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**The Role of Large firms in the European public Policy System
A Case Study of European Multinational Political Activity.**

WORKING DRAFT

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Abstract:

While it is an increasingly accepted norm in international political economy that firms are legitimate political actors in the global public policy process, there is still only a rudimentary knowledge of the firms political preferences and logic. Moreover, there have been fewer still empirical studies of how firms have re-structured their political organisation to maximise the political options available in the constantly evolving European public policy system. Based on an empirical study of 94 of Europe's largest firms this paper assesses the development of a European 'elite pluralistic' public policy system and assesses its implications for nation state/business relationship. Therefore, the paper explores the degree to which the Europeanisation of the market place has harmonised the political activity of firms across borders, sectors and issues. Recognising that large firms have evolved into sophisticated political actors, this paper asserts that firms compete with one another for access to the European Commission by creating European identities. Therefore it is argued that the European elite pluralistic system has started to harmonised firm political behaviour across borders for specific European issues and that it has altered national public policy activity even for nationally embedded issues.

Key Words: Business Politics, Lobbying, European Institutions, Forums.

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INTRODUCTION

While a clear rationale for firm level political activity within the European Union can be developed, it should be noted that the channels favoured by firms and the level of contact encouraged by the state can differ for, countries, sectors, and policy types. Furthermore what constitutes a firm in a state, and its internal political make-up will differ culturally and legally across borders. Consequently, institutional factors, such as the perception of the states role in industrial policy, the degree to which associations have a legal role in interfacing between state and business, national party systems and the conflict between differing levels of state, will all determine firm preferences for political channels. While not attempting to identify all the above, this paper captures some of the political economic environments of the European firm, and to make some allusion to the degree to which the Europeanisation of the market place has harmonised the political activities of firms, and/or national political markets. For the purpose of this paper the institutional and business characteristics of French, Italian, German, British and American companies are assessed.

In recognising that firms have become central players in policy formation at all levels of government we are increasingly faced with the problem of level of analysis. The question of whether firms are embedded at the nation state, the European Union or the global market, must now be address by comparative politics, international political economy, and public policy studies. Few doubt that in the last 20 years the world economy has changed profoundly, to become a truly global system. International trade has grown, investment flows have become increasingly liquid, and capital follows favourable interest rates. Such economic international integration has undoubtedly affected the way firms and governments deal with one another (Strange and Stopford 1991). In the wake of this globalisation there has been a boom in the academic literature on the stateless multinational, autonomous of national control, footloose and fancy free (Kindleberger 1970 and Ohmae 1990). However, with the establishment of the European single market and the establishment of a regulatory area (Majone 1997:56-59 and McGowen and Wallace 1996) firms have found it increasingly difficult to threaten "exit" without losing competitive advantage. Therefore at a less ambitious level many of the predictions for the global company could be easily transferred to the

European firm operating within a European multi-level public policy system (Coen 1997, Schmidt 1995).

The reality of the single market has meant that national governments have lost many of the regulatory tools to sanction firms, whilst the increasing convergence demands of fiscal and monetary policy have resulted in a weakening of the redistributive and distributive policy tools. Under such conditions the relative bargaining conditions of firm and nation state have changed while the European Commission (EC) has established increasing competencies for itself and new institutional/business roles. How these new institutional roles and relationships function, how firms have adapted to access these new levels of governance, and what are the implications for the national public policy system are explored in this paper.

2 Firms New European Public Policy Relationship. Elite Pluralism

Taking Hirschman's (1970) distinction between processes in which firms can express preferences via entry and exit from the market, and those activities that involve communication and lobbying within the market known as voice, we can see that the changing market structure of the EU has altered firms behavioural function. Firms no longer have to voice their concerns in a national market or even to accept the national controls imposed on domestic product. Instead it is now possible to negotiate with the EC or other member states and still maintain access to the original market. To add to the indignity footloose producers are able to dictate terms to national governments with the threat of exit, knowing that they will not be excluded from the original national market as long as they relocate in the European single market.¹ Hence, while the national governments economic and business authority is being undermined the increased legislative role of the EU has created a new working relationship between the firm and the European Institutions.

¹ The ability of industry to chose the level at which the negotiated with government was presented by Streeck and Schmitter (1989) as one of the contributing factors in the decline of national corporatism in the 1970s.

As the pan European firm manifests itself at the EU level the appropriateness of national state theories of interest action have increasingly been called into question.² While the likes of Streeck and Schmitter (1991), and Mazey and Richardson (1993) observed a form of transpluralism; Greenwood, Grote and Ronit (1992) alluded to a mixed corporatist/pluralist system; and Andersen and Eliasson (1991) foresaw European corporatism; all these studies had the disadvantage of studying and immature bureaucracy in a process of evolution and a political market area in a state of flux. Accepting that the above studies missed the establishment of formalised consultation arrangements and the subsequent boom in EC forum politics, we can, in the 1990s, assert that the EC has come to terms with its bargaining position vis-a-vis business and has created a form of 'elite pluralism' where firms develop pan European credentials and new political alliances in exchange for access (Coen 1997:96-99).

The direct participation of firms in the European public policy system is a relatively new phenomenon, as for much of the 1970s and 1980s firms were content to avail themselves of the national governments and/or the vertical flows of national associations into European federations (Grant 1993). Such a locus of activity was, however, logical given the limited political mandate of the EC, the nations states 'veto powers' at the Council of Ministers and 'lowest common denominators' position at the European federation. The establishment of the Single European Act (SEA) altered the economic and political boundaries of the firm by creating new firm specific goods and strengthening the EU institutions. Specifically, as the EC encroached onto firm strategic issues via standard setting, merger regulation and industrial policy, the firm had to be sure that it could access the policy process. Moreover, faced with the introduction of qualified majority voting at the Council of Ministers (CM), large firms reacted by reallocating political resources towards the EC despite the cost of establishing new political channels. Significantly, this desire by firms to participate directly in the European public policy process was reciprocated by the demand for

² The aforementioned institutional Europeanisation of business was further magnified by the estimated 1500 EU joint ventures (J.V.) per year since 1986 (Panorama of EC 1993: 49-55). The direct consequence of which was the increasing need of firms to uniform and harmonise their sector position, and an increasing willingness to place pressure on the national governments to conform to a European norm.

quick and reliable information. Consequently, by 1992 over 200 firms had located political offices in Brussels to monitor and lobby European institutions.

While the evolution of large firms as political actors in the EU was an incremental and logical consequence of the transfer of regulatory competencies to the EU institutions and establishment of the single market, few envisaged the level of firm political sophistication and/or their increasing legitimacy within the EU public policy system. However, such political activity required technical experts to attend EC forums and working committees and a new breed of political co-ordinator capable of directing different company divisions to their political locus.

Significantly for the operating of the EU committees, not only firms were pulled into the EU public policy system by the increasing competencies of the EC, and by 1992, more than 3,000 public and economic interests were active in the Brussels area (OJ 93/C63/02). Faced with this increasingly crowded political market, numerous levels of access to the EU institutions, and a growing number of issue areas, firms had to develop new political skills to maximise influence and access. The most sophisticated responses to this complex pluralist environment were taken by those firms able to recognise the importance of 'political credibility'. In a political market where numerous lobbyists were attempting to influence an open political system, great weight was given to those actors who were prepared to establish some 'European identity' through pan European alliances with countervailing and rival firm interests. In such a competitive environment it soon became apparent that large firms who wished to exert an influence would require a greater degree of sophistication than merely monitoring and presenting a position. Rather, successful restructuring involved the establishment of a political capacity to co-ordinate potential political alliances and develop and reinforce existing political channels. In terms of achieving direct access, the most effective means of establishing reputation was to develop a broad political profile across a number of issue domains and to participate in the creation of collective political goods (Coen 1997b). The cost of such action could then be discounted against the better access to specific goods at a later date. Gradually, then, some firms were establishing themselves as political insiders through engaging in a high degree of political activity (see appendix for full list). It was these insiders who were to benefit the most from the

gradual closing down of the EC to a forum based or elite pluralist system in the early 1990s (Coen 1997a).

In lobbying directly firms found that the multiple-issue politics of the SEA and the crowded European policy arena required them to establish political credibility through political alliances with public interests groups. Moreover, as each policy domain required different alliance permutations to access the policy process, individual firms required a high level of political awareness to identify lobbying partners and access routes at both national and European level. The result of this increased political specialisation was that each firm had a different bundle of preferences for each political issue, and consequently, new political alliances outside of the traditional European federations had to be cultivated. Under such conditions, firms became increasingly involved in the EC legislative process, seeking partners where possible and accessing the policy process at different points, dependent on the policy cycle and the issue at hand. In practical lobbying terms, the growth of new issue areas and the subsequent boom in public interest lobbying actually provided new political opportunities to those firms able to establish a political affairs function and credible political identity.

These new “issue identities” followed closely the interest public policy strategies observed by Bowne (1990) for the USA in the 1980s. In such ‘issue networks,’ interests recognised that the best means of influence was through the establishment of specialised sub systems (e.g. health care, consumer protection, energy) which created policy entrepreneurs with expertise and an ability to establish policy. However, while the US issue networks arose out of a growth in federal government regulatory activity in the 1970s without a comparable increase in the bureaucracies resources (Heclo 1979:89-90) the similarities with the European experience are complicated by the relationship between the administration and party politics in Washington. In fact, while more and more policy concerns were pushed out of the traditional power centres of federal government and into numerous intermediary issue groups and issues networks of the congressional hearings the risk of capture increased. For example, in such committees it was possible to envisage that congressmen were often ill informed and relied on administrative middlemen for information. This information dependency was further exasperated with the well documented decline in the traditional informational

bond between the executive and congressman and the senior party officials (Hecl 1979).

At the European level the changing institutional balance, expansion of policy areas and technical nature of functionaries reduced the chance of bureaucratic capture. Moreover, with the completion of the 300 single market directives the EC found itself dealing with broader based issues and requiring less technical information and therefore less lobbyists. In identifying the firms need to participate, while at the same time having less institutional need for information, the EC was able to further tighten its access to the EC policy process and increasingly demanded specific criteria from actors wishing to join one of its 300 Committees and 1200 issue forums.³

In functional terms the EC encouraged the formation of formal business forums and ad hoc alliances with the aim of: a) Increasing the direct legislative input of the EC into the domestic markets through implementation and development of pan European technical standards. b) Using firms as a means of taking the wider European political positions to the member state governments. c) Encouraging other firms in the market, which might otherwise have chosen to remain passive observers, to participate at the European level, thus creating a new and wider European constituency of firms and improved effectiveness in (a) and (b). The establishment of firms as natural interlocutors with the EC therefore created legitimacy for the EC vis-à-vis the nation state.

While providing improved decision making at the institutional level, the new forum politics created a political game between firms where firms could no longer allow their rivals to have sole access to the specific goods available at the EC. For this reason firms that may have chosen to be outsiders in the past and free-ride became willing to incur higher lobbying costs than their rivals to compete for the specific goods. In being aware of this strategic market it is conceivable that some form of 'pump priming' and political manipulation by the EC could take place, where the EC attracts a second wave of firms into its European orbit, by initially giving favoured access to specific

³ Interview at EC November 1996.

political leader firms. For example in an interview with a German car manufacture it was noted that if a rival firm was asked to participate in a EU forum, it would step up its European activity in that issue area to gain profile and access, even if it was previously content with its national channels of influence. The establishment of this competitive elite pluralistic structure, therefore had implications for how companies restructured their political affairs and for firms national political activities.

2.2. The firm's political restructuring.

With the establishment of a co-ordinated political infrastructure firms gradually recognised the potential for political economies of scale and the development of new political roles. For example a number of firms established a vertical lobbying hierarchy by representing their small and medium enterprizes (SMEs) who supplied them and consumer interests. Such activity was indirectly encouraged by the EC through the DGXIII BC-NET projects which sought to facilitate business co-operation across Europe. While such activity facilitates the representation of traditionally marginalised SME's and consumers, large firms also benefit from a political constituency that helps establish greater political legitimacy with the EU institutions. As one EC official claimed:

"You have to spend some money, not making just your own lobby, but creating a lobby for the industry as a whole."

Burston and Marsteller (1993:17).

Such European 'Keiretsu' were most prevalent in Italy where the large number of SMEs operating in a weak political system of patronage, required that large leader firms such as Fiat or Olivetti represented the family owned suppliers. This is not to argue that large firms have become professional lobbyists who receive financial payment for their services, but rather such action was seen as an efficient means of maintaining product standards, controlling suppliers and developing EU goodwill. Consequently, not all regions and suppliers had the same amount of voice or access within a large firm.

Whilst ad-hoc business alliances were not a new phenomenon, the development of SME/large firm political alliances could conceivably increase as large firms develop an increasing political identity and role as mediators. This trend was reinforced by the internalisation of industrial relations, and the subsequent harmonisation of labour and capital positions. With the failure of organised labour to gain a strong voice at the European table, there is now much evidence to suggest that labour has sought to make political representation through large firms (Visser and Ebbinghaus 1991). Moreover, the establishment of work councils in the large firms should serve to increase this phenomenon, while strengthening the social identity of the firm. However, it is debatable whether these business alliances are the favoured means of representation for labour in the EU.

In addition to the above countervailing interests a number of broad based public interests have also been drawn into the orbit of the firm. This was most visibly illustrate by the willingness of environmental groups to work with business on trade and standard issues. That is firms have sought to restrict trade and capture market share, whilst environment groups sought higher safety and environmental standards. The two goals are complementary, as the case of the Danish bottle standards demonstrated, in so far as the higher standard restricted entry to the domestic markets.

While, these countervailing alliances provided the opportunity to establish credibility with the EU institutions so too did the creation of public policy ad-hoc business clubs. Taken to its extreme, market leaders have been know to invite and fund seminars on policy areas, to maintain a political profile and exert an informal influence on the debate. Such strategic competition can be utilised by outsider firms to gain some insider credentials and access to the EU institutions.

With his need for greater strategic alliance building and a professionalisation of representation, most large European firms developed peak-level political affairs divisions. This professionalisation process, however, had serious implications for the national governments political and economic autonomy, and for the directional flow of policy via the various channels from Europe into the global and national economies. In

Europe the political autonomy given by firms to their subdivisions was evenly distributed between those companies that wish to project a uniformed position and those that allowed individual profit centres to make some form of political representation. However, as the following statistics illustrate most firms gave less autonomy to their subsidiaries than their internalised product divisions. A possible explanation for this anomaly was that sub sectors within a firm tend to channel decisions through head office, and therefore, the political affairs director will be able to monitor and veto any adverse political activity. However, the risk that a subsidiary, whether domestic or foreign, may develop a countervailing position is a real possibility and one that most conglomerates wish to avoid. Subsidiaries by nature, have often been companies with a tradition for independent political action, and the board of the group while marginally linked to the parent company, may have significant decision making autonomy, even to the extent that they are in direct market competition with the parent company, as is the case between BMW and Rover. Furthermore, the decision making chain to the parent board is so extended that realistic control is often minimal. For this reason, there has been a strong desire by parent companies to assert control over the political decision making activity of holdings, with 75% of firms surveyed wanting the peak political affairs office and board to co-ordinate political action, and a only 25% allowing some form of political autonomy.

In attempting to focus the political voice of the firm, government affairs units have had to make strategic decisions as to the firms primary goals and secondary issues. The result is that some sectors have developed a strong voice, while others have found themselves disenfranchised in the visible political debate. BP for example is a large producer of both ethanol and fossil fuels and normally these produces are separate profits centres. However, when faced with the possibility of the EU environmental legislation that gave tax concessions to synthetic fuel, the firm had to decide whether to lobby for the fossil fuels or the environmental friendlier ethanol base products. In this case the planners favoured the traditional extraction sector as they had just negotiated a new exploration program. Hence a company that produces much of Europe's Ethanol failed to lobby for a policy that favoured the sector. However, while central control does not always result in a sector being disenfranchised from the EU policy process, a multiple sector firm will always favour some areas of production at

the expense of others. For example Siemens while known as an electrical and high tech firm in EU policy circles, rarely monitored the environmental directives that influenced its office furniture divisions.

While the same uniformity rational can be applied to the co-ordination of the foreign subsidiaries, it is also possible to see this activity as a means of facilitating firm political access to a third national market. Moreover, under such conditions it is possible to envisage that large multinational firms have developed a wider European political strategy, which involves a co-ordinated national strategy to influence the Council of Ministers. Obviously the influence of these pan European firms will vary, depending on sector and to some extent identity of the holding company. For example, BP can rationally expect to influence the UK position, but it is also able to enter the German debate due to its distribution network and the lack of a sizeable national champion. However, regardless of its market share or subsidiaries, in France or the Netherlands it is marginal due to the political primacy of Elf and Shell. Therefore, the need to be seen as politically embedded has driven firms such as Daimler Benz to utilise subsidiaries as sweetener lobbyist.⁴

The above illustrates that the firm has evolved new political services and skills to access the EU public policy system and in the process has become a multi-level actor conducting policy between national governments and the EU institutions. The business/state relationship would also indicate that the large European firms have had to Europeanise the political action as a strategic reaction to their rivals positioning in the policy process. What affect this has on the national public policy system is developed in the latter sections, but first it is important to come to terms with what issues are still embedded in the nation state and what are focused at the European.

⁴Such Sweetener and grass-root lobbying has been a common feature of the USA Issue politics since the 1980s (Vogel 1989, Poltke 1992)

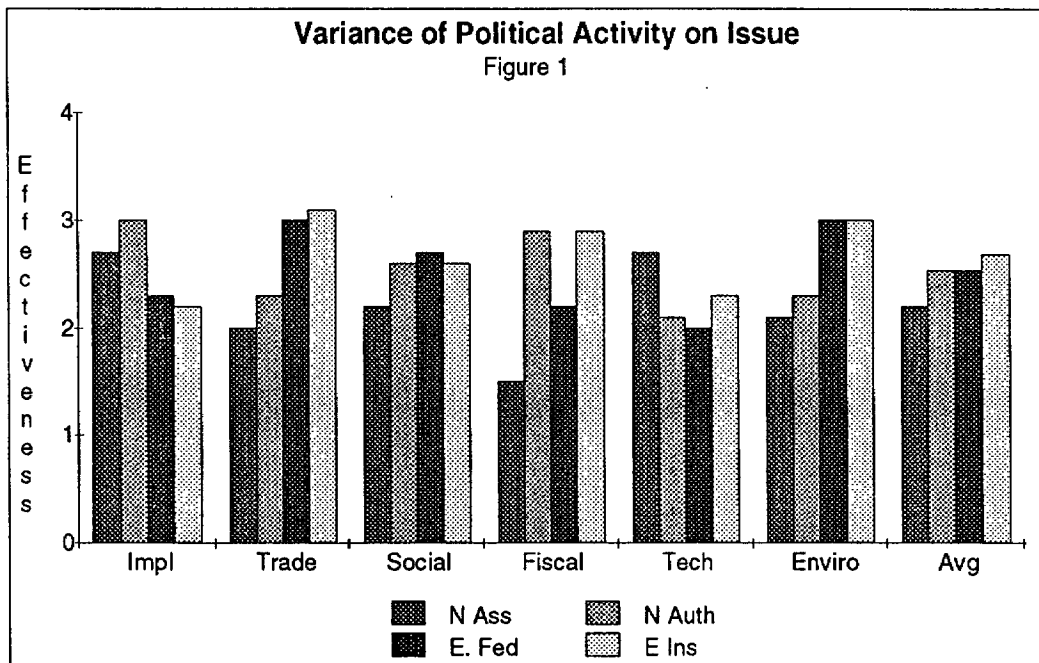
3 Euro issues? national issues?: The variance of firm political action.

Comparative politics has debated the causal link between the nature of policy issues and the patterns of politics since Lowi (1964) identified redistributive, regulatory, and distributive policy issues, and concluded that the nature of these issues imposes constraints on the options available to officials, determines the type of interests and hence generates predictable patterns of political activity. While incisive the approach creates problems for empirical research as most policy domains are a combination of the above issues (Freeman 1985). Consequently, most comparative public policy research has concentrated on either the policy sub-system or network analysis approach. The problem is that these approaches, while strong on description, only capture distinct and small policy communities and cannot produce a more generalised European public policy theory.

Faced with this lack of accepted and testable issue definitions this paper took the wider European Public Affairs Councils definitions used in the Conference Board 1987 survey. The Conference board identified 24 major issues of which the top 5 were: international trade, technology, deregulation (including financial markets), environmental, and financial disclosure. For the purposes of this study social and implementation issues were added to the study to allow for the affects of the SEA and Maastricht on firm activity. However, such an approach does not attempt to provide an explanatory scheme for policy outcome, rather it provides a means of assessing the degree of Europeanisation of business and issues.

The data, presented below, represents the relative effectiveness of national associations, national authorities, European federations, and European Institutions to influence policy decisions for six different policy issues. Here government affairs directors for Europe's largest companies were asked to rank each channel in terms of its effectiveness in influencing the policy issue. While recognising that such an approach represents a simplification of firm behaviour, it should be noted that this study did not attempt to be a sensitive network analysis or national sector study. Instead the data represents a relative positioning of channels vis-a-vis one another and does not represent actual physical difference in activity or allocation of resources,

rather the respondents were ranked channels from 1 to 4 on a scale of effectiveness to illustrate the relative importance of national v European, collective v direct.⁵ The results, as presented in figure 1, illustrate that firms play a complex multilevel game when seeking to influence the policy process, however, the general results also reinforced the perception that the EU has increasingly become the favoured means of influencing the policy process with the obvious exceptions of implementation and fiscal policy.



Since the ratification of Articles 110-116 of the Treaty of Rome the EC has had direct competency in trade issues and a defined mandate to promote an open world trading system, and accordingly European options appear to predominated. But this transformation of allegiances to Europe has actually been a relatively new phenomena as, prior to the creation of qualified majority voting, many firms relied on the national government veto at the Council of Ministers. However, the late Uruguay GATT rounds demonstrated that protectionist national interests could not be accommodated with the general liberalisation goals of the EC. Moreover, the eventual success of the

⁵The graph is constructed from replies to the question which would be the most effective channel in terms of your goals for each of the policy areas listed. Rank 1 to 4. 65 firms replied to the question. It should be noted that some bias exists in the data set. First, the sample does not attempt to represent all of European industry, as it is predominantly large firms from Europe's top 100. Secondly, many of the sectors included in the sample have a European or global market and are often multinational in structure. And Thirdly, in limiting the choice to four political options the study has over simplified the political game.

GATT rounds actually strengthen the credibility of the EC as an effective political organisation. Similarly, environment became visibly European in nature with the Maastricht treaty and the Rio agreements.⁶ This was not surprising considering the potential for environmental issues to be used as non tariff barrier (NTB) and the negative externalities of lower standards for those bordering the free riders. Gradually, then the positive policy experiences at the European level, according to one french firm, weakened the traditional firm/nation state relationship and pushed business up to the supranational stage on a number of other secondary issues.

The strong showing of national associations for technical issues could be explained in terms of 'dual political markets' due to the regulatory competencies of both the nation state and the EC. The EC strategy being to encourage mutual recognition and subsidiary in line with the Cassis de Dijon decision; which sought to harmonise the essential requirements of key products. Moreover, to stop the proliferation of conflicting standards firms have been encouraged to monitor implementation infringements of rivals and the adoption of national standards, and were appropriate to take action through the European Courts (ECJ).⁷ What was perhaps most surprising was the low scoring of the European collective option, in what was traditionally consider a policy area in which the federations could successfully co-ordinate a horizontal policy. Furthermore, the success of large European collective groupings will be placed under further pressure with the enlargement of the EU and the possible divergence of economic interests between north, south and east. With this increased variety of business interests, in terms of size and production technology, there will be increasing pressure to reform the European trade federation structures, perhaps even separate the large firms into European associations and the SMEs into European

⁶This focus is supported by the findings of Eurobarometer 40 1993 that showed that 66% of EU citizens surveyed believed environmental issues to be a policy area for the EU rather than nation states.

⁷At the national level the implementation, application, enforcement and penalties for non-compliance vary across Europe and there is much scope for business to circumvent EU legislation. For example direction 83/0189 on technical standards, resulted in 7 countries (Belgium, Greece, Italy, Netherlands, Portugal, Spain, and UK.) being accused of poor implementation with 28 cases brought against them in total. For more examples see the 11th Annual report on monitoring the application of community law. Comm (94) 29th March.

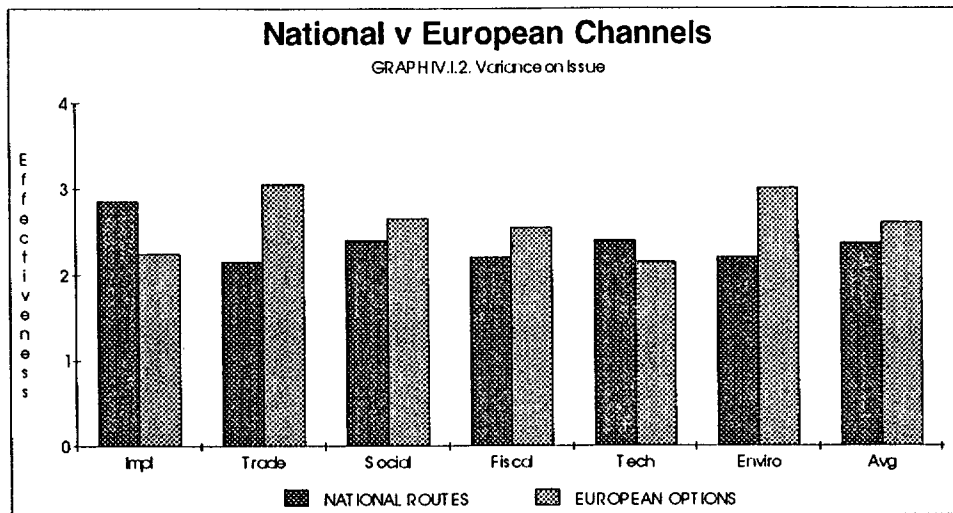
federations.⁸ However, whatever the formal changes the reality is that we can expect to see an expansion of the informal ad-hoc industrial alliances and EC business forums.

The ability of firms to co-ordinate multiple political strategies was illustrated by the reaction of business to social issues. Again the dual political locus of regulation was illustrated by the equal importance of national and European authorities, while the generally horizontal nature of the policy encourages collective forms of representation. However, significantly large firms have shown an acute interest in social matters at the EU with the Union of Industrial Employer's Confederation of Europe (UNICE) and the European Round Table (ERT) running prominent committees on the subject. Moreover as most firms of a certain size are obligated by the European works council to set up councils, even in countries that have opted out, it is rational that firms will attempt to exert an influence on the policy process. This was clearly some of the thinking behind the steady stream of British multinationals, such as ICI, BP, United Biscuits and Courtaulds who actively took up the EC initiatives. Similarly, 'European good will' could be achieved and therefore future influence, by firms taking on European initiatives against their national governments as was the case with BP's championing of the European Company Statute.

While the EC has only a limited redistributive role in comparison to the nation state, it is possible to envisage occasions when it can influence firm preferences through subsidies and competition judgements. Perhaps, the consummate expression of the EC asserting fiscal control was in the case of Air France subsidies in 1994. Here the French government was allowed to make one last capital injection into the ailing Air France on the understanding that the government accepted over 20 conditions on the running of the company. The most notable being that the French government would no longer be able to provide Air France with subsidies and that it had to agree in principle to the concept of privatisation when economic conditions were favourable. However, in sectors where the EC has economic and fiscal primacy such as the steel sector, the EC appears more willing to utilise subsidies and state aid programmes as part of an

⁸ Interview with Commission officials and UNICE in November 1996.

industrial strategy. Whether, this can be seen as a function of the sectors economic needs or political realities of patronage is harder to discern.



The change in the locus of political activity towards Brussels, can be seen in terms of the creeping competencies of the EC and the desire of most firms to have a single set of rules within the single market. However, national authorities have also been shown to be of greater importance than the discussion in part 2 may have indicated. Such a result, however, is consistent with the post-Maastricht debate as some issues like fiscal and social matters are topics that cut to the national governments macro economic control of national interests and therefore its perception of sovereignty.

4. Country variation in political behaviour.

Having first recognised the establishment of a European business public policy system and the explored the potential for political variation over issue, this section explores the national differences and convergence. Has there been a general Europeanisation of action within the nation state, that is to say, can we see a movement towards a harmonised business relationship for each issue whether focused at the national level or the European level and more significantly are the same issues European or national in each state. Freeman (1985:467) noted that a vigorous tradition in comparative politics argues that national policy makers develop characteristics and durable methods for dealing with public issues, that these can be linked to policy outcomes and that they

can be systematically compared. However, such an approach has had inherent problem in EU studies as most researchers have tended to be national specialists seeking differences in their structures rather than looking for the broader cross-national similarities. Therefore, firm political action is seen as the outcome of the nation states unique mix of economic, social, historical and cultural characteristics. This section illustrates that two different processes are at work, the first represents a functional mechanism whereby large firms in economic competition have had to adapt their political activity to the EU public policy system, as a critical mass becomes involved at the higher level, regardless of their satisfaction or dissatisfaction with the national routing to the EU. The second process involves how different national firms have adapted their existing national systems into the multi level system and the strength and weakness of national differences in the integrated European public policy system.

French Business Action: Businesses new political focus.

French industry in the 1990s would appear to be integrated well into the EC policy system and follows the general trend towards direct representation in Brussels. In fact after the US it is the most prominently represented national sector making up 11% of all company offices in Brussels, and yet direct European representation represents a recent departure from the system of 'pantouflage' which gave pre-eminence to the national governments political position. The turning point being the success of the GATT liberalisation rounds 1990-1993, where previously assured national interests were now seen to be increasingly subservient to the EU trade liberalisation goals and the need for national economies to converge. The transition was initiated by the CNPF, who was the first to observe that the EC was encroaching into everyday technical areas of business and recognised that French business needed to be involved in the EU forums. As a result the CNPF in alliance with the French Eurochambre encouraged business to set up political affairs offices in Brussels, by providing office space and arranging introductions where needed. Consequently, the European Director of CNPF believes that:

“while French industry was one of the last to arrive in Brussels, it has made up a lot of time in the last couple of years”.

Figure 1, in appendix 2, illustrates how French national associations fared badly on even domestic questions of implementation.⁹ Whether this low representation could be attributed solely to the European policy process is somewhat doubtful, rather, it can be attributed to the fact that many of the firms questioned were in the state sector or national champions and consequently had direct ministerial links. For example Pechiney is a monopoly producer of Aluminium in Europe and the largest packaging group in France, operating in such conditions it rarely has to consider its national associations opinion but in the European political market it is only one of a number of players and therefore has sort to foster close links to UNICE. Therefore it becomes clear that the nature of the market and the sector that a firm operates in is important to the Europeanisation question.

Leaving aside ownership and scale, the French state would still appear to have been penetrated by companies to such an extent that in some instances it is almost an administrative servant, rather than a partner or master of business. The Industrial Ministry being considered by many to be the lobby for business within the government. For example Cawson (1990) posited that Thomson had captured the Industrial Ministry, making it effectively the companies spokesman. The close state firm relationship was further sharpened according to Wilson (1985) by the unfavourable disposition of the French civil servants to interest groups. Hence national associations have only prospered when it suited a particular interest of a large firm or administration. This has been the case of the French steel association which to all intent and purpose has been internalised by Usinsor Sacilor.¹⁰ With the Brussels offices of the French steel associations accountable to Usinsor's Corporate Affairs Director and President. The benefits for the company are better relationships with the EC and a formal place at the EUROFER table.

It is very significant that French business favours European channels on fiscal matters, especially when it is noted that some of Frances largest companies are now

⁹The result would appear to be supported by a survey conducted by Enterprise March 1991. Where top French executives were asked the question who is the most effective in helping your companies to prepare for the single market in 1993? Only 11% favoured their business association.

¹⁰ Interview with French Steel Federation. February 1994.

increasingly at the forefront of the creation of a European business identity. As the experience of Rhone Poulenc and Alcatel-Ashom on the European company status shows. Therefore large French firms, like most of Europe's businesses, have looked less to national government favours and have sort out natural cross border partners to negotiate at the European level based on scale and technological needs.

This European business activity will have serious implications for the political strength of the national government at the European level and in domestic negotiations with business and state. The loss of macro control of inflation and interest rates due to EMU is perhaps the most visible example of a national government losing economic sovereignty and control over international business, in the case of the French economy this also resulted in the loss of control of the micro industrial structuring of business as demonstrated by the wave of privatisation conducted by the socialist government. It is therefore not fanciful to assume that the new European business alliances will continue to undermine the traditional political monopoly of the French government on national foreign economic policy, and diminishes the concept of the French state as centrally controlled statist political system.

Italian Business. A search for political stability.

Until recently, Italian industry faced a frantic and highly politicised decision-making environment with substantial government involvement in its commercial affairs, and regional industrial location. Grant et al (1989) describing the political contribution of large chemical companies as the site of complex political exchanges, combining oligopoly competition with political conflict among parties and party fractions. However, as Italian industry pushed out into the European and world markets in the 1980s, through merges and international alliances, there was reduction in the political involvement of the national government. Moreover, the political autonomy of large Italian business was further enhanced by the collapse of the traditional party system in the early 1990s and the subsequent decline in the clietelistic system. However, unlike France and Britain this political business independence has not always resulted in the implementation of European policies and the stronger monetary control required by EMU.

As appendix 2 shows there is a strong tendency to utilise the European macro political options, especially on trade and environmental matters, while social, fiscal and technical would appear to be balanced evenly between the dual tracks of nation government and European institutions. This would tend to reflect the political reality of the Italian system where enthusiasm for European integration is rarely reflected in the strong enforcing of European legislation.

The firms preference for EU institutions in matters of international trade and finance was clearly an outcome of the current political instability in Italy. For example, the regularly changing governments have encouraged the international financial markets to speculate against the lira, while the weakness of alliance governments makes tight fiscal control near impossible. Therefore, large business look to the European institutions to foster a stable economic environments, and regular and reliable political contacts, both of which are the pre-requests for investment and growth.

Consequently, some of the most active firms in the Brussels high politics forums have been Italian, for example Agnelli and Fiat have been prime movers at the ERT (Cowles 1995), Olivetti have been proactive in the creation of the Superhighway initiatives and Bangermann Forums, and Pirelli have shown intent with the recruitment of Perissich (ex-Director General of DGIII) as chairman. How much of this is a function of the national characteristic of business politicians in Italy developed under "partitocrazia" and how effective is this high profile action remains ambiguous.¹¹ What was clearer was that large Italian firms have developed a high level of political independence as demonstrated by their general preference for monetary union, fiscal restraint, deregulation and enlargement of the EC regardless of the nation state position. In fact, the relative strength on some issues is almost reversed, with the national government asking its firms to champion Italian interests at the EC. Moreover, in taking on the

¹¹ Prior to the collapse of the CDP and Socialists in a wave of corruption scandals in the early 1990s, Italian politics had worked on clientelistic relationships between business and parties. What will replace such quasi institutional arrangements is as yet ambiguous and may be a contributing factor in Italian business enthusiasm for EC institutions

wider European industrial representation Italian firms have often found themselves representing the smaller national business associations and SMEs.¹²

The implications for European integration through business activity, however, are harder to envisage. Whereas the economic realities of Europeanised companies and European economic policies resulted in the French government acquiescing to the market economy. In Italy, a combination of a series of weak governments and a large SME market has meant that a system of national state subsidies and aid to public sector companies has continued. Therefore, the international firms have adapted by creating dual personalities, reaping the benefits of subsidies while seeking to project a new European image. However, unless the national political system can show some increased stability Italian multinationals will increasingly look to Europe for regulation.

German Business: A dual comfort at national and European.

The Italian political picture, conflicts with the stable political environment for much of Germany's post war history. As one of the founding and most politically stable members of the EU, the balance between European and national institutions is reflected in the degree of integration that German industry has achieved in the EC policy process. As with the French case there was confidence in the German government and national channels to influence the EU public policy process, and a broad consensus between the various political and economic interests on the direction of European integration. That said, the balance of the dual strategy of national and European lobbying, would appear to be shifting towards the EU for most industrial issues. This can be seen as a reflection of the increased European integration of German production, expansion of the European markets, the increased regulatory influence of the EC and a strategic reaction to the success of rival French and British companies who were entering the policy process at the point of initiation.

However, it still appears that the physical transfer of political activity to the European institutions is lower than in other member states. This moderate change in political

¹²Interviews with two large Italian conglomerates and two large banks in Brussels, February and September 1994.

behaviour in comparison to other states may however be linked to the German joint decision trap (Scharpf 1988). In that, the German public policy system has always been an institutionalised system of interdependent actors, which produces continuity, moderate political solutions, and a reluctance to change government relations. Moreover, German firms have not exited the structured corporatist relationship as the channel still affords a trusted means of reaching the federal government, and offers some political legitimacy in bargaining. In some sectors, moreover, the political resources that the federation can control make it a very influential player even at the European level. For example the VDI is so well respected that some of the largest chemical companies have continued to use it as one of their core lobbying channels. The erosion of the national trade association importance while smaller than other states may also have its origins in the integration of East German industry. For example, German trade associations have had a long corporatist tradition and reputation for being closer to the state than the market. Therefore, it is not inconceivable that in seeking to help East German firms associations may have alienated some of the more competitive West German companies. This was highlighted by the steel sectors experience where West German steel firms in their effort to overcome their structural crisis chose to put direct pressure on Bonn and Brussels to agree to the closure of EKO Stahl, an East German steel works. Moreover, the German firms apparent preference for national authorities to manage fiscal affairs probably has its origins in the universal banking system where the accounts of banks and industry are closely inter linked and an inherent confidence in the macro management of the economy by the independent Bundesbank.

The comfortable development of a dual political process by firms at the EC and national level, may be seen in terms of a natural progression of state/firm relationships in Germany. Moreover, according to Schmidt (1995) German institutions did not have to change as much in response to European integration because the German federal system gave the same importance to law as a regulatory instrument as the EU, accepting as it did the notion of subsidiary and the independence of financial institutions. However, perhaps the most significant factor in the harmonious use of all political channels has been that there were few areas of conflict between the industrial and macro policies of the EU and Germany. For this reason German firms have rarely

had to make an either/or decision between European and national representation. That said, there is a growing realisation that the old political structures offer limited flexibility in the face of the widening political horizons of Europe and the increased political competition in Brussels. Hence, belatedly major companies such as BASF, BMW and Hoechst, are in the process of reviewing and expanding their European government relations functions

British Companies. A sophisticated dual response.

Britain has had a long tradition of specialised government relations, fostered as it was by early contacts with US Multinationals (MNs), a large number of domestic MNs and an open political tradition which encouraged a form of company state Grant (1991). This political maturity meant that many firms were well position to take advantage of the new political opportunities presented by the EU, and represented some of the first firms to set up offices in Brussels.¹³

However, the data presented below indicated a stronger business preference for the national routes than many of their continental rivals. Two explanations for the underestimation of European activity importance can be made. First some of the respondents such as banks banks and defence sector firms have by nature a more national and global perspective at the same time. Secondly, the balanced values between national and European options, can be accounted for if we accept the hypothesis that British firms are increasingly sophisticated political actors, and are playing in a more a multi directional lobbying system. Moreover, the negativity of the British government to social and fiscal policy may have resulted in a greater need for business to make a dual track representation, with firms on occasion having to focus on the national routes to bring the national government around to European positions.

The strong, national political action as demonstrated in appendix 2 is reinforced by the fact that Britain has a good record on implementation, which requires firms to maintain strong national political departments, to protect their domestic and European interests.

¹³ This Anglo Saxon political sophistication is further demonstrated by the fact that most of the large lobbyists and Consultants are British and American.

Greenwood and Jordon (1993) go further claiming that a case can be made in Britain for the thesis of "the off loading state", where directives that are costly to implement are passed down to the national association to establish guidelines. For example Sargent (1985) cited the example of the quick frozen food directive where consumers and food packages developed the guidelines so as to avoid the EC intervention.

Finally, the strength of the domestic routes can be explained in terms of the traditional distance between government and business in the UK. That is to say, firms are more aware of their representation and the importance of having a national government on their side, than continental firms which have taken such representation for granted and are therefore unaware of how often their positions have been assisted without any formal request. How formalised the European business relation becomes, is as yet unclear, but there is much to suggest that UK business is following a regulatory cycle, which at present favours the domestic focus and the implementation of directives. When the EC reasserts its regulatory muscles it will be logical to expect an increased focus on the EU institutions. What can be said is that British business appears to show a strong political flexibility over the channels utilised and with US firms have been the most effective lobbying group in Europe.

US business activity.

As expected the US firms tended to favour European channels, but national positioning was also developed through European subsidiaries and joint venture projects with European companies. However, while most US firms had some form of input into the nation states it was rare that their production was bigger than the national champion, and therefore they found their ability to lead on domestic issues limited. There are exceptions, for example GM and Ford are considerably larger than Rover and Rolls Royce and have been physically present in the British market since the 1920s and subsequently exert a significant input at SMMT (the British car association). However these same companies find their political influence limited in Germany where Daimler Benz, Volkswagen and BMW hold sway.¹⁴

National Convergence of firm level political activity.

¹⁴ Even though Opel and Ford are the 14th and 16th largest companies in Germany.

The fact that behavioural trends for each issue domain tended to be reproduced over national borders add some support to the assertion that policy makes politics. But more significantly, it highlights the changing locus of political activity towards an increasingly uniformed European political market. Clearly since the SEA, European business has integrated dramatically through technical alliances, merges and joint ventures, the result of which has been the increasing demand for Europeanisation of national industrial regulation by traditionally nationally oriented firms. However, while the result of this regulatory shift has been a trend towards uniformed business behaviour within issue domains, some national characteristics protrude.

The ability of national routes to maintain their positions in micro economic and industrial policy makings was determined by two factors. First, the degree to which the macro national policy was in harmony with the European strategy, determines the degree of conflict between national routes and European. Where EU policy is in harmony with a nation state, the national institutions will provide an additional means of influencing the CM and reinforce their relevance in the process. This runs in stark contrast to the retreating French governments influence on industrial policy. Here the national governments compliance with the wider macro goals of the EU, ran contrary to its traditional 'demand lead' and interventionist policies and resulted in the increasing political independence of French firms. Nevertheless, the failure to comply with or reject European macro policy, does not necessarily drive national firms into the national regulatory environment as was seen in Italy. For a national policy to be practical the government must be seen to be politically strong enough to reject the initiative, as the British attempted with social policy. This forces companies at least to play at two levels in the short run to alter national preferences or to influence national operating environments. However, even here the gradual undermining of national government can take place through circumvention of national restrictions and recourse to the ECJ.

The second factor that may reinforce national channels in the European process is paradoxically, to be a good European implementor. Few companies can afford to ignore the national government if they know that interpretation and application of the policy is decided by national authorities. Consequently, some argument could be made

for the strengthening of national collective routings as European directives increase in number and competence in the national markets.

This paper is not arguing that the Europeanisation of European firms has freed them from the constraints of national governments entirely, as the Council of Ministers will continue to prioritise industrial policy questions. For this reason, any large sophisticated firm must and will maintain its national base, regardless of the fact that the day to day management of industrial policy appear to be moving towards the EU. If we now accept that national differences are minimal between the large companies, perhaps an alternative to the national classification is to make as Grant (1987) a distinction between tripartite firms and capitalist aggressive firm. This would allow for national cultural origins of the firm and account for differences in behaviour across border and sector. The typology could then be hardened to those that are predisposed towards collective decisions at the European level due to their similarities in the economic market and traditions of collusion such as chemicals and those sectors that are in competitive markets, where rival firms look for strategic political advantages as is the case in the service sector.

The increasing pre-eminence of European Institutions in the political process and the gradual harmonisation of behavioural trends across sectors and nations under differing issue domains, lends weight to the Lowi hypothesis that policy makes politics and would support the policy sector approach to future European comparative politics. Like Pollock (1995:95-145) and McGowan and Wallace (1996:537) this paper attributes much of the uniformity of action across policy domain to the incremental growth of EU regulatory policy since the development of the single market, and as Kohler-Koch (1996:372-376), Mazey and Richardson (1996) and Schmidt (1997:142-143) accepts that a European governance system has exerted an influence on the way national channels are utilised in the domestic public policy systems.

5 CONCLUSION

Whether national styles have changed in reaction to the European policy style or whether national policy sub systems remain is harder to ascertain. The paper while limited to the firm at the European level, would indicate some change in national styles and the convergence of public policy within particular issue domains, but whether such trends can be transposed to other economic interests is harder to forecast without access to other empirical studies. Moreover, how much of this decline in the nation policy channels can be attributed to the more general global economic trends faced by all democracies, and how much of the change is specific to the supranational nature of the EU needs to be explored in future research projects.

This paper submits that while there is nothing new in claiming that increased internationalisation has freed firms from the constraints of national governments, the reality has often been that firms in the past have conformed to the national political institutions and regulations for the purposes of domestic access and influence. However, the movement towards a EU elite pluralism represents a more formal political internationalisation of business, with logical economies of scale at the institutional, economic and regulatory level and significantly a legal alternative for access to the national policy domain. For this reason we are observing the establishment of a European public policy system that, through its restricted European entry requirements on actors, can influence domestic actors use of national public policy systems and Europeanise actors identities. That is the development of alternative channels into the national economy have had a distorting affect on the national institutional arrangements; with national channels having to provide new European roles and established institutions losing their favoured positions in the domestic policy process. In this respect the large firm has become a partner and agent of European integration and a mechanism for institutional change in its quest for improve access to the European public policy system.

Appendix 1: A ranking of insiders, Lobbying outsiders, and free-riders for the top 200 European companies

Sources: interviews (1993/1996) firms, EC officials, UNICE, AMCHAM. ERT.

The 34 insiders are:

Royal Dutch Shell, British Petroleum, Daimler-Benz, Fiat, ENI, Unilever, Siemens, Veba, Elf Aquitaine, Philips, Electricité de France, BASF, ABB, Bayer, Total, ICI, Générale des Eaux, British Aerospace, B.A.T. Industries, Rhône-Poulenc, Pechiney, Petrofina, Lyonnaise des Eaux-Dumez, Statoil, British Steel, Bertelsmann, Pirelli, Gaz de France, Solvay & Cie, Olivetti, Thyssen Industria, Pilkington, BP France, Co Espanola de Petroleos.

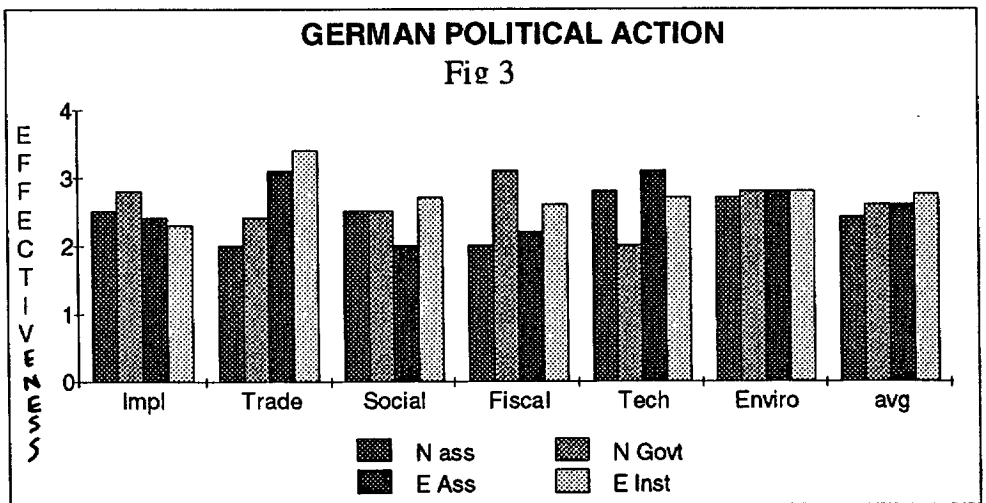
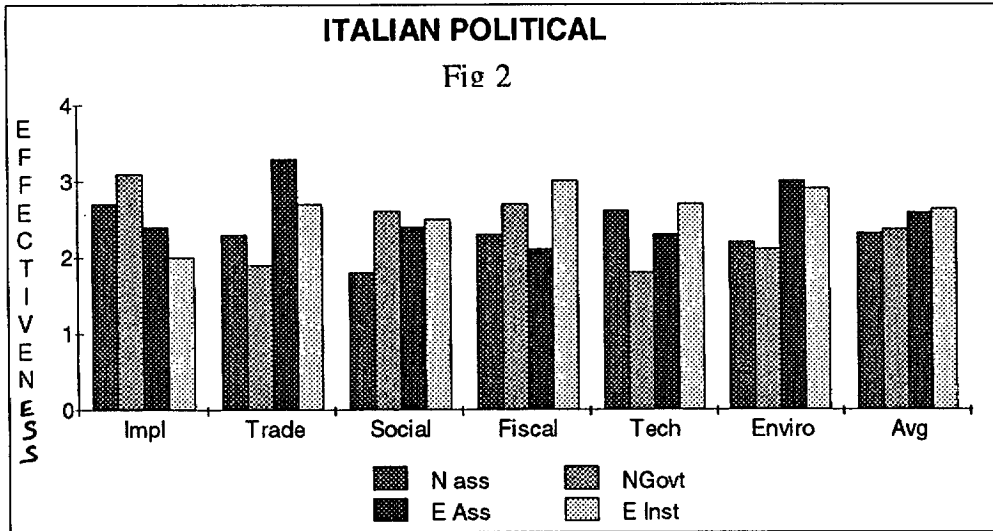
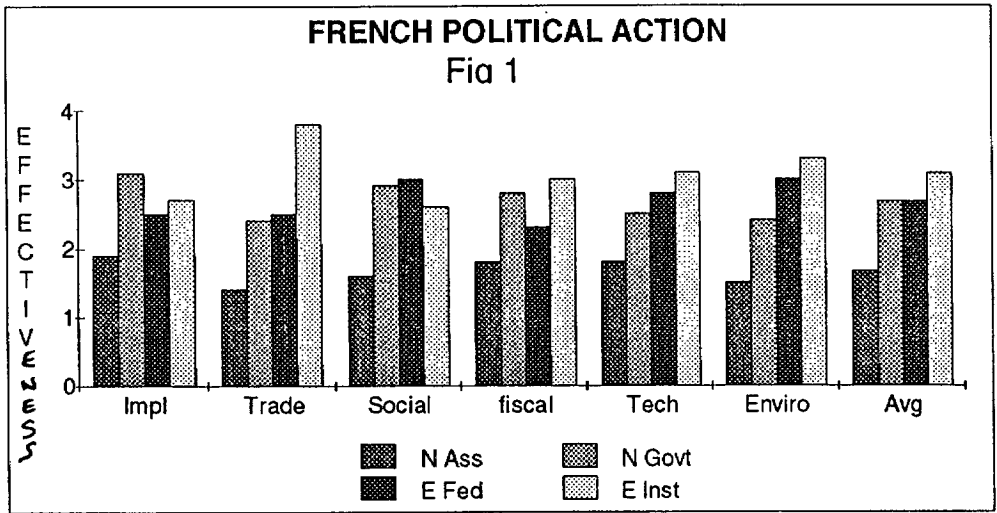
The 93 lobbying outsiders are:

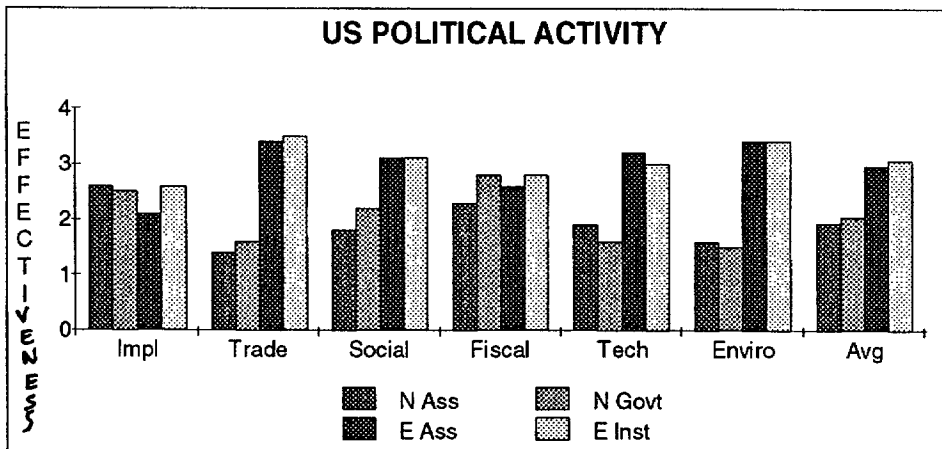
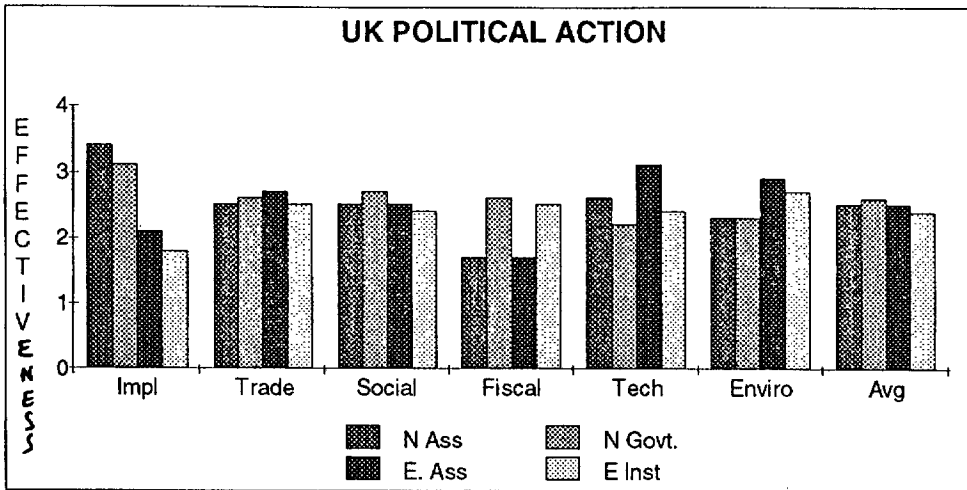
IRI, Volkswagen, Nestlé, Renault, Peugeot, Hoechst, Alcatel-Alsthom, Deutsche Telekom, RWE, British Telecommunication, Thyssen, ENEL, France Télécom, Robert Bosch, INI, Usinor Sacilor, British Gas, BMW, Grand Metropolitan, Mannesmann, Ciba-Geigy, Volvo, Feruzzi Finanziaria, Eletrolux, Repsol, Thomson, SIP, Ford-Werke, Saint-Gobain, Enichem, Neste, Preussag, MAN, Michelin & Cie, General Electric Company, Air France, Norsk Hydro, BSN, Fried. Krupp, Akzo, Schnelder, P & O, Lufthansa, British Airways, Finmeccanica, Smithkline Beecham, AEG, Telefónica de España, National Power, Hoesch, Ericason, Eridania Zucchendici, Audi, Henkel, Anova Holding, SGE, Roche Holding, Beghin-Say, RTZ, Thomson-CSF, Traclebel, Rolls Royce, Aerospaziale, Machines Bull, Procordia, Cockerel Sambre, Total Raffinage Distribution, Lafarge Coppee, Nokia, OMV, Cadbury Schweppes, DSM, Hachetta, Glaxo Holdings, Saab, Philipp Holzmann, Krupp, BET, BOC, SKF, Cable and Wireless, Alitalia, Haagovens, CMB packaging, Guinness, United Biscuits, Fasa Renault, Esso, Lucas Industries, Tabacalera, Heineken, Hawker Siddeley, Linda.

The 73 free-riders are:

STET, Oiag, Ruhrkohle, Deutsche Postdienst, SNCF, La Poste, Hanson, Metallgesellschaft, Viag, BTR, Stora Kopparbergs Bergsl., Bouygues, Deutsche Bundesbahn, Sandoz, Degussa, Sucree et Denrees, Nederlandse Gasunie, Post Office, Dalgety Plc, Allied-Lyons, PTT Nederland, Saatchi & Saatchi, Ruhrgas, Swiss PTT, Hilledown Holdings, British Coal, Ladbrooke Group, Tarmac, BICC, Arbed, PMU, Skanska, Tate & Lyle, Feldmöhle Nobel, L'Oreaf, Endesa, British Railways, Eleclabel, CEA Industries, Trafalgar House, L'Air Liquide, Continental, Svenska Cellulosa, Auxiliaries d'entreprises, Powergen, RMC, Alusurse Lonze Holding, Gebruder Sulzar, Mara, Nobal Industries, Havas, Tralleborg, Spie-Batignolles, Unigate, Beazer, Ver Elektrizitat Westfalen, AMEC, Nordstjernen, GTM-Entreprise, Stahlwerke Peine Salzgitter, Holderbank, Hildro eleclinca Espanola, Racal Electronics, Valeo, Nediloyd Group, Schering, LVMH, GKN, Klockner, ACEC Union, AGIV, Deutsche Badard, KLM.

Appendix 2.





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