing democratic deficit. These conclusions are supported by a comprehensive UK evaluation report recently published and reviewed in this book (article 9). This paper analyzes the socio-economic and historical background of the developed management strategies.

Introduction of the 'four Ms' strategies

The United Kingdom was a "vanguard state" for experimentation with administrative reforms that came to be known as the New Public Management or NPM strategies aiming market orientation of the public sector. After three decades, what results has NPM produced in the UK? **Christopher Hood** and **Ruth Dixon (2015)** address that question in a report: *A Government that Worked Better and Cost Less? Evaluating Three Decades of Reform and Change in UK Central Government*. The title points to the former Prime Minister Margret Thatcher's promises in 1970s as part of her politics of neoliberalism. In short, the conclusions of the report is formulated as these: In the period, 1) the complaints about maladministration and judicial challenges to government action increased markedly while 2) administrative costs "rose substantially" in real terms. On the other hand, 3) trust in government did not collapse, as many critics of NPM feared but the overall accountability declined. 4) The administrative costs did take up a growing share of total public spending. The overall conclusion is this: 5) Government worked a bit worse and cost a bit more.

We have learned that, according to Joseph A. Schumpeter, innovative activity of the market transforms a state of stagnation into one of growth. The economic process is very complex thou. It begins with the occurrence of new forms of market-effective technology, production and organization, which appears alongside already existing structures. However, after some time, intensified competition between the old and the new arises. As a critical stage of advancement comes up, competition leads to instability in national economies, with closures of old industries and increasing unemployment. Further, with the market mechanism on their side, the new enterprises and economic sectors gradually assume a position of superiority owing to their competitiveness (Salter 1969). Schumpeter used the now famous term 'creative destruction' to describe this process of old structures are weakening and ultimately disappearing while new ones break through and reform the sphere of production (Schumpeter 1979). The systemic nature of the process gives rise to the notion of new 'techno-economic paradigms'. In the wake of the 1970s stagflation crises, a new techno-economic paradigm ascended (Hayward and Menon (eds.) 2003).

The reform of the sphere of production builds on a completely new world with new standards of efficiency, new high growth of sectors, new location patterns, new models for management and organizational principles (Veggeland 2016 ed.). The neo-Schumpeterian view is that the transition from one techno-economic paradigm to the next entails equally profound transformations of the institutional and social framework (Amin (ed.) 1994). In this new paradigm, the 'socio-institutional' paradigm is clearly subordinate to the 'techno-economic' and its structure strictly bounded. When elaborating the origin of the 'socio-institutional paradigm', we must be aware that the paradigm was design within the framework of the new techno-economic paradigm of the regulatory state (Djelic and Anderson (eds.) 2006).

Christopher Pollitt and Geert Bouckaert (2004) have made a very fruitful contribution to the conceptualization of the management side of the new socio-institutional paradigm of the regulatory NPM-state that has arisen out of the hollowed-out Keynesian interventionist state model. The authors have identified four M-strategies as paradigmatic notions of Governments' choices of action when struggling and seeking solutions to the pressure of the processes of 'creative destruction' in the economy, that is, the stagflation crisis (2004: 188):

- Maintain
- Minimize
- Marketize
- Modernize

Maintain: This governmental management strategy refers to the tightening-up of traditional controls. It is hardly part of the new socio-institutional paradigm, but rather the demand-side economics of the Keynesian state. The tactics include restricting expenditures, freezing new hiring, fighting waste and abundance and generally 'squeezing' the system of administration and legal regulation. Stabilizing inflation on a low level by management and measures related to effective demand was the goal and political economy of the maintaining strategy. It was typical at the time when the Continental model and administrative tradition was under strain (Veggeland 2007).

Minimize: According to Pollitt and Bouchaert (2004: 188), minimizing the administrative system was in political economic terms part of the new but path-dependent socio-institutional paradigm: handing over as many tasks as possible to the market sector directly through privatization and indirectly through contracting out, that is, outsourcing. It is elaborated the 'hollowing-out' of the state apparatus. It represents a socio-institutional arrangement in which social security and public services of all kinds, such as social and health services, physical infrastructure and even military services are all heavily reduced in volume.

The thinking of Schumpeter was clearly evident in this strategy: create economic growth by making a rigid state machine decline through the minimizing strategy and replace it with innovative market actors that are exposed to 'creative destruction' but still under regulatory control. Such actors intensified the direct contact between the political system and the market economy, unmediated by, as it was seen, rigid Weberian bureaucratic structures. Minimalists altogether reject the idea that governments can be made to act in the best interests of the economy and the public in general. In Schumpeter's world, rulers are considered 'able' because they win votes, not because have governed or will govern well (Kuper 2004: 98). But the minimalists use the rulers in the regulatory-state sense. Policies for tax cuts and low interest rates targeting an increase in aggregated consumption and investment (in accordance to Ricardo's principles) accompanied the minimizing strategy. In sum, it represents the political economy of the strategy to minimize and was mostly applied to the strained Anglo-Saxon model and administrative tradition (Veggeland 2007).

Marketize: the marketizing of the administrative system was a strategy for instituting as many Market-Type Mechanisms (MTMs) as possible within the public sector. It implies a redefinition of the economic rules of the state but also a transformed perspective on states, regulation and their roles. Marketizing questions all forms of protective measures, rules and barriers, and consequently has an impact on social-institutional paradigms and legal policies (Djelic 2006).

Basically, this form of New Public Management (NPM) approach created the so-called PLAs, Public-Law Agencies, and the PLBs, Private-Law Bodies, which were steered indirectly by law, regulation, and financial means (OECD 2002). Seen in a democratic framework they are named as 'unelected bodies' (Vibert 2007). Emphasis was placed on the achievement of result through the means of flexible organizational structures and competition. The approach follows the Schumpeter's idea that innovation only becomes beneficial through market competition in both the spheres of techno-economics and social-institutional; hence, public-sector organizations should likewise be made flexible and competitive. Besides, it would increase efficiency and user-responsiveness.

Like the minimizing strategy, the marketizing strategy was followed up with policies for tax cuts and low interest rates (again following Ricardo principles) that were supposed to effect an increase in the aggregated consume and investment, and thereby economic growth. The marketizing strategy turns out to be very typical for the regulatory state – namely 'steering without rowing'. With regard to political economy, extensively it became adopted by the Anglo-Saxon model and administrative tradition in the 1980s (Knill 2001, Veggeland 2007, Hood and Dixon 2015).

Modernize: The modernization of the administrative system, still in accordance with Pollitt's and Bouchaert's thinking, in reference to its political economy, aimed to introduce faster, more flexible ways of budgeting, managing and delivering services to the user. The choice was made within the framework of the new socio-institutional paradigm, bound by the new techno-economic paradigm of the regulatory state. Arm's-length bodies were organized and set into motion as market actors or pseudo-market actors. It was predicated on both the distinctiveness of public provision, on 'services of general interest', to distinguish between 'non-commercial services' – in-house services – and 'commercial services' – marketized services (EU green paper 2003) – and the need to strengthen the state rather than to dilute the state.

But in order to reach the economic potential for growth in the Schumpeterian sense, innovation is necessary in both the techno-economic and the socio-institutional spheres, and innovation occurs when market actors compete. These new ways of operating were clearly borrowed from the market sector and meant the introduction of MTMs also into the public sector but selectively. Instead of being minimal, MTMs became dominant in public services, both in the welfare sector and in the sector of physical infrastructure. Contextually, however, the bureaucratic structures remained as mediators in Weberian sense, but they were partly changed into institutions and bodies serving the regulatory state; that is, new institutional innovations occurred (Black, Lodge and Thatcher 2005). We may call this new social and institutional paradigm a neo-Weberian order of bureaucracy. We may view the political economy of the modernizing strategy as a blended strategy of maintaining but with much emphasis on result-orientated management and of reducing and simplifying regulation with modest marketizing. It was a typical strategy for the strained Nordic model and administrative traditions (Iversen 2005, EPC Working Paper 2005, Veggeland 2007).

The 'four Ms' are not implemented in any particular order, 'but', Pollitt and Bouchaert note, 'neither can they all be convincingly pursued simultaneously. Some countries have gone through the phase of distancing and blaming, but many have not. The Nordic countries tended to bypass that and aim for beneficial modernising' (2004: 188–189). In contrast, Michael Moran (2003) has argued that the minimizing and marketizing strategies have obviously led to innovation and expansion of the regulatory state order, but in an uncontrolled, untamed way. He uses the Britain's state of 'hyper-innovation' as an example and states that it has encouraged a 'fiasco' because of uncontrolled rise of transactional costs. What we have shown so far is that the 'four-Ms' strategies were reasonable responses to the 1970s international stagflation crisis, which changed the techno-economic and social-institutional paradigms. There are questions that require answers: how and when is the success or the failure of the strategies to be measured, and what are the taming perspectives (Veggeland 2016 ed.)?

What we have learned is that countries' reforming experiences demonstrate that the same reforming strategies perform differently and produce very diverse results in different contextual social models and traditions (Knill 2001, Veggeland 2007). Accordingly, this variation in reforming experiences reflects the disparate institutional structures and environments that confront the reformers. A principal lesson to emerge from this review is that the establishment of a new social-institutional paradigm is contextually dependent (Røvik 2007). Reforming strategies need to be tailored to an individual country's context, needs and traditions. These differences are reflected in the social-institutional paradigm from which the reforms are launched, the nature of the problems faced and the most appropriate solution to apply.

The OECD report (2005: 22) has made this statement: 'Other issues that depend on context include how countries deal with accountability, control in public management, the involvement of the private and community sector in service delivery, the use of Market-Type Mechanisms (MTM), and the line between the public and private domains'. Let us look further into organizational change and contextual relations.

'Miniature governments'?

The change of the social-institutional paradigm has forced governments to realize that managing from distance, through the organizational form of arm's-length bodies, has created specific issues of responsibility, accountability and control (Beetham and Lord 1998). Repercussions of this organizational form, such as institutional fragmentation of government, lack of responsibility, and increasing transactional costs have gained attention. The following critical quotation below about the so-called 'Next Steps Agencies', or 'regulatory innovations' as defined by Julia Black (2005), a part of the marketizing strategy, is empirically related to the Anglo-Saxon situation in the UK (Beetham, Byrne, Ngan and Weir 2002: 133):

> 'It has long been recognized that the doctrine of ministerial responsibility to Parliament is a fiction…. But the sheer institutional diversity of government makes the doctrine obsolete and its complexity obscures who is accountable to whom for what. A whole host of official bodies and officials exercise a great variety of powers over the spectrum of government – executive agencies, quangos, public corporations, regulators, czars, ad hoc plenipotentiaries, and inspectors. Many of these are 'miniature governments' in their own sphere. The 138 executive agencies are still formally part of their parent governmental departments. There are 187 national executive quangos – semi-autonomous public bodies like the Housing Corporation and the Learning and Skills Council…. There are 414 advisor quangos and over 300 task forces; some of these committees effectively make policy on the safety of drugs, foods, air pollution, etc.'.

With regard to the independent regulatory authorities in the OECD countries, the great increase of positions, indicating growth in numbers and organizational use, began in the late 1980s for financial, energy and telecommunication arm's-length authorities and agencies. The financial sector had a lead in the 1970s and 1980s, but there is a converging trend. In generally, taking also other sectors into consideration, we can see that the trend of extensive growth of all kinds of agencies and bodies has continued since then.

To the diverse list of agencies, authorities and other governmental bodies in the UK, given in the quotation above, we can add more from a few other selected countries. The list below is reproduced from an OECD report (2002:11).

In Canada: Service agencies, Special Operating Agencies (SOAs), departmental service agencies and in some cases shared governance corporations.
In New Zealand: Most Crown entities and semi-autonomous bodies.
In Sweden: Expert boards and agencies.
In the Netherlands: Independent administrative bodies (Zelfstandinge Bestuursorganen, ZBOs) and agencies (Agentschappen).

In France: Public establishments (tablissements publics) and independent administrative authorities (Autorités administratives indépendantes).
In Germany: Federal agencies (direct federal administration, unmittelbare Bundesverwaltung), bodies of public law (indirect federal administration, mittelbare Bundesverwaltung and some private-law administrative entities (Bundesverwaltung in Privatrechtsform).
In Norway: Direct administration (direktorat) and public agencies and public enterprises, both private-law and public-law bodies.

Derek Gill (2002) has developed a typology of governmental organizational forms that combines both institutional and legal status with the characteristics of financial and management rules that apply to them. Here just a simple version of his presentation in order to indicate where the traditional and the regulatory state's social-institutional paradigms belong.

List is a simplified version of Derek Gill's illustration, here specifying only institutional, legal and financial features that apply to the executive bodies involved.

Departmental agencies: They are part of the ministries as executives, and they do not have a separate legal identity from the state. They are embraced by public law and are funded by taxes. They not necessarily attached to a governing board (although they might have management boards, as in Sweden and elsewhere), and their function is to deliver non-commercial services to citizens and socio-economic sectors of the state.

Examples: *New Zealand*: Semi-autonomous bodies, *Sweden*: Boards, *Netherlands*: Agencies, *Germany*: Direct federal administration, *Norway*: Direct administration.

Public-Law Administrations (PLAs): These are arm's-length bodies of the government and the ministerial departments, institutional and legal foundations and fully or partially separated from the ministries. They have a governing board of experts, an advisory board or one-person administrative rule (managing director), and they report to their respective ministries, which have indirect control by virtue of being executors of laws. Financially, they receive some funding from the government, and they earn the rest from result-based fees or sales. As we have seen, the PLAs are essential in the reforming strategies that began in the shadow of the stagflation crisis of the 1970s, that is, marketizing and modernizing. Their functions have a wide range, from service delivery to typical regulatory and quasi-judicial functions.

Examples: New Zealand: Crown entities and semi-autonomous bodies, *Sweden*: Agencies, *France*: Professional public establishments and independent administrative authorities, *Germany*: Indirect federal administration, *UK*: Many executive non-departmental public bodies, *Norway*: Public-law bodies.

Private-Law Bodies: These are arm's-length bodies that are quasi-corporations and non-commercial private-law bodies and often organized as shareholdings, with the state as full or dominant shareholder. Hence, they are legally separate bodies, and a governing board under the indirect control of the minister structures their governance and control. Their budgets are separate from state allocation. Financially, they earn their income from sales revenues ,and they are thus motivated by full profit objectives; that is, they have the function to reach service objectives while being obliged to restrain costs. Also the PLBs are essential in the reforming strategies, that is, marketizing and modernizing that shaped the regulatory state. They have a broad range of functions, including, of course, the provision of services but even some regulatory and quasi-judicial functions.

Examples: *Sweden*: Agencies, *the Netherlands*: Private-law ZBOs, *France*: Industrial and commercial establishments, *Germany*: Private-law administration entities, *Norway*: Agencies/corporations, *UK*: Many executive private bodies.

1. ***A new socio-institutional paradigm that creates risks and transaction costs***
   Frank Vibert (2007:1) has called the growth of arm's-length agencies 'the rise of the unelected'. With regard to democracy, he argues (2007: 42–54) that this is a good development because it results in a new separation of public power. What he has overlooked, however, are the risk factors. Many scholars have reported the numerous risks that attend the organizational forms of the new social-institutional paradigm (Beetham, Byrne, Ngan and Weir 2002, OECD 2002, Moran 2003, Veggeland 2004). Summing them up, we find:

   - *Lack of clarity generates risk*: The lack of clarity concerning the differences between the various forms of agencies, authorities and other governmental bodies has as a repercussion and a consequence the lack of control.
   - *The numerical risk*: Given that there are many 'miniature governments', a growing number of regulations have mounted in order to reduce the risks of failure.
   - *The risk of fragmentation*: The lack of clarity regarding roles and accountability is a consequence of the fragmentation of the public sector and the distribution of governance.
   - *The transaction-cost risk*: Transactional costs have swelled as a consequence of the fragmentation of executive functions and coordination endeavours, which have strained the funding of the core activities in the public sector and have reduced supply-side efficiency.
   - *The democratic risk*: There has been a growing democratic deficit as a consequence of distributed governance and the dilution of the Weberian state apparatus.

Let us consider more closely the lack of clarity and numerical risk. After studies of nine OECD member states, the OECD has concluded that a consequence of the frenetic creation of governmental bodies during the 1980s and the 1990s has been both the dispersion of numerous entities and a lack of organizational clarity of the institutional system. The risk is that 'in all countries studied, there is variety of organizational and legal categories, as well as accountability arrangements, for the same types of autonomous entities. In many countries, the legal rules that apply to these entities are determined at best by both law and decree, creating a profusion of individual situations, rules of organization and accountability mechanisms' (OECD 2002: 24). Why do these types of risks seem to be inherent in the institutional paradigm of the regulatory state?

From the perspective of policy, the OECD itself is partly the answer. During the 1980s and the 1990s, the OECD and its experts became important as international actors. The organization started looking across national borders in order to search for and to collect new ideas about and lessons on administrative practices; taking the new techno-economic paradigm in the global age for granted, the OECD thus produced numerous recommendations to its member states on how to modernize government in order to become more effective and competitive (OECD 2005). Many ideas spread extensively, and they were copied and translated into different national settings (Røvik 2007, Veggeland 2003, 2004). Studies taking a social-institutional paradigm perspective have shown, however, that states and global socio-economic regions operate selectively and translate differently when they adopt external ideas, decide policy strategies and implement institutional reforms (Knill 2001). The UK, belonging to the Anglo-Saxon identity, has, for example, made different kinds of choices than Germany and France, belonging to the Continental identity, or the Nordic countries, belonging to the Scandinavian identity. Besides, within these transnational regions, national identities also affect the decision-making processes. How can we explain this factor?

Social-institutional paradigms seem to put their imprint on the translation and implementation of new ways of doing things that are learned from without (Pierre (ed.) 2001). In other words, we are talking about embedded path-dependence, which constrains the formulating and the implementation of organizational change and renewal. The copying and creating of organizations, which tend towards convergence across borders, seem to be rare phenomena, even under the supranational regulatory regime of the EU. As documented by OECD, institutional divergence seems to be the norm, and it is so because of path-dependent processes (Pierson 2004).

The risks that require taming are the following. 1) Countries translating of new organizational ideas tend to interpret and implement them out of context, and this practice creates a profusion of singular situations, organizational rules and mechanisms of accountability and thereby a general lack of clarity. 2) The determination of whether the best organizational forms have been chosen for the various functions of government is very unclear because comparisons of advantages out of context are difficult to measure. 3) The ability of the authorities to monitor and control these entities deteriorates because of the manifold legal and financial identities of these bodies. 4) The lack of transparency of the institutional system may undermine both the accountability and effective use of the techno-economic system. 5) The numerical aspect of the new social-institutional paradigm implies fatal institutional fragmentation.

Let us now turn to the risks of fragmentation and transactional costs. The creation of arm's-length bodies for the purpose of 'steering without rowing' has proven successful for certain functions but obviously not for others; the welfare sector has especially been adversely affected (Iversen 2005). In other cases, we can see that new dangers have appeared, threatening their raison d'être because of institutional and management fragmentation along with rising transactional costs that tend to reduce the budgetary expenses for core policy tasks of the actual sector and democratic deficit due to the lack of representation and responsibility (Beetham and Lord 1998, Pierson (ed.) 2001).

To counteract the fragmentation and the trend of rising transactional costs, the concept of partnership has been introduced together with the EU-recommended principle of subsidiarity. We should really name this principle of subsidiarity in the plural, principles, because in the real policy world we find not only the occurrences of both downward and upward devolutions of power and authority to lower or higher layers of government but also the outward devolution of authority to the 'miniature governments', the arm's-length bodies (OECD 2002).

Public-private partnership establishments, thus including the outward distribution of governance, dominate in most of the policy arenas of the regulatory state. There are two reasons for this dominance.

First, the central governments, especially in the unitary states, want neither the downward devolution of competence nor the distribution of public governance to lower layers of government. Obviously, the national state authorities want to keep their internal monopoly of territorial control. The model of 'outward' distribution of authority seems, then, to be the preferred one. Accordingly, the central state prefers rather to form partnerships, that is, sectoral 'state-regional' partnerships, with the independent agencies and authorities at the regional level (Higdem 2007). However, that strategy undermines the authority of the democratic institutions at the lower layers and threatens both the partnership loyalty and the option to voice regional concerns.

Secondly, establishments of public-private partnerships, based on the principle of pooling resources and governance capability, are conceived as being an important measure for developing a competitive economy in the Western European countries and clearly not for democratic purposes. For in such partnerships, after agreements and contracts are signed, the elected democratic bodies abdicate, leaving the function of governance to independent boards, management teams and the market actors. A deficit of democracy and legitimacy is the consequence (Nuget and Paterson 2003, Veggeland 2003).

Change in trends

The two trends described above, concerning democratic and administrative governance in the perspective of subsidiarity, now worry the Western European member state governments of the EU because of the threats to democracy and the loss of control. The 2002 OECD report 'Distributed Public Governance: Agencies, authorities and other government bodies' has documented these worries extensively. The study embraces nine national states, including five EU member states: France, Germany, the Netherlands, Spain and Sweden. The report also demonstrates the new policy strategies of these states that are intended to regain more democratic governmental control on all administrative tiers.

The contributors to this OECD report (2002) have observed that, in the wake of the redefined concept of subsidiarity, Distributed Public Governance in the form of independent agencies and technocratic authorities have come to challenge the democratic order on all administrative levels – from the national down to the sub-national levels. It has happened in three ways:

- Elected assemblies and governments at lower tiers have lost powerpolitically, while executive technocratic authorities have gained greater dominance. Accordingly, the waning of representative political authorities creates a deficit of input democracy, accountability and legitimacy (Scharpf 1999, Majone 1997).
- Agreement-based governance and legal-partnership institutions have been replacing the institutions of representative government. Michael Keating (1998:47) has epigrammatically summarized this worrying trend as follows: 'governance is what exists when government is weak and fragmented', meaning fragmented governance performed by independent authorities replaces holistic government.

- Because policies acquire their legitimacy first and foremost from functionality and effectiveness – that is, from the output or outcome of executives and from comparative competitive advantages that benefit from 'locked-in' internal management – they challenge the democratic principles of openness, transparency and deliberation (Eriksen and Fossum (eds) 2000).

According to the OECD report, this political and administrative situation has undermined accountability from the citizens below, and central and sub-national governments have been losing legitimacy (Ferrera 2002). It also challenges the legitimacy of the EU. Therefore, it is in the interests of a wide range of actors that the OECD report concludes that there is a fundamental change of policies is taking place: *'from the drive to create agencies, authorities and other government bodies to the challenge of achieving good governance' (2002:21).* Furthermore, *'The creation of Specific Public Law agencies and administrations and their twins Private Law Bodies seems to have come to a stand-still in many countries' (2002:22).*

The OECD report also articulates some conclusions on taming actions. The following facts from the studied countries are issued:

- In most countries, and in terms of the new democracy principles, priorities have moved away from the inclination to create new independent and separate bodies. Now the challenge seems to be finding the right balance between accountability, autonomy and management of the existing independent agencies and bodies through more openness and transparency, as well as by strengthening the steering capacity of governments (2002:21).
- The new independent technocratic entities allow governments to avoid taking political decisions or to take decisions guided only by technical expertise on issues that require a political choice and are at the core of political responsibility (2002:22). This worries the governments.
- The lack of clarity about the differences between the various types of public agencies, authorities, commercial institutions make it unclear whether the best organizational forms have been chosen for the various purposes of government (2002:24). Therefore, standardization measures are now implemented.

- Governmental monitoring efforts and control of the independent public entities are become more difficult. Despite reporting procedures, and even though using neutral agencies for legal surveillance, the different types of relationships, and the different types of control and accountability mechanisms of the bodies, make accurate control almost impossible (2002:25). The trends to *ex post* controls and managerial flexibility do not mean there is less control – in fact there are more varied controls. Up to 50 per cent of the work of external auditors is now performance audits (OECD 2005). Many more financial and non-financial reports are produced, and benchmarking takes time, likewise does quantity and quality control. These issues are now counteracted with measures expanding the democratic control capacity of all administrative tiers.
- The need for clearer criteria for establishing different types of boards – advisory, management or governing boards and their respective responsibilities – are acknowledged. There has been criticism of lack of transparency surrounding the appointments of board members, their salaries and other benefits. Or the criticism has focused the lack of representative function regarding the members in terms of gender, ethnic and local background (2002:25). It is counteracted by means of regulations for more transparency and better balance concerning appointments.
- The independent bodies are seen as functioning outside the political debate with little oversight from ministers and ministries and weak accountability arrangements. The parliaments are neglected, and so are individuals and the institutions of the civil society. Conclusion: Weak accountability mechanisms undermine the legitimacy of governments and parliaments (2002:26). Measures for expanding the governance capacity of the parliaments on all administrative tiers are implemented.
- Finally: Weak co-ordination mechanisms and coherence failure threaten effective public service production in terms of 'best value' to individuals, social groups and corporate interests, because of fragmented governance (2002:26). Empowering of parliaments and holistic planning authorities on all administrative levels are recognized as counteracting measures.

To explain the last paragraph on weak co-ordination mechanisms we may refer to what has been called Scharpf's Law (Hooghe and Marks (2001:5): 'As the number of affected parties increases…negotiated solutions incur exponentially rising and eventually prohibitive transaction costs' (Scharpf 1997:70). In the system of Distributed Public Governance, the problem of technical, communicative or legal co-ordination of the many actors and bodies escalates immensely with growing numbers and the transactional costs will ultimately be excessive, according to Scharpf's Law.

We may remark here that too many coordinating partnerships and controlling and participating bodies will as existing bodies make the number of actors grow and critically increase the transactional costs. They progress in the manner of exponential growth and the steep part of the curve visualizes the risk generated by fragmentation of the public sector.

In this perspective, the weak co-ordination mechanisms of that these countries report are not a failure connected to the poor performance of public governance,

Scharpf's Law illustrating exponential growth over time of transactional costs because of extensive coordination and control functions

but are instead a *consequence* of the Distributed Public Governance system itself (Veggeland 2003). Thus, according to the OECD report (2002), there is a growing focus on *good governance and more coherent public services*, that is, on solutions for policy and structural coherence, including having the autonomous bodies work on joint projects and in public-public partnerships.

Hence, the focus of the involved states in the OECD study covers these taming policies:

a) Administrative strategies that make the creation of new independent agencies, public corporations in the service sector and autonomous bodies unnecessary.
b) The greater involvement of civil society and the tier governments in multilevel governance.
c) Improving the parliamentary control over activities for the sake of more holistic responsibility.
d) And lastly, there is a growing political will to make the overall system more legible and accessible to people, and the mechanisms of accountability, activities and performance more easily controllable by parliaments, on all tiers and in accordance with the principle of subsidiarity. All in all, these new priorities imply the importance of making democracy work from below, involving the citizens and the civil society, and making sub-national governments and elected assemblies strong again – also in the context of the EU (Van Gerven 2005).

The political economy of the independent authorities

Kjell Arne Røvik (2007) has elaborated the fact that ideas and institutions do not flow or homogenize instantly but that the 'travel of ideas' is an active social process of translation. This translation process transforms social-institutional paradigms, but administrative traditions represent contexts that influence the translation. Besides techno-economic and social-institutional paradigms belonging to dominant states of power will in an international context through hegemony influence the content of the translations.

The UK and the US were two early pioneers in the political process of fragmentation and the idea of erecting independent regulatory agencies and authorities, starting in the 1970s under (perhaps oddly) Labor and Democrat governments. From those countries, the idea spread to other countries with the Anglo-Saxon model and further to countries both of the Nordic model and of the Continental model (Veggeland 2007). Five distinct developments in a political-economic perspective characterized this diffusion and its context (Djelic 2006).

First: The stagflation crisis of the 1970s had a nearly global impact and revealed everywhere that Keynesian economic instruments failed in the fight against increasing unemployment and inflation. Finding their steering instruments ineffective, governments were susceptible to influence from neo-liberal ideologies and recommendations about NPM and the use of MTMs.

Second: The crisis increased the dependence of many countries on international financial institutions (Keohane and Nye 1977), such as the International Monetary Fund (IMF) or the World Bank (WB). They promoted neo-liberal policies and management strategies for privatizing (minimizing) and marketizing.

Third: The fall of the Berlin Wall and the collapse of the Soviet Union implied the victory of capitalism and liberalism and extrapolated as a victory over socialism and state interventionism. The new Eastern Europe countries became heavily dependent on international financial institutions, the US, the EU and other rich Western countries. All market-oriented ideas were proclaimed together with radical forms of political and social liberalism (Olsen 1995).

Fourth: The US was rising meanwhile to hegemonic power, or perhaps more accurately, an empire. Since 1945, the diffusion of ideas has been highly uniform. The flows of ideas, institutional reforms, rules of the game have gone predominantly one way – from the US to the rest of the Western world and not the other way round. Political and economic power is important when ideas travel and are translated (Rometsch and Wessels (eds) 1996).

Five: In a knowledge-based society, borderless flows of ideas, principles, techniques, rules and frameworks are the norm. Academics, consultants, civil servants and managers all participate in transnational networks in the global age, and flows of dominant ideas tend to influence their thinking (Røvik 2007). Because US hegemony is both dominant and extensive not only in the sphere of politics but also in other areas, the Chicago-monetarist thinking is bound to the new techno-economic paradigm of the regulatory sate, combined with the related social-institutional paradigm of neo-liberalism, and the use of Market-Type Mechanisms has quickly spread world-wide.

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2 ADMINISTRATIVE TRADITIONS – A POLITICAL-ECONOMIC PERSPECTIVE

Abstract

Social policy formation does fundamentally relay on the outcome of the debate about the future of the European welfare state. From the perspective of the political-economic approach, social policy formation is a dependent variable to both European integration policy and national administrative traditions. However, the national state does not act in a sovereign manner neither in relation to the European Union (EU) nor to domestic member actors. All of them confronted with a so-called "trilemma" aspect, a term first introduced by the US social scientist Torben Iversen (2005). In this paper, I follow up his analysis and shows the difficult choices that confronts policy-makers on the different administrative levels because of this trilemma and its trade-offs. New Public Management ideas are dominant and for the time being confront the other ruling administrative social traditions of Western Europe. In this paper, I conclude that a European agreement on a social choice, related to the overcome of trilemma, must be accomplished to save the welfare state model as we know it. The traditional Nordic welfare state model gives an example.

'Spill-over' processes

The study of international policy in traditional political science in the years following World War II had the tendency to use theories that explain integration in relation to the development of institutions and the regulation of the relationships through agreements between sovereign states (Rosamond 2000). The development of Western welfare states in the 1950s and 1960s until the mid-1970s took place under highly favourable circumstances, aided by continuous growth in the economies, and governments were able to manage national budgetary control (Veggeland (ed.) 2016, Tinbergen 1965). Political economic analypses, therefore, characteristically emphasized a national, state-centred perspective bound both to the techno-economic paradigm rooted in Keynesian state intervention and principles of effective-demand and to the socio-institutional paradigm of the Weberian bureaucracy (Olsen 2005, Brunsson 2011).

This is particularly true of the realist school (Cini 2004). Realism claims that international politics is about interaction of self-interested states in an anarchic environment, where no supranational authority is capable of securing order and reducing risks. According to Neil Nuget (1999: 509), the theory 'is centred on the view that nation states are the key actors in international affairs and the key political relations between states are channelled primarily via national governments'. Thus, realists have focused exclusively on governmental institutions and actors and their taming roles in internationalization and transnational co-operation (Veggeland (ed.) 2017).

The same is true for spokes men of the inter-governmentalist approach. They point out that there is significant evidence of inter-governmental bargaining and consensus-building techniques as dominant modes of policy-making in many areas (Moravcsik 1993, 1998). They understand that, despite an anarchical environment, there is some potential for order on the basis of international co-operation. It is especially true when governments enter negotiations and bargaining processes and reach legally binding agreements, and these establish order and favourable co-operative networks. The EU states are an example of such co-operation (Hoffmann 1966, Moravcsik 1998). This is the traditional community method of integration based on hard regulation; the method depends on bargaining processes and consensus building, with member state governments as actors. The output takes the forms of laws and regulations, and ever more authority gravitates to the supranational regime of the EU, which also becomes an independent actor of defined political areas in continuing bargaining processes. Inter-governmentalism is not only of relevance to EU politics; it also refers to a type of decision-making and partnership building that occurs within all international network organizations.

These theories of realism and inter-governmentalism, however, ignore central functional national actors, such as financial agencies, regulatory arm's-length administrations and other governmental bodies, private businesses and NGOs, which act in trans-border networks. Also sub-national political administrative actors are ignored, such as municipalities and regions (Anderson 1994). In the global age, these extra-governmental actors take advantage of their beneficiaries' networking abilities and thereby transfer their demand, expectations and their loyalties from central government to new centres (March and Olsen 2005,Veggeland 2013). Cross-border and transnational initiatives are taken, and agreements are settled out of the remit of the central government.

Consequently the neo-functionalism strand, another dominant school of understanding integration and the development of network organizations, has extended the non-governmental perspective and recognized that political goals can only be realized if strategic thinking includes 'beyond-government' actors, that is, socio-economic sectors, interest groups and acting individuals (Haas 1958, Nye 1971). Beyond governments, such actors co-operate in networks and develop themselves through the advancement of agreements and contracts, ones not rooted in trust but in mistrust.[1] This advancement both of functional and benefit-making network extensions and of pressure for further integration of other sectors and interest groups is termed 'functional spill-over' processes.

The occurrence of 'spill-over' processes and the concomitant increase of mutual dependence between an increasingly number of actors become predominant (Strøby Jensen 2004). The option actors have for exiting partnerships, moreover, exacerbates these conditions of vulnerability. These conditions reflect the vulnerability of the decision-making processes of European Community, which is 'spilling-over' in the direction of an ever-closer Union. As elaborated by Ernst Haas and other scholars (Haas 1958, Wallace, Wallace and Polack 2005), the European integration commenced with an initial decision by six governments to place a certain sector, in this case coal and steel, under the authority of a common central authority, the institutions o the Coal and Steel Union. There was enormous pressure to extend the authority of these institutions into neighbouring areas of policy, which ended up with the Treaty of Rome as a part of a first round. Thus, neo-functionalists had predicted the expansion and deepening of European integration with an increasing number of member states and involving many other issues, such as monetary policy and service industries. Despite legal binding treaties and regulations, the neo-functional school understood that organizational dynamics entail vulnerability in the sense that the processes by themselves generate unforeseen consequences, which may well not be acceptable for member states and extra-governmental actors. In a taming perspective, the threat of the exit option may deliberately change the development path though (Neyer 2002, Veggeland 2004).

Neo-functionalists think from the perspective of economic-base theory and typically link politics and social-institutional paradigms as a 'functional spill-over' from economics, that is, techno-economic paradigms. Functional economies tend to adopt functional institutions, and, dysfunctional economies tend to adopt dysfunctional institutions. Using this neo-functional conceptualization, we might identify the regulatory state order of institutions to be a 'functional spill-over' from monetarist and supply-side economics. If the international economic system of this kind becomes disordered, the regulatory institutional system will, accordingly be put under immediate pressure for change (Sandholtz 1996).

Joseph S. Nye (1971) defines functional 'spill-over', therefore, as a way of re-establishing the balance after an imbalance has arisen between political organization and functional power connected with economic market forces. Functional 'spill-over' takes place when inadequate state organization undermines the effectiveness of politics and planning in the different social sectors, just as the Keynesian state did in the 1970s. We may consider what is termed deregulation and re-regulation as consequences of functional 'spill-over' from market-making and market-correcting policies (Scharpf 1999).

Political 'spill-over' occurs when national, sub-national and supranational arm's-length bodies, interest groups and other bodies create additional pressure for the further extension of mutual networks of co-operation; if these demands are not fulfilled, then co-operation dissolves. The latter outcome is an indication on partnership vulnerability, rooted either in rational choices or in mistrust and conflict. Another outcome might realistically be the establishment of new regulatory bodies in order to provide necessary services, to control the rules of the game of co-operation or to correct the market through re-regulation. However, this latter solution should make governments and other stage holders at all levels of decision-making to think critically about necessity taking into consideration the already existing numerous arm's-length bodies (OECD 2002, Veggeland 2004). We have already encountered this phenomenon in the different forms of institutional modes of the regulatory state (Majone 1996:9–28).

The neo-functionalists have a pluralistic, but somewhat deterministic view, on network development and the attempts that participating actors make to regulate corporations, bargaining processes and agreement settlements. Probably because of the neo-functionalist tendency to regard 'spill-over' processes deterministically, what is underemphasized is the vulnerability of those 'spill-over' processes. What is missing here is the inter-governmentalist view that recognizes that governments undertake certain activities that may cause friction or totally undermine further network developments and expansions (Pollack 2005). Further, neo-functionalists are also guilty of neglecting the 'spill-over' of regional and local political structures. In contrast, the liberal strand of inter-governmentalism, which includes a liberal theory of national bottom-up preference formation, recognizes this phenomenon (Moravcsik 1998).

In our analysis above, we have tried to show how the state apparatus together with numerous other actors participate at national and transnational network arenas, creating agreement-based structures of governance as part of the regulatory state order (Veggeland (ed.) 2017). Public-public and public-private partnerships operate also in these arenas: they progress but at the cost of generating vulnerability. This susceptibility partly reflects the increasing 'hollowing-out' of traditional sovereignty of the European national state. At a high political level, the pooling of national sovereignty in the EU is essential. However, equally important is the parallel movement at the national level, namely the pooling of state authority in partnerships and arm's-length governmental bodies and agencies.

The neo-functionalists have noted – and this is the essential point in a pluralistic perspective that new industrial forms of organization and arenas for regulation are the consequence of functional and political 'spill-over' effects in the building of new economies. The new forms in the industrial sector reflect in some sense the function of fragmentations in the public sector. There has been a change in the market forms of production; the character of production has changed from Fordism to post-Fordism (Amin (ed.) 1994). Fordism was intimately bound to Keynesian economy and the need for balance between an interventionist state and the business sector. Compacted, hierarchical organized businesses of mass-production confronted a monopoly-based hierarchical state, in a policy framework of scale. At the time the form represented a stable mode of macroeconomic growth.

The transformation of this market form of production to Schumpeter-inspired post-Fordism occurred in the 1970s; the compact hierarchy structured was split into small, flexible, consumer-adapted business units. It is commonly accepted that three theoretical approaches together, each offering a somewhat different perspective, capture the essential characteristics of this post-Fordist political economy (Amin 1994, Sable 1994). These are:

1) The regulation approach understands the transformation to post-Fordism as a somewhat parallels process of industrial fragmentation to the establishment of arm's-length bodies and agencies in the public sector. The reconstruction of the mother company into smaller branch firms inhered a belief in the principle of 'steering without rowing' in the economic interest of more effective indirect management by means of the distant regulation of subsidiaries.
2) The flexible specialization and customer-adapted approach understands this transformation as a fix for the demand for fast changes in production, technology and internal organization in order to satisfy customers. All of these aimed at making the business more productive and competitive.
3) The neo-Schumpeterian approach understands the transformation as an adjustment of the 'socio-institutional paradigm' in the business sector to the new 'techno-economic paradigm' of the regulatory state. Aside from competition in the market, a diversity of smaller units delivering items and services to the mother company could encourage 'creative destruction' and industrial innovation.
4) Creative destruction and innovation in the business sector indicates risky but beneficial undertakings and dynamics in growing economies. The vulnerability attached to economic recessions appears in the sense of threatening overall destruction.
5) Smaller units delivering items and services to the mother company have their basis in the principle of 'just-in-time' delivery in order to be effective organizations. Such a principle is by definition vulnerable. For example, a strike at one firm or an infrastructure failure at another will, for a period-of-time disrupt the whole production cycle of the company. A strike at one unit will negatively affect other workers' conditions elsewhere in the production chain, which raises ethical considerations.
6) Vulnerability of this kind creates a need for wide-reaching regulations and measurements of goal achievement. Post-Fordism biases, therefore, the building of the regulatory state.

Dependence, vulnerability and sensitivity

We may take those neo-functionalist network theories that do not allocate to the state a central position, as is the case with realists, as a starting point. Several scholars have elaborated the social-institutional paradigm of the weakened national state with regard to both dependence and interdependence effects, caused by network mechanisms. As early as in 1971, Joseph S. Nye published the article 'Comparing Common Markets: A Revised Neo-Functional Model'. Later, Nye together with Robert O. Keohane published *Power and Interdependence: World Politics in Transition* (1977). Their theories are well suited for throwing new and better light upon the development of forms of interaction in networks, which have occupied a dominant position in the 1980s and 1990s. They assert that the state does acts in a sovereign manner neither in relation to international and domestic actors in the market nor in relation to political and administrative actors that have clearly acquired a position of relative autonomy within the state system. Two important concepts in this respect are 'interdependence' and 'network integration' with regard to partnership formations like the EU (Veggeland 2004).

Dependence means that one actor unilaterally, becomes influenced by the actions of other actors. *Interdependence* refers to a situation of mutual dependence, as is the case in national and international arenas of network governance. Interdependence does not presume likeness between the parties; instead, partnership formations based on bargaining will mean that power connected to political and knowledge-based resources favours one of the parties. The concept of interdependence normally only becomes defined descriptively, without an evaluation of its desirability. But, interdependence may result in economic and social inequality, what in EU-language calls a 'lack of economic and social cohesion' – belonging – between states, regions and social groups (Keating and Loughlin (eds) 1997). This also applies to the issue of social-institutional standards.

With reference to interdependence, Keohane and Nye (1977) proposed *sensitivity* and *vulnerability* as two dimensions of interaction, both of which need to be tamed. Nye has later elaborated this notion further and has suggested a 'three-dimensional chess model' as a basic term of reference to high politics (2004). In the first dimension, strategic military concepts of power are developed, and in the middle, second dimension, techno-economic concepts define the competitive strength of the state. Lastly, in the third dimension, supranational networks of world-wide-web transactions expand the transmission of things like money transfers, information and messages; there are also computer hackers and terrorist groups as well as the presence of corruption, unethical investments and pandemic and environmental threats. States play more or less successfully on all the three arenas of this chess model, but nevertheless a high degree of vulnerability and sensitivity dominates the game.

As a case in point, Nye critically puts the contemporary US into this game and makes an evaluation according to the framework of the three-dimensional chess model. The US dominates the military play dimension as a superpower of the world. Concerning the second area of play, other economic players like Europe or the EU, China, Japan and Russia, compete well and put pressure on the US economy. Furthermore, the contemporary US loan-driven economy makes this play-dimension vulnerable for reasons embedded in its own monetary system (a statement supported by F. Lordon 2008). However, as a player in the bottom arena, the US is really in trouble and has turned out to become especially vulnerable, and we need only to mention the presence of international terrorist networks in this arena.

According to Nye, the US has not been playing this game well. The US has basically first and foremost played internationally and has tried to tame the top arena, that is, the dimension of military strength and forces. This had to turn out as a strategy of failure; military power serves the chess player little in winning games related to the two other dimensions of the model, and especially not at the lowest dimension. Dependence, interdependence and 'spill-over' effects in the unbalanced chess games the contemporary US has been playing for years increase its vulnerability.

According to Nye, environmental problems belong to the dimension of the world wide arena and respect no order. These problems pay no attention to national and administrative boundaries. They are human-made but the disorder they create related to vulnerable natural ecosystems of interdependent elements, and ecosystems are complex and have their own boundaries – ranging from the local to the global scales. This is the physical side of environmental problems, but there is also a regulatory side. The problems have arisen partly because of many national and local political decisions and interventions without any overall planning and coordination and partly because of the many decisions taken by actors competing in the market, the middle dimension of the chess model. The environmental problems, which are caused by both private and the public activity, therefore, appear as a mixed-dimensional problem.

Dependence on natural goods and resources in relation to human existence and economy leads to regulatory interdependence between states, regions, organizations and businesses. The effects of the ecosystem create vulnerability where regulatory authorities, whose efforts are indispensible for a multi-dimensional winning game, are lacking. Without a rational overview of networks and mechanisms, environmental problems will expand and decreasing efficiency in the economic dimension will follow, thus further disturbing the international balance (if there happens to be any) in the defence and security dimension.

Damage caused by slippages of environmental waste management often crosses boundaries but can often be treated one-dimensionally. But regulation and planning for sustainable development is not an issue that only affects the relationship between states; a pluralistic multi-dimensional perspective is necessary here, and it involves not just integrated co-operation between governments and economic actors; political actions and ethical behaviour are required at all levels – from the global to the local. The EU principle of subsidiarity, that is, devolution of decision-making competence to the lowest possible level but high enough to be effective, formulated in the Maastricht Treaty of 1992, offers guidance to the multi-dimensional perspective. Consciousness of global environmental problems, along with processes of internationalization in general, increases awareness of the complex, interdependent bonds and structures that exist between an indefinite number of global, national and local actors, and thereby a keener awareness of the sensitivity and vulnerability inherent in these connective formations.

As is commonly known, the complex economic enterprises of post-Fordism barely heed national and administrative boundaries in their market transactions (Amin (ed.) 1994). A municipality, a region and a state are *sensitive* to the types of interdependence created in the system of enterprises established on the basis of flexible specialization and new technology. But, because of the high level of dependence, the post-Fordist system of production turns out to be *vulnerable*. And vulnerability concerns not only the economic dimension and its relationships but also the operations between states, regions and private actors in the growing global market, acknowledged by that European co-operative network, the EU.

Interdependence and vulnerability create a need for wide-reaching agreements and regulations. Regulatory measurement assumes coordinated political arenas of decision-making and implementation at all levels. The general framework of national and international laws, special laws, the use of management by objectives, benchmarking and the evaluation and comparison of output are all important. This applies to the sustainable development of modern communication and transport, the exploitation of both sea and land resources, industrial spillage and technological development in general. It narrows the 'free room' in which each state, region, municipality and enterprise have when exercising their sovereignty.

Usually, pluralists do not operate with any clear distinction between domestic and foreign policy (Dahl-Eriksen 1997). On the contrary, the assertion is made that the division between inner and outer sovereignty is increasingly difficult to maintain in the light of processes of internationalization. For planning and targeting sustainable development, this means that domestic planning must be integrated with international planning actions (Williams 1996, Veggeland 1996). Correspondingly, while authorities with the legitimate power can sanction those who break agreements, these sanctions must be enforced on the different levels as an administrative consequence of political 'spill-over' effects.

A fundamental characteristic of the theories of interdependence is that they do not in principle regard the international system as a set of different national and regional economic and social systems. This view means giving up the belief in an anarchistic international system, where co-operation and institutional development only involve questions of security. The latter understanding of the processes of internationalization represents a natural development of the position advocated by realists and rationalists in political science, which asserts both that it is not possible to break with the principle of state sovereignty and that no global authority is capable of taming conflicts of interest and securing order (Cini 2004). Intervening in the domestic interests of the national state is forbidden by international law. Globalization and interdependence in the sense of the networked society (Castells 1996) provides a foundation for changing these laws. New forms of regulation, based on the EU, can support this change without abandoning pluralistic and democratic forms of state. Further, new modes of interacting, cross-border planning and governance must be developed to match the new situation and the liabilities of sensitivity and vulnerability (Krasner 1983).

The Search for security and safety

Through the history and different phases of European integration, at least three general models have been the foundations for matching social-institutional paradigms together with new structures in order to counteract repercussions of socio-institutional sensitivity, vulnerability and risks: the Continental, Anglo-Saxon and Nordic models, with their different administrative traditions (Knill 2001, Veggeland 2007).

From the launching of the European integration process and the adoption of the Treaty of Rome in the 1950s, and with the inner six Continental states, Germany, France, Italy and the three Benelux countries, as founder states, the Continental model naturally was dominant. This administrative tradition created path-dependence of state-focused con-federalism and interventionism as a reflection of the Keynesian state (Millward 2000). From the Continental tradition came the policy inspiration to embrace European social partners, the European umbrella trade union (ETUC) and the private and public employers' interest organizations, respectively Unice (now Businesseurope) and CEEP, to the negotiation table (de Buck 2004). The goal was taming and correcting the integration process by putting social concerns on the agenda. A sort of a Continental corporatist style was the result. The Maastricht Treaty from 1992 introduced the 'Social dimension' of the Community, with the expressed goal to create arenas for deliberative talks, and thereby to reach consensus instead of conflict on social and labour market issues. The Anglo-Saxon state, the UK, was exempted from the EU social dimension, and in 2008 the UK still remains outside this facet of EU policy. From 2016 on UK now seeking exit from the EU membership after its referendum hold. The negotiation on "brexit" is an ongoing process until 2019.

The dominance of the Continental tradition lasted until the end of the 1980s (Urwin 1996). The adoption of the Single European Act in 1987 and the introduction of the Single European Market process one year later marked a fundamental contextual change (Austvik 2002, Wallace, Wallace and Pollack 2004). The strategies of minimizing the state and marketizing the public sector, of Anglo-Saxon origin, became dominant policies (Pollitt and Bouchaert 2004). Further, the member states decided to deregulate – and re-regulate – to create a territorially wider, borderless, single European market. The new regulatory state order of the EU took over. We might say that this caused the transformation of the social-institutional paradigm, much in accordance with the Anglo-Saxon social model and market-orientated administrative tradition.

How did such a transformation occur? When the United Kingdom had joined the European Community (EC) in 1972 as a major member state, the global recessions, inflation, unemployment and stagflation had reached all the member states' shores. The crises biased and pressed forward change, or at least modification, of the techno-economic and socio-institutional paradigms. The Anglo-Saxon model and the tradition of organizing governance became dominant and changed the Community's method away from state-focused con-federalism and interventionism and moved in the direction of the regulatory-state paradigm based on market-centred policies, modes of New Public Management and supply-side economics. The concept of the Social dimension and the involvement of social partners in negotiations, along with sensitive issues like work conditions and social and labour-market reforms, were temporary taken off the record (Koukiadis 2006).

During the 1990s, both the ability failure of the EU to compete in the global economy and the democratic and legitimacy deficit became central issues, threatening the core identity of the Union (Hayward and Menon (eds) 2003). And when the Soviet Union collapsed, the political situation in Europe changed radically. The poor Eastern Europe states wanted membership status in the 'rich men's club', and the Amsterdam Treaty of 1997 made the opened the door to them (Glenn 2004). Ten new states joined the Union in 2004, and two more in 2007, bringing with them heavy social and economic burdens that were expected and immediately felt. Reforms were necessary, and they were formulated, agreed on and implemented as socio-institutional changes. In our context of studying the social model, the Lisbon Process, launched in 2000, was to be a crossroad (Janssen 2005). The Lisbon Process was targeting the ambitious goal of making the EU the most competitive region globally.

Hence, there were at least at two important events during the spring of 2006. European political and administrative leaders discussed modes of competitiveness and robust governance in relation to such models. Their explicit focuses was on the Nordic welfare-state model and its regulatory approach to social security and on whether such a successful model that offered low socio-economic risk and vulnerability could be applied to other member states, especially those in distress (EU program 2006). This idea motivated scholars to revisit the Nordic state-focused social model and participatory administrative tradition in a comparative perspective, to find out the essential characteristics of the paths of development coming from this model and to determine why the model is considered successful 'in the global age' (Veggeland 2011, EPC 2005, Timonen 2004).

As mentioned, the EU search for an innovative social model commenced when the European Council held its meeting 23–24 March 2000 in Lisbon and agreed to set out a new ten-year strategic goal for the European Union. The goal was to make the Union,

> *the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*[2].

The Lisbon Process was launched. But right from the start critical voices made themselves heard, like 'Lisbon's single size does not fit all' (Mayhew 2005), meaning that the Lisbon process from the beginning was far too fixated on economic conditions for competitiveness and taming externalities at the expense of considerations of social security and welfare.

In short, the Nordic model seems to offer more than a 'single-size' method in the pursuit of competitiveness (O'Sullivan 2005). The model seems to offer everything that European decision-makers are looking for: highly competitive economies in conjunction with less social inequalities and the institutionalized taming of risks and regulations for job protection (EPC 2005, Kuhnle 2000). In the 2000s, this rather expensive welfare-state model appears to represent a multi-dimensional method with the potential to generate a successful road for the development of the future EU and for (some of) its member states.

Of course, all these things are extremely complicated. We need European-wide multi-disciplinary comparative research to enhance the knowledge of what happens when social models travel across borders.

Welfare-state security and risks

As elaborated above, we may view innovation in the public sector not as accidental changes but as contextual changes. In the European context, it means that path-dependence, owing to different territorial social models, strongly influences such changes (Veggeland 2007). In close connection, another issue arises regarding innovation. New ways of making such changes, and transcending them, also occur when European social models interact across borders and trigger interpretations of new ideas that bias policy and institutional change. Interpretation theory make explicit that there are at least two basic perspectives involved (Røvik 2007: 22–23): the interpretation may be either contextual or out of context. In the former case, innovation is linked to already existing social models and traditions; path-dependence thus determines the norms, principles and values (Knill 2001). In the latter case, there is the simple copying and imitating of first- or second-order changes without taking account of domestic values, management ethics and steering traditions.

In general, regulatory innovation[3] includes strategies for improving the management of risk and the pursuit of state legitimacy in the 'risk society' (Beck 1992). Innovations in the way risk is moderated include threats to welfare, social security, labour market, social and human capital, gender discrimination or otherwise, environment, economy, national security, and so on (see Taylor-Gooby (ed.) (2004)). Re-regulation, a term for new regulation aiming for the reduction of risk and taming purposes is a term often used to express regulatory innovation, for example, providing social capital through market correction or the partnership approach (Scharpf 1999).

Some researchers have pointed out that the welfare state does not have its basis on 'politics against the markets', as is commonly assumed in the neo-liberal Anglo-Saxon tradition, but rather on the social-democratic mixed-economy approach, that is, 'politics *with* markets' (Iversen 2005:73). We may add to this the postulation of 'politics *by* the market' if we take into consideration how the principles of New Public Management (NPM) and Market-Type Mechanisms (MTMs) have penetrated the traditional Scandinavian welfare-state model and administrative tradition (Pollitt and Bouchaert 2004, Veggeland 2004) and constituted the current Nordic social model (Veggeland 2007). This change has innovatively formed and adapted social capital to a new stage of welfare-state performance. The three postulations seem reasonable, but we should qualify them with an answer to this question: which changes to the welfare state provides greater social capital to its citizens more than others?

Although, it is popular to point out that the market, including global markets, interferes with the welfare state and vice versa, it is obvious that this interference occurs along different paths, depending on the actual social model of the states (Beetham et al. 2002). As mentioned in previous chapters, we have at least three general welfare state models in Europe, which link correspondingly to the three administrative and political traditions. Let us elaborate these somewhat further.

- **The Continental welfare-state model,** which is dominated by strong trade unions, is said to be of a *corporatist type* with a heavy regulated labour market. As discussed earlier, high job security and protection through industrial relations plays a key role (Koukiadis 2006). For this and other reasons, the corporatist welfare states are, in many ways, based on *politics against markets* more than other European states. Administrative rigidity and slow process of renewing social capital hamper the corporatist Continental welfare-state model. These features are not accidental but due to traditions and developments of institutional path-dependence (Knill 1999).
- **The Anglo-Saxon welfare-state model,** dominated by the adoption of market-centred policies, is said to be of a *liberal type*. The liberal welfare states use MTMs and independent agencies to provide welfare services. The labour market is sparsely regulated and has low job security and protection (EPC 2005). This welfare-state model more than others qualifies for the notion of *politics by markets*. With regard to innovation of social capital, the model is restricted by ideological resistance to changes from the first and second levels to the transcending third level, which concern the basic values and principles of neo-liberalism. Again, this occurs not accidentally but is a result of biases historically rooted in the liberal model, and we may best view it as a as institutional path-dependent development.

- **The Scandinavian/Nordic universal welfare-state model,** dominated by state-centred policies and high welfare expenses, is of the *universal type* (Veggeland (ed.) 2016). The universal welfare states offer universal social security and job-protection arrangements. Further, it is a governmental responsibility to prioritize such labour-market tasks as life-long learning and the development of skills from another point of view, the Nordic post-war labour market has become rather liberalized and the Market-Type Mechanism (MTM) of outsourcing is often put to use for the provision of welfare services (OECD 2005, Veggeland 2007). This makes the universal welfare-state model qualified for the notion of *politics with markets*[4]. The public sector has selectively learned lessons especially from the Anglo-Saxon model, and in some parts of society the third-level of changes is reached, that is, innovative changes. This achievement concerns the concept of social capital, which has been renewed in the contemporary Nordic model. One example is how welfare politics has become connected to labour-market politics in an innovative way. The outcome has been the great social capital of 'flexicurity', i.e., interactive co-play between social security and active labour-market policies, which brings flexibility to the labour market and therewith competitive advantages in the global age (EPC 2005). As with the other models, the contemporary universal Nordic model of the welfare state has also taken its form owing to its historical welfare-state roots and institutional path-dependence (Olsen 2004).

One main reason why the Nordic model has been receiving renewed EU attention under the auspices of EU in crisis strategies is the belief in the social capital of flexicurity and other universal welfare state arrangements of the model (Europe's World 2005). In a time when states and regions are more than ever competing globally and are intensively engaged in political and economical measures to maintain a high employment rate while trying to keep inflation and public expenses low, it is understandable that they are looking for innovative solutions (Iversen 2005, EPC 2005). Records of public budgets confirm over the years, however, that the Nordic welfare and social-security costs consequently represent a high burden on the public budget. Why, then, is this model so attractive? The answer may be very simple:

> Social capital in the Nordic welfare-state model creates a high level of labour productivity. The labour productivity generated through high degree of national employment means more than just 'full employment' in the Keynesian sense. It means work, training or education for everybody irrespective of social groups, gender, ages and individual differences. The pay-off of this is ability to afford expensive social security, which in turn results in the taming of social inequality that facilitates the renewal of the social capital of flexicurity in an ascending innovative circle.

The empirically based thesis is that universal job protection and social security shape the incentives workers have both for investing in particular market-attractive skills and life-long learning and for changing work and work-places without personal risk. Labour market flexibility is the innovative outcome of the Nordic active labour-market policies: education, lifelong learning, kindergartens that help women's access to the labour market, and so on. Firms benefit from such flexibility and access to skills because they are critical for competitive advantage in knowledge-intensive economies. 'Firms do not develop competitive advantages *in spite of* systems of social protection but *because of* it' (Iversen 2005: 74).

The European social-capital trade-offs

The welfare goals of a state need, of course, to be paid for if they are to be realized; social capital is an instrument to accomplish that realization. Analytically, a neo-liberal perspective may view the building of social capital in modern states directed basically, by three goals: low inequality, low unemployment and low public expenses. These socio-economic goals are linked to three distinct policy choices that are characterized by a 'trilemma'. This trilemma occurs because it is difficult to pursue successfully all three goals simultaneously as long as there are trade-offs between them (Wren 2000). At this point, and before elaborating this statement further, there is a need to define and distinguish the notions of trilemma and trade-offs. For these purposes, I shall follow the work of Pollitt and Bouckaert (2004: 162):

Trade-offs: where there is more than one desideratum or more than one problem to be alleviated, there will inevitably be the failure to attain other desiderata or the worsening of different problems. This is a situation, therefore, where decision-makers are obliged to balance between different things that they very much wish to achieve but cannot possibly have them all at the same time – indeed, having more of one desirable thing entails having less of another. In the political world, appropriate choices often are those that essentially make the best out these unavoidable, constrained conditions with the guidance good governance grounded on a pragmatic approach. Yet, norms, values and traditions will affect these choices by making one set of options more preferable than the other. Governments thus tend to compromise the goal that is least ideologically important to them (Weaver 1986) in order to maximize the others in their struggle to retain their position of political superiority. We may take the following as an example. According to the perspective of historical institutionalism (Cini (ed.) 2004), if decision-makers were to engineer the use of social capital as short-term instrumental capital, then the long-term perspectives aiming for sustainability and the supremacy of good governance values will often be insufficiently communicated.

Torben Iversen (2005: 146–147) has highlighted this ideological aspect of the trilemma arising from the challenges of the global age of keeping unemployment, inequalities and public expenses in check, in short, the ideological aspect involved in social-capital tradeoffs. One strategy was to deregulate labour markets to reduce the power of employee unions and to increase wage flexibility. The governments of the Anglo-Saxon tradition, the US, the UK, New Zealand and Australia during the 1980s exemplified these neo-liberal policies. Another strategy was both to accept the consequences for employment resulting from a compressed wage structure and to seek to limit the disruptive effects by discouraging the entry of women into and by facilitating the exiting from the labour market, the latter being primarily affecting the elderly through early retirement. This is the typical pattern of choices we do find to some extent in some Continental European countries.

The final option was to accept the slow growth of employment in private-service sectors but simultaneously to pursue an expansive employment strategy through expansion of public-sector services in order to balance the effective demand in the framework of Keynes. This strategy also strove to improve the educational resources for younger people as a policy approach towards building social capital. The social- democratic governments in the Nordic countries, where the ideological tenor favoured the financing of higher public expenses by full employment and by high tax rates, often chose this option.

As we observe in this process of compromising goals and policies, social models, administrative traditions and path-dependency play essential roles for what decision-makers consider being appropriate choices and how they implement their strategic thinking on social capital (Sverdrup 2007). We may argue that the trade-offs involved in European social-capital policy have this following inconsistency:

On the one hand, creating jobs and employment in the private-service sector is a positive strategy in that it does not disturb the budgetary balance; however, this strategy has certain trade-offs: lower wages, higher non-wage costs and the inducing of negative inequality in the sense of lowering the degree of employment in the population and thereby reducing work productivity. On the other hand, the strategy of generating service jobs in the public sector also has trade-offs; the strategy indeed pushes the limits of already constrained and overloaded budgets (OECD 2005).

Politicians in charge do have the obligation to make decisions. Concerning social capital, they look for a European model to minimize the trade-offs, that is, to find a model for flexible job creation, for social equality and for welfare, but all within a sustainable economy (Janssen 2005, Rasmussen Nyrup 2005). The overall goal was and is to make Europe the most competitive region in the world, as was announced at the Lisbon summit meeting in 2000,[5] but the trade-offs in social capital certainly challenge this goal.

European traditions of governance and trade-offs

In our context, we may briefly describe the trade-offs of equality-employment and public expenses of the European welfare-state models and paths in the framework of innovative social capital as the following (Veggeland 2007):

- **The trade-offs in the liberal welfare-state model:** As pointed out before, the Anglo-Saxon administrative tradition weighs market solutions and regulatory measures and has the lessening of state intervention as an explicitly expressed objective for the service sector. Universal welfare and health coverage are not guaranteed. The employer provides the workers' health and social insurance, while the government covers the health expenses for the poor and the elderly who fall outside this insurance system.
  - In this tradition, the response to the equality-employment tradeoffs was to give job creation and labour-market flexibility priority while it reduced job protection and social security. The use of contracting workers reduced the power of unions and increased wage inequality during the 1980s. The politicians and economists believed in a flexible labour market that would make full the use of economic capacity and promote job creation, innovation and growth through a flexible labour market without fixed tariffs and expensive welfare services; the engineering of short-term social capital was part of this belief. For neo-liberal economists, market flexibility is the ultimate precondition and solution for increasing productivity and revitalizing the European economy in a globally competitive world.

- **The trade-offs in the Corporatist welfare state:** The Continental administrative tradition depends on corporative solutions and state-interventionist measures. Health and social insurance are guaranteed, although the latter is a mixture of public and private institutional arrangements. Traditional welfare services are kept in the public domain as 'services of general interest'. Trade unions are strong, but the problem is that there are too few jobs created. Reaching Hall's third-level institutional change did not, then, come through fast enough.
  - In this tradition, the response to the equality-employment trade-offs was to accept the employment consequences of a formal wage structure and hierarchical and rigid system of professionals, the latter of which also dominated the bargaining area. The labour market remained inflexible and the unemployment rate relatively high. Policies for social-capital building did not stand up to solutions that obstinately remained 'policies against the market'.

- **The trade-offs in the Universal welfare state:** The Nordic administrative tradition relies on public institutional solutions with regard to social equality, interventionist measures, universal welfare services and public health and social insurance arrangements as goals and means for the building of social capital (Veggeland (ed.) 2016). Institutional changes at Hall's three levels have created public innovations. Owing to the use of MTM in the public sector, like outsourcing and contracting out arrangements and the selective reorganization of public administration to Public-Law Agencies (PLAs) and Private-Law Bodies (PLBs), indirect governance by regulation has become common, and trade-union power has diminished since the 1980s (OECD 2002, Veggeland 2007, 2004).
  - In this tradition, the response to the equality-employment trade-offs was to accept sluggish employment growth in private services while expanding the public-service sector and public expenses, resulting in high taxes. The influence of professionals in the main bargaining arena was limited because Nordic labour unions, unlike unions in countries such as Germany and France, were sharply divided between blue- and white-collar workers. In addition, the governments took anticipatory measures for building human capital, such as life-long learning, adult education and continuous training in order to adjust skills to the changing needs in both the private and public sectors. Close to 20 per cent of all adults (those between the ages of 25 and 65) participate in some kind of adult education every year, compared with an average of around 8 per cent for the EU as a whole. A rather flexible labour market has developed as a result of the implementation of this concept of social capital. The pay-off from the universal welfare state facilitates the general acceptance of the relatively high tax level.

The Nordic countries have a long shared history, and through years have experienced similar and common social and economic developments. The most common feature of their systems is a well-developed welfare state characterized by its universalism, which means both that all citizens are entitled to basic social benefits and job protection and that there is high social spending, high taxes and a large public sector. They have succeeded in achieving a high degree of labour-market flexibility and are close to fulfilling one of the goals of the Lisbon Process of an overall employment rate of 70 per cent.

Employment policies lie at the heart of the Nordic countries labour-market policy, just as social-security policies lie at the heart of their welfare-state policy. The framework of the two policies is innovation and long-term social-capital building, such as flexicurity. Obviously, these policies pay off only when they are associated with low inequality and high public-welfare expenses and employment.

Even if they did not initiate the Lisbon Strategy, the Nordic EU member countries are very much comfortable with it – particularly its initial triple focus on the labour market, employment and social inclusion in a knowledge-based economy and under regulatory governance (Europe's world 2005). Actually, the similarity between the priorities of the Lisbon Process, and the past and current actions of social-capital building in the Nordic countries, has led some to ask whether or not the Lisbon reform agenda was simply an ambitious attempt by these countries to put their welfare state policy in line '*with the market*.' The flexicurity model firmly has influenced European economic and social models (Janssen 2005).

This interpretation is unlikely the case. The launching of the process of comprehensive renewal by the participants in Lisbon in 2000 represented a collective recognition of the challenges the EU faces and the need for a common response that would be able to draw on the best elements and paths of each member state's social and economic models and administrative traditions. This means a consensus across different models, rather than the imposition of one single approach on all the others. Indeed, some feared that the Lisbon Reforms would represent the introduction of a divisive Anglo-Saxon model, far from a Scandinavian one, and would then be only partially successful. This fear led to unjustified concerns that the actual agenda for growth and jobs would disastrously lead to high inequality, that is, less social protection and the undermining of the role of the State. There was also the fear that the same standards were not always been applied to the large countries in the same way as the smaller ones.

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3 THE NARRATIVE OF THE MODERNIZED REGULATORY STATE

Abstract

Scholars have formulated a wide definition with reference to societal values. Phillip Selznick (1985: 363) has, for instance, provided an uncritical understanding of regulation that is of particular relevance. He states that the central meaning of regulation "…refers to sustained and focused control exercised by a public agency over activities that are valued by a community". This statement is critical followed up in this paper.

According to Selznick, the emphasis on valued communal activities is important because the regulatory effort helps to uphold public standards, ethics and norms. He underestimates, in the early phase of the 1980s, the power concentration proceedings by the upcoming of the regulatory state in the Western domain. In the article this process is analyzed in terms of empirical facts.

The research result published here is that in its widest sense, we may define regulation and its implementation by the government as the totality of all mechanisms of social protection and control. We find bureaucracy and democratic deficit as embedded consequences of this type of governance.

According to the theory of the regulatory state, the task of research is to present national and international "narratives" of different institutional arrangements and the practice of regulatory governance. Alongside this approach, there is the view of networking theory that emphasizes the study of political economics. Taming of the undemocratic power of the regulatory state issue will be essential for future politics. Besides too much regulation is an obstacle to innovation.

Mechanisms

Recently the two scholars, Christopher Hood & Ruth Dixon (2015), both from the University of Oxford, published the report: "A Government that Worked Better and Cost less? – Evaluating Three Decades of Reform and Change in UK Central Government". Their conclusion is that what was achieved with New Public Management (NPM) and more regulation is higher public Costs, more Complain and less Parliamentary Democracy.

What does regulation mean, following NPM reforms, with regard to contemporary politics? Under the heading of 'The Rise of the Regulatory State in Europe', the international known, the Italian Professor Giandomenico Majone, early offered one succinct answer: *'Privatization and deregulation have created the conditions for the rise of the regulatory state to replace the dirigiste state of the past'* (1994:77). He continued to explain that, *'Reliance on regulation – rather than public ownership, planning or centralized administration – characterizes the methods of the regulatory state'.*

We may, however differentiate these mechanisms. In our context, there are four explanatory conceptions of regulation that may be forwarded:

1) Law-directed conception: regulation as authoritative rules.
2) Economics-directed conception: regulation as efforts of state agencies to manage the economy.
3) Politics-directed conception: regulation as mechanisms of steering and democratic control.
4) Sustainability-directed conception: regulation as a mean to handle environment threats and the 'risk society of the new modernity' (Beck 1992).

These conceptions articulated point to an evolution from a narrow, judicial notion of regulation to a much broader one that accounts, both in theory and practice, for values and agreed normative actions.

In the regulatory state, the concepts of regulation as authoritative rules and agreed normative action lead to the important distinction between *'hard regulation'* and *'soft regulation'*. Hard regulation requires legal actions and mechanisms of enforcement to bring about adherence and sanctions when there is a failure to comply (May 2002). On the other hand, the use of soft regulation is sometimes viewed as regulation through persuasion and deliberative discourse, with agreement being the preferred outcome (Streeck 1995, Amdam and Veggeland 1998). Soft regulation both turns to deliberative solutions (McGowan and Wallace 1996) and allows that commitments made between parties are not strictly legally binding, which give actors more leeway regarding how to achieve regulatory goals and development objectives (Mörth 2002).

The soft-regulatory strand comprises guidelines with various forms of encouragements to achieve desired outcomes, but this approach means that the rules can be different, for example, across national borders, as long as it is possible to determine that the rules fulfil some common objectives that are agreed upon in a satisfactory way. This is deliberately agreement-based regulation, which the European Union has termed 'the open method of coordination' since the launching of the Lisbon Process in 2000. Shortly formulated, soft regulation connotes the following (Veggeland & Elvestad 2008):

- Deliberative work on identifying both the 'best solutions' and the 'best practices'.
- An approach based on the exchange of information and the sharing of development programs.
- Mutual confidence and some sort of compatibility between regulatory systems.
- A high degree of institutional interaction between regulators.
- The foundation of the networking and partnership-building society (Castells 1996, Veggeland 2003, 2013).

The wider concept of regulation indicates two basic claims, namely, the organizational change of public institutions and the making of embracing agreements and control arrangements as the conditions for the rise of the regulatory state. Reliance on regulation – rather than on public ownership, planning or bureaucratic administration – indicates that the methods of this form of state bias the minimizing and/or marketizing of the public sector that would then be followed by regulatory governance (Pollitt & Bouchaert 2004). The latter indicates a shift of the traditional governmental apparatus to a variety of New Public Management (NPM) institutional and structural forms, which are often contextually bound to social models and administrative traditions that interpret regulatory measures differently (Cassese 1996, Knill 2001, Djelic 2006).

Lastly, this wider concept indicates that there is an aspect of political economy to this regulatory state method, namely the *institutional-replacement* element of this method, mentioned in the quotation by Majone above (1994). According to Selznick (1985) the goal of this method is to achieve what is 'valued by a community'. However, if we are to be able to say whether or not institutional replacements and innovations have led to what is valued, we need certain *criteria and guidelines* by which we can assess success or failure. Besides, as we advance towards a new modernity, indications of general consequences from transformed social-institutional paradigms imply new social risks (Taylor-Gooby 2004). How might we avoid regulations that generate vulnerability and counteract the risks, that is, how to tame the regulatory state? What does a community value and what can a community consider to be either a success or a failure, or likewise ethical good or bad? Here we aim to address these vital questions by employing an exploratory and critical perspective. Such an approach for the study of the arrival and the rise of the contemporary regulatory state should contain these six elements:

- Basic conditions and an analysis of political economy.
- Methods and mechanisms
- Social models and administrative traditions.
- Institutions and structural replacements.
- Basic institutional impacts.
- Efforts, criteria and guidelines, which help to tame the regulatory state and uphold public standards and good governance (Olsen 2005).

Certainly, the commencement of the actually regulatory state meant an embracing of institutional innovation in the Western world (Veggeland 1999, 2008). This paper views innovation not only as the application of new institutional solutions to new international and national economic problems, which arose in the wake of the 1970-80s stagflation crisis, but also partly as new solutions to old problems, for example, overloaded public budgets and the hollowing-out of government (McCracken et al.1977).

Accordingly, regulatory innovation is here understood as sustained attempts by governmental institutions to alter the behavior of others indirectly through law, standards, goals, partnerships and contracts, and also through creating new implementing and controlling institutions and bodies. Contextually, we are here talking about the methods of regulatory governance, the use of the principles and measures of New Public Management (NPM), Market-Type Mechanisms (MTMs), arm's-length bodies in the public sector and legal control (OECD 2002, Lane 2000). These mechanisms and bodies need either to be established by taking advantage of de-regulation or to be controlled and tamed by re-regulation. Innovations with regard to new institutions, which characterize the regulatory state order, are new benchmarking institutions, quality-securing and output-measuring systems, judiciary powers, surveillance agencies and not least the independent central bank. The last was organized as a governmental arm's-length body in the framework of a non-Weberian bureaucratic and non-interventionist style (Veggeland 2004).

Another significant part of this style and of the regulatory state is the monetarist economic regime, which authorizes the independent central bank to regulate the flow of money in the macro-economy (Stewart 1972, Friedman 1962). The central bank regulates profits, investments and wages in a supply-side directed economy through decisions on interest rates and currency measures, with the view of balancing inflation and aggregated employment. The parliament sets the upper and lower limits for the inflation rate but is excluded from the implementation of its own decisions; the bank is responsible for their execution.

The driving force behind the methods of regulatory governance are the intentions of to enhance the ability to compete more effectively in the global age, to produce tangible outcomes and to reduce risks – all of which involve mechanisms of standards-setting, information-gathering, benchmarking and behavior-modification in an increasingly vulnerable society (Beck 1992, Black 2005). National implementations of the methods of the regulatory state neither necessarily create convergent developments nor necessarily reduce risks. The methods as organizational ideas in general become influenced by path-dependent interpretations and become diversified. This tendency occurs because of different European social models and administrative traditions, which change the contextual framework and thereby the ideas themselves (Røvik 2007).

It is common to say that changes of social-institutional paradigms always have backgrounds marked by crises. Crises in the techno-economic system affect especially deeply the institutional orders, just like the stagflation crisis of the 1970–80s did (March & Olsen 1989). We shall return to this crisis later, but I shall for now mention that, at this stage, new techno-economic crises seem to arise without our knowing much about their socio-institutional impact, such knowledge occurs first in the aftermath.

One actual coming crisis appears to be the sharp rise globally of food prices, in particular, the prices of rice, corn and grain, which have risen up to 50–100 per cent and more. People who are very dependent on such staple foods and live in poor countries tend to be deeply and adversely affected, and it is not at all surprising that these conditions lead to turbulence. Hence, we see extensive rioting and upheavals in many countries around the world these days. What has happened? We can find one main reason for the rising prices of food, and thereof the crisis, in certain changes within the actual techno-economic system. Around the world, cultivated land for food production has been transformed into land for the production of bio-fuels. The motivation behind this change in production has been the fear of an imminent global warming caused by the increase of atmospheric carbon dioxide due to the extensive use of fossil fuels.

The economist Erik S. Reinert (2008) has recently introduced a noteworthy approach to the food crisis. He contextualizes the current food crisis by referring it to the simple exchange economy that exists among certain indigenous people living in the Pacific. Fish, vegetables, fruits and ordinary, everyday utilities were exchanged in a different system from the exchange system of prestigious items, like canoes or gold. Exchanges of the latter items were protected by ceremonies and could not, in fact, be obtained through the exchange of food. Until recently such a divide existed in also in Western economies – food markets were divided from energy markets. But the global economy has broken this taboo of division: bio-fuels, destined for the rich part of the world and its relentless consumption of luxury, compete directly with the food resources of the poorest. It disturbs ethical values negatively and challenges politics. Altogether, what we are witnessing is a crisis arising out of technological replacement and thereby substantial changes in the system of economic exchange, and this in turn heavily influences the socio-institutional order worldwide.

What we examine in this paper are historical crises, changes and risks that have led to the arrival of this now threatened regulatory stat, and also the mechanisms and aspects constituting the challenges that this kind of state faces. We shall also analyze both which mechanisms threaten the socio-institutional balance and which are supposed to have taming or moderating effects (Veggeland 2004, 2007, Iversen 2005, Held and Koening-Archibugi (eds) 2003, Iversen & Wren 1998).

The Regulatory state: risk and policy style

Let us first discuss the origins of the regulatory socio-institutional mode of state formation (Osbourne & Gaebler 1993, Dyson 1980). Top-down national state intervention – that is, macroeconomic stabilization, income redistribution, market regulation and central public planning – characterized the dominant model of central planning in Western states during the first two decades after the Second World War. Institutions, which were organized hierarchically, due to Weberian bureaucratic structure, implemented policies. Economic growth in the Western countries was strong, and their national economies were relatively closed. Bureaucratic control and public ownership were important elements of the state regulation. The power of the government was little disputed indeed (Millward 2000, Majone 1996).

The international economic crisis beginning in the 1970s led to a demand for new forms of governance that would central planning and management. The new model of governance in the public domain that arose was dominated by neo-liberal ideas calling for increased competition in the market and in the public sector, welfare reforms and deregulation (Friedmann 1987, Majone 1997). Management by objectives replaced bureaucratic control, and frameworks of deregulation have been regarded as the most characteristic trait in this model.

Paradoxically, this period also introduced an incredible increase in the number of new regulations and the extension of regulative policies, which also reached new areas. This expansion occurred both on national and European (EU) levels (Tranøy 2006, Moran 2003, Hooghe & Marks 2001). Yet, this paradox was no more than apparent: the traditional forms of regulation, planning, and control collapsed under the pressure of both new technological advances and new economic and ideological forces arising out of globalization. This process has been called deregulation, but the concept used in such a manner that it creates the wrong impression. There has definitely not been any reduction in public regulation in the direction of laissez-faire. Instead, what has taken place is the implementation of policies based on a combination of deregulation and re-regulation on different levels of policies and management, with deregulation for the purpose of meeting the demands of the new market and re-regulation for market-correcting objectives and the promotion of human, social and environmental rights (Scharpf 1999). In short, new forms of top-down planning and regulation have replaced the old ones. These new forms are also growing at a quicker rate than that of the removal of their predecessors (Majone 1997).

Generally, regulation defines governmental or state interference with market and socio-cultural processes. However, we should do well at this stage to define more accurately the term 'risk regulation' because it is a part of a rather complex web of policy concepts. There are at least two approaches to the term: a risk approach (Beck 1992; 'The Risk Society') and an institutional style approach (Majone 1994; 'The Regulatory State').

1) *The risk approach*: For our purposes, the term may refer to two different policies: either a differentiated, technical, particular case-orientated policy aimed at the reduction of risk and problem-solving actions or an institutional change-orientated policy that inadvertently creates new risks and negative externalities (Taylor-Goodby 2004). Examples of the latter might be the increasing transactional costs as a repercussion of governmental fragmentation (Scharpf 1997) or increasing vulnerability because of expanding international interdependence and the network economy (Pierson 2001).
2) *The institutional-style approach*: This approach refers to the emergence of a state role as regulator, which has advanced rapidly since the 1970s (Majone 1997, 2003). The traditional roles of the state as direct employer, property owner and service producer have since then declined through privatization and arm's-length agencies and bodies. The use of regulatory measures entails both indirect state governance and the creation of new regulatory institutions. The institutional style of the regulatory state as such consists of organizational policy, the creation of adaptive agencies and bodies, and legal surveillance and control policy -policies as a whole that aim to extend the regulatory state order of institutions and mechanisms (Beetham, Byrne, Nagan & Weir 2002).

Here we examine risks and in a political and ethical perspective how to moderate those risks with those analytical partitions and the following as points of departure:

a) Institutional, change-orientated, regulatory policy of intention creates unintended new risks and negative externalities.
b) Institutional style of the regulatory state comprises organizational change policy, the creation of adaptive arm's-length agencies and bodies, and connected legal surveillance and control policy.
c) Both the inclination towards institutional risk and policies that seek socio-economic security represent a combination that figures as a major driving force behind the regulatory growth, for example, in the development of the numerous EU regulations (Scharpf 1996, Veggeland 2007).
d) A policy for taming the regulatory state generates a wide range of new regulations, ethical and 'soft' regulations as well as legal and 'hard' regulations.

Part of this framework for regulatory policy is the global network economy, which means increasing international competition (Castells 1996, Meyer 2000). In the wake of the arising network economy, at least two characteristic features have appeared that require regulation. A new organization of enterprises, often termed the 'post-Fordist' style, emerged in the 1970s and began to dominate the industrial sector. Smaller networking enterprise entities were made competitive through customized and flexible specialization (Storper & Scott (eds) 1992, Amin (ed.) 1994). Trade with services across borders increased heavily and pulled public services into global markets. This pushed the latter sector towards organizational reforms that featured fragmentation and the principles of New Public Management, as well as the establishment of arm's-length bodies in order to target competitiveness (Pollitt & Bouckaert 2004, Veggeland 2003). These two things created – and continue to create – on the one hand, an increasing need for international market enlargements through deregulation, and, on the other hand, the need to re-regulate for a host of different reasons, such as the correction of market imperfections, the steering of actors through regulatory means, agreements, contracts, regulatory consumer protection, sustainability, and so on.

The regulatory state enjoyed a high state of legitimacy in the Europe towards the end of the previous century. It was visible, among other things, in the political changes in many European countries. In the 1990s, elected social-democratic governments replaced market-liberal governments of the 1980s, as in the UK and Scandinavia. Social-democratic parties have traditionally distanced themselves, both ideologically and politically, from the liberal and conservative parties, and have placed a greater emphasis on public planning and regulatory control (Giddens 1998).

Majone's concept of the regulatory state

Giandomenico Majone has called the new institutional form of state, which appeared at the end of the 1970s and continues to expand to this today, 'the regulatory state'. He considered the European Union a prime example of this form of state (Majone (ed.) 1990, 2003). The form is characterized ideologically by neo-liberalism, institutionally by frenetic innovation inclination (Moran 2003, Black, Lodge & Thatcher (eds) 2005), and socially by anti-interventionism and liberal welfare reforms (Iversen 2005, Veggeland 2007). Characteristic traits of the new form of state include the deregulation of markets and the decentralization of steering capacity, together with ever more networking abilities and multi-level governance.

Equally important for our purposes is Majone's (1990) identification of the paradoxical development that has accompanied this period that features much talk about deregulation and a market orientation: there has been the dominant tendency towards the growth of a comprehensive policy of regulation and strategic planning on all tiers: the European, national and regional levels. On reflection, this is not so surprising. Traditional forms of regulation and control, inherited from the interventionist state, have broken down in the face of powerful technological, economic and ideological forces, that is, the techno-economic paradigm changed radically (Millward 2000). New forms of regulation and institutional planning paradigms needed to be developed in order to serve other and different political and social goals of control and management.

The passing of laws and the publication of directives increased dramatically. Wide-reaching laws, regulations and legal agreements dominated. The new form of regulatory governance gained its legitimacy first and foremost from legality and goal attainment, and only very indirectly from decision-making institutions of representative democratic assemblies (Schmitter 2000, Scharpf 1999). Institutional benchmarking instruments prioritized the evaluation of results, which replaced bureaucratic administration control. Strategic planning is part of this system, because the attainment of goals and the achievement of results require more and more extensive and thorough planning than reforms based on the standardized, patterned activities of the interventionist state. In this regulatory system, each individual social activity must be planned in a way that the setting of goals and the evaluation of results become practical possibilities (Veggeland 1999, 1994a).

Additionally, Europeanization processes brought about more of the same tendencies so that the EU as a complete regulatory state pushed member states in the same direction. For example, the French Conseil d'Etat has calculated that the national government issues only 20 to 25 per cent of all legal binding norms applicable in France without any prior consultation in Brussels. Presumably, an analogous situation prevails in all other member states (Lavenex & Wallace 2005). Also, in the Nordic, EEA[6] country Norway the same trend is visible; from 1995 to 2008 more than 5000 legally binding EU norms have become Norwegian laws and rules. A large part of EU laws and regulations are formulated as directives. These are then tailored to fit the laws and regulations in each of the member states. To a large degree, the laws devised to regulate the market for the free flow of goods, services, capital and labor make new demands on forms of market-orientated strategic planning on all administrative levels (Veggeland 2005, Hayward & Menon (eds) 2003).

The concept of deregulation in the sense of eliminating rules, therefore, is misleading. As Majone (1997: 143) has noted, in the wake of deregulation new forms of re-regulation follow:

> **'What is observed in practice is never a dismantling of public regulation – a return to a situation of Laissez-faire which never existed in Europe – but rather a combination of deregulation *and* re-regulation, possibly at different levels of governance'.**

With reference to the regulatory state order, Thierstein (1997) has asserted that it is no longer adequate to focus only on formal political institutions such as elected bodies and the hierarchy of bureaucratic order in the framework of the classical Weberian type. The political system develops a network of hybrid institutions, which are part of the planning and decision-making process on different levels, but operates at arm's-length from the hierarchy. These agencies must be recognized as an integrated part of a political system in the process of institutional change (Majone 1997). It has been argued that the concept of 'governance', understood as political steering practice based on regulatory agreements between public, semi-public,[7] and private actors in political and planning arenas, captures this wider perspective. Europe integrates through a combination of the efforts made by local, regional, national and supranational actors, and these actors can be either public or private (Thierstein 1997). This dimension represents an important starting point in the understanding of the transformation of the interventionist state.

In the wake of agreement-based structures of governance, the notion of democratic deficit has emerged (Chryssochoou 2004, Veggeland 2003). Global market forces and international bodies of regulation and agreements such as the EU seem to undermine the power and influence of the national parliaments. The legitimacy of this state order appears, then, to be under threat (Beetham & Lord 1998).

While both the critiques that the regulatory state suffers from democratic deficit and the explanations of its strengthening position may often lack an empirical basis, Majone (1997) has still insisted that this deficiency does not lessen the importance of the main issue. What remains at stake is the increasing number of voters who are convinced and willing to support a new model for the governing of their society. This is a model, which includes the marketization of the public sector, increased competition in the economy along with the risk of failures, greater emphasis on developing the supply-side of the economy, and vast reforms of the welfare state (Pollitt & Bouchaert 2004, Beetham & Lord 1998)

Such forms of regulation create the need for detailed knowledge about and active joint participation in processes of governance on all levels. Majone (1997) has also pointed out that this factor, in addition to giving market actors and lower tiers of the administrative hierarchy greater responsibility, has led to the establishment of specialized public and private partnerships and semi-public (hybrid) companies. Their task are directed upon the collection of information, the development of objectives, the supervision of the implementation of project programs, joint participation in the management and the evaluation of results. Such agencies and institutions operate outside the line of organization and outside the hierarchical control or supervision of the central authorities. Typical traits in the regulative form of state are, according to Majone, as follows (1997:146):

> 'Administrative decentralization and regionalization; the breakdown of formerly monolithic entities into single-purpose units with their own budgets; delegation of responsibility for service delivery to private, for profit or not-for-profit, organizations, and to non-departmental bodies operating outside the normal executive branch framework. Competitive tendering and other contractual or quasi-contractual arrangements whereby budgets and decision making powers are devolved to purchasers who, on behalf of their client group, buy services from the supplier offering the best value for money'.

What distinguishes the regulatory model from the traditional, bureaucratic model are the emphases on discretionary decision-making rather than rule-governed decision-making and the combination of expertise and independence with specialization within a relatively narrowly defined area of regulation and activity. The institutions operate at a distance from the central authorities and are only indirectly under democratic control; they are 'unelected' (Vibert 2007) Majone (1997) has argued as though this model were unconditionally superior to more traditional methods of making and implementing policy.

There are numerous arguments against this view (Veggeland 2003, Le Galès 2003, Sachs 2006). Some argue that distributive policies, or policies with significant re-distributive implications, for example, should remain under direct democratic control and Weberian bureaucratic executives. The regulatory model is most relevant in commercial sectors, public and private, where economic mechanisms and competition instruments are used, or as organizing principle for administrative activities where expertise, flexibility and reputation are the key to greater effectiveness.

The arm's-length bodies and agencies of the regulatory state, committees and corporations are important because of their inherent specialized knowledge and the possibility of making credible policy commitments. Majone (1990) underlines, however, that the real comparative advantage of agencies is the combination of expertise and long-term commitment.

Long-term policy commitment is notoriously difficult to achieve in a democracy, which is a form of government pro tempore. The time-limit imposed by the requirements to hold elections at regular intervals is a powerful constraint on the arbitrary use of the winners of the electoral contest of the powers entrusted to them by the voters. The segmentation of the democratic process into relatively short periods of time has serious consequences whenever the problems faced by society require long-term solutions. However, political principals can transfer power to their agents within limits set by law, but they cannot transfer legitimacy in the same way; the new institutions have to achieve their own legitimacy.

McGowan & Wallace (1996) have asserted that the paradigm followed by the regulatory state based on management by objectives and independent arm's-length agencies is expressed differently in institutional terms in Western countries. Their view agrees with the approach of forming path-dependence running from a diversity of social models and administrative traditions (Knill 2001, Pierson 2004). For that reason the regulatory state of the EU does not one-dimensionally create administrative convergence in Europe; more often the resulting outcome is divergence (Page & Wouters 1995).

Let us consider some examples:

The comprehensive and deep reaching planning required in steering by goals varies in dimensions from country to country. McGowan and Wallace have noted that in the US, with its traditional skeptical approach to planning, the ability to regulate has been developed and based on the judiciary and the use of courts to control the implementation and results of regulatory policies rather than independent agencies.

In Japan, on the other hand, regulation has its basis on strategic planning. We must not equate the Japanese view of the planning paradigm in the sense of how it existed in the Communist planned economy. Instead, planning focuses on particular sectors to promote swift development and growth, to prepare the ground for foreign investment, to ensure state finance and to devise a suitable trade policy (Itoh 1992).

In this regard, the social democracies in Nordic and Continental Europe seem closer to the Japanese approach, perhaps going even further in their enthusiasm for public-planning actions. The culture of the social- democracy states is been developed over a long period and favors planning on all levels and within all sectors. But this highlighting of differences does not mean that a convergence of the different models and paradigms will not occur in the long term (Veggeland 2007).

Summary

Majone (1997:148) has provided an overview of the key traits that distinguish the interventionist state from the regulatory state order. According to the theory of regulation, the task of research is to present 'small narratives' of different institutional arrangements and the practice of governance. Alongside this approach, there is the view of networking theory that emphasizes the study of the 'politics (of) how to catalyze coordination processes at different levels and how to construct appropriate institutions' (Thierstein, 1997:13). Taming of the undemocratic power of the regulatory state issue will be essential for future politics.

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4 BUSINESS-LIKE ACCOUNTING IN THE PUBLIC SECTOR

Abstract

New Public Management (NPM) by objectives and results in the public sector is a lasting hot topic in the Norwegian (and Nordic) public debate. The criticism is based on three arguments: 1) The approach creates an unnecessary, expensive bureaucracy, because the results must be measured, registered, coded, reported, evaluated and controlled on the basis of quantifiable indictors, and the results that are generated must be compared between institutions and feedback must be given. 2) Quality cannot be measured through quantifiable indictors alone. 3) The system is complex and lacks clear lines of political accountability. The transition from the accounting management of the use of resources, i.e. net budgeting, to business-oriented performance management is an important element in the introduction of management by objectives and results in the public sector. This took place in Western European countries in the 1990s and encompassed what here refers to as business-oriented accounting.

Business-oriented accounting

Accounting is based on revenues and expenditures. Revenues represent claims on cash receipt, either immediately or at some future date. Expenditures represent obligations for cash payments, either immediately or at some future date. With net budgeting in the public sector, the budget should be balanced at the end of the budget period. The focus is on the money effect in the sense that budgeted activity is maintained and developed during this period. Since public sector budgets show expenditures (payroll, schools, public assistance, health care, roads) and how they are to be financed in the form of revenues (tax revenues, duties, etc.), traditional budgets represent an expenditure and revenue budget, or a money budget in other words.

Business accounts focus on the profitability effect of revenues and expenditures. The profitability effect refers to profitability in the form of revenues (accrued revenues) and profitability in the form of expenditures (investments). This entails two-dimensional accrual accounting. A profitability accrual principle is introduced, in addition to the money accrual principle. The first-mentioned principle – often referred to imprecisely as the accrual principle – is used to report the profitability effect of both revenues and expenditures (Monsen 2009).

The selection of an accounting model for use in the public sector has traditionally been based on a political desire linked to the right and opportunity to govern. The introduction of business-oriented accounting in the public sector has weakened the opportunity to govern. Why this reform, then? Norvald Monsen (2009) suggests the following answers in an article on accounting in the public sector:

1) "There is a political perception that the public sector should be governed to the greatest possible extent like the private sector, and thus there is a need to prepare the same accounts that are prepared in the private sector (business accounts in other words).
2) Insufficient knowledge of what business accounts represent.
3) Insufficient knowledge of the alternatives that exist for business accounts."

Let us take a closer look at business-oriented accounting in the public sector, its origins and implementation, and its consequences.

Accounting is postulated as a neutral tool for budgetary control. That postulate is false. What may look like technical functions, such as bookkeeping and liquidity management, provide, in addition to the purely technical aspects, guidelines for political assessments and how the administration of public services takes place, and they trigger growth in the so-called measurement bureaucracy (Veggeland 2009).

Additionally, business operations are closely tied to the realisation of profits. But this, in itself, is irrelevant in the public sector, which bases its activities and budgets on the taxpayers' money. It is important to understand that the model for business-oriented accounting was not developed in Norway, but has been based on an international standard – the International Public Sector Accounting Standards (IPSAS) – which originated in the early 1990s (www.ipsas.org/). This standard was created in the Anglo-Saxon tradition of public administration (the UK, the US, New Zealand, Australia, etc.), and this tradition was business-oriented at its core. The standards spread to a number of other western countries, included those in southern Europe, with the consequences that had for their economies in the late 2000s in the form of a deep-seated economic and social crisis. In accordance with the IPSAS, revenues are recorded in the budget period in which they are earned, regardless of when they are received. The same holds true for expenses; they are also recorded in the period they are incurred, whether or not they have been paid (Deaconu, Nistor, Filip 2011). It is the profitability accrual principle that applies.

The difficult financial control

This creates ambiguity in the budgets of public institutions, and makes financial control difficult – for example, when using unit price financing of patients in the health services and students at universities and university colleges. The timing of revenues and total expenses often does not correspond. For instance, when students are admitted to a study programme, they are recorded as an expense, whereas the revenues in accordance with unit price financing are accrued two years after the students have passed their final examinations. In this way, an apparent "deficit" is created. On the other hand, if the number of students declines in the period (due to failed examinations), a genuine deficit occurs. In the hospital sector, patients may be released too early because, from an economic perspective, if those same patients were to be readmitted they would be recorded as new revenue in the hospital accounts in keeping with the unit price system. The Coordination Reform, i.e. the agreement between the municipalities and health trusts on the transfer of patients whose treatment is completed to the municipalities, may reinforce the tendency to release patients from hospitals too early. The price set for each student and each patient is often arbitrary. In the public sector one cannot rely on demand in the market for price information.

Business-oriented accounting has a number of other consequences that affect the political and social order. One of these is that it pressures society to move towards a greater degree of privatisation and the competitive tendering of public services. A major reason for this is the problem of pricing public assets, such as public property: buildings, land, furnishings and technical equipment – and infrastructure. Should these be priced according to their market value or their value to society and the community? Value-based pricing tends to be based on the present value of the capital assets and cash flow and does not incorporate changes over time. The price is usually too high and arbitrary (Newberry 2012).

Most assets are usually priced too high. The result is that, from an accounting perspective, the services produced in public enterprises are found not to be competitive with services produced in the private companies. This becomes a driving force towards more privatisation and competitive tendering in the public sector due to the political guidelines in the accounting system.

Another consequence is that politicians must almost be experts in analysing financial statements to understand the information in the accounts. Even experienced economists and top-level managers can find it difficult to follow changes in assets and budget accruals in which expenses can recorded in one year, while the revenues may not be recorded until several years into the future. What happens in the interim when pricing does not occur in a fluid market, but rather in the public sector?

Sue Newberry (2012), a researcher in this field, gives an example of similar problems in New Zealand. In 2005, it was discovered that the authorities had sold a public electrical power plant that had been recorded according to business-oriented accounting principles. However, the accounts also showed that the very same power plant was leased back from an owner in a tax haven. There was no debate about this since it was difficult to see it in the accounts. When it was discovered, it was too late to reverse the sale. In general, Newberry cautions against using business-oriented accounting and urges Western European countries like Norway to learn from New Zealand's mistake, a country that has reversed the trend towards management by objectives and results, which has a monopolising effect, and business-oriented accounting.

The Norwegian case

Politicians and employees in the public sector do not necessarily have a background in private business, which is why they often find it difficult to understand business-oriented accounting. This creates a democratic problem because politicians, institutional leaders and inspectorates are often placed in a position of powerlessness (Newberry and Pallot, 2006).

Business management is known from the organisationally independent public enterprises and companies in Norway. It was implemented in such diverse areas as hospitals, postal services, railways, roads, telecommunications, electrical power, etc., and in ordinary public institutions (such as universities and university colleges).

The Norwegian Government Agency for Financial Management was established on 1 January 2004 under the Ministry of Finance, and was charged with responsibility for the administration of regulations for business-oriented accounting. In 2011, the Norwegian name of the agency was changed from *Senter for statlig økonomi (SSØ)* to *Direktoratet for økonomistyring (DFØ).* The DFØ is the government's expert body on financial management within public sector activities. The overall objective of the directorate is to facilitate suitable common solutions within the state and effective management in the individual public enterprises. The directorate seeks to promote the efficient use of resources in the state through business-oriented accounting systems. This is to be accomplished through training measures, advisory services and the development of methods and tools. Accounting services are delivered to about 60 per cent of public enterprises. The DFØ is responsible for the state's accounts and the state's cash pool.

As a regulatory body, the DFØ seeks to counteract the negative effects of an increasingly fragmented state that uses many different forms of accounting. However, the Ministry of Finance cautions: "The SSØ must balance consideration for direct profits through standardised common solutions with the need for customised solutions in the individual public enterprises" (Ministry of Finance 2009: 2). This is where risk assessment and risk management come into play. Integrated into general risk theory is the concept of vulnerability. In this context, vulnerability may be understood as the combination of business management and uncertainty with regard to a balanced budget, and it is taken for granted that the system is vulnerable. This means in practice that accrual-based business-oriented accounting should not be viewed only on the basis of the current situation, but also on the basis of complex conditions in the past and future. It is the task of the DFØ to assist institutions with this.

Thus, part of the risk assessment performed by the DFØ entails formulating an opinion on whether an institution managed according to business principles is organised so that it can respond to reasonable expectations of the services it provides. Expectations of a public service institution, such as a hospital, will encompass conditions related to internal processes and problems, as well as to external conditions such as waiting lists and patients' rights.

Public institutions cost money. Internal expenses are related to operations and bureaucracy, expensive measurement and reporting activities, quality assurance in connection with effective financial management and maintaining an overview of earnings. There is a risk that an imbalance will develop. A paradox arises (Veggeland 2012). Increasing internal transaction costs impact the primary activity, whereas the DFØ, coming from a completely different perspective, registers good budgeting and accounting practices and effective use of public assistance schemes. In the view of the state, everything is working as it is supposed to. This conflict in perspectives is familiar from the health, care and education sector as well as from other sectors. Is the state independent or just confused (Difi report 2012)?

Universal public services

The DFØ may be seen as occupying a role that is primarily related to neutral technocratic consulting and further development of business-oriented accounting as an instrument of management. This view is too simplistic, however, precisely because the agency's task is carried out within the neo-liberal framework of the regulatory state (Majone 1994, Veggeland 2010). The DFØ's activities with the new forms of management and business-oriented accounting in the public sector must be seen as a key component of New Public Management (NPM). Yet NPM reforms have been implemented on the basis of clear international ideological and political principles (Lane 2000, Kjær 2004).

We are familiar with NPM reforms as the basis of organisational autonomy and the establishment of public enterprises and companies in Norway. The reforms were implemented in areas such as hospitals, postal services, railways, roads, telecommunications, power plants, etc. The enterprises and companies became separate legal entities and their accounts became business driven. As we have seen, experience shows that this form of management is not unproblematic. Nor is it possible to determine which public services are beneficial to society as a whole and which are "commercially viable". Which perspective should be used? It is extremely difficult to define commercial viability, since public services are universal in nature, i.e. they are supposed to be available to everyone and independent of the market. For example, how can the commercial value of the health care sector be determined? Or social welfare schemes? Or education? In this connection, there has been an attempt to do precisely this by converting social welfare and education into capital and economic value. We are familiar with terms such as social capital, human resource capital, knowledge-based economy, etc. (Putnam 1993, Navarro 2002). In translation, such capital quantities for social welfare and education can be accounted for as commercial contributions on the revenue side based on a complex and approximate calculation.

Historical roots

The business model has historical roots. As we have seen, the model washed over the OECD's Member States as a result of the international financial crisis that arose in the mid-1970s. In the 1980s, globalisation, liberalisation and the creation of new markets generated a need for greater national competitiveness and innovation in order to come out of the crisis. The Anglo-Saxon countries were leaders in this regard.

The idea of also bringing public enterprises in as commercial actors in the market arose in order to increase Norway's competitiveness in a situation of tight national budgets. According to this ideology, only through the use of business management principles and competitive tendering would public enterprises become innovative and thus productive in a national economic sense (Veggeland 2012). In Norway, the model required extensive reforms. These were implemented in the 1990s and into the 2000s, followed by the introduction of business-oriented accounting. As a continuation of the strategies chosen and implemented in the 1990s, the SSØ/DFØ was established in 2004.

The establishment of the SSØ/DFØ and the agency's focus on financial management must be seen in light of the extensive market orientation in the public sector in general. The Norwegian Government, headed by the right-wing Prime Minister Kjell-Magne Bondevik in the early 2000s, was so fixated on a market-oriented approach that it stated in its introduction to the new competition legislation at the time that competition and financial management should not only be a tool for enhancing efficiency, but "a goal in itself". The recommendation for the Act, which entered into force on 1 May 2004, states: "This means that competition must be given special consideration within all political areas and that competition must be an independent goal on par with other considerations in society (Ministry of Labour and Government Administration 2003: 6). In this context, the same Government established the SSØ/DFØ – from this perspective, a regulatory body with the task of creating a rational, business-oriented approach through competition in a fragmented state created by the establishment of state enterprises. DFØ's mandate indicates such a goal. The political belief in business management that is linked to competition, unit price financing and accounting and applied to welfare services such as health, care, child protection, public communication and education can be difficult to understand. And the DFØ has also noted on several occasions that this can be difficult, but its response is usually: although not everything can be measured, why not measure what can be measured with a view to business management, based on rational economic principles? This is one of the key pillars of the new forms of public sector management, which the DFØ, a regulatory and advisory agency represents.

Social implications

Studies show that the narrow business-oriented focus in the public sector ruins the motivation of many people who work as service providers in the public sector. They experience stress from planning activities, indicator measurements for efficiency, reporting requirements, reams of forms, internal invoicing, calls for tenders, and continual organisational changes aimed at enhancing cost efficiency. In the end, this also affects the users of the services. Paradoxically, an enterprise can, despite these negative consequences, appear to excel in financial management, such as in statistical tables and comparisons. A key question can be asked, and has been asked by organisational theorists: Is it not perhaps time to resurrect traditional organisational forms and accounting procedures? This is what has occurred in places like New Zealand (Newberry 2012). For the DFØ, this could mean that the agency would change its name to the "Government Agency for Social Management", meaning that it would be charged with a new, broader mandate with an emphasis on "other considerations", i.e. not measurable values in the welfare state that are not identified in a purely business-oriented perspective.

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5 SOCIAL CAPITAL. VIEWING NORDIC PATHS OF MANAGEMENT

Abstract

How do Nordic states conduct policies in order to bring people closer to the socio-economic realm, in the sense that they, being social capital, tend to be integrated as active and participatory citizens? How do the interventionist and expensive Nordic welfare states survive in the global age, with demanding and ever changing claims to international competitiveness?

This paper addresses these questions. Social capital and partnership building are introduced as terms and policy concepts in order to find answers in the framework of intended or unintended strategic taming endeavours. As a critical approach claims a contextual conceptualisation, we shall here view different European social models and administrative traditions in relation to comparative basic contexts in order to arrive at analytical answers. Leaning especially on the Anglo-Saxon model, the traditional Scandinavian universal welfare state model of the post-war Keynesian order has gradually been transformed into the contemporary Nordic model (Veggeland 2007). Contextual regulatory innovations and path-dependent processes have generated the survival of universal welfare state arrangements and collective action but with the mixed use of Market-Type Mechanisms (MTM) in the public sector of Anglo-Saxon origin. In summary, this blending of policies has resulted in the advantageous *social capital of what is called flexicurity*, social security combined with a flexible participatory labour market. We shall discuss both flexicurity policy and participatory subsidiarity defined downwards as contributions to an explanation of why the expensive welfare states of the Nordic type have not only so far been doing well but have also sustained both democratic and output-side legitimacy.

Social capital and innovation

The European Union (EU) is in a deep crisis of identity as many times earlier in its history. Again Europe is looking for ideas and concepts of social capital that might constitute and give the integrated global regions an impetus to more sustainable economic activity, employment, and welfare, through collective action and renewed endogenous development, both inside countries and across national borders (Cini (ed.) 2004, Hayward and Menon (eds.) 2003). Partnership-building that connects private and public actors as well as public actors to other public actors has the intention of strengthening existing social capital (Putnam 1993) and raising new social (and human) capital as strategic concepts for promoting economic renewal and sustainable welfare (Szreter and Woolcock 2004). The concepts draw upon the belief that pooling actors in micro or macro networks (clusters according to Porter 1998) and organised 'institutional thickness' (Amin and Thrift 1995a) in the form of collective action are basic policy strategies when the target of the polity is to achieve and increase competitive development capacity. The strategy goes for organising existing or new public and private actors for collective actions through contracts and partnership formations, both nationally and locally, as we know recommended by European development programmes. Additionally, partnership institutions fit into the mode of arm's-length steering, which characterises the regulatory state (Keating 1998). The beneficial outcome is the advantages that come with the building of extensive social capital. We may, however, view social capital as a diversified notion (Veggeland ed. 2016).

The concept of social capital came about in the James C. Coleman's (Sørensen and Spilerman 1993)[8] and Robert D. Putman's (Putman (ed.) 2002) version in the US in the 1980s. It was part of a major political change that took place in those years in the Anglo-Saxon US and the UK and had wide-ranging consequences. The neo-liberal economic discourse and NPM organisational changes entered the global scene. Social capital became an imperative economic notion. A critical expression became resonant: social capital, social but still capital (Navarro 2002, 2004). A past president of the American Political Science Association, Theodore Lowi, indicated that 'economic language is the dominant language in social science discourse today…we are witnessing the de-politicization of politics' (1992:86). In other words, it implies that social capital building has become a narrow concept based only on economic values. Contrary to this reductive notion, there also exists a wider concept of social capital that accounts for additional social and sustainable ethical values.

The term 'social capital' reflects not only the understanding that government needs capital but that individuals need capital in order to compete or survive better in the competitive and microeconomic world as well (Veggeland ed. 2016). As capital, investment in building social capital creates, therefore, expectations first and foremost of economic revenues derived from the social realm and expectations about business growth; if not these do not happen, the investment is deemed a failure.

We may express this notion in the following way. Building social capital within this framework of economics tends to become *an art of social and human engineering* (Beetham et al. 2002, Moran 2003). The target of this art is the creation of competitive micro-partnership formations and joined-up initiatives, but such targets often based on short-term market thinking and changes, and thereof the frequent shifting of partner alliances.

Comparison of social models

Michael Moran's thesis (2003) is that social capital in the sense of engineered micro-partnerships and institutional changes has been a 'fiasco' with the consequence of generating more innovation in an ever ascending, or more accurately, descending, spiral (Veggeland 2013). Moran argues that in the Anglo-Saxon UK, the last 30 years have been an era of 'hyper-innovation', displaying 'the frenetic selection of new institutional modes like partnerships and arm's length bodies, and their equally frenetic replacement by alternatives' (2003:26). Other scholars have supported this thesis (Scharpf 1999, Veggeland 2004, ed. 2016, Higdem 2007). It might have caused the Brexit from the EU.

The implication of Moran's thesis is that partnership-building of this kind encourages collaborative governance and collective action at the micro-level because of 'spill-over' effects. It becomes a strategy for taming fragmentation, inefficiency, and increasing transactional costs. Further, its unexpected 'spill-over' effects will manifest as unpredictable actions and sudden dilutions of partnerships, which demand replacements. Individualised interest conflicts and social inequality among the partners devastate partnerships and cause the 'frenetic replacement by alternatives'. Increasing transactional costs becomes another threat because of this 'ascending, or descending, innovation spiral'. We should, however, understand this properly. Of course, the partnership concept as collective action and social capital of the engineered, economically valued variety also, in general, encourages good governance. Theodore Lowi and Vincent Navarro have, however, identified the problem: the narrow and economically valued concept of social capital does not only lead to the de-politicisation of politics but may contextually, depending on social models, be a barrier for building wider-valued social capital at the societal macro-level. With this in mind, let us study some lessons from Scandinavia.

With regard to the prospect of good governance within the framework national macro-partnership for collective action, for example, Simon Szreter and Michael Woolcock (2004) have concluded that the Swedish welfare state provides social capital of the wider-valued type to its citizens better and more innovatively than do other social models. How have these scholars supported such a statement? Let us test their suggestion in a wider Nordic framework.

Taking Szreter and Woolcock's statement seriously, we must say that they made such an assertion based on a consideration of what is good or deficient social capital. In other words, they must have drawn the conclusion on the grounds of preferable Swedish welfare norms, social ethics, and valued results, which the actual social model fulfils. They conclude indirectly that social science should be able to say whether or not social capital building has led to 'successes' along a scale of goal achievement. It means we need criteria against which to assess and measure success or failure. Neither Szreter and Woolcock nor Moran with his 'fiasco' statement indicates such criteria. Actually, reviewing the issue of 'good-bad' governance critically from a normative point of view is all too rarely done (Black 2005).

What we do know though is that social models and administrative traditions, which naturally have come into being in a socio-economic framework of values and experiences, do influence the quality and practical outcome of institutional change (Veggeland 2013, Pedersen 2008, March and Olsen 1989), and consequently also the formation of partnership and the provision of social capital. Let us review the Swedish case a little further. Szreter and Woolcock's observations warrant a serious consideration of the Swedish welfare-state model as a major point of reference in order to determine macro social capital in a wider normative framework than the instrumental approach to the concept does.

In what follows, we shall take that approach, but we shall view the Swedish model within the framework of the major Scandinavian-Nordic model, in which the former model represents the core (Veggeland 2007). Szreter and Woolcock refer to 'other societies' in their statement but do not point out which ones. Here we shall address this oversight by making a comparison of macro social capital formation and policy belonging to the Nordic model and its constituent countries, which are though influenced normatively with social-capital policy from the Anglo-Saxon model and the Continental model. Regarding the former model, the focus will be on the social-democratic tradition responsible for the promotion of social capital based on universal welfare and social security, an active labour-market policy, and an interventionist and comparatively expensive state.

Contemporary focus on the building of social capital through various partnership formations is a key part of the debate on both 'reinventing government' (Osborne and Gaebler 1993) and 'rediscovering institutions' (March and Olsen 1989). As such, the focus reflects the pandemic search for ideas of institutional change and innovation in the global age (Cassese 2003). However, the search for and the adoption of ideas do not happen randomly but are linked to contextual 'interpretation' of values and substance (Røvik 2007). Accordingly, this implies that social models and administrative traditions affect the interpretation of concepts of social capital and their attendant policy, which results in diversified implementation (Veggeland 2007).

Indicators:	Social models: Anglo-Saxon*	Nordic**	Continental***
Government outlays as % of nominal GDP	43–45%	48–58%	47–54%
Taxes as % of GDP (2009)	31–37%	45–51%	42–46%
Unemployment rates (2010)	4.4–4.7	5.4–8.8	9.5–9.7

Table1. The deviant Nordic model: Public outlays, taxes, and employment in the context of European social models[9]. *Represented by Ireland and UK, ** The five Nordic countries, *** Represented by France and Germany. (Denmark, Finland, Iceland, Norway, Sweden) OECD data.

With references to the issue of reinventing government and the debate on public innovation and its framework, the term and concept of social capital is related to this debate and reviewed in its framework[10].

In a comparative perspective, there are a number of ways to demonstrate the deviant position of the Nordic-model countries. One way is to look at the size of the public sector measured as general, total governmental outlays as a percentage of the nominal GDP and as total taxes as a percentage of the GDP (Table 1). This indicates the degree to which governments and countries' citizens are willing to spend money on collective rather than individual goods in society. Welfare and social security issues are part of the collective approach. It is a historical fact that this willingness is lowest in the Anglo-Saxon tradition and highest in the Nordic tradition but with the Continental tradition nearby. This is not so strange when we account for the historical roots and framework of the Scandinavian welfare-state model having its origins in the Prussian collective thinking of the late nineteenth century and the performance of the Weberian neutral bureaucracy (Kuhnle 2000). The unemployment rate is on a low level (even lower in 2007 3–5 per cent) but slightly higher than what the Anglo-Saxon model provides. The question is what legitimates a high tax level among people, and what role does social capital play regarding the social-model figures presented in Tab.1?

Innovative Action and structural change

Social constructions, like engineered partnership as social capital, are precarious, tending to erode and dissolve over time, especially when short-term economic revenues are expected (Veggeland 2003). These aspects concern the survival of social models and administrative traditions. In contrast, building long-term social capital presupposes basically the existence of values found in local networks, identity, mutual consent, social equality, and community life, besides public and private funding access. Some social models may be good fits for these values and comparatively better than others (Iversen 2005, Knill 2001). Accordingly, these social models tend to benefit from administrative traditions that contribute to social equality, universal welfare, and social security (Veggeland 2007), in addition to the stable networking of local and regional communities. Robert D. Putnam (1993) has stressed the latter in his study of the developmental success in Northern Italian communities in the 1980s. Tight collective networking communities provided long-term, 'great' social capital (Veggeland 2013).

In our knowledge-based economy, we are constantly looking for networking partnership and collaborative governance principles, i.e., models of collective action. This search aims to find outstanding and innovative policy ideas that organise those socio-economic bodies that make collaborative developments work. Network bodies should involve the public sector and private partners in innovative clusters across all sectors and areas of the polity, among others, Michael Porter says (2000).

As such, we find public innovation measured in the context of a geographical area (state, regions of different scale), or a particular policy domain (welfare, labour market, environment), or some other unit of analysis (an organisation, individual), or some combination of the two (social regulation or labour marked in Scandinavia) (see, for example, Pedersen 2008). Actually, public innovation is about intervention and co-ordination of joint activities aimed at social capital through network and partnership formations by territory, by function or even by transcending national and transnational policies. Public innovation defines in the knowledge-based society the building and performance of new accountable and beneficial collective skills and knowledge capabilities, through social as well as human capital, and through fixed strategic processes in order to achieve and realise this capability (Warden, F. van 1995).

Accordingly, public innovation in networks and matters of strategic policy imply, on the one hand, transcending fiscal and regulatory interventions and the territorial and functional creation of new organisations like partnerships, either as public-private or public-public partnerships. On the other hand, such innovations also dispose change in norms, rules, standards, and operating procedures; these changes influence the conceptualisation of the reform processes. Basically, path dependence created by social models and an administrative tradition that makes the changes contextually impacted and deep-rooted circumscribes such interventions (Veggeland 2007, Pierson 2004). Simply put, public innovation means the use of new solutions to address old problem, or old solutions to address 'new' problems of development. Generally, we may see institutional innovation as the pursuit of the modern, all-embracing project of change with regard to rationalisation, systematisation, and ordering, but this change does not take place a political and ideological vacuum (Meyer 2000).

Yet, if all innovations are change, are all changes innovations? The latter, converse statement cannot be an appropriate and reasonable conclusion. We should approach network innovation contextually and view it as the application of new solutions to old problem, or new solutions to newly 'constructed' problems. This idea has inspired studies that have attempted to determine the criteria for differentiating superficial and short-term policy changes from deep-rooted and long-term innovations. A typology of policy change is germane here. Three forms of changes are identified:

- The first-order of change is instrumental, defining changes to the levels and settings of basic instruments like technology and budgetary restrain. Hall does not regard instrumental changes as innovative.
- Second-order changes are those that refer to modifications in the use and administration of the instruments in relation to current organisational processes. But the art of engineering changes neither the overall goals of policy, norms, and values nor the understanding on which the changes are based. Because these second-based changes occur within existing social models and traditional frameworks of values and norms without disturbing them, they may serve to reinforce the path-dependence of the models. Paradoxically, they may counteract reformatory change and thereof deep-rooted and long-term innovations. The instrumental concept of social capital represents such a second-based change, as we shall see below.
- The third-order changes are transformations of the overall goals of the policy, changes in the cognitive and normative framework of the networking regulatory regime on which it is based, accompanied by first and second-order changes. These changes might lead to deep-rooted and long-term public innovations, for example, moves that remain path-dependent and also aspire to reinvent the state and to rediscover institutions in new settings but.

We shall see below that the traditional Scandinavian model of the welfare state has undergone such a move, and, as a result, has become known as the contemporary Nordic model. This model has combined universal social security and active labour-market policies innovatively, and this combination constitutes a deep-rooted and long-term, path-dependent social capital. This social capital may be objectively experienced by individuals and collectives and is suitable for studies that employ empirical, statistical measurements. Third-order social capital represents substantial public innovation.

Social capital of the Nordic type

In a transnational perspective, we may view social capital in the Nordic countries as a transformation of the traditional Scandinavian welfare-state capacity to what now is named the contemporary social capital of the Nordic model (Veggeland 2007).

The aforementioned term of 'Nordic flexicurity policy' represents contextually collective action and a long-term social capital embracing both economic and social aspects. The driving force is a path-dependent political will to sustain a national partnership between the regulatory authorities, the unions of employees and the employers, and the people. The goal is good governance in the forms of universal social security, institutional stability, and economic and competitive advantages. Universal social security lays the foundation for the development of flexible labour markets that all the partners benefit from in different ways, including benefits irreducible to economic factors.

The Nordic Active Labour Market Policy (ALMP) is another expensive public contribution to the social capital of the grand partnership and the flexicurity concept. ALMP is an important part of the state authorities' responsibility for planning, building, restoring, and protecting human capital, and for making human resources the basic element of partnerships and social-capital building. ALMPs compel by regulatory innovations a range of public means and measures in order to function together, and the execution of these means and measures must take place within the framework of the universal welfare-state model.
The mechanisms behind the Nordic flexicurity are as follows:

- Universal welfare and social security allow employees to feel free to move and change job and partners – safety and equal access to welfare rule independently of geography, position, employer, and network attachment.
- ALMP performs collaborative governance by complex partnership policies (social capital) and by education, individual training, and life-long learning (human capital). The performance involves not only the public sector but also partners across all sectors – from public services to private actors to NGOs.
- Nordic flexicurity is a nationally implemented policy concept but is basic for partnership-building and regional development capacities domestically and across borders. Flexicurity reproduces long-term partnership arrangements, an effective labour market, high labour productivity, high employment rate, and a high level of social and human capital.

All together Nordic flexicurity as an important part of the social capital concept is indeed expensive and imposes a high tax burden on the citizens, but even so the policy sustains its legitimacy from its double efficiency with regard to returning economic revenues and social security. Comparative figures suggestive of the OECD data were made available in the 2004 World Economic Forum report on the Lisbon Agenda. In a European perspective, these figures revealingly showed that if the Anglo-Saxon USA were, for comparative purposes, an EU member state, it would rank fourth behind three existing member states on an overall assessment of economic competitiveness. Remarkably, the top countries – Denmark, Sweden, Finland and Norway – were all Nordic states.

The consistent performance of the Nordic social capital is striking across a range of indicators (Veggeland ed. 2016):

- Economic growth;
- Labour productivity;
- Active Labour Market Policy (ALMP);
- Labour-market flexibility but social security, called 'flexicurity';

- Regional and local development policy;
- Research and development investment;
- Performance in the high-tech and telecom sectors;
- Rates of employment (including among women and older workers).

In this context, social capital as flexicurity turns out to be not only 'capital' but also 'social'. Szreter and Woolcock (2004) were indeed right in their statement about Sweden; countries in the region '(provide) greater social capital to its citizens than do other countries'.

The threat of non-maintenance

Basically, social capital building may promote good governance and long-term positive consequences in one polity context, but in another context it may turn out very differently. From the analysis of this paper, we learn that social models and administrative tradition do influence the quality and practical outcome of partnership formations.

Professor Vicente Navarro of Johns Hopkins University asks (2004: 2) in a critical commentary: 'Is capital the solution or the problem'? In a response to Theodore Lowi's statement, his answer is that dominant neo-liberal discourse in social science as a consequence of the 1980s, we have seen the appearance of concepts such as social capital and human capital. He writes:

> *'This dominance by an economic discourse was herald as an indicator of the supposed triumph of capitalism – which had closed any debate about the type of society and economic system we might want and refocused the debate on how to manage the only system we have. Consequently, the purpose of all social actions is reduced to accumulation of capital so that the individual can compete better. The capital might be physical, monetary, human, or social, but it is capital nevertheless'.*

Thus, as 'social capital' has become an economic term in the era of neo-liberalism, it seems that flexicurity likewise be threatened by the same shift of connotation away from a policy for national collective action. In the political debate, even in the Nordic countries, the economic connotation is given superiority as a policy for increasing European and national competitiveness and economic growth rather than for keeping the policy as a steady path to good welfare policy in the global age. The flexicurity policy faces serious challenges today by the embracing of labour immigration from Europe and other, more remote regions. The focus tends to change from the social connotation to the economic. The Nordic model is in drift; the maintenance of path-dependence is threatened (Taylor-Gooby (ed.) 2004, Veggeland 2004, 2007, Tranøy 2006, Timonen 2004, Olsen 2005).

Summon up

Flexicurity policy as social-capital building should remain a path for collective action and for solidarity, for reasons of democracy, social security and welfare, and for keeping the labour market flexible. As academics, we are not really responsible for policy performance, but we do have another responsibility. We are responsible for the definition of the terms and thereby the language in use. With reference to Navarro's statement above, there is a need in social science today to break the trend that supports the dominance of economic language and the considerable reductionism and myopia this dominance generates.

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6 THE PRESENT CRISIS OF THE INTERNATIONAL CAPITALISM

Abstract

In this article, I argue that any explanation of economic crises and their contemporary solutions turned up in the democratic capitalism countries as USA during, let say, the last fifty years must be anchored in a multidisciplinary context. Crises of the art are rooted in social structures and classes, and in the behavior of the capitalistic system, based on inequality and classical economic liberal ideology.

Introduction

The political German scientist Wolfgang Streeck writes in the Le Monde Diplomatique, January 2012 that "Every day we read in the newspapers that the markets dictate what sovereign and democratic states can do and what they cannot do for their citizens. The consequence is that the citizens not any longer look upon their government as their representatives but as representatives for interest of foreign states and international organizations". This is a correct statement. However, though a term should be exchanged with another one. It is not the market that directly dictates governments, that is what deregulation of markets does. There is a close relation between the development of the modern western regulatory state and the process of creating markets and correcting markets in terms of Giandomenico Majone's conceptualization of the regulatory state (Majone, 1994, 1997, 2003). It is regulations to accomplish these goals, both nationally and internationally, that dictate governments. The European Union dictates the government of the member states. So does membership of the World Trade Organization (WTO). National impotence is the outcome of the huge amount of worldwide market agreements,

Financial crisis and recession dominates the Western capitalism of our time. The crisis in the Euro-zone is evidently a grave blow to European integration, but connected intimately to the international financial crisis. The collapse of the national state finances is properly understood as a manifestation of a fundamental mechanism in the capitalistic system, where un-balance and un-stability is the rule instead of the opposite. The Western democratic capitalism has in the year after the Second World War, went through three successive and conflicting phases, and is now going through a forth one.

In Europe, where the financial crisis transformed into sovereign debt crises in several countries, the current phase of the denial cycle is marked by an official policy approach predicated on the assumption that normal growth can be restored through a mix of austerity, privatization and less state involvement (anti-Keynes). The claim is that advanced countries do not need to apply the standard toolkit used by emerging markets, including debt restructurings, higher inflation, capital controls, and significant financial repression. Advanced countries do not resort to such gimmicks, policymakers say. To do so would be to give up hard-earned credibility, thereby destabilizing expectations and throwing the economy into a future vicious circle. Although the view that advanced country financial crises are completely different, and therefore should be handled completely differently, has been a recurrent ideological refrain, notably in both the European sovereign debt crises and the U.S. subprime mortgage crisis, this view is at odds with the historical track record. In most advanced economies, based on Keynesianism, state intervention, debt restructuring or conversions, financial tools, and higher inflation have been integral parts of the resolution of significant debt overhangs.

The after war period of economic crises started with 1) the stagflation crisis of the 1970s. Afterward came 2) a public deficit crisis up, followed by 3) a privatized deficit crisis. Today the phase forth is ruling consisting of both 4) a public and a privatized deficit crisis, a combination crisis. Adequately three solution to crises has been tested out with conditional success, and a forth solution is by now implemented. What we know is that every one of the solutions of the crises using traditional tools has led up to the next following crisis.

The Stagflation crisis

The so called stagflation crisis emerged in the 1970s. Globalization, deindustrialization, and lowered economic growth generated both unemployment and inflation as parallel processes, thereof the term Stagflation (**stag**nation and in**flation**) crisis. According to Keynesian interventionist economic theory two such parallel processes should not happen. The democratic capitalism was in a deep crisis, followed by strikes and riots from students and the working class. The Governments sought their solution by leaning their shoulders to an expanding monetary economy. To regain piece between labor and capital achieved in the first years after the Second World War the Governments got to slip of papers in order to secure money for investments in industries and workplaces, and at the same time the welfare state was expanded and social security schemes were erected, and salaries for the workers were increased. For in the beginning the inflation was not a really problem for the working class. The working class was organized in strong trade unions which were able to make salaries adjusted according to the inflation. Inflation bothers and threatens first and foremost creditors and people owning bank accounts, and not owners of Real Estate and those to do speculation of capital. The working class is normally not part of those last mentioned. Streeck (2012) writes that there is reasons to believe that the inflation at the time is to be considered as a monetary political reflex of a conflict of allocation. It is a conflict between a labor force who claims access to work and a greater share of the national income, and a speculative class of capitalists whose intention were to maximize the profit of the capital. In this context inflation means an economic situation out of control; the working class claims welfare state rights while the capitalists stress the rules of the market and the holy right of private self-governance.

The stagflation crisis hit the relation and balance between labor and capital, and thereof the traditional democratic principles. A democratic deficit came out of it and led to politics of fighting the inflation by national and international regulation. The politics became subordinated judicial decision-making (Europautredningen 2012). As a general phenomenon in the regulatory state the term democratic deficit indicates that elected and representative assemblies at different levels have become politically weakened, while technocratic implementing authorities of regulations have strengthening their power because they have been given independent self-regulatory power by law. The law might be national public law, international law or private corporation statutes (Veggeland 2010, 2012).

This represents, as already mention, a dilemma as far as it concerns the democratic order. Laws, agreements and regulations start dictate national policies. Governance replaces government. The citizens don't look upon their governments as their own representatives but as representatives for other independent powers outside their domain. The weakening of the representatives create a deficit of parliamentary democracy, it means a deficit of 'government by the people', causing the upcoming of 'governance for the people (Scharpf 1999). Steering and service producing groups of regulators, arm's length bodies, networking groups, partnership do governance for the people, and do replacing representative political government and ordinary public administration. Michael Keating (1998:39) expresses the situation in this way: 'governance is what exists when government is weak and fragmented'.

The new democracy that occurred after the stagflation crisis is split into two institutional principles, i.e. first what is called an input government democratic order and second an output governance democratic order like the US and the EU. The input democratic order gets its legitimacy from its parliamentary chain, while the output democratic order gets its legitimacy from its ability to accomplish efficiency and results related to set-ups of political goals. 'In the regulatory state, policies gain their legitimacy first and foremost from achievements, efficiency, and effectiveness, that is, from the output or outcome of agencies and executives' (Lane and Ersson 2003: 183).

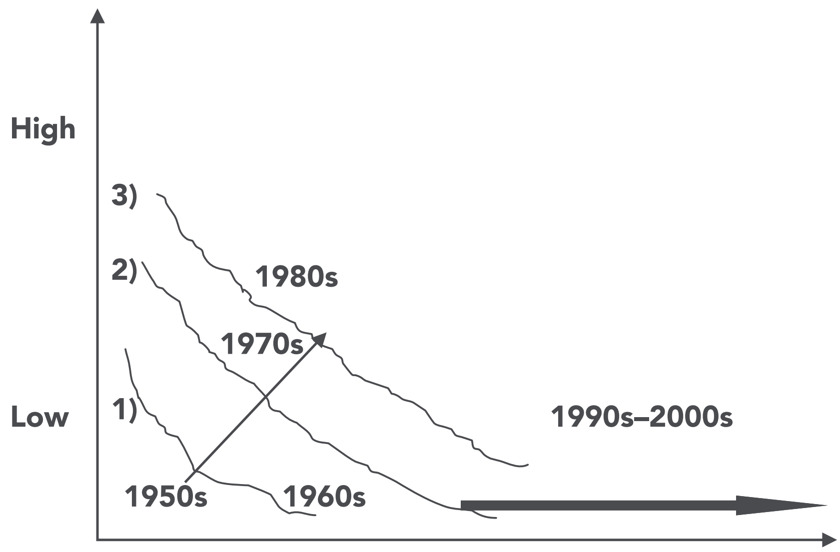

Figure 1: The Phillips-curve: The original curve shows the empirical relation between inflation and unemployment. The thin arrow indicates a development coming up in 1970s and 1980s with both increasing inflation and unemployment through the years. The thick arrow indicates the present low inflation but growing unemployment through the 1990s and 2000s.

Let us go back and look closer upon the Keynesian principles, including the principles of an active interventionist state, which was responsible for balancing the relation between inflation and unemployment.

The characteristics of the Phillips-curve were drawn by the economist W. Phillips in 1958, based on empirical evidence. Marked 1) in fig. 1 the original curve is presented showing the relation between inflation and unemployment in national economies in 1950s. In the Keynesian welfare state it was the responsibility of the state to secure balance at a low level for both inflation and unemployment. With increasing inflation the state was organized to reduce the effective demand and thereby increase the unemployment, and the opposite around with increasing unemployment; the state should intervene financially and stimulate the effective demand. In the 1950s and 1960s this mechanism functioned with stable inflation and unemployment at a low level.

In the 1970s the Keynesian mechanisms finished working as they used to do, as fig. 1 illustrates, the curve started moving upwards. The national economies in the OECD-countries stabilized on higher levels both regarding inflation and unemployment (OECD 1997), see fig. 1. The inflation crisis had emerged.

The leading economists got confused and the OECD hesitated regarding counteracting advices to their member states. In the 1980s came the advice thought – priority should be given to fight the inflation growth. Low inflation should again be reestablished with the consequence of increasing unemployment. This decision was in accordance the wave of theories introduced by the Nobel Prize Winner Milton Friedman (1962/1972: 39) which stressed monetary principles, i.e. regulatory politics controlling the amount of money circulating in the economy, and the establishment of an objective for inflation stabilization at a low level. Friedman writes: "There is a widespread recognition that control over money can be a potent tool for controlling and shaping the economy" (1972:16). This power to control and to manage the economy he excluded from the governments and transferred it to the financial institutions. In the wake of his theory the national central banks became organized as arm's length bodies, with the disappearing of political instruction authority. The central banks were given the authority to manage the monetary politics, such as to decide the level of the interest rate and to control the currency value in relation to other countries currency values.

The term used to characterize the ruling monetary politics was supply-side economy. This politics was based ideologically on liberalization ideas regarding credit policies. Fig. 1 marks the development by the thick arrow indicating low inflation rate but growing unemployment as a consequence. The politics represented a temporary solution to the stagflation crisis, but at the same time, little by little, created the conditions for a new development of crisis, the public credit crisis described below. Monetary economic policy established the new regulatory state (Veggeland 2010), together with globalization processes and the development of transnational networks constituted problems, which needed regulation to be temporary solved. The removal of political instruction authority in the wake of New Public Management (NPM) theories and practice (Lane and Ersson 2003) generated in its prolonging the democratic deficit. Monetary regulation and regulation in general worked fine from its beginning achieving goals of liberalism and thereby legitimacy, i.e. output legitimacy. The output legitimacy challenged the traditional principles of parliamentary democracy, i.e. the input representative democracy.

The new democracy of the regulatory state and the democratic capitalism inhere both dependent and independent variables (Dahl 1989). The input democratic side, together with the regulatory function of the Constitution, represents the parliamentary democracy. However, the input elements of steering depend intimately of how the regulatory authorities are organized on the output side of the democracy. Michael Keating (1998) suggests that regulatory regimes are what expand when the input democracy is weak and fragmented. He indicates that regulatory regimes threaten the traditional democratic order. The statement is not obviously true. It might be that what concerns him is the balance between work and capital. The weakening of the trade unions as part of the input democratic order means that the market and the capital gain output democratic power. That is what happened in the wake of the stagflation crisis. The regulatory state penetrated the input democratic order leaving this order back weak, and the citizens in a state of politically exclusion.

The European Union had fundamentally to continue to be rooted in an output democratic order because of the Union's transnational character as a con-federal organization inhering supranational federal elements. This reality influences the member countries of the whole European Economic Area (EEA) (Europautredningen 2012) regarding steering ability. Among others Joseph H. Weiler points out in his book, The Constitution of Europe (1999), that a paradox occurs in this context. The EU's way of governance inhere a form of 'dualism', concerning the input and the output democratic order, he writes. According to Weiler this will also in the long run become the case because the EU suffers from a 'demos problem', i.e. a loss of a coherent people, which means alien citizens neglecting the input democratic order and causing a weak parliamentary steering chain. The EU consists of a manifold of peoples with different languages, identity and cultures, with the non-existence of a European identity. This indicates that a united input democratic federal Europe is unlikely to come into existence. The dualism has a structural explanation, supported by other conditional elements. Globalization and transnational networks connected to regulatory agreements maintain the dualism of the regulatory state (Scharpf 1999, Veggeland 2009). It started with the stagflation crisis in Europe, which generated ever more supranational power since the 1980s.

The national markets for investments and consume were too limited, and the integration of markets in Europe went on with the introduction of the Internal marked 1988–1992. New digital technology influenced the market integration. This technology created branches of growth and the raise of prices on both labor and capital. On the other hand traditional branches stagnated. The outcome was stagnation and inflation as parallel processes, therefore 'stagflation' (Cumes 1984). This happened in contrast to Keynesian theory which recommended an active and intervening state. According to this theory the state was obliged to intervene financially the market in order to achieve political objectives. When the unemployment increased the state should increase its investments in job creating activities, and the opposite when raising inflation. As fig. 1 indicates, the Keynesian theoretical tools did not work out effectively any longer. It became important to find a new path out of the crisis. Fighting inflation became the keyword for a solution. To achieve this goal of lowering the inflation another goal came up, namely to eliminate the power of the national trade unions to make them powerless in their struggle for and claim for higher salaries.

New markets had to be created. A strategy was to market-orientate the public sector to make this sector to contributing to the growth of the aggregating national income. Arm's length bodies organized in accordance with private sector's bodies, and steering by objectives became the ruling governance principle. The new regulatory state came into being, legitimized by the ideology of the new liberalism which claimed the economic perfection of market competition, steering by objections and open up new markets by the establishment of free trade zones and international agreements. Latest the negotiation between the EU and USA goes on with the objective to establish a huge free trade zone, TTIP between the two continents,

The public crisis of credit

Following the stagflation crisis the adoption of extensive state loans happened in Western welfare state to compensate for inflation and stagnation, i.e. to get the inflation under control at a stable low level. However, the reasons for the fast growing public deficit were others too. Stagnation and high unemployment made both rich and poor people skeptical to pay taxes, and new liberal politics for tax cuts got introduced in many Western countries, especially in Angle-Saxonian countries like the USA and the UK. Anyway, automatically, without inflation it became impossible to increase the taxes, simply because the salaries stagnated and often decreased, and this caused shrinking access for the state to tax revenues. The low economic growth finished also the depreciation of public deficit along with the sinking of national currency values. This depreciation had been a supplement to economic growth because the inflation reduced the value of the credit deficit. Public loans were also necessary to maintain the services of the welfare state.

The inflation got under control in the late 1980s, thou the unemployment rate stayed high in most Western countries. The high unemployment threatened the peace established in the labor market in the Western democratic countries, and thereof political support to the ruling political parties was undermined. Right wing parties/groups succeeded in their agitation for free market solutions. To increase the public deficit seemed to be the appropriate alternative solution to both the economic and political development problems. In short, the public loans arose heavily in countries like the USA and many of the EU member states. But similar to the inflation problem the national states can't increase their budget deficit in infinity.

The economists pointed out the fact that financing public and private consume by loan removed means for investment in the private sector. It would create an upheaval of the interest rate, and thereof a declining growth in that sector. The temporary solution to this negative situation and the first public economic deficit crisis, in accordance with ruling neoliberal ideology, was to liberalize the corporate financial sector, which stated with organizational liberalization of Central Banks in many countries during the 1980s. An upheaval for lending money to people came into being, and minimal claims adhered to guarantee and security for loans to both private and public lenders were introduces. Stable low interest rate tempted the citizens to raise loans for both private consume and investments of high risk.

The privatized crisis of credit

Of course, the liberalization initiative did not mean that the governments had found an ultimate solution to the public credit crisis. Thou, the liberalized loan market generated new possibilities, namely access for most people to take advantage of the financial capital that was offered them. Low interest rate decided by the central bank became a tool to keep the level of consume high. Subprime loan taken up for consume became a substitute for a situation of stagnated welfare state policies. Banks and individuals believed in an enduring prize upheaval in market of the real estate. The value of a real estate unit was estimated to the prize of X, and loan was taken up according to that prize with no other guarantee than the real estate itself. It was suggested that that next year could the real estate be sold for a prize of X + Y, and from that transaction both the bank and individual loan taker was secured from loss of their money invested. Streck calls this type of transaction thinking for 'privatized Keynesianism' (Le Monde diplomatique, January 2012), i.e. investment financed by loan in the private sector. Bubbles were created which later on burst. That was situation in the USA in 2008 when the financial crisis became a reality. US economy is better off by now in 2015 regarding growth, but social inequality is increasing.

The economist Raghuram G. Rajan puts weight on the cultural aspect of the financial crisis, and figures out what he call 'Fault Lines' (2010). He points out powerlessness and the absence of coherence in the US democratic capitalism. Especially, in his explanation he puts weight on the catastrophic development of economic and social inequality occurring as a crisis in many Western countries, and with the USA as a leading nation in that sense, We have mentioned the risky behavior of the banks and heavy private loan taking leading to the financial crisis, and Rajan relates this development to the situation in the USA. This behavior he looks upon as only the last step in the process we have described a process with a wrong course by political powerlessness in an environment of globalized and steady more uncoordinated world.

Justice as a cultural matter, and the fact that the citizens believe the government as the guarantee for democracy, is neglected. Rajan points out that for every single dollar in salary growth between 1976 and 2007 went 58% of that growth to the one richest percent of the families in USA. He continues to tell us that the income of the social middleclass and the poor labor class has stagnated or decreased, while the income of the richest 10 % arose enormously. This development created a sort of disorder neglected by the politician, but obviously disturbed the legitimacy of the politics. Rajan shows that this dilemma got politicians to compensate for the occurrence of inequality and the threat to their legitimacy, by voting forward liberalization of the credit market and favoring consume financed by loan. He writes that politicians, always is sensible to their electorate, are choosing what they think as a solution of universal impact, namely to secure cheap loans to them suffering for not having participated in the growth of the economy and its outcome. The banks took the advantage of the situation to earn money of suspect real estate loans, namely subprime loan. The real estate market was for a while a hot spot in its function, realizing products to constantly higher prizes. People bought housing products characterized by steadily rising prizes, believing that the prizes would continue to rise – into heaven. High risk was taken in this unregulated financial game. When the US Federal Reserve Bank let the interest on loan arise a bit, steadily more people were not able to upkeep their loans, i.e. pay part payment and interest rates. Accordingly, the banks were shaken and threaten by going bankruptcy and also did so. The financial crisis spread worldwide after the 2007/2008.

The crisis that concerns the USA, EU and other Western countries is today what we might call a crisis of combination linked to both public and privatized loan and national budget deficits, for example look to Greek, Spain and Portugal. To get through this crisis the governments of these countries insist on budget cuts and saving programs, and cuts in salaries and pension arrangements. The impact of these actions is reduced market demand, which boosts the crisis in terms of rising unemployment. A natural consequence of this is social and political disturbance visible in many European countries. Wolfgang Streeck (2012) writes: 'The crisis of today threatens the democratic order as much as the economic order, maybe even more'. As in the past, the crisis will find a provisional solution. Most likely, the crisis of combination this time will not favor the interests of speculative financial actors, which probably will become subordinated stronger international regulations. The interests will remain, but expand their self in tight contact with the real capital, i.e. in contact with global industrial monopoly interests. Consequently, the citizens will to an even lower extent look upon their government and politicians as representatives and guaranty for democracy.

The democratic capitalism and the neo-Keynesian explanation on the crisis of combination

Governmental investments – and financial decision-making to regulate the effective demand in national economies is based on the basic principles introduced by John Maynard Keynes in his 'General Theory of Employment, Interest and Money (1936), An explanation on the temporary crisis of the democratic capitalism linked to the Keynesian tradition must contain the following factors:

Firstly, a central point in Keynesian theory was arguments for an active state whose main role was to correcting markets and to stabilizing economic circulations. – We have described and analyzed the stagflation crisis of the 1970s/80s and found that the state remained active. The Western governments chose comprehensive public loan taking and the issuing of government bonds, which later on got the consequence of a public crisis of credit.

Secondly, by using the term 'inclination' to consume, Keynes was able to explain how the consumption behavior changed its character parallel to changing prizes in the market, in our case in the housing market. When the prizing of real estate rises, an inclination arises which generates a feeling of value gain, which turns into a feeling of saving money. Further on this turns into increasing consume because it is believed that the 'savings' are available right there. – This is the background for the development of what we have called the privatized credit crisis as a follower of the public credit crisis. The Government liberalized the financial markets, and the inclination to finance consume by loans increased. The inclination was mostly created and inspired by the arising prizes and investment in the housing market, and thereby the false feeling of saving money when selling. When the housing bubble cracked, it became clear that the saving was not real.

Thirdly, Keynes argued that financial melting down and the crack of aggregated demand in the economy was closely related to upcoming inequality of income and stagnation in salary payments. The government compensated by liberalization of the financial policy and expanded its loan reserves in order to keep the welfare state going by redressing social problems with arrangements of support, guarantees and access to privatized loans. – What we call the crisis of combination may be explained by this kind of Keynesian argumentation. While the net salary of 90 percent of the population changed very little during the last 20 years, the housing prizes have grown enormously in the same period. It is this reality that Rajan's 'Fault Lines' describes and analyzes. It is all about this. Selling real estate gave a surplus which generated an inclination to higher consume in this market. Public and privatized crises of credit became combined; public loan taking to pay welfare was followed by a privatized crisis of credit. The EURO zone of the European Union (EU) was hit by a crisis as a follower of the financial crisis. The EU, the European Central Bank (ECB) and the International Monetary Fund (IMF) chose a strategy to press national governments to cut welfare arrangements to prevent states to go bankruptcy; examples are what happen in countries like Greece, Spain, Portugal, Italy, Hungary and others. The privatized inclination to loan taking was stopped by claiming a higher level of guarantee to get such loans.

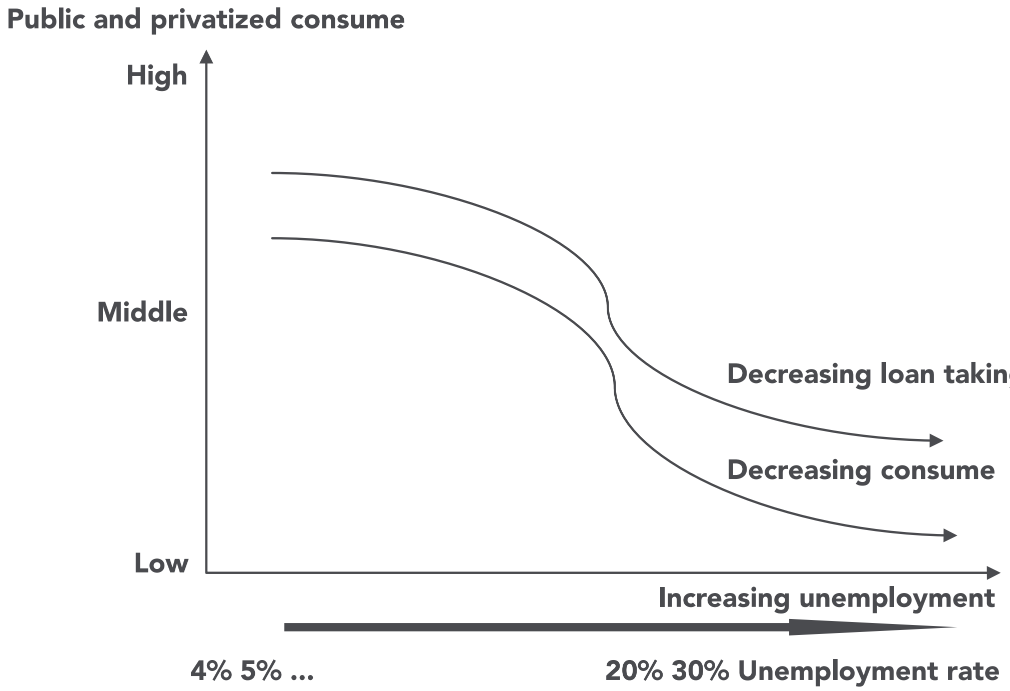

Figure 2. Correlation between three variables: decreasing loan taking and decreasing consume implies increasing unemployment.

Fig. 2 intends to describe the situation characterizing the Western democratic capitalism of today, involving three variables. High level of loan taking and aggregated consume generated a situation of low employment. During the crisis of combination of public and privatized credit crisis the unemployment rate will increase as time pass on. By necessity the inclination to public and private consume will be shrinking caused by mutual dependency between the variables. The inclination to the crack-down of aggregated demand and the growth of unemployment is strengthening by strong budget regulations and pay back of public loans. This is the situation that occurred in the Euro-zone countries and hit them both economically and politically. In terms of Keynesian theory the effective demand will decrease in the national economies. This triggers a negative economic spiral with growing unemployment followed by a corresponding decrease in purchasing power. When the national GNP begins decreasing it triggers printing of money, and the economy gets threatened by increasing inflation. In the EU the European Central Bank (ECB) is very much aware of this mechanism, and keep on to implement a strong monetary policy in the Euro-zone. The other side of the coin is the grave impact of this policy on the Mediterranean countries already hit by the crisis of the capitalism. In the Euro-zone no one of its member states is allowed to devaluate its currency (Euro) in their endeavor to win more competitive ability in the world market. Low inflation rate makes loan does not fall regarding nominal value. Consequently, the unemployment rate continues to rise, fig. 2, followed by social and political disorder in the European countries mentioned. The crisis is most likely spreading to other countries as well.

A temporary respond in Europe according to fig. 2 seems to be on the one hand to increase the effective demand by import 1) capital from outside Europe to compensate for internal public loan taking. Such capital could come from the growing economies of the so-called BRICS countries, i.e. Brazil, Russia, India, China and South Africa. USA experiences a solution to the financial crisis by being a market for Chinese export whose payment remains as loan but with US dollar as involved currency in the business transactions. Dollar are printed and put into the money circulation, but inflation fails to appear because of US dollar as a global currency regarding economic transactions.

On the employment side might decreasing consume be avoided 2) by giving the salaries of the labor force an upheaval. Increasing demand and consume will be an immediately output of the strategy, this deduced from the Keynesian analyses of inclination. The understanding of the combination crisis in the democratic capitalism is detained with a failure when it is explained as a crisis caused by an expensive welfare state together with public loans taken up to restore and pay for the services of the welfare state. Also the consideration of making the financial crisis part of the general housing policy and the political wish to make people owners of their own housing facilities is detained with failure (Mullard 2011: 219). The explanation is rather to be found in the absence of Keynesian theory and its recommendation of governmental interventions when crisis hit the economic circulation in the capitalistic economy.

Shaping economic politics represents political choices. To go for a liberalized market economy generate consequences very much different compared to them generated by Keynesian strategies. The Nobel Prize winner in economy, Paul Krugman, has named the period between 1950 and 1972 "the period of compression (2007). The Keynesian principles dominated and pressed the market and the state together in a cooperative order. The unemployment was low and the inflation under control. Interventions of the government adjusted the market, and the building of the appreciated welfare state was the final outcome.

In contrast to this situation, Krugman says, that the period since 1980s is characterized by divergence; the state has withdrawn from the marked and become a regulatory state, while the market forces were given freedom to develop and expand, only limited and in interplay with judicial regulations. The period is characterized by high unemployment, but with inflation under control. This control came up due to the monetary political strategy whose main objective was fighting inflation. The salaries of ordinary people in the democratic capitalist countries went into a race to the bottom, and the trade unions lost power and influence in the economic and political games. This form of governance under former Prime Minister Margaret Thatcher in the UK and former President Ronald Reagen in the USA is well known.

Since the 1980s fragmentation of governance regimes has been a dominant development trend due to steering principles deduced from New Public Management theories. The representative democracy has become weak and fragmented and under control of international supranational governance structures like the EU. Therefore, citizens look upon governments not as representative for their own national interests, but as representatives for the interests of foreign states and international organizations. Out of this comes public poverty.

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7 THE POLITICAL-ECONOMIC BACKGROUND OF EUROPE IN CRISIS. – A KEYNESIAN PERSPECTIVE

Abstract

Economics goes back a long way under shifting political conditions. The Keynesian state's macro-economic form of intervention actions, which developed just after the Second World War, was a clear answer to the structural economic crisis of the inter-war period of the 1920s and 1930s. The Keynesian economic theory was in many senses deduced from classical economic theories. Correspondingly, today we see the Keynesian principles being transformed but prolonged, despite change of framework. The ongoing financial and depth crisis needs an answer of solution, and the answer seems to be found in principles, which could be traced and identified as neo-Keynesianism and neo-interventionism. This paper is tracing and analyzing the political economy of the historical capitalism.

Neo-Interventionism and Neo-Keynesianism of Today

There is an ongoing crisis in Europe, characterized by being both a credit and a financial crisis. Measures are needed, therefore causing the EU to become active as an interventionist state in the sense of what John Maynard Keynes recommended (1936). However, principally the framework has change and is new, thereof the introduction of the concepts of neo-interventionism and neo-Keynesianism.

The EU (together with the European Central Bank (ECB) and the International Monetary Fund (IMF) has made important interventionist steps giving loans to counteract the crisis, particular deeply experienced in member states like Greek, Italy, Spain, Portugal, Ireland and Hungary, by claiming firmly reduction in public spending, reducing salaries and lowering pensions. On the other hand the EU established a stability fund near 1000 billion euro to help states in trouble. In December 2011 the ECB presented an intermediary but long term solution to heal the actual depth problems of certain states; the Long Term Re-financial Operation (LTRO). The aim of the operation was to support the banks with money by an exchange procedure: Banks sell expensive old bonds and gilts, turned over in the market with 6–9 per cent interest rate, to the ECB and get fresh money in return. The banks agreed on paying the money back in three years times at the same price. For the money the banks need only to pay an interest rate of only 1 percent in return. The measure was meant to secure the bank's liquids. The common understanding is that the banks use their money to buy new state bonds and gilts to secure access to financial assets for those countries. In the first round of exchanging money €500 billion were taken over from the ECB by the national banks, and the amount has been more than double since then. The problem with this measure, which makes it intermediary is that the depth as such has not disappeared. What is needed is real economic growth and creation of jobs. High unemployment rates continue in 2014 as a huge social and economic problem for many EU member states.

The supranational EU interventionism in the wake of the ongoing crisis also aims to lower the degree of devolution and national independence. Europe took a major step towards full fiscal union few years ago, as every EU member country, except the UK and the Czech Republic, vowed to cut budget deficits and submit them self to greater scrutiny from the European Commission.

The EU member states, 25 out of 28 states, voted for the so called "Financial Pact", which gives the EU and its institutions the authority to control member states ability and political will to keep their national budgets in accordance with EU economic and financial rules and regulations. The agreement is seen as a significant victory for German Chancellor Angela Merkel, who spent months pushing foreuro zone members to agree on tighter budgetary constraints. Under the treaty, signatories will agree to cut budget deficits and reduce national debts as a proportion of their economic output or face "automatic" fines, likely to stand at 0.5 per cent of GDP. Sanction will be put in place if the national depth exceeds 3 per cent of the GNP. – National interventionism is losing adequate rendering, and governing democratic authorities are becoming emptied for power.

The political scientist, Wolfgang Streeck writes in 'Le Monde diplomatique' January 2012, that Markets dictates what believed sovereign democratic states may and may not do for their citizens. Consequently, the citizens do not respect their elected representatives as their own but identify them as representatives for interests of other states and international organizations. Streeck is right but one word should be replaced by another word. It is not the market but supranational regulations which dictate sovereign states. To be dictated is the price to pay for overcoming the contemporary; the regulations generate new forms of supranational interventionism and adequate ideas. The neo-interventionist and neo-Keynesianism thinking is differently executed though, seen in contrast to Keynes' interventionism which was directed to the promotion of economic stability and national effective demand. The latter interventionism was aiming national market regulation by economic demand interventions (Shonfield 1969), rather than depth reduction, contrary, Keynes recommended the raising of public loan in order to realize effective demand objectives.

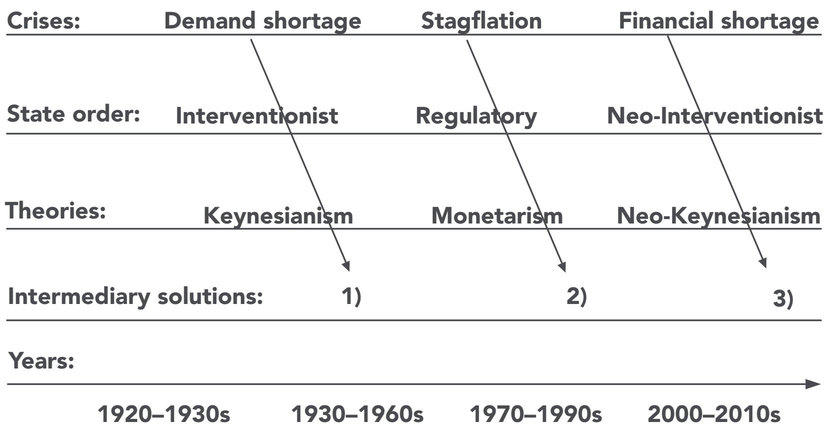

Table 1. Solutions of international economic crises, 1), 2), 3) promote changes in state orders and choices of predominant economic theories. Different theories get transformed to ideology when not valid as solutions any longer

The Table 1 sketches the structure of this paper. International economic crises of our time have their history. Before the Second World War, in the 1920s, there occurred a pre-Keynesian demand crisis causing threatening unemployment in Western states. The state reacted passively, and its policy shaped accordingly relying on classical liberal economy theories. In the paper we will review some of those classical economists; Adam Smith, Davis Ricardo and Thomas Robert Malthus – leading up to Karl Marx and Keynes. In the 1930s John Maynard Keynes wrote his "General Theory of Employment, Interest and Money" (1936), which introduced the principle of the interventionist state. The theory claimed the necessity of an active state to secure effective demand in order to overcome the ongoing pre-war demand crisis.

The Keynesianism as a political strategy succeeded until the 1970s, when the stagflation crisis undermined the previous enduring economic stability. The intermediary solution to the stagflation crisis was politically to leave Keynesian principles behind, and during the 1980–1990s to establish a monetary, supply side economy. The theory was deducted from ideas promoted by the so called Vienna School of monetary economists which rejected a dominant state function as adequate for the creation of economic growth and stability (Friedman 1980, Veggeland 2009, 2010). The monetary economic policy turned bankruptcy. In the late 2000s the international financial and dept crises occurred and became a grave challenge for Western governments.

The contemporary crisis is a double crisis caused by both dysfunctional public and private dept and loans. What is clear is that this double crisis has made the governments and the EU to become active and stick to interventionism in the sense of what John Maynard Keynes recommended (1936).

Consequently, we may talk about the occurrence of neo-interventionism as a new state order rooted in neo-Keynesianism theory. Important contributor to this neo-Keynesianism turn is the Nobel Prize winner in economics Paul R. Krugman (Krugman 2012). See also Table 1.

Principles of the Pre-Keynesian State

The interventionist state's macro-economic form of central planning actions which developed just after the Second World War, was a clear answer to the structural economic crisis of the interwar period of the 1920s and 1930s, see Table 1. The legitimacy, which this form of planning gave the government to intervene in the market, is primarily related to the work of the John Maynard Keynes, the English economist. In 'The General theory of Employment, Interest and Money', from 1935, where parts of the content had already been published elsewhere, Keynes elaborated a new foundation for the understanding of economic growth and its conditions in the market economy. This entailed studies of the causes behind economic fluctuations, and what determine the level of national income and employment. Even though Keynes was a liberal economist he opposed the laissez-faire perspective and marked the clear need for state intervention to tame the market and to escape and avoid economic crises. For these reasons there has been talk of the 'the Keynesian Revolution'. In this context Andrew Shonfield (1969: 3) puts forward an essential question:

> 'What was it that converted capitalism from cataclysmic failure which it appeared to be in the 1930s into the great engine of prosperity of the post war Western World? There is no simple answer, which rests on a denial of the validity of the question itself. The economic order under which we now live and the social structure that goes with it are so different from what preceded them that it is misleading – so it is alleged – to use the word "capitalism" to describe them'.

Through his work Shonfield (1969: 3–39) gives answers to the 'conversion' question, which could be summoned up as the following: Keynes' General Theory provided the rationale for state interventions, effective demand, and spending to achieve recovery and full employment. It revolutionized business-cycle theory and established the framework for modern macro-economic analysis including growth economics. In terms of references the effects of this work could aptly be called the 'Keynesian Revolution', Schonfield suggests.

As always happens along lines of ideas, historically they occur before an actual revolution which bias evolution of socio-economic theories and political ideologies. This was also the case regarding the ideas, which shaped the 'Keynesian Revolution'. A number of predecessors contributed as founding fathers of the economic ideas and legitimated government intervention into the market which led up to the Keynesianism. The ideas were all colored of the social setting for which they were innovatively design, and inspired by the political ideas and ideological approaches of the time like liberalism, utilitarism, and socialism. Let us look more closely into some of these 'founding fathers' (Stewart 1972, Schumpeter 1939).

Adam Smith: Economics goes back a long way under shifting political conditions. Adam Smith, who published 'The Wealth of Nations' in 1776, one can take as the founder of modern economics. Despite his concern with what we call conditions for 'economic growth', the book contains no real discussion of why the level of employment is what it is and how market should be intervened and regulated. At the time agriculture was still by far the most important activity, and in an agricultural society the notions of being employed and being unemployed were not really distinctive: the whole family works, but might seasonally be underemployed. Smith simply assumed that there was always full employment. Regarding regulation, he in line with the liberal political thinking and classic economic theory of the time he believed in the 'invisible hand' as the regulatory and taming principle of the market. He just commented one thing limiting the free market approach. The comment was that of course 'landlords talk together' and they make their decisions and agreements and intervene on prices when they unavoidably meet now and then. This phenomenon he recognized as a negative externality which might disturb the rule and efficiency of the 'invisible hand', and thereby the balance of the economy. It represented a socio-economic risk that should be avoided. He never put forward the idea that such personal 'decisions and agreements' were indeed a corporate way of taming the actual markets.

Adam Smith took over the idea that the economic sphere was a sort of nature and therefore stable and structured by 'natural law'. This view he elaborated upon the contributions of the great founders at the time of political liberalism – especially John Locke (1632–1704). For Locke, a state of nature existed before the occurrence of a social contract conducted by the political state. In that pre-organized state each individual was facing nature and free interaction. They had to deal with work, the products and utility of the work, and property rights, therefore each man was a *homo economicus*. The social contract and the government interventions emerged only in reaction to outside threats and with the obligation to protect the natural law and the private property. Adam Smith took the idea of the 'natural man' as the 'economic man' and made it basic in his theory. He reaffirmed the liberal view that the economic sphere should remain free and have historical and ideological precedence over other spheres of social life.

David Ricardo: The next economist of major founder importance is David Ricardo, who published the first edition of his 'Principles of Political Economy and Taxation' in 1817. Like many other nineteenth century economists his main interest lay in the factors, which are steering the distribution of a nation's income between the major social classes – landowners, capitalists, and workers, i.e. rent, profits and wages in corresponding order. The capitalists must make large profits and accumulate money, he states, because they would invest them in new machinery; and this will create more employment and enable more to be produced. This belief should be a fundamental approach in the economic neo-liberalism theory of today, 200 years later. Ricardo operated in the optimism of the dawn of the industrial society. The suggestion of the spokesmen of anti-government neo-liberalism claim validity in the pessimism of the aftermath of the industrial period. The issue of government interventions was not in the focus of Ricardo. Instead liberation of industrial potentiality and ability was his concern. Present neo-liberalism, with roots in the thinking of Ricardo, makes the government interventions explicitly the cause for unliberated industrial potentials, both nationally and in a global perspective.

Thomas Robert Malthus: Thomas Robert Malthus, another economist at the time, is best known for his theory of population growth and food shortage. According to him there is tendency for the population to increase exponentially while the supply of food, only increase linearly. This represents the number one of natural socio-economic risk in the contemporary economy, as Malthus saw it.

The theory had its background in the actual population explosion in Europe at the time, and the occurrence of extensive emigration waves to America. Hence, with this part of Malthus' work Ricardo did not disagree. But there was another part he opposed. Against Ricardo's theory of profits and investment in production machinery, Malthus pointed out that there was a danger that the investment would raise the production capacity at a faster rate than the ability of the society to consume. Of the wages received by the workers only a part of it will be used to buy goods, which are produced because of the investment. Investment increases the production, but the nation state will find itself with a 'general glut of commodities', which cannot be sold. This will lead to unemployment, he argued. And he went on arguing: Actually, there is a large class of landowners and capitalists that certainly not invest their money; they tend to save their money, producing nothing, but consuming a lot, Malthus recognized. Malthus pointed out calamities but none principles or means to avoid them by involving government.

Ricardo seems to some extent to have accepted the logic of Malthus' thinking, but his answer was that an economy might suffer from shortage of what he called 'effective demand' time by time but not in the long run. Actually, Ricardo was more or less right at the time when he elaborated his long run effective demand proposition. During the early nineteenth century the only way most industrialists could finance new buildings and machinery needed to expand their business was out of their own profits. In the long run the market would create effective demand without involving the government. Keynes said later on that 'Ricardo conquered England as completely as the Holy Inquisition conquered Spain' (quotation from Stewart 1972: 27)[11]. His influence occurs important today in the shadow of the neo-liberal supply-side economics, i.e. the belief in a government policy that excludes central state interventions. Instead the government should promote deregulation and tax cut in order to increase the inclination of industrial economic investments and thereof consumer demand. This belief still rules the rightwing economic-political approach of the dominating OECD member states (Sachs 2006).

Karl Marx: As an economist, Karl Marx was clearly in the debt of Smith and Ricardo. Much of their framework he took over and gave it a new view. Marx published his main work, 'Das Kapital', in 1867. He was the first leading economist to notice that by the middle of the nineteenth century heavy unemployment was quite common in the developing industrial European states. He tried to find the reason why Ricardo was wrong in his proposition on effective demand. Marx reasoned that competition forces capitalists to invest their profits in labor-saving machinery, for if they do not their profit rate and efficiency will fall, and they will be forced out of business. Of self-interest they will continue to do so. But when doing it, there will also be a fall in work places and the unemployment will rise. For those who still have jobs the alternative is to accept lower wages, forced upon them by the capitalists.

According to Marx a fall in employment also meant a fall in profits because only work creates economic values. The clue in the view of Marx is that when this happened, and contrary to what Ricardo had assumed, capitalists would, in the long run, have little incentives to invest their profits. And since only a small part of the capitalists' profits can be spent on consumption, the general surplus of commodities that Malthus had been afraid of would become a reality. Marx elaborated a theory of capitalism that concludes that necessarily the capitalism will end in a deep rooted crisis and revolution: The crisis will occur as a result of unemployment growth which will get heavier and heavier. The basic reason for that is *the relentless fall of the profits*, which leads before long to a general economic crisis. The suffering working class will make a revolution and get into power. The new society will become classless and a central state authority unnecessary. Marx identified an institutional dysfunction inherited in the capitalist system, and saw the government as part of this system. He foreshadowed the breakdown of the capitalist system as a whole entity. The ultimate solution was a revolution of the working class and a stateless communism economy.

Marx theory, certainly, was on the one hand colored by the strong tension between social classes in the developing industrial society in Europe at the time, between the repressed working class and the exploding class of capitalists. On the other hand it was colored by a strong technological belief, a belief in the liberation power of the promising productivity of the new machinery, and the ways of organize it. These production forces in the hand of the working class embedded the ability to free them from the serfdom of wage-work, and would make them economically and politically free as to sides of the same coin. Nevertheless, in spite of the historical fact that his theory about the relentless fall of the profits, the impossibility of balance the trade cycle, and the economic development in general, had limited validity, Marx did represent a significant figure in the evolution of economic theory, and indirectly the belief in government intervention principles to stabilize the economic circle were deduced from this theory, despite his vision of a stateless communism society. It was his theory about capitalism, and that a marked economy, if left to its self, would most likely be dysfunctional in the long run. This aspect of Marxian theory inspired Keynes. Michael Stewart writes (1972: 33):

> **'It was much more difficult, after what he (Marx) had written, to believe that the capitalist economy, if left to its self, would necessarily function satisfactorily. In particular, it was more difficult to accept Ricardo's view that profits were always invested in new machinery'.**

Certainly, Keynes learned from the Marx's lesson about market failures and the logic of capitalism (Veggeland 2009). Actually, Marx created a new framework for political economic thinking. Despite being a liberal economist, and differently from Marx's vision about the stateless society, Keynes accepted that the capitalist economy would not function satisfactorily if left to its self. Government interventions were needed. Unlike Marx, Keynes' theoretical approached was to find means to make the market economy survive.

The Political Economy of the Interventionist Keynesian State

Keynes' great contribution to economics, General Theory of Employment, Interest and Money (1936), was to define the modern economy and see that this economy did not work in the way classical liberalists had supposed. Further he provided a new and completely convincing explanation of how balance could be achieved in a (national) market economy. With the interwar economic crisis as background he demonstrated innovatively that heavy unemployment was not a temporary deviation from the normal state of development, but could represent an equilibrium situation, which could go on forever (see Table 1 of today's situation of unemployment). If full employment was wanted it was no good do following the recommendation proclaimed by classic liberal economic theory – to make the government sitting back and hoping for the best, i.e. laissez-faire policy. The government must ensure through interventions that there is enough *effective demand* in the national economy to create full employment.

Hence, 'effective demand' is a key notion in the Keynesian theory. As already pointed out, this notion was essential also in the dispute between Malthus and Ricardo more than hundred years earlier. Malthus suggested that an economy might suffer from disturbance, namely the shortage of what he called 'effective demand', while Ricardo more or less denied this assumption. Michael Stewart (1972: 30) indicates that Keynes was perhaps reading too much or too little into Malthus when he wrote, in his *Essay on Malthus*:

> 'One cannot rise from a perusal of this correspondence (between Malthus and Ricardo) without a feeling that the almost total obliteration of Malthus' line of approach and the complete domination of Ricardo's for a period of a hundred years has been a disaster to the progress of economics'.

Nevertheless, reading too much or not into what Malthus had grasped rather intuitively, Keynes founded a 'revolutionary' theory on the disputed notion of effective demand. Contrasting a monetary perspective, in his theory effective demand simply means 'demand backed by money' – in other words actual expenditure. The crucial question then; what determines effective demand? In order to this answer, Keynes broke down aggregated effective demand into two components, consumption and investment. He claimed it necessary to study each in turn, and how they could interact in the economy for the purpose of creating full employment.

According to Keynes:

Consumption: Aggregated consumption in an economy relies on wages and income; the latter represent purchasing power[12]. Purchasing power may give variable expenditures as output depending on the size of the wages. Besides it depends quite a lot on how the National Income is distributed, socially and geographically. Consumption might be more than just private consume, it might also be investment if the consumption is part of running businesses. And further, buying a car might be private consumption, but used by the firm for transport, it turns out to be an investment. Increasing consumption of any kind expands the effective demand in the economy.

Investment: Money spent on investment is determined by two things; by the amount the investment will yield, the profit, and by the variable cost of borrowing the money needed to finance the investment. The cost is variable because of changing interest rates[13], though it seems fairly obvious. No one is going to borrow money in order to finance a factory machine or an accommodation facility if the interest payments exceed the profits eventually made by the factory and the facility[14]. But the other way around, if profits exceed the costs, investment might be decided made, but certainly not for sure, resulting in an expansion of the effective demand at an aggregated level.

What challenged Keynes then as being an economist believing basically in liberal economic principles, was how to stabilize consumption and investment, and thereby the market economy, on a level of full employment. Neoliberal thinking of today has almost forgotten this Keynesian stabilization strategy. Full employment and full utilization of the production forces in general, were essentially for Keynes; neither less nor more than full utilization was the goal. 'More' would mean pressure in the aggregated economy with rising prices and increasing inflation as a negative consequence.

What then could be the proper measure, to balance full employment and stable low inflation rate, as part of his effective demand concept of consumption and investment?

Keynes did not believe in Ricardo's view that profits were always invested in new machinery', nor did he believe in Marx's thesis about the relentless fall of the profits. In his theory he introduced an idea with the greatest political implications of the time: the advantage of *state (government) interventions* in the market in order to balance employment and inflation, see Figure 2 below, through using public consumption and investment as regulatory measures, and planning and centralized administration as steering instruments. This is what Majone (1994: 77) calls the 'dirigiste state of the past', which in our time has been replaced by the "regulatory state" which is denying Keynesian economic government intervention.

The interventionist state as an instrument to counteract risk in a market economy is a theoretical as well as a practical concept. But according to Keynes, the interventions should only be temporary, to overcome the international economic crisis of the 1930s, he promised, as the liberal economist he was. It should turn out differently, it became the theoretical foundation of the adjusted permanent modern interventionist state – actually the post war social democratic welfare state lasting until the 1970s and 1980s, see Table 1, (Veggeland 2007, Flora et al. (eds.) 1999).

Let us try to illustrate some of the Keynesian principles by formalizing the structure.

What is important here (Figure 1) is the way Keynes provided legitimacy for the central government to initiate basic central planning, where-after to intervene and make consumption and investment adjustments according to the national Master-plan of economics and to sector plans. This meant to regulate market mechanisms for the purpose of long-term effective demand, and thereby full employment and low inflation. In return, the domain of the politics got legitimacy because of economic stability and growth success as results of the interventions.

The advancement of the post war welfare state and its framework might be said to be the top point for convincing Keynesian policies with great legitimacy (Flora et al. (eds.) 1999). Optimistically, some scholars pointed out that probably a new international economic crisis would never occur again because of the balancing effect of the interventionist state (Shonfield 1969). They were wrong.

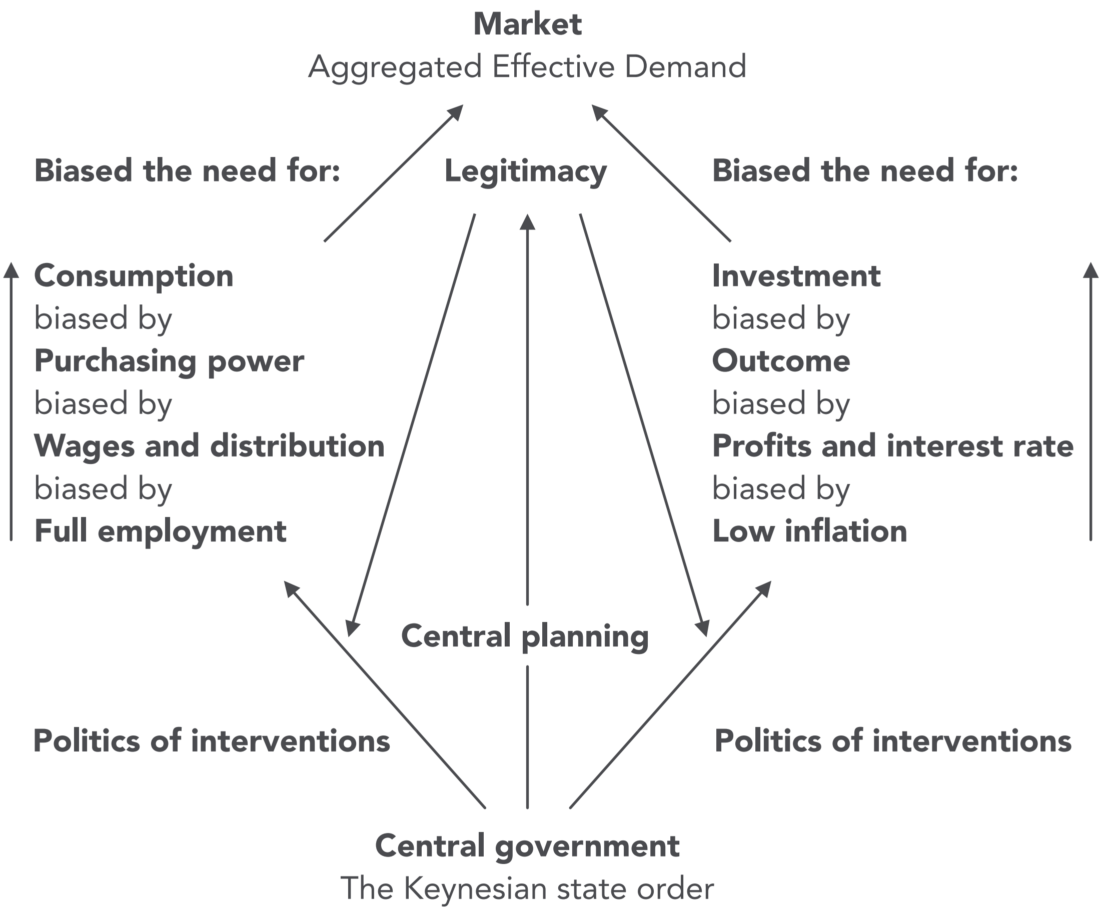

Figure 1. The structure of the Keynesian political economy.

What measures made the interventionist state strong? The Keynesian approach to macro-economic crises created a new bunch of conceptual tools for economic policy and central planning by the government. After the Second World War, these conceptual tools were widened to include sector planning, regional planning, environmental planning, and connected extensive social and regional distributive policies. The success of this type of planning and governance rested upon the assumption that the national economy was relatively closed and protected from external impacts. That situation changed during the 1970–80s. The markets were enlarged globally in order to let businesses get access to new markets, and the Keynesian classical principles for effective demand failed.

Keynesianism represented a top-down rational form of planning and decision-making; "the dirigiste state". Mean-ends strategies were recommended to make both growth developments and distributive policies work (Friedman 1987, Amdam and Veggeland 1998:26–27). Politically this type of planning fitted the social democratic ideology at the time, and its insistence on market control, state ownership and monopolies and an active income and cost policy. Economic government intervention and a planned society were considered desirable.

Majone (1997: 139–167) has argued that the Keynesian interventionist state had three main tasks: 1) macro-economic stabilization, 2) the distribution of income and 3) the regulation of the market. The goal of macro-economic Keynesian intervention was to achieve economic growth and the principle of full employment. The instruments for this were financial and monetary policy, together with active employment and industrial policy. In this setting public monopolies should dominate as executives of the infrastructure service policies.

Keynesian income distribution policy included the redistribution of resources from one social group, region and economic sector to another, as well as educational goods, supplementary benefits and health services. The goal was to level-out in-equalities for social reasons but also for the reason of secure marked demand for goods and thereof full employment and economic growth (Einhorn and Logue 2003, Veggeland 1998). The Keynesian interventionist policy of judicially regulation aimed to redress and avoid 'market imperfections' such as monopolies, unfair competitive advantages, incomplete market information and incomplete access to public goods.

The state interventionist policy, together with its distribution policy implication, is what has been called the 'social democratic welfare state', or even the 'Keynesian welfare state' (Ferrera and Rhodes (eds.) 2000). Macro-economic planning to sustain effective demand in the interventionist state was based upon complex mathematical models developed by the Norwegian economist, Ragnar Frisch, who obtained the Nobel Prize 1969. Models used have been known under the term of "Eco-Circ", MSG and MODIS (Amdam and Veggeland 1998: 27).

The mode of governance was democratic in the sense that the Western national parliamentary government system combined the monopoly position of being Lawmaker (the Parliament) with the monopoly position (the Government) as executive of public policy, besides acting as a gatekeeper in international affairs. The state budget, the national accounts, sector policy, welfare policy, distributive policy and other areas became the subject of parliamentary policy. Also public planning acts were democratic but only in the sense that political top-down "hearings" were arranged before leading to the formulation of goals for the development of regions, municipalities and sectors. Politically, this was the most popular form of state in the post-war period until the 1970–1980s. From this point of time, doubt crept into the social democratic consensus on the advantages of the Keynesian interventionist state mode of governance, i.e. the national state monopoly of being an economist, politician, planning actor, producer of infra-structural and social goods and services and employer (Giddens 1998).

In The Shadow of the International Stagflation Crisis

In the 1970s the international economy entered a crisis, the so-called "stagflation" crisis, see Table 1 above. The crisis became the fundamental causal factor in subsequent changes of the Keynesian state order (Veggeland 1998, 2009). Unemployment in the western industrial states arose to 10–15% and more in averaged, besides the inflation reached dangerous high levels. This represented a fundamental brake in the stable economic development formed on the basis of the Keynesian principles of state intervention believed as lasting stabilizing factor.

At the time it was difficult to imagine that the balance in economic circulation would once again reach the crisis dimensions which could be compared with the interwar great Depression of the 1920–30s. Symptomatically Andrew Shonfield, the great English economist, in his large work from 1969, 'Modern Capitalism', argued optimistically from a Keynesian perspective, that a lasting economic stability for the future had being accomplished:

> **'The central thesis of this book is that there is no reason to suppose that the patterns of the past, which have been ingeniously unraveled by historians of trade cycles, will reassert themselves in the future'. (1969:62)**

Shonfield was wrong in his expectation. In the 1970s the crisis arrived. The crisis expressed itself as a stagflation crisis, i.e. stagnation and increasing unemployment occurred with a corresponding increase in inflation and stagnation as parallel processes.

The disputed 'Phillips curve'[15] is showing the empirical based relation between inflation and unemployment in the Keynesian period. The curves are also illustrating the failing of the Keynesian principles from the 1970s, see Figure 2. A fundamentally change occurred in the Western economies. Despite of Keynesian government intervention polices the "Phillips curve" moved upward and designed both increasing unemployment and inflation rates as empirical facts. In other words, the Keynesian economic tools did not work any longer.

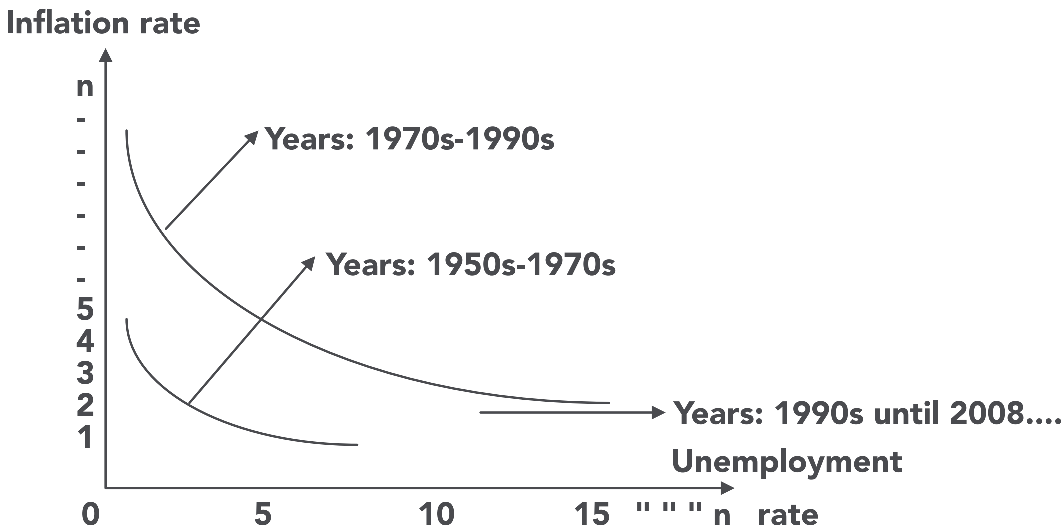

Figure 2. Curves illustrating the development of crisis tradeoffs affecting the Keynesian state: Changing stability levels for inflation – unemployment relations and growing rates of unemployment since late 1900s–2000s.

In Figure 2, the rate of inflation is plotted on the vertical axis, the unemployment on the horizontal axis. Reduced governmental effective demand in order to lessen the pressure in the national economy with the intention to lower the inflation did not work. The opposite effect occurred. Despite the effective demand was lowered, an unwanted race upwards of the inflation rate was observed (Cumes 1984). The arrow illustrates the movement of the curve in the national economies at the time. The curves view a development from a trade-cycle in balance from the 1950s until the 1970s with both low inflation and unemployment – actually it was called "a after war period of full employment". It was the consequence of the Keynesian economic policy. Then the economy got into a stage of imbalance at the end of the 1970s until the 1989s, with both increasing high inflation and unemployment as the normal situation. The curves view the tradeoffs at different stages between inflation and employment. From the 1990s until the new crisis of the 2007–8s, the Western national economies became stabilized, but on a high level of unemployment. Classical market liberal principles became reformulated to neoliberal principles. Monetary and supply-side economic policy replaced the traditional Keynesian policy. The new economic policy was deduced from theories developed by neoliberal economists like the Nobel Prize winner in economy, Milton Friedman. Less state more free marked movements was the message. In this period the economies were stabilized in a way but on a high level of unemployment, see Figure 2. From 2007, an economic crisis of a new kind came up, the financial crisis, with its origin in the USA.

What happened in the 1970s was that old methods of balancing employment and inflation were no longer effective, or to be more correct, they did not work as expected. Theories and models of state interventions built upon the Keynesian General Theory were now found ineffective in most OECD member states. Measures introduced by governments to reduce the rising unemployment rate only resulted in the empirical fact that, even doing so, the level of inflation spiraling upwards. New technology in certain industrial sectors increased productivity and competitiveness and contributed to inflation, while businesses using old technology were closed down and made unemployment grow (Cumes 1984). The principle of effective demand failed. "Effective demand" as the main stabilizing factor of the economic circle, was first pointed out by Riccardo, 200 years earlier, as a natural thing in a market economy; production and consume belonged to an order of nature to make men survive. Keynes, in the 1930s, rejected Riccardo's nature approach, and made state intervention necessary for economic stabilization. Beside that the Keynesian theory was followed by a new reformulated neoliberal theory, based on the classical liberal economists; i.e. Milton Friedman's anti-state and supply-side monetarism in the 1960s. Indeed, confusion about the reason of the economic crisis of the 1970s dominated the academic literature at the time (Veggeland 1998).

Confusion was also reflected in OECD reports written under the intention of providing advice to member governments. They were unable to decide which remedies that were to be most appropriate (Mc Cracken et al. 1977). A quotation (1977:14) may give a picture of the confusion:

'To summon up, the immediate causes of the severe problems of 1971–75 can largely be understood in terms of conventional economic analysis. There have been underlying changes in behavior patterns and in power relationships internationally and within countries. But our reading of recent history is that the most important feature was an unusual bunching of unfortunate disturbances unlikely to be repeated on the same scale, the impact of which was compounded by some *avoidable errors in economic policy*. The continuing legacy of 1971–75 makes for unusual difficulties in framing policies for the years immediately ahead. We reject, however, the view that existing market-oriented economic systems and democratic political institutions have failed. What is needed is *better use of existing instruments of economic policy*, and better functioning and management of existing market mechanisms'. (SIC!)

Later on, in the 1980s, the OECD got out of its confusion and made a choice; Keynesian theory and measures were overruled by neoliberal theory and measures. Now the OECD recommended anti-inflation measures and policies which might create new markets and effective demand nationally and internationally. Consequently, the unemployment rate increased to a high level in most OECD-countries, as Figure 2 illustrates, Two things should be done, according to the OECD: (1) Pic up and implement the principle of "creative destruction" to forward innovation, a term outlet by Joseph A. Schumpeter (1939). Innovation became the keyword. That meant to let old industries be closed down and let the market decide which innovative and competitive industries that had capacity to survive, a theory outlet by the classical economist Joseph Schumpeter in the 1930s. Outranged industries should be closed down and state subsidies forbidden in order to stimulate innovation and the growth of new competitive business based on new technology and organization. Free market competition was basically the fundamental condition for the realization of the creative destruction principle, according to Schumpeter, and the OECD experts believing in his thinking. (2) This neoliberal approached should be followed by comprehensive reforms in order to modernizing the public sector. New Public Management (NPM) principles took over from Max Weber's mode of bureaucratic management as the main steering principle. The public sector should be diminished, besides be reflecting the private sector organizational order. Accordingly, public sector should become more competitive in the setting of the new marked economy (OECD 2002, 2005). The principles of the New Public Management (NPM) promised such a solution.

Great Britain and the United States grasped early the inflation-fighting strategy, and reformed deeply the economic policy to a supply-side economy under the umbrella of neoliberal ideology, an ideology with roots back to classical liberal market thinking (Storper and Scott (eds.) 1992). Other Anglo-Saxon states followed the same policy-inflationary to get out of the stagflation crisis, but with a critical rise of unemployment. Normally the unemployment rate rose to an average of 15–20%. The consequences of one sided fighting the stagflation crisis were noticeable globally.

NPM reforms entered the political scene in the 1980s. In line with classical market liberalism, but reformulated by neoclassical economists like Milton Friedman, central planning and state intervention became defined as negative strategies to achieve innovation and effective demand. Neoliberal market thinking, with its focus on privatization, innovation and the creation of new markets, took over as the ruling strategy. The policy of the World Trade Organization (WTO) and the EU implemented more free market movements. The objective was reestablishment of effective demand in member states and the stabilization of the international economic circle. The appearance of new technology and the arising globalization of markets were viewed as developments which had triggered the stagflation crisis, and at the same time outdated the Keynesian national interventionist economic order. In a new global perspective, the national markets and institutions of the Keynesian interventionist state, the neoliberal economists told, are too narrow, regulated and dominated by government initiatives. Classical liberal economic theory, back to Malthus and Ricardo, was revitalized and reformulated (Friedman 1980). The neo-liberalists recommended on the one hand strategies for international free trade agreements and deregulatory initiatives, and on the other hand a more decentralized, competitive and innovation oriented public policy. Privatization and less government interventions became the keywords for such a policy. Governments responded with initiating public reforms to implement a new institutional order for the promotion of innovation and functional networking cooperation, both nationally and internationally (Amin and Thrift 1995, Jessop 1994). Actually, in Europe, it was the arrival of the Multi-Level-Governance (MLG) of the EU besides NPM structures that expanded, and those structures became dominant at the time (Hayward and Menon (eds.) 2003).

Hereby, constitutionally, the ground was prepared for the institutionalization of the new regulatory state, replacing the Keynesian interventionist state, as stated by G. Majone (Majone 1994, 2007). This implied commitment to a global free market economy which stressed the virtues of competition and greater efficiencies through reregulation, specialization and economies of scale (Egan 2004). The new regulatory state developed as a national principal of power. The National Central Banks were reorganized to become independent arm's length bodies regarding steering each country's monetary policy. It was this regulatory state that got into the grave financial and debt crisis that occurred in the year of 2007. This latest crisis seems to restore the principles of Keynesianism and the state interventionism but in another framework, called neo-Keynesianism and neo-interventionism, as Table 1 above indicates.

Explanation Approaches to The Keynesian Economics in Crisis

It has by many scholars been said that the Keynesian policies adopted by the advanced economies in the West carried with them the seeds for their own demise, and created the basic conditions for the regulatory state formation (Cumes 1984, Friedman 1962). The Keynesian state period, 1945–1970s, as we have called the period, was an era of exceptionally persistent economic growth, stability, and the building of the modern welfare state, of course build in accordance with different national social models and administrative traditions (Knill 2001, Veggeland 2007).

When the international economic crisis arrived in 1970s, the Western governments applied the widely accepted and well-tried Keynesian remedies and political instruments, which they would have used in the 1950s and 1960s. They believed the crisis to be a short-term incident to be overcome (OECD 1977). This was a wrong belief. The crisis lasted, and as we have viewed, the Keynesian remedies and instruments did not work as a response, see Figure 2. When the governments made this experience they initially assumed that the fault lay in their domestic management and in handling international trade, and not in the validity of the Keynesian economic principles.

But as the problems continued and deepened, talks about a short-term fluctuation were heard less and less among politicians and classical economists. The crisis then became more and more recognized as a long-term deep-rooted structural crisis, which claimed new remedies to be overcome. Economists began to say that Keynesian economics had 'failed' as such.

The monetarist Milton Friedman (1980) stood up and said that Keynesianism had all the time been doomed to failure, because of too little market and too much state. His view was that policies, which were regulating production, productivity, demand and employment by state interventions, had not worked properly, nor it would be in the future.

As elaborated earlier governments applied Keynesian policies with great success as long as they effectively had the capacity and political will to implement aggregated effective demand. However, this capacity declined thou in the 1970s. Why so?

Explanation Approach 1

The capacity to balance the economy, Figure 2, declined because for a variety of reasons. One of the main reasons was that the building of the welfare state had come to a mature level, meaning transfer of money to welfare services and social arrangements could not for the legitimacy of national politics be reduced. Further, the abolishment of allocating money to social groups and individuals in need was out of question. Attitudes to welfare and social security such as schools, health, social care for elderly people, disables and others who could look after themselves etc. had become too deeply embedded in Western polity (Arter 1999). The impact on the economy of holding up the welfare consumption expenditure while stagnation continued was recognized, and it stimulated the cry for privatization, more market and less state.

Explanation Approach 2

Gender policy also influenced the capacity of the governments. In large, women's liberation had been made possible by the economic progress of the post-war period. The entry of females into the labor market had in our context two effects (OECD 2005). Firstly, the entry increased enormously the volume of available labor force for employment. The labor market could not offer jobs to them all. The number of people employed might increase but statistically, it also contributed to the growing of unemployment, Figure 2.2. Secondly, the entry of wives into the labor market meant that unemployment was less destructive of individual and family consumption levels than it had been previously. Saving or investment by family units might be reduced as economic activity turned down but a certain level of consumption persisted though. If their incomes were relatively maintained, their consumption was maintained. It disturbed the economy through reducing the effective demand (Cumes 1984). It contributed to the failure of the Keynesian remedies.

Explanation Approach 3

Related to international trade, it is a fact that a high- valued currency, leading to high import exposure, is anti-inflationary and low-valued currency increases the export exposure, which leads to greater inflation. During the post-war period free-trade exposure of goods and services dominated intergovernmental negotiations. The European Community (EC) was established, so was the European Free Trade Association (EFTA). In general, globalization of economic transactions had its start, resulting in open-up national economies.

One of the Keynesian remedies was using revaluation of national currency up or down in order to balance inflation and employment. In an open economy, and in the framework of the free-trade concept of integrated international markets, the economic and political capacity to use this instrument declined (Bratton et al. (eds.) 1996). It contributed little to help adjusting the effective demand. Therefore, in Europe it started the process of creating the Single Europe Marked (SEM) in the 1980s, and the European Monetary Union (EMU) in the late 1990s, which introduced supranational surveillance and rules for trade and monetary policy (Woolcock 1996). The goal was to 'create markets' but also to 'correct markets' by powerful regulation an control, across borders (Scharpf 1999).

Explanation Approach 4

Lastly, there is a change of technology explanation, based upon among others the economist W.E.G. Salter. He argued (1969) that an industry may be viewed as a number of plants embodying techniques, ranging between the most modern plants embodying the current best-practice technique, and the oldest plants still in use which embodies the best-practice technique of an earlier date, and which is now outmoded. The consequences of this competition between old techniques, which generate what he terms '*extensive growth*' – growth which merely reproduces a given situation but fails at last – and new techniques which generate '*growth in depth*', the winning situation.

He writes (Salter 1969: 65)

> 'The appearance of a best-practice technique has the following effects: first, the output of the industry is expanded until price falls to equality with the total costs of plants employing the new technique; secondly, some of the older existing plants are scrapped or replaced until the operating of the oldest plant (or plants) equal the new level of price and best-practice costs. A flow of new best-practice techniques leads to a series of such equilibrium (which combine both short- and long-run elements) and so trace out the path over time of output, costs, prices and productivity'.

In the 1970s, and especially in 1980s, a new technology innovation got introduced in economic production, in manufactory industries and in service production, and in the polity in general, it was the Information and Communication Technology (ICT).

The supply-side economy viewed ICT as a new factor to boost the Keynesian economy in stagnation. In sector after sector and firm by firm, the ICT replaced the old technology and machinery. Investments went to this new sector, and the demand for highly skilled labor forces grew rapidly – and so did the wages and the consumption. Old industries lost competitive capacity and were closed down. Consequences for the Keynesian state economy have been found damaging contextually in this respect, combining impacts of new and old technology.

On one hand, the closing down of old industries contributed to massive unemployment in most of the Western countries in the actual years. On the other hand, the expansion and pressure created in the new industries based on ICT required investments, highly skilled and paid workers and specialists, which contributed to pressure and high inflation (Cumes 1984). The technological tradeoffs as explanation to the fall of the Keynesian remedies and instruments are viewed clearly by Figure 2.

As might be expressed by the supply-side monetarists; policies which restrict the marked have never really worked. Well-managed and regulated market growth to stimulate investment, production, productivity and employment, as well as to encourage innovation and a rational use of new technology, is what is needed (Fagerberg, Mowery and Nelson (eds.) 2005). And economy should be approached explicitly in its disaggregated, multi-sector structure, and with steady growth at the micro-economic level, is postulation stemming from Joseph A. Schumpeter. Contrary, the international credit and financial crisis of the 2010s dominates by none growth at the micro-economic and recession at the macro-economic level.

The Regulatory State and Neo-Interventionism

The emergence of the contemporary financial crisis, as already pointed out, had its beginning in the 1970s. The crisis was named a stagflation crisis. Deindustrialization and diminished economic growth in the wake of globalization processes generated unemployment as a threatening impact. The crisis was met by the national governments by radical change in their monetary policy. Among other things they started printing money to secure piece in the labor market achieved in years after the second, world war. The money was invested in work places, in upheaval of nominal salaries, and in the continued building of the welfare state. Despite such actions the parallel inflation and stagnation problems did not stop though. According to Keynesian theory and policy, as we have seen, this should be impossible, and leading economists did not know to handle the situation and forward advice to the governments.

At last the advices occurred, following an OECD recommendation path (McCracken, OECD 2002). The markets had to be enlarged globally in order to let businesses get access to new markets. It was followed up by unilateral and multilateral agreements and regulations, headed by the European Union (EU) and the World Trade Organization (WTO), to remove trade barriers; free movement of goods, capital, labor and services became the new political spoken slogan. Classical example is the strengthening of the European Commission and the introduction of the Single Marked between the years 1988–1992. It became also an important measure to market orientate and commercialize public sector services to make them contribute to the collecting national income. Organizational liberation of public institutions and agencies as arm's length bodies, dismissing political instruction authority, meant erecting independent agencies, which became embracing political mode of action. The new regulatory state was born and emerged as a form of state organization embedded in the Western democratic capitalism (Veggeland 2009, 2010). The regulatory state was guided by neoliberal ideology, and was basically involving international agreements and regulations. Those agreements and regulations were targeting opening up new markets globally to benefit capitalized industries.

The emergence of the regulatory state supported internationalization and global processes, but the unemployment rates in the Western capitalist countries remained high through the 1990s, see Figure 2. What further happened was that the national states started raising loan abroad guaranteed by government bonds. This was done to develop the welfare state and its services further. However, the unemployment rate continued to be kept high in most Western countries. Again the high level of unemployment threatened the stability of the labor market, and the government support of the citizens was declining. Public budget deficit became considered as a practical and functional solution to the problem. Consequently, the state depth arose heavily in countries like the USA and in many EU states in the 1990s and 2000s.

The recession crisis at the time was tried solved by liberalization of the finance sector. This liberalization created an innovative option, namely the option for the people to borrow, from the surplus of financial capital, privatized loans. Low interest rates on privatized loans became a national measure to keep the inflation rate low and stable in accordance with monetary economic theory. The financial institutions traded loan with the only guarantee in expected rising prices in the real estate market. Streeck calls this phenomenon "privatized Keynesianism" (2012), i.e. loan based growth in private sector instead of the Keynesian principle; public loan to stabilize the effective demand in the economy. There could be, democratically spoken, no question of abolishing allocating of money through privatized loans to social groups and individuals in need, when governments introduced 'deflationary' policies. Real estate bubbles showed up and little by little they cracked; that was the situation in the USA in 2008, and it triggered the financial crisis to arise and to hit economies globally. An international double crisis was a fact, consisting of both dysfunctional public and privatized dept.

The economist, Raghuram G. Rajan, writes about the social 'Fault Lines' (2010), indicating here that the society of our time is in trouble. It is not the historical lines that is threatened to break into pieces but the society along these lines. He sees political impotence together with missing coherence in the democratic capitalism of today. Especially, he analyses the many extreme negative consequences of the catastrophically development of economic and social inequality in many Western countries, and particular in the USA.

Social justice and democratic government as guarantee for economic equality and good governance is a neglected perception. Rajan points out that for every dollar growth of income between 1976 and 2007, 58 per cent went to the one per cent of the most riches in the USA. The income of the lower and middle class people stagnated or became reduced during the same period, while the richest 10 per cent of the citizens doubled their income manifold.

This created a disorder which politically was overseen, and the policy lost legitimacy among ordinary people. Rajan put forward this dilemma in his writing, and postulates that politicians, in order to compensate for rising un-equality, liberalized the financial capital and made easier access to privatized loans for consume as a policy turn. It was an innovative way of level out economic equality seemingly by offer people cheap loans. The banks took the opportunity to make profit out of this policy by offering loan with expected rising real estate prices as guarantee, i.e. subprime loan. Large number of people bought real estate to constant rising prices which were paid by subprime loans. The belief ruled that prices would rise into the heaven. When the US Federal Bank raised the interest rate a bit many families were unable to maintain their loans, i.e. repay interest rate and part payment. This caused the effect that financial institutions broke down and became bankrupt. In the context of neo-interventionism and neo-Keynesianism some of the most important great banks were saved by the US government by supply of huge amounts of fresh money. Now it is told: The bank that exposed the federal government to the greatest potential loss during the government bailout was ***Citigroup***, which received a grand total of $476.2 billion in cash and guarantees, according to a new report of the Congressional Oversight Panel which oversees the TARP program.

The contemporary crisis in the USA, EU and other Western states should be named a *double crisis, because the crisis is intimately bound to both dysfunctional public and privatized dept.* Footprint of neo-interventionist policies derived from neo-Keynesian theory, se Table 1, may be observed. On the one hand governments on both national and EU level intervenes the market economies and put money into to save banks from bankruptcy. Further supranational authorities claim reduction of public spending, which is followed by interventions to reduce private consume by forcing forward reduction of salaries together with cuts of pensions. On the other hand the European governments intervened through the EU and established a stability fund of several €100 billion administrated by the European Central Bank, aiming to be raised to reach €1000 billion in the coming years.

Indirectly but inevitably the government's new approach and attitude to state intervention became achieved as an innovative mechanism. In 2011 the European Central Bank (ECB) presented an intermediary but long term solution to heal the actual dept problems of certain states; the Long Term Re-financial Operation (LTRO). The aim of the operation was, as pointed out before, to support the banks with money by a procedure of money exchange: Banks sell expensive old bonds and gilts which are turned over in the market with 6–9 per cent interest rate. These bonds and gilts are sold, according to the new mechanism, to the ECB with fresh money in return. The banks agree on paying the money back in three years spend of time at the same price. For the money the banks receive they pay an interest of only 1 percent. The surplus of the capital transaction the banks receive is expected to be reinvested in job creating industries.

This is how neo-interventionism and neo-Keynesianism works out today. The principles of the neo-interventionism are in Europe today mainly administrated through the international organization of the EU. EUs 'The Long Term Re-financial Operation' (LTRO) and the 'Financial Pact', is administrated by the ECB and the banks, and in contrast to the original Keynesianism principles, not by national democratic elected governments but by supranational organization; the unelected EU and its judicial agencies.

As in earlier history of political economy theories, the contemporary international economic and political crisis in the democratic capitalism will find its intermediary solution Most probably the solution will not go in the favor of liberalized financial capital which will probably come under hard regulatory international control, in Europe control means the EU. It is expected, in line with what Adam Smith and others feared that industrial monopoly interests will take over because they will be particularly able to create jobs that are needed. In addition, in Europe central EU power will grow on the cost of national democratic sovereignty.

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8 NEW KEYNESIAN POLITICAL ECONOMIC POLICIES

Abstract

Keynesianism is a national focused economic theory. The Keynesian theory builds on the assumption that prices and wages are sticky sizes evolves imbalance; high inflation or deflation follows. This in combination with various market crises, such as the current financial crisis, is suggesting that the market always fails, both in achieving full employment and avoiding crisis thataffects unemployment. Thus, keynesian argues that for an active state stabilization and labor market policy in the form of fiscal and monetary policies that can create just full employment and good business, while market deregulation and laissez-faire policies fail.

Introduction

As Canada overcame the Liberal Party with Justin Trudeau as prime minister in autumn 2015, with a social democratic politics. That party won with a clearly stated neo-Keynesian rhetoric, with the emphasis on the state's importance as a basis for its reform proposals for the revival of the welfare state after a destruction of this from a conservative government side. In the United States, emerges socialist/Social Democrat, Senator Bernard "Bernie" Sanders, as a popular democratic opposition candidate Hillary Clinton. In the UK, we see that the same thing happens with the British variety labor in opposition; Social Democratic British Labor Party. The choice of Socialist Jeremy Corbyn as party leader shows a completely new turn to the left. In Spain, Portugal, Italy and Greece, we see the same left shift; In Greece, Syriza and Portugal won this left the recent elections. The Norwegian social democracy comes not yet by this political turn of events, but we seek the continued support of the right liberal political center around the Christian Democrats for power toward the general election in 2017.

The reasons for this are many, but one sure reason is that Norwegian social democracy still lacks a basic economical alternative to the anti-statist[16] neo-classical economic theory and policy, ideology manifests itself as what is called neoliberalism. Against this theory and policy is today a theory and policy approach referred to as neo-Keynesian. For social democracy, this policy approaches as an option. As the name suggests, it builds on the economist Keynes's momentous theory from 70 years back.

One of the main elements of John Maynard Keynes' major theory, "General Theory of Employment, Interest and Money" in 1936 in response to the inter-war depression and employment crisis, the need for States in times of crisis to "fill the hole" in the lack of overall demand rising, in particular demand for labor. In the thirties was ⅓ of the workforce available in Norway. Keynes' theory formed the basis for Norwegian Keynesian policy in the postwar years with the goal of full employment, which we got. Keynes pointed out that effective demand must be achieved by the government as it spends more money than what comes in through tax revenues. Bringing the public deficit in a period without provisions but the damaging effect of this is surpassed as the employment rate increases with increasing value creation as a consequence.

New Keynesianism

A new Keynesianism, based on the classic Keynesian theory, stressing the need for increased governmental, institutional and economic interventions as unemployment rises and the recession occurring nationally and internationally. While the classic variant designed for national policy is neo-Keynesianism besides targeting international crisis measures[17], such as an action under the auspices of the EU and its Central Bank (ECB).

Under the classic Keynesian models is the government intervention intended to spur long-term changes resulting from a national stagnation period. They are intended in an economic recession to create a macroeconomic balance between supply and demand with the government's help. Keynes focused the large cyclical fluctuations of capitalism, not the microeconomic fluctuations in institusjonell- and enterprise level, such approach emphasizes neo-Keynesianism. Inspired by neo-Keynesian thinking the government countercyclical policy was adopted in the United States. When the financial crisis came in 2007 with rising unemployment to more than ten percent as a consequence, granted the federal government the staggering sum of $800-trillion dollar stimulus and demand measures. The goal was to create macro- and microeconomics demand to reverse the trend back toward normal economic growth. In 2016, unemployment as a result of this governmental intervention just over five percent.

According to the neo-Keynesian approach, it may involve both short-term and long-term government investments in activities aimed at job creation. This approach has unintended ly influenced the Norwegian social democratic opposition in Parliament. Its response to today's economic stagnation caused by the crisis in the Norwegian oil and gas sector and migration crisis with rapidly growing unemployment opposition demands to the government immediate action in terms of the development of public sector jobs, and emergency work as to plug the used oil wells in the North Sea. "Dig a hole," grave like into a hole in the earth to create employment, wrote Keynes in his theory. The incumbent government is characterized, however, by government inaction against rising unemployment and hoping for the market to settle with private entrepreneurs in the lead.

Austerity measures Precautions in the public sector and government inaction by the recession and rising unemployment declined strongly of neo-Keynesians. Tightening will result in further unemployment in a vicious circle. It does not help in the short term to reduce bank interest rates to zero as a means toward economic stagnation, they argue. For the lack of demand in the economy nationally and internationally prevents borrowing and investments regardless of interest rates. The use of tax policy with reduction of tax to increase investment is not an effective instrument for the same reason, they pointed out[18].

The two American Nobel Prize winners in economics, Joseph Stiglitz, and Paul Krugman are our time most famous exponents of the neo-Keynesian economic theory with its political diversions in combating the negative effects of crisis and recession. These two economists representing the academic prestige at a high level, the read and referenced, but has so far been partially rejected by those with political power in the EU and Europe. The rejection has been shown clearly in connection with their published counterargument against austerity measures that the EU and IMF have imposed distressed countries like Greece. Counterarguments, their oversights. Now it seems the vision of the EU on the importance of governmental tools and interventions to change in the wake of refugee and migration crisis. The return of Keynesian policies in the new form, with a government friendly international solidarity perspective, hanging obviously along with that neoliberalism is on the verge of collapse in Europe as a result of the ongoing financial crisis, the euro crisis, and the refugee crisis

We see economists Stiglitz[19] and Krugman[20] currently in the process of adopting the same critical but central role played by the economist John Maynard Keynes, in the postwar years and created a theoretical basis for a political way out of the deep international economic depression culminating in 1929 and subsequent years. His theories were caught by European social democrats, such as the Norwegian Labor Party, and realized the successful policy of the first decades after World War II. The policy built in an active state, the state institutional, and economic interventions, social cohesion and increased public spending. For Keynes, this was necessary for a capitalist economy in crisis to restore and preserve the long term an aggregate effective demand and purchasing power with full employment as a goal. How could both unemployment and inflation be established at a low and stable level? The development of the Norwegian Keynesian welfare state in post-war years with universal rights, politically led by social democracy by AP, was an important element in the policy of maintaining stable effective demand in the economy as a whole. While social democracy could realize their ideas about social and economic cohesion and justice[21].

Before Keynes dominated neo-classical liberal economic policies with an emphasis on public austerity, small government, and privatization. This should cure between postwar economic depression. Therefore, Keynes with their theories of an active state, in the beginning, gain a little attention, because he so disagrees with the classical liberal economic theory of policy tightening and a retracted state. In our time ruler also tightening and privatization policy in response to the EU/EEA area's financial crisis (which Norway is a part) and Eurozone debt crisis. Most clearly, the negative impact of this tightening and privatization policy in crisis-hit Greece and other Mediterranean countries. In Norway, pushing the blue government neoliberal approach to the problem of rising unemployment and migration crisis in direction; public austerity and privatization. The blue government neoliberal ideological stance and policy background for it.

In the international orthodox neo-classical setting is Stiglitz and Krugman as little attention as Keynes was in the beginning. The practical reforms that logically follows their neo-Keynesian ideas and theories have sometimes drastic consequences, as seen in a neoliberal perspective. It would mean the liquidation of the privatization program and the return of privatized physical infrastructure such as railways, water, telecommunications, and social infrastructures such as kindergartens, schools, care of the state as owner and operator. It will mean extensive regulation of the financial sector, tax reforms, and financial transfers with the aim of social cohesion for greater purchasing power and justice, and finally with the possible increase in public spending as a consequence.

Debate

The primary disagreement between new classical liberal and neo-Keynesian economists with Stiglitz and Krugman is, how quickly price and income (purchasing power) aligns itself in the market? The neo-classical economists assume that this happens in a flexible way, the supply and demand balances by themselves (invisible hand) and without unemployment and inflation occurring. New Keynesian economists reject this assumption and argue that this balance can not improve market alone, but that the state interventions and regulations must politically ensure purchasing power, effective demand, and full employment. If not, inflation fuelled inflation parallel with declining purchasing power in terms of unemployment, social dumping in employment and poverty. There arises a negative downward spiral. The consequence will be a socioeconomic crisis as we see it in Europe today, with declining investment, high unemployment and social deprivation in many countries.

A theory and policy alternative to neoliberalism theoretical foundation has social democracy today. Option located in the state focused neo-Keynesian macroeconomic approach, which now wins the vote in opposition politics in Anglo-American countries and Mediterranean countries in crisis. In Norway, social democracy in opposition – neo-Keynesian policy should fit their ideology and rhetoric towards the election in 2017.

But it turns out not easy to refute the neoliberal orthodoxy, though we thus see such trends in countries such as Canada. When the feudal system with the monarchy, the church and nobility were forced to their knees in Europe 250 years ago, there appeared an economic and political ideology directed against all monopoly power, also with a rejection of strong state power. Market Liberalism called this ideology and built on classical economic theory from the 17th and 18th centuries. Just like rabbits conquered every corner of the Australian continent when it was introduced there, gnawed neoliberalism down and soon spread to all the earth's cardinal points.

Market liberalism "gnawed" also in Norway. Today's blue government is confident in his belief in neoliberalism, and leading active and unilateral policies deregulated free markets and the marketization of public services[22]. The tightening welfare state and provide tax cuts to the wealthiest, contrary to the Keynesian principle of social and economic cohesion as a justification for including the preservation of purchasing power and effective demand. Also, the social democratic coalition government policy between 2005–2013 was based on (light) neoliberalism. – In the new Keynesian economic theory and policy, the Norwegian Social Democracy retrieves a foundation as it did in classical Keynesianism in the decades after World War II.

Norway is lucky and does not need Keynesian deficits in order to create effective demand and new jobs. Norway has oil fund, the Government Pension Fund – abroad with a market capitalization of 7,500 billion, which invests in 9,000 different companies in 75 countries worldwide. Today government money from the oil fund to partly unnecessary privatization of reception and settlement costing billions. It built up refugee profiteers of a Hero AS, which monopolize all operations from receipt, settlement, language training and employment services to their own private businesses. Winning ears as monopolists pushing prices up, and the state pays, with little stable employment gains resulting relative to the unreasonable expenditures. Otherwise, use the government oil fund to compensate for tax cuts in the state budget, as a long-term strategy for job creation. This is a passive misuse research shows has little effect on economic growth and increased job creation[23].

In Norway, job creation processes re-nationalized in line with a neo-Keynesian guide. The state must be an active investor in new government jobs in welfare sectors like health care, education and training, and in business, such a Keynesian approach assigns. Only then will you be able to employ the new hundred thousand migrants, plus the ordinary second hundred thousand unemployed, so they did it for between-war economic depression with Keynes' help. The establishment of state enterprises must no longer be a taboo strategy. In an era of green turning of economic production in the direction of new international markets, Norway can be a pioneer for a profitable, sustainable job creation policy, with migration crisis and growing unemployment as a starting point. Such a policy will again provide content for the rhetorical concepts necessary restructuring and innovation in the Norwegian economy.

9 THE UK NPM REFORM

Abstract: The United Kingdom was a "vanguard state" for experimentation with administrative reforms that came to be known as the New Public Management or NPM strategies aiming market orientation of the public sector. After three decades, what results has NPM produced in the UK?

A Review

This is a review of a research report by Christopher Hood and Ruth Dixon, who tries to explain maladministration and judicial challenges to UK government actions. Keywords: NPM, reform, administrative strategies, administrative traditions. The report Christopher Hood and Ruth Dixon (2015) address that question in a report: A Government that Worked Better and Cost Less? Evaluating Three Decades of Reform and Change in UK Central Government. The title points to the former Prime Minister Margret Thatcher's promises in 1970s as part of her politics of neoliberalism. In short, the conclusions of the report is formulated as these: In the period, 1) the complaints about maladministration following NPM and judicial challenges to government action increased markedly while 2) administrative costs "rose substantially" in real terms. On the other hand, 3) trust in government did not collapse, as many critics of NPM feared but the overall accountability declined in the public domain. 4) The administrative costs did take up a growing share of total public spending. The overall conclusion is this: 5) Government worked a bit worse and cost a bit more.

The difficulty is that the major position of this study is not clear. I do not find whether the Hood/Dixon piece are affirming a universal relevance of the findings, or if they focus on distinctive conditions and administrative prevailing just in the UK. Let us have a look on the historical background of the UK reform, and why NPM became political attractive. We have learned that countries reforming experiences demonstrate that the same reforming strategies perform differently and produce very diverse results in contextual different social models and traditions (Knill 2001, Veggeland 2007). The UK management study seems not to be quite aware about that. Accordingly, this variation in reforming experiences reflects the disparate institutional structures and environments that confront the reformers. A principal lesson to emerge from this review is that the establishment of a social-institutional paradigm is contextually dependent (Knill 2001), thou reforming strategies ought to be studied in the framework of an individual country's context, its policy and governance traditions. These differences are reflecting the social-institutional national paradigm in which the reforms they are launched. The Two Ms explanations The UK's three decades of NPM reform in the sphere of public services builds on a completely new world with new standards of efficiency, new high growth of sectors, new location patterns, new models for management and organizational principles. Christopher Pollitt and Geert Bouckaert (2004) have made a very fruitful contribution to the conceptualization of the management side of the new socio-institutional paradigm of the NPM reform strategy that has arisen out of the hollowed-out Keynesian interventionist state model of the 1950–1960s.

The authors have identified two M-strategies especially relevant for the UK as paradigmatic notions of Government choices of action when struggling and seeking solutions to the pressure of the crises in the Western economies, that is, caused by the 1970–80s stagflation crisis and later on the financial crisis (2004: 188): • Minimize • Marketize

Minimizing: According to Pollitt and Bouchaert (2004: 188), minimizing the administrative system by privatization was in political economic terms part of the new but path-dependent socio-institutional paradigm: handing over as many tasks as possible to the market sector; directly through privatization and indirectly through contracting out – outsourcing. This become the main strategy of the UK government for the late thirty years according to Hood and Dixon (2015). It is causing the 'hollowing-out' of the state apparatus. It represents a socio-institutional arrangement in which social security and public services of all kinds, such as social and health services, physical infrastructure, transport and welfare services are all heavily been privatized.

Minimalist government of the UK type, in accordance with its "small state" administrative tradition rejects the idea that Governments can be organized to act in the best interests of the economy and the public in general. In Schumpeter's world, public rulers are considering "able" because they win votes, not because they have governed or will to govern well in socio-economic sense (Kuper 2004: 98). Policies for tax cuts and low interest rates targeting an increase in aggregated consumption and investment in the private sector (in accordance to classical Ricardo's principles of (always) reinvestment of surplus capital by then capitalists) accompanied the minimizing strategy. In sum, it represents the political economy of the strategy to minimize the public sector. Mostly the strategy got relevance to the strained Anglo-Saxon/UK model and administrative tradition studied by Hood and Dixon (Hood and Dixon 2015, Veggeland 2015, 2007).

Marketizing of the public sector and its administrative system was a NPM-strategy for instituting as many Market-Type Mechanisms (MTMs) as possible within the public sector, with public ownership but privatizing by outsourcing. This model also attracted the UK administrative "small state" government tradition. It implies a redefinition of the economic rules of public policy in the UK. The MTMs also transformed the traditional perspective of government's belief in market competition to a wave of NPM reforms Marketizing questions all forms of protective measures, rules and barriers, and consequently has an impact on social institutional paradigms and legal policies (Djelic 2006). Thus, Hood and Dixon write about the UK that the complaints about maladministration and judicial challenges to government action increased markedly while administrative and the transaction costs "rose heavily in real terms" in the actual period. This because the state apparatus became fragmented and governance authority became distributed among a manifold of public and private actors (OECD 2002). Political emphasis on the achievement of result from unelected bodies (Vibert 2007) through the means of flexible organizational structures and public-private competition was evident. The political promise was increasing efficiency, user-responsiveness and accountability – the result, as shown by the important Hood and Dixon in their report, became the opposite. Learning by doing: can we expect a new wave of administrative reform in the UK after the report's massive conclusion?

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10 REGULATING OIL FUND INVESTMENTS GLOBALLY. WHAT ABOUT ETHICS?

Abstract

The systematic global market risk of the type found in the gigantic Norwegian Oil Fund, called "Government Pension Fund-Global (GPF – G)", is discussed at length in this study. The objective is to find out if the risk capital animate ethical venture initiative. In the financial and entrepreneurial literature it has over time become common to relate systematic vulnerability and risk to a long range of factors that might cause imbalance and failure.

Ulrich Beck (1992) postulates that risks today related to innovations and unethical and uncontrolled venture capital have a different significance for everyday life from the risks that applied to previous historical eras. He claims that human activity, innovation and technology in advanced political and economic modernity produce as a side-effect risks venturing investment. That demands specialised expertise to access and recognize, and are collective, global, and irreversible in their impact.

To abstain from venturing actions are a way out of the dilemma for the investors. The Norwegian petroleum activity under regulatory management and control is an example of that. The Fund's revenues have been shrinking lately following the oil prices of the market diving down globally.

Perhaps the Norwegian Oil Fund is to be reformed and restructured in a framework of ethics to become less risk exposed in a global financial market perspective, and become more innovative and ethical directed.

Some facts on Norwegian oil and gas resources[24]

The Government Pension Fund-Global is saving for future generations in Norway. One day the oil and gas will run out, but the return on the fund will continue to benefit the Norwegian population. The Fund's market value 2017 is about 7 3340 billion NOK.

The Fund generated an annual return of 5.6 percent from the establishment of Norwegian Central Bank Investment Management in 1998 to the end of 2015, measured in the fund's currency basket. After management costs and inflation, the return was 3.7 percent. The return in dollars was 5.8 percent. 4% of the Fund value can be used in the national budget. 179.6 billion NOK were transferred to the national budget in 2015.The fund is integrated into the government budget. A fundamental principle of Norwegian fiscal policy is the so-called budgetary rule. It states that over the course of a business cycle, the government may only spend the expected real return on the fund, estimated at 4 percent per year. This helps to gradually phase oil revenue into the economy. Spending just the return of the fund rather than eating into its capital means that the fund will also benefit future generations and their welfare. The Fund is investing money in 78 different countries, in 9 050 companies, and 1.3% of them are European companies. This means not domestic venture capital and entrepreneurship but only risk capital invested abroad (Shane and Venkataraman 2000).

Norwegian oil capital is risk capital not venture capital targeting entrepreneurship

The Government Report No. 24 (2006–2007) to the Parliament (Stortinget), 'On the Management of the Government Pension Fund', presented a very optimistic view on the risks involved but not on venturing actions. Taking as a point of departure that the risk-return profile of the Pension Fund is largely determined by the governmental investment guidelines, the report continues this way: 'The risk assumed in active management has only to a limited degree increased the actual market risk of the Fund…' (Government Report No. 24 (2006–2007): 82). This statement is often repeated also in 2017.

There is, however, no simple way of conceiving risk-regulation regimes. No one has ever seen a risk-regulation regime embracing a totality of effects – and side-effects – along all dimensions. Against this background, Christopher Hood, Henry Rothstein, and Robert Baldwin have stated (2001: 179) that, "principles that have been advanced for regulatory assessment typically comprise some mix of "economic rationalist" cost-effectiveness criteria together with rule-of-law criteria – such as proportionality and transparency – and policy evaluation to identify regulatory impacts and alternatives.

We can recognise the meaning of this quotation in the Norwegian Petroleum industry and the establishment of the Pension Fund-Global. With regard to the optimistic view on risk occurrence and the Pension Fund-Global cited from the Government, as we have seen, there are good reasons to doubt this low assessment of the market risk of the Pension Fund. We should ignore neither the regular cycle of global economic crises nor the connection between global warming and CO2-emissions from petroleum activities, which is kept outside risk assessments.

The notion of 'actual market risks' with regard to the future of the Pension Fund is far too narrow for a sufficient evaluation in the service of the common good. In a political and ethical perspective, the Norwegian Pension Fund-Global should not, by definition, represent risk capital in the terms of neo-classical liberal economic thinking but venture capital stimulating innovation and entrepreneurship (Busenitz, L., et al. 2003). Contextually, substantial regulations by law and ethics deviate from regulations only by the market.

The dilemma; foreign investments versus domestic investments

"What does Norway get out of its Oil Fund (Government Pension Fund-Global (GPF-G)), if not more Strategic Infrastructure Investment, is Michael Hudson asking" (Hudson 2011). He keeps on asking: "What do Norwegians get out of these financial savings, besides a modest interest and dividend yield? Innovation and entrepreneurship? The export surplus is said to be too large to spend more than a small fraction (a Procrustean 4 percent) at home without causing inflation"? So other countries get not only Norway's petroleum, but also most of the royalties and earnings from its production. Meanwhile, Norway spends little on itself, more accurately on infrastructure and entrepreneurship. Even now its financial managers are beginning to worry about how risky the stock markets are becoming and feel the need to diversify investments into real estate. The Norwegian government still avoid investing the Pension Fund's wealth to build up the domestic infrastructure. This might happened in the near future, has the Norwegian Government promised. Michael Hudsons critical analysis goes further like this.

What seems ironic is that while Norway is invested its oil capital savings mainly in European and U.S. financial markets, money managers in these countries are reinvested these money overseas to the BRICS economies (Brazil, Russia, India, China and South Africa). This system contains investment risks not venture. These geographical widespread investments reduce risk to Norway and return earnings directly to make the economy more competitive and benefits the survival of the welfare state. The Pension Fund goes beyond the purely financial scope of decision, simply what foreign stocks and bonds to buy. The basic financial scope of question is which securities will achieve the highest rate of return or rise most quickly in price. This is a short-term decision. Little of this financial acrobatic policy adds value to the real capital of the Norwegian economy nor as venturing capital or welfare.

Given this situation, how should Norway best policy look like? (Veggeland 2011). As a point of departure, the Norwegian government has a broader option than merely to steer savings into foreign financial markets. The policy should improve the economy by creating tangible means of production to raise productivity by working in tandem with leading national industries, generate innovation and entrepreneurship by give investment in research priorities, and favor building infrastructure, social as well as physical infrastructure. And rather than being inflationary, public investment enabled economies to minimize their cost of living and doing business.

There are two approaches to how the Norwegian government may manage their Pension Fund-Global. For simplicity, these can be called the passive and active approaches. The present approach is passive. Norway consigns its petroleum "earnings to money managers to buy stock or bond ownership abroad without linking these purchases to its own future development – except by receiving a modest foreign exchange return" (Hudson 2011:3). The more active approach considers the government's duty as being to develop the domestic economy to the benefit of its citizens. This is best done by initiating infrastructure building, including education and public health care, research and development, support entrepreneurship and investment in transportation, power generation and distribution, communications and information technology.

Public infrastructure represents the largest capital expenditure in almost every country, yet little trace of its economic role appears in today's Norwegian income and product accounts. Free market ideology wrongly treats public spending as deadweight, and counts infrastructure spending as part of the deficit, not as productive capital investment. Nobel Prize winner 1989, Trygve Haavelmo from Norway, describes the aim of public investment as being different from that of individuals or business. The ultimate aim was not to seek profits, but to create the best economic and social system possible with the resources at hand.

As the Norwegian Prime Minister (PM) since 2005, Jens Stoltenberg, an economist and former Minister of Finance, actually he was the main architect behind the Norwegian Pension Fund-Global (of US $584 bill) and "the budget rule" of not spending more than "an estimated return" of 4% pro annum. His main argument is that the fund's passive strategy of today is spreading the risk into a multitude of minority positions, and that therefore Hudson's advice of an active strategy and to concentrate investments in national strategic infrastructure and technology will increase the risk rather than reduce the risk. Probably Hudson will respond by arguing that apparently the PM has not understood the industrial motivation of real economic investment (real wealth creation) for Hudson's suggestion as opposed to the financial motivation (monetary profit) that he himself pursues. Monetary profit motivates the Pension Fund's investment in stock and bonds global, while domestic wealth creation is passed over by the PM.

The Norwegian government downgrades the monetary profit motive. Instead the Government argues that the potential threat of increased domestic investments will make the Norwegian currency harder against foreign currencies combined with a growing interest rate. The result of this will be loss of economic competiveness internationally because of the currency impact.

The dilemma; negative ethical exclusion versus innovative positive selection

Thus far, the Ethical Council, which monitors the Government Pension Fund-Global (GPF-G) investments has sought to meet its ethical objectives through so-called negative selection, i.e. exclusion of companies for unethical behavior picked out from the large universe of investments. As we know these may be companies that violate human rights, use child labor, fail to observe ordinary standards for employee rights, manufacture nuclear weapons or cluster munitions, are responsible for severe environmental damage, etc.

Ethical management of the GPF-G could be exercised in two different manners; by negative exclusion or positive selection. For some years now, in the public debate, it has been proposed that the ethical management should be reoriented from negative screening to innovative *positive* selection. Instead of excluding companies that violate the decided ethical standards, one should invest only in companies and branches that appear to be, in some sense, an active force for the good on ethical issues. Thus, Th. Johnsen and O. Gjølberg (2009:2) write:

"...positive selection involves a significant narrowing of the investment universe. It is, generally speaking, much more difficult to declare a company to be completely without blame than completely beyond the realm of the ethically acceptable. The potential fallout from error under a pure positive selection strategy may also be much higher than under a negative selection strategy".

Of course, they are right, and consequently Norway has chosen the easiest way; negative exclusion (Veggeland 2009). Following up their conclusion, Johnsen and Gjølberg suggest a number of more pragmatic approaches that could be realized by decisions in the Ethical Council. One such approach they suggest for Norway is the "popular principle" of selecting positively the best-in-class strategy. This principle, they postulate, entails selecting those companies that are perceived, based on various ethical criteria, to be best in their class of type-production. The class may be defined as an industry (energy, consumer goods, finance, etc.), but it is also possible to define classes as type-production dominant for a particular region. This indicates that a firm may be the best in an ethical poor class, and should be rewarded with investments, and another relatively good ethical firm may be far from the top of the elite ethical and sustainable class of type-production, and investment should be withdrawn. This ranking principle as a pragmatic approach to the political will of realize positive selection more strongly has never been accepted in Norway as a policy for the GPF-G and ethical investments. The reason for that seems to be the problem of ranking. In the jungle of firms and branches it is almost technically impossible to figure out indicators, criteria and measures to make the ranking relevant.

What actually is a more relevant policy approach for Norway in this context is that criteria have been introduced in recent years, which are directed investments for stimulating the growth of upcoming entrepreneurship, of pioneering firms and branches, which concentrate on sustainable production for the future. Thus, in line with international trends, the criteria, the Fund favors in particular investment in companies within environmental technology, solar energy, and renewable energy in general, etc. The literature often refers to these criteria as 'pioneer screening'. Such selection strategies are premised on the idea that companies that make a positive contribution to the climate – or to the fight against AIDS and malaria – generate positive ethical externalities. Of course, this pioneering screening policy is not an unproblematic one. Obviously, new ethical conflicts or dilemmas may arise. When eventually the pioneering type-production becomes a commercial success in the global market normally and most likely negative externalities of ethical relevance arise. A randomly chosen example is given by Johnsen and Gjoelberg: Pioneering screening can trigger investments in a pharmaceutical company that devotes a large share of R&D resources on developing a low price anti-malaria drug that is affordable for poor people in Africa. NPF-G supports such investments. However, this company may at the same time be conducting large-scale animal testing or producing unhealthy drugs.

In the Norwegian debate on the GPF-G it has also been proposed that the management of the Fund should focus on investments for helping forward entrepreneurship, economic growth and poverty alleviation in developing countries. This perspective contains interesting views and raise entirely new ethical issues and challenges, in particular as far as positive selection is concerned. It is regrettable, but corruption and poverty do tend to co-exist, making it difficult to combine positive selection based on a company's ethical track-record and investments in developing countries. As observed and for the corruption problem, the NPF-G's positive selection is therefore often biased in favor of well-established, large companies in the rich countries.

Compliance with Ethical Standards

- Disclosure of potential conflicts of interest; None potential conflicts of interest.
- Research involving human participants and/or animals; Ethical approval: This article does not contain any studies with human participants or animals performed by any of the authors.
- Informed consent; Yes.
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Here some few of his latest publications English written:

Administrative Strategies of Our Time (Editor and chapter author), New York 2017: Nova Science Publishers.

The Current Nordic Welfare State Model (Editor and chapter author), New York 2016, Nova Science Publishers.

"*The Political-Economic Background of the Contemporary Depth Crises in Europe*" (Editor Albert Tavidze), Vol. 31 2015, Nova Science Publishers.

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ENDNOTES

1. Mistrust, in this context, means in the sense of a calculated risk option for withdrawal from the interest-based partnership co-operation.
2. The launch of the Lisbon Process might be seen as an economic preparation for the coming enlargements.
3. Regulatory innovation is a dynamic part of the 'regulatory state', see G. Majone's (1996, 1997) elaboration about the latter term.
4. Torben Iversen (2005:73) discusses the notion of politics with markets, but explicitly does not link it to the Scandinavian welfare state. He probably also includes the Anglo-Saxon model or perhaps makes it a general notion. If so, I disagree.
5. The Lisbon summit meeting announcement; also the conditions for participate in the European Monetary Union is requiring economic sustainability of the member states.
6. European Economic Agreement (EEA). Norway is member of the European Free Trade Association (EFTA) but is outside of the EU. EFTA negotiated forward the EEA with the EU in the early 1990s, which Norway signed and implemented in 1995.
7. Arm's-length public bodies are run in accordance to private law.
8. See Social theory and social policy: essays in honour of James S. Coleman/edited by Aage B. Sørensen and Seymour Spilerman. Westport, Connecticut; London Praeger.
9. Finland's 48 per cent makes an acceptance because of lasting repercussions after the collapse of the Soviet Union.
10. Finland 8.8 per cent, see previous footnote explanation.
11. In terms of reference and in the framework of contemporary neo-liberal economic theory and policies, it might be stated that the profit – investment logic of Ricardo at the end of the nineteenth century conquered the whole of the Western world.
12. Before consumption wages and income are needed.
13. For the monetarists the interest rate is a steering instrument.
14. Well, in the ongoing basically loan-driven international crisis foregoing borrowing behaviour deviate from this normal.
15. Alban William Phillips, an economist, wrote a paper in 1958 titled '*The relationship between unemployment and the rate of change of money wages in the United Kingdom 1861–1957'*, which was published in the quarterly journal *Economica.* In the paper Phillips describes how he observed an inverse relationship between money wage changes and unemployment in the British economy over the period examined. Similar patterns were found in other countries and in 1960. Phillips' work made explicit the empirical link between inflation and unemployment: when inflation was high, unemployment was low, and vice-versa. But empirical relations do not necessarily indicate causality, therefore a dispute work.
16. See Veggeland, N. (2015), The State authority is back, Klassekampen September 23. 2015.
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18. Ibid.

19. Stiglitz, J. (2010), Freefall: America, free markets, and sinking of the world economy, W.W. Norton: New York.
20. Krugman, P. and R. Barro (2010), Keynes Who? Forbes, 186, 2 2010.
21. Nyseter, T. (2015), Velferd på avveie. Reformer, verdier, veivalg, Oslo: Res Publica.
22. Veggeland, N. (2015), En bilateral fallitterklæring, Klassekampen August 18. 2015.
23. More, M.C. (2014), Tax and Spend. The Welfare State, Tax Politics and the Limit of American Liberalism, Pennsylvania: Pennsylvania University Press.
24. Official data from Norwegian Central Bank Investment management 2017.