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THE MAKING OF A POLITY: THE STRUGGLE OVER EUROPEAN INTEGRATION

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European integration over the past decade has been a polity-creating as well as a market-deepening process. First, and most obviously, the Single European Act (1986) and the Maastricht Treaty (1993) are part of a process of market integration in which a wide variety of nontariff barriers have been reduced or eliminated. Second, perhaps less obviously, these institutional reforms have led to a single, though diverse, polity – a system of multilevel governance that encompasses a variety of authoritative institutions at supranational, national, and subnational levels of decision making.

Our point of departure is that economic developments during the past two decades – internationalization of markets for goods and especially capital, decline of traditional industry and industrial employment, pressures toward flexible specialized production, decentralization of industrial relations, declining international competitiveness, and high levels of long-term unemployment – have led to fundamental reorganization of political authority in western Europe.

The failure of Keynesian economic policy over the past two decades

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was not simply the failure of a particular set of macroeconomic policies, but the failure of a mode of policy making that was distinctly national. Neocorporatist class compromises and consensual incomes policies that underpinned Keynesian economic policy in many advanced capitalist societies in the postwar decades involved national bargains among interests aggregated at the national level. The perceived failures of those policies led to a debate about the efficacy of the national state. The search for alternative policies went in several directions, but common among them was a belief that the national state could no longer serve as the privileged architect of economic prosperity. The Single European Act institutionalized a double shift of decision making away from national states – to the market and to the European level. This is the point of departure for European integration in the 1980s and 1990s.

The point of departure, but not the destination. The deepening of the market did not determine how the market was to be governed. That was – and is – subject to an intense and highly politicized struggle among national government leaders, Commissioners and high-level European Commission administrators, judges in the European Court of Justice, party representatives in national parliaments and the European Parliament, alongside a variety of social movements and interest groups.

The redesign of authoritative decision making in the European Union (EU) is closely linked to a broadening of participation. EU decision making has become a conscious political struggle among coalitions of political actors having distinctly different conceptions of how Europe should be configured politically. At stake are not only particular policy or institutional outcomes, but grand issues of political architecture. What are the guiding constitutional principles for the allocation of competencies within the European polity? How should authoritative decisions be made? What role should direct democracy have in the process? What should be the relationship between market and state?

We argue that these big questions have generated a structure of contestation that cannot be reduced to differences among national states about distributing Pareto benefits among themselves or lowering transaction costs or enforcing interstate agreements. European integration, we believe, is an irreducibly political, as well as an economic, process. In this chapter, we come to grips with the interests and ideas of those engaged in EU decision making. The next section sets out our analytic scheme. The following section analyzes the deepening of the Euro-polity following the launch of the internal market program. In the final sections of this chapter we describe the political projects that now underlie contention in the European Union.

THE MAKING OF A POLITY

The development of a Euro-polity has gone hand in hand with fundamental change in decision making. First, decision making has become politicized. The roots of this go back to the mid-1960s and the end of the Monnet era of technocratic bargaining. Monnet's method of mutual accommodation and piecemeal problem solving, which were codified in neofunctionalism (Haas 1958; Schmitter 1969), was trumped by basic conflict over decision making. Today, as in the period dominated by Charles de Gaulle, the general premises of European integration are contested. But, as the competencies of the EU have grown, so contention has spread into most areas of political-economic decision making, including the role of the state in the economy and the organization of monetary and fiscal policy.

Second, and more recently, the scope of political participation in the EU has widened. Even as EU decision making became more contested in the mid-1960s, it was still an elitist affair, dominated by a few national and supranational leaders (Wallace 1983; Wallace 1996). This has changed decisively from the mid-1980s as diverse groups have mobilized directly at the European level and as national leaders have sought to legitimize the process through parliamentary debates and referenda.

Tables 3.1 and 3.2 and Figure 3.1 formalize these distinctions in dichotomous ideal types. They can be useful as long as one remembers that the types – technocratic-elitist, politicized-elitist, and participatory-politicized – describe extreme points along continua, and that, correspondingly, the periods we delineate fit the types imperfectly. The changes in question can be summarized as follows.

Contention over Sovereignty

The accretion of authoritative competencies at the European level has raised the issue of national sovereignty in ever more transparent fashion. Notwithstanding claims by some scholars that national sovereignty is undiluted or even strengthened in the process of European integration (Hoffmann 1982; Milward 1992; Moravcsik 1993, 1994), many Europeans believe that recent shifts in decision making threaten the sovereignty of member states. The simplest way to conceptualize this source of politicization is to say that, at some threshold, incremental transfers of competencies have systemic implications for the structuration of authority. The classic neofunctionalist strategy of integration by stealth (i.e., on the merits of particular proposals without emphasizing their wider implications for sovereignty) has been undermined by its very success. Proposals for further integration are now evaluated in terms of their systemic implications as well as their policy effects.

Table 3.1. *Decision-making style*

	Technocratic decision making	Politicized decision making
Goals	Basic policy goals are *shared* among key actors	Basic policy goals are *contested* among key actors
Means	Means for achieving policy goals involve *scientific-rational* methods	Means for achieving policy goals involve basic *political* choices
Issue linkages	Issues are dealt with in *compartmentalized* policy arenas	Issues are dealt with in *interconnected* policy arenas

Table 3.2. *Actor involvement*

	Elitist	Participatory
Number	*Small number* of social groups mobilized politically	*Large number* of social groups mobilized politically
Boundaries	Boundary rules for participation are *elite determined*	Boundary rules for participation are *contested*
Group pressures	Decision makers are *insulated* from group pressures	Decision makers are *vulnerable* to group pressures

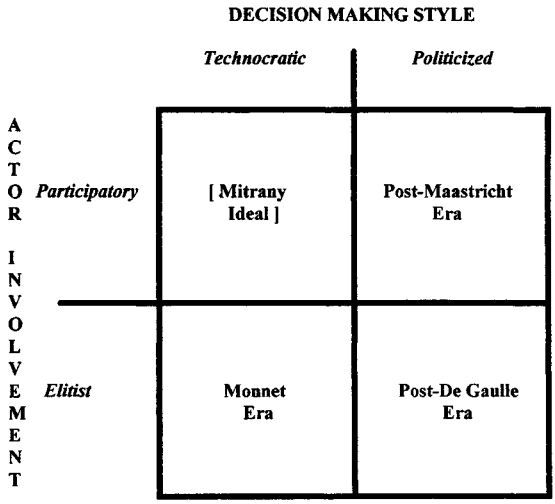

Figure 3.1. Types of decision making

A corollary of this is that EU decision making has become less technocratic and more contentious. Fewer decisions are resolved by rational-scientific methods, by ascertaining the most efficient means to given ends, while more decisions involve political contention concerning fundamental goals of European integration. We argue here that this politicization was triggered by the internal market program and accompanying institutional reforms.

Interest Group Mobilization

As the scope and depth of integration have increased, and as the stakes of European decisions have correspondingly been raised, an ever wider variety of groups has been drawn into the EU (Mazey and Richardson 1993a, 1993b; McLaughlin and Greenwood 1995; Fligstein and McNichol 1996). Groups that now participate directly in Brussels include private corporations, sectoral, national, and transnational associations, public interest groups, regional and local governments – in short, a range of interest groups without parallel in any European capital. Such mobilization has created new linkages between European political actors and domestic or transnational constituencies and it has intensified political pressures on elites to regulate economic activity and provide benefits to strategic constituencies.

Elite Vulnerability

Political elites have become more vulnerable to generalized public pressure (Niedermayer and Sinnott 1995; van der Eijk, Franklin, et al. 1995). The most transparent source of such pressure (in addition to the developments just discussed) has been the activation of mass publics in contentious referenda that followed the Maastricht Accord of December 1991 (Franklin, Marsh, and McLaren 1994). No longer can one conceive of decision making about basic institutional rules of the EU as insulated from public opinion, for even where referenda are not imminent constraints, politicians are induced by public scrutiny to act as if they were. Decision making at the European level is no longer divorced from the hurly-burly of the domestic political scene.

PROJECTS

A consequence of the deepening of the Euro-polity is that, as several observers have stressed, the EU has been "domesticated." Neither key institutional reforms, nor everyday policy making resemble conventional foreign-policy making among national governments. Both are subject to

pressures that have palpable domestic political repercussions. In short, politics in the EU is more like that found *within* national states than *among* them.

In the remainder of this chapter, we analyze the implications and substantive character of politicization in the EU. We attempt to show that politics in the EU is structured in ways that are predictable. Our analysis seeks to move beyond studies that depict European decision making as a "primeval soup" (Richardson 1996) or as conforming to the indeterminacy of a "garbage can model" (Kingdon 1984; March and Olsen 1989; Peters 1992). We conceive European politics as an interplay among a limited number of overarching political designs or "projects," rather than a flow of discrete decisions. These projects are coherent, comprehensive packages of institutional reforms around which broad coalitions of political actors at the European, national, and subnational level have formed.

Two projects in particular (described in subsequent sections of this chapter) have been at center stage in the debate about the emerging European polity since the 1980s.

The *neoliberal project* attempts to insulate markets from political interference by combining European-wide market integration with minimal European regulation. The neoliberal project rejects democratic institutions at the European level capable of regulating the market, but seeks instead to generate competition among national governments in providing regulatory climates that mobile factors of production find attractive.

The *project for regulated capitalism* proposes a variety of market-enhancing and market-supporting legislation to create a social democratic dimension to European governance. This project attempts to deepen the European Union and increase its capacity for regulation, by among other things, upgrading the European Parliament, promoting the mobilization of particular social groups, and reforming institutions to make legislation easier (e.g., by introducing qualified majority rule in the Council of Ministers).

These projects share some basic features. First, they have an intellectual rationale. They make fundamental claims about how the European polity currently operates and how it should be organized. Second (and correspondingly), these projects provide a political line on almost all issues on the European table. They are recipes for analysis and for action that reach into most crevices of the EU polity. Finally, these projects motivate broad-based political coalitions. They are not merely intellectual constructs, but potent plans of action that, more than any others, have shaped contention in the EU since the mid-1980s.

DIMENSIONS OF CONTESTATION

While there are many alternative institutional designs on offer, it appears to us that neoliberalism and regulated capitalism have been the most politically salient. They define a fundamental cleavage in the EU. We hypothesize that these projects are located in an emerging two-dimensional political space: the first dimension ranging from social democracy to market liberalism; the second ranging from nationalism to supranationalism. We represent these hypotheses in Figure 3.2.

If Figure 3.2 reminds the reader of two-dimensional cleavage structures that are hypothesized for domestic European polities, this is our intention, for we contend that the EU has developed into a polity that can be analyzed with concepts that have been applied to other European polities (e.g., Lipset and Rokkan 1967; Kitschelt 1994b). This extends the idea that the EU is a single, territorially diverse European polity encompassing subnational, national, and supranational actors who pursue their goals across multiple arenas (Hooghe 1996a; Jachtenfuchs and Kohler-Koch 1995; Jeffrey 1996; Leibfried and Pierson 1995; Marks 1993; Marks, Hooghe, Blank 1996; Risse-Kappen 1996; Sandholtz 1996; Scharpf 1994; Wallace 1994; see Anderson 1995 and Caporaso 1996 for an overview of current conceptualizations of the EU).

As one would expect, when national actors step into the European arena they bring with them ideological convictions from their respective national arenas. This is evident in the horizontal axis of Figure 3.2, which represents a key dimension of contestation – concerning economic equality and the role of the state – imported into the EU from national polities.

Alongside this left versus right dimension, we hypothesize a distinctively European dimension of contestation: nationalism versus supranationalism, which depicts conflict about the role of the national state as the supreme arbiter of political, economic, and cultural life (Hix, forthcoming; Hix and Lord 1996). At one extreme are those who wish to preserve or strengthen the national state; at the other extreme are those who wish to press for ever closer European union and believe that national identities can coexist with an overarching supranational (European) identity.

We conceptualize these dimensions as orthogonal. However, attitudes along these dimensions appear to be constrained by the political affinity between leftist orientations and supranationalism and between right-wing support and nationalism. We hypothesize the emergence of a cleavage ranging from center-left supranationalists who support regulated capitalism to rightist nationalists who support neoliberalism. This is the dotted line in Figure 3.2.

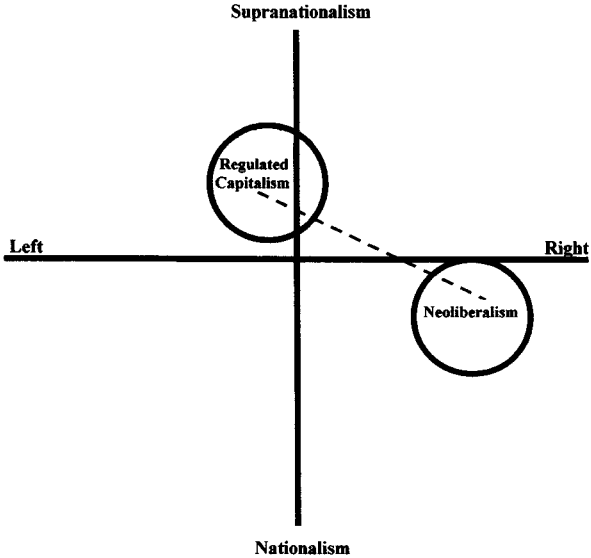

Figure 3.2. Dimensions of contestation in the European Union

As in any territorially diverse polity, the structure of contestation varies from region to region. Moreover, while the cleavage represented in Figure 3.2 is the dominant way of combining these dimensions, it does not encompass all actors. As we will note, one finds, for example, left-leaning nationalists in the Danish Social Democratic Party and right-leaning supranationalists among German Christian Democrats.[1]

This way of conceptualizing contention in the EU will be rejected by those who view European integration as a game among national governments. Our view is based on the following propositions: first, as we have argued at length elsewhere, subnational and supranational actors participate alongside national governments in EU policy making; second, territory is only one, among several, bases for interest intermediation in the EU.

Territorial identity (and, in particular, nationality) is important, but it is not all-important, as a source of individual preferences with respect to EU institutions and policy. To understand contention in the EU, it is not enough to analyze differences between, say, the British and Germans, or

[1] This topic demands sustained empirical analysis that goes beyond the scope of this chapter. Our hypotheses here are supported by information from interviews conducted by one of the authors with some 140 A1 and A2 Commission officials (Hooghe 1997), and by other, less systematic, evidence.

even among territorially defined groups within these countries. Political coalitions are also formed among groups sharing particular views (e.g., with regard to the environment or the role of women) or among groups with some particular economic function or socioeconomic characteristic (e.g., financial capitalists, organized workers). To the extent that political coalitions in the EU crosscut territory (i.e., pit groups in the same territory against one another), so one may speak of the "making" of a European polity that is something more than an aggregation of constituent national polities.

European integration is an experiment in creating a polity among extraordinarily diverse publics. Domestic patterns of contention, in particular, the left-right cleavage, are projected into the EU. But at the same time, European integration has come to influence contention within individual countries. As more authoritative decisions are made in the EU, and as domestic groups mobilize to affect those decisions, so European integration has come to feature in domestic contention among – and within – political parties.

How can one explain the making of this polity? In the next section we take up this question from a historical-analytical perspective, focusing on a cascade of changes in political mobilization and contention that followed the institutional reforms of the Single European Act.

POLITICIZED-PARTICIPATORY DECISION MAKING

While the European Union was first politicized as a consequence of President de Gaulle's empty-seat strategy of 1965, the period from the mid-1980s is a watershed in the political development of the EU, for it ushered in an era of more intense public scrutiny, more extensive interest group mobilization, and less insulated elite decision making. The period beginning with the Single European Act (SEA) created the conditions for *politicized-participatory* decision making in the EU, increasing the stakes of political conflict, broadening the scope of authoritative decision making, opening new avenues for group influence, and creating incentives for a quantum increase in political mobilization.

CONTENDING CONCEPTIONS OF THE INTERNAL MARKET

The success of the market program provoked an intense debate about how the market should be organized politically, and this conflict has shaped

European politics during the subsequent decade. Market liberalization was supported by a broad coalition of governments, parties, and interest groups with widely different orientations (Bornschier and Fielder 1995; Cameron 1992; Sandholtz and Zysman 1989; Cowles 1995). As the reforms took shape, these differences began to crystallize in contending conceptions of capitalism in Europe. The market program – a goal shared by many in 1985 – became a point of departure for contending political agendas.

For actors with a neoliberal outlook, market liberalization was a necessary step in limiting European integration to an economic enterprise dominated by insulated government elites. Neoliberals were strongest in the British Conservative government, led by Margaret Thatcher, and within international capital. Without a British veto the French Socialist and German Christian Democratic governments would have created more extensive European competencies in areas such as industrial policy and telecommunications (Cameron 1992; Moravcsik 1991; Sandholtz and Zysman 1989).

But there were other, very different, conceptions of the market program. Some actors conceived of the SEA as a jumping-off point for regulating capital at the European level. This view was put forward most strongly by Jacques Delors, then president of the European Commission. Rather than waiting for the intended and unintended effects of market reform to wend their way through diverse spillovers to government preference formation, à la neofunctionalist theory (Haas 1958; Schmitter 1969; George 1996 [1985]; Burley and Mattli 1993), Delors and his supporters conceived of the market program as an opportunity to orchestrate *strategic* spillovers. Their goal was to create "organized space" at the European level, regulating European capitalism in line with European Social-Democratic and Christian-Democratic traditions.[2]

In short, the market program was the beginning, rather than the conclusion, of debate about the institutional configuration of the European polity. The key to the political success of the market program was its ambiguity – the fact that it was all things to all actors – but once in place the broad coalition that underpinned it was bound to fall apart.

[2] This language is reminiscent to that of two French initiatives in the early 1980s. In 1981, the French Socialist government proposed to create "un espace social européen," an anti-unemployment program through fiscal stimulation. Two years later, it suggested "un espace industriel européen" aimed at supporting the technology industry (Moravcsik 1991). While these initiatives were last-minute French attempts to extrapolate traditional Keynesianism to the European level, Delors's ideas on "espace organisé" were more compatible with the prevailing paradigm of market competition. For Delors's views on future state-society relations in France and Europe, see Delors (1992).

DECISIONAL REFORMS

The market program was accompanied by two institutional reforms that have been key ingredients in the broadening of participation in the EU.

First, the SEA increased the power of the European Parliament by making internal market legislation subject to the cooperation procedure. As authoritative competencies were transferred to the EU, so pressures intensified for the replication of liberal democracy at the European level. Several national leaders pressed the normative argument that the EU would have a severe democratic deficit if it were the exclusive domain of an unelected Commission and an indirectly elected Council of Ministers. Parliamentary reform, which was extended under the Maastricht Treaty, has transformed the EU's legislative process from Council-dominated decision making into complex interinstitutional bargaining among the Council, Parliament, and Commission (Dehousse and Majone 1994; Nugent 1994; Peterson 1995). One effect of this has been to enhance the agenda-setting power of the Commission and the European Parliament (Tsebelis 1994, 1995), which have historically been keen to expand the EU agenda. Another has been to multiply the opportunities for group access to the EU beyond that provided by national governments in the Council of Ministers (Marks and McAdam 1996; Greenwood, Grote, and Ronit 1992; Kohler-Koch 1994).

Second, qualified majority voting in the Council of Ministers was introduced for a variety of policy areas connected with the internal market and was later extended to several other areas under the Maastricht Treaty. The original justification for lowering the barriers to legislation in the European Community was fear that recalcitrant governments (the Papandreou government particularly) would hold up market opening to extract side payments from promarket governments (Cameron 1992; Moravcsik 1991). However, the scope of a qualified majority turned out to be difficult to constrain as a variety of issues arose, particularly in social policy and the environment, which involved market restraints (Pierson 1996b). Qualified majority voting in the Council offered the prospect of short-circuiting the national veto and opened up new opportunities for positive legislation (Pollack 1995).

ACTOR RESPONSE

One of the original justifications for creating a single market and shifting decision making to the European level was that it would impede the efforts of interest groups, or in Mancur Olson's words "distributional coalitions,"

to gain rents by instituting nontariff barriers in their respective countries (Olson 1982). Some governmental leaders seemed to relish the prospect of shifting decision making to intergovenmental negotiation at the European level, beyond the reach of social and labor interests entrenched in their respective domestic polities. However, this expectation did not take into account the dynamic (and, in large part, unintended) consequences of institutional change.

In contrast to earlier economic integration, which affected mainly farmers, the food industry, and the steel and coal industry, the internal market program affected a wide range of public and private actors across many economic sectors. The years since the Single European Act have seen a rapid increase in the number and range of interests that have mobilized directly at the European level. The number of interest groups operating in Brussels was estimated to be in the range of 3,000 by 1990, having increased from around 600 in 1986 (Andersen and Eliassen 1993). Studies in individual policy areas from the chemical industry to the environment reveal a more finely grained, but consistent, picture (Grant 1993). The phenomenon of interest mobilization at the European level encompasses subnational governments (Jeffrey 1996) as well as functional and public interest groups. A survey of subnational mobilization in the EU documents the dramatic increase in the number of city, local, and regional governments represented in Brussels from 1 in 1985, to 15 in 1988, 54 in 1993, and 70 in 1994 and around 100 in 1996 (Marks, Salk, Ray, and Nielsen 1996).

As the stakes of EU policy making have grown for societal interests, and as political opportunities for influence have increased, so the EU has become a magnet for interest group activity that was formerly focused exclusively within national states. At the same time, some groups redefined their goals. Many trade unions, for example, abandoned their opposition to EU regulation in industrial relations and company law, as union leaders came to realize that national governments were less and less capable of protecting labor standards from the downward pressure of regime competition. Most trade unions now support expansion of EU competence in industrial relations and social policy. An experienced trade unionist, now a senior official in the European Commission, summarized the change in July 1996:

> They [trade unions] were very proud about having social affairs as a unanimity issue [in the European Community or Union], and then they realized that this unanimity was exactly the reason why there was no progress. At first, they were afraid of deregulation or a lowering of social security. It took them some ten to fifteen years to learn that it was just

> the opposite – that they couldn't make any progress as long as there is at least one [national government] which objects. And now they have begun to realize that national sovereignty is becoming more and more an empty notion, at least as far as economic policy is concerned.

The SEA and the changes in behavior it induced were a watershed in the making of a European polity: the scope of authoritative decision making was enlarged, democratic institutions were empowered, new opportunities for group influence were created, new sets of actors were pulled into the process.

A polity is an arena for contention about authoritative allocation of values. In the EU this contention has been far-reaching because the stakes are so high and the rules of the game are in flux. The debate is not only about the level or type of industrial, social, fiscal, or monetary policy – though these are debated fiercely – but is centered on how authoritative decisions should be made. Institutional architecture is intimately connected with policy outcomes. The contention that underlies European integration concerns nothing less than the question of how Europe should be organized politically.

In the following sections we describe two projects that drive this contention.

THE NEOLIBERAL PROJECT

Neoliberals conceive the internal market reform as a means to insulate markets from political interference by combining a European-wide market under selective supranational surveillance with intergovernmental decision making vested in sovereign national governments. The idea is to create a mismatch between economic activity, which is European-wide, and political authority, which for most purposes remains segmented among national governments (Streeck 1992b, 1995, 1996b; Streeck and Schmitter 1991; Schmidt 1994a). By placing market competition under supranational surveillance, neoliberals wish to constrain national barriers to trade. By resisting the creation of a supranational Euro-polity, neoliberals minimize the capacity for European-wide regulation of economic activity.

The competition that neoliberals have in mind is not simply among firms or workers, but among governments. A vital consequence of the mismatch between market competition (which is EU-wide) and political authority (vested in national governments) is that it creates the conditions for competition among national governments to provide the most favorable conditions for mobile factors of production, namely, mobile capital. By

reducing the costs of relocation, market integration makes it easier for mobile factors of production to move to the country of choice, and so penalizes governments that do not arrange their political economies to suit mobile capital by, for example, minimizing corporate taxes and market regulation (Schmidt 1994a; Streeck 1992b; Scharpf 1996a). While workers may also move in response to regime competition, cultural and language barriers make them far less willing to do so.

Finally, the neoliberal project limits the ability of social groups, such as labor unions and environmental movements, to pressure governments into regulation. The idea is to shift policy making from domestic arenas, where it is influenced by historically entrenched social groups and popularly elected legislatures, to international fora dominated by national governments (for a theoretical justification, see Olson 1982). This is the "intergovernmental" conception of decision making in the EU. Instead of making national governments outmoded, the neoliberal agenda for European integration privileges national governments as the sole intermediary between domestic politics and European bargaining. National governments frame the agenda and negotiate the big decisions; domestic actors watch on the sidelines and hope to effect outcomes indirectly through their respective governments (Moravcsik 1993, 1994).

SUPPORT

The neoliberal project is a minority project. The first and most forceful champion of neoliberalism has been the British Conservative Party, particularly under the leadership of Prime Minister Thatcher in the 1980s (Whiteley, Seyd, Richardson, and Bissell 1994; King and Wood, this volume), and, after a brief period of moderation from 1990 to 1992, continuing with Prime Minister John Major. However, neoliberalism has broad roots among strategically placed political and economic elites. These include leaders of British and European multinational companies, industrial associations (including a majority of members of UNICE, the major umbrella association for European industry), financial interests (e.g., within central banks and international finance), pressure groups (including the Bruges group), think tanks, probusiness strands in the German CDU-CSU and FDP, other liberal and conservative parties on the continent, and opinion leaders (e.g., the *Economist*).

Neoliberal ideas have also gained ground in the Commission. Under the presidency of Jacques Delors, the Commission was deeply riven by ideological conflict between its president and right-wingers, led by Sir Leon Brittan, originally Commissioner for competition and then for exter-

nal trade. With Brittan's appointment in 1988, Margaret Thatcher planted a "liberal crusader" in the heart of the community "who would fight not only national-level intervention, but also EU-level industrial policy" (Ross 1995a). As George Ross observes, "if Delors wanted to 'organize' a European industrial space, Brittan, standing atop long-standing Commission prerogatives, wanted quite as much to 'open' this same space" (Ross 1995a: 176).

The neoliberal agenda, or parts of it, have gained support in several directorate-generals of the Commission (DGs), particularly those implementing the internal market such as the powerful directorate-general for competition (DG IV). The market liberal activism of DG IV has several sources, but a major factor was the recruitment of enthusiastic market supporters during the 1980s, which coincided with the higher profile for competition policy during the internal market exercise (McGowan and Wilks 1995; Wilks 1992). The shift, which was generalized to some other DGs during the early 1990s, was consolidated by the changeover from Delors to Jacques Santer as President of the European Commission (Wallace and Young 1996; Majone 1994). As a senior official in a market-oriented DG put it in July 1995: "There is no question that the balance has changed, and that there is much greater emphasis on greater [market] opportunities rather than giving out money."

Neoliberals have skillfully combined economic internationalism and political nationalism in an effort to create national governance and international market competition. They have linked their cause to nationalism to block the development of a Euro-polity capable of regulating the European economy. In the United Kingdom, France, Germany, and the Benelux, the strongest objections to the Maastricht Accord were made by extreme nationalists in the British Conservative Party, the French National Front, the German Christian Social Union and Republicaner, or the Belgian Vlaams Blok. Only in the Scandinavian countries has Euroskepticism been as significant on the left as on the right.

Like nationalists, neoliberals argue that positive market regulation is illegitimate because the European Union lacks meaningful democratic institutions that can justify tampering with markets. National states are the only legitimate democratic channels for public expression. Yet, unlike nationalists, neoliberals have goals that stretch beyond defending the sovereignty of national states. They have sought to limit the capacity of any political actor – including national states themselves – to regulate economic activity.

Nationalists and neoliberals have opposed more powers for the European Parliament, though their opposition has different roots. Nationalists

oppose the European Parliament because it challenges the monopoly of national parliaments in expressing the popular will. Neoliberals reject a stronger European Parliament because it is likely to be sympathetic to economic regulation, certainly more so than either the Council of Ministers or the European Court of Justice. For neoliberals, the European Parliament provides an opportunity for special interests to gain preferential legislation (Olson 1982); for nationalists, it usurps legitimate parliamentary authority.

INSTITUTIONAL TERRAIN

Neoliberals have the considerable advantage that, in most respects, they favor the status quo. The reduction of market barriers is the one area where neoliberals have sought radical change, but here they were part of a broad coalition that included Christian democrats in national governing coalitions, big business, and the European Commission. Neoliberals have fewer allies in their rejection of positive regulation and their opposition to deepening the Euro-polity, but these are stances against change. This is a powerful strategic position in a polity where unanimity among member state governments is necessary for basic institutional change, and where qualified majorities of around 70 percent in the Council of Ministers are usually required for positive regulation.

This high threshold has helped the U.K. government impede European social policy, environment policy, industrial relations regulations, and industrial policy. The Thatcher and Major governments have also limited decisional reform, including the extension of qualified majority voting. During the SEA negotiations, French and German leaders proposed qualified majority voting in the Council on a range of policies, including the internal market, environment, social policy, and research and technology, while the British, supported by the Danish and Greek governments, favored a limited and informal norm. In the end, Thatcher was able to confine a qualified majority to the internal market (Moravcsik 1991).

Unanimity has tilted the playing field in favor of neoliberals, but it has occasionally hurt them. Southern European governments managed to institute and extend a sizable redistributional cohesion policy for the EU when they threatened to veto the SEA and the Maastricht Treaty. Unanimity is a double-edged sword, for it not only makes innovation difficult, but makes it tough to eradicate existing regulation. Now that an extensive cohesion policy is in place, neoliberals have an uphill fight to eliminate it.

Neoliberals have benefited from the fact that EU decision rules make it more difficult to regulate markets than eliminate market barriers (Scharpf 1996a). Positive market regulation demands agreement on some

set of minimum standards for all member states, and attempts to set such standards usually take the form of legislation. Such regulation must therefore negotiate the EU's labyrinthine legislative process. In contrast, negative market regulation stipulates only the conditions under which market barriers are, or are not, justified, and once the general principle is laid out it may be adjudicated by a court or regulatory body. Applying the principle (Article 36, Rome Treaty) that market barriers are justified only under certain limited circumstances, the European Court of Justice has developed extensive powers vis-à-vis member states to sweep away national restraints on trade and distortions of competition (Meunier-Aitsahalia 1993; Burley and Mattli 1993; Weiler 1991). The competition directorate in the European Commission has steadily built up its powers (Wilks 1992; McGowan and Wilks 1995). Fritz Scharpf (1996a) has made the point that there is an in-built institutional asymmetry in the European treaties favoring market deepening to market correcting.

Neoliberals have struggled from a strategically powerful position to shape the European Union, but they have been only partially successful. As Philippe Schmitter points out: "The notion that the Single European Act of 1985–1986 had definitively opted for a narrowly 'liberal' conception has been denied by subsequent developments" (Schmitter 1996b). Without a doubt, the European Union would look very different today were it not for the neoliberal project and Prime Minister Thatcher's determination in pressing it. But market liberals have had to contend with powerful actors committed to very different goals, and these actors, as we will discuss, have also shaped the European Union.

REGULATED CAPITALISM

A variety of groups view market integration as merely the first step in a more ambitious project: regulated capitalism. Their goal is to create a European liberal democracy capable of regulating markets, redistributing resources, and shaping partnership among public and private actors. The most influential advocate of this project was Jacques Delors, who served as President of the European Commission during the critical decade from the beginning of 1985 to the end of 1994. Delors was not a systematic thinker, but his characterization of *espace organisé* (organized space), based on his writings and speeches (Delors 1992; Ross 1995a, 1995b; see also Grant 1994), forms the core of the project for regulated capitalism.

Positive Regulation

A defining feature of the project is its friendliness to markets and its opposition to state control or ownership. When they speak of market reform, supporters of regulated capitalism argue for market-enhancing or market-supporting – rather than market-replacing or even market-correcting – policies. They do not quarrel with the notion that markets, not governments, should allocate investment. But they contend that markets work more efficiently if political actors provide collective goods including transport and communications infrastructure, information networks, work force skills, and research and development. There is, they argue, a role for positive as well as negative regulation, and in a variety of policy fields, such regulation is best achieved at the European level.

This involves a shift from demand-side to supply-side economics. Proponents of regulated capitalism claim that the capacity to provide certain collective goods is a decisive advantage in international economic competition under conditions of flexible specialization. It separates producers competing in mass-production industries on the basis of cheap labor, low taxes, and loose environmental and social standards from producers competing in high-value-added industries on the basis of quality, style, and technology (Soskice, this volume).

Partnership

Proponents of regulated capitalism have campaigned for voluntary cooperation among groups that are affected by, or who contribute to, a particular policy. With varying degrees of success, they have proposed a "social dialogue" among representatives of labor and capital in social policy; "social partnership" among affected interests, particularly consumers and producers, in environmental policy; and "partnership" among the European Commission, national ministries, and regional authorities in cohesion policy.

Like positive regulation, the policy is justified on pragmatic grounds. An inclusive strategy is likely to generate less social conflict than an exclusive strategy and should be easier to implement. Such a strategy is also likely to be better informed than an exclusive strategy because it brings affected interests into the decision-making process.

Social Solidarity

Proponents of regulated capitalism stress policies that empower those who are less well off to compete more effectively in the market. Examples of such policies are structural policies designed to increase the potential for

indigenous economic growth in poorer regions and employment policies to bring unemployed youth and the long-term unemployed into the labor market. These policies can be justified in ethical terms but – like partnership – they may also be viewed as paths to increasing economic productivity.

These principles have been at the core of several reforms, including an extensive structural policy for poorer regions, a growing commitment to a European environment policy, European-wide infrastructure in transport, telecommunications, and information technology, and a variety of less ambitious measures in research and development, education, health and safety, consumer protection, and rural development.

Central to regulated capitalism is deepening democracy in the European Union (Schmitter 1996b; Wiener 1994). The core argument is straightforward: if important decisions are being made in the European Union that directly affect European citizens, those decisions should be subject to liberal democratic scrutiny and legitimation. Indirect representation through national governments is not sufficient; a system of direct and effective parliamentary representation should be established. With respect to citizenship rights, proponents of regulated capitalism argue that transnational labor mobility, facilitated by the internal market, should not negate democratic participation in an EU citizen's new country of residence. At the heart of this project is the demand to extend basic principles of liberal democracy to the European Union, that is, to create a "Citizen's Europe."

Support for democratization of the EU is reinforced by the expectation that this will intensify popular pressures for positive regulation. In a Citizen's Europe, Europeans would have full citizenship rights and the opportunity to press demands for welfare and market regulation through political parties, interest groups, and movements as they do in national polities.

SUPPORT

The project for regulated capitalism marshals the common ground in the competition between reformist social democracy and moderate Christian democracy (Ross 1995a; Grant 1994). Following social democracy, regulated capitalism involves class compromise; following Christian democracy, it involves subsidiarity.

Most center-left parties in Europe have come to support the project. German, Austrian, Italian, and Spanish social democrats have been solidly in favor. The left has been split in Britain, Sweden, Denmark, and Greece.

Danish and Greek socialists, in particular, have opposed regulated capitalism at the European level on nationalist grounds. Majority support was forthcoming in Britain and Sweden only after the traumatic realization by many on the left that national Keynesianism is a dead end. While left nationalists point to the EU's democratic deficit, the corrosive effects of regime competition, and the prospect that European identity will never be sufficient to sustain a European welfare state, supporters of the project for regulated capitalism argue that in a globalized economy, a European approach is more feasible than a national one.

There is selective support for regulated capitalism among Christian democratic parties, particularly in countries where separate neoliberal and/or nationalist parties represent opposing views. Strong support comes from Christian democratic parties in Benelux countries and Austria. While there are divisions among German Christian Democrats and growing pressures for neoliberal reforms, Chancellor Helmut Kohl has typically advocated regulated capitalism. Kohl was instrumental in ensuring the Social Protocol against Prime Minister Major's veto in the Maastricht negotiations; he has consistently campaigned for a stronger European Parliament; and, during the renegotiations of cohesion policy in 1988 and 1993, Kohl supported increased spending for poorer regions.

The coalition for regulated capitalism is weaker than the sum of its parts because it is extraordinarily heterogeneous. National institutional variations underpin different constellations of interest. For example, social democrats in southern Europe are cross-pressured on the issue of introducing regulations (e.g., minimum-wage regulation) that diminish their competitive advantage vis-à-vis central and northern European countries (Lange 1993). Even where competitive advantage is not at stake, institutional differences can impede reform. It is difficult to create winning coalitions for regulations that apply to heterogeneous institutions that are costly to change (Scharpf 1996b; Majone 1995).

The loose coalition of Social and Christian Democrats is flanked by unionists at the European (ETUC) and national levels. But organized labor is not nearly as influential at the European level as it has been in most member countries. In contrast to multinational firms that have adapted smoothly to the Euro-polity, organized labor has had greater difficulty, partly because unions are deeply embedded in distinctly national institutions (Marks and McAdam 1996). Transnational collective bargaining arrangements have not been created, and there is little prospect of the emergence of neocorporatism at the European level (for national developments, see Golden, Wallerstein, and Lange, this volume). Furthermore, unions have been weakened by the internationalization of economic activ-

ity, a development that was accelerated by the single-market program (Frieden 1991; Streeck 1992b; Streeck and Schmitter 1991; Tilly 1994).

In addition to labor, regulated capitalism has backing from diverse groups, including environmentalists (e.g., the Worldwide Life Fund and the European Environmental Bureau, an umbrella organization of about 160 environmental groups), most green parties (including the German Grüne after its turnaround on European integration), and a variety of social movements (Marks and McAdam 1996).

Supranational actors, particularly in the European Commission and Parliament, have been responsive to this agenda. Jacques Delors and leaders of the Commission were the dynamo behind *espace organisé* from the mid-1980s to the mid-1990s, though as noted, they were opposed within, as well as outside, the Commission by market liberals. However, Commission officials tend to be significantly more supranationalist than other groups of actors, and while contention among Commission officials has intensified since the mid-1990s, they have been an important source of support.[3]

The European Parliament has been responsive to popular pressures for positive market regulation, particularly from social movements such as Greenpeace. The proregulated capitalism orientation of the Parliament has been reinforced since 1989 by the fact that social democrats in combination with Greens and other left-wing or centrist members have formed a majority (Ladrech 1993; Bardi 1994).

Support for elements of regulated capitalism has sometimes come from less obvious corners, such as the European Round Table, representing large multinational firms, which in its 1983 memorandum argued for infrastructural programs and EU-sponsored collaboration in research and development. The European Round Table campaigned for a European-wide infrastructure program, "Missing Links," the forerunner of the European Union's Trans-European Networks (Cowles 1995). In the eyes of some of its members, the European Round Table is a " 'Christian-Democratic/Social Democratic group' that does not share the ideology of Thatcherite capitalists" (Cowles 1995, quoting from an interview with a member of the Round Table). However, even though the Round Table called for a role for the European Union in industrial policy, there seems to be little evidence of support for the Social Dialogue, social rights, or environmental protection. In December 1993, for example, the Round Table proposed the

[3] See Hooghe (1997). Asked whether the Commission should help to preserve organized space in Europe, 46.3 percent of senior officials gave unconditional support and another 37.5 percent gave qualified support. The finding is based on data from 140 taped interviews and 106 mail questionnaires (from A1 and A2 officials in the Commission), conducted between July 1995 and May 1997.

creation of a European Competitiveness Council comprising industry, government, and science representatives, but excluding labor (Cowles 1995). This is a direct challenge to the Social Dialogue. Over the past decade backing for regulated capitalism within industry has weakened as competitive pressures have increased as a result of globalization and market liberalization.

INSTITUTIONAL TERRAIN

The achievements of the coalition for regulated capitalism seem unimpressive by comparison with current social regulation in central and northern European states. There are no functional equivalents at the European level to existing welfare states, national systems of cooperative economic governance, national systems of industrial relations, or industrial policies. Moreover, there are no indications that such distinctly national systems of positive regulation will be replicated at the European level in the foreseeable future.

One does not have to search far to explain this. Research on neocorporatism and class compromise has identified a variety of requisites for their existence, including strong working-class political organization (in particular, durable social democratic participation in government), cohesive working-class economic organization (in particular, well-organized and centralized union federations), and coherent employers' organization (Schmitter 1981; Cameron 1984; Marks 1986; Esping-Andersen 1990; Hall and Soskice, this volume). None of these are present in the EU, nor are they likely to arise in the future. The government of the EU is fragmented; social democrats are weakly represented in the Council of Ministers; neither trade unions nor employers are centralized at the European level. But most proponents of regulated capitalism do not strive to replicate national welfare or industrial regulation at the European level. Rather they seek more politically and institutionally feasible reforms.

UNANIMITY

It is important to realize that the institutional terrain is not entirely unfavorable to proponents of regulated capitalism. In the first place, unanimity, which is the decision rule in the Council of Ministers for major institutional change and for major policy initiatives, is double-edged. Earlier, we noted that unanimity raises the highest decisional barrier against change – the assent of each and every participant. But by doing so, unanimity opens the door to package deals crafted to benefit each national government.

Neoliberals have had to accept reforms involving positive regulation and redistribution in exchange for the assent of all national governments to liberalization. One of the products has been cohesion policy, a centerpiece of European regulated capitalism (Hooghe 1996b; Marks 1993, 1996).

Moreover, the force of unanimity is eroded if actors whose preferences are blocked have the credible alternative of creating an alternative regime. Here, again, the force of unanimity is less than one might think. Individual governments can get derogations that exclude particular countries from rules that apply to all others. Neoliberals see merit in this because it institutionalizes regime competition between countries that join and those that do not. The existence of different rules in different parts of the EU (in Euro-jargon, "variable geometry") should constrain the willingness of any single group of governments to impose regulations on capital for fear of losing investment (Streeck 1996b). But variable geometry does not necessarily lead to a race to the bottom, to low-tax, low-welfare, relatively unregulated economies. Where regulatory reforms may arguably increase economic efficiency, variable geometry provides more space for regulatory innovation (Scharpf 1996b). National governments may forge ahead with particular integrative measures, such as social policy or monetary union, despite opposition from nationalists or neoliberals. Because the Major government excluded the United Kingdom from the Social Protocol annexed to the Maastricht Treaty, it was possible for remaining governments to enact a Works Council Directive mandating certain types of companies to consult with workers on job reductions, new working practices, and the introduction of new technology (Rhodes 1993; Leibfried and Pierson 1995). Even though the Major government did not sign up, most major British multinationals (e.g., Marks and Spencer) have since introduced consultative works councils in their British plants to preserve uniformity in the company across the EU (Leibfried and Pierson 1996), and after the 1997 elections, the incoming Labour government signed the Protocol, which was promptly incorporated into the Treaty of Amsterdam.

QUALIFIED MAJORITY

More important yet, unanimity has been swept aside in favor of qualified majority voting in the Council of Ministers on an increasing number of issue areas. As noted, qualified majority voting was originally adopted to facilitate market-opening legislation. But it has been extended to policy areas only indirectly related to the market, including environmental policy and social policy. This allows proregulation coalitions of governments to preempt a race to the bottom.

Some regulations do not have to be supported by multilevel coalitions of national governments and supranational actors, but can be imposed by individual governments acting alone. Under Article 36 of the Treaty of Rome (which remains in force), a country may maintain high product standards if they are justified by considerations of health, safety, the environment, or consumer protection, even if they serve as a barrier to trade. This allows producers in high-regulation countries to export to low-regulation countries while protecting their own markets (Sbragia 1996; Scharpf 1996b).

Evidence of a race to the bottom is mixed even for regulations concerning the process of production (e.g., working conditions) where Article 36 does not apply. One reason for this is that national governments have demonstrated a greater capacity than expected to maintain regulations even when they appear to put domestic producers at a cost disadvantage (Scharpf 1996b; Vogel 1996). It is not obvious how governments will act when there are trade-offs between social or environmental values and national income. It depends on how such values are translated into political costs and benefits for constituencies that affect a government's popularity.

Finally, it is worth stressing that positive regulation need not be economically inefficient. Scharpf has argued that regulation may serve as a certificate of superior product quality that is rewarded by the market – for example, because a regulation may provide consumers assurance against health, safety, or financial risks or because it induces industry to increase productivity (Scharpf 1996b). Under certain conditions one may envisage a race to the top, rather than a race to the bottom (Scharpf 1996b). Economists disagree about whether raising environmental standards hinders or promotes economic growth. The economic costs and benefits of EU involvement in vocational training, human resources, and research and development are contested, and certain business interests in low-regulation countries support initiatives in these areas.

SUPRANATIONAL ACTORS

The creation of European social citizenship has been spurred mainly by decisions of the European Court of Justice (ECJ) applying the four freedoms (for goods, capital, services, and labor) at the core of the internal market (Leibfried and Pierson 1995, 1996). Since the mid-1980s the ECJ has compelled member countries to gradually open their national welfare systems to nonnational EU employees and to allow consumers to shop out of state for welfare services. The Court has stopped short of creating welfare state access for any EU citizen, but it has induced an "incremental, rights-

based 'homogenization' of social policy" among member states (Leibfried and Pierson 1995).

While the Court's contributions to European regulated capitalism were largely unintended side effects of liberalization, the Commission under Jacques Delors wished actively to craft regulated capitalism in Europe. Its strategy was to formulate a series of package deals between member state governments to transform the internal market into a polity with extensive authority and effective policy instruments (Ross 1993, 1995a; Grant 1994). Where there were disagreements on major reforms, the Commission proposed side payments in the direction of regulated capitalism (e.g., cohesion policy) to buy off recalcitrant governments. Each package deal was shaped with an eye to the next round where further integrative measures would be proposed – an approach described by Delors as a "Russian Dolls" strategy (Ross 1995a, 1995b).

The first round of this strategy was the budgetary package of 1988 (Delors I), which set financial priorities for the period 1989–1993. The multiannual budgetary approach, which itself was a novelty, provided a framework for the Commission to cobble together a package to every government's liking while laying the foundation for an EU role in cohesion policy, research and development, information technology and telecommunications infrastructure, and the environment. The most important step was the doubling of funding for less developed regions, so that by 1993 almost 30 percent of the EU budget was spent on regional redistribution. This sizable resource base became the foundation for an integrated European cohesion policy exhibiting the three key features of regulated capitalism: extensive positive regulation shaped by EU actors; multilevel partnership among the Commission, national ministries, and subnational authorities; and significant redistribution from rich to poor. The main beneficiaries – Spain, Greece, Portugal, and Ireland – initially received the equivalent of 2 to 4 percent of their GDP, an amount comparable to the postwar Marshall Plan. The second Delors budgetary package (1992) increased cohesion funding to 141 billion Ecu (at 1992 prices) for the period 1994–1999. By 1999, Ireland, Greece, and Portugal will each receive more than 5 percent of their GDP from cohesion funding (Hooghe 1996a).

The next step was to insert employment policy as a Russian Doll within the European Monetary Union (EMU). While EMU would shift an important competence to the European level, Delors and his collaborators were just as interested in the potential for the EU to play a subsequent role in combating unemployment and sustaining welfare. Its 1993 White Paper, *Growth, Competitiveness and Employment*, propelled employment onto the European agenda. After some prodding by trade unions, socialist party

leaders, and parts of the Commission administration (mainly DG V, social affairs), this plan was taken up by the Santer Commission. Social democrats, in and out of national governments, have pressed the Commission to campaign for a formal EU commitment to combat unemployment as a counterweight to EMU. As a result of these efforts some provisions on employment were incorporated in the 1997 Treaty of Amsterdam.

The third element of the Delors strategy was the attempt to establish a "People's" Europe based on a Social Charter setting out thirty basic social rights, mostly for workers, accompanied by specific proposals for social policy harmonization and, crucial for Delors, "Social Dialogue" between workers and employers. At Maastricht, eleven of the twelve national governments (with the Major government opting out) agreed to make the Charter legally binding (Lange 1993). For proponents of a full-fledged European welfare state, the Social Charter and Social Protocol seem much ado about nothing, while neoliberals adamantly oppose it (Lange 1993; Rhodes 1993; Ross 1993; Leibfried and Pierson 1996; Streeck 1996b). Ambitions for a European social dimension are far from realized in welfare policy or industrial relations, though the EU plays a growing role in these areas (Leibfried and Pierson 1995, 1996; Cram 1997).

The Commission does not have to change the treaty base of the EU to build regulated capitalism. It has consistently anchored new competencies in preestablished institutions. The structural funds administrations have sheltered new policies in environment, vocational training, employment-creating infrastructural investment, cooperation in new technologies, research and development, and the promotion of social partnership (Hooghe 1996b). The Court of Auditors estimated in 1992 that the structural funds administrations provide an umbrella for nearly three-quarters of total spending on the environment (Sbragia 1993b).[4] One consequence of this is that the principle of partnership that is established in cohesion policy has been exported to the EU's environmental policy.

In their national arenas, Social Democrats have had to give ground on several aspects of the postwar social contract, including employment, welfare, and participation of unions in macroeconomic policy making. While the project for regulated capitalism is far from replicating these at the European level, it has laid the foundation for an alternative to market

[4] These are estimates for 1991 (Court of Auditors, Official Journal C245, September 23, 1992; drawn from Sbragia 1993b). Therefore, they do not include the expenditures under the cohesion fund, created at Maastricht, which spends about 40–50 percent of its annual budget of around 2 billion ECU on environmental infrastructure.

liberalism based on positive regulation of market activity, economic redistribution, the extension of liberal democracy to the European level, and collaboration among public and private actors. The ten-year presidency of Jacques Delors in the European Commission laid the basis for this project, just as Prime Minister Thatcher was pivotal for neoliberalism. At this point in time (May 1997) we cannot predict the outcome of this struggle. What we can say is that the European Union is shaped by an ongoing clash of interests and ideas – ideas and interests that have jelled into contending conceptions of governance.

CONCLUSION

The collapse of national Keynesianism in a context of poor economic performance and declining international competitiveness led to a reorganization of the European political economy. That reorganization had to come to terms with two of the most fundamental issues of political life: the structuration of political authority and the scope of authoritative decision making in the economy. The European Union continues to serve as a means for achieving narrow collective goods, but these larger questions are never far from view. European political economy is being shaped by an intense debate that has mobilized leaders, political parties, interest groups, social movements, and, on occasion, the wider public. Segmented bargaining among policy élites still takes place in some policy areas, but it is no longer insulated from the struggle about how to organize and rule Europe.

This struggle is neither a random conflict of interests, nor a reflection of functional pressures. It is structured along two dimensions: a left-right dimension ranging from social democracy to market liberalism; and a national-supranational dimension ranging from support for the restoration of national state autonomy to support for further European integration.

Broad, multilevel coalitions are oriented to two projects combining orientations along these dimensions: a neoliberal project and a project for regulated capitalism. At stake in this conflict are not only domestic issues of political economy, but the political architecture of Europe. Neither project is hegemonic.

Whether Europeans will continue "the process of creating an ever closer union" (Article A of the Maastricht Treaty) has become a matter of the widest public discourse. European integration has become a high-profile issue in domestic politics capable of rocking governments, jeopardizing party cohesion, and spurring new party-political movements. In this context, leaders of national governments are constrained more than ever to

behave, not as defenders of institutional interests, but as party-political leaders concerned with their bases of political support, party cohesion, and fighting elections. In this politicized climate, political actors without the benefit of democratic legitimacy – above all, the European Commission – are particularly vulnerable. Something new has been added to the struggle between ideological projects concerning the European political economy: a contest for endorsement by the public (Cameron 1995; Schmitter 1996a, 1996b).

A strong implication of our analysis is that there is no irreversible logic to European integration. The link between economic integration and polity creation is humanly contrived; it involves contending political projects. We reject the presumption that such projects, or the outcome of their struggle, is merely a political "superstructure" that reflects an economic logic having to do with reducing transaction costs or reaping joint gains. The sheer fact that cross-border transactions are increasing within Europe does not mean that further political integration will be the outcome. To understand European integration one must understand its irreducible political character. One must systematically analyze the clash of multilevel coalitions of governments, supranational actors, transnational and domestic interests. The Euro-polity is not a by-product of functional requirements or the pursuit of narrow economic interest; on the contrary, it is shaped by deep disagreements among political actors about how to organize political life in Europe.