

# CHARACTERISING EUROPEAN MARKET INTEGRATION AND ECONOMIC POLICY

Rory O'Donnell  
University College Dublin

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Rory O'Donnell,  
Jean Monnet Professor of European Business,  
Graduate School of Business,  
University College Dublin,  
Carysfort Avenue,  
Blackrock,  
Co. Dublin,  
Ireland.  
Tel: 353-1-706 8856  
Email: rory.odonnell@ucd.ie

## 1 INTRODUCTION

Any review of European economic policy confronts a number of puzzles. Should we examine it as if it were a national economy, and assess the absence, presence and effectiveness of its policies by that standard? Should we view it as an international organisation, or as a case of international policy co-operation, and evaluate its strengths and weaknesses accordingly? Is there some theory or conceptual scheme that outlines which policy instruments are necessary, and which are feasible in the EU? Approaches of these sorts are partly unavoidable, whether we are discussing the internal market, social policy, cohesion, competitiveness or employment.

This paper begins by locating the EU in the classical definition of the stages of economic integration. This uncovers the central problem that confronts analysis of the EU: how is deep economic integration achieved and governed in the absence of centralised political authority? In Section 3, we then compare the EU with two other types of economic arrangement: multi-lateral trade liberalisation and the management of a domestic economy, particularly a continental federation. The EU lies between the international and the domestic, sharing certain characteristics of each. It is emphasised that the preservation of an 'international' dimension frequently requires stronger, rather than weaker, EU rules and more, not less, EU competence.

Section 4 examines some difficult issues concerning the evolution and significance of the internal market. Should the internal market be understood as the eventual implementation of a blueprint agreed in the Treaty of Rome, or as the novel outcome of the Community's particular evolution? Why is the European internal market so prominent, given the constraints on the EU's powers and the emergence of globalisation? Section 5 characterises Europe's emerging economic policy, offers an explanation for its unusual nature and discusses alternative views of its effectiveness and potential. In section 6, we summarise the wider argument of which this paper forms a part.

## 2. THE EU AND THE STAGES OF ECONOMIC INTEGRATION

The starting point for discussion of economic integration has for several decades, been Tinbergen's distinction between positive and negative integration and Balassa's five stages of integration. Balassa's five stages of integration—Free Trade Area, Customs Union, Common Market, Economic Union And Total Economic Integration—provided the template for economic analysis of integration, since it was based on the definitions of goods markets, factor markets and economic policy, which are used in mainstream economic theory (Balassa, 1961). It is widely recognised that the experience of European integration reveals definite problems with Balassa's stages—although they are still used in trade theory. In particular, it is noted that Balassa's definitions of a Free Trade Area and a Customs Union overlooked the significant elements of positive integration which are normally found in these arrangements<sup>1</sup>. A similar problem existed in Balassa's definition of a Common Market and Economic Union. His Common Market overlooked international trade in services, and this allows a gross underestimation of the degree to which national regulation needs to be harmonised or transferred to union level. The common thread in these qualifications to Balassa's stages is their underestimation of the degree of positive integration—policy harmonisation, common policies and union institutions—necessary to achieve market integration. The wide range of economic intervention and regulation in the modern economy dictates that extensive positive integration is necessary to achieve a genuine Common Market.

It is less widely recognised, however, that while Balassa *underestimated* the institutional, policy and political requirements of a Free Trade Area, a Customs Union and a Common Market, he may have *overestimated* the centralisation of economic policy and political authority necessary for an Economic Union or Total Economic Integration. This was because the unitary state was taken as the prototype of economic union, which has turned out to be inaccurate in Europe (Pelkmans, 1997, p. 8). This is a central feature of most recent attempts to re-conceptualise European integration. The EU is creating deep economic and monetary union without the development of the kind of political and administrative centre which Balassa, many

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<sup>1</sup> Free trade Areas— such as that between Australia and New Zealand and that between the EC and EFTA— involve joint regulation and some policy 'approximation'. In Customs Unions—such as that between the Benelux countries or the EC—there tends to be extensive forms of joint policy and the

early integrationists and most conventional concepts of politics and economy envisaged.

### 3. BETWEEN INTERNATIONAL INTEGRATION AND CONTINENTAL FEDERALISM

In seeking to understand the EU it is natural to compare it with international economic integration and domestic economic arrangements. International integration, as achieved in this century by multilateral liberalisation under the GATT and WTO (and in earlier centuries by the creation of imperial markets), is historically the most widespread form of integration. The form of domestic governance most relevant to the EU is federalism, particularly federal governance of an economy of continental proportions. Our purpose is not to engage in debates about 'federalism' in the EU, but to bring to light the EU position between the international and the domestic. For the purpose of this comparison, we put aside the changing nature of European economic integration in recent decades. Its evolution is considered in the next section.

In comparing the EU with a domestic economy, we have in mind both actual federations, particularly continental federations, and the 'economic theory of federalism'. All domestic economies and federations contain a common market, an economic union and a monetary union. These economic arrangements are embedded within a constitutional order which governs the decision making at federal and state level and defines the legal rights and obligations of the union, states, individuals and corporations. The 'theory of economic federalism' suggests the way in which broad classes of economic policy—allocation, stabilisation and re-distribution—should be assigned to the federal and state levels. While the broad assignment of policy functions in domestic economies conforms fairly closely with these principles, there is significant variation between different federations, particularly in allocative and distributive policies. In allocative or regulatory policies, different federations strike a different balance between liberalisation, harmonisation and centralisation. In distributive policies, federations provide different levels of income support and restrict the fiscal autonomy of the states to varying degrees. Consequently, our

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transfer of functions to common institutions.

comparison is undertaken in the same spirit as Sbragia's discussion of the EU in a comparative federal context. Federalism is not seen as synonymous with a federal state—still less with any particular federal state—but in the institutionalisation of particular relationships among the participants in political life (Elazar, 1987; Sbragia, 1992, p. 261). In particular, federations can be seen as self-conscious attempts to design institutions in response to the dilemma of size and diversity, to address concerns with territorial or ethnic politics.

There are numerous dimensions on which the EU can be compared with international liberalisation and economic federalism<sup>2</sup>. Our interest is in the institutional arrangements, the assignment of policy functions and the substance of policy, which allow us to characterise the EU.

There are certain respects in which the EU conforms to the pattern of international liberalisation. Its first and major substantive project was liberalisation of trade in manufactures between the member states. The requirement of unanimity on all major steps clearly preserves an international or inter-state dimension, something we discuss further below. Enlargement is a notable feature of modern international liberalisation and a striking characteristic of the EU.<sup>3</sup> A further substantive similarity is that, despite the treaty declaration of the four freedoms, the EU was effectively built for a continent of low labour mobility, a fact which is reflected in the relative underdevelopment of the internal market for labour, and the limited scope of the social *acquis*. One effect of this has been the preservation of national regimes of social security and industrial relations, at least until very recently (see below). A related similarity is the absence of significant fiscal transfers, even in the context of the move to EMU.

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<sup>2</sup> One concerns the legal compatibility of the EU with international liberalisation, as developed by the GATT and the WTO. A fundamental principle of the GATT is non-discrimination, while the EU obviously involves preferential arrangements between members (see Chapter 7). Another question, which has been much discussed, is whether European integration has facilitated or inhibited multilateral liberalisation. Although the EU involves a strong element of preference, most agree that it has promoted multi-lateral integration.

<sup>3</sup> Indeed, short of enlargement, the EU has shown a tendency to extend a significant range of internal economic provisions to non members. This blurs the distinction between the preferential EU and the non-discriminatory multilateral liberalisation. Although it is notable that large-scale extension of EU provisions to non-members—as in the EEA agreement and the Europe agreements—seem to be a

There are certain respects in which the EU does not conform to international liberalisation, but displays features of large domestic economies and economic federations. It is an advanced common market, soon to become an economic and monetary union. It has established continental-level common policies of great economic significance, such as competition policy, the Common Agricultural Policy, industrial policy (in politically and militarily sensitive sectors) and an external trade policy. International economic relations and organisations traditionally respect and reinforce the right of states to represent and control economic interests within their territory. In comparison with these, the EU contains numerous qualifications to the play of purely territorial interests. Liberalisation of trade was accompanied by extensive, and open-ended, 'approximation' or harmonisation of national policies and the creation of common policies. Consequently, the EU involves limited forms of regime competition, and such competition is not seen as the best way achieve harmonisation where it is warranted. The institutional and legal framework means that, like a federation, its policy process has become an on-going balance between diversity and unity, between territorial and functional interests.

Nevertheless, there are important respects in which the EU differs from existing continental economies and the principles of economic federalism. To date, the broad assignment of policy functions in the EU has not accorded with the normal federal pattern. Major policies with continental-level relevance—such as macroeconomic management and strategic trade policy—have, for most of its history, been the subject of very limited purposive action at EU level. Distributive policies have remained almost entirely at national level, as have the forms of interest articulation and mediation normally associated with distributive policies. In the absence of stabilisation and distribution, European economic policy has been overwhelmingly regulatory (a pattern which is discussed further below). Most importantly, the provisions for the building of a continental common market were strongly conditional, not on *whether* this was an appropriate goal, but on *how* it was to be achieved. The treaty made the common market conditional on harmonisation, specified many exceptions and defined institutional arrangements within which these issues would have to worked out collectively. Examples include Article 36 (which allowed

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precursor to enlargement.]

limitations on cross-border trade on grounds of health and safety), numerous qualifications in Title III (on free movement of persons, services and capital), and Article 222 (which provides that matters of ownership will remain at national level). These provisions secure member states from the full force of international competition, in the absence of approximation or harmonisation.

Combining these comparisons, we can establish the sense in which the EU economic system lies between international liberalisation and a domestic economy, sharing certain characteristics of each. In comparison with international liberalisation, the EU's supranational institutions, constitutional order and norms greatly qualify the purely diplomatic and territorial element. Yet, in comparison with a domestic economy, these and other provisions offer an element of protection or reassurance to member states, national and territorial interests. This 'protection' of member states is not necessarily achieved by the *absence* of EU rules or the *minimisation* of Community competence.

A striking example is EU limitation on state aids and public procurement. European limitations on state aids and inducements are greater than those in the US, where states are freer to attract enterprises with whatever packages they wish. American observers are particularly struck by the fact that the EU exerts control on this aspect of state policy. Indeed, over time this aspect or reassurance to member states has evolved into the novel European doctrine of the 'level playing field'. This extends beyond limitations on state aids and public procurement, towards a level playing field in health and safety, environmental protection, some aspects of employment rights and infrastructure. The level playing field doctrine might be seen as a European compensation for the lack of fiscal federalism. In several significant areas, the maintenance of the 'international' aspect has been reflected in assignment of a degree of competence, often of a restraining kind, to the EU level. The less-politically-integrated EU has to go further than the more-politically-integrated US in enmeshing the member states with one another. The measures necessary to guarantee a level playing field are then determined in the EU decision making system—which itself balances national and supranational elements in deliberation, law-making, implementation, monitoring and adjudication.

Those greater constraints have a dual, almost dialectical, aspect. On the one hand, they are evidence of the 'strength' of the EU and its powers. On the other hand, those central controls and regulations are, in large part, motivated by the need to limit the possibility that any one member state will be severely damaged by the actions of another. They set a limit to naked regulatory competition, where it might take a beggar-my-neighbour form (Sun and Pelkmans, 1995). The formation of the Community involves member states in a deliberate mutual vulnerability, in which, as Sbragia says, 'they submit to one another' (Sbragia, 1992). This would be an enormous leap in the dark, if it occurred without a 'constitutional order', which establishes institutional arrangements 'that encourage the parties to make themselves mutually vulnerable by limiting the dangers of vulnerability' (Sabel, 1995, p. 101). Vulnerabilities, which in the US seem only to arise at the point of *international* liberalisation—for example, the concern about labour standards prompted by the NAFTA agreement—arise *within* the EU. This can be seen as an example of a greater 'internalisation' of international policy concerns. Indeed, subsidiarity, as enshrined in the Maastricht treaty, can be seen to be consistent with, rather than in opposition to, these elements of EU competence. In these ways the core of economic union is one which enmeshes the national in the European and the European in the national.

The combination of bold ambition and complex qualifications, of supranational institutions and complex negotiated procedure, of strength and weakness, can certainly be read in more than one way. It can be read as strongly integrative, given that reassurance was a condition if agreement to integration was to be achieved. It can be read as systematically encumbered, making EU policy dependent on a coincidence of member state interests. Rather than seek some definitive way of choosing between these readings, it seems better to accept that negotiated order has a dialectical or contradictory nature.

This perspective contrasts with earlier federalist and intergovernmental views—both of which saw a zero-sum relationship between the member states and the Community (Sbragia, 1992, p. 269; Armstrong and Bulmer, 1998, p. 54). The EU is *between* international liberalisation and economic federalism, but this does not mean that it lies



on a one dimensional spectrum which runs from less to more centralisation. This alone suggests that the standard of classical statehood is inappropriate in assessing the economic role of the EU. But the complexity does not arise only from the side of the EU. While the EU was evolving its novel form, international liberalisation and nation states were also unsettled, changes which are discussed further below. It is difficult, in the 1990s, to draw the sharp distinction between the domestic and the international which was the foundation of traditional state-centric approaches to both domestic policy and politics and to external policy making. The combination of EU development, changes in the international political economy and change in the European nation state has redefined and reconfigured the relationships between territory, identity and function.

#### **4. THE INTERNAL MARKET**

The common market was the central practical project in both the foundation of the Community in 1957 and its 'relaunch' in the late 1980s. In this section we consider three aspects of the internal market. We begin with some difficult issues of interpretation concerning the development from the Treaty of Rome to Treaty of Maastricht, particularly the balance between constitutive initial agreement and subsequent evolutionary transformation. We then consider the contexts in which the European internal market resides—the political economy of the member states and the wider international system—and how dramatic change in each of these have enhanced the significance of the European market project. Finally, the idea of Europe as a 'regulatory state' is discussed and some innovative aspects of Europe's regulatory approach highlighted.

##### **Constitutive Agreement and Evolutionary Transformation**

The development from the Treaty of Rome to the SEM poses the major substantive and interpretative issues concerning European integration. Not surprisingly, it has become the source of, and the locus for, major debates on the nature, dynamics and destination of the European project. One particularly puzzling aspect is whether the

economic union should be understood as the result of an initial, over-arching, constitutive agreement or the product of an ongoing negotiated process. This duality between plan and evolution in the creation of a European common market is paralleled by that between incremental change and radical transformation. In the final chapter we consider the link between the internal market as one substantive piece of learning and the new Europe as a learning machine.

At the centre of the Treaty of Rome was the idea of a common market as one of the 'Foundations of the Community' and a route to the key goals. The treaty embodied the analytical idea of a common market as both a customs union and a zone with free movement of good, services, capital and labour, the so-called 'four freedoms'. The Treaty can be viewed as having established a template for the subsequent major steps in integration, by combining market liberalisation with institutional development and flanking policies, a pattern which we discuss in more detail later. Indeed, historically there is good reason to emphasise the encompassing nature of the initial agreement, since 'partial forms of integration are unlikely to be accepted' (Pelkmans, 1997, p. 19). This emphasis on the original treaty design would suggest that the SEM be seen as the eventual *implementation* of an original plan. The long delay might be attributed to the 'failure' of the EC, the essentially intergovernmental nature of the EC or, more pragmatically, the sheer volume of technical, legislative and political measures involved.

But this view risks exaggerating the importance and nature of the initial over-arching agreement, or at least of reading it in a partial way. In both the treaty and actual development in the early years, there was a closer focus on removing tariff barriers, and ensuring the free movement of goods (Title I), than on non-tariff barriers and the free movement of persons, services and capital (Title III). There was also much greater progress in developing some common policies, such as the agriculture (Title II), than in others, such as transport (Title IV). While the treaty declared the aim of creating a common market, it made its implementation in services, capital and persons conditional on subsequent agreement on harmonisation, approximation, common policies and closer co-ordination. The constitutive agreement can still be accorded a central role, but its significance lies in *agreement to ongoing negotiation*, more than an elaborated model of a European economy. economy, society and polity. The over-

arching agreement was thick enough to get the ball rolling, but thin enough to accommodate the diversity of situations, interests and cultures. Most importantly, it was sufficient to create a new set of collective institutions. The formation of the Community involves member states creating a deliberate mutual vulnerability, in which, as Sbragia says, 'they submit to one another' (Sbragia, 1992). This would be an enormous leap in the dark, if it occurred without a 'constitutional order', which establishes institutional arrangements 'that encourage the parties to make themselves mutually vulnerable by limiting the dangers of vulnerability' (Sabel, 1995, p. 101).

It is the institutional arrangements that provide the crucial link between the constitutive agreement and the ongoing evolution of the Union. European institutions, particularly the Commission, produce analysis of possibilities, on-going deliberation and continuous interaction. The institutions-like others in certain economic or political spheres-'transform transactions into discussions, for discussion is precisely the process by which parties come to reinterpret themselves and their relations to each other by elaborating a common understanding of the world' (Sabel, 1994). Shared principles and innovative approaches to governance, such as mutual recognition or partnership, contribute new ideas which assist in the search for a shared understanding of the problems to be dealt with. The EU system, when working effectively, moves actors from a 'bargaining mode' to a 'problem solving mode' of governance. (Majone, 1996) Problem solving governance is characterised by an openness to deliberation, experimentation, learning-by-doing and evaluation.

As noted above, the development from the Treaty of Rome to the SEM also poses difficult questions concerning the dynamic of European integration, the balance between continuous advance and progress-and-regress. Two underlying forces—the advance of technology and functional spill-over—are often considered to create tendency to centralisation of policy in larger political units (Beer, 1973, Dahl, 1996). Yet, a conventional view is that European integration has experienced alternating periods of progress and regress. This emerges particularly strongly if we focus on the Council and the Commission, and their legislative role, rather than on the ECJ and judicial review. Overtly political integration certainly experienced significant setbacks. But policy integration continued in a few diverse, but ultimately significant areas (such as the EMS) and major progress was made in the judicial sphere

(Pelkmans, 1997, p. 22). This element of continuity is underlined when we note the degree to which the drivers of market integration were developed before the internal market programme. Not only were tariffs and quotas on goods removed, but the process of building the Community quickly yielded key principles—direct effect (1962) and the supremacy of European law (1964)—that have endured. Active Commission efforts to reduce the negative impact on cross-border trade of non-tariff barriers, such as divergent national regulations, date from the late 1960s. Indeed, the Commission's adoption of a more pragmatic approach to harmonisation dates from the mid-1970s (Wallace and Young, 1996).

Yet there remains a strong sense in which the SEM must be seen as a step-advance in European integration. This is true in two senses. While many elements of the internal market project developed earlier, the SEM established a shared set of ideas and assumptions which galvanised diverse political, administrative, business and other actors. The EU approach to market governance accords an unusually central role to particular kinds of ideas and expertise. While the EU approach is incremental and fragmented it seems that the successful operation of this problem-solving approach is dependent on a minimal over-arching agreement. What was true of the original over-arching agreement, was true also of the SEM: the comprehensive nature of the agreement made it possible to achieve change in sectors which had, on their own, proved very resistant (Pelkmans, 1997, p. 215).

The second sense in which the SEM was a step-advance, was that the quantitative accumulation of market-opening measures produced a qualitative shift in the degree of integration, the pattern of market governance in Europe and, as we argue in our final Chapter, in the nature of the integration process. If the SEM depended on the drivers of market integration developed earlier, it also reconfigured them and combined them with some new approaches and new ideas. It redefined the original treaty goal of a common market. This was possible, indeed necessary, because, as argued above, the Treaty of Rome had made the implementation of free movement of services, capital and labour dependent on subsequent agreement on harmonisation. By the time the EU got around to make real these elements of the over-arching agreement, the economic and political context had changed and new ideas about market regulation prevailed. The SEM necessitated changes in EU external trade

relations. Most significantly, it altered the nature of the EU itself, greatly qualified the sovereignty and autonomy of the member states, prompted significant change in national policy and changed the substantive governance of markets, and some areas of public policy, throughout the Union. Consequently, a process with a significant incremental element became transformational.

These tensions in economic integration—between initial agreement and on-going negotiation, between continuous evolution and radical shift, between incremental change and transformation, between fragmented policy domains and general principles—are linked to the tensions we see in the overall project of European integration. Our interest is in the extent to which these developments are reconfiguring territory, identity and function on the European continent, and in the nature of the emerging system.

As regards the origin of the SEM, we accept those accounts which cite the changing interests of the member states (Moravcsik, 1991, 1993), and the impact of changes in the international economy on supranational actors (Sandholtz and Zysman, 1989). But these forces should not be allowed to occlude the role of the ECJ, the Commission (in its collective, functional and sectoral roles), an emerging international business elite and the European Council (Armstrong and Bulmer, 1998; Cameron, 1992). Nor should the emphasis on interests and agents blind us to the role of ideas—a renewed belief in market competition and a loss of faith in conventional macroeconomic solutions—in the emergence and dissemination of the internal market project (Garrett and Weingast, 1993; Young and Wallace, 1997).

Analytically, our approach is flexible enough to encompass the undoubted *continuity* of internal market integration, the dramatic *deepening* of inter-penetration (of both markets and market-governing policy) and the *qualitative shift* in patterns of governance. The development of the internal market provides a graphic illustration of the observation that the Union is 'highly voluntaristic, yet pragmatically piecemeal and vauntingly long-range' (Anderson, 1996 p.17). Substantively, we are in no doubt that the initial agreement produced an institutional context for open-ended progress in market integration, that evolution has produced a radical shift, that quantitative progress has produced a qualitative transformation, and that fragmented action has

yielded systemic change.

Indeed, as shown below, that transformation need not be seen as peculiar to the EU or a product of European integration *per se*. The global context changed, the political economy of the member states changed and ideas about public policy changed—to such an extent that they forced something of a re-definition of the overarching agreement of the European project in the 1980s.

### **Evolving European Market in an Unsettled National and Global Context**

The significance of the evolution/transformation of the internal market, described above, was enhanced by changes in its context—the political economy of the member states and the international environment. Viewed in this context, the EU of the late 1990s seems quite different from the EC of the mid-1960s.

In the mid-1960s, the EC involved a basic form of internal liberalisation and a common agricultural regime, within a group of settled national political economies and a relatively stable international environment. The settled national models were characterised by a range of, somewhat different, accommodations between capital and labour, approaches to macroeconomic management and sector regulation. Each of the dominant post-war national models of the EC-6 contained a coherent ensemble of macroeconomic management, wage bargaining, enterprise organisation, industrial relations, welfare provision, sector regulation, state intervention and legitimisation. Smaller member states usually borrowed significant elements from their larger neighbours (Shonfield, 1959; Thompson, 1991). These models came under both internal and external strain in the turbulent decades since the late 1960s. The intensity and timing of this pressure, and the responses to it, varied across member states. The international environment in the mid-1960s was one of advancing trade liberalisation in manufactured goods, economic growth and a dollar-based international monetary regime, reflecting the hegemony of the American model of industry. That international pattern was severely unsettled by both economic and political change from the late 1960s onward, only to be radically transformed at the end of the 1980s (Laffan, O'Donnell and Smith, 1999, chapters 2 and 3).

In the late 1990s, the EU oversees extensive liberalisation and market regulation and a range of economic policies, in a context where the, previously dominant, national models are fragmenting, countries with different models of political economy have joined the Union and international context has changed radically.

European integration has had a complex and shifting place in this unsettling of national political economy and the international system. By making the national economies more open, it exacerbated the problems arising from the oil price increases. It was, of course, a victim of the differential response of member states to those crises, as non-tariff barriers increased in the 1970s and 1980s. In the EMS, it provided a vehicle for the emergence of common macroeconomic priorities on inflation and public finance, although there were autonomous sources for these new priorities—as evidenced in the UK and the US. While this can be seen as an exportation of the German approach, it should be seen as contributing to the break-up of the ‘national’ policy models in France, Italy, Belgium, Ireland, Spain and Portugal. In the case of the internal market, European integration can be seen as both an effect of the changing national and international contexts and the cause of further fragmentation. The search for the new regulatory model, outlined above, can be seen as a reflection of a Europe unsettled by global macroeconomic turbulence, intensified international competition and the wider changes in world politics and international political economy (Laffan, O’Donnell and Smith, 1999, chapters 2, 3 and 4). As is often the case, one disturbance begets another. The move to this new pattern of regulation has, itself, unsettled a vast range of long-established economic, political and social arrangements within member states. While this period of rapid and profound change has revealed the shape of a new European market polity, it should not, of course, be seen as a stable new regime. Later in this chapter we consider some developments in European economic priorities and policy which have occurred since the formal ‘completion’ of the internal market, and in the next chapter we consider EMU.

Although the EU did not acquire great additional financial resources, this changing domestic and global context was one in which it could acquire significant extra authority and legitimacy in economic matters. It could acquire this mainly from the member states, and only to a limited extent from direct appeal to the business elites,

populace or social movements of Europe (although that route has been nurtured with great skill by the Commission and the Court). The demise of the national models of political economy is not necessarily the same thing as the decline of the nation state. The weakening of the domestic ensembles—of macroeconomic management, wage bargaining, enterprise organisation, industrial relations, welfare provision, sector regulation, state intervention and legitimisation—has, of course, altered the nation state, in ways that are sometimes described as ‘hollowing out’. But its effect on other elements of the national models—trade unions, sectoral lobbies, welfare lobbies, political parties, once-dominant enterprises—may have been even more debilitating. As the coherence, effectiveness and legitimacy of the national models fell away, there remained the state—less effective, broke, but not significantly smaller; still the repository of most of legitimacy that was to be had; desperate enough, but free enough, to see the attraction of the internal market programme. Indeed, it seems that one of the most legitimate things European states could do in the past decade was conduct themselves well at EU level. The development of the EU’s economic remit did not, of course, turn the dominant national models on their head—despite the fears voiced by some in Germany, Britain, France and Denmark. Instead, it adopted significant elements from those national models, but did not combine them in accord with any one national pattern.

In summary, the significance of EU economic policy was enhanced by changes in its context—the political economy of the member states and the international environment. The deepening of the Union has both reflected and reinforced a weakening of the domestic ensembles of macroeconomic management, wage bargaining, enterprise organisation, industrial relations, welfare provision, sector regulation, state intervention and legitimisation. It has also been prompted by radical changes in the international context. Thus, the EU has changed, but so has the world in which it resides, everything to which it might be compared, including the bricks and mortar of which it is made.

### **Regulation and innovation**

It is now widely recognised that the regulatory method of governance is the dominant



approach in the EU and is 'absolutely the character of policy exhibited by the single market' (Armstrong and Bulmer, 1998, p. 70). Majone has drawn attention to the growth of EU rules governing the numerous aspects of the single market—including rights of establishment and rules of operation in several market areas, competition, technical standards, consumer protection and the environment—and the relative underdevelopment of EU labour market policy, social policy, transport policy and energy policy. This aspect of the emerging European system is, correctly, the subject of much analysis.

The concept of the EU as 'regulatory state' may overstate the coherence and familiarity of the EU. While regulatory governance generally tends to segment policy and sectoral areas—indeed, that is part of its logic—this is more pronounced in the EU than elsewhere. Because it lacks an 'overall political architecture specifying relations between citizens and representative institutions', the EU is particularly characterised by 'islands of political authority centring on regulation of economic activity' such as civil aviation or pharmaceuticals (Caporaso, 1996, p. 49). Furthermore, the emerging European regulatory agencies—the European Environmental Agency, the Agency for Safety and Health at Work, the Agency for the Evaluation of Medicinal Products, the office for Veterinary and Plant-Health Inspection and Control and the Monitoring Centre for Control of Drugs Addiction—have not acquired the power of rule-making, rule enforcement and adjudication granted to many of the American regulatory bodies. The history of falsified expectations concerning European integration, suggests that we would probably be mistaken to attribute the weak regulatory powers of Europe's emerging regulatory agencies to the immaturity of the EU as a regulatory state, and to expect them to develop in the manner of the post-New Deal US. On these regulatory institutions, Majone observes something which we apply more widely: that the EU's constraints can also be opportunities. 'With knowledge and persuasion as the principle means of influence at their disposal, the agencies could develop indirect, information-based modes of regulation more in tune with current economic, technological and political conditions than the coercive instruments of command that have been denied to them' (Majone, 1997, p. 11). This is particularly interesting, now that some American observers see the regulatory agencies of the New Deal struggling to define, enforce and monitor rules in the face of economic change and social complexity (Dorf and

Sabel, 1998). While the concept of the 'regulatory state' captures an important aspect of the EU, it clearly has some of the characteristics of a 'post-modern state' (Caporaso, 1996).

A particular example of EU innovation is the approach taken to what Pelkmans calls the 'standards/certification/quality nexus' (Pelkmans, 1997). Where mutual recognition is not feasible, or not wise—because machinery, medicines and foodstuffs can pose a threat to health and safety—the creation of an internal market requires harmonisation. The new approach involves an interesting division of labour. Member states set only the 'essential requirements' which products will need to meet before being placed on the market. There follows a procedure in which European standards organisations—such as CEN, CENELEC or EMEA—define a harmonised standard. Firms that comply with it can 'self-certify', subject to the operation of a quality assurance scheme, such as ISO 9000. But the harmonised standard is not compulsory on companies. They can choose to adopt an alternative specification, as long as compliance with the 'essential requirements' is demonstrated, through a third-party certification body. The 'CE' mark can then be affixed to the product, indicating that it complies with the essential requirements of all relevant Directives. At that point the principle of mutual recognition should apply.

In overcoming a particular problem which dogged European integration, this might be seen as a European solution to a problem that only Europe had. But over 70 countries world-wide, including the US and Japan, have adopted at least some of the EU Directives, such that they are becoming global standards, giving a single compliance process for access to many markets. Many EU companies are demanding that their non-EU suppliers comply with the EU Directives. The EU Directives are simpler than the US system. Rather than writing laws that state the specifics of every product, the EU Directives are generic in nature. 'They are written so that they do not need to be updated every time there is a technological advance' (Bailey and Bailey, 1997).

Consequently, in solving the problem of technical harmonisation in a diverse, quasi-federal, union, the EU may have solved a governance problem which now confronts business and policy world-wide. It seems that the new EU standards system not only makes it easier for firms to meet irksome rules in a era of rapid technical progress, but

can actually assist them in their business co-ordination. Thus, for example, it has been argued that Du Pont benefits from compliance with the EU's 'New Approach Directives', not only because it gives them access to markets, but also because implementing the EU standards and quality system allowed it to eliminate over 40 per cent of its test methods. 'There were 27 different methods for determining the pH of a solution; just one was substituted' (Bailey and Bailey, 1997, p. 45). The new EU standard-setting procedure would seem to conform to the new principles of business co-ordination, as identified by Sabel. These principles of 'learning by monitoring', involve disciplined on-going deliberation in which relatively autonomous business units develop the ability to judge their own progress and judge the value of doing business with other units (Sabel, 1994). A further possibility, which remains to be explored, is that the EU has been pushed by its decentralised nature, and other constraints, to itself adopt 'learning by monitoring'—an approach which seems to have relevance in many areas of public policy (Sabel, 1995; Dorf and Sabel, 1998).

## **5. TOWARDS A EUROPEAN ECONOMIC POLICY?**

### **The Evolving Content and Procedure of European Economic Union**

The degree of evolution in European economic policy since the 1980s has not been adequately recognised or conceptualised. The evolving economic priorities of the EU since the foundation in 1957 can be summarised as follows:

- The creation of the common market in goods, the CAP and the European Social Fund
- Exchange rate stability and dis-inflation
- The completion of the internal market and expanded cohesion instruments
- Designing the transition to EMU and accompanying cohesion measures
- Measures to promote European competitiveness
- The Essen process addressing employment and unemployment
- Achieving the transition to EMU.

During the 1980s, European economic policy would seem to have had three primary goals. In order of their appearance on the European agenda these were: the limitation

of exchange rate variation, dis-inflation and completion of the internal market—goals which were achieved to a considerable degree. Since then, European economic policy has undergone some change of emphasis. Following the limited fall in unemployment in the late 1980s, and the sharp increase in unemployment in the early 1990s, there was, undoubtedly, an increased focus on European unemployment. In addition, while the internal market was intended to improve Europe's position vis-à-vis Japan and the US, European competitiveness has become a more explicit focus of policy in recent years. However, through much of the 1990s, the political and economic demands of transition to EMU have dominated the new-found emphasis on both employment and competitiveness.

The emerging EU policy focus on employment and competitiveness is less visible than other developments. This is partly because the comprehensive and ambitious nature of the Rome Treaty can lead us to see the history of European economic integration as a continuous, if long drawn out, process of *implementation* of a plan in existence since 1957—a view which we qualified above. The emerging policy approaches come at the end of a remarkable period of European integration, in which the SEA and the TEU stand as major milestones. Each was associated with a strikingly visible, and easily communicated, big idea in the economic area—the single market and monetary union. The extent of change in emphasis is evident in the concepts and language used in Commission documents on the economy<sup>4</sup>.

Including these emerging policies, European economic policy in the late 1990s had five main elements: macroeconomic policy, the internal market, cohesion, competitiveness policy and labour market policy.

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<sup>4</sup> One example might indicate this change. The Delors Report on EMU advocated a single currency, defined the stages of transition and suggested an approach to economic management in EMU. On the latter, it said that 'Governments...would refrain from direct intervention in the wage and price formation process' (CEC, 1989b). The Commission's 1993 White Paper *Growth, Competitiveness, Employment*, sees unresolved distributional conflict and lack of organisational innovation as key factors explaining Europe's poor competitive and employment performance. In this context, 'factor mobility and the capacity to combine factors effectively and to organise the social consensus on the share out of value-added are becoming much more important than the initial factor endowment', (Commission, 1993, p.71).

### *Historical Limits of EC Macroeconomic Policy*

A striking feature of the EU since its inception has been the limited role of European macroeconomic policy. Viewed functionally, continental-level policy has a definite relevance in macroeconomic matters. This is because of the difficulty which individual member states, even large ones, have in conducting an effective internal or external macroeconomic policy. We can identify at least two reasons for the attenuated role of macroeconomic policy in the EU. While the standard goals of macroeconomic policy are control of inflation and the maintenance of buoyant demand, European macroeconomic policy has had an additional objective: limitation of nominal exchange rate variability between European currencies. A second reason relates to the negotiated nature of EU decision making. Differences of opinion between member states were compounded by inconclusive academic debate on the feasibility of active macroeconomic policy. In this context, the EU settled on an economic doctrine that emphasises stability—in inflation, public finance, exchange rates and output growth. In the 1980s and 1990s Europe had, in effect, forsaken macroeconomics and macroeconomic policy.

### *Internal Market Policy*

The unusual position of macroeconomic policy means that the EU places particular reliance on internal market policy. The evolution and characterisation of this policy, and its relation to the wider set of national and EU economic policies, has been the main concern of this paper.

### *Cohesion*

The third element of the emerging European economic policy concerns cohesion. There was a remarkable development of the European structural funds in the context of the completion of the internal market. The institutional developments of the Delors I package—particularly, the deep involvement of the Commission in regional and national planning and the mobilisation of sub-national and non-state actors—were of great significance, both for the recipient regions and member states and for European integration. While a state-centric or bureaucratic conception would emphasise the likelihood of lowest-common-denominator decisions and incoherent (if bureaucratically balanced) policy approaches, the development of EU cohesion policy

since the mid-1980s looks more like an innovative, strategic, problem-solving outcome.

The major past and future evolution of EU cohesion policy must be viewed in the context of enlargement. Enlargement greatly widened the disparities in income and development within the Union. In the context of the internal market programme, it involved a massive regime exportation to Europe's poorer periphery—which was forced to dismantle its statist form of capitalism, confront severe competition and meet new rules. The regime exportation includes not only new approaches to market governance, but also the influence of the Commission on national governments and regional actors. This regime exportation is more important than the resource-transfer which accompanied it. And it has unsettled not only the periphery, but also the core. In response to the claims of the periphery, it was reiterated that the EU model has, from the start, been more about rules than money, about competition not transfers—a message that was underlined by the fact that the EMU will not be supported by the type of fiscal federalism found in other monetary unions. With little nostalgia for its stultifying past, the relatively young populations of the periphery have begun to compete—as is reflected in the relatively high growth rates in the 1990s. By contrast, the much of the core is ambivalent about the new patterns of economic organisation—as is reflected in low growth and anxiety to about the periphery's ability to attract competitive enterprises. The upshot is a remarkable inversion of the analysis and fears articulated at the time of the Werner Report. In the late 1960's it was feared that the growth of peripheral regions/countries, used to high inflation and currency devaluation, could be curtailed by EMU. In the late 1990s, it is feared that monetary policy set for a slow-growth European core may be somewhat loose for the high-growth periphery. In like manner, while Eastern enlargement will put pressure on the cohesion resources of the Union, the more interesting and profound effects may come from a further unsettling of existing economic and social arrangements.

#### *Competitiveness*

The fourth component is the emerging European policies for competitiveness. In considering possible measures to enhance Europe's competitiveness, the Commission confronted not only the limits of EU competence in policy areas usually thought relevant to competitiveness, but also limited consensus on the determinants of

European competitiveness. The 1993 White Paper set out possible lines of a policy for enhancing Europe's global competitiveness. This involves a wide range of methods, instruments and procedures. Some involve 'Community action proper', in areas such as competition policy, merger policy, EU financial contributions to trans-European networks, and research and technological development. Others involve EU co-ordination of national policy measures, in areas of infrastructure and technological development. Others involve the EU acting as a *networker* or *broker*, in areas such as SME policy. Finally, some of these policy approaches involve the Union acting as a *forum for analysis*, discussion and development of shared perspectives on the problem of competitiveness. It is notable that industrial policy does not appear in the list of EU approaches to competitiveness. In part, this reflects the fact that, as noted in the Commission White Paper, 'industrial policy continues to be controversial'. Rather than trying to resolve major doctrinal differences on industrial policy, the Union is forced to develop policy experiments in new areas, such as inter-firm collaboration, innovation and networking (Andreasen *et al*, 1995; Coriat, 1995). Despite its limited nature, the emerging EU policy for competitiveness is potentially important, both substantively and procedurally. Indeed, we argue below that the constraints on EU competitiveness policy may also create opportunities.

The White Paper and subsequent developments illustrate the emergence of a significant EU voice in an area in which EU competence is limited, not only because of Treaty provisions, but also because of the limited potential for a policy which is both designed and implemented at continental level. In assessing the feasibility and relevance of continental-level policy, it must be recognised that the major factors which influence competitiveness reside at national or regional level.<sup>5</sup>

An interesting aspect is the Commission's choice of a bottom-up approach, involving case studies, rather than the general empirical or theoretical analysis. It has embarked on a comprehensive benchmarking exercise analysing positive labour market flexibility initiatives.

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<sup>5</sup> This is so whether one takes a traditional view, that competitiveness is determined by relative costs; or a perspective which focuses on corporate competition and strategy, emphasising innovation and product differentiation; or the emerging, view, that competitiveness is determined by institutional and organisational arrangements (Lazonic, 1991; Nelson, 1993).

### *Employment*

The final element of the emerging European economic policy concerns employment. The combination of policy co-ordination and public/private benchmarking is characteristic of the emerging European approach to the inter-related issues of competitiveness and employment. So is the increased use of the social dialogue and support for European networks of non-governmental organisations.

Since this involves something considerably less than EU legislation, let alone EU conduct of policy, we are challenged to assess its significance. Conventional state-centred and federalist perspectives would suggest a sceptical view of these developments. The conclusions of the European Council and the guidelines of the Council have no binding force and, consequently, the notion of European policy for unemployment is a fiction. But this may be too narrow view of the diversity, nature and potential of EU governance. An alternative view is that major changes to reduce unemployment (such as more active labour market policies, significant reduction in statutory charges on labour and more solidaristic wage setting) are more likely to be adopted in each member state if they are adopted in all. A related, argument is that detailed analysis and discussion of unemployment at European-level has, potentially, a significance in establishing a climate of opinion and analysis which sees employment and unemployment as central problems for Europe. Discussing the role of the European Council in the development of the internal market agenda, Armstrong and Bulmer note that 'Repeated rehearsal of policy commitments can lead to the embedding of ideas in institutions; to the creation of new norms (Armstrong and Bulmer, 1998, p. 17). Although the employment initiative is 'thinner' than the internal market, the *Growth, Competitiveness, Employment White Paper* started a dynamic that led to a new Treaty chapter, establishing a 'political framework' for national labour market measures.

While the EU's approach can be cast as a compromise between the deregulatory approach and the preservation of the 'European social model'—reflecting the absence of intellectual or political support for a full-blooded implementation of either doctrine—it shows signs of being more than the lowest common denominator. It is significant that the EU has begun to act as a forum for analysis, discussion and



development of shared perspectives on new problems. The new approach can be seen as reflecting the limited ability of hard law and traditional policy, at either national or EU level, to adequately address the complexity of labour market problems. It may, in time, yield a more formal EU-level policy on employment and unemployment, perhaps involving minimum standards for member states on any measures for the long-term unemployed for which Community support is sought (White Paper,150). The new emphasis on employment is also important in the context of EMU and more co-ordinated macroeconomic policy.

On the issues of competitiveness and employment, the Union has recently become involved in what might be termed *thin* policy integration. The fact that the EU is drawn—by the limits of its competence and resources, its Europe-wide perspective, the bargained nature of its policies and the continuing relevance of national and regional determinants of competitive advantage —into policy approaches and areas which differ from that which nation states have traditionally undertaken, may be an advantage. It is, thereby, drawn to experimental policy approaches, in which it must rely on national governments, agencies, firms and trade unions for implementation and evaluation. The ultimate test of its recent employment initiative is whether the EU uses its limited, but influential, role to develop innovative approaches to employment, and whether its freedom from the mainstream, large-scale and administratively complex, labour market policy responsibilities of member states is seen as an opportunity rather than a constraint.

An intriguing aspect is that the recent initiatives on competitiveness and employment might be seen bring the EU (in these areas at least) towards a loose international forum, such as the OECD and the ILO. Nevertheless, there remains a connection between EU initiatives in these areas and the deep level of political and legal integration in many other areas. Furthermore, while the EU might be drawn in the direction of international organisations, they are also being drawn in the direction of the EU. This is evident in the increasing complexity of the issues addressed by the WTO and the deepening content of liberalisation and regulatory agreements. Over time, this increasing complexity and depth may require the elaboration of richer overarching agreements and principles, within which negotiated governance and problem solving in diverse areas can proceed.

### Interpreting and Evaluating European Economic Policy

This strange combination of economic policies—macroeconomic, internal market, cohesion, competitiveness and employment—is quite different from that of a classical nation state, a continental federation, a post-war European welfare and, indeed, the economic theory of federalism. Europe's unusual pattern of policy has been explained in various ways. First, it is commonly said that the EU is *sui generis*. Second, Pelkmans says that 'The political logic of ever more ambitious economic integration among otherwise independent countries is radically different from the logic of (economic) decentralisation in a mature federation' (Pelkmans, 1997, p. 47). Third, for many, the EU's unusual policy portfolio is explained by the resistance of nation states and the predominance of intergovernmental bargaining. A fourth suggestion is that the EU policy portfolio is explained by the fact that the EU is a neo-liberal project which is re-balancing economic and social policy in the interests of capital (Steeck and Schmitter, 1991; Streeck, 1996). Fifth, Hirst has observed that the EU is not 'a scaled up version of the nation state'. It can do some things nation states cannot do, but cannot do other things that remain the province of the states and regions. While the EU could sustain an expansionary macroeconomic policy, it cannot create 'either the legitimacy for the specific policies of public spending or credit creation necessary to sustain such a policy or the forms of co-operation of the social interests necessary to implement it' (Hirst, 1994, pp. 139-40). Each of these explanations has some force. Yet each seems to underestimate the significance of the emerging EU policy, both procedurally and substantively.

The view that the EU is *sui generis* is no longer considered an adequate explanation. While there is certainly a difference between the *integration* of states into a federal-type organisation and the *decentralisation* or *disintegration* of a large political and territorial unit, it is not clear that 'the political logic...is radically different'. Indeed, there is a definite parallel between the development of the EU and historical emergence of federations (Armstrong and Bulmer, 1998, p.46). The similarities and difference can only be seen if we allow for the diversity of federal arrangements, and

the possibility for considerable originality in institutional design (Sbragia, 1992, p. 260).

Is the absence of certain functions at European level—such as macroeconomic policy or foreign policy in a state sense—still adequately explained by member states' jealous guarding of sovereignty, or because they are 'sensitive in domestic politics'? (Pelkmans, 1997, p. 30). This explanation only retains its force if there is some evidence of member state will or ability to follow their own road. For example, in the past decade, the absence of macroeconomic policy at EU level is less a result of national wilfulness, but of loss of faith in macroeconomic remedies, national passivity and the absence of clear principles which might inform an EU-level macroeconomic policy.

Can the pattern of European policy be explained as the victory of neo-liberalism? The evidence—on working conditions and welfare—is complex. European social policy is not unambiguously a 'floor' or a 'ceiling', but a mixture of both. In the European periphery, the integration process has involved a significant raising of the rights and expectations of many workers. This has to be weighed in the scales with the pressure on rights and standards in the Northern European core. It cannot be said that there has been an unambiguous lowering of labour standard, rights and norms in Europe. While there has been undoubtedly been a world-wide re-balancing in favour of capital, existing class-based analyses do not do justice to European or international developments (Grahl and Teague, 1990; Scott, 1995). Patterns of economic and social organisation and solidarity are changing too fast, and in unprecedented ways, to predict which macro-social class interest at European level gains and loses from the different elements of the European integration project. The internal market allows new combinations of economies of scale and scope, which are giving rise to new, less hierarchical and more participative, patterns of economic organisation.

The final explanation, which compares the capacity of member states and the Union in both economic and political spheres, is more promising. Hirst's distinction between functional effectiveness, legitimacy and co-operation is an important corrective to both federalist and nationalist perspectives. In economic and other matters, the Union lacks a centre of political authority, capable of achieving some of

the functions exercised by the nation state. However, it is no longer clear that legitimacy is generated entirely within the political sphere, and transferred to the economy and economic policy. Consequently, it is no longer clear that legitimacy can only be generated at national level. This is not to assert the emergence of popular politics at European level. Legitimacy is generated, in part, by effectiveness and can flow from the economy to politics. Firms can be repositories of legitimacy, through their ability to generate employment. Consequently, the neat coincidence—or even hierarchy—of territory, identity and function has been disturbed. Again, macroeconomic policy provides a good example. In several member states, such as Italy and Ireland, the legitimacy of national policy is closely tied to EU monetary and fiscal principles and deep involvement in the EU policy process.

The key to a more satisfactory explanation of Europe's unusual pattern of policy lies in adopting a wide conception of governance and exploring, rather than assuming, the traditional relationships between function, territory and identity. The conventional approach is to focus on the *amount* of policy competence at EU level, and *amount* of policy autonomy remaining at national level. As member states have discovered, it is equally relevant to consider the *pattern* of policy making and implementation. Even where the EU has a role, this can range from expenditure of EU own-resources, through legally binding directives, co-ordination of national policy approaches, to analysis and discussion of European issues. Even where member states' sovereignty is protected by the Treaties, states experience a decline in their ability to design, direct, administer and monitor public programmes. Even where member state autonomy is limited, there are certain patterns of deliberation, policy formation and implementation which are more effective. Consequently, in any given policy area, the existence/non-existence of an EU role is less interesting than the nature of that involvement, its interaction with national approaches and the pattern of national response to Europeanisation. Not only is the pattern of EU economic policy unusual, but each of its elements—macroeconomic, internal market, cohesion, competitiveness and employment—involves a somewhat different method of governance.

We see the emerging European pattern as a new model of internationalisation. The European model of internationalisation involves the freeing of trade and an element of deregulation, combined with the setting of new rules, the transfer of competence to

union institutions and the development of distributive instruments. It contrasts with both the freeing of trade under a hegemonic power and with multilateral trade liberalisation. It differs also from the economic union in the U.S., which has less concern with a 'level playing field' but much larger inter-state distributive mechanisms. It is internationalisation of public policy occurring in a new context. The new context of is one of autonomous globalisation of many aspects of business and culture and new forms of governance in many spheres.

For all its complexity, the emerging European economic policy has definite strengths. In a global context, the European model of economic internationalisation may have a particular relevance at the end of the twentieth. The international economic system now extends beyond trade, to include international investment and globalised technology, information and finance. It is increasingly recognised that this requires an international regulatory framework that encompasses more than trade. The EU can be seen as *the* model for the regulation of deep economic internationalisation. It has shown itself capable of supporting a sustainable, stable and desirable internationalisation of economic activity. While it has emerged in the particular circumstances of the EU, the evolving European approach contains features that have a wider relevance. It may, indeed, be a harbinger of the pattern of economic governance that will become general in an increasingly interdependent world. In our final chapter, we explore further the idea that the complex set of constraints in Europe has turned out to create opportunities, and that the particularities of EU decision making have yielded principles of policy-making that are of general relevance.

At a European level, two elements of recent EU economic policy—the internal market and EMU—are of historic importance. With the internal market programme Europe signalled that it did not intend to be by-passed by the dynamic change occurring in the world economy, did not intend to live off its past wealth, becoming a *rentier* continent. While theoretical arguments can be conducted about the adequacy of Europe's unusual policy mix, we are in little doubt that in the 1980s and 1990s, prioritising European market integration was appropriate and, in our view, more appropriate than anything the member states were capable of implementing on their own. It cut with the grain of fundamental changes in economic organisation, public administration, social life and technology. Liberalisation and internationalisation of

markets was a condition of achieving this. The effect of the SEM on firms, markets and governments was reinforced by the EMU project, because it suspended conflict (between and within member states) on macroeconomic policy.

It is, of course, too early to say whether the economic measures are sufficient to lay the basis for sustained prosperity on the European continent. The ultimate success of the new European project depends on whether advancing integration also advances 'good' governance of markets, industries and the macro-economy. A lot depends on whether the system's tendency to fragmentation and capture continue to be counterbalanced by its ability to reorient sectors and rules in a transformative way. While the experiments in new forms of public governance are recent and diverse, there is a strong possibility that they constitute the seeds of an enduring new system that can be generalised.

More generally, we do not claim that the EU's unusual economic policy mix is optimal in the long run nor, indeed, that it is the essential nature of European economic policy. It has long been recognised that economic union is uncertain and contested. A functioning internal market can be created with different combinations of de-regulation and re-regulation, and a different balance of positive and negative integration. While the actual outcome is determined in part by conflicting national and ideological perspectives, we argue that the indeterminacy in economic integration is resolved, to a significant extent, by particular conjunctures. These include enlargement, global pressures and ideas. The contingent nature of integration is an important element in our overall interpretation. But it has one very immediate consequence here. The pattern of EU economic policy, the origin and nature of which we have outlined, is itself contingent and evolving.

## 6. CONCLUSION

Our analysis demonstrates that European integration has evolved and continues to evolve within a distinctive configuration which in turn has produced a distinctive model of internationalisation. While it may or may not be possible to identify a European model of society, economy or polity, it is undoubtedly the case that there is now a European model of economic and political internationalisation which involves the member states and all of those other states that aspire to membership or are part of the

internal market. The Union is characterised by 'variable geometry' internally and fuzzy edges externally as its remit extends beyond its borders. The EU from the outset implied a model of internationalisation which combined a search for order (West European and internal political order), welfare through managed liberalisation, and modernisation. At the end of the 1990s the European model of internationalisation is characterised by a continuing stress on the Union as a market space, in addition to a new emphasis on the Union as a polity and a 'community of values'. The EU developed in an incremental, pragmatic and experimental manner by building a dense institutional fabric, an organic system of law and an advanced level of economic integration. Although the EU has not transcended the nation state, it has transformed the exercise of political authority in Europe by embedding the national in the European and the European in the national. Europe's deep regionalism represents a break with Europe's past—the Europe of imperialism, war and balance of power. The present system rests on a delicate balance among the large states and between the large and small. It represents a diffusion of state power, a taming of power and a domestication of conflict.

The European Union cannot be adequately understood using either a template of national policy or a model of international relations. We believe that Europe's context has, by the sort of strange co-incidence of which history is full, facilitated disclosure of policy approaches and possibilities that may become more general. Patterns of economic and social governance are changing and this is reflected more quickly and more visibly in the EU, since it is new, always part-formed, and unburdened by the large-scale expenditure programmes of the post-war nation state. The transfer of policy competence to the EU has also produced a transformation of national approaches. The member states (and societies) differ such that there is no simple way to 'scale them up' and, in any case, the leading national post-war models are under severe strain. The international sphere differs from the national, and the EU represents a particular model of internationalisation. Ideas are a factor, but ideas about Europe and European integration have evolved in tandem with ideas about economic policy and governance. This complex set of constraints has also turned out to create opportunities. The evolving European policy system contains important elements that are of general relevance and may, indeed, provide clues to the patterns of governance which will be common in an increasingly interdependent world. A

pragmatic approach, forced on the EU by the need to achieve consensus in diversity, has given rise to a system that uses experimentalism and decentralisation as on-going principles of policy-making and implementation. The policy portfolio of the EU tells us as much about the nature of policy and governance at the end of the 20<sup>th</sup> century as about the development of the EU itself. The possibility of a treble transition—from constraint to opportunity, from transfer to transformation, and from the particular to the general—is an important part of our overall interpretation of European integration.