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CHALLENGES OF GLOBALIZATION

HOW EUROPEAN INTEGRATION COULD INFLUENCE  
THE RISE OF POPULISM.

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## Introduction

In the west It has been commonly assumed that democracy is good, globalization is good, capitalist growth and markets in general are good. Political systems based on a system of representative democracy produce efficient political outcomes and are endowed with a self-correcting ability.

A global economy favoring free trade and global integration delivers a growing welfare. Societies organized on the basis of a capitalist system that exploits fossil fuels and natural resources reach unlimited growth. Economies based on a system of markets produce efficient outcomes and are endowed with a self-correcting ability (Randers, 2012). But how do these elements; democracy, globalization and capitalist growth relate to each other and what are the negative effects by pursuing all off them?

The central question or statement of this thesis is that more integration between countries in the Eurozone has an inevitable cost. We should consider pro's and con's in order to determine the gains of integration. Furthermore, this essay aims to unfold a link between integration and the rise of populism in individual member states. The hypothesis is based on Rodriks trilemma and assumes that countries cannot simultaneously choose hyper globalization, democratic politics and national sovereignty at the same time. They can only choose two of the three options, thus sacrificing one. Therefore giving up national interest and choosing the other two aspects could give rise to populist parties.

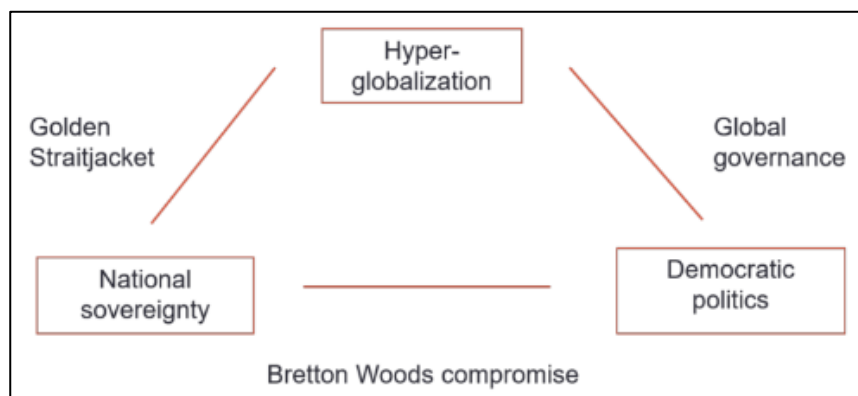


Figure 1 Rodriks trilemma

## European integration

Integration can be defined as the action or process of successfully joining or mixing with a different group or people. (Cambridge, sd)

Europe's monetary union is part of a broader process of integration that started in the aftermath of World War II. What are the goals and determinants of European Integration? What is European integration really about? (Spolaore, sd)

The history of European integration is complicated, with a big cast of actors including governments, technocrats, interest groups, and voters, who in turn pursue a range of economic and political goals. The first steps after World War II were to foster economic cooperation: the idea being that countries that trade with one another become economically interdependent and so more likely to avoid conflict. The result was the European Economic Community (EEC), created in 1958, and initially increasing economic cooperation between six countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands. In 1993 the name was changed into European Union, covering policy areas from climate, security, health, justice and migration.

The main goals to the creation of the European union are amongst others: Peace, freedom, security, justice, economic growth, technological progress, combat exclusion and discrimination and respect linguistic diversity.

The EU's main economic engine is the single market. It enables most goods, services, money and people to move freely. Furthermore, the abolition of border controls between EU countries enabled people to travel freely throughout most of the continent. And it has become much easier to live, work and travel abroad in Europe. (Europa.eu, sd)

Trade integration within Europe has benefited peace and security. The view that international trade can reduce the risk of war goes back to Montesquieu and Kant, and has spurred a large empirical literature. Globalization does not reduce the risk of war between pairs of countries. However, bilateral trade, by increasing the opportunity cost of conflicts between two partners, reduces the probability of conflict between that pair of countries. Therefore, globalization also increases the political incentive to sign regional agreements for security reasons. (Spolaore, What is European integration really about?, 2013)

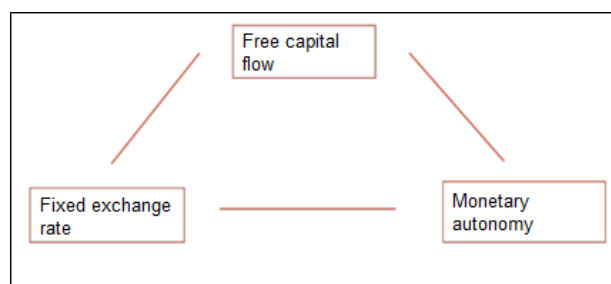
Moravcsik (2012), is hopefully not far from the truth when he writes: "Whatever the outcome of the crisis, the EU will remain without rival the most ambitious and successful example of voluntary international cooperation in world history."

For sure there are some member states who benefit more from integration than others. In a study performed by Bloomberg, euro-area countries were ranked based on 10 economic

tests to capture the extent to which member states reaped the benefits of greater stability and economic integration. Aspects that were tested include amongst others; the ability to borrow, pre-crisis competitiveness, productivity growth, inflation anchoring and pre crisis labor costs. For a full oversight of the scores please see appendix 1.

The scores illustrate how well each country seized the opportunities and navigated the risks associated with sharing a currency. (Tarter, sd)

The results show that of all countries Germany scored highest, followed by late joiners Slovakia and Slovenia, largely because the euro drastically reduced exchange-rate risks, enabling them to deepen trade relations in the bloc. Countries that were worst off in the 'integration test' include three of Europe's five largest economies: France, Italy and Spain. They suffered substantially from losing the ability to devalue when responding to crises, in particular because they had limited room to lower wages so their competitiveness deteriorated. The impossibility trilemma below describes three virtues that cannot be chosen simultaneously, only two can be chosen at the same time. By joining the EU they had sacrificed the possibility to devalue their French franc exchange rate as they chose free capital flow and monetary autonomy.



*Figure 2 Impossibility trilemma*

The same goes for Spain and Greece, In normal circumstances, these nations would have devalued their currencies; but the neoliberals in control of the Eurozone's main banks would not permit this. Instead, they demanded austerity measures. Small wonder that populist movements, wishing to end interest slavery, gained power and influence. (Gordon, 2017) Despite the fact that French and Spanish people are worse off according to the test, it is surprising to see that, in general, they are almost just as happy to have adopted the euro.

The European Union is put to the test in periods of crisis, the migrant crisis has been a good example to illustrate this. Since 2014 more than 1.8 million migrants have come to Europe.

At present Spain, Italy and Greece take most of the strain owing to their geographical position on the Mediterranean Sea and the fact that, under EU law, asylum seekers must lodge their applications in the first EU country they enter.

How to make societies less ethnocentric, and more ethos-centric, is one of the great challenges of balancing cultural difference and democracy in contemporary nation-states. Shall we let any of these outsiders in, and if so, which ones? By what criteria shall we include some people and exclude others? Once allowed in, who should be encouraged to leave, and who should be encouraged to stay? How people in different member states answer these questions in the world will help determine whether an ethos or an ethnos of democracy ultimately prevails in what is often referred to as the West. (Hanchard, 2018)

However, no one can agree on what to do: some countries want tougher external border controls, others fairer distribution of new arrivals. Any solution will have to balance the concerns of “frontline” southern states with those of wealthier northern “destination” states, while dealing with the refusal of hardline central and eastern ones (such as Hungary and Poland) to accept any migrants at all. (Henley, sd)

Germany welcomed more than 1 million migrants in 2015 under Angela Merkel’s open-door policy. At the same time the rightwing Alternative für Deutschland (AfD) party has kept immigration firmly at the top of the political agenda.

Frontex is an agency of the European Union tasked with the border control of the European Schengen area. It was established in 2005, mainly to coordinate border control efforts. After a vote of the European parliament the European border and coast guard was finally launched. The European commission proposed to increase the border force from 1.500 to 10.000 man in 2020. Member states argued this was too fast and costly and Austria proposed to stretch the deployment till 2027. On top of that nation sovereignty could be lost, this is because Frontex is privileged to overrule the national customs in in an emergency situation. So the question is if member states are willing to give their authority to a European level, in an effort to face a European problem. The reality is that this creates an issue on a member state level. Are politicians still able to defend the interests of national citizens? And will they be able to fulfill their promises or will they fail?

## **Facing populism**

National populists prioritize the culture and interests of the nation, and promise to give voice to a people who feel that they have been neglected, even held in contempt, by distant and often corrupt elites. It is an ideology rooted in very deep and long-term currents that have been swirling beneath our democracies and gaining strength over many decades. (Eatwell & Goodwin, 2018)

“National populism revolves around a set of four deep-rooted societal changes. The first is the way in which the elitist nature of liberal democracy has promoted distrust of politicians and institutions and fueled a sense among large numbers of citizens that they no longer have a voice in their national conversation.

The second is how immigration and hyper ethnic change are cultivating strong fears about the possible destruction of the national group’s historic identity and established ways of life. The third is the way in which neoliberal globalized economics has stoked strong feelings of what psychologists call relative deprivation as a result of rising inequalities of income and wealth in the West and a loss of faith in a better future.

Finally the weakening bonds between the traditional mainstream parties and the people, or what we refer to as de-alignment. The classic era of liberal democracy was characterized by relatively stable politics, strong mainstream parties and loyal voters; we have seen it now come to an end. Many people are no longer strongly aligned to the mainstream.

In appendix 2 we can see the difference between the % populist vote share of individual member states between 1999, the year in which the euro was introduced and 2018. The map shows a huge increase of votes to populist parties for almost all countries. Notably are Italy, Hungary, Poland and Bulgaria. These countries have seen a sharp increase in populism and tend to adhere to people who feel that the interests of their country are not being defended. These people often are seen as the losers of globalization, not benefitting from hyper globalization. They don’t study abroad and travel, they are obliged by Brussel to house immigrants they feel they cannot bear. In more recent years we have seen a rise of right-wing populist parties and movements in the Netherlands, the UK, France, Austria and Germany.

In “Who votes right-wing populist” socio-economic and demographic data is analyzed to create a profile of the voter in Germany. Their most important conclusion is that we should be wary of generalizations. Right-wing populist voters are not in fact “poor, uneducated, male

eastern Germans”, nor is this the “revenge of the left-behinds”. Instead the reasons driving the phenomenon are more complex.

They found that greater support for populist party AfD in Germany are associated with higher unemployment, a low proportion of foreign nationals and a smaller proportion of highly educated persons. But the strongest effects were found for dissatisfaction with the performance of the (state) government. (Giebler & Regel, 2018)

The factors unemployment and education are related to extreme inequality which can be solved through the tax system. The mechanisms involved in the first reduction were increased taxation, social transfers, hyperinflation, nationalization of property and wars. Alternatively inequality can be solved through introducing a local currency adhering to the interests of nationalist and losers of globalization. Any decline in local competitiveness within the national or international economy can result in a shortage of money in local circulation even for internal economic purposes within the locality. A local currency can stem the leakage of money out of the local economy. A local currency also encourages individuals and businesses to support each other rather than buying from outside the community. (Pacione, 2011)

One of the first and most successful contemporary efforts is the Massachusetts BerkShare, which was developed to help keep money from flowing out of the Berkshire region. One hundred BerkShares cost ninety-five dollars and are available at local banks throughout the region. Participating local merchants then accept them as if they were dollars— offering their customers what amounts to a 5 percent discount for using the local money. Although it amounts to selling goods at a perpetual discount, merchants can in turn spend their local currency at other local businesses and receive the same discounted rate. Nonlocals and tourists purchase goods with dollars at full price, and those who bother to purchase local currency save money. (Agnew, 2018)

I argue that it’s important to listen to populism, it’s a challenge that should not be neglected. We should not forget the social foundation on which wealth is built. We aren’t merely divided into makers and takers. We are participants in societies, operating according to a broad social consensus. When that consensus breaks down, the wealth goes away. Society either agrees a way to share its riches that most members find acceptable, or the system fractures and the social wealth available to everyone shrinks.”

So how should the EU respond to populism? According to one of the most ancient and most intuitive skeptical argument of what we may call 'Agrippa's trilemma we have three options to respond.

1 Refuse to respond, i.e. make an undefended assumption. We do not acknowledge populism as a threat to the EU, therefore we will not do anything to please nationalists.

2 Repeat a claim made earlier in the argument, i.e. continue to promote integration and reason in a circle.

3 Keep trying to think of something new to say, i.e. embark on an infinite regress.

Since there is no fourth option, any attempt to justify a given belief will fail, either by being interminable or by terminating in an evidently unsatisfactory way. (Ryan, 2016)

Of course this is a rather negative view on the matter to solve populism and increase integration. But the reality is that populism will rise where national interests are sacrificed. As long as the EU is unable to convert European interest to national interest populism will remain a threat to integration. The binding constraint on progress in this second decade of the 21st century is the ability of nations, various social groups, and citizens to compromise and cooperate.

Could we sacrifice democracy?

Democracy has many advantages and often yields solutions that are more sustainable than top-down decisions. But speed is not one of the characteristics of democratic decision making. The option for people to have a say in governance and making politicians accountable for their actions to the people takes time in one country, let alone several countries. This is why in a European framework, countries with all different history's, different norms & values and distinct languages it can be a challenge work efficient. It takes a lot of conversations, coordination and debates to get everyone aligned.

But if a democracy works well, most people will be satisfied about the output. Now, let's say it doesn't work well, it simply takes too much time and effort for member states to agree on important issues such as the migrant crisis or debt crisis. What other options are there? We could sacrifice democracy meaning, less power to EU and more power to nation states who are free to set their own economic policy. This could mean that European integration will crumble, obeying the wishes of nationalists and populists, prioritizing the national interest over unity. Furthermore the values the EU was founded upon will be under pressure.



Could we sacrifice the nation state?

European integration affects the nation state. Countries become more multicultural, traditions and local folklore disappear pressured by international norms and beliefs, possibly leaving people confused about their identity. It is not unlikely to think that the losers of globalization will find shelter in nationalist groups and organizations. For example, in The Netherlands, the tradition of Sinterklaas has been intensively scrutinized by international critics including the UN. The tradition involves a white male (Sinterklaas) and black painted servants (Zwarte pieten) handing out sweets and presents to little children. The UN has urged the Netherlands to stop portrayals of the black peet character. The Dutch tend to argue that Black Pete is a Dutch thing, and other people outside the Netherlands don't understand their culture, foreign people see it as part of an international tradition of racial stereotyping.

Could we sacrifice hyper globalization?

Sacrificing hyper globalization would mean trade barriers between member states and economic protection of national interests. By sacrificing hyper globalization, the nation state and democracy can flourish. But there will be a cost, first of all it undermines the values of the European union. Peace will not be guaranteed as it is proven that countries who trade less with each other have lower opportunity cost to start a war fueled by national interest. Furthermore, goods, services, money and people to are restricted to move freely. It will become a lot harder to live, work and travel abroad in Europe.

I think the process of integration is something that should not be rushed. As soon as we start to rush integration and overlook national interest populism will grow. I would not be surprised if it will take many more generations to fully integrate Europe and I doubt if we will reach something we can call the United States of Europe in the near future (<200 years). It is likely that education & death will accelerate the process of European integration. Old national traditions are forgotten and international standards will be applied. At the same time drivers of anti-globalization could impose a threat to the unity and strength of the European Union. These drivers include immigration, terrorism and rising inequality. (Verde, 2017)

I think we should not identify ourselves with just one nationality but at the same time the thought of giving up my Dutch nationality for an European nationality feels like a loss. I would describe it as a loss of control, a loss of identity and a loss of belonging.

Even though populism is growing rapidly amongst member states, it is relatively reassuring that Moore's law does not hold up in this case. It is important to remind ourselves of the reasons why the EU was founded and the events that had taken place to reach this level of consensus between member states.

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# Appendix

## 1. Currency metric results - how member states benefited of euro integration

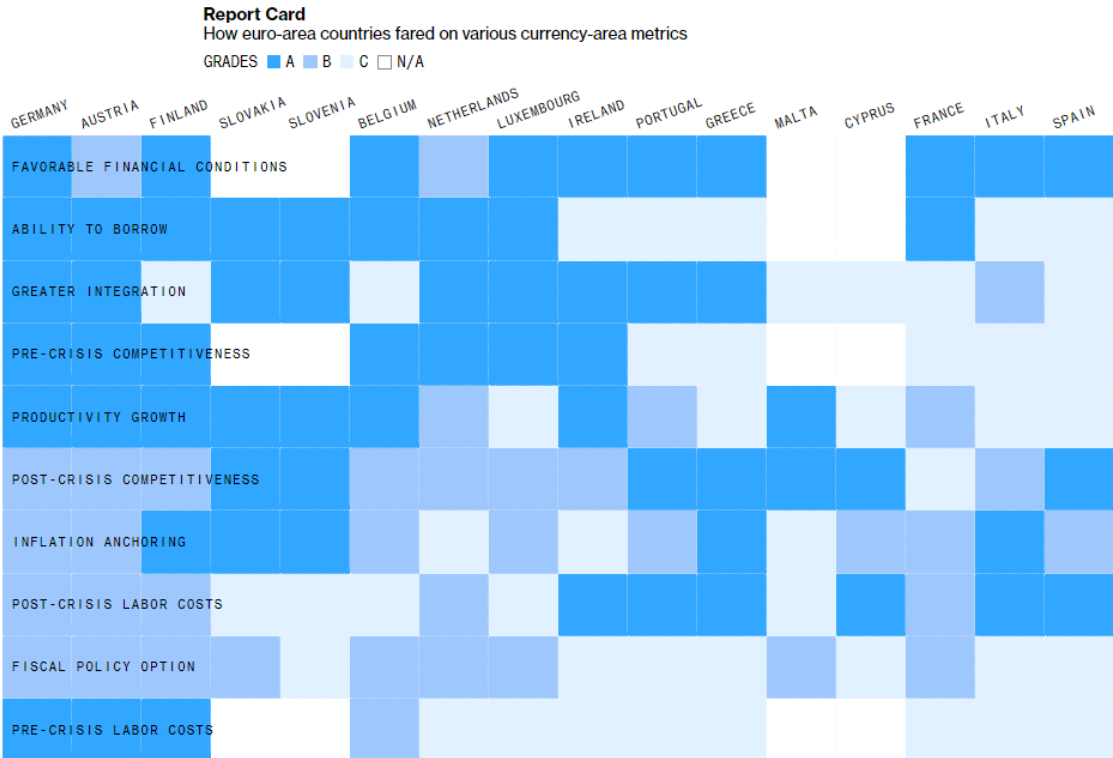


Figure 3 How euro-area countries scored on various currency-area metrics

## 2. Populist vote shares Europe

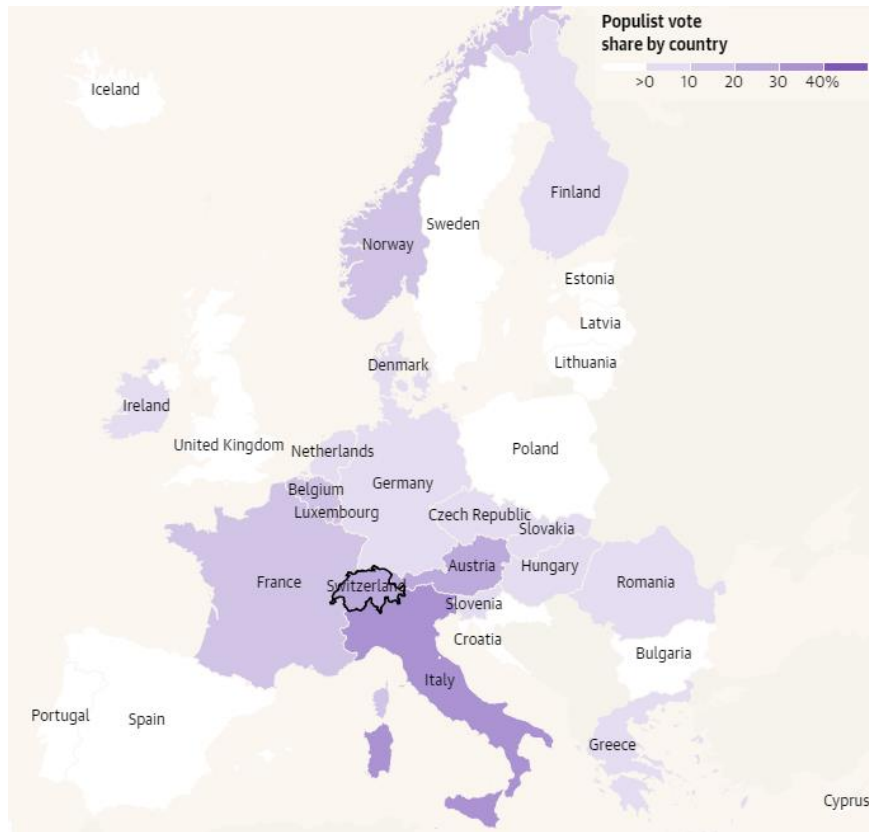


Figure 4 1999 - Populist vote share by country (Henley, How populism emerged as an electoral force in Europe, sd)

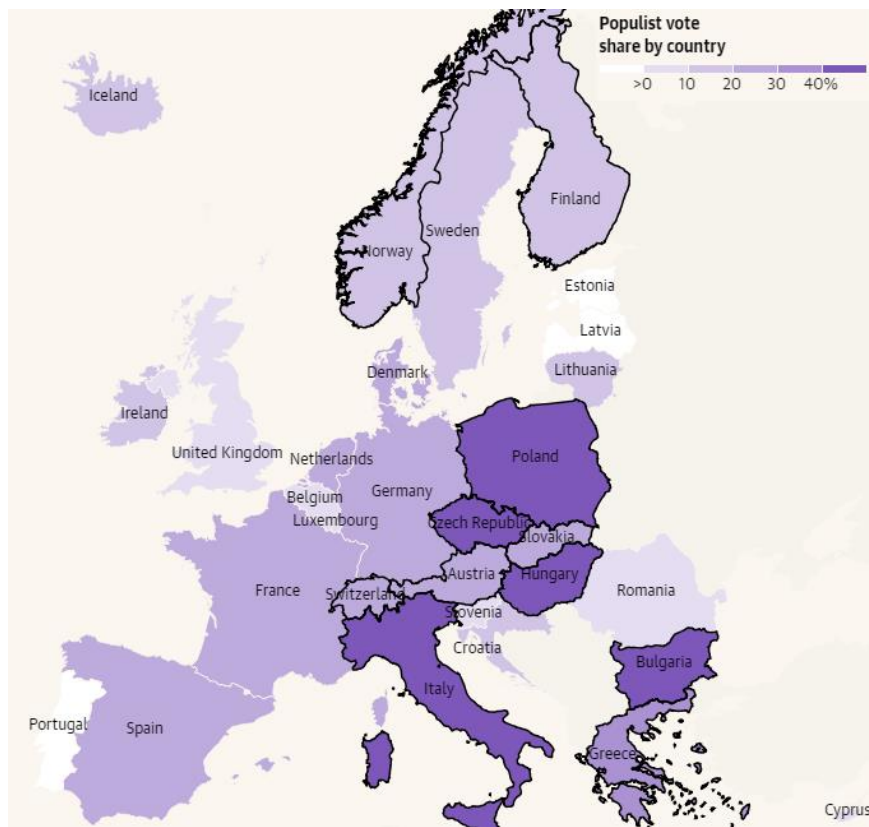


Figure 5 2018 Populist vote share by country (Henley, How populism emerged as an electoral force in Europe, sd)