

ASSESSING THE IMPACT OF THE NEW EUROPE AND THE NEW GERMANY ON MONEY,  
WELFARE, AND POLICE IN SMALL EUROPEAN COUNTRIES

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Will post-Maastricht Europe be any different from its current configuration in light of the structural changes taking place in the European Union and the subsequent adjustments to be implemented in the member-states? What should we presume about this adjustment process? Will smaller member-states like Belgium and the Netherlands be able to preserve their national culture, policy frameworks, and institutional arrangements in an unifying Europe? Alternatively, will they be transformed into completely new polities, strongly influenced by the beliefs and preferences of larger actors and by the institutions of the new Europe? This chapter addresses these questions by examining the twin influences of Community/EU decisions or directives and of German preferences on three separate policy and institutional areas: monetary policy, social security as well as law enforcement in Belgium and the Netherlands. Anticipating the conclusions of my paper, the argument in this chapter is that small EC member-states endure some subtle pressures for change but not to the extent to which domestic politics and policy patterns are in danger of losing their primary national features. Neither do I find much reason to confirm the German hegemony thesis.

It should come as no surprise that this chapter fails to uncover evidence of German assertions of power, for the German leadership restrains itself from imposing its will on its smaller neighbors.<sup>1</sup> By the same token, small countries are capable of deflecting and neutralizing German pressures, and if everything else fails, they can always recall Germany's wartime record to embarrass the Germans from going any further. Belgium and the Netherlands may be small but they possess sufficient confidence and resources to ward off unwanted interferences by a larger neighbor. They cooperate with Germany when it suits their interests and resist German initiatives when it does not.

More surprisingly is the lack of evidence of direct immediate constraints flowing from the structural changes wrought by the Single European Act and the Maastricht Treaty. Why do we not find more dramatic changes taking place in the wake of the Maastricht treaty? First, it should be noted that many small, incremental adjustments are unfolding that will change the political and policy environment of Belgium and the Netherlands in the long run. Presently, no measures or programs which conflict with the current objectives and future aims of the European Union are contemplated by the policy elite of each country. By definition, some policy options are ruled out because they would be at odds with the current direction of the EU and commitments made by the member-states. Voters and politicians identify with the EU as a grand project which shapes the destiny of Europe and that of their own country. They belong to Europe because they wish to be part of the larger framework. Public opinion polls show consistent high levels of support for membership in general and for enlarging the scope of operation of EU institutions like the Commission and the European Parliament. By any standards, Dutch and Belgian citizens are among the most pro-European, viewing the entire endeavor as worthwhile, important, and inexorable.<sup>2</sup> A cynic may point out that support for EU membership and EU deepening is high precisely because policy institutions and procedures have not undergone

traumatic transformations since many features of the national polity have escaped realignment and harmonization.

Indeed, the striking absence of an European dimension in domestic institutions and political discourse does raise some difficult questions about what public opinion polls actually demonstrate and what membership in the EC/EU actually means. By now, after several decades of membership and after the near completion of the Internal Market program, we would expect to discover numerous traces of the new Europe in domestic policy processes, social arrangements, and institutions. One reason why the overall impact of EC/EU and integration has been modest is that the entire endeavor has always been conceived of as a mammoth program for market liberalization or deregulation. State building was supposed to flow out of product and financial market integration but national governments have shown great ambivalence about ceding policy authority beyond trade and capital flows to the Commission. Member-states have conspired to deprive Europe's supranational body of legally binding powers in many fields critical to national sovereignty like social security and law enforcement. Because the tentacles of the EU and integration have not penetrated other arenas of policy-making, national politicians define and approach regular, ongoing small or large domestic challenges by way of established and old-fashioned means. Politicians seek solutions within a national framework and are respectful of national boundaries and norms because they face, at the end of their term, a national electorate.<sup>3</sup> Voters evaluate their elected leaders according to national standards because typical national organizations like trade union federations have not jumped onto the European bandwagon by actively participating in the construction of a European political space. Unions nor voters view the European Union as a fruitful venue for satisfying strategic interests. Apparently, none of the main actors in national political life such as political parties, interest groups, and social movements have appropriated Europe to revise and reconceptualize their ultimately objectives, various patterns of action, or short-term interests. Public discourse on European integration and EU state-building is kept back by its association with the fine art of diplomacy and because the EC/EU never made an effort to include the citizens of Europe in the construction of a new home.<sup>4</sup>

All of these points are further elaborated in this chapter. In the next section, I examine the attitudes of Belgium and the Netherlands towards the Community and the FRG. Following this section, I compare the impact of the EMS crisis on each country and speculate on which country is more susceptible to German influence and has experienced greater loss of policy autonomy. The third section examines the importance of the Social Dimension for social welfare reforms and the final part discusses the enactment of new police legislation in the early 1990s and their possible linkage to the decision to push forward with the creation of Europol/EDU. The conclusion briefly summarizes the main findings of the paper.

The Low Countries, the EC and Germany

After so many decades of EC/EU membership, most Dutch and Belgian voters and elites no longer question the value or importance of the European Union. More than that, the Belgians and Dutch have been over the years great supporters of deepening the institutional structures of the Community and of strengthening political integration and democratization.<sup>5</sup> Dutch members of parliament have insisted since 1964 that no resources be transferred to the Commission unless the controlling powers of the European Parliament are strengthened.<sup>6</sup> Although both countries embrace European federalism with its emphasis on wider competence for the European parliament, they refuse to endorse the further development of European security cooperation. Their first objection is that it would strengthen the intergovernmental aspects of the Community decision making processes. Second, they prefer to join a defense alliance led by the United States, a distant power, instead of one led by a close neighbor.<sup>7</sup> Persistent doubts about the actual motives of their larger neighbors, not only Germany but also France and Britain, induces government leaders of Belgium and the Netherlands to advocate European federalism because supranational structures protect small states from the power games of large countries.

Belgium preferred deepening to widening in the 1990s since enlargement would interfere with the overriding objectives of creating a federal Europe.<sup>8</sup> Belgium also fully supported the Treaty of European Union and the internal market because it would boost investment by multinational enterprises established in Belgium and would stimulate exports to EU countries. Belgium exports 61.5 percent of its GDP of which 75 percent goes to other EC countries.<sup>9</sup> Other than the economic benefits which they can expect to gain, successive Belgian cabinets have expressed a genuine commitment to the philosophical idea of a federal Europe. Jean-Luc Dehaene, the 1994 prime-minister and Christian-

democratic party leader, was turned down by John Major to become the next president of the Commission because he was regarded as too much of a federalist.

As to bilateral relations with the FRG there is less to say about Belgian-German relations than Dutch-German ones. For one, Belgium's relationship with Germany is more distant and less emotional because the country is divided into two 'linguistic' communities.<sup>10</sup> Francophone Belgians have traditionally looked at France for cultural and philosophical leadership.<sup>11</sup> The political elite of Wallonia, regardless of whether they represent the socialist or Christian democratic bloc, embraces typical French concepts like dirigism, nationalization of large industries, state subsidies for big business, partnerships between big business and government, and a distrust of free markets. The Dutch-speaking Flemish community is philosophically closer to the Netherlands and emphasizes market adjustments through liberalization and deregulation. By the same token, Catholicism forms one of the core pillars of Flemish culture. Dutch social values which accept legal abortion, regulated euthanasia, and personal consumption of drugs trouble many Flemish nationalists and keep the two Dutch-speaking communities apart. France rather than Germany or Netherlands provokes indignant emotions among Flemish opinion leaders because French companies have been acquiring many older Belgian Francophone holding companies since 1988 in order, according to Flemish analysts, to counter the growing weight of a unified Germany.<sup>12</sup>

The Dutch, by contrast, are like the majority of Germans, Protestant, speak a language whose origins are Germanic, and built a modern trade and agricultural economy around the needs of rapidly industrializing Germany.<sup>13</sup> The efficient trade and service sector of the Netherlands complements the manufacturing strength of Germany with Rotterdam being the main gateway for bulk goods from and to the FRG. The Netherlands has also strong financial links with Germany. Between 1982 and 1991, Germany invested close to 7 billion DM in the Netherlands compared 1.7 billion DM in BLEU (Belgium-Luxembourg).<sup>14</sup>

By definition, sharp imbalances in size and resources between two neighboring countries fuels resentment and fear in the smaller one.<sup>15</sup> Dutch ambivalence about its Eastern neighbor seems in light of their close economic ties and disparities in size natural. Events of the past have further made their mark on Dutch-German relations. Like Belgium, the Netherlands was occupied by Nazi Germany from 1940 to 1945. Many Dutch played a less than heroic role during the Nazi occupation by tacitly collaborating with the enemy. Guilt about Dutch collaboration and the silence surrounding this phenomenon influenced postwar attitudes towards the German people in a distorted way.<sup>16</sup> Many Dutch were angry at the Germans not only for the absence of a public apology for what the Nazi regime had done to the Netherlands but also for what the Dutch had done to themselves. After the war, many Dutch could not forgive the Germans for their evident lack of guilt about their country's legacy in the Netherlands.<sup>17</sup>

At present, in the closing years of the 20th century, Dutch opinion with regard to their next door neighbor is still driven by suspicion and animosity. <sup>18</sup> Der Spiegel published the findings of a 1994 study, commissioned by the Dutch Institute for International Studies which revealed that only fifteen percent of Dutch adolescents (between the age of 15-19) held positive views of the German people compared to 71 percent who considered Germans dominating. Others found Germans racist, arrogant, and power hungry. Many of these opinions can be laid at the door of plain and simple prejudice because the same group of youngsters knew little about their neighbor and two-thirds could not name a single German political party.<sup>19</sup> Chancellor Kohl is well aware of Dutch hostility against the Germans although he seems puzzled what could possibly have given rise to such hostile sentiments. In an official visit to the Netherlands in late January 1995, he urged the Dutch to rid themselves of some unusually foolish misunderstandings.<sup>20</sup> This visit was scheduled by the Dutch authorities after discovering that their antipathy of Germany was reciprocated by Kohl! Indeed, Chancellor Kohl detested Ruud Lubbers, the former Christian-democratic prime-minister, so intensely that he blocked his nomination to be the next president of the Commission in 1994. Apparently, Kohl could not forgive Lubbers for letting him down in 1989 when the Dutch cabinet criticized Kohl's program for early German unification and found him altogether too self-righteous. <sup>21</sup>

Setting aside the personality clashes between Kohl and Lubbers and the Dutch animosity against Germans in general, these two countries, in a fundamental sense, are close allies because they view many things in like manner. Thus, concerning monetary integration and the EMU, the Dutch and Germans understand each other perfectly and often speak in one voice. Dutch political parties identify with the German apprehension of how political calculations may lead to a reinterpretation of the

convergence criteria for EMU eligibility. In parliamentary debates preceding the ratification of the Treaty of European Union (TEU), the Liberal party averred that EMU entry ought to be reserved for those states which have imposed strict spending limits, record low inflation, and register low debt ratios. The Dutch like the Germans are concerned about the autonomy of the future European Central Bank in the absence of a tradition of central bank independence in the rest of the European Community.<sup>22</sup> Both countries, compared to Belgium and France, are more likely to resist trade protectionism and are less likely to provide endless funds to ailing firms or industrial sectors.

That the consistent pro-German position of the Dutch delegation in EC deliberations is not particularly appreciated by the Germans is another story. When Lubbers lobbied for Amsterdam as the site for the new European Monetary Institute (precursor of the European Central Bank), Kohl became infuriated because he claimed that German voters would never accept the demise of the D-mark unless monetary union proceeded on German terms and unless the new agency would be physically close to the Bundesbank. He told the Dutch delegation to forget about Amsterdam or lose Kohl's support for the Lubbers candidacy for president of the Commission.<sup>23</sup> Of course, the Germans do not have to be grateful for the loyal and unquestioned support of the Dutch EC delegation in the ongoing deliberations on monetary integration. The Dutch toe the German line primarily out of self-interest. What motivates Dutch authorities to peg the guilder to the German mark and to insist on price stability is the realization that such a course benefits Dutch economic interests. What this means for Dutch national autonomy and policy constraints and whether Belgium experienced monetary integration differently will be explored next.

#### Monetary Integration

Throughout the short history of the European Community, national governments have conceived of monetary union as a tool to achieve political unification. Again in June 1988, at the end of the Hanover Summit, the European Council revived the idea of monetary union by charging the Delors Committee with the mandate to investigate appropriate steps and advise the Council on how to proceed. The road to EMU and its framework are laid down in the Maastricht Treaty or Treaty on European Union, ratified by the member-states in 1993. The purpose of a single currency and monetary policy is to provide price stability and the steps to achieve monetary union are meant to ensure that monetary stability will continue to be the main objective of EMU.

A large literature exist to explain why countries acquiesced to the institutionalization of German macroeconomic hegemony.<sup>24</sup> Of course, it is still to be seen whether countries have indeed fully embraced a German economic/monetary framework with the appropriate fiscal targets and restraints. In this section, I will show that a close analysis of recent events questions the contention that country have become more German-like. The Netherlands follows German monetary regime closely yet other aspects of its macroeconomic management conform to their own logic and, in fact, clash with the hard currency option. Belgium decided to switch to a fixed peg to the German mark much later than the Netherlands in order to import 'anti-inflation credibility.' Yet the results of this experiment were mixed because other economic and social institutions were not brought into alignment with the new emphasis on a strong and stable currency. In other words, neither country underwent traumatic adjustments as it discarded old practices or institutions to meet the new demands of restrictive monetary regime. The EMS would therefore appear to be less of a straitjacket or disciplinary device and has not yet turned countries into mini-Germanies. This is not to deny that German mark functions as the key currency in the exchange rate mechanism (ERM) of the EMS.<sup>25</sup>

In every exchange rate arrangements one country determines the monetary policies of other countries and ultimately their rates of inflation and interest rates. While technically symmetrical, one country leads the system because all countries minus one decide their exchange rate. Although the ERM does not specifically allocate this role to Germany, the Bundesbank has taken upon itself to assume this task because Germany's economy is the largest, because most other ERM members want to reduce their inflation to Germany's, and because the logic of  $n - 1$  means that some central bank in the system must play the policy setting role if the system is to be stable. Flexibility was built into the system, however, because the ERM allowed for periodic adjustments on the condition that exchange rate realignments were decided by all participating member-states. Exchange rates fluctuated within a narrow margin of  $\pm 2.25$  percent and central banks were obliged to intervene to keep the exchange rate from falling outside its margins. Marginal intervention took place when a currency was at its upper/lower limit of its fluctuations and two central banks to whose currencies are up against their absolute limits must intervene to prevent the exchange rate from falling outside its range. Intramarginal intervention, which

was more common, led central banks to intervene before a currency reached its limits. The latter helped neutralize speculative attacks and helped to stabilize the exchange rate system. Certainly, from 1987 until 1992, economic indicators in EMS countries increasingly converged reducing pressures for an exchange rate realignment.<sup>26</sup> By 1992, the EMS came under enormous pressure as persistent speculative runs against the weaker currencies depleted the reserves of central banks to defend the exchange rate parity.

In retrospect, the most difficult shock to the stability of the EMS was German unification in 1990.

Other events may have contributed to the turmoil in foreign currency markets but it was the high interest rate policy of the German central bank to restrain federal government spending and inflation that became an impossible drag on other EMS countries.<sup>27</sup> Moreover, since the DM constituted the anchor currency in the EMS, markets began to lose confidence in the EMS as a whole as German inflation rates due to widening budget and trade deficits, rose above those of its partners like France, Belgium, and the Netherlands. Inflation rates were low in neighboring countries because a deepening recession and surging unemployment damped economic activities, and the recession worsened with every new increase in German interest rates in 1992-93. High unemployment in other countries also widened budget deficits and generated selling pressures on local currencies, prompting national governments to ask the Bundesbank to lower interest rates from mid-1992 to mid-1993.<sup>28</sup>

When the Bundesbank refused to lower interest rates in order to alleviate the growing unemployment and recession at home and abroad, international markets began to question the commitment of various governments to continue to pursue a policy of austerity during a period of recession.<sup>29</sup> Doubts concerning the political ability of governments to hold their currencies within the margins soon spilled over into questions concerning the entire operation of the ERM. In the summer of 1993, all currencies came under pressure. Despite pleas from central bankers in other participating countries and from German politicians, the Bundesbank<sup>30</sup> refused to lower interest rates and compromise its anti-inflation stance to rescue the EMS. When investors made a run on the French franc in July 1993, not even the combined intervention of the French and German central banks could reverse the selling pressure on the French franc in the ERM. After futile efforts to arrest the fall of the FF, the Monetary Committee met in Brussels on July 31, 1993. Unable to form a consensus, the Council of Finance Ministers (ECOFIN) held an emergency meeting the following day on August 1 to discuss the desperate situation. After intense discussion, the Germans rallied behind a French proposal to suspend the DM membership in the ERM and allow the currency to float upwards. The Dutch announced that they too would leave the ERM because they were unwilling to sacrifice their close links to the DM. Although the French heavily leaned on the Dutch to stay in the ERM, the Luxembourg delegation also wished to follow the DM and so did the Belgians after a while.<sup>31</sup>

The Netherlands led the German solidarity bloc to defeat the French proposal which was aimed to expel the German mark from the ERM to bring about a DM appreciation. Instead, the Dutch presented an alternative, with the support of German officials, the thrust of which was that the weak currencies leave the ERM temporarily. This was rejected as too harsh for the weak currencies and the compromise solution was to allow currencies to fluctuate within bands of 15 percent below or above their central rate and suspend the operating rules of the ERM. Unknown to the other participants, the Dutch had been in touch with German central bankers earlier to make sure that the guilder would stay pegged to the D-mark regardless of what might happen in the official ECOFIN meeting. Belgium, when apprised of this agreement, requested to be included in the Dutch-German provision but the Germans rejected the Belgian request because they did not want to hurt French pride by permitting the Belgians (and the Danes) to stay in the old EMS system when the French could not. There were also serious questions of whether the economic and financial conditions of Belgium justified a bilateral agreement to preserve the DM-BF central rate. Therefore only the second hardest currency in the ERM was allowed the 'privilege' to shadow the German mark at the extra narrow band of +/-1 percent.<sup>32</sup> Other currencies, including the Belgian franc, were forced to accept the larger margins although the Belgian authorities have tried to follow the D-mark as closely as possible by reiterating their commitment to a policy of 'franc fort.' Nevertheless, the Belgian franc tumbled 6 percent in the two months following the loosing of ERM rules although it has slowly crept back to its previous exchange rate and was, in early 1995, back to its old parity.

#### Dutch Monetary Regime

Since its founding in 1979, the Netherlands interpreted the rules of the EMS in a more rigid way so as to avoid exchange rate adjustments at any costs and to preserve its strong currency policy.

Subsequently, nearly ten years later, Belgium also adopted a harder stance by seeking closer economic convergence with Germany. In June 1990, the Netherlands (and Belgium) which had been able to bring down their inflation rates close to, if not below that of Germany gradually tightened their involvement in the system beyond what its rules demanded.

In the 1990s, Dutch interest rates were among the lowest in Europe. During the period of the ERM crisis, the Netherlands experienced no capital flight and no pressure on the guilder so that it did not have to raise interest rates. Instead, speculators bought guilders and the Dutch central bank in July 1993 intervened extensively to prevent further upwards pressure on the guilder in the ERM.<sup>33</sup>

Considering the stability and reliability of the Dutch guilder, we would expect an overall fiscal and economic framework highly supportive of a rigid exchange rate policy. Indeed, Dutch officials have tailored economic intervention instruments with the aim of conserving price stability and of protecting the value of the guilder by steering towards chronic current account surpluses. It is therefore counter-intuitive and surprising to discover that net public debt is over 80 percent of GDP and above the threshold agreed upon during the Maastricht Summit. This points to a relatively relaxed fiscal policy and suggests a greater degree of fiscal autonomy to pursue national objectives than we might have expected considering the constraints imposed by a hard guilder.

Fiscal consolidation has been difficult to achieve because the Netherlands faces two major challenges: extremely low rates of labor force participation and a very generous social welfare system. Twenty-six percent of the labor force receives some form of social benefits<sup>34</sup> and the rate of non-employment (or the difference between the population of working age and the proportion of employed) is estimated at 50 percent. Two questions come to mind: has the strong guilder and restrictive monetarism hurt the business environment in such a fashion that it accounts for the large rate of inactivity, and second, why do the imbalances in the labor market not undermine the fixed exchange rate to the DM?

Arguably, a strong and stable guilder encouraged firms to invest in labor-saving machinery and stimulated corporate downsizing and labor shedding. Real high labor costs in common currency has priced certain types of workers out of the market.<sup>35</sup> In addition, labor costs are high because payroll taxes are substantial in order to finance the large number of inactive individuals, entitled to various social benefits. Union leaders, by contrast, have behaved in accordance with the constraints of an appreciating currency because they are very cognizant of the effects of a strong currency on an export-oriented economy and have sought modest wage increases.<sup>36</sup> Instead, high payroll taxes on top of a strong currency has forced Dutch firms to create an economy based on high labor costs/high productivity/high non-employment, which is to be expected in a country that must compete in international markets. High social security charges pay for a distributive system that underpins very liberal unemployment and disability programs. Christian-democratic cabinets passed social legislations in the 1970s when economic forecasts were altogether more favorable.<sup>37</sup> Tripartite consultations between unions, business, and government representatives resulted in a pay and benefits system that coupled unemployment and disability allowances to the minimum wage, while the latter was in turn linked to wage developments in the private sector. In such a fashion, everybody would be protected against inflation and nobody would be deprived from enjoying the fruits of economic growth. Solidarity norms, moreover, stipulated that the differential between private sector pay and legal minimum wage should be kept small.<sup>38</sup> The result is, first, a narrow wage dispersion because of high pay compensation for unskilled work and, second, high labor costs due to high social security contributions.

What is surprising is that the Dutch authorities (plus unions and employers) have omitted to formulate or administer an active labor market policy to mop up unskilled labor by establishing training and job placement programs. In the FRG, tight monetary policy was viewed as an opportunity to invest in quality production and in advanced manpower training. In the Netherlands, the reaction of the social partners and government to the drop in demand for certain kinds of workers was to ease the premature exit of individuals out of the labor market at the expense of the tax payer and corporate sector.<sup>39</sup> Unskilled workers were first to be laid off but were also least likely to find new employment because the generosity of unemployment and social assistance functioned as a disincentive to find new work. Replacement income by the state linked to 70 percent of previous earnings, in 1989, for an individual with a family and non-working spouse was higher than in the FRG (58 percent) or Belgium (50 percent).<sup>40</sup>

In 1990, the authorities decided to set up several training and work-experience programs while re-certifying many disabled individuals fit for work. Yet the public funds devoted to manpower programs

are a small drop in a huge bucket and have not made a serious difference. It is widely recognized that the social expenditure levels must be brought down if only because the entry criteria to EMU, which receive wide support in the Netherlands, require low budget deficits and lower national debt. Yet the Dutch postwar consensus is built on solidaristic transfer payments to guarantee financial security to disadvantaged groups of employees and households. Trust in and support for the welfare state remains high and accounts for the tenacious resistance to change. Nothing has been so difficult to achieve as a thorough reform of welfare programs and expenditures.

Apparently, a German-type monetary regime can coexist with an un-German-like labor market regime. While German officials and social interest groups have made a connection between a strong and expensive currency and an active labor market policy, the Dutch retained their own approach to non-intervention in the supply/demand of labor. Surprisingly, the high level of unemployment and enormous public expenditures on social programs have not eroded the confidence of international investors in the stability of the guilder. They continue to express their confidence in the guilder and Dutch exchange rate targets because the Netherlands accumulated a large reservoir of credibility on which it can rely to reassure foreign currency markets that nothing will divert the authority's commitment to a strong guilder and low inflation.

In contrast to Belgium, which adopted a hard currency policy much later, the general consensus in the Netherlands after WW II was to seek trade liberalization and to pursue a monetary policy that would be anti-inflationary in order to protect the value of the guilder. A stable currency would protect the Netherlands' overseas earnings and persuade international investors to deposit their money in Dutch banks. The Dutch central bank and the financial service sector stood behind the agenda of turning the guilder into an international reserve currency and a sound investment. Enjoying a large degree of independence from political meddling, the central bank embarked upon a monetary framework that yielded low inflation, stable exchange rate, and liberalized capital flows. Wide support was given to the central bank's emphasis on monetary stability because international financial services had always been among the most dynamic economic sectors in the country.<sup>41</sup> Institutional arrangements also lent support to a strong currency policy. Governments in the past, and again in the 1990s, threatened to use or actually used special powers to declare pay freezes and push back wage increases if pay negotiations seemed too inflationary.<sup>42</sup>

A long history of a strong currency and corresponding institutional arrangements to protect it accounts for the wide-spread perception that the guilder is as good as the German mark, and perhaps in the 1990s, better than the German mark. Again, it is important to stress that this success was not achieved overnight. Already during the 1970s, Dutch monetary policy increasingly focused on maintaining a fixed guilder-D-Mark exchange rates. The Netherlands was one of the few countries to manage to stay in the 'snake' -- the currency band created in 1972 to stabilize European exchange rates with respect to each other but moving jointly against the dollar -- for most of the 1970s. Within the EMS, the guilder devalued twice against the D-mark, in 1979 and 1983, by just 2 percent each time. Moreover, over the last twenty years as a whole, the inflation rate has been just a little bit higher in the Netherlands than in Germany while the Dutch rate fell below the German one in the 1980s.<sup>43</sup> Changes in discount rates in Germany are almost immediately followed by changes in official Dutch rates. In terms of reputation and credibility, the Netherlands after Germany had the highest anti-inflation reputation prior to and during the EMS period.<sup>44</sup> In a study on the correlation of growth and inflation rates of EC members and Germany, the Netherlands showed the highest correlation with the anchor country.<sup>45</sup> In short, there are sound reasons for international markets to downplay the fiscal imbalances and high unemployment rate in the Netherlands because economic institutions and agents are nonetheless willing to make incremental adjustments to fight inflation and stabilize exchange rates. Interestingly, fiscal policy and social welfare acquired their singular traits despite the presence of restrictive monetarism although the numerous social programs were never meant to carry so many claimants. Eventually, the number of beneficiaries must be reduced to eliminate a potential peril to a strong guilder policy. Undoubtedly, welfare reforms will be pushed forward to reduce the comprehensiveness of the entire social system and to do something about the financial costs.

#### Belgian Monetary Regime

In Belgium, the authorities welcomed monetary restrictiveness much later and institutional arrangements lagged behind the new emphasis on a strong currency. On and off, markets question the ability and willingness of Belgian authorities to defend their new exchange rate regime and make a run on the Belgian franc. Two developments explain the difference with the Netherlands. First, the strong

franc policy is of recent vintage and has no accumulated reservoir of credibility. Second, Belgium amassed an enormous national debt, which stands at around 135 percent of GDP and which unnerves foreign currency markets at regular intervals.

At first, Belgium opted for a soft currency option of a crawling peg and shared the inflation 'reputation' of France. By mid-1987, impressed by the achievements of the Dutch economy and afraid of recurrent pressures on its currency, Belgium adopted the hard currency standard. While inflation rates had been higher than in the Netherlands or Germany, by 1987 they began to converge. Emboldened by the convergence in inflation rates and market signals, the authorities announced in 1990 a new exchange rate objective of pegging to the stronger currencies in the ERM and promising to preserve the parity with the D-mark in the event of a realignment.<sup>46</sup> They narrowed their bilateral margins against the German mark to +/-0.5 percent, while retaining their official margins in the parity grid against other currencies. The narrower margins reduced the risk premium on the Belgian franc and eliminated short-term interest rate differentials as markets trusted the commitment and reputation of Belgian monetary authorities.<sup>47</sup>

The fixed parity with the DM came after Belgium had experimented with different kinds of exchange rate regimes. In June 1981, Belgium had the doubtful honor of being the first and only member-state to receive an official recommendation of the EC Commission to switch policies to solve growing public finance deficits and fast rising wages. The Commission report argued that these trends were highly inconsistent with a proper functioning of the EMS and submitted a list of reforms that would stem the spiraling growth in budget deficits and pay increases. It was only at the end of 1981 that a newly elected government was able to begin the painful process of reducing the budget deficit. In February 1982, the Belgian franc was devalued by 8.5 percent.

Wage development cooperated with the 1982 devaluation and Belgium's competitiveness improved. After 1983, the central government possessed more influence over private sector pay development and used its new powers to intervene in the wage bargaining process. Real wages remained frozen until 1986 and a competitiveness norm was legislated in 1989 that restrained wage gains to what was recorded, in common currency, in seven trading partners.<sup>48</sup>

However, fundamental changes did not go far enough to make a DM-BF fixed parity feasible. Other types of economic intervention were not realigned in synchrony with the new stress on a hard currency policy.<sup>49</sup> One troubling indicator is the extraordinarily high debt-GDP ratio. Belgium's net public debt is close to 135 percent of GDP and interest payments amounted 10.2 percent of GDP in 1994. On top of that, Belgium like the Netherlands coped with serious unemployment which rose in 1992/93 to 14 percent and was closer to 20 percent of the active labor force if those who were currently employed in publicly-subsidized jobs were included. The size of the public debt produces waves of anxiety among international speculators as to the ability and commitment of the Belgian authorities to do what needs to be undertaken to defend the fixed parity to the German mark. The high public debt is partly the result of European integration which sharpened the economic differences between Southern (Francophone) Belgium and Flanders. To keep the country together, coalition cabinets approved of large flows of transfer payments to appease the demands of regional authorities for more subsidies.<sup>50</sup> During periods of economic growth, officials did not use surpluses to consolidate the debt, which has continued to rise in the 1990s.<sup>51</sup> Many (Flemish) voters opposed the subsidization of Walloon region so that most of the funds for the transfer payments were raised from local and international capital markets. In the 1990s, the surge in German and European interest rates constituted an impossible burden for Belgium, a country with already a high GDP/debt ratio and relatively generous welfare state. Furthermore, the appreciation of the German mark vis-à-vis other EMS currencies and the dollar in the early 1990s pulled up the Belgian franc as well which rose by 3 percent against other EMS currencies between August 1992 and July 1993.<sup>52</sup>

Thus, the decision to tighten the link between the BF and D-mark was not without cost. A major benefit drawn from the hard currency policy was that it kept interest rates as low as possible and thus lowered the servicing costs of the national debt. A major disadvantage was that the BF was frequently under pressure which could only be arrested by raising interest rates which would then increase the burden on the federal budget, widen budget deficits, erode confidence in the currency, and require more drastic action to stem the accelerating pressures on the Belgian franc.

The disintegration of the EMS after July 1993 prompted a group of liberal economists to publish an open letter in the main financial newspaper to urge the government to take advantage of the situation by switching directions by de-linking the BF from the German mark. <sup>53</sup> Pleading for a 'responsible'



exchange rate policy, they argued for a depreciation of the BF with correspondingly lower interest rates in order to stimulate investments and job creation. In their opinion, an inflation rate of 2.5 percent and unemployment rate of 12 percent left ample room for a flexible monetary stance that could boost the economy in the short-term. No debate took place in the days following the publication of the letter by a group of respected economists. Not even the trade union federations joined in to call for a less restrictive monetary regime although the switch promised to boost job creation in the short-term. Unions opposed a monetary policy shift because in the opinion of the economists the cost-of-living indexation should be dismantled to exploit the gains of a currency devaluation. Belgian labor is one of the few trade union federations that has fought for and succeeded in preserving an autonomic cost-of-living pay increases in the 1980s.<sup>54</sup> Organized labor welcomed a flexible exchange rate, but not at the expense of the treasured price indexation system. Employer associations were also opposed to a depreciation of the Belgian franc despite the fact that many exporting firms had lost market shares as a result of the overvaluation of the BF. They feared that labor would be able to convince a four-party coalition of Christian-democrats and socialists in preserving the cost-of-living indexation which would fuel higher inflation rates. Within government circles, the open letter was ignored because the central bank and national debt bureau opposed changing monetary regime in case the depreciation would result in higher inflation and require higher interest rates in the long term.<sup>55</sup> Thus, none of the social partners and political groups were inclined to shelve restrictive monetarism, not because of any particular liking for an appreciating currency but rather because the new monetary framework was part of the fabric of policy deliberations and sustained a balance of power between employers and labor. Neither was willing to remove a piece in the game since it would threaten to reopen many old questions about sacred cows such as cost-of-living indexation.

Forced to do something about the sizable debt ratio, the center-left government of Jean-Luc Dehaene announced a global plan in October 1993, which contained provisions for a three-year wage freeze (till 1996), drastic cuts in social security payments, in health care and child benefits, and new taxes on property and investment income. The reaction of the Belgian trade union federations was to call for a general strike on November 26, 1993 and Dehaene met union leaders on November 30 to avoid another strike on December 10, the scheduled date of the next European Council summit in Brussels. During his meeting, he also withdrew some of his measures in the face of organized labor resistance although the failure to push through the reforms will mean further speculation against the BF.

## Conclusion

In retrospect, looking back at the 1993 foreign exchange crisis, participation in the exchange rate mechanisms of the EMS brought about 'nominal' or exchange rate convergence but no real convergence in labor markets or fiscal behavior. Ultimately, it are these economic institutions which sustain the monetary sphere. At the beginning of this section, I asked which country experienced the greatest challenges to its policy sovereignty and which country moved closest towards convergence with Germany. The answer is that neither country has made large sacrifices in order to solidify their monetary policy orientation because neither jettisoned cherished institutions or policy courses. Corporatist consultations created the Dutch redistributive welfare state and authorities are only now beginning the difficult task of controlling expenditures and program eligibility criteria. Public sector spending clashes with the pursuit of an expensive and stable guilder, for the rise of beneficiaries (plus the aging of the population) widens public sector deficits and the national debt ratio all of which interfere with price stability, currency credibility, and a fixed exchange rate. Adjustments have taken place and will continue to take place in order to lower the benefit level and in order to restrict the number of claimants. Nevertheless, until now, welfare reforms have been piecemeal and have not touched the core of the postwar social pact. Fiscal behavior and social norms have not been transformed in synchrony with restrictive monetary objectives. Owing to the preceding decades in which the guilder closely shadowed the DM and the consistent surpluses in the balance of trade, foreign currency markets place much trust in the strength of the guilder and the reputation of the Dutch central bank.

Belgian economic institutions and political values also fail to meet the monetary choices made in the late 1980s to peg the BF to the German mark. To import a German monetary regime, politicians should have radically slashed state spending. Yet politicians have made little progress in this area even when economic growth was fair. This leads to the (tentative) conclusion that countries like Belgium, which regard themselves as core EMU states, are nonetheless hesitant to commit themselves to the full array

of institutional adjustments to ensure a German regime of low inflation and stable exchange rate. They adopt a German-type monetary framework for as long as possible, which means until markets lose faith and then they make a few quick adjustments to calm market misgivings in order to conserve the policy of a hard currency option. In the meantime, real institutional and economic convergences are delayed.

I will next examine the impact of the Social Dimension on social security and social policy to illustrate how certain essential domains of state activity are basically free of Community intervention and German interference. National governments resist ceding authority to a higher authority because voters expect their leaders to manage social policy/system and because leaders fear voter retaliation if they fail to meet the expectations.

#### Social Policy and Social Security

Fifteen years of monetary integration and EMS participation have eliminated any claim of monetary independence. But the conduct of monetary affairs is hardly the sort of issue that mobilizes voters. Instead, discussions on social spending curbs and welfare state reforms provoke the kind of emotional electoral campaigns or paralyzing conflicts that politicizes voters. Belgium and the Netherlands built large welfare states that are among the most comprehensive and generous. Since the heart and soul of the European Community has always been associated with market deregulation and liberalization, voters and their elected officials are suspicious of what may be behind a European social policy/security. At least, this would account for the lack of excitement among voters and national leaders for constructing a Social Europe and explains the sorry state of the existing underdeveloped social dimension.

Title III, part 3 of the Treaty of European Union lists a number of social areas where the new Union might play a larger role: employment and labor law, occupational health and safety, collective bargaining, vocational training, social security, and the creation of an European Social Fund to improve labor mobility and employment opportunities. Yet, at the same time, qualified majority voting is only applicable to occupational health and safety and to issues related to the 'working environment<sup>56</sup>.' While the latter is broad enough to plausibly legitimize a more active role for the Commission and Council of Ministers, national governments will most likely make sure that a narrow interpretation of 'working environment' will prevail. Most of what the Commission has therefore accomplished with reference to health and safety measures can be said to belong more to the sphere of social regulation than social policy. The latter centers on redistributive issues and the provision of public goods. The former addresses market failures or negative externalities with the aim of improving market efficiency.<sup>57</sup> The Community has claimed responsibility over health and safety because they receive relatively less attention from national governments and because different health/safety standards often constitute non-tariff barriers. Diverse environmental, occupational, and consumer standards obstruct the free flow of goods and services and stand in the way of completing the Internal Market project. But movement of people as opposed to services or goods is less free for reasons that have to do with the refusal of governments to extend mutual recognition to training and educational certification, to workplace experiences, and to intermediate levels of skills. Moreover, in practically every country, social security is a mixture of public legislation and private arrangements organized by occupation. Firms, industrial sectors, or individuals supplement public benefits with occupational or private insurance. In theory, public benefits should be portable throughout the EU in contrast to occupational insurance which impedes labor mobility since employers offer additional benefits to their employees to cultivate loyalty and hard work, to reward pay moderation, and to prevent large turn-over of personnel. Contracts are regulated by negotiating parties and come in many different forms. National coordination of multiple private insurance contracts is fraught with difficulties; international coordination is virtually impossible. For different reasons, neither employers nor employees are eager to witness greater EU legislative action in this areas.<sup>58</sup>

From the beginning, national governments and the Commission agreed on two things. First, in response to the apprehension that increased economic competition would lower social policy standards in the prosperous members of the Community, the Commission pledged to ensure high standards in environmental protection, health and safety, and general social provisions.<sup>59</sup> Second, national governments and Commission reached an understanding on the extent to which the principle of subsidiarity would apply to the social dimension of Treaty on European Union. Subsidiarity implies that the lowest level of government capable of effectively addressing the problem should be responsible for the execution and implementation of the policy measures.<sup>60</sup> Subsidiarity is popular

because national governments want to retain sufficient decisional authority to act within the institutional history and normative values of their country. Social security systems articulate widely accepted norms about equity, fairness, and state-society relations that make a harmonized, integrated social space at the European level difficult to achieve.<sup>61</sup>

Yet the single most pressing issue for Belgium and the Netherlands is social welfare reforms. Elections in the 1990s have been a contest between right- and left-wing visions of welfare reform and of new administrative methods of financing and implementing social programs. None of the political parties in either country have been or are planning to draw attention to EU developments to justify drastic action nor do they rely on experiments taking place in neighboring countries to evaluate domestic proposals. For elected officials and other concerned groups, origins of the present crisis in public expenditures are traced to past domestic decisions and arrangements so that solutions are sought within the national context. In the 1994 Dutch election, the Liberal party advocated a pared-down welfare state that would guarantee a minimum level of social assistance while the Labor party would like to preserve the current system with a few changes. The Liberal party, which is prepared to discard the current system, is proposing various alternatives such as 'work-fare' programs, the privatization of certain kind of risks (disability and sickness), or the implementation of a basic income plan. None of these alternatives are weighed against the possible impact of or on the Social Dimension. In fact, the most daring and novel suggestion, which centers on the idea of providing every Dutch citizen with a minimal basic income in return for phasing out most, if not all, social welfare programs is discussed by opponents and critics alike without regard of how this will mesh with the creation of a unified labor market and with the need to improve social security coordination.<sup>62</sup> European law clearly articulates the principle of one territory and social benefits can no longer be targeted to one particular national group. The Union constitutes a unified legislative space so that a basic income should be made accessible to every non-Dutch resident from the EU who happens to settle in the Netherlands.

Undeniably, general ignorance about the potential consequences of domestic restructuring on labor market integration or social security coordination mirrors the minimal progress made in the EU. In turn, as long as member-states scorn a program for social integration, no progress can be made in this field.<sup>63</sup> To be sure, in the mid-1980s, thus in the beginning of the revitalization of the Community and the launching of the Internal Market project, labor market integration and free movement of labor provoked fears among Dutch and Belgian officials in that their generous system of social protection would spur, they believed, 'social tourism'. They speculated that migrants would come to the Low Countries for the sole purpose of taking advantage of generous social benefits. Unemployed and disabled individuals would 'shop' around for the national social security system with the highest and best benefits and these individuals would choose Belgium or the Netherlands. In retrospect, many of these fears were groundless. Presumably, employers will weed out 'bad risk' employees and not employ them. Moreover, there is some serious doubt whether sick and disabled individuals are likely to uproot themselves from their community given the psychological and financial costs of moving to another country.<sup>64</sup>

Many of these fears have abated not in the least because the European Court of Justice, while passing decisions in support of freedom of movement for EU citizens, also imposed some important restrictions. Above all, the ECJ ruled that citizens of the EU have the freedom to move to any other EU member-states so long as they carry their own health insurance and are financially able to support themselves.<sup>65</sup> Accordingly, the ECJ has declared that an EU citizen can be looking for employment in another EU country for up to three months on the condition that the person has a place to stay and registers at the local employment office. The host country pays the unemployment benefits against later reimbursement by the country of origin of the job-seeking EU national. If after three months, the person has not found work, s/he forfeits his/her right to unemployment benefits in the host country, will therefore lack sufficient financial resources, and can be asked to return home.

Arguably, it is still possible that an employed individual from the EU could pose a burden on the social security system of the host country. For example, a person who works part-time and whose earning fall below the legal minimum income as defined by Belgian and Dutch legislation can apply for social assistance. Similarly, employed EU residents could lose their jobs after a short period and be able to qualify for unemployment benefits until their residence permits expire which happens automatically only after 2 years of unemployment.<sup>66</sup> In the Netherlands, moreover, the social security system is based on risk instead of amount or years of contribution while the country of residence is decisive for the payment of contributions and benefit entitlements in stead the country of employment.<sup>67</sup> Some

changes to the Dutch social security have been made that will make it less vulnerable to entitlement claims of non-Dutch employees. For example, since 1992, a person who is eligible for disability benefits receives 70 percent of last wage for a specific duration which is calculated by the age when the person began to contribute to the insurance scheme.<sup>68</sup> Earlier, a disabled person could draw 70 percent of last earnings until retirement age. It is noteworthy that the Dutch Parliament passed the new disability law not to prevent EU nationals from exploiting a system which is susceptible to fraud and abuse but rather to control public expenditures and to reestablish an incentive system to encourage benefit recipients to find jobs. At no point during the deliberations on reforming disability qualifications did it occur to legislators to point out how the previous system would attract 'social tourists.'

Again, it is interesting to explore why the Internal Market project and ECJ rulings have not been instrumental in shaping national debates on welfare reforms. One major factor, aside from the weak powers of the Commission in determining social policy, is that few people have actually moved to the Netherlands or Belgium and that the majority of EU residents who have taken up residence are highly skilled and much in demand.<sup>69</sup> A much greater problem is migration from outside the EU.<sup>70</sup> The biggest challenge in Belgium, which induced Dehaene, the prime minister of a Christian-democratic/Labor cabinet, to call for early election in February 1995 is to cut social expenditures. Belgium has an inefficient social security system where the federal government collects taxes and disburses revenues to parapublic institutions which administer entitlement programs. Social programs account for 55 percent of government expenditures and 23 percent of GDP in 1994. In the future, expenditures on pensions and health care will escalate due to an aging population. Administrative reforms, change in unemployment benefits, which until today are fixed for an unlimited duration, overhaul of pension and health care systems are all meant to arrest the growth in the public sector. No easy solutions are in sight because governments already have worked on fiscal consolidation for a decade and the least controversial savings have been tried. One proposal, which would be very daring and harmful to Belgium as a nation-state, is to delegate responsibility for social security to the new regional governments. The danger of this proposal is that the French-speaking regions will witness further economic decline and social dislocation because they have been net beneficiaries of federal funds for decades and that the end of social solidarity between Flanders and Wallonia would persuade each region to seek greater independence and autonomy at the expense of Belgium.<sup>71</sup> Yet Flemish leaders push for the federalization of social security because the Flemish mutual insurance associations unlike the Wallon associations accrued large surpluses part of which were allocated to Wallonia to cover accumulated deficits.<sup>72</sup>

#### Conclusion

The impact of the EU on social policy and social security is weak because the Commission focuses on social regulation to promote economic integration. In turn, social regulation is open to European intervention because member-states oppose the transfer of legally binding powers to the Commission although government negotiators are more charitable concerning the Commission's effort to eliminate non-trade barriers. Hence, there is no European social space and instead there exist a few EU regulations with regard to health and safety standards. Neither national governments nor organized social groups, for different reasons, are in favor of Europeanizing social policy-making.

There is therefore no direct pressure on countries to revise social security/policy in light of rising external pressures in contrast to the way in which the free movement of goods, services, and capital have generated the quest for better coordination and harmonization of product standards or financial market regulations. Indirectly, however, economic deregulation exerts subtle pressures on governments in Belgium and the Netherlands to address the financial costs of the welfare state because it is widely recognized that generous benefits distort the efficient operation of labor markets and harm business productivity. There is a growing sense that social security benefits and expenditures must be reduced for the sake of international competitiveness. Dutch authorities speak of 'policy competition' which compels them to address the difficult problem of high social benefits, high volume of claimants, low labor force participation rates, and subsequently high social security taxes.<sup>73</sup>

In Belgium, the most pressing issue is the size of the national debt, which has stabilized at an unreasonable high level. To acquire the broadest possible electoral approval, prime-minister Dehaene called for early elections in February 1995.

Police and Law Enforcement

One year behind schedule, in January 1994, Europol finally found a home in a stately office building in the Hague. Remarkably, Europol/European Drug Unit is the very first Union-wide system for exchanging police information to fight drug trafficking and the criminal organizations involved with money laundering.<sup>74</sup> Ultimately, EDU will be behind the creation of a sophisticated data base to assist in the analysis of information related to drug trafficking, and be part of the collection and analysis of national prevention programs, measures related to further training, research, forensic matters and criminal records departments. In late 1994, the Council of Ministers decided that Europol should go beyond the fight against drugs and should combat the smuggling of cars, people, and nuclear materials as well.

The decision to improve international police cooperation was taken at the very last day of the Maastricht Summit upon the urgent request of the German delegation. National governments reluctantly agreed to include police collaboration as one of the nine areas regarded by the member states as matters of common interest to achieve the objectives of the Union, in particular the free movement of persons.<sup>75</sup> In fact, the member-states, partly to satisfy German demands for more rapid development in this field, added to the Treaty a 'Declaration on Police Cooperation' to highlight the need to reinforce external border controls in order to eliminate internal border controls. Nevertheless, cooperation in Justice and Home Affairs takes place at the intergovernmental level, the so-called third pillar, and will require unanimity in the Council of Ministers. Further, it will be the responsibility of the Council to establish uniform attitudes and promote all forms of cooperation to actualize the Union's objectives. Although resolutions and conventions require unanimity, measures to implement the principles decided upon in the Council can be adopted through qualified majority voting. Presently, in 1995, member-states are still struggling to agree on a convention to define Europol's role and powers. Among the many obstacles encountered are that countries subscribe to different definition of fields of crime and different ideas on which crimes fall within the scope of Europol. In addition, the Union has no common standards for the protection of data which is an absolute prerequisite for the operation of Europol. To circumvent data protection restrictions, governments send liaison officers to the EDU/Europol who are responsible for exchanging personal data keeping the data protection legislation of the member-state in mind. The German presidency of the EU attempted to settle the matter in late 1994 and only managed to extract a promise from President Mitterrand that the French presidency would work on a convention to be ready in June 1995.<sup>76</sup>

A European Police Office is a natural outgrowth of the various agreements and arrangements in existence since the mid-1970s which aimed at improving cross-border police cooperation.<sup>77</sup> The objective of Article K.4 on Justice and Home Affairs is to merge the various working groups and arrangements into the Coordination Committee for Justice and Internal Security and to prepare the ground for joint judicial, visa, and internal security policies.<sup>78</sup> What ultimately convinced member-states to go ahead with a framework for European police cooperation was the widely-held perception, played up in the popular media, that the unrestricted movement of people would lead to more international crime and crime against the EU. The phasing out of internal frontiers required better monitoring and collaboration to secure the Union's external frontiers, not only to keep criminal syndicates out but also to stem the flow of illegal immigrants and asylum seekers.<sup>79</sup> Although evidence of an emerging 'security deficit' is sparse<sup>80</sup>, voters have become less tolerant of crime and more demanding of their law enforcement establishments.

While popular support for a European police organization is genuine, policing and judicial policies are the ultimate prerogative of state sovereignty. In democratic states, the police represents the central instruments of government in the domestic exercise of legitimate power. Historically, there is a strong connection between nation-state, control over police forces, and definition of state jurisdiction of police functions. This explains why progress in European policing is plagued by numerous delays. National leaders and voters are in favor of launching a European police agency to combat sophisticated crimes and criminals. Yet none of the joint efforts should compromise national legal standards guaranteeing the protection of privacy and democratic rights. No doubt that many voters feel strongly that joint European action in the field of crime fighting yields better results. Yet these same voters also demand close political supervision over police systems to ensure that democratic and individual rights remain inviolate. Unfortunately, the European Union has no system in place to guarantee democratic control over police activities.

This may explain the strange developments in Belgium and the Netherlands in the early 1990s. Police systems in each country underwent substantial organizational reforms either prior to or directly after

the Maastricht Summit. While popular debates on altering police systems focused on the dangers of the unrestricted movement of people, the actual revision of police acts had nothing to do with the European developments. Much of the discussion on the inefficiency of police organizations was shaped by the sense that the new Europe was fair terrain for organized crime. But the approach to the perceived surge in crime rates was based on domestic administrative, political, and legal parameters. Elected officials in Belgium and the Netherlands used new police acts to tighten political oversight over national police activities and pay little regard to the movement towards strengthening transnational cooperation and security system. In short, the deliberations as well as the actual policy legislation was firmly grounded on existing administrative rules and domestic political dynamics.

#### Police System of Belgium

Until 1991, Belgium counted three regular police forces.<sup>81</sup> The municipal police with around 16000 employees was the largest force and did not change. Alongside the municipal police was the Gendarmerie, which employed a total of 155 000 people. The Gendarmerie was in charge of public order, law enforcement and traffic surveillance and was called upon to solve serious crimes, even in large cities like Antwerp or Brussels, because its force was considered better trained and more professional. One legacy of Belgian state formation was that the Gendarmerie fell under the ministry of defense because it was also supposed to carry out military assignments.<sup>82</sup> The smallest of the three forces was the judiciary police whose staff wore civilian dress and was mostly in charge of serious white collar crime. It was much smaller than the other two organizations, employing 1400 people.<sup>83</sup> Until the new police legislation went into force in 1991, intense fragmentation and competition undermined the effectiveness of the entire Belgian policing system. The rivalry was especially ferocious between the judiciary police and the Gendarmerie with the bizarre outcome that one force would knowingly arrest informants of the other with the specific purpose of thwarting further progress in their crime investigation. Routinely, officials from different police agencies withheld information from each other in order to be in control of an investigation which required joint collaboration.<sup>84</sup> The legal framework had contributed to this situation by failing to delineate who was responsible for which policing functions. In the late 1980s, every brigade of the judiciary police and Gendarmerie ran their own drug crime division while every large municipal force also set up its own drug crime unit but no central office collected information and coordinated strategies and findings of numerous, overlapping investigations.

In the 1980s, the Belgian police made several terrible blunders that propelled the political leadership to review the entire police system. First, there was the case François, which began in 1975 but was not brought to light until 1980.<sup>85</sup> A few years later, in 1984, a radical-left group began a terror campaign against the Western defense alliance and the Belgian establishment by placing bombs at NATO offices, military command centers, weapon manufacturers, and commercial banks. The CCC (Cellules Communistes Combattantes) were especially active in 1984 and 1985 after which the police was able to identify the main tactician behind the bombing strategy and the CCC was quickly brought under control.<sup>86</sup> Then, in 1985, 38 people were crushed to death during the final game for the European soccer championship in Heysel after drunken British soccer fans tried to reach the section where fans of the Italian team were seated. Afterwards, the media and government blamed police officials and Gendarmerie for being ill-equipped and for being unable to calm the crowds.

All of these events pale in comparison to the death of 28 innocent people who were killed in Mafia-style executions by a small group of criminals whose identity and motives are until today obscure. Called the Gang of Nijvel, they operated between 1982 and 1987, and committed a string of robberies and hold-ups of supermarkets, restaurants, and weapon stores in order to walk away with modest amounts of cash, food, and weapons. During these robberies, quite a few innocent bystanders were cold-bloodedly executed with sophisticated weapons which were later found to be stolen from the Gendarmerie itself.

In April 1988, after the general elections but before the installation of the new coalition of Martens VIII, the future cabinet appointed a parliamentary committee with the mandate to examine how Belgium copes with crime and terrorism. Two years of research yielded a hefty tome of recommendations that the Martens cabinet used to introduce new police measures.

The report listed several areas where Belgium had failed. Supervision over police activities was weak, policing standards and training were low, and the entire structure of policing with its involvement of three ministries -- Defense, Interior, and Justice -- was unwieldy. In response, the government adopted many proposals listed at the end of the parliamentary report during the legislative session 1990-1991.

By far the most important step was to demilitarize the Gendarmerie and to dis sever it from its military symbols and connections. Responsibility for the Gendarmerie shifted to the ministry of interior and it became a regular civilian force. The cabinet proposed better political supervision over police organizations since the twin objectives of the new police laws were to improve efficacy, achieved by establishing a joint center for computer data, better training, facilitating national contacts, information, computers, modernization of municipal police, and to strengthen accountability which produced a permanent parliamentary committee with the task of overseeing police matters.<sup>87</sup> The results, for now, is that politicians have a better view of and say over police matters. Accountability is more transparent and effective.

What the reforms failed to accomplish was to contain the conflict and rivalry between the judiciary police and Gendarmerie. To a large extent, each is still in charge of investigating organized crime and cross-border crimes.<sup>88</sup> Belgian police officers continue to complain that it is more difficult to cooperate among themselves than with foreign authorities.<sup>89</sup> The logical step would have been to fold the much smaller judiciary police into the Gendarmerie. The minister of justice, however, fought tooth and nail against this proposal. In the meantime, foreign police officers and services continue to wonder to whom to turn when seeking partners or information.<sup>90</sup> At present, the situation has slightly improved but not enough to conclude that the national police system of Belgium is better equipped to join and promote international police cooperation. That this was not achieved is no surprise since the European debates on Europol had little to do with the sudden desire to reorganize the national police system. Voter dissatisfaction partly stemming from the transparent failures of the Gendarmerie to solve extraordinarily violent crimes guided the political process to conceptualize a more efficient police system.

#### Police System of the Netherlands

During World War II, the Nazi regime modernized and centralized the Dutch police system with the result that the regular police forces even before the new police act consisted of two separate branches: municipal police and state police. Municipal police was found in cities of more than 25000 residents or in 148 towns. The administration and supervision of the local police rested with the mayor, and the budget and promotion steps were set by minister of interior. In towns too small to possess own police corps (approximately 550 municipalities), the state police was responsible for law and order and for crime investigations. The state police was financed and managed by the minister of justice, and employed 14000 people while the municipal police had a staff of 25000.<sup>91</sup>

After years of desultory debate, the third government of Lubbers introduced the new police act whose contours had been outlined in the 1989 pre-coalition agreement. What propelled the cabinet into action was the realization that the current system was outdated and inefficient while modernization of the police would be very costly. In the age of budget retrenchments, a merger of separate police force into larger units promised to lower overhead costs while modernizing the force with the newest investigative instruments and procedures. Pressures arose to improve competence and effectiveness because Dutch voters were convinced that crime rates had surged while police capability had declined. By 1990, politicians, representing public opinion, but also law enforcement officials agreed that everyone stood to benefit from larger police units resulting in higher professional standards and better equipment at lower costs.<sup>92</sup>

In 1993, the new police law went into effect. It abolished state and municipal police and merged them into 25 regional police forces. At the head of the regional police force stands the mayor<sup>93</sup> of the largest city within the region, assisted by a council consisting of local mayors, officials from the office of the public prosecutor, and regional police chief. The ministry of interior continues to be in charge of funding the regional forces although the ministry of justice (office of the public prosecutor) determines organizational and financial issues.<sup>94</sup> Twenty-five regional forces report to 19 court districts but to only one office of the public prosecutor. The police chief must consult with the public prosecutor (and thus the justice ministry) on decisions with organizational and financial consequences.

The dual system of management and supervision was kept because justice officials refused to sacrifice 'their' state police unless the ministry received a new mandate for administering and managing police affairs. As police regions correspond to newly drawn court districts<sup>95</sup>, the office of public prosecutor stands at the head of the district and wields influence over the gathering of facts and prosecution of crimes. Alongside 25 regional forces, the cabinet established a national 26th force, managed by the minister of justice, and in charge of specialized services which used to be independent like maritime

police, royal security force, road traffic police and Central Criminal Intelligence (which maintains international police contacts and sends liaison officers to Europol).

As in Belgium, the police reforms came in the wake of rising complaints about increased crime and decreased police effectiveness. Novel crimes (such as those related to illegal dumping of waste, trade in plutonium) received wide media coverage and heightened the sense of vulnerability.<sup>96</sup> Promises to abolish internal frontiers coupled with the unstable situation in Eastern Europe convinced Dutch citizens that crime had become more pervasive and that criminals were more bold and sophisticated. Yet reforms to improve police services were framed within the context of existing domestic institutional arrangements and national values. Other than innovating the organizational structure of regular police forces, politicians devoted much attention on amplifying democratic supervision over policing.<sup>97</sup> This is why the new system does not radically depart from what used to be in existence. Dutch police is still accountable to two 'bosses,' justice and interior, which hinders the formulation and execution of coherent police objectives. Each ministry has its own agenda in that home affairs prefers administrative decentralization whereas justice encourages centralization and concentration of police power.<sup>98</sup>

It is also debatable whether this new police system is more congruent with the pledge to improve European cooperation. Although twenty-five regional police chiefs are more likely to cooperate than 150 municipal police chiefs and separate state police divisions, national collaboration has so far eluded the independent forces which would suggest that cooperation at the European level will be even harder.<sup>99</sup> Tensions between the ministries of interior and justice continue to interfere with police affairs because interior controls law enforcement expenditures and justice through the office of the public prosecutor formulates law enforcement policies.<sup>100</sup> This makes one wonder why politicians did not assign the 26th national service more authority to form one overarching national police force. However, Dutch citizens and politicians prefer their police forces to be decentralized and subordinate because they are suspicious of centralized police powers.

#### The German Question: Police Systems and Judicial Harmonization

No country has been so adamant about the wisdom and utility of cross-border police cooperation, regulated by Community agreements and agencies, as the FRG. Repeatedly, German officials have argued that a European police agency would be valuable in the prosecution of crimes against the Community and in the design of joint approaches to crimes experienced by member-states: drug trafficking, illegal weapon trade, and terrorism.<sup>101</sup> Until very recently, other member-states were more skeptical and did not share German enthusiasm regarding central intelligence data bases, the right of 'hot pursuit' across national borders, and joint collaborations. When Chancellor Kohl mentioned the possible creation of an Euro-FBI in 1988, an agency with executive powers, modeled after the American FBI, his proposal received much scorn and was quickly forgotten.<sup>102</sup>

In the late 1980s, German delegations skillfully used the Schengen Accords to explore possibilities in the area of Community-wide policing organizations while TREVI meetings, which had expanded to cover drugs and international crime, provided a second pretext for debating the establishment of an European clearing house to ease cross-border police cooperation. The TREVI action program, accepted during the Dublin Summit in 1990, went so far as to propose the establishment of an European Drugs Intelligence Unit. At the last day of the Maastricht Summit, the German delegation shove at the very early morning hours (6 am) a draft proposal with a rough outline of a future Europol under the hotel door of the participants.<sup>103</sup> According to various accounts, the German delegation threatened to re-open the discussion on every detail of each item on the Maastricht Summit agenda-- a genuinely dreadful thought -- if member-states refused to accept a proposal for cross-border police cooperation.<sup>104</sup> The German draft mentioned a central bureau for information to assemble data on the fight against drugs and organized crime with a possible addition of executive powers for this agency after the Maastricht Summit.<sup>105</sup> During its presidency of the European Council (June-December 1994), the German government urged national governments to implement the Europol agreement by mid-1995 to establish common control of borders and therefore to move towards implementation of the Schengen Accords.

Germany's interest in Community-wide policing flows from its experiences in attempting to broaden the scope of various bilateral cross-border treaties.<sup>106</sup> Germany, Netherlands, and Belgium signed an international police agreement in the early 1960s.<sup>107</sup> In 1969, formal study groups were installed to increase knowledge of different police organizations, organize language courses, establish radio and telex communications, to appoint liaison officers to arrange for the exchange of information



concerning crime and criminals. In the following years, many of these objectives were realized. Daily contacts, trilingual forms to report crimes and criminals, and constant contact to fight drug trafficking became routine matters.

When, in 1975, German police officers sought to extend the existing agreements on cross-border police cooperation by suggesting that German police officers be permitted to pursue a suspect across borders and to make an arrest on foreign territory within the presence of local authorities, the Dutch demurred and rejected the proposal. Yet such an agreement did exist among the three Benelux countries.<sup>108</sup> Neither Belgium nor the Netherlands were ready to enter into a similar agreement with Germany in part because they recoiled from having to restructure cross-border police cooperation among themselves to accommodate Germany. Repeatedly, the German authorities tried to revive the idea of deepening police cooperation and the reaction of the Dutch and Belgian authorities remained passive and negative. Gradually, after 1984, the German authorities decided to take another road to achieve the same goal: multilateral agreements by way of Schengen.<sup>109</sup>

It should come as no surprise, therefore, to discover that Germany has not had much impact on the evolution of police systems and policing philosophies in either country. Typical German preoccupation with 'internal security,' defined as the presence of internal enemies who undermine the state and society for political or philosophical reasons, finds no resonance in either Dutch or Belgian rhetoric or actual policy deliberations. Many Dutch officials either from law enforcement or government find the entire concept of 'internal security' repugnant because it divides society into good and bad citizens.<sup>110</sup> The Dutch tradition like the German postwar one views police organizations with suspicion and advocates institutional restraints on their activities. Both Germany and the Netherlands have open police cultures in which the mandate of law enforcement agencies are carefully circumscribed and in which police agencies are said to carry public responsibilities. Belgium, prior to its revision of its police acts, approached the French model where the jurisdiction, mandate, organizational aspects of police agencies were left undetermined and elastic in order to endow law enforcement with the maximum tactical flexibility. Belgium possessed a closed police culture in that the capacities and organization of law enforcement were kept secret and away from public scrutiny. In part, this was done because Belgium more so than the Netherlands has witnessed serious social instability and civil unrest. Politicians nurtured a strong unified well-equipped police force (the Gendarmerie) to quell working class unrest and other challenges to the state.

At the same time, for police officials from other countries, it was easier to cooperate with Dutch than Belgian authorities because the latter were accustomed to turf wars and regularly held back information and cooperation.<sup>111</sup> Although the Belgian reforms have made the system of law enforcement more open and accountable in that the political authorities have assumed greater direct responsibility, the convergence towards a German-like system came about as the old system was rejected as unmanageable and ineffective. Certainly, Belgian politicians did not look at the German police system for inspiration. Nor did Belgian authorities take into consideration how a new law would feed into European police cooperation. For Europol to succeed in its limited mandate, national police forces must provide intelligence data to the person seconded to Europol. Countries are supposed to organize a national criminal intelligence service to collect data and be ready to respond to requests coming from the national liaison officer at Europol. Belgium has not yet moved forward to centralize the flow and collection of intelligence data nor has it bridged the gap between the different, competing police forces to ensure that they share information at least at the national level.<sup>112</sup>

#### Conclusion

Policing may be an area that is the least accessible to European integration and to assertions of German power. Law enforcement is an important prerogative of the state as it enables state institutions to legitimately use force against its citizens within its national territory. It symbolizes the essence of national sovereignty. In every democratic society, police is subordinate to judicial authorities and government agencies. But most countries grant their police forces a limited amount of autonomy which generates a variety of patterns of interaction between judicial authorities and law enforcement agencies that grew out of the historical legacy of state-building and out of particular moments of upheaval and crisis.<sup>113</sup> Police institutions are deeply embedded in the national governance structures and cultural mentality of a country. New police legislation recognizes these boundaries and operates within those parameters. One critical parameter, acknowledged by politicians and citizens in the 1991 Belgian reform measures and 1993 Dutch police act, is that elected officials, and thus voters, must maintain close oversight over the activities and developments of police organizations. Transferring police

functions to the Union is viewed with considerable trepidation because the political superstructure to supervise law enforcement organizations at the Union level is not yet in place. The European Parliament will not be able in the near future to assume the current supervising and reporting duties of national parliamentary committees. Nor does the EU have in place a judicial framework to reconcile very different definitions of criminal offenses. For this reason, neither Belgium nor the Netherlands fully endorse the Europeanization of policing.<sup>114</sup> Neither country is susceptible to German norms of policing for the same reasons outlined above. They each have their own traditions and they do not look at Germany for leadership in the way in which both countries have sought German authority in the field of monetary policy.

Nevertheless, I believe that the debate on European police organizations and on improved cross-border police cooperation has made an impact on the timing, if not the substance, of the new police laws. Although internal developments forced cabinet officials to address the obvious gaps in police effectiveness and organization in each country, the decision to create Europol provided an extra jolt to tackle police legislation and bring about greater rationalization and transparency. Similarly, media coverage of spectacular crimes (smuggling of plutonium) and its focus on the operation of international crime syndicates mobilized voters to demand better law enforcement protection and more sophisticated anti-crime units. In this sense, changes at the European level spilled over into national political institutions. It is important to note, however, that the political commitment to move ahead with a European police agency may have persuaded politicians to take action but has not shaped the content of the new police acts. The actual substance of domestic legislative revisions was primarily influenced by domestic expectations, norms, and existing organizations.

#### Conclusion

What conclusions can we draw from the study of three different policy sectors and institutional areas? How do money, welfare, and policing help us understand the relationship between small member-states, FRG, and the EU? First, it is important to point out that the EC/EU is primarily a passive presence in the domestic debates, reform policies, and legislative actions of Belgium and the Netherlands. Other than monetary integration, which is indeed one of the success stories of the EC/EU, policy autonomy of national governments has not really diminished because of structural/organizational developments in the EU. European institutions and the process of European integration exercise a subtle influence on voters and national leaders in that it may explain the timing of certain policy measures or it may illustrate the course of a debate but they do not directly shape institutions or legislation. Only in the field of monetary integration, that is, the EMS, can we speak of a genuine transfer of policy capabilities to a supranational institution and the emergence of a European polity with its own operational norms and goals. Yet, at the same time, we should treat monetary integration with caution because fiscal behavior is still conditioned by expectations about the redistributive functions of the social welfare state and postwar solidarity. Exceptionally few steps have been undertaken to drastically curb social expenditures or cut back social programs. It could be that the social welfare state cannot be altered in any drastic fashion because it compensates for the hardships and dislocations arising from the pursuit of a fixed exchange rate and of an appreciating currency. Leaving aside for the moment the difficult question of whether monetary integration is responsible for mass unemployment in Belgium and the Netherlands or not, EMS participation is accompanied by major economic shifts and restructuring that produces winners and losers. Social spending co-opts voters to accept a total loss of national monetary autonomy and procures acquiescence for continued participation and obedience to EMS or future EMU rules. Paradoxically, the best political strategy to achieve the unachievable, namely the recasting of the postwar consensus built around the redistributive social system, would be to encourage the free movement of labor and thereby force greater European harmonization of social security. Governments could intentionally tie their hands by promoting labor mobility and then claim that the unrestricted movement of people requires a totally new approach to state intervention in the social arena. Yet, somewhat surprisingly, national governments resist the relinquishment of social policy to the EU in principle and at all costs.

Quietly, Dutch and Belgian voters ought to be afraid of the Europeanization of social policy/security because joint European decision making could very well erode their high levels of benefits. But elected officials, especially from center-right parties, should support labor mobility to push through controversial reforms to cut down social spending and reconfigure domestic labor

markets to restore an incentives to reduce stagnant unemployment and create more flexible labor markets.

As I tried to show, politicians like their constituents are not ready to give up social policy autonomy or the welfare state. Social policy and social security are jealously kept under national control with the result that the Social Dimension is substantially underdeveloped. Why?

First, social partners, whether labor or employers, are for different reasons opposed to the Europeanization of social policy/security. Second, and more importantly, I think, because it also explains the absence of a European dimension in the deliberations and drafting of new police legislation, is that politics in countries like Belgium and the Netherlands is cast in domestic/national terms. Political parties, labor movements, grass-roots organizations are still wedded to a national vision of politics and formulate national programs based on national strategies. Options have changed, international environments are different, the European Union emerges yet electoral campaigns center on trade-offs between various national options and evaluate their costs or benefits against a national scale. The substance of electoral politics is not Europeanized. Voters, opinion leaders, officials and political or professional associations still view legislation and policy courses as a national/domestic affairs.

Certainly, there is a lesson in all this. The EU still has a long way to go before we can expect to see a united Europe.. If critical areas of governance and policy activity do not yet reflect the drive for a unified Europe, it will take more than a few years to actualize economic monetary union or any other proposal on the table that will result in political integration. Consider Belgium and the Netherlands, founding members of the EEC, core participants in the EMS and EMU debates, faithful supporters of federalism, institutional deepening, and democratization of the European Parliament, if they have not yet incorporated Europe into their policy frameworks and political discourse, what to expect from countries less committed to Europe?

The robustness of domestic institutions and thinking also explains why it is too premature to speak of German hegemony. German leadership is courted when it suits the national priorities of Belgium and the Netherlands. German pressures are ignored or thwarted when it conflicts with national traditions or interests. Why would Europe fear the Germans? Belgium and the Netherlands, two small democracies at the heart of Europe and closely linked to the German economy muddle through challenges and changes brought by new international configurations at their own pace, on their own terms, and within the institutional structure and cultural norms of their own society and history.