Globalization and the European Union

Shared Governance on a Regional Scale

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Forthcoming in: “The Implications of Global and Regional Integration for the Future of Federal Political Systems”, edited by Harvey Lazar.

Globalization, as this chapter understands it, refers to processes, economic, military, environmental and social, that thicken interdependence among individuals across different countries (Keohane and Nye 2000). Globalization undercuts the normal patterns of interaction in Europe, which, for much of the twentieth century, had been confined within the boundaries of the national state and regulated by sovereign national governments. Globalization, then, can be expected to create conflict since private actions and government measures often adversely affect neighbors.

A functional response to these externalities would be to internalize them in a global political unit, or more precisely, a multitude of political jurisdictions where, for each policy problem, the optimal territorial scope of government would be determined in light of externalities (Alesina and Spolaore 1997; Casella and Weingast 1995; Frey and Eichenberger 1999; for a critique of this neoclassical theory of authority, see Marks and Hooghe 2000). For example, one would want a global government to address global warming, a US-EU government to solve trade-related issues that affect both regional economies, and localized cooperative arrangements between subregional or local governments to deal with, say, externalities from waste disposal or urban planning.

Of course, reality is more complex. Actual responses to globalization differ from the ones predicted by functional imperatives. A major reason is that individuals do not agree on what is efficient or functional. Which solution is considered "efficient" or "functional" is the outcome of political struggle, not of value-free analysis. That leads us to examine the coalitional politics that underlies particular institutional responses to globalization.

In Western Europe, European integration has been the chief retort of national governments, political parties, and private actors to globalization. European integration accelerated in the mid-1980s, and again in the mid-1990s, and this acceleration was a direct response to problems attributed to globalization, augmented national vulnerability to trade and financial flows, eroding competitiveness for European firms, structural unemployment and labor market rigidities, and increasing immigration from its poorer Eastern and Southern-Mediterranean neighbors into the European Union (EU). I do not mean to say that globalization determined how Europe's institutions, policies, and politics changed. "Domestic politics," national and European leaders' preferences, and societal interests as expressed by producer groups and political parties, has mediated these changes. Yet I will show that the European Union has become a battleground for opponents and proponents of globalization. Some want the EU to be a bulwark against global pressures, and others want it to accelerate the pace of increasing *global,* as opposed to national or European, interdependence.

A Cautionary Note

The European Union is different from the other political systems examined in this book. It is not a state because it is not ruled by a single regime. It is certainly not an established federation like the United States, Canada, Australia, or even South Africa or India. The European Union does not have a constitution; it is based in treaties.

There is more that distinguishes the EU from the other cases in this book. The EU was born out of the ashes of war. In technical terms, one could say it was a direct response to a security dilemma (military interdependence) in Western Europe fifty years ago. These links of interdependence have broadened into the economic and social sphere. At one level, therefore, the EU is not only at the receiving end of globalization but it is itself an agent of globalization in Europe. Yet it is not a mere muscular brother of the North American Free Trade Agreement or the World Trade Organization. That would miss the point about the European Union. Over the past fifty years of its existence, it has been transformed from a security and trade organization into a polity in which (a) national states as large and powerful as Germany, France and the United Kingdom have ceded national sovereignty, ultimate authority, over virtually all policy areas, and

(b) decision making looks and feels very much like the kind of politics one finds in democratic federal states such as the US, Canada, or Germany. That transformation has happened at break-neck speed.

So I find myself chasing independent variables. Is it European integration, the process by which interdependence between societies and groups in Europe is promoted and regulated through EU membership? Am I seeking to understand, in other words, how the European Union, as the specific embodiment of globalization in Europe, affects interstate and intersociety relations in Europe? Or is the independent variable the amalgam of global and regional economic, social, cultural and other pressures that are pounding on the EU's institutions, policies and politics, as they are pounding on the Canadian or the German federation? This makes of the European Union the dependent variable. I feel I need to address both, and that explains the somewhat different structure of this chapter.

I begin by positing the European Union as the dependent variable. In the next section, I will briefly sketch the history and institutions of the EU, and I go on to examine whether global pressures or domestic factors influenced the acceleration of European integration over the past fifteen years. I then shift European integration to the independent variable side of the equation, and I examine how global and EU pressures have affected key dimensions of politics in Europe.

Situational Context

The European Union was created in 1957, when six countries signed the *Treaty of Rome* that set out to establish a customs union by 1970. From the start, the European Union (then still called the European Economic Community) had greater ambitions than NAFTA, which is a free trade area only. France, Germany, Italy, and the Benelux (Belgium, the Netherlands, Luxembourg) completed the customs union two years ahead of time in 1968. The next boost to European integration came with the accession of Britain, Ireland, and Denmark in 1973. Norway had negotiated accession as well, but a public referendum in Norway struck that down. It was not until the mid-1980s that European integration really took off, with three major treaty revisions in a row: the *Single European Act* of 1987, which committed member states to the creation of a single market by 1992, the Treaty of European Union (*Maastricht Treaty*) of 1993, which paved the way for Economic and Monetary Union, that is, a single currency by 1999, and the *Amsterdam Treaty* of 1999, which shifted power in a range of non-economic policies, strengthened the institutions, and laid the foundation for a common foreign policy.[1] The European Union resembles now more a political federation than an international organization for economic cooperation.

Deepening of European integration went together with widening membership. In 1981, Greece became the tenth member, and in 1986 Spain and Portugal followed. In 1995, Sweden, Austria, and Finland left the European Free Trade Association to join the European Union, while the Norwegian people, for the second time, voted against. Ten more countries are set to join by mid-2004: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, as well as Cyprus and Malta. By 2010 more countries may come in: Bulgaria, Romania, the newly created republics from ex-Yugoslavia, perhaps also Albania, and Turkey.

After the accession of the first 10 countries, the population of the European Union will have grown from 374 million in 2000 to almost half a billion people. Its Gross Domestic Product (GDP) per capita, now at over US$ 22,300 per head, will decline by 18 percent; the average GDP/capita of the incoming countries is just below US$ 3,300. The economic and socio-political differences between the current EU and the prospective members are unparalleled in EU history.

In the remainder of this section I highlight the changing division of authority between national and European institutions, and I introduce the EU's main decision-making institutions.

The Shift of Authority from the National to the European

Figure 1 and Table 1 provide a bird's eye view of how authority has been reallocated between national state and European Union since 1950. The bars in Figure 1 indicate, for each of five time points, what proportion of policy areas is exclusively national (score 1), mostly national (score 2), shared EU-national competence (score 3), mostly EU (score 4), or exclusively EU (score 5). Table 1 provides details on these shifts by policy area.[2]

[Figure I and Table I about here]

In 1950, policy-making in all 28 areas was determined exclusively in territorial states. The state reigned supreme. This was the outcome of a process of state-building in Europe that lasted centuries, and that involved the creation of national legal systems, national armies, national systems of taxation, national parliaments, and over the past century, national welfare, national health, national education, and national industrial relations systems. This changed to some extent when the Treaty of Rome was signed in 1957, which created the European Economic Community (EEC). Some areas in the economic field, regulation of goods and services, industry, transport, energy, competition, shifted from exclusively national to mainly national with some European Community (EC) competence.

In 1968, the EC completed the customs union, and this is reflected in the rising bar for shared EU/national competence. In three areas, competition policy, trade negotiations, and internal market regulation (to ensure free movement of goods and services), the European Commission began to play a major role: it was building up precedent in competition policy, it began negotiating on behalf of member states in trade negotiations on goods, and it drafted proposals for harmonizing product regulation across the European Community. In addition, agriculture became primarily a European competence in the 1960s. Until the 1980s, the common agricultural policy (CAP) took up between 60 and 80 percent of the European Community's budget.

By 1992, national sovereignty, exclusive and ultimate authority to bind one's citizens, had virtually disappeared. The European Community, renamed as the European Union, was now involved in all but a handful of policy areas. The exceptions were some aspects of social policy, such as industrial relations, and some areas in the legal-institutional domain, such as police, law and order. The acceleration of European integration was set in motion by the SEA, which came into force in 1987. The central objective was to realize full free movement of goods, services, capital, and labor (or persons)—a single market— by the end of 1992, by abolishing non-tariff barriers. But the expansion of EU involvement reached well beyond the internal market into environmental regulation, industrial policy, research and development, and a new ambitious regional policy (EU cohesion policy) to reduce regional and social disparities through the Union. This policy constituted by 1992 the second-largest item on the EU budget (after agriculture), representing one-third of EU funding, or 0.4 percent of EU GDP. Figure I also reflects the fact that the EU obtained exclusive power in trade negotiations.[3] This means that the European Commission, not the French or German governments, negotiates on behalf of the European Union in the General Agreement on Tariffs and Trade (GATT) or WTO negotiations. This also entails that member states cannot unilaterally impose or lift trade sanctions against third parties. The Greek government experienced this when it tried to impose a trade embargo on newly independent Macedonia in 1995, but was barred from doing so by the European Court of Justice.

By 2000, the European Union had become an encompassing political system involved in all areas of life that governments usually care to regulate. From agriculture to capital flows, to transportation, to education, defense, regional policy, energy, or environment, national governments share authority with the European Union. In 1999, monetary policy was added to the exclusive EU list for the twelve members of the Euro-zone.[4] On 1 January 1999, national authority over monetary policy was ceded to an independent European Central Bank, and in conjunction with that, joint macroeconomic policy making was strengthened. Members of the Euro-zone are legally bound to run balanced budgets over the economic cycle, and to incur no more than a 3 percent budget deficit in any year. Violators can be fined an amount up to 0.5 percent of GDP per year. The Treaty of Amsterdam, which came into force in 1999, shifted parts of asylum and immigration policy to the EU level, and it strengthened EU capacity in foreign and defense policy. In the second half of 2000, the European Union announced the creation of a rapid reaction force, a 60,000-person strong "European army," designed to take on peacekeeping and peacemaking missions independent from the North Atlantic Treaty Organization (NATO0. While it remains to be seen whether this plan will come off the ground (at the time of writing, Turkey has lifted its veto of essential NATO assent), this completes the process of sharing authority in areas traditionally seen at the heart of national sovereignty: border controls, currency, diplomacy, and an army.

Institutions and Decision-Making Rules

Decision-making in the European Union evolves around five institutions: the European Council, the Council of Ministers, the European Commission, the European Parliament, and the European Court of Justice. The last four were created with the Treaty of Rome; the European Council was only formally added in the 1986 *Single European Act*, though it existed informally.[5]

The *European Council* is the summit of the government leaders of the member states (plus the president of the European Commission), which is held three or four times a year. The European Council has immense prestige and quasi-legal status as the body that defines "general political guidelines" (Title 1, Article 4 TEU, ex-D). This is the body where major deals are clinched and treaty changes are negotiated. But outside these roles, its control of the European agenda is limited. It meets only intermittently, and it provides the European Commission with general policy mandates, and seldom with specific policy proposals. European Council mandates have proved to be a flexible basis for the Commission to build legislative programs.

The *European Commission* is the executive-bureaucratic body of the European Union. It consists of a political and bureaucratic layer. The College of commissioners, one commissioner per member state and two for the five largest countries, is appointed every five years by the European Council and requires majority support in the European Parliament. The 4,000-plus policy-making bureaucracy consists of permanent officials who are recruited through a central exam. The Commission has the formal, and exclusive, power to initiate and draft legislation, which includes the right to amend or withdraw its proposal at any stage in the process.[6] It is also the think-tank for new policies (Article 221 TEC, ex-155). In this capacity it produces annually two to three hundred reports, white papers, green papers, and other studies and communications (Ludlow 1991). Some are highly technical studies about, say, the administration of milk surpluses. Others are influential policy programs such as the 1985 white paper on the internal market; the 1990 reform proposals for the common agricultural policy, which laid the basis for the European position in the GATT negotiations; the 1993 white paper on *Growth, Competitiveness and Employment*, which argued for labor market flexibility; or the 1997 *Agenda 2000*, which shaped the debate on enlargement to Central and Eastern Europe.

The Commission has significant autonomous executive powers in competition policy; it vets mergers of a certain economic size in the internal market, and it scrutinizes whether national, regional or local state aid is compatible with EU competition law. As mentioned above, it is the Commission that negotiates trade disputes and agreements with third parties on behalf of the Union, and this includes enlargement negotiations. The Commission reports back on progress to a committee of member state representatives, as well as to the European Parliament. Complicated rules govern whether and to what extent the Commission needs approval for its actions, but the bottom line is that the Commission is an executive body without legislative power. So it does not vote on the final WTO agreement, or on enlargement; that is the task of the Council of Ministers and the European Parliament.

According to the original Treaties, the Commission was not expected to perform ground-level implementation, which was left to the member states, except in unusual circumstances (such as competition policy, fraud, etc.). Yet, in some areas this has changed. The most prominent example is cohesion policy, which was significantly expanded in the 1980s and again in the 1990s to counter the effect of the internal market program (and later EMU) on regional and social disparities. Policy-making involves regional and local governments as well as social actors in all stages of the policy process in "partnership arrangements:" the selection of priorities, choice of programs, allocation of funding, monitoring of operations, and evaluation and adjustment of programs. Each region or country receiving funding is required to set up monitoring committees with a general committee on top, and a cascade of subcommittees focused on particular programs. Commission officials can and do participate at each level of this tree-like structure (Bache 1998; Hooghe 1996).

According to the EU treaties, the main legislative body is the *Council of Ministers*, which is composed of national ministers. The actual composition varies depending on the topic; so there is a Council for ministers of agriculture, an economic and financial affaires Council, an environment Council etc. Member states have votes roughly proportionate to their population, though small countries are over-represented, and Germany is considerably under-represented.

Participation in the Council of Ministers no longer guarantees individual national sovereignty. The proportion of rules stipulating unanimity in the Council has steadily declined. Qualified majority voting, that is 70 percent of the votes, is now the rule for 80 percent of decisions. That includes the single market, competition policy, economic and monetary union, regional policy, trade, environment, research and development, transport, employment, immigration and visa policy, social policy, and education. Qualified majority voting also applies to some provisions of foreign and defense policy, and some issues on policy cooperation, justice, and immigration. The decision rules are complex, but the bottom line is clear: over broad areas of EU competencies, individual governments may be outvoted. The weekly *European Voice* estimated that between January 1995 and January 1998, Germany was outvoted most often in the Council, followed by Britain and, at some distance, Italy (*European Voice* 15-21 October 1998, 4).

There are ways for national governments to defend national interests, but they depend on the consent of the other governments. For example, governments can build special safeguards into the treaties, a practice that has proliferated since the 1993 *Maastricht Treaty*. Particular states have been granted derogations, or special exemptions. The United Kingdom and Denmark each have derogation from the European monetary union. Some countries achieved derogations in the areas of state aid, environmental policy, and energy policy. Sometimes derogations are written into special protocols, such as those attached to the *Amsterdam Treaty* meeting concerns of Denmark, Ireland, and the UK on border controls, and EU immigration and visa policy. The Amsterdam Treaty also inserted a new decision rule, constructive abstention, which allows a member state to abstain from voting on an issue and to formally declare that it will not implement a decision that commits other EU member states. Constructive abstention is, however, restricted to certain foreign policy and defense issues (Stubbs 1999). In addition, the treaties preserve unanimity for the most sensitive and contested policy areas, particularly major foreign policy decisions, nearly all decisions on justice and home affairs, and much of fiscal policy.

From the 1980s the Council of Ministers and individual governments became intimately involved in the executive powers of the Commission. The term for this is comitology, which refers to the practice of having a committee of national representatives assist the Commission in its executive work. Many EU regulations have their own committee. National governments often select people outside the central executive to represent them in comitology. Most participants are not national civil servants, but subnational officials, interest group representatives (particularly from farming, union, and employer organizations), technical experts, scientists, or academics. Though these representatives are selected by their national government, they have particular territorial or group interests, as well as the national interest, to defend. Comitology was designed to allow national governments to monitor the Commission, but it has unintentionally led to deeper subnational and group participation in the European political process.

The Council of Ministers shares legislative authority with the *European Parliament*, which has been transformed from a decorative institution to a directly elected co-legislator. The first direct elections took place in 1979. The European Parliament has three major powers. First of all, it can fire the European

Commission, which almost happened in 1999. (The Commission pre-empted a vote of no confidence by resigning voluntarily.) Second, its assent, an up or down vote, is required over enlargement of the EU and over most association agreements and treaties between the European Union and third parties (Falkner and Nentwich 1999, 26). And third, since 1993, under the co-decision procedure the European Parliament co-legislates with the Council of Ministers on single market issues, and most other policy measures; the main exceptions are fiscal policy, foreign and defense policy, police and justice cooperation, and monetary policy. The co-decision procedure gives the European Parliament the power to amend and veto Council legislative proposals. If Parliament and Council are deadlocked, a conciliation committee, consisting of representatives from both institutions, with a representative of the Commission as broker, hammers out a compromise. To become EU law, a compromise needs to be approved by a majority in the Parliament and a qualified majority in the Council. So the co-decision procedure comes close to putting the European Parliament "on an essentially equal footing with the Council" (Falkner and Nentwich 1999, 26). The Council of Ministers is still the stronger legislative chamber as it votes on all EU issues. But the trend is clear: the European Parliament has become a force to be reckoned with.

The final EU body is the *European Court of Justice* (ECJ). It may be argued that an impartial dispute settlement arrangement is necessary to solve problems of incomplete contracting in international agreements. But the European Court of Justice is more than that (Alter 1998; Burley-Slaughter and Mattli 1993; Dehousse 1998; Mattli and Slaughter 1995; Stone Sweet and Brunell 1998; Weiler 1991). With the help of the Commission, and in collaboration with national courts, the ECJ has transformed the European legal order in a quasi-federal order.

ECJ case law has established the treaties as documents creating legal obligations directly binding on national governments and individual citizens. These obligations have legal priority over laws made by member states. Directly binding legal authority and supremacy are core attributes of sovereignty, and their application by the ECJ suggests that the EU is becoming a constitutional regime.

The Court has been able to get away with this expansive interpretation for several reasons. First, the failure of the treaties to delineate national and EU competencies has provided the Court with substantive reasons for expanding Treaty law. The treaties set out "tasks" or "purposes" for European cooperation, such as the custom union (*Treaty of Rome*), the completion of the internal market (*Single European Act*), or economic and monetary union (*Maastricht Treaty*). The Court has constitutionalized European law and European authority in other policy areas by stating that these were *necessary* to achieve these functional goals (Weiler 1991). Furthermore, Article 234 (ex-177) of the *Treaty of Rome* stipulates that national and lower courts may seek "authoritative guidance" from the ECJ in cases involving EU law. In such instances, the ECJ provides a preliminary ruling that specifies how EU law should be properly applied to the issue at hand. The court that made the referral cannot be forced to follow the ECJ's interpretation, but if it does, other national courts will usually accept the decision as a precedent. Preliminary rulings expand ECJ influence, and judges at lower levels gain a *de facto* power of judicial review, which had usually been reserved to the highest national court (Burley-Slaughter and Mattli 1993). Article 234 gives lower national courts strong incentives to circumvent their own national judicial hierarchy, and they have done so with gusto.

The substantive extension of European integration into all policy areas has gone hand in hand with an institutional transformation from a limited, primarily intergovernmental form of international cooperation to a system of multi-level governance, where autonomous supranational institutions—Commission, European Parliament, European Central Bank, and European Court of Justice—and institutions representing national governments—European Council and Council of Ministers—share authority. The result is a malleable and open system that is accessible to diverse actors. It is true that decision-making rules are biased in favor of governments. But in federalist fashion, the rules favor governments of smaller states more than those of larger countries. Decision-making rules also allow for other actors—political parties, subnational authorities, and national and European interest groups—to influence EU decisions. Politics in the European Union looks remarkably like domestic politics.

Crisis, Choice, and Change: The Relaunch of European Integration[7]

To what extent has the acceleration of European integration in the 1980s and 1990s been a response to globalization? And to what extent has it been driven by "domestic," that is, internal-European, developments? I will show that the push for European integration was motivated by a perceived inability of Europe's economies to compete with the US and Japan at a time when financial and trade flows were rapidly thickening. But to understand why this integration took the form it took—not only market integration (internal market), but also political integration in non-market areas—one must take into account domestic developments.

Economic Recovery: A National, Global or Regional Strategy?

The two global oil crises of the 1970s precipitated a period of long-term sluggish economic performance in Western Europe. Industrial productivity lagged US and Japanese figures. Europe was particularly uncompetitive in technology-intensive sectors. In 1981, the twelve largest European electronics firms issued a communiqué in which they highlighted Europe's paltry 10 percent share of global markets for information technology (IT) and its declining 40 percent share of its own markets (Peterson and Bomberg 1999, 205-206). Europe's economies seemed to lack competitiveness, and this while several European economies, including the German and British economies, were more exposed to the world economy than the Canadian economy.[8] Unemployment leapt to the high single digits or, in some countries, double digits for the first time since the 1930s. The social consensus of the 1960s and 1970s was under duress, and social unrest was on the rise. The world had changed, and Europe was not adjusting well.

The search for economic recovery led European governments to consider three strategies for reviving economic growth: a national, a global, and a regional path. First, several countries attempted to bolster national capacity for Keynesian economic management by tightening restrictions on trade and financial flows. They wanted to shut globalization out. Nowhere was this national option pursued as enthusiastically as in France, and its defeat there in the early 1980s pushed it off the table in the rest of Europe. After the socialist victory in the presidential elections of 1981 and parliamentary elections of 1982, the French government attempted to build "socialism in one country," which involved the nationalization of a dozen industrial groups and 36 banks; a Keynesian policy of demand stimulation through wage increases, enlarged social security benefits, increased government spending, and higher taxation of wealth and profit; and stronger capital exchange controls. But the policy failed. By the fall of 1982, unemployment was rapidly rising as more and more firms filed for bankruptcy, inflation was still 14 percent, and the deficits in both the national budget and the trade balance were increasing at alarming rates. The socialist party split over the appropriate reaction to the crisis, with the left-wing wanting to radicalize economic policy behind protectionist walls, and the right-wing arguing for a reversal to a supply-side policy emphasizing budget austerity, low inflation, and industrial restructuring to encourage export-led growth. While the former wanted to insulate the French economy from global pressures—including potential withdrawal from the European Union, the latter maintained that French industry should become more competitive abroad—first and foremost by facilitating trade in the European Union. By early 1983, the latter had won the argument.

The failure of Keynesian economic policy was not simply the failure of a particular set of macro-economic policies, but of a mode of policy-making that was distinctly national (Hooghe and Marks 1999). With trade and financial interdependence at such high levels in Europe, many believed that the cost of national regulation was too high. 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. There were two broad streams of innovation. One championed a general global shift towards neo-*laissez-faire*, and this faction was strongest in the UK and Anglo-American democracies. It also influenced to some extent societies where neo-corporatism was entrenched, such as Germany, where the Free Democrats and the pro-business wing of the Christian Democrats argued for neoliberalism. The other stream wanted to open up national economies within the European region, and this group proposed the internal market project. In the end, the regional strategy won. The reasons for this are multiple.

Reasons for the Single Market

One reason concerns the density of *economic transactions.* By the mid-1980s, European economies had become open economies. Trade openness, measured in table 2 by exports as percentage of GDP, varied between well above 70 percent for Belgium and just below 20 percent for Greece and Spain, but the average for the EU was 39 percent, against 11.4 percent for Japan and 7.4 percent for the United States. The more export-dependent an economy, the more dependent it is on growth in demand, and access to that demand, in foreign markets (McKeown 1999). Economic rationality induced European governments to prefer trade openness to protectionism. This is a fundamental reason for why the national strategy was not a viable option. But it does not explain why the regional path was preferred to the global path.

Aggregate trade and financial patterns suggest some functional reasons why European governments chose the regional strategy, but neither is conclusive. The simplest story concerns trade. More than half of a typical European country's trade was with other members of the European Community/ Union, and this proportion was growing. Note the contrast with Canada, where, as Richard Simeon points out in his chapter, interprovincial trade was declining as a proportion of overall provincial trade. In contrast, European governments could expect an integrated European market to further boost this high intra-European interdependence. Still, that left a sizeable proportion of trade with the outside world, and this might have been enough to tip the balance in favor of a global strategy (see table 3). In 1991, extra-regional trade (exports plus imports) represented almost 14 percent of EU GDP, against 11 percent for the US and 15.5 percent for Asia-Pacific. World trade is as important to the countries in the European Union than it is for the United States or Japan (Wolf 1994, 13-16).

[Tables 2 and 3 about here.]

While trade patterns were first and foremost intra-European, financial flows were primarily transcontinental. European economies were critically dependent on foreign direct investment (FDI) from the United States, and to a lesser extent Japan. By the mid-1980s, 40 percent of US investment was directed to Europe, and between 20 and 30 percent of Japanese investment. At first blush, then, one might expect governments to prefer a global strategy to buttress these sizeable FDI flows. Yet, historical experience tells us that European integration is good for FDI in Europe. The two periods of rapid growth in the European share of total US direct investment, the main source of FDI in Europe, coincided with the two phases of most intensive integration among European economies: the early 1960s after the signing of the Treaty of Rome, and 1973-80 after the accession of the UK, Ireland, and Denmark. European governments could reasonably expect further European integration to give another boost to US and Japanese FDI. And they were right: as a response to the launch of the internal market program, US firms rushed into Europe, so that by 1990 the European share of US FDI abroad had risen from 40 to 50 percent. The European share of Japanese investment rose to 30 percent (Thomsen 2000). Financial investors want to place their money in vibrant, growing markets, and whether such growth is produced by national, regional or global trade liberalization does not seem terribly important.

In some respects, a European strategy of trade liberalization was not well suited to problems at hand. Market competition in technology-intensive sectors and in financial services, the engines of the third industrial revolution, was more global than European. Many influential European multinational companies believed that it made more sense to pursue a global strategy encompassing the US and Japan than a European one.[9] The benefits of specialization through free trade were potentially greater between European and non-European firms than within Europe (Sandholtz and Zysman 1989). For these companies, the European strategy was second best.

All this suggests that, on purely functional grounds, governments could have gone either way—the regional course or the global path—though the balance was slightly tipped to the former.

A more compelling reason why governments preferred the regional to the global path is that they had at their disposal *ideas that could serve as focal points* for clinching credible regional commitments. A rich stock of ideas underpinned the European market project. Economic studies of the benefits of deeper market integration in Europe had been floating around in the Commission for years. By 1985 more than half of the internal market legislation was already in draft form (Cameron 1992; Ross 1995). Various economic studies were eventually bundled, updated, and coordinated in three famous reports: the Padoa-Schioppa report of 1987, the Cecchini report of 1988 and the Emerson report of the same year, all of which suggested that economies of scale and competition in an integrated European market would yield a cumulative benefit of between 4.3 to 6.4 percent of aggregate GDP.[10] There were also ideas about how to lower non-tariff barriers. Most important was the principle of mutual recognition formulated in 1979 by the European Court of Justice in the Cassis de Dijon case (Alter and Meunier-Aitsahalia 1994).[11] This happened while, at global level, the Uruguay Round had reached an impasse due to a dearth of ideas (as well as deep conflicts of interests between Europeans and the US, Canada or Australia on issues ranging from agriculture to intellectual property rights and services). At the level of ideas, plausible solutions to coordination problems, regional integration had a clear edge over global integration.

Furthermore, strong *pre-existing institutions at the European level* made it likely that agreements would be implemented. As we saw above, the European Commission's empowerment as competition authority and the European Court of Justice's jurisprudence establishing the supremacy of EU law preceded the internal market program. By the mid-1980s, these supranational institutions had the authority and the muscle to sanction free riders (Garrett 1992; Pierson 1996). Equivalent global institutions for monitoring national commitments were lacking, or, in the case of GATT, far less authoritative than EU institutions. Even the WTO does not require a *de jure* surrender of national sovereignty because a member state can always refuse to comply with a ruling (though *de facto*, smaller or economically more dependent countries may find it difficult to exercise that sovereign right). In contrast, EU Commission fines and ECJ rules are *de jure* and *de facto* binding—for Luxembourg and Germany alike.

To say that the functional, ideational, and institutional conditions for a new policy are favorable is not to say that the policy will be pursued. A decisive source of the EU's market project was the *breadth of its support* among diverse constituencies: supranational actors, business community, national governments, and, with some delay, organized labor. In contrast, support for a global strategy was much weaker, and opposition was more organized. The character of this "domestic" coalition, more than functional pressures, explains why regional integration won out over global free trade.

One group of this coalition consisted of long-time proponents of a federal Europe, and this group was particularly strong in the European Parliament and the Commission. For them, the single market project was merely the first, but essential, step in a larger venture. Activists in the Commission were led to the market project because they thought that economic integration would lead to political integration. When Jacques Delors assumed the presidency of the European Commission in January 1985, he saw the market project as just the first of four major initiatives to deepen political integration; the three others were a European cohesion policy for the regions, the development of a citizens' Europe based on a stronger European Parliament and extensive social policy, and economic and monetary union. He achieved much of this agenda, except for an extensive social policy (Ross 1995; Grant 1994).

Business was interested in the single market project as and of itself because it had much to gain from lowering market barriers in Europe (Sandholtz and Zysman 1989). The core of this support was among multinational corporations. They had organized themselves into the European Round Table, which had among its membership, giants such as Philips, Siemens, Volvo, ICL, Thomson, Olivetti, etc. This was a heterogeneous group: some firms conceived of the market project as a means to neoliberal deregulation in Europe and, in a next step, the globe, while others wanted a single market with a European-wide capacity for industrial policy (Ross 1995; Sandholtz and Zysman 1989; Cameron 1992; Cowles 1995). But all supported the internal market project, and the European Round Table became a highly effective lobbyist for the program. Support reached beyond these major multinational firms into the wider European business community. Virtually every member state had a large and growing constituency in favor of fewer national trade barriers, especially within Europe. While the United States has remained, in John Kincaid's terms, a 90 percent domestic economy, the European economies had become less-than-50 percent domestic economies, and much of this external trade was intra-European. The voice of mobile capital sounded all the louder because many sectors dominated by national capital did not expect to be affected by the internal market project, and so they had little incentive to mobilize against the project (Smith and Wanke 1993). The asymmetry in gains/losses between mobile capital on the one hand and national capital on the other helped proponents of liberalization to make a case for regional integration.

EU treaties are negotiated by national governments, and so one must ask oneself why they accepted to cede sovereignty on a vast range of policy areas? Ideological consistency provides a major part of the answer. In the mid 1980s, nine of the then-twelve member states—Germany, Britain, Italy, the Netherlands, Belgium, Denmark, Portugal, Ireland, and Luxembourg—were governed by right or center-right parties which were favorably oriented to mobile capital and market competition. The one major exception was France, but by the mid-1980s the modernist wing of the socialist party had asserted control in the Mitterrand government.

Would history have played out differently if socialists or social democrats had been in power in the mid-1980s? The French government's position suggests that the internal market could also gain support left of center. After all, Commission president Jacques Delors, who placed the plan on the EU agenda and lobbied very hard for its acceptance, was a social democrat. Throughout Europe, traditional social democracy was in disarray in the 1980s, because its preferred strategy to deal with globalization, national Keynesianism, had proved ineffective. By the end of the decade, most social democratic parties had given up on demand-oriented Keynesianism and supported supply-side policies prescribing an altogether humbler role for government in facilitating market competition (Kitschelt 1994). Yet social democrats did not endorse the single market with the same enthusiasm as the right. For them, it was the second-best option after national Keynesianism. They liked it to the extent that it promised to strengthen EU regulatory capacity against globalization. They hoped to use these bolder EU institutions to entrench some social democratic priorities, perhaps Euro-Keynesianism, at the European level.[12] With social democrats dominant in the European Council, the internal market program might have stayed on the shelf a few more years, so the timing might have been different. More importantly, if social democrats had held the pen, they would have complemented economic market integration with more qualified majority voting on EU industrial policy, EU social policy, and EU environmental regulation. Social democrats wrote the 1999 Amsterdam Treaty, which helps explain why it is the first EU Treaty that talks little about market liberalization and a great deal more about employment, solidarity, citizenship, democracy, and human rights.

This unwieldy coalition of European, national, and transnational actors differed greatly in their ultimate goals: from British Prime Minister Thatcher's desire to extend neoliberal policies across Europe to the left's hope to replace ineffective national regulation by EU regulation, and from European multinationals' desire to catch up with American and Japanese competitors by exploiting economies of scale in the European home market to Jacques Delors' and the European Parliament's ambition to build a political union. Yet for each of them, the creation of the internal market was the necessary first step to more distant goals.

The creation of the internal market was sold as Europe's response to globalization, but the form it took owes much to "domestic" economic and political concerns. As far as hard figures go, the single market was more a response to europeanization than to globalization: the economic or social transactions between, say, Germans and French have increased much faster than those between Germans and non-Europeans—globalization in Europe has been regional. Furthermore, while it is well-established that national Keynesianism becomes increasingly ineffective in open economies, there is less evidence that trade openness rules out public choice in size and role of government. As Fritz Scharpf and others have shown, different types of welfare states have proven relatively resilient in the face of "globalization," though there may be economic costs to maintaining particular programs or social priorities (Scharpf 1999; Huber and Stephens 2001). So when governments downsize social programs, it is usually not because they are pulled by global forces but because they are pushed by certain political coalitions at home. Similarly, European governments decided to cede sovereignty in a range of policy areas that went far beyond what functionality called for. They did so because they thought it would help them achieve specific political goals; by shifting authority to Brussels, they could divert blame for unpopular measures, or tie the hands of their successors (Marks 1996).

The key to the political success of the internal market program was its ambiguity; it was all things to all actors. The market program, a goal shared by many in 1985, became a point of departure for contending political agendas. For parties or interest groups with a neoliberal outlook, market liberalization was a necessary step in limiting European integration to an economic enterprise administered by insulated government elites. But other parties conceived of the SEA as a jumping-off point for regulating capital at the European level in line with European social democratic and Christian democratic traditions.

Economic and monetary union, decided at Maastricht in 1991, was a replay of the politics of the internal market program. Neoliberals perceive EMU as the crown on their project to insulate economic activity from political regulation. With monetary policy securely hived off to an independent central bank, national governments will be induced to compete for investment by reducing the overall tax burden and shifting its incidence from mobile capital to less mobile factors of production. Opponents of neoliberalism, on the other hand, believe that EMU will trigger deeper political regulation at the European level. They expect that asymmetrical economic shocks will press national governments toward ad hoc redistributive measures and, eventually, to some form of European fiscal policy. The implications of EMU are no less ambiguous than those of the internal market program, which is why EMU has been able to attract support on the left as on the right.

What began as a reaction to globalization has become an authoritative structure with the capacity to deepen ties of economic, social, and cultural interdependence in Europe. Hence, in an unconventional way, one could conceive of the European Union as Europe's local producer *and* regulator of globalization.

The Effect of Globalization and European Integration on Europe's Politics and Society

How have the twin forces of globalization and European integration influenced Europe's politics and society over the past decades? I organize my thoughts around four basic questions.

Has Globalization/European Integration Decreased or Increased Regional Conflict?

Perhaps the greatest achievement of European integration is its pacifying impact on centuries-old warring relations in Europe. Jean Monnet, Robert Schuman, Konrad Adenauer, Paul-Henri Spaak, and Alcide de Gasperi conceived the EU as a response to the horrors of war in Europe, as a means to tame destructive nationalism. The founders hoped to weaken national animosities by establishing an international legal order that would constrain realist anarchy. They wanted to domesticate international tensions within stable supranational institutions. Fifty years after the Schuman declaration, skirmishes between Germany and France are as inconceivable as a war between Ontario and Québec. In the 1980s, EU membership was critical in consolidating democracy in the former authoritarian regimes of Greece, Portugal, and Spain, and now hopes are high that the European Union may pull off the same in completing the transition in Central- and Eastern Europe.

That does not mean that conflict between national states, particularly national governments, but sometimes also national firms, national interest groups, or national electorates, is nonexistent. Territorial difference, and particularly national difference, is still a major cleavage in EU politics. Yet, while some states are more likely to form alliances than others, so far no permanent blocs of countries have emerged. On trade issues, an Atlanticist bloc comprising the UK, the Netherlands, and often Germany and the Scandinavian countries, tends to vie with a Europeanist bloc around France, Italy, and often Belgium and Spain. On environmental issues, countries tend to align differently, with the Scandinavians and Germany in the pro-environmentalist camp, France and Belgium in the middle, and the UK with Spain, Portugal, and Greece in the environmentally laggard camp. On social and employment policy, Scandinavian countries sometimes join forces with southern countries. Moreover, these policy blocs change with the color of governments or the changing political landscape. For example, the German government, red or black, was always a fervent supporter of the common agricultural policy (CAP), but it made a U-turn in the Fall of 2000, pushed by the political fallout of mad cow disease, hoof and mouth disease, and other food scandals attributed to the industrialization of agriculture promoted by CAP.

Third countries sometimes manage to exploit divisions among EU members. For example, in trade negotiations the United States has repeatedly tried to drive a rift between the Atlanticist bloc led by the UK and the Europeanist bloc led by France. However, the fact that the European Union has exclusive authority over trade, and that the Commission is the sole negotiator, makes that a difficult and politically delicate exercise. On the whole, EU member states have learned that they tend to be better off when they stick together.

In conclusion, European integration has effectively defused interstate conflicts in Europe. Moreover, it has, so far, not led to the emergence of quasi-permanent regional blocs. This may be because the EU deals with a vast range of issues. While it is possible to frame some issues in terms of national interest, most issues are divisive within societies, and this ideological contestation is likely to undermine efforts to forge a "national position." Instead, groups are tempted to take their ideological positions from the national to the EU arena where they can find like-minded allies from other countries.

Has Globalization/ European Integration Fuelled or Diffused Ideological Conflict?[13]

Most political economists agree that increased economic globalization, or more specifically market liberalization and trade, increases aggregate economic growth, but it also intensifies economic uncertainty, income inequality, and it creates economic winners and losers (Rodrik 1997; Garrett 1998). Winners want to deepen market liberalization, while losers, or defenders of those who suffer, want regulation of global market vagaries. This contestation is often characterized as one between right, those in favor of market liberalization, and left, those in favor of more government regulation of markets. For simplicity's sake, I adopt this convention here.

The challenge for proponents of political regulation is that there is generally a mismatch between the territorial scope of the market and government authority. In a world where markets are increasingly transnational or global, international institutions with real authoritative capacity are generally weak or non-existent. Absent international regulation, proponents of regulation can push for national regulation, but that risks being ineffective, or it may only be possible if one is willing to sacrifice growth. It is rational, then, for the left to be wary of globalization. That is why organized labor in the US and in Canada tends to be suspicious of NAFTA or the WTO (Marks and Down forthcoming).

The European Union is an exception. It is the one supra-national institution with considerable capacity to regulate market forces beyond the national state. So the question then becomes how the existence of the European Union affects left/right politics in Europe? European integration encompasses a variety of particular policies and reforms with very different implications for left and right (Marks and Wilson 2000). Parties on the economic right should be in favor of market integration in the European Union, and policies that constrain government spending, but they should be wary of political integration that may strengthen re-regulation at European level. Parties on the left and center-left too should be weighing conflicting considerations. On the one hand, market integration threatens left achievements at the national level because it intensifies international competition while undermining Keynesian responses to it. On the other hand, deeper political integration may enhance the possibilities for social democracy by creating democratic authoritative institutions capable of pursuing employment, environmental, or cohesion policy at the European level—regulated capitalism. As a Flemish socialist exclaimed during a parliamentary debate on Belgian participation in EMU in 1996: "Why do you think that the German labor unions hope that the third stage of EMU will succeed? … They know that EMU will create the foundations for a Rhine-land model on a European scale, for a project that will meet the needs of all Belgians and Europeans. That model will preserve our social welfare in a globalizing economy" (quoted in Beyers and Kerremans 2001, 144).

Because of these complex expectations among right and left parties one would not expect to see a clear relationship between left/right placement and support for European integration. And indeed, the overall association between left/right and European integration is non-linear and weak.[14] But this result conceals two divergent dynamics.

On the one hand, Euro-skepticism among radical left-wing parties pulls down the curve on the left side of the dimension. Opposition to European integration is deeply entrenched among the radical left. It is rooted in the perception that the institutions of the European Union have been irreparably co-opted by mobile capital. According to the radical left, the European Union is biased beyond repair, and so one should stay out of the European Union. For example, at the same time that the Swedish social democrats applied for Sweden to join the European Union, their main competitor to the left (Venstre) rejected such efforts on the grounds that "the message in the Maastricht Treaty was the construction of a capitalist block" (Christensen 1996, 534). The electoral significance of the extreme left is still considerable in Europe: 7.2 percent in 1999 (of which 85 percent is Euro-skeptical).

On the other hand stands an opposite dynamic among major parties, which represent approximately 80 percent of Europe's voters. Figure 2 displays the relationship between left/right positioning and European integration for parties in the major party families—social democrats, Christian democrats, liberals, and conservatives. When one simply asks whether these parties support or oppose European integration, there is a gentle slope from left down to right. The association of –0.20 just fails significance at the 0.10 level. Moderate left *and* right are broadly in favor.

[Figure 2 about here]

The picture changes markedly when one examines particular EU policies. Support for EU employment policy and EU cohesion policy is powerfully associated with left/right positioning (R=–0.67 and –0.52, respectively). EU environmental policy is also strongly associated with left/right (R=–0.45). So the moderate left in Europe wants to strengthen EU regulation of market forces: they support the internal market and EMU, but they also want more EU powers in employment policy, cohesion policy, and environment policy. The reverse logic is at work among parties on the economic right. As Figure 2 shows, the strongest opponents of EU employment policy tend to be parties with the highest value on the left/right scale, that is, the most neoliberal parties. Parties on the economic right want to limit EU political regulation: they like the internal market and EMU, but they dislike EU capacity to re-regulate this freshly liberalized market.

Social democratic parties are not monolithically in favor of deeper integration. Minorities in some parties, particularly in Sweden, Denmark, and Germany, remain doubtful about the potential for a European social model, and argue that while European legislation may ratchet up social democracy in poorer countries, it stands in the way of higher standards in the social democratic heartland of Europe. But this is a minority view. Majorities in one social democratic party after another have come to perceive European integration as a means for projecting social democratic goals in a liberalizing world economy (Hooghe and Marks 1999; Ladrech 1997; Katz and Wessels 1999).

A broader point deserves to be emphasized here. Moderate left and right hold contending conceptions of what kind of political economy should be created in the European Union: a “social model” built on European regulated capitalism versus a neoliberal Europe based on market competition. These are not fluid disagreements on specific issues, but contrasting worldviews that motivate groups to form coalitions.

The neoliberal coalition attempts to insulate markets from political interference by combining European-wide market integration with minimal European regulation. They reject democratic institutions at the European level capable of regulating the market, and seek instead to generate competition among national governments in providing regulatory climates that mobile factors of production find attractive. Neoliberals want to import globalization into Europe. Proponents of regulated capitalism, on the other hand, propose a variety of market-enhancing and market-supporting legislation to create a social democratic dimension to European governance. This coalition seeks to increase the European Union's capacity for regulation, by among other things, upgrading the European Parliament, promoting the mobilization of a wide range of social groups, and reforming institutions to make legislation easier (e.g., by introducing qualified majority rule in the Council of Ministers). They want to regulate globalization in Europe.

The division between neoliberalism and regulated capitalism has been alternatively described as one between a neo-American model and social democracy (Wilks 1996), between unfettered and institutional capitalism (Crouch and Streeck 1997), liberal market economies and coordinated market economies (Soskice 1992, 1999), or between the Anglo-Saxon model and the Rhine social market economy (Rhodes and Van Apeldoorn 1997). This is a fundamental division, yet if one compares it with historical divisions between left and right in Europe during much of the twentieth century, it takes place within relatively narrow parameters. European integration has altered left/right politics in Europe. It has highlighted, and hastened, the declining feasibility of national social democracy, but at the same time it has drawn attention to the capacity for regulation at a level beyond the national state. Loss has been sweetened by anticipation of future gains. This has resonated best with Europe's socialist and social democratic parties, which rely on the prospect of stronger regulatory capacities for the European Union to offset the electoral fallout of the breakdown of national Keynesianism. And here globalization and European integration differ profoundly. While globalization unmediated by international regulation has become the number one enemy of the left outside Europe, for *Europe's* left, European integration has become a source of hope.

Has Globalization/ European Integration Hardened or Eroded National Identities?

The tension between the economic right and economic left has old roots. In contrast, the new politics cleavage is, as its name suggests, more recent. Since the 1970s, a set of broadly cultural issues has become salient in many advanced industrial societies: life style, policies toward "others" (gays, women, minority cultures, immigrants) and cultural diversity, national sovereignty and patriotism, and ecology. A variety of labels have been attached to this phenomenon, including post-materialism/materialism (Inglehart 1990), new politics/old politics (Müller-Rommel 1989), green/traditionalist, left-libertarian/authoritarian (Kitschelt 1994). At one pole, this dimension is described by some combination of ecology (or greenness), alternative politics (including participatory democracy), and libertarianism. One may conceive of this as the Green/Alternative/Libertarian or *GAL* pole. The opposite pole of this dimension is characterized by some combination of support for traditional values, opposition to immigration, and defense of the national community. This is the Traditional/Authoritarian/Nationalism or *TAN* pole. Although this type of new politics is more salient in Europe than in North America, Japan or the Antipodes, it is present in all advanced economies.

Scholars of this cultural cleavage, such as Ronald Inglehart and Herbert Kitschelt, link its existence to the emergence of a category of people with considerable economic security. Affluence and education, the main resources for economic security in a modern world, breed tolerance for the other, adherence to freedom and individual rights, and quality of life. Affluent and educated people demand policies that address these issues: equal opportunities for women, minorities and gays; tolerance to immigrants and asylum seekers; privacy and expanded personal freedoms; and greater democratic participation. Conversely, people who are economically insecure are likely to reject these values and want regulation to sustain their familiar homogeneous communities.

How does globalization play into this? Globalization produces economic insecurity, and at the same time, it brings about increased cultural and social transactions that make it more difficult to insulate one's own community from interference. Small, formerly homogenous cultures, are drawn into the global trading place. The law of the numbers predicts that, in a situation where two or more cultures interact, there is a good chance for the smaller culture to be ultimately assimilated by the larger one (Axelrod 1997). In Europe, as in Canada, the large culture is Anglo-American. And so one may expect globalization to intensify cultural conflict between *GAL* and *TAN,* and to strengthen particularly the *TAN* side.

For many EU citizens, European integration signifies increased economic, cultural and social interactions that cut across traditional communal identities. Yet, European integration also refers to a set of tangible institutions with the capacity to actively enact policies that sustain or undermine *GAL* or *TAN* values. For people and parties with *TAN* values, European integration exacerbates the disruptive effects of globalization. They perceive European integration, like globalization, as a threat, because it limits national culture, national community, and national sovereignty. The French anti-globalization hero José Bové who became known for his attacks on McDonalds in France, is also an opponent of the European Union. The defense of "the national," conceived as a distinguishing, exclusive set of deeply rooted cultural and institutional characteristics that bind a national community, is the core of party ideology at the *TAN* pole. The empowerment of authoritative supranational institutions, and EU policies that weaken national control, challenge them directly. Extreme right parties, on average 6.1 percent of the national vote in 1999, are deeply opposed to European integration: the French National Front, the Flemish Vlaams Blok, the Austrian FPÖ, the Italian Northern League, etc. In 1992, the then-leader of the French National Front, Jean-Marie Le Pen, described the Maastricht Treaty as "suicide national," "une entité supranationale qui passe par l'éclatement de la nation." The Euro-skepticism of these parties is linked to their opposition to immigration. They see themselves as defending the national community and culture against foreigners, and this leads them to oppose the free movement of persons in the single market, a concern that has intensified with prospective enlargement to the east. Jörg Haider, leader of the Austrian Freedom party, has opposed enlargement to the countries on Austria's eastern border: "From the moment we open our borders, 200,000 people will come here, settle, and look for jobs" (*The Economist*, 11 July 1998, 55).

But the effect of *TAN* reaches beyond the radical right. Among mainstream parties, the higher their score on *TAN* is, the more Euro-skeptical they are. These include, for example, the British Conservatives, the Italian Forza Italia of Berlusconi, the Portuguese Partido Popular, and the French Gaullists. While they are not so extreme as radical right parties, these conservative parties defend national culture, national community, and national sovereignty against the influx of immigrants, against competing sources of identity within the state, and against external pressures from other countries and international organizations (Betz and Immerfall 1998; Kitschelt 1995). The French conservative right has gone furthest in emphasizing the alleged deficiencies of the European Union in relation to immigration and asylum. But other parties have also spoken in explicit language. In the Spring of 2000, Forza Italia published proposals for highly restrictive legislation. In the ideological preamble to the document, Forza Italia made an explicit commitment to a "Christian" model of society based on the "primacy of the nation understood in the romantic sense, as a nucleus and base of values, religion, culture, language, dress and tradition." The document rejects "a universal, multi-racial society that is rooted in the markets" (Quoted in the *Financial Times*, 1 April 2000). And in the Spring of 2001, the British Conservative leader, William Hague, made anti-immigrant statements that, according to *The Economist*, had a suspiciously ethnicist undertone.

The national orientation of these parties has an unambiguous bottom line for their position on European integration: the national state should be extremely wary in weakening its legitimate sovereign right to govern persons living in its territory. Euro-skeptical voices in conservative parties rarely seek withdrawal from the European Union, but they typically argue for a looser confederation. The Portuguese Partido Popular, for example, opposes the Europe of Maastricht and the EMU, which it labels the "federal peril," and argues for a Europe "respectful of the diversity and the Will of the nations of which it is constituted." The resurgence of nationalism, and the ensuing connection between *TAN* and Euro-skepticism, is a major new development in the European Union.

The impact of European integration on *GAL* values is less clearcut (Bomberg 1998). This is because each one of the three constituent elements—greenness, alternative politics and participatory democracy, and personal liberty with respect to life-style—is two-sided. The *ecological* implications of European integration depend on where one sits. Countries with advanced environmental regulations (i.e., the richer countries, in which green parties are strongest) may extend their own standards to less-developed countries with the help of supranational legislation, but their own standards are unlikely to be raised. Yet, many ecological issues demand transnational cooperation, and the European Union is a more effective arena for dealing with them than either global or national arenas. The *democratic* consequences of European integration have been mostly negative for those who care about participation. The European Union stands for much that parties toward the *GAL* pole instinctively oppose: technocratic policy making; secretive decision-making; distant institutions; and the dominance of intergovernmental bargaining (Bomberg 1998). Yet, democratic control over EU policies has been buttressed with the Maastricht and Amsterdam Treaties. Though far from perfect, the opportunities for a variety of actors to influence and co-decide are far greater in the European Union than they are likely to become in the foreseeable future in other regional or global regimes. Finally, from a *libertarian* standpoint, European integration is both liberating, in that national restrictions on freedom of movement are eased, and restrictive, in that it creates an additional layer of authority removed from individual control. So one would expect mixed support for European integration among green parties.

This ambivalence is reflected in green parties' stances on European integration—the more extreme parties on the *GAL* side. Green parties clearly support European integration in environmental policy and they favor EU asylum policy as well as a strengthening of the European Parliament, but they are wary to wholeheartedly support an international organization that is democratically non-transparent. As Elizabeth Bomberg observes: "Greens in Europe . . . face a strategic paradox: the incentives to work through the EU are great, yet how can they work through institutions that inherently violate green principles?" (Bomberg 1998: 4; Rüdig 1996: 268). The paradox of green opposition is that democratizing EU institutions demands a stronger European Parliament, in other words, more, not less, integration.

A major determinant of green party positioning on European integration is the relative weight of pragmatic ("realo") versus principled ("fundi") tendencies. A second, related, influence is whether the party is purely environmentalist or combines green and radical-left views (Christensen 1996; Bomberg 1998). The more reformist and environmentalist the party is, the more likely it is to support European integration. In recent years, reformism has been ascendant in the larger green parties, including the influential German Greens. Back in 1984, the German Greens condemned European integration in sweeping terms as an attempt to create a European superpower. By the early 1990s, they had become supportive. In their 1992 policy reversal, they stated that, "especially in view of increasing nationalistic and racist opinions and attacks in Germany and elsewhere, the Greens emphasize the importance and necessity of European integration" (policy statement of the *Land* Council, October 1992, quoted in Rüdig 1996, 263.) Increasing support for European integration has been most pronounced in the larger green parties, particularly the Austrian, Belgian, Dutch, Finnish, French, and German greens. Green parties represented only 4.3 percent on average of the national vote in 1999, but their strength varies considerably from country to country. They are politically influential in Germany, France, and the Benelux countries. Moreover, most social-democratic parties also strongly support of *GAL* values.

There is no simple answer to the question of whether national identity politics has been mitigated or hardened as a result of European integration. The empirical evidence suggests that it has been a bit of both. For radical right parties, nationalism and Euro-skepticism have come to fit snugly with anti-immigrant policies, alongside cultural traditionalism and authoritarianism. And this has carried over to mainstream parties on the conservative right. But at the same time, parties that espouse libertarian, alternative, pro-immigration and pro-cultural diversity views have come to embrace European integration, albeit with misgivings, as a bullwark against exclusive nationalism. So European integration seems to contribute to the polarization of identity politics in Europe.

Has Globalization/ European Integration Spurred Centralization or Decentralization of Authority?

The deepening of European integration represents an unprecedented centralization of authority in Europe. Yet it would be wrong to argue that a European superstate has replaced national states. The system that has emerged in Europe is one where national states still play a major role—in terms of Figure 1, a predominant role—in most policy areas. But they have lost the capacity to make *sovereign* decisions on policies. They share decision-making with one another in the context of the EU, and with autonomous EU institutions.

European politics, however, has been characterized by a second major development that further qualifies the impression of a European superstate. This concerns the empowerment of regions inside national states between 1950 and 2000. Figure 3 illustrates how much regions have gained in power within states since 1950. It is based on an index developed by Gary Marks and myself, in which we use four indicators to capture the extent of regional self-rule and regional shared rule in national decision-making (Hooghe and Marks 2001, Appendix 2). In 1950, six of the now 14 EU countries (15 minus Luxembourg) were purely unitary, four were quasi-unitary, three were regional, and only two (Germany and Austria) were federal. By 2000, only two (Sweden and Ireland) were purely unitary, four were quasi-unitary, three were regional, and five were federal or quasi-federal (Germany, Austria, Belgium, Spain, and Italy). The greatest changes have taken place in the larger countries—Spain, France, Italy, and Spain—as well as in Belgium.

Except for periods of home rule in Northern Ireland, the United Kingdom remained the odd unitary state in one of the most populous and ethnically diverse countries in the EU. However, that was before the reforms of the past three years, which led to the creation of a Scottish Parliament and Welsh Assembly, and with assemblies for English regions on the agenda.

[Figure 3 about here]

It would be wrong to contribute this regional empowerment directly to globalization or European integration. The main impetus has been domestic. Strong bottom-up regionalism and nationalism are far more important causes for regional empowerment in Belgium, Spain, and in the United Kingdom. Regionalization has also been pushed from the center. There are several reasons why national politicians may want to shift power downwards (Marks 1996). They may do so to modernize policy-making, to shed unpopular or expensive policy tasks, or to increase democratic participation.

The direct effect of European integration on regional empowerment has been limited, although real. The most tangible impact has been through EU cohesion policy. The 1988 reform of this policy instituted "partnership" among the Commission, national authorities, and regional/local governments in designing, running, and monitoring economic development programs. Partnership became a powerful tool for the Commission to break open its two-level, dyadic relations with each national government into multi-level relations among supranational, national, and subnational governments (Hooghe 1996; Hooghe and Marks 2001). In some cases, such as Ireland, Greece, and to some extent Portugal, the European Commission has made EU funding conditional upon the creation of regional administrations. In other cases, such as in the UK, the Commission has built alliances with regional and local authorities, and by doing so strengthened their hand vis-à-vis their national government. The Commission is following a similar strategy in the prospective member states of Central- and Eastern Europe, where it is pushing reluctant national governments to put in place effective regional governance structures.

Yet the most important impact of European integration on regional empowerment has been indirect. European integration lowers the threshold for regions to demand power from their national governments because they do not risk losing market access. While an independent Quebec would have to renegotiate NAFTA membership with the United States, Mexico and Canada, an independent Scotland or Flanders could simply accede to the EU *acquis communautaire*—the cumulative body of EU law. Membership of an economic and monetary union is qualitatively different from membership of a free trade association. National leaders, from their side, may find it attractive to devolve authority to the extent that, by doing so, they can shed responsibility for the implementation of unpopular EU regulation. European integration takes economic risk out of the equation, and it provides national politicians with opportunities to reduce electoral risk. The European Union sets the economic and political parameters within which diffusion of authority takes place.

The Future of "Shared Governance" in Europe and Beyond

European integration is both a dependent variable, influenced by globalization, and an independent variable, a specific embodiment of globalization. As an independent variable, it resembles most closely the model of shared governance set out in the scenarios. It is a mode of governance that transcends traditional interstate relations. Authority is diffused across national, subnational, and supranational actors. EU policy making is decided primarily through negotiations between supranational and national institutions. And shared governance also includes subnational governments and domestic interest groups; this is more likely to happen in some policy areas (e.g., regional policy, environment, social policy, and industrial relations) than others (foreign policy, trade policy, competition policy), in certain policy stages (implementation stage) than in others (legislative process), or by actors other than national governments of some member states (federal countries, i.e. Austria, Belgium, Germany, and quasi-federal or regional countries, such as Spain, Italy, and to a lesser extent France and the UK) than others (unitary states). National governments are still the most powerful players, but their exclusive control over EU decision making, both individual and collective, has slipped away.

Shared governance in the European Union has helped a budding European public space, where basic options for European societies can be and are contested. The public space is still largely segmented into national public spaces, but political parties have begun to formulate explicit connections between domestic contestation and European integration. European integration has heightened unease with the erosion of national identity, and this has benefited the radical right. But it has also renewed hope (or tempered despair) for social democratic values beyond the national state, and this has benefited the center-left.

The European Union will be, with the United States, the major player in shaping global governance. But it has an edge over the US, in that it is also the first serious form of governance beyond the national state. It is a laboratory for global governance. The kind of governance that prevails in the European Union may influence disproportionately the future of global governance.

So how stable, then, is the current EU model of shared governance? The model faces two major challenges over the next decades. First, it needs to deal with emerging global regimes such as the WTO, which may develop rules that constrain EU capacity to regulate markets. And second, it needs to prepare for enlargement to at least ten, and likely, twelve to fifteen applicants from Central- and Eastern Europe (and Turkey) between 2004 and 2010. These two challenges may shift the internal dynamics in the direction of a regional “cyberwave” or of a regional “club.” I will briefly speculate how.

Global regulation of regime competition is bound to be less encompassing, less binding, and less specific than EU regulation. It would be confined primarily to negative integration (trade liberalization), while it would not create much in terms of political regulation of markets, and certainly not a level of environmental and social standards that is equivalent to the EU level. However, a sufficiently authoritative

WTO may be strong enough to severely constrain the European Union in enacting positive regulation. That would almost certainly create major tensions within the Union. It might even paralyze decision-making, which rests on a delicate bargain between supporters of global markets and those of European strength. Incapacity to decide may slide the EU gradually in the direction of an EU *cyberwave model*. There is strong resistance in the European Union against this scenario. The main purpose of proponents of regulated capitalism is precisely to strengthen EU capacity for authoritative regulation to avoid such entropic processes. A cyberwave EU, however, fits with the neoliberal project. And neoliberalism enjoys some support among liberal and conservative parties, among parts of the corporate sector and financial services, as well as some public opinion leaders.

Enlargement to the east is the more immediate challenge, and it is quite possible that it may induce current "insiders" to transform the Union into a *club*. This particular enlargement differs in two respects from previous rounds. First of all, the administrative and legal systems of the prospective members are less developed than those of any previous round, while the EU *acquis communautaire*—the accumulated body of EU law—is much more encompassing and constraining than at any other stage in EU history. And second, the prospective members are economically and culturally more different from the current EU members than prospective members in the past. For one thing, GDP per capita of the ten most likely members is less than one-third of the average GDP per capita of the European Union. An extrapolation of current EU policies to these members would necessitate a doubling of the EU budget, and this is not likely to happen. How is the European Union likely to respond to this challenge? To ease accession, prospective members will receive long transition periods in which compliance with current EU legislation is phased in for areas like competition policy, environment, regional policy, social policy, agriculture, or cultural cooperation. Yet it is not impossible that the current 15 members may decide to turn these temporary exemptions—a technique commonly used during previous enlargements to ease the burden for newcomers—into permanent exemptions. And so the prospective members may find themselves locked out from costly EU positive regulation, such as cohesion policy, social policy, or agricultural policy. At that point, the European Union may cease to be a model of shared governance, and become a club with two sets of members: the rich and the poor.

The future shape of the European Union will influence global governance, though one can only speculate how. If shared governance prevails in the European Union, it would certainly help to bring about global shared governance. If shared governance gives way to a club model, chances for global shared governance seem much diminished. An EU cyberwave version is likely to reinforce market pressures for a global cyberwave. But, given the existence of extensive authoritative institutions at the EU level and the electoral strength of political parties opposed to a cyberwave model, this may be the least likely outcome. Of course, as Sam Goldwyn once uttered, predictions are always difficult—particularly of the future.

Endnotes

[1] The latest is the Nice treaty, which comes into force in 2003. It changes decision rules to prepare the European Union for the accession of ten new countries in 2004. For example, it reweights voting in the Council of Ministers, and redistributes seats in the European Parliament. In the course of 2001, many political leaders, from federalist German foreign minister Joschka Fischer to Euro-skeptical French president Jacques Chirac, began to campaign for a wide-ranging *constitutional* debate to lead perhaps to a European Constitution (instead of a Treaty). In February 2002, a “convention on Europe” began work on a blueprint for a European constitution. The composition of the convention is unusually open. There is an equal balance between governmental and parliamentary representatives: the European Parliament, the European Commission, and the national governments and national parliaments—not only from the fifteen existing member states, but also from the accession countries (which have full participation and voting rights.) The convention also organizes hearings for organized civil society. If the convention agrees on a blueprint by mid-2003, it will be submitted to an intergovernmental conference. In the end, then, national governments have the last word over the draft—before it is sent out for ratification by the national parliaments, or in some countries, by the national citizens through a referendum.

[2] The scores in Table 1 are drawn from Leon Lindberg and Stuart Scheingold’s book *Europe's Would-Be Polity* (1970), from an expert survey conducted by Philippe Schmitter (1996), and from evaluations by Gary Marks and myself in 2000 (Hooghe and Marks 2001).

[3] This exclusive competence was initially limited to goods and capital, while the status of services was unclear. But in 2000, the member states agreed to give the Commission full competence to negotiate on their behalf in services as well.

[4] Eleven countries joined in 1999, and Greece joined as from 1 January 2001. At the time of writing, Denmark, Sweden and the UK are not part of the Euro-zone.

[5] This section is based on Hooghe and Marks (2001, ch. 1).

[6] Except for foreign and defense policy, immigration, and justice affairs, where it shares this power with the Council of Ministers.

[7] This section borrows its title from the classic: *Crisis, Choice, and Change. Historical Studies of Political Development,* edited by Gabriel Almond, Scott Flanagan, and Robert Mundt.

[8] By one generally used measure of trade openness—imports and exports as percentage of GDP—the evolution for key countries was the following (McKeown 1999, 13):

	1960-73	1974-79	1980-89
Sweden	45	58	63
Denmark	60	61	69
Netherlands	92	96	110
Germany	39	51	61
France	26	39	45
Italy	31	41	42
UK	41	55	53
Canada	39	48	52
US	10	17	18
Australia	30	31	33
Switzerland	61	66	73

[9] In the strategic areas of electronics and telecommunications, many of Europe's largest firms, such as Bull, Thomson, Siemens, Philips, Olivetti, and ICL were more interested in alliances or mergers with US or Japanese firms than with European firms (Cawson 1990; Sandholtz 1992).

[10] Tommaso Padoa-Schioppa. 1987. *Efficiency, Stability and Equity.* Oxford: Oxford University Press; Paolo Cecchini. 1988. *The European Challenge 1992: The Benefits of a Single Market*. Aldershot: Wildwood House; Michael Emerson a.o. 1988. *The Economics of 1992: The EC Commission's Assessment of the Economic Effects of Completing the Internal Market*. Oxford: Oxford University Press.

[11] Member states were compelled to recognize each other's standards as equivalent. The expectation was that market competition would ultimately make standards converge to the most efficient level. So ex ante

politically negotiated harmonization would be replaced by ex post market-driven harmonization (Majone 1995). The Commission stated in a communication of 1980 that it would use the idea as the foundation for a new approach to harmonization (Alter and Meunier-Aitsahalia 1994).

[12] The main exception was British Labour, which was still staunchly socialist and by implication against European integration in the mid-1980s.

[13] This and the following section are largely based on Hooghe, Marks and Wilson (2002).

[14] This is based on data on party positions of 142 national political parties, which were collected through an expert survey conducted in 1999/2000 by Gary Marks, David Scott, Marco Steenbergen and Carole Wilson. The survey asks country experts for all EU member states (except Luxembourg) to evaluate political parties on where they stand on a new politics dimension as well as on an economic left/right dimension (ten-point scales, ranging from 1 to 10), and to place these parties on a seven-point scale with the lowest score representing strong opposition to European integration and the highest score representing strong support for European integration, and to do this as well for seven policy areas tapping into aspects of political and economic integration (Hooghe, Marks and Wilson 2002). The 1999 expert survey is an extension of a survey conducted by Leonard Ray, who gathered data on party orientations to European integration (but not on seven policy areas, nor on the economic left/right and new politics dimension) for four time points: 1984, 1988, 1992, and 1996 (Ray 2000).

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