European Union expands national autonomy[1]

Globalisation has diminished the power of democratic institutions in favour of corporations and global markets. How can we reclaim democracy's power and influence?

A synopsis

- *Competition between nations for the best business climate harms the public interest.*
- *A prisoner's dilemma traps 'competition states' in a race to the bottom.*
- *Member states can escape this dilemma and effectively increase their autonomy by expanding European cooperation.*

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Introduction
Former Dutch Prime Minister Joop den Uyl wrote about the narrow margins of democratic politics back in 1970. Now, 50 years later, those margins seem narrower than ever. Globalisation has magnified the sway of international markets, and global corporations pit countries against each other to achieve their ends.

Even a major economy like the United Kingdom found that it could not escape the censure of global markets unscathed. After the sharp tax cuts announced last year, the financial markets were unambiguous in their disapproval of the growing budget deficit (BBC, 2022). This pressure was partially responsible for Prime Minister Liz Truss' resignation. It was an especially bitter pill for the British, given their conviction that Brexit would allow them to get back control.

Prior to that, during the European debt crisis of 2009, financial markets dictated Greek policy, from austerity, selling off national property, and continued liberalisation of the market to smaller pensions and higher retirement ages. Even a referendum in which 61% of the Greek public voted 'No.' to this debt deal (Europa Nu, 2020) could not counter 'external' financial interests; Greece could not go bankrupt because the euro had to be kept afloat.

These examples demonstrate how global markets interfere with democratic decision-making and shackle policy space. 'Democracy, national sovereignty, and global economic integration are mutually incompatible,' Rodrik (2011) writes in his book *The globalization paradox*.

Globalisation has given international businesses free rein. That is the consequence of decisions made democratically, which paradoxically undermines the nation-state's power (Cerny, 2013). The sovereign nation-state – dogma since the Peace of Westphalia (1648) – is now, in actuality, a 'competition state' (Cerny, 2010). This is most assuredly true of the Netherlands, which tops the index of most globalised countries (KOF, 2021).

In this article, I start with examples illustrating how the Netherlands stimulates competition between countries to lure international business. I then outline the adverse effects of this competition and how a prisoner's dilemma keeps countries enmeshed in this situation. Finally, I specify what can be done to reduce intercountry competition.

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The Netherlands in the lead
The Netherlands persistently ranks among the top ten most competitive countries. In recent years, it hovered around spot five in the International Institute for Management Development's World Competitiveness Rankings (IMD, 2022). The Netherlands ranked fourth in the most recent World Economic Forum index, just behind Singapore, the United States, and Hong Kong (Schwab, 2019). Consequently, it is doing 'better' than most other countries (Figure 1).

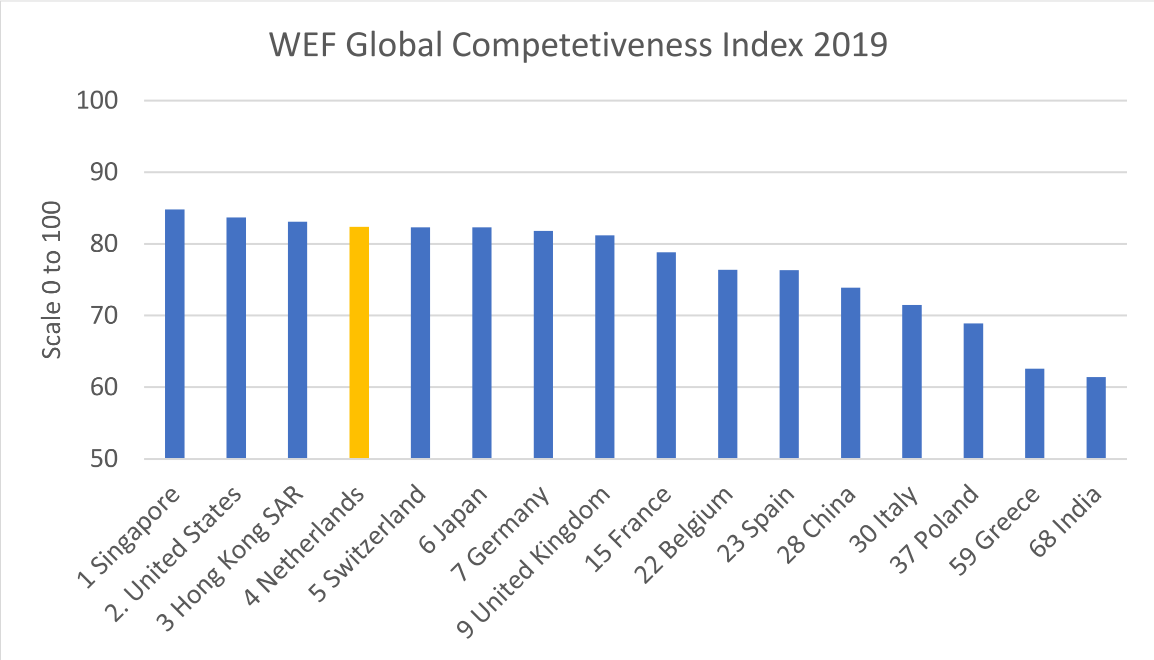

Figure 1: Global competitiveness ranking selected countries (Schwab. 2019).

Naturally, lower-ranked countries, e.g. Belgium (22), Italy (30), Poland (37), and Greece (59), hope to rise. But therein lies the rub: countries constantly try to outdo each other to entice international markets and companies.

A slew of Dutch policies seamlessly coalesces with the competition state, spurring the competition on. Four examples of the Netherlands as a competition state in taxation, environment, transport, and the labour market, illustrate how.

Taxation comes first. Three billion euros of annual tax relief is doled out to companies through the Profitable Business Act. In 2006, the aim was to restore the Netherlands' competitive clout after it had dropped into ninth place in the World Economic Forum's Global Competitiveness Index (Tweede Kamer, 2006). This tax package elevated the Dutch to fourth place among the world's tax havens in 2019 (Tax Justice Network, 2021). Only the Virgin Islands, Cayman Islands, and Bermuda did better. Incidentally, much of this has since been rolled back due to international pressure and European regulations. Cash flows through the Netherlands to tax havens have declined from €39 billion in 2019 to €6 billion a year later (DNB, 2022).

When drafting climate policy, the Netherlands puts the business climate first there too. To preserve its competitive edge, the government makes billions in subsidies – not regulation – the core of its environmental policy (Bleijenberg, 2022). Environmental aid artificially keeps the price of polluting products like steel, fertiliser, energy, and animal feed low. As a result, the Netherlands is hard-pressed to meet its environmental targets; the Dutch industrial and energy sectors are less energy-efficient than the EU average (CBS, 2022a). For this reason, economists are calling for fossil fuel subsidies to be phased out (Leefmans et al., 2022).

But the Netherlands also drags other countries into its competitive tug-of-war. For example, in 1992 the Netherlands achieved a great success in aviation as the first to conclude an 'Open Skies Agreement' with the United States. It gave airlines from both countries the right to operate domestic flights. Consequently, KLM and Schiphol gained a tremendous competitive edge on transatlantic routes. The Netherlands called it a 'dream deal' in the US newspapers. It enabled the Americans to crowbar the EU during negotiations on liberalising the aviation sector (Staniland, 1996). Naturally, the European Commission and other member states were non-plussed by the Netherlands' maverick act. The EU's aviation agreement with the US on behalf of all member states was only concluded in 2007 (U.S. Department of State, 2021). Relative to its population size, the Dutch aviation sector remains disproportionally large due to its efforts to one-up competing countries.

Moreover, the Netherlands has long obstructed European policy subjecting trucks to road tax in the country driven instead of the vehicle's country of registration. This was in the interest of Dutch transport companies, which travelled more abroad than foreign transport traversing the Netherlands. Under fierce German pressure, the Netherlands reluctantly agreed to the EU's fairer proposal in 1993 (FD, 1993). Nevertheless, the Dutch remain woefully behind in making freight transport pay for the costs of infrastructure, road accidents, and environmental pollution. Compared to other countries, the policy to authorize heavy goods vehicles (HGVs) is also more generous (European Commission, 2022).

The Netherlands also takes the lead in increasing labour market flexibility. In 2020, it was ranked as the EU's fourth largest provider of flex working arrangements (CBS, 2022b). That means less risk for companies but greater employee insecurity.

Other countries employ similar or completely different methods to advantage their companies, e.g. Swiss banking secrecy. An overview of favourable business schemes doesn't exist because countries usually take such measures unnoticed. As a result, disadvantaged countries are deprived of effective countermeasures and protest.

The adverse effects

Increasingly aggressive competition between nations is a dead-end street with a painful price tag. Money and focus on maintaining a competitive edge come at the expense of anything that fails to contribute to that edge. In a 'competition state', public services are primarily cost items that need to be 'managed'. This list is long and includes youth and health care, education, police, government administration, independent expertise, a social safety net, employment conditions, a healthy living environment, public space, and nature.

Even businesses limited to domestic competition, e.g. cleaning, retail, hospitality, and hairdressing, get a raw deal under the competition state. These tend to be small to medium-sized enterprises. Over the past decades and often with demonstrations on The Hague's Malieveld, each of these public and private sectors has made it clear that they are in dire straits. The common cause of their problems is the unilateral focus on Dutch competitiveness.

The unintended effect of 'competitive states' loosening the reins for international companies has been to increase market power, with negative consequences for the entire economy. The dominance of a few companies in each market, also due to digitisation, not only makes their own products too expensive but it also drives wages down, lowers the employment rate, and exacerbates income inequality (Eeckhout, 2021). An indication of the sharply increased market power is the 'mark-up' that companies can charge on top of their production costs. The sum of profit, overhead, and depreciation has multiplied worldwide from an average of 7 per cent in 1980 to an incredible 59 per cent in 2016 (Eeckhout, 2021).

The prisoner's dilemma

Competition states are caught in what is popularly known as a prisoner's dilemma. When countries are reluctant to enforce policies favourable to enterprise, businesses simply invest elsewhere. And as this leads to poor economic prospects, borrowing money becomes more expensive. Nations cannot resist and remain unscathed.

An illustration of this downward spiral is the global decline in corporate tax rates. The average profit tax rate was still 45 per cent in 1980, compared to today's 25 (Tax Foundation, 2022). Small countries often set the trend because they stand to benefit most. Large countries have to follow. Subsequently, the policy space for tax collection shrinks across the board.

Large corporations fuel competition between countries, wielding their influence to maintain power. A study of nearly 2,000 political disputes shows that the US economic elite – roughly the richest one per cent of the population – is 20 times more likely to get their way than the 'average citizen' (Gilens and Page, 2014). Little difference can be seen in the Dutch case (Schakel, 2021).

Drop back into the pack

National politics must tread the middle ground between self-interested competition with other countries and halting this race. Where the Netherlands is concerned, the first step is to drop back from its leading edge into the pack. However, no longer egging on the fight for international market and business benefits does not mean just rolling over. Polluting sectors such as petrochemicals, transport, and agriculture – all Dutch economic specializations – will inevitably be dealt a blow. Given the Netherlands' systematic surplus on its balance of payments (CBS, 2020) due to a higher export than import rate, there seems to be sufficient economic leeway for it to sacrifice its lead.

Second, the policy space currently available should be seized. Company claims that social or environmental measures hurt competition are a lobbying ploy. Companies represent their interests, but the government is responsible for independently assessing the validity of their arguments. This calls for officials who are knowledgeable and impartial.

Repairing globalisation

We also need to commit to better international rules, rules that limit the race between countries and subsequently create a more generous national policy space. The agreement made between 137 countries to tax at least 15 per cent of multinational profits, starting in 2023, is a good example (OESO/G20, 2021). It introduces a bottom to intercountry competition and is a prelude to new international agreements.

Current and new trade agreements frequently limit national policy space by buffering foreign investments against the impact of policy changes. That needs to change. The Energy Charter Treaty is a contemporary example. This treaty enables energy companies to claim compensation pursuant to, for instance, more restrictive climate policy. For example, the German energy company RWE has demanded €1.4 billion in compensation from the Netherlands for its closure of coal-fired power plants in Eemshaven. Because the Energy Charter hamstrings the energy transition, the European Commission aims to amend it, while the Netherlands and other countries wish to exit altogether (Tweede Kamer, 2022a).

The financial markets are a 'golden straitjacket', restricting the scope of national policy, according to Rodrik (2011). He argues for greater national – or European for the Dutch – regulation of financial institutions and markets. International capital flows must then become subject to clear conditions to prevent a run on banks and assets to poorly-regulated countries. Big picture, this means a degree of international financial market re-regulation. Several proposals have been made to this end, including by Stiglitz (2006) and Piketty (2014).

Rehabilitating stalled market competition also requires an international strategy. Jan Eeckhout's *The Profit Paradox* (2021) proposes, among others, more stringent conditions on mergers and acquisitions, data accessibility, less patent protection, transparency, and regulation of large corporations. Healthy competition – with over a dozen companies – makes the economy less vulnerable to price shocks and diminishes the lobbying power of dominant producers. Europe’s naive faith in the operation of global energy markets currently comes at a painful cost (Bleijenberg, 2016).

The European Union
The European Union’s size more adequately equips it to repair globalisation than a single nation like the Netherlands. This is also the Dutch government's approach to reinforcing ‘open strategic autonomy’, as it's been christened in Brussels jargon: ‘Due to the cross-border nature of these challenges, the interdependencies of the internal market, and the EU’s influence and power as a whole, we are better equipped to safeguard Dutch and European interests unified.’ (Tweede Kamer, 2022b). Aside from energy, rare minerals, weapons, microchips, and pharmaceuticals are involved.

The EU has strings it can pull. For example, it has a significant impact on the development of better global product standards. Europe's safety and environmental standards for consumer products often end up becoming the standard worldwide (Bredford, 2021). Furthermore, Europe can erect better social and environmental policy frameworks. After all, companies suffer more by leaving Europe than they would setting up shop in another member state.

The European Green Deal, legislating clean energy, cars, and factories, illustrates the magnitude of the EU's policy space. In all likelihood, without EU policies, the Netherlands would be unable to meet its climate and nitrogen targets. The ‘Carbon Border Adjustment Mechanism’ provides a similar example. It imposes import duties on high-energy-consumption products entering the EU that do not meet the EU’s prevailing environmental standards. The Netherlands and other member states are too small to arrange this on their own.

Granting the EU broader discretion to set minimum tax rates could also reduce member-state competition through low taxes and excise duties. Unanimity is currently required for tax policy, which allows a single nay to block a proposal. By ruling instead by qualified majority – e.g. two-thirds of the member states – the EU could agree to higher minimum tax rates. That grants most member states more national policy space because it only sets a rates floor.

Conclusions
National politics must distance itself from the competition state to improve its fulfilment of public duties. As it currently stands, corporate interests are frequently confused with national interests. Companies aim for continuity, market power, and profit, while governments are tasked with regulating markets in the public interest. The notion of a self-regulating market is an illusion (Rodrik, 2011, and many others).

Consequently, to curb intercountry competition and expand national policy space, member states must pursue more cooperation at the European level. Contrary to the claim of many anti-EU politicians, expanding European cooperation will actually enhance our democratic autonomy. And what we use that space for? That’s down to politics.

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