Examining EMU: Neoliberal Hegemony and the Future of 'Social Market Europe'

By

Lloy Wylie

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to the required standard

[redacted]

Dr. A. Verdun, Supervisor (Department of Political Science)

[redacted]

Dr. O. Schmidtke, Departmental Member (Department of Political Science)

[redacted]

Dr. W.K. Carroll, Outside Member (Department of Sociology)

[redacted]

Dr. David Howarth, External Examiner (Queen Mary College, University of London)

Supervisor: Dr. Amy Verdun

ABSTRACT

This thesis examines whether European integration will uphold or undermine the model of 'Social Market Europe'. Regional integration, combined with changes in the international economy and ideological shifts regarding appropriate social and economic policy, have substantially redefined the character of Europe. This thesis examines a wide range of literature that addresses economic transformation and the development of neoliberal hegemony over the past three decades. The material addressed throughout the thesis points to the conclusion that developments in European integration have weakened the social market model identified as a key feature of continental Europe. Rather than institutionalising the social market model on the supranational level, European integration, and EMU in particular, provides the obligation and legitimacy for the reduction of the redistributive aspects of the social market at the national level. Neither the political will nor popular pressure is there to effectively defend, let alone extend 'social market Europe'.

Examiners:

[redacted]

Dr. A. Verdun, Supervisor (Department of Political Science)

[redacted]

Dr. O. Schmidtke, Departmental Member (Department of Political Science)

[redacted]

Dr. W.K. Carroll, Outside Member (Department of Sociology)

[redacted]

Dr. David Howarth, External Examiner (Queen Mary College, University of London)

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As an undergraduate student I had the opportunity to work with Conrad Herold in the Latin American Studies Program at Simon Fraser University. His extensive knowledge of the basis of neoliberalism and his comprehensive teaching on the subject offered the students in his classes the opportunity to see the rise of this mode of economic thinking. I was also fortunate to benefit from the knowledge and experience of the students from Latin America who had significant insight into the social impact of these neoliberal policies and how people were responding to them. The political discussions that we had during this period had a significant influence on my political thinking.

When I first came to the University of Victoria I was at a bit of a loss, as I was not able to continue in Latin American Studies. As chance would have it Amy Verdun gave a presentation in another class I was taking, where she discussed the changes in the European economy with the move to a single currency. Immediately I realised that this would be the best way to continue examining the role of economic policy, instead looking at its impact in the North.

As one of a small handful of graduate students in the early days of the European Studies Program at UVic, I had the opportunity to take part in many small seminars. We examined the gamut of European integration theory, delving into detailed study of the literature and debates on European integration.

I have been very fortunate to work closely with Amy Verdun during my studies at UVic. Amy has been an attentive supervisor, a knowledgeable teacher, and a good friend. She has provided me with the opportunity to meet with many scholars in the field, to collaborate on a book, and to travel to Europe to assist in her research projects as well as for international conferences. She has also been highly accommodating and understanding of my personal circumstances, allowing me the flexibility to complete my studies while raising a young family.

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CHAPTER 1: INTRODUCTION

In the last three decades Europe has shaken off Eurosclerosis and made decisive moves toward further integration that seemed impossible three decades ago. European countries have embarked upon an ambitious integration process that has resulted in the launch of a single currency, the euro in January 1999 and the introduction of banknotes and coins in January 2002. This process, combined with changes in the international economy and ideological shifts regarding appropriate social and economic policy, has substantially redefined the character of Europe.

Some academics argue that European integration represents the 'social market' regionalisation project, as opposed to the neoliberal model of the North American Free Trade Agreement (NAFTA). Eric Helleiner (1994) outlines what he asserts are some of the distinguishing features of the Western European regional model:

> …[A]t the same time as building a single market, both the [Single Europe Act] SEA and the Maastricht Treaty aim to strengthen region-wide political institutions…[A] crucial function of the strengthened region-wide political institutions is to intervene in the continent-wide market economy to promote the kind of 'social market' model of society that continental European countries have pursued nationally since the early post war years. As George Ross (1992: 490) puts it, this social market model involves a 'mixed economy, democratically regulated industrial relations, a truly redistributive welfare state, and a commitment to basic social justice.'…[O]f key importance in the 'social dimension' of the integration project is a commitment to reduce regional disparities within the Community and move towards a harmonization of socioeconomic conditions across member countries (Helleiner 1994: 4).

The question I intend to examine in this thesis is the following: to what extent does European integration, and in particular Economic and Monetary Union (EMU), uphold or undermine 'Social Market Europe' as defined above?

First it is necessary to define some of the important concepts that will be used throughout the thesis.

The model of social market Europe combines the commitment to social welfare at the same time as facilitating operation of the liberal market economy. The practice within this model included Keynesian-style interventionist economic policies to 'make the market work better' combined with other intervention to 'reconcile' the market with other

social objectives (Wiseman 1989: 164). Although the national variations offer different social market models in Europe, and important element of this model is state intervention and the institutionalistion of tripartite negations.

Two other key concepts used throughout the thesis are Keynesianism and monetarism (the economic program of neoliberalism). Kathleen McNamara identifies some of the key differences between these two paradigms of economic management:

> [T]he Keynesian policy paradigm…viewed the private sector as fundamentally unstable. Keynesianism emphasized the role of the state in directing the economy particularly through the use of fiscal and monetary policy designed to influence growth rates, employment, and production. In contrast, the monetarist policy paradigm emphasizes the inherent stability of the private sector and views traditional Keynesian efforts to manipulate the economy, particularly full employment strategies, as ineffective and possibly counterproductive (McNamara 1998: 144-5).

Keynesianism offered a system of regulation for the economy and for industrial relations. Policy prescriptions of the Keynesian welfare state included protectionism, demand stimulus, full employment, counter-cyclical regulation of the economy, an expansion of the state provision of social services and an extensive development of infrastructure. The instability of the private sector required interventionist policies in order to maintain stability (Gourevitch 1986; Hall 1986, 1989).

The monetarist economic model places primacy on the control of inflation (price stability). The prescription include restrictive monetary and fiscal policies, high real interest rates, increasing independence of monetary policy through independent central banks, cuts in public expenditures, open markets, and a restructuring of the labour regime to end inflexibility (Bleaney 1985; Clark 1988; Hall 1992). This paradigm also includes the marketisation of state owned and operated industries through privatisation, liberalisation, and deregulation.

Neoliberalism is a political project that aims to depoliticise economic policy choices through isolating them from political pressure. Their monetarist policy prescriptions are seen as an objective economic necessity, a view that was reinforced by the economic crisis and policy failure experienced throughout the 1970s.

To answer this question of the future of social market Europe in the context of integration and EMU, it is necessary to address a number of changes that have taken place in Europe over the past three decades. The social market model of Europe has faced a number of challenges. In order to understand the imperatives for change, it is necessary to discuss the nature of the challenges to the social welfare state model. First, the thesis lays out the theoretical basis for analysing of the transformation of Europe. Next, the thesis examines this process of transformation by looking at how the structural changes in international political economy have created the conditions for a new political project, in particular the ascendance of neoliberalism. From there the thesis analyses the restructured institutional terrain of Europe and how these changes, influenced by different political projects, have transformed governance in Europe. Then I discuss how and to what extent this new institutional design reinforces or undermines the model of social market Europe. Below I outline some of the key questions that the following chapters address.

Theoretical Tools

Chapter Two discusses theories that are relevant to the European integration process, including integration, globalisation, transnationalism and multilevel governance theories. It will outline the theoretical approach applied in this thesis, which is in the tradition that views changes as being particularly influenced by political ideas and choices (Cox 1996; Marcussen 2000; McNamara 1998). Not only is the process of European integration initiated by the political agency of key actors, the structures of the European Union (EU) and the nation states have also been created and recreated through political agency. The primacy of politics in determining the history of European integration makes it essential to examine the important role that ideas play in the process (Marcussen 2000; McNamara 1998).

In order to understand how changes in political and social relations take place, it is necessary to examine the relationship between agency and structure. Although the institutional position of different actors will influence their ideas, we should not assume that their consciousness is predetermined by their structural surroundings. Since the

institutions are in the process of restructuring, the actors that are part of these are also experiencing a transformation of their interests. During times of uncertainty social actors develop strategies that address the current context, in order to build coalitions around a new social and political order.

Contextualisation: Economic Crisis and the Transformation of Hegemony

The structure of the international political economy shapes the terrain in which the changes in the EU are taking place. Chapter Three develops the timeline of European transformation. This section addresses how Keynesian arrangements collapsed in the face of the economic and social crises of the 1970s. The chapter discusses the transitional period of the 1970s when no clear policy paradigm was followed, and nation states failed to re-establish successful economic growth through the use of neocorporatist strategies. Next, neoliberal ideology and how policy-makers in Europe adopted its prescriptions is discussed. This chapter addresses how monetarist policies developed a hegemonic position in debates concerning a range of economic policy prescriptions.

In addition to the economic imperatives, significant for the reorganisation of the international monetary system, the convergence around neoliberal 'sound money' prescriptions facilitated the development of EMU. Although there has been considerable variation in national economic policies, the general trend throughout the 1980s is that of a decisive shift toward neoliberal monetary policies. By the end of the 1980s, many national governments of the EU were implementing policies prescribed by neoliberal economic principles.

The economic priorities outlined in the 1992 Treaty on European Union, also known as the Maastricht Treaty, is the institutionalisation of economic priorities at the EU level that were already in practice within the various member states. European nation states have not given up their sovereignty over economic policy-making, but rather have changed the method by which they pursue their policy objectives. EU member states have chosen to ensure the maintenance of anti-inflationary economic policies by creating a single currency and a centralised monetary authority that is less susceptible to political

pressure and committed to the maintenance of price stability above all other considerations.

The Institutional Transformation of Europe

Chapter Four outlines the significant institutional transformations that have occurred over the past two decades in Europe. European integration has redefined governance in the EU. Many policies once in the hands of national governments have been relocated to sub- or supra-national levels. This chapter looks specifically at how the adoption of EMU has redesigned governance in economic and monetary policy areas and how the institutional design of EMU, and the concomitant transformation of national institutions, has come about through the struggle between different political projects over the future of Europe.

The transformation of institutional structures is accompanied by the alteration of the functions of these structures. The changes in the institutional structures of the EU have led to the transformation of European governance.Multilevel governance (Marks, Hooghe and Blank 1996) and penetrated governance (Kohler-Koch 2001) theories are relevant to the discussion of institutional transformation in the EU and the consequences resulting from these shifts.

During the original discussions of European integration there was a strong consensus in favour of a general expansion of social welfare through an overall increase in economic prosperity for the region. This is quite different from the current EU priority of fighting inflation, which requires a rationalisation of social spending policies. The creation of the European Central Bank (ECB) and the launch of the Euro represents the institutionalisation of anti-inflationary (often austerity) policies, thus appearing to set in stone neoliberal economic policies for the region.

Social Market Europe?

Chapter Five discusses the consequences of this institutional transformation on the welfare state and social democracy in Europe. Here it is argued that there is a path

dependency (Pierson 1996) flowing out of the institutional transformation discussed above that limits the political possibilities in the European Union.

EMU is greatly influenced by the neoliberal political project, in particular the commitment to monetarist policies and fiscal austerity. Yet in the late 1990s, social democratic governments led many of the EU member states, including four of the largest (Germany, France, Britain and Italy). For those who have envisioned the EU as the social market project in which welfare state policies are applied region wide (Helleiner 1994) this seemed a promising shift in the European polity.

The temporary renewal of the social democratic alternative throughout the EU, at the point of the launch of the Euro, makes an analysis of the political shifts that has occurred within social democratic parties a timely contribution to the discussion of the future of the EU.

The section concludes that the institutional transformation of Europe has led to consequences for social welfare and for leftist politics in the EU. Nation states have lost important policy instruments that allowed for counter-cyclical policy choices. The options available to nation states in the policy realm have been truncated. Yet at the same time, convergence around models of national welfare systems has not occurred. Instead, there is only a convergence around some principles of welfare design – for example, the contribution from capital is being lowered and welfare expenditures are being rationalised. Even social democratic governments have dedicated themselves to legitimising neoliberal policies. The Third Way and New Centre variants are presenting neoliberal economic doctrine in tandem with social liberal arguments and imposing neoliberal prescriptions upon social democratic allies. This demonstrates that, under this institutional transformation discussed above, social democratic governments have repositioned themselves.

The relationship of social forces and the dominant economic philosophy of the day influence the possibilities for new cooperative economic frameworks. For example, the needs of post-war reconstruction and increasing productivity during the 1960s provided the basis for consensual strategies for economic growth. The argument in this

thesis is that in the current context of EU institutional structures and increased competitiveness in the global economy, it is unlikely that the integration process will establish the commitment to social welfare on the supranational level, to compensate for the significant challenges welfare systems are facing at the national level.

The final chapter reflects on the evidence brought up in the thesis to answer the questions brought up in the introduction, specifically 'To what extent does European integration uphold or undermine social market Europe?' The above discussion suggests that the transition to monetarist 'sound money' principles took place at the national level before EMU, and was facilitated by the ideological ascendance of neoliberalism. EMU in turn reinforces the transformation of national systems. Therefore these two processes are linked. The changes at the national level created the political space for the institutionalisation of 'sound money' policies at the supranational level brought about through EMU. The monetarist orientation of EMU has reinforced neoliberal economic policy at the national level.

This study is based primarily upon a literature review of material that addresses the transformation of Europe and the theories that try to explain that process. I also examine primary and secondary sources, such as government documents and policy statements, the treaty agreements, sources from the central banking community and newspapers, which provide insight into the perspective of key actors during crucial stages of the integration process. Sources are chosen based on their relevance to the process of European transformation, as well as on the explanatory power of their theoretical arguments in the face of a shifting context.

There are limitations to a thesis that does not carry out a significant amount of empirical research, especially when it is aiming to identify a political transformation that is still in the making. Rather than delving into the details of national and surpranational transformation, this thesis instead discusses the transformation of ideologies and institutional structures at both the national and supranational levels, and the potential impact that these changes have on the future of social market Europe. Identifying trends that have altered political expectations and governance structures has allowed me to

address the common pressures and institutional shifts that impact on the various national models of social welfare and the limitations that these present to the development of social market regulations at the EU level.

In order to address thoroughly the question of the future of social market Europe, one would need to carry out a comprehensive comparative analysis at the national level of member states in the EU. This should include: a discussion of the interaction between the political party system and governments with the important social partners in civil society; the transformation of national welfare systems, including examining changes in benefits and ownership; and alterations to the industrial relations systems, including such factors as bargaining systems and the introduction of lean production. It is also important to address the discourse in the media, government and social partners regarding expectations and the impact of reform.

Additionally similar elements need to be examined at the supranational level. An important aspect of this is a discussion of the impact of the current EU level agreements (such as the Maastricht treaty) on national welfare systems and the potential these create for developments at the supranational level. The role of supranational institutions, such as the European Parliament, the Commission and the European Court of Justice (ECJ) regarding social policy is still developing, but there is clearly the potential that these institutions could provide the basis for EU wide social policy, if national governments decide to bestow these responsibilities to them.

Although the examination of the above areas is beyond the scope of this thesis, my aim has been to provide a theoretical perspective and an identification of important processes that contribute to a research agenda to carry out this assessment.

CHAPTER 2: THEORETICAL PERSPECTIVES TO DEFINE THE NEW EUROPE

European integration is characterised by the restructuring of social, political and economic arrangements in the European Union, thereby creating an institutional framework along an entirely new paradigm. It embodies an ideological struggle over the character of the European project and a realignment of social forces in the making of that project.

European integration theorists have for decades debated the question of political power in the European Community. Yet these debates have primarily been centred on the question of where power was held – within the nation state or increasingly within supranational institutions. Seldom did these earlier debates take up the question of the ideological commitments of these power-wielding structures or the social purpose that they served. Therefore when examining the EU it is necessary not only to discuss the redistribution of political power, it is also essential to address how ideological commitments are transformed.

As this thesis aims to address the future of social market Europe, it is necessary to discuss the changing role of the nation state-- the institution that has been responsible for social welfare. Also important to address is the development of supranational institutions, as well as the ideological debates regarding the future of Europe. Understanding this set of processes requires an analysis of how changes in the international political economy mould the terrain within which European integration takes shape. Two debates that take up this issue are, first, the debate within European integration theory, which looks specifically at the relationship between European nation states and the development of supranational organisations. The second debate is that on 'globalisation', which addresses more generally the changing relationship between the nation state and capital.

Along with the changes in institutional structures, interests and the strategies utilised to realise political goals are also being continuously redefined. Therefore, the second element that needs to be addressed is how the changing ideological terrain influences the European integration process. Different visions of a united Europe have

surfaced throughout the history of European integration: from the goal of increasing social welfare for the region, to the aim of expanding a neomercantilist project, to the vision of integration as the path towards a neoliberal goal of free trade. The integration process is not predetermined, but rather its direction is decided through a continual struggle between the key players in society pushing different social agendas. The EMU project of 1992 is one of the major outcomes of this political struggle.

Integration theory reflected the social and economic changes that have reshaped Europe's post-war order. Neofunctionalist integration theory from the 1950s through the early 1970s emphasised the commitment to social welfare as the key legitimating aspect of European integration. Ernst Haas (1964) and Lindberg and Scheingold (1970, 1971) stressed that the expansion of economic welfare throughout Europe, and the promise of even greater economic prosperity provided a 'permissive consensus' (Lindberg and Scheingold 1970: chapter 8) among the European populations to the goals of increased regional integration.

Over time, however, these originally linked goals of further integration and a deepening of generalised social welfare were wrenched apart. Contradictory visions of the future of integration formed: one which desired an integration process leading to the creation of a 'social market' Europe; another which favoured dismantling the 'inflexibility' of the Keynesian welfare state as part of the broader process of eliminating constraints on capital's profit realisation. This change in the socio-political environment is recognised by Haas in his re-evaluation of neofunctionalist analysis in which he debunks some of its earlier theoretical assumptions (Haas 1976). In the turbulent circumstances of post-1968 Europe, it was difficult for the various societal actors to develop stable expectations of mutual behaviour and performances, thus leading to an erosion of the patterns of consensus (Haas 1976: 179).

Although the earlier integration theorists tend not to discuss the ideological struggle over the direction of European integration, the shifting ideological context becomes clear when one looks at the history of the integration process.

The aim of this chapter is to discuss theories that offer explanatory analysis of the integration process. European integration theory is discussed through examining how it has changed to mirror developments in the integration process. The chapter also examines theories that look more generally at international transformation, including theories of transnationalism, globalisation and multilevel governance. The following section looks at broader traditions in international relations theory that examine social relations, political transformation and conceptions of the nation state.

Theories of International Transformation

European Integration Theory

The conception of the nation state in European integration theory has changed along with the transformation of European institutional forms. Outlining the chronological development of European integration theory illustrates how the shift in the social context has altered the role of the nation state in the political and economic spheres. The changes in Europe's post-war social relations have been reflected in the debates around European integration. From the goals of a stable peace in David Mitrany's writing in the 1940s, through the expansionist welfare state goals of the 1950s and 1960s in the work of Ernst Haas (1958, 1964), to discussions of globalisation and an increasingly competitive economic system, integration theorists have been influenced by changes in political ideology and institutional structures.

During the early days of European integration, the expansion of interregional trade through capital mobility was generally understood to result in the increase of economic welfare for all citizens of the European Community. The initial writings on integration theory reflected this belief. David Mitrany, originally writing in 1932, suggested that integration between nations could take place in the technical, non-controversial aspects of government operations, outside of the political realm. Common principles addressing human needs could lead to the formation of international institutions so as to bring about the universal application of these principles. Integration

would take place through the functional coordination of the specific yet generalised needs of the period, i.e. free trade and peace among nations (Mitrany 1975: 100).

The flexibility of functional rather than constitutional unity allowed for the integration of national functions without a prerequisite of national economic, social and political convergence, an impossible set of preconditions given the divergence among nations. According to Mitrany, national agencies would not be replaced by the supranational, but rather would 'derive fresh scope'; their functions would be reorganised around an international institutional relationship that could offer greater potential for effective action (Mitrany 1975).

Ernst Haas began the tradition of neofunctionalist integration theory with his 1958 book *The Uniting of Europe.* Haas predicted that integration would occur through intergovernmental compromise and reconciliation. Haas suggested that the institutional logic of the common market would impel further integration, due to the inability of governments to independently implement free trade. Supranational institutions were important in providing a site for communication between member states, where authority was maintained. Social actors provided the impetus for integration, but could not control the outcomes, which were the result of compromises and unintended consequences that could not be foreseen. This concept of spill-over, where the process of integration generates a self-sustaining dynamic leading to the reduction of member states' ability to control the outcomes, was seen as the mode by which integration would progress. The overall ambiguity of the Treaty of Rome of 1957 (which, among other things, outlined the plan for a common market) was essential in reaching an agreement, as it was open to a broad range of interpretations. The dedication to welfare was an important legitimating aspect of the integration project, but the state maintained primacy of authority in this realm; the success of national welfare planning discouraged developments in international integration in those areas. Thus Haas recognised the economic arena as the primary site of integration.

In 1966 Stanley Hoffmann put forward an intergovernmentalist critique (in the neorealist tradition) of Haas' neofunctionalist theory. He rejected the natural progression

to supranationalism postulated by neofunctional analysis. Hoffmann argued that the nation state was the most important unit in the international system, and that integration would proceed only when the retrenchment of the state occurred (which he saw as unlikely). Hoffmann asserted that integration could not occur until states were politically integrated domestically nor until the various nation states had a similar relation to the international system of political and economic relations (prerequisites that Mitrany rejected as unattainable). Hoffmann articulated numerous factors that acted to hinder the integration process. Of particular importance was the lack of a perceived need to integrate while states were dealing with the global economic situation in nationally distinct ways; governments would see no need for supranational authority when intergovernmental bargaining allowed them to achieve their objectives. Hoffmann argued that the lack of consensus on transnational political issues reinforced a national focus.

The economic and political crisis of the late 1960s and early 1970s (discussed later) contested earlier assumptions of the neofunctionalist theorists. Spill-over no longer seemed the likely path of integration. At this time Leon Lindberg and Stuart Scheingold (1970, 1971) argued that crises could move the integration process forward only if the leadership provided forward linkage solutions. This did not happen in the 1970s. Lindberg and Scheingold argued that the progress of integration was a function of past performance; poor results could lead to a decrease in commitment to the collective decision-making institutions (chapter 9). Thus the inability of the European community to develop a region-wide response to the economic crises of the 1970s encouraged the development of nationally focussed strategies, thus accounting for the prolonged period of Eurosclerosis, during which very few integrative steps were taken.

In 1976 Haas furthered the critique of his own earlier analysis by challenging some of the theoretical assumptions of neofunctionalism. He argued that the history of integration since 1968 showed that governments no longer behaved as before in the manner that had led to the assumption that regional integration followed a definable pattern (Haas 1976: 173). In the turbulent circumstances of post-1968 Europe, it was difficult for the various actors to develop stable expectations of mutual behaviour and

performances. This led to an erosion of the patterns of consensus. Haas postulated that social actors would delay and avoid making firm choices by attempting 'to seek simultaneously internal and external solutions' (Haas 1976: 199). He asserted that it was not automatic for states to move towards increased integration but rather they could (and did) seek to decrease their interdependence or choose to reach national solutions that did not require further integration (Haas 1976: 183). Haas argued that a condition of 'asymmetrical overlap' existed in which there was no clear-cut division of state/supranational competencies, but rather a situation prevailed where both levels of government played an important role in the management of social and economic policy areas (Haas 1976: 207).

In 1982 Hoffmann once again asserted the centrality of the nation state, this time focussing on the importance of the European Community in reinforcing and preserving the nation state (Hoffmann 1982: 21). The subjection to economic shocks precipitated by currency speculation provided the incentive towards further integration as a protective measure. European nation states were faced with external destabilising pressures that they could not overcome alone, thus it was in the interests of the nation states to cooperate in order to create some economic stability in an attempt at self-preservation (Hoffmann 1982: 31-2). Although the member states recognised more common concerns in the 1970s with the generalised economic crisis, no corresponding articulation of common goals emerged to allow for continued innovation towards regional integration. The cooperative regime was in jeopardy when individual state action could achieve the same or preferable outcomes to an international or supranational arrangement (Hoffmann 1982: 34).

Andrew Moravcsik (1998) carries on the intergovernmentalist tradition in his assertion that it is the grand bargains among nation states that developed the five treaty amending agreements (the Treaty of Rome in 1957; the customs union and the Common Agricultural policy in the 1960s; the creation of the European monetary system in 1978-9; the negotiation of the Single European Act in 1985-6; and the Maastricht Treaty in 1992), which have been the moving force behind integration. Moravcsik argues that the

progression of integration occurred through a series of rational choices by national leaders pursuing the economic interests of their state. The most important incentive for integration was the possibility it offered for commercial advantage through the liberalisation of trade and the stabilisation of the monetary system. When the commercial interests of production and the adjustment of macroeconomic policies converged, further integration was possible. The integration process did not overrule the political will of the national leaders, but rather reflected their will (Moravcsik 1998: 4, chapter 1).

Wayne Sandholtz and Alec Stone Sweet (1998) and their colleagues from the informally called 'Laguna Beach Project' reject the intergovernmental/neofunctional dichotomy for the overall integration process, suggesting instead that policy sectors of the EU are very diverse with some controlled by supranational institutions while others remain firmly under the authority of the nation state. They continue to recognise the relevance of the concept of spill-over. Yet, unlike the assertion of neofunctionalist theory that integration entails a zero-sum game of transfer of power from the national to the supranational, Paul Pierson argues that the evolution of the structured polity of the EU through integration restricts the options available to all political actors (Pierson 1996). The new supranational rules and organisations provide the context for determining future interactions. Thus, it is essential that any examination of the European integration process identifies the particular historical context in which decisions concerning integration were made.

The authors in the Sandholtz and Stone Sweet volume (1998) argue that the supranational infrastructure of Europe also plays an important independent role. Supranational institutions are able to act autonomously in some areas, regardless of the interests of member states. The European Court of Justice (ECJ) provides the most salient example of this phenomenon, as it is able to impose compliance upon member states even if they do not support the law being enforced. Because of the importance of both levels of governmental power, these theorists conclude that the national and the supranational actors have become joint players rather than adversaries in the integration process.

According to David Cameron (1998) many of the important factors supporting integration are based upon economic considerations, as Haas had predicted in 1964. The collapse of the Bretton Woods monetary order provided a need for a new stable exchange rate arrangement. The development of a consensus around macroeconomic policies that emphasises price and exchange rate stability as well as fiscal and monetary austerity has been another important factor that spurred state support for further economic integration, a perspective that is in accordance with some of Moravcsik's assertions (1998).

The Laguna Beach approach has a common perspective with intergovernmentalism concerning the continued centrality of the nation state in rule-making decisions. Yet their approach argues that states exercise their power in a context that they do not control. Government actors pursue their own interests in the integration process, but the determination of these interests is influenced by many factors. For example, the fear of being left out of the European project was an important incentive for governments to stay involved. The resistance to supranational policy-making can close doors to new economic opportunities, thus leading states to see their interests incorporated into the extension of supranational competence. The costs of disparate national rules are high due to the increase of transnational transactions, thus pressuring governments to support the extension of supranational authority.

Transnationalism

Scholars who see the power shift between the nation states and the supranational institutions as a zero-sum game do not address the important role of transnationalisation in reforming and thus redefining these political structures. A persuasive criticism of intergovernmentalism and neofunctionalism offered by Risse-Kappen asserts that

> both [intergovernmentalism and neofunctionalism] assume that European integration is fundamentally driven by the instrumental self-interest of actors whereby the utility functions are defined in economic terms. The origins of such interests are exogenized…The approach also posits that actors' preferences remain fixed during the process of interaction and bargaining. As a result, liberal intergovernmentalism has little to say about whether actors' interests and preferences are shaped by the EU institutions and the integration process itself (Risse-Kappen 1996: 56).

This dichotomy between intergovernmentalism and neofunctionalism does not recognise the complex manner of political negotiations in the EU. David Cameron suggests that there is 'a *third* distinctive type of politics – one that involves *transnational* actors, institutions and politics' (Cameron 1995: 38).

In the context of policymaking in the EU, national and international interests are linked (Cameron 1995; Risse-Kappen 1996; Sandholtz 1993). One of the central themes of these scholars is that ideas and interests cross national boundaries. The interests of nation states are now defined by their status as members of the community (Risse-Kappen 1996; Sandholtz 1993). One cannot categorise 'state interests' in opposition to, or even independent from 'community (supranational institution) interests', as these also have become integrated. There has been a significant rise in the role of transnational actors, institutions and politics that cannot be defined simply as national or supranational (Cameron 1995). Transnational actors are independent of member states, while at the same time not simply representing the interests of supranational institutions.

Scholars of the Laguna Beach Project argue that transnational activity has been the catalyst of integration. The Treaty of Rome privileged transnational economic actors, thus allowing them a central role in the integration process. Growth in cross-border transactions increased the perceived need for the expansion of Europe-wide rules, coordination and regulation, thus leading actors involved in transnational exchange to demand further integration. Functional pressures, such as the unpredictability of exchange rates that effected cross border trade, also played a role as the differing national monetary policies were seen by capital to create an impediment to genuine free trade in Europe (Sandholtz, Stone Sweet, *et al.* 1998).

The increased political power in the hands of transnational actors has altered the terrain of international relations, thus challenging the theories of both intergovernmentalists and neofunctionalists who see the national and supranational as two distinct realms. The rise of transnationalism is closely linked to the process of

globalisation, as both have been driven by the increased mobility of capital. I now turn to theories that examine that process.

Globalisation Theory

The transnational economic pressure brought about by increased capital mobility has led many globalisation theorists to conclude that the nation state is losing ground as a central player in the economy. In this way, globalisation theories have a similar zero-sum analysis as neofunctionalist theory, seeing power gained at the supra- or transnational level as a loss at the national level. Gary Teeple states that 'We have arrived at the end of the era of the nation-state, and its declining significance is an important factor in the erosion of social reforms' (Teeple 1995: 56). Stephen Gill believes that

> what is occurring is a process whereby new constitutional and treaty arrangements are put in place to institutionalize the privileges of capital on a world scale – and in so doing undermine the sovereignty and political autonomy of individual nation states – and also macro-regional associations like the EC (Gill 1995a: 72).

Gill cites the 1992 Maastricht agreement as an example of

> the way that the autonomy of even the most powerful states are subordinated to the interests of large capital and a rentier view of monetary policy…in so far as it proposes to tie the hands of future governments with regard to their freedom of manoeuvre in monetary and fiscal policy (Gill 1995a:72).

Although Gill is right that states have less room to manoeuvre in the realm of economic policy initiatives such as the Treaty on European Union signed at Maastricht, he downplays the central role of the state in initiating this process. Gill ignores the fact that the leaders of the nation states are creating these agreements and implementing neoliberal economic policies. EMU, and its concomitant locking of monetary policy, was borne out of an initiative from the 1988 Hanover council – a meeting of the heads of states and governments of the EU. Much of the initiative to move towards these policy goals have come from states, and not merely as a concession to the interests of large capital, as Gill implies. States continue to play a central role in the integration process

and in the economic sphere, while at the same time transfer control of monetary policy-making to supranational institutions and facilitating a high level of market freedom for capital. Thus the neofunctionalist assumption that role of the nation state would decline in the face of further integration is also brought into question.

Changes in international economic activity have come about because individual nation states have adopted trade policies that increase the globalisation process. This analysis refutes the claims made by some globalisation theorists that the power of the state is being completely undermined by the globalisation of capitalist activity (i.e. Teeple 1995). Dick Bryan (1995) warns us not to focus only on the activities of institutions instead of analysing the more significant underlying process of which the action of these institutions is only a part. Instead, we need to understand how international economic integration is changing the organisation of the nation state and altering the structural position of it within the international economy.

In the context of globalisation and regionalisation in the world economy, analyses that are entrenched in a different historical context can lead to assumptions about the behaviour of political forms that are no longer relevant. As Rhodes and van Apeldoorn assert, globalisation is beginning to transform the traditional relationships between governments, banks, companies and unions that have underpinned national socio-economic orders (Rhodes and van Apeldoorn 1998: 412). At the same time their argument stresses the continued importance of the state in the current economic climate. They discuss some of the changes taking place in the structural realm of the nation state: state authorities have surrendered control over banking and financial markets as well as monetary instruments like credit control; there has also been a shift in the balance of power between labour and capital towards the latter (Rhodes and van Apeldoorn 1998: 420-1). Yet, unlike Teeple and Gill's analyses, Rhodes and van Apeldoorn recognise that the nation state and national institutional structures maintain their decisive role in determining the nature of the national political, economic and social systems.

The joint processes of globalisation and regional integration are creating a new sphere of political and economic activity that redefines the organisation of political and economic power. The nation state plays a central role in this reorganisation.

Multilevel Governance

The process of European integration is restructuring the European political arena and creating an institutional paradigm unlike any other seen before. As Kohler-Koch (2001) argues, the EU does not have a political constitution, but instead an economic constitution, which makes it difficult to analyse the in same way as one would discuss nation state governments. Therefore new theoretical tools are needed to make sense of this phenomenon.

The debate between neofunctionalists and intergovernmentalists simplified the process by characterising the transfer of power from the national to the supranational as an all or nothing process, not recognising the asymmetrical transference of policy competence. During the initial stages of European integration national welfare systems were expanding, and a causal link was drawn between further integration and the continued expansion of social security. The concept of spill-over simplified the process of integration by assuming the automatic progression of integration, including the transference of power from the national to the supranational level. The arguments of these earlier theories saw the process as a black-and-white issue, with power either staying completely in the hands of national governments, or being fully transferred to the supranational level. Both of these sets of theories did not take into consideration the possibility for the many nuances that have unfolded in the European integration process. Rather than examining the issue as one of shifting power from one level to the other, more fruitful approaches examine how the interaction between the actors in different levels of governance have shaped the process. Newer theories have come to the fore that aim at addressing the complexity of European integration, where interests and priorities are formed by the negotiation process itself, and decision-making power is distributed across the various levels of governance.

The theory of multilevel governance (Hooghe and Marks 2001; Marks, Hooghe and Blank 1996) addresses this complexity of authority in the EU as a key feature of its policy system (Rosamond 2000). Rather than seeing a clear division of policy authority, multilevel governance theory recognises that policy-making in the EU is characterised by overlapping competencies. Different levels of governance (national, supranational and subnational) control different policy areas, and often decisions in policy areas controlled by one level of government can impact on policy-making at other levels.

Kohler-Koch's theory of network governance provides additional insight into understanding the nature of governance in the EU (Kohler-Koch 2001). Originally the national governments of Europe came together to increase their capacity to act in a new circumstance where individual state action was increasingly ineffective. New actors are constituted in this process and the process itself defines interests. In this sense, institution building in the EU should be seen as a social process. There are unintended consequences resulting from the negotiating process, and shared visions are developed through interaction. Ideas are formed through negotiations and inclusion in the negotiation process provides the socialisation of the actors involved (Kohler-Koch 2001). Actions and decisions at each level of governance impact on the other levels; for example, when a national representative comes to a compromise at an intergovernmental meeting, this decision is taken back to and implemented at the national level.

This raises the relevance of the two-level games metaphor, put forward by Robert Putnam (1988). National governments are able to use domestic pressure to strengthen their bargaining position in supranational level negotiations, while at the same time using the pressure of the international negotiations in order to push for domestic change. This demonstrates the importance of analysing the interaction between the various levels of governance, and how actors manipulate negotiations at the different levels.

Theorising Political Transformation

Rather than discussing the transfer of political power, more insight is offered by addressing how power has been transformed, and by whom. The liberalisation that is

occurring on a global scale indicates that 'in every region of the world, states, economies, and political processes are being transformed *under the guidance of a class-conscious transnational bourgeoisie*'(Robinson 1992 in van der Pijl 1995: 121). The current changes in economic structures could not have taken place without the political initiative of class-conscious state representatives who constitute an integral part of the transnational bourgeois elite. This separation of economic decisions from potential political pressure has been a guided process.

In the current period economic decisions are declared a matter of market pressures that require technical choices concerned with the objective needs of the economy. This is a clear example of what Ellen Wood defines as one of the key aspects of capitalist rule: the separation of the economic from the political (Wood 1995: ch1). The conception of the economic and political as two distinct spheres allows the state to make unpopular economic decisions, while deflecting criticism by referring to the technical realm of economics, over which neither citizens nor elected official's can have political control.

The disconnection of ideology from economic decisions is a central part of European integration. Although it appears, and has been argued, that European integration is taking place primarily in the economic realm (Haas 1976; Lindberg and Scheingold 1971), it must be stressed that this concentration of economic decisions is a division of political control. The mandate of the European Central Bank (ECB), which determines monetary policy for all countries in the European Economic and Monetary Union (EMU), is based upon a monetarist economic paradigm. It is claimed that this is the only possible arrangement to ensure low inflation and the credibility of EMU in financial markets. As Ellen Wood argues, the removal of state control over policy areas 'is a product of policy choices…not even the inevitable destination of history' (Wood 1994: 47).

Despite the focus on economic goals, one can define neoliberal policies as a political programme for the reallocation of society's resources. Yaghmaian's assertion that deregulation is a form of regulation, which acts to facilitate accumulation for the most internationalised sectors of capitalism, challenges the discourse of the 'free market'

by highlighting the deliberate and focussed nature of economic decisions. Neoliberal policies extend and deepen the market logic in all social relations, which requires ending the legacy of social guarantees that are obstacles to an uninhibited market economy. In this sense one can see that the neoliberal agenda does not only call for the reorganisation of the economy, but is also a method by which to undermine the political power of the working class through the elimination of all forms of social and economic security. The concerted action of nation states in restructuring the political economy is evidence that the 'self-regulated' market is a myth (Yaghmaian 1998). The reordering of society, influenced by the failure of national Keynesianism and the rise of neoliberal alternatives, has changed the political terrain in fundamental ways. Particularly significant is the reorganisation and redefining of state powers. Therefore it is necessary to discuss conceptions of the nation state and its political role, and how this has changed over the past three decades.

To develop this interpretation it is necessary to discuss theoretical tools used for defining the social basis of economic and political processes. Therefore the next sections of this chapter will begin with a discussion of the theoretical traditions from which I want to further develop the analysis. This includes a discussion of constructivism, critical theory in international relations, theories of class relations, and historical materialism. I will then address the structure / agency debate focussing on how political actors provide a conscious direction to social change, and how their initiatives are either constrained or advanced by the structural conditions. I will also discuss theories of institutionalism, which provide a method through which to examine the historically specific character of the institutions, which provide the structural framework of governance.

A Consideration of Theoretical approaches in International Relations Theory

Many analytical shortcomings in political science can be traced to the separation of the disciplines of intellectual thought during the latter half of the nineteenth century. political science became what Robert Cox terms 'problem-solving theory', i.e. the scientific analysis of state functions, particularly the workings of parliaments and the development of constitutions and social policy. According to Cox this type of political

science research, 'takes the world as a given (and on the whole as good) and provides guidance to correct dysfunctions or specific problems that arise within this existing order' (Cox 1995: 31-2). Such theories focus on offering policy prescriptions to nation states as means for resolving crises.

This 'problem solving' tradition encompasses many approaches to research in political science, as it is not necessarily confined to a particular theoretical paradigm. Political science theorists often aim to address the functioning of systems of governance in order to examine the consequences of policy choices. Whether or not the aim is to offer prescriptions, the formulation of the research question to address the effectiveness of policy choices often leads to value judgements on policy rather than non-governmental political processes. In this sense the structural rationale of systems of governance are taken for granted and analysis is confined to choices made within this system. The assumptions in realist and neorealist analysis, such as that of Kenneth Waltz (1979), that the international political order is structured but anarchic is in this respect reflected in studies of national governance systems. How the social ontologies that comprise these systems (i.e. norms, institutions, routinised practices, constitutive processes, etc.) originally came into being and are redefined, is often under-theorised. This constitutive stage of the making and remaking of social ontologies is at the centre of the constructivist theoretical approach.

The constructivist research agenda in European integration studies emphasises the impact of 'intersubjectivity' and 'social context', and can thus be a useful foundation for analysis that seeks to examine the question of social purpose in structural and ideational transformation (Christiansen, Jørgensen and Wiener 1999: 528-29). As discussed by Bastiaan van Apeldoorn in his elaboration of Gramscian transnationalism, constructivist theory provides a good basis of social theory from which to develop an alternative perspective.

> Constructivism…explicitly challenges the individualistic and rationalistic understanding of social action underlying mainstream IR theory, whereas at the same time rejecting the structuralist alternative in which there is no room left for human agency. As constructivism tends to take agency

> seriously…it draws our attention to the role of consciousness and ideas in social practice (van Apeldoorn 1999a: 17).

Critical theory has a similar research agenda, and thus can incorporate the constructivist approach, as it also attempts to create a method for understanding how the current order came into existence, but has the further aim of identifying possibilities for transcending that order (Cox 1995: 32). Critical theory aims to reintegrate political science with both economics and sociological theory, in order to construct 'a larger picture of the whole of which the initially contemplated part is just one component' (Cox 1996 [1981]: 89). Through its recognition of events and conditions as products of a historical process, critical theory emphasises the importance of contextualisation:

> [B]oth human nature and the structures of human interaction change…History is the process of their changing. One cannot therefore speak of 'laws' in any generally valid sense transcending historical eras, nor of structures as outside of or prior to history. Regularities in human activities may indeed be observed within particular eras…though not with the universal pretensions to which [positivism] aspires (Cox 1996 [1985]: 53).

Critical theory makes use of two particular analytical tools: historical materialism and dialectics. Historical materialism recognises social institutions and structures as creations of human social interactions. This interaction can lose meaning outside of the context in which it was formed, and thus defining the social ontologies which frame the interaction between agent and structure is necessary. For example, the organisation of production provides the basis of existence upon which social interactions take place. In this sense, the administration of social relations through the institutions of the state and civil society is a reflection of the mode of production. As Ernest Mandel asserts, it is not material production that determines activity in civil society, but rather the social relations people form in the production of their material lives (Mandel 1977: 169). As van Apeldoorn has asserted, 'Global politics is not so much determined by the logic of capitalist accumulation as by the political and ideological struggles of social forces operating upon the structural terrain of the capital accumulation process' (van Apeldoorn 1999a: 24).

The dialectical approach starts with the basic premise that reality is in perpetual motion and the organisation of human relations is full of contradictions. 'The existence of contradictory elements includes both their co-existence in a structured totality, in a whole in which each element has its place, and the struggle by these elements to break up that whole' (Mandel 1977: 157). Although conflict is seen as the driving force of history, the historical materialist approach differs from the neo-realist focus on the centrality of conflict. The latter sees conflict as inherent in human nature, and thus the conflict between states and individuals reflects the basic human propensity to lust for power. The results of conflict are seen only as shifts of power within unchanging structures of social relations and the international state system. Historical materialism, on the other hand, stresses that conflict represents 'the process of a continual remaking of human nature and the creation of new patterns of social relations which change the rules of the game and out of which...new forms of conflict may be expected ultimately to arise' (Cox 1996 [1981]: 95). This dialectical logic of reality rejects theories imbued with pretensions of timeless universality in favour of an approach that analyses social events, structures and the actions of people in their particular historic juncture.

Bringing together the constructivist and critical traditions, the approach used in this thesis draws attention to the moment of interface between structural change and political agency (Christiansen *et al* 1999: 540), to highlight the social purpose that gives rise to structural transformation. Rather than seeing structure and agency then as strictly co-determinate, this approach seeks to analyse the circumstances when structural constraints are overcome through social agency.

Agency and Structure

A central theme of Gramscian analysis is the focus on human agency as the driving force of social change. The research in critical social science theory is guided by an understanding that it is the conscious action of people that make history. Constructivism provides us with the conception of 'agents as reflexive, knowledgeable and purposeful actors' (van Apeldoorn 1999a: 20). People do not simply act as proxy for

the institutional structures they represent, neither is their action necessarily determined by these institutions.

Attempts to understand human society via a-historical methods tend to view social relations as driven by timeless ideals and/or unchanging social structures. Historical materialism, on the other hand, insists upon a dialectical understanding of how subjective action, influenced by pre-existing structural conditions, creates historical change. Social structures constrain subjective action in terms of what actions are probable or favoured. Still, subjective actions in particular historic circumstances alter institutions, traditions and structures to varying degrees. Conflicts between social actors (agents) within a certain totality of human institutions (structures) bring about changes to both agents and structures, and in this sense are the moments of substantive politics. This section looks at how this interaction takes place.

Defining Structure

Structures are not only material but also ideational. Institutions, norms, the organisation of social interaction, ideas and language all form structural frameworks through which social interaction transpires. These structures are not value free, but rather represent the social purpose of the political/social agents that were involved in the creation or transformation of the structures in symbiosis with the ontological norms of the context in which the transformation took place. For example, social inequality is represented in the institutions of capitalist society, such as the legal or educational systems, because of the inequality of the social relations upon which these institutions were built. As Kees van der Pijl argues 'by embodying the structural inequalities of the social order, classes constitute the living reality of these structures' (van der Pijl 1998: 31).

In Peter Hall's analysis presented in *Governing the Economy* (1986), the concept of institutions refers to the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy. Institutions play two fundamental roles in this model: they affect the

degree of power that any one set of actors has over policy outcomes; and organisational position within the institution influences an actor's definition of his own interests (Hall 1986: 19). An important distinction of this model compared with organisational theories is that Hall focuses on the effects of historically specific patterns of organisation, not one mode that claims to embody principles that are universally applicable (Hall 1986: 20)

Building upon Hall's analysis of institutionalism is Paul Pierson's discussion of historical institutionalism. Pierson's analysis

> is historical because it recognizes that political development must be understood as a process that unfolds over time. It is institutionalist because it stresses that many of the contemporary implications of these temporal processes are embedded in institutions – whether these be formal rules, policy structures, or social norms (Pierson 1998: 29).

Pierson argues that the flaw of neorealist accounts of the centrality of the state lays in the examination of events floating free from the historical context, which provides a distorted view of social processes. For example, when the polity of the EU is analysed as a historical process, the results are quite different than what can be gleaned from the single events. 'The authority of national governments appears far more circumscribed, and both the interventions of other actors and the cumulative constraints of rule-based governance more considerable' (Pierson 1998: 31). This highlights the necessity of examining a broader group of social actors in the process of social transformation, even when one actor appears to play a predominant role.

Social Agency and Structural Transformation

Social agents act within and are influenced by the structural terrain, but not so far that their actions are strictly determined by these structures. Individuals still have independent intentions and actions, but their ability to act upon them or to see effectual consequences of their actions is constrained. Yet when the existing structures are faced with crises, social agents that represent alternative social purposes are better able to influence the creation of new institutions than when the structures are stable.

When new material conditions emerge, existing structures can be rendered ineffectual, or at least their ineffectuality can be exposed. This opens up opportunities for new perspectives to influence structural transformation. Effective social agents are the ones who anticipate the breakdown of the structures and develop alternative perspectives prior to this collapse. While the controlling social forces are disoriented and cannot answer or do not even know the questions posed by the new context, developed alternative ideologies can offer a new paradigm for action.

An example of this phenomenon is in the transformation of economic policy paradigms in the late 1970s and early 1980s. Nationally based Keynesian economic policy became ineffectual (for the purpose of economic growth) due to increased international competition and popular expectations that outstripped growth. This was compounded with the collapse of the Bretton Woods system of fixed exchange rates and capital controls, and the oil shocks in 1973 and 1979. National Keynesian economic frameworks were not able to provide successful growth strategies, and new policy frameworks were sought. Monetarist economic policy, as developed by Friedrich von Hayek in the 1930s and Milton Friedman in the 1950s (members of the Mont Pelerin Society), had become influential among individuals in the International Monetary Fund and the World Bank, and began to win over individuals in nation states to these economic paradigms. Influential political agents such as those within the Reagan and Thatcher administrations remade economic policy frameworks, and this transformation resulted in the restructuring of numerous sites of social relations. The transformation of the EU in the 1980s and 1990s was built upon this precedent of the transformation of national economic paradigms. Support for the liberalisation of trade and finance, already well established in Britain, was the basis for the renaissance of European integration with the creation of the Single European Act in 1986. This is discussed further in the following chapter.

Socialisation of the Agent

As developed ideational forms provide a more successful basis for social agency, it is necessary to analyse the process of socialisation of the agent, which is a key objective of social constructivism. Actors acquire new interests and preferences through this process of social learning (Checkel 1999: 548). Initially this process begins with a group that together develops ideational norms; social learning occurs when the group is faced with a crisis or failure, and when there is regular interaction within the group. This group can then spread its ideas through society in a number of ways, including persuasion (particularly of important political actors), and by exploiting 'policy windows' – when there is a new puzzle of which the controlling actors of that issue area have no clear answers (Checkel 1999: 549-552).

Obviously political organisations and parties play this type of role in society, as did the Mont Pelerin Society in the transformation to a monetarist economic paradigm. Groups of technical experts have been central to the 'social learning' of policy makers in the EU, acting as 'epistemic communities'. An epistemic community, as defined by Peter Haas consists of individuals that have:

1. A shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members;
2. Shared causal beliefs, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes;
3. Shared notions of validity – that is intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise; and
4. A common policy enterprise – that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence (Peter Haas 1992: 3).

Since, in the context of the EU, an epistemic community is asked for advice on international policy co-operation, it is situated in quite an influential position, and thus can 'affect the outcome of the policy-making process' (Verdun 1998a: 179). Given that the advice offered is highly technical it is often not scrutinised for

subjectivity; thus epistemic communities are in a position to form opinion among those who sought this policy advice. Their recommendations are advanced as professionally sensible choices, yet the community's 'advice is informed by its own broader worldview' (Haas 1992: 4). An example of an epistemic committee in the EU is the Delors committee, which will be discussed in Chapter Four.

The central banking and monetary community has been very successful in consolidating of its influence. It has thus been very effective as a collective social agent in turning its beliefs into broader, shared understandings (Checkel 1999: 552).

The Role of Privileged Agents

As has been discussed above, some groups of social actors are much better at acting effectively upon their social agency than others. This privilege is structural; those who hold controlling power over central institutions in the society are better placed to make transformations to those institutions. Technical experts, such as the central banking community, are also structurally privileged as they hold controlling power over economic ideas, which are seen as necessarily non-political. These technical experts work closely with political leaders in determining the path of structural transformation in the EU.

Therefore, not only is it necessary to discuss the changes in the institutional structures in European society, the change in how actors in these structures define their interests and their strategies must also be addressed. Moreover, when discussing the role of the nation state, one cannot rely on static categories of behaviour determination (i.e. the realist notion of states as 'rational' actors concerned with furthering the 'national interest'). To assume that the nation state's tactics are confined by static definitions of interest formulation 'means believing the state remains perpetually inert' (Gramsci 1971: 232). As interests are also in flux, theoretical assumptions of interest formation could neglect to address the transformation of the alignment of social forces, or what Gramsci has termed the *historic bloc*. Thus what I aim to show in the following section is how the concept of the state has been used in political science, and how the institution of the state is redefining its role under current pressures and processes. The section also examines the

nation state's political role in society, particularly the creation of the national historic bloc, and its transformation in the face of political crisis.

The Conception of the Nation State

The discussion of the nation state in the literature addressing European integration and internationalisation more generally examines the question of the whether the nation state is losing or maintaining its powerful position in society. Various institutions and processes, notably increasing international interdependence and 'global' market forces, are challenging some of the traditional notions of nation state sovereignty, thus leading many to argue that the state is in decline.

Yet there is no commonly accepted standard by which to measure the power of the nation state. How can we ascertain which of the functions of the nation state is a decisive determinant of its power? There would be many different answers to this question and an equal number of ways to validate these answers. When examining claims about the nation state, one must try to find the author's reasoning for these claims. Hanna Ojanen (1998) argues that analyses of the state tend to be ideologically based. For example, in the model of the Keynesian welfare state, independent monetary policy was a key element of national sovereignty. Does a decline in this necessarily determine a decline of state power? One needs to be careful in choosing causal determinants when speaking of a multifaceted institution such as the nation state.

It is important to be watchful of how one defines a complex institution like the nation state, and to be aware of the transformation of these institutions that in turn must alter our conceptions of them. Because of this ambiguous and somewhat volatile definition of the nation state, many have suggested that the term should be avoided or even abandoned as a conceptual tool (Ojanen 1998: chapter 1). At the least the author must clearly signify how the term is used.

Criticisms and nostalgia concerning the nation state are not value free. Often assertions about current problems of the nation state are made through a comparison with the author's ideal of what the nation state should be, rather than a comparison of what it has been in reality. The nation state is often used as the scapegoat for problems that have

deeper causes (Bull 1979: 114-5). Claims of the decline of nation state power may exaggerate the power that nation states once held. Regardless of whether or not the nation state is in decline, one cannot deny that the nation state does play an important role in political and economic decisions: the nation state is often the initiator of international agreements; it has policy-making authority; it has the power to intervene as mediator for different social groups; and it occupies the highest legal position of power (through its control of the police, the army, and both executive legislative powers that can invoke the 'emergency powers' for overriding constitutional law). Therefore, the nation state must remain an important institution for examination in social science research. The state combines a wide range of national government institutions, including the political system, the state bureaucracy, the judiciary, law enforcement, and the military. For the purposes of this thesis though, the discussion of the state more generally refers to the governing party in the legislative system, and those elements of the state bureaucracy connected to the economic and social welfare systems.

This chapter has discussed a number of theories that are relevant to analysing the process of transformation in the EU specifically, and in international and social relations more generally. These concepts will be reflected upon throughout the rest of the thesis, showing where theories are relevant in understanding political processes, and also where they can be misleading.

CHAPTER 3: THE HEGEMONIC SHIFT: THE SIGNIFICANCE OF THE TRANSITION FROM KEYNESIANISM TO MONETARISM

In order to understand the political and economic backdrop to the current phase of European integration it is necessary to discuss the changes that took place in Europe over the last three decades, and the great volatility of the international political during this period. The international political economy has experienced a paradigmatic shift from the post-war period, characterised by Keynesianism, to the increasingly predominant influence of neoliberalism on economic policies today. Numerous factors influenced this transformation of politics and economics. The crisis that hit the international economy in the beginning of the 1970s shook the foundations of Keynesian policy making. Keynesian economic policies were unable to deal with the problems of stagflation (combined stagnation and inflation) that resulted from this crisis. The heterodox policies that followed were not able to resolve the instability of national economies. This extended period of economic crises created a climate where alternative economic paradigms were sought.

The examination of this process allows one to highlight the multiple factors that influence such paradigmatic shifts and how these factors interact. There is no single determinant of this shift, but rather a complex combination of events, agency, institutions and ideas.

Peter Hall examines the question of Keynesian policies and the periods of flux when policy making becomes a question for debate in the public arena, to identify key factors that determine the development of the policy process. He argues that policies are not made in isolation; ideas and institutions construct policies through a process of social learning, both within the state and in the discourse of society. Organised interests in society acquire power through trying to influence political discourse (Hall 1993: 290). Yet society is not always open to this influence. The development of new policy paradigms – the transformation of institutions – is not necessarily based upon an evolutionary process of policy learning, but can be characterised by 'punctuated equilibrium' (Hall 1993: 277) (i.e. periods of relative social stability punctuated by acute

crises within which dramatic social changes can be effected by social agency). Crises and the failure of a particular set of policies to resolve these crises initiate a contest between policy paradigms (Hall 1993: 277). Periods of crisis open up the political space for debating policy goals and choices. Peter Gourevitch (1986) argues that it is during such a moment of crisis where there is the greatest freedom, as societal forces are searching for new solutions to this crisis, and therefore more ready to grasp onto new, coherent alternatives.

Although policies explicitly aim to address the current problems that society is facing, one must recognise that there are class interests that motivate policy prescriptions. These interests are embedded in the institutional structures of society (Hall 1986: 15). Economic experimentation through policy shifts requires long-term institutional renovation (Hall 1986: 283). The transformation of these institutions represents a shift in the relationship of class forces. This can be seen in the institutional forms of Keynesianism, where the interests of labour were clearly present, as opposed to the monetarist paradigm, where capital's interests are more salient.

This chapter begins by discussing the development and decline of Keynesian economic policy-making. The next section addresses the transitional phase of the 1970s, where policies were inconsistent and governments faced ongoing economic crises. This is followed by a discussion of the development and ascendancy of the neoliberal paradigm. The final section concludes by analysing the significance of this process in transforming the nature of political and economic governance, as well as its importance for emphasising the complexity of change through the interaction of multiple factors.

The Hegemony of the Golden Age: The Rise and Fall of Keynesian Political Economy

Specific circumstances led to the acceptance of Keynesian policies at different times in different countries, as they were able to solve some of the problems that nation states were facing (Hall 1989). The depression and the war, for example, were specific circumstances that required a more interventionist response in order to rebuild devastated

economies (Salant 1989). The paradigm of Keynesian political economy outlined a programme of government intervention.

Keynesianism prescribed a close regulation of the economy, and of industrial relations. Some of the Keynesian prescriptions included protectionism, demand stimulus, full employment, counter-cyclical regulation of the economy, an expansion of the state provision of social services and an extensive development of infrastructure. The Keynesian view was that the private economy was unstable and required the government to intervene in order to maintain stability. Unemployment was seen as a problem of insufficient demand that could be remedied by increased spending. Governments carried deficit budgets, as spending was viewed as the solution to economic downturns, and the multiplier effect was seen to enhance the impact of spending. Inflation was seen as a problem of excess demand or undue wage pressures, so an incomes policy was introduced to deal with this problem (Gourevitch 1986; Hall 1986, 1989).

The hands-off policy of laissez-fare was not adequate to deal with the protracted depression. After the war, massive spending and infrastructural development was required, whose co-ordination was both too important and too extensive to be left to the market. Keynes' ability to explain the economic problems of the 1930s and to offer a solution to economic ails that could contain class conflict (Bleaney 1985), while fostering economic expansion, made this paradigm an attractive alternative to laissez-faire policies.

Keynesian policies were adopted at a time when capitalism faced a significant economic and political crisis. After World War II working class organisations were strong and pressured state institutions to meet the needs of a population that had made many sacrifices during war. National industries needed state infrastructure, subsidisation for technological development and protection from export competition. The domestic policies of the Keynesian welfare state adopted in many European countries after World War II (modelled on the US's New Deal) were successful in incorporating certain demands of particular sectors of workers into a compromise that also served the needs of capital at the time. Productivity deals allowed capital and labour to realise an increase in both profits and wages, thus securing social peace. Workers, particularly white male

industrial workers, received a higher social wage that bettered their standard of living, while providing productive capital with an educated, healthy and stable workforce. Protectionist measures that facilitated the consolidation of national corporations and as the maintenance of a stable workforce and consumer market provided benefits to both the industrialists and the workers in those industries.

Not only did governments increase their role in economic policy, they also extended their social role in society. Keynesianism 'became a component of the class coalitions and political compromises that structure the political economy of the post-war world' (Hall 1989: 7). Class conflict was contained in a bargaining framework where wage increases were tied to productivity gains, and negotiations took place through tripartite (government, employer, union) arrangements. Labour peace and the use of consumption through aggregate demand provided political stability. Although Keynesianism was presented as a technical solution to economic problems, the adoption of these policies were dependent upon the acceptance of a broader political vision (Hall 1989: 390).

The Bretton Woods agreements of 1944 established capital controls and fixed exchange rates that provided an additional level of stability during this period. Nation states were able to protect their industries from external competitive pressures, and could expect a stable exchange rate for their currencies.

During the 1950s and into the 1960s European economic integration took place alongside the expansion of the Keynesian welfare state. Those promoting integration argued that an integrated European economy would allow for the continued expansion of social welfare throughout Europe, thus tying the goals of economic expansion to the social consensus for regulated capitalism and redistributive policies. During the post-World War II era most Western European governments followed the policy paradigm of the Keynesian welfare state (with national variations); redistributive mechanisms, discretionary macroeconomic management and state intervention in the market through capital allocation and nationalisation of key sectors were widespread in that period (Majone 1997: 141).

The United States' Marshall Plan aid was conditional upon increased cooperation between European states. Along with enhancing the economic goal of increasingly open trade, European integration was also a political goal to create an anti-communist bloc with US patronage in Europe. Despite the growth of international trade, the Bretton Woods order established a comprehensive system of capital controls. These controls, combined with strengthening the Keynesian welfare state, buffered nation states from the pressures of growing economic interdependence. This symbiotic relationship between liberalisation of trade and the expansion of the welfare state provided legitimacy for the integration project.

This hegemonic political order was based upon an alliance of both social classes represented in the productive sphere and public sectors. Workers in industrial productive operations and in public sector institutions saw a common interest with industrial sector employers together with the nation state in advancing the goals of economic growth. Increasing productivity and economic growth were tied to the extension of generalised economic welfare through wage rises and the expansion of the Keynesian Welfare state.

This combination of political and economic arrangements brought about stability and unprecedented growth in the post-war period of reconstruction, expansion and consolidation. Yet this arrangement proved unsustainable, both in terms of economic stability and in the maintenance of social peace. In the late 1960s and early 1970s the Keynesian hegemonic project began to collapse. The integration process stalled as nation states sought independent solutions through the strengthening of national corporatist frameworks. Competition accelerated while profit rates and investment growth fell sharply. The limited options for independent expansionary monetary and fiscal policies led to the crisis in the Keynesian welfare state model.In order to meet the imperatives of economic marketisation, governments have had to make a break with significant elements of the welfare state and the social consensus of the Keynesian order (cf Teeple 1995). Thus the hegemonic order of the post-war world was thrown into crisis.

Economic Crisis: The Imperative for Restructuring

A number of factors coincided to bring about the economic and political crises of the late 1960s and the early 1970s. The political pressures of increasing wage demands and growing popular unrest, combined with the economic pressures of increasing competition and the end of the fixed exchange rates and capital controls of the Bretton Woods' agreements led to the collapse of the Keynesian project. According to Robert Brenner, the onset of the global economic crisis took place in the years 1965-73 (Brenner 1998: 93). It was during this period that profit rates and investment growth fell sharply. The results were severe reductions in output and real wage growth, and increases in unemployment. Over the three decades nation states have been struggling with devising new strategies to re-ignite the high levels of growth and profitability experienced in the post-war era.

The establishment of currency convertibility in the advanced industrialised countries under the Bretton Woods agreements of the late 1950s is an important precedent to the current phase of globalisation. Under those agreements the growth of world trade accelerated. Export growth began to surpass growth in production destined for the domestic market. The result was an intensification of competition for market share, particularly between the manufacturers of the three largest productive countries: Germany, Japan and the US.

Despite similar levels of productivity in the manufacturing sectors of the major economic powers, Germany and Japan had a comparative advantage. Unlike in the US manufacturers in Germany and Japan were able to combine advanced technology with low wages (Brenner 1998: 93). The introduction of these lower priced goods exported from Japan and Germany put a squeeze on US manufacturing profitability. US manufacturers were unable to lower their production costs, yet were forced to lower prices to remain competitive. To maintain market share, US manufacturers were forced to accept a lower rate of profit. Thus the crisis of profitability first hit the US.

Because of the tenuous situation for realising profit on new capital investment in US manufacturing, the less profitable firms continued to operate, instead of reinvesting

their capital into new, less competition-intense sectors. US manufacturers instead pressured the government to adjust currency and trade policies to improve their competitiveness. The US economic authorities responded by triggering a crisis in the international monetary system. The US dollar was devalued in 1971, thus lowering the relative price of US manufactured goods. The effect of this policy was to shift the burden of the crisis of profitability to its major competitors, Germany and Japan. This manipulation of the monetary system did not resolve the profitability crisis in the US, but rather temporarily transferred the major burden to its rivals. The relative price rise of German exports in the US due to the devaluation of the dollar sharply reduced the profitability of German manufacturing.

In the mid-1960s German manufacturing started to experience a lower rate of profitability due to intensified competition. In response, German authorities pursued a campaign of lowering production costs, collaborating with both the employers and unions in the manufacturing sector. Unions cooperated in keeping wage increases down, while manufacturers intensified production and introduced job evaluation schemes. The German central bank, the Bundesbank, followed tight credit policies in an attempt to reduce inflation. The US manipulation of exchange rate parities combined with low interest rates undermined the efforts of German authorities in holding down inflation. As the value of the US dollar fell, speculative capital fled into the European and Japanese markets. Speculative capital inundated the German market, buying up deutschmarks to take advantage of the interest rate differentials. As a result, inflation in Germany continued to soar (Brenner 1998: 121).

As the profitability in the manufacturing sector continued to decline, so too did capital investment. More investment was put into areas that were experiencing profitability rises: finance, insurance and real estate. Investment also tended to concentrate in portfolios that offered liquidity; if any doubt emerged over the viability of profit realisation, investors wanted to be able to remove their money instantaneously.

The previous strategies that governments followed during the Bretton Woods period were no longer feasible when the United States unilaterally decided to abandon the

fixed exchange rate in 1971. This event was the official breaking point of an arrangement that had been unravelling since the first signs of the economic downturn in the mid-1960s. With the end of the fixed exchange rate regime, the international monetary system experienced an extended period of volatility. Currency speculation grew, creating cost and price fluctuations that were beyond the control of manufacturers or governments.

Throughout the 1970s the US imposed upward revaluations on the currencies of its major trading partners through a series of dollar devaluations. The pre-eminence of the US dollar in international transactions made all countries vulnerable to shifting US exchange and interest rate policies. The centrality of export-led growth in both Germany and Japan exposed their economic stabilisation programmes to the whims of US economic and monetary policy-makers. It was this major US policy shift and the resulting volatility in the international economic order that impelled European governments to search for a new strategy for economic growth and stability and European exchange rate mechanisms to limit fluctuations.

The US's use of exchange rates to improve the price of their goods on the world market and undermine the economic growth strategies of their rivals continued to frustrate stabilisation programmes of export-oriented countries. The international economy after the breakdown of the Bretton Woods order was vulnerable to shocks and continued to be volatile for the next two decades. By the late 1970s Japan and Germany, as well as Germany's European trading partners felt that they could no longer accept indefinite dollar devaluations that undermined their own economic strategies, and began to seek an alternative to the dollar as the main currency for international transactions (Brenner 1998: 180).

The collapse of the Bretton Woods regime of fixed exchange rates amplified the political power of financial capital through the increased ability to impose its demands via capital strikes. Nation states became less able to protect their currencies from speculation through reserve buying due to conditions where the daily turnover of financial transactions far exceeded the monetary reserves of the largest industrial powers. This weakness in the face of attacks from the financial sector was an impetus for a

concerted response among the European finance ministries and central bankers to cooperate in monitoring economic activity and react collectively to avert potential currency crises.

The economic crisis combined increasing unemployment with stagflation, a new phenomenon not thought possible in the Keynesian paradigm. The oil shocks of 1973 and 1979 compounded the crisis of economic instability. During the economic crisis of the 1970s governments sought national solutions to stagflation by adopting a heterodox mix of policy reforms. Governments attempted to create neocorporatist agreements with labour through incomes policies, but they were no longer able to guarantee full employment or price controls.

The end of capital controls and the collapse of the fixed exchange rate regime made capital (particularly financial capital) more mobile while holders of fixed capital and commodities were more vulnerable to economic volatility. This newly 'liberated' financial capital gained political clout with its ability to easily relocate. Demands for liquidity forced productive enterprises to focus on short-term profit realisation. Competitive pressures from global trade compelled corporations to attempt to regain competitiveness through redefining the relations of production. Capital began to pressure for a relaxation of the 'inflexible' nature of the Fordist mode of production. Globally mobile capital also demanded that the nation state change its macroeconomic policies. Nation states that chose to follow Keynesian expansionary policies were attacked by capital through currency devaluation and disinvestment in the economy. In the 1970s, European states followed a patchwork of economic policies. Although monetarism was gaining momentum as the new economic paradigm, governments succumbed to the pressures of the near collapse in capital investment by adopting policies of loose credit. European nation states turned their efforts toward forming a 'neocorporatist concertation' to address the economic crisis they were facing. A managed development of technical mechanisms and policy coordination among the member states, rather than the transference of decisions to the supranational level, characterised integration during this

period (Taylor 1983: 107). The intergovernmentalist analysis seemed more applicable, as European nation states turned inwards and integration stalled.

The development of national strategies to address the crisis made the possibilities for a Europe-wide strategy more remote. At the same time, the subjection to economic shocks precipitated by US economic and monetary policies provided the incentive towards further integration as a protective measure; European nation states were faced with external destabilising pressures that they could not overcome alone (Hoffmann 1982: 31-2). Due to the pressures of mobile capital, the basis of the neocorporatist arrangement was undermined. States that followed expansionary fiscal policies were punished by speculative attacks on their currencies and the withdrawal of investment from their economies. France's failed attempt to implement an expansionary economic program of Keynesian reflation in 1981-82 is a clear example of the inability of states to withstand the demands of reorienting capital – 'Keynesianism in one country' was not a possible alternative. This pressure effectively eroded the bargaining power of states with the unions, as they were no longer able to offer the alleviation of unemployment through fiscal stimulus (Streeck and Schmitter 1991: 145).

Developing Neoliberal Hegemony

The economic crisis that challenged the basis of Keynesian policies created the political space for the advancement of alternative paradigms of political economy. This was characterised by Gill as a 'movement towards the attempt to consolidate a new form of hegemony…which has a quite different social basis to the one which preceded it' (Gill 1992: 157) and by Checkel (1999) as a 'policy window' opened. Neoliberal ideological projects were on the fringes of policy debates at the beginning of the 1970s.

Monetarist economic ideas, developed by Hayek (1930s) and Friedman (1950s) were a direct challenge to the Keynesian paradigm, and provided the primary critique of the Keynesian failure to address the crisis (Bleaney 1985). Although these ideas were put forward during the Keynesian era, it was not until after the prolonged economic downturn of the 1970s that they gained political significance. Desai identifies how this transpired:

> Hegemonic crises naturally provide opportunities for such sects at the margins of the dominant intellectual tradition to raise their profile through active interventions in debates on the many aspects of society that have become problematic and, as these multiply, to aggressively peddle their ideology as the basis of any succeeding hegemonic order (Desai 1994: 40).

The indecision that typified the economic strategies of the 1970s gave way in the 1980s to increasingly convergent efforts by European governments to encourage liberalisation and break the institutional links between money supply and government spending via deflationary monetary and fiscal policies (Sandholtz 1993: 7-9). Neoliberal policies began to take hold at the very end of the 1970s, when it became increasingly apparent that the heterodox strategies were not having successful results. The commitment to macroeconomic discipline 'established the necessary foundation upon which discussions of monetary union could build' (Sandholtz 1993: 5).

The policy prescriptions of neoliberalism have gained influence among government policy makers. This new hegemony is centred around the belief that the free operation of capital, unimpeded by elements of state regulation that characterised the Keynesian era – such as the policies of national protectionism and labour 'inflexibility' – is the way to re-establish growth and resolve the plague of inflation.

Some theorists question whether neoliberalism has developed a hegemonic project, the way that Keynesianism had. For example, Gill agrees that market civilisation is increasingly determining people's experiences, but he concludes that the hierarchical nature of neoliberalism prevents consent, and that its rule is based purely on the politics of supremacy, not hegemony (Gill 1995b). To address this claim, we must look at how neoliberal ideas have influenced civil society, and how opposition to this is forming.

Civil society resists both before and after political crises, through criticising the current order, developing alternatives, and pressuring policy makers to act on those critiques. New hegemonic projects can begin at the level of civil society, against the hegemony of the current order. These initial inroads into civil society can provide the political support needed to change the economic order via a relatively smooth transition. This is the path that neoliberal ideology followed. Neoliberal thinkers prepared the

groundwork in civil society before the level of state policy, which accounts for the remarkable effectiveness of these transitions. Neoliberal ideology began to create its new hegemony in the institutions of civil society where they were able to best assert ideas: in the realm of think-tanks, universities and media. The ideas emanating from the various think-tanks heralded the political priorities of a previous era, yet aimed to purge liberalism and develop a new ideology consistent with their current economic goals. They were able to plant the seeds of their ideology in the intellectual world, where it began to take hold.

In the current period, market pressures require technical choices concerned with the objective needs of the economy, thus dictating economic decisions. The disconnection of politics from economic decisions is a central part of the political goals of neoliberalism. Neoliberalism is able to enforce an economic adjustment dictated by the market rather than through a cumbersome state directed process that can incite political pressure from both labour and capital. Divorcing economic decisions from the public political realm and leaving market forces to restructure the economic organisation of society diffuses the responsibility for the possible negative outcomes.

Monetarist policies provided the basis for the complete restructuring of the Keynesian state institutions. Monetarist policies provide the disciplinary framework that puts pressure on social guarantees of the Keynesian welfare state, such as full employment, through reinforcing competition. Although the neoliberal discourse promotes a disconnection of ideology from economic decisions, its programme for the concentration of economic decisions and a set mandate of low inflation represents the class interests of capital. This neoliberal project included such aims as the marketisation of the state, through privatisation, deregulation and liberalisation, and strict austerity budgets. Neoliberal ideology had reified the market logic as an unquestionable imperative for the reorganisation of economic priorities. According to this ideology, the market would provide stability as long as it was not interfered with by state intervention (Hall 1992: 92).

The monetarist model has the control of inflation (price stability) as its primary goal. This paradigm also includes restrictive monetary and fiscal policies, high real interest rates, increasing independence of monetary policy through independent central banks, cuts in public expenditures, open markets, and a restructuring of the labour regime to end inflexibility (Bleaney 1985; Clark 1988). The 1980s saw a stronger influence of neoliberal ideology on the policy objectives of national governments in Europe. The result was a decisive rightward shift in the ideology of the national governments of the European Union. This shift occurred through the defeat, realignment, or programmatic shift of social democratic governments in favour of more conservative forces and ideas.

The neoliberal belief in the operation of capital, freed from the constraints of state intervention, such as national protectionist policies, and initiatives to mitigate the distributive inequalities and unemployment generated by the market, underlay their prescriptions for free trade and restrictive monetary and fiscal policies. A key structural change in the economic decision making power of nation states supported by neoliberals was the establishment of independent central banks dedicated to price stability and isolated from the political system.

The advantage of the neoliberal model is its promise to facilitate the capital accumulation process while maintaining political stability by separating economic decisions from the public political realm. This represents the separation of the economic from the political, a key element of capitalist rule (Wood 1995: chapter 1). Neoliberalism combines the mission of serving the direct needs of capitalist profitability while disguising this intent with a technocratic economic mantra that insists interventionist policies are destabilising at best, but more often devastating to the economy. Neoliberal ideology has reified the market logic as an unquestionable imperative for the reorganisation of economic priorities. Economic decisions of the state are declared a matter of market pressures or technical choices concerned with the objective needs of the economy.

Certainly, neoliberalism was able to gain significance among policy makers due to the prolonged economic crises of the 1970s. As Kathleen McNamara (1998) argues

> the first major factor in the creation of the new neoliberal European policy consensus was the experience the majority of European governments had in the early 1970s with policy failure. Governments found that standard Keynesian demand management tools were inadequate for coping with the slow growth, high unemployment, and high inflation of the 1970s…Broadly speaking, the experience of crisis and failure forced policymakers to adjust their policies to the changed international environment – in essence, to learn from their mistakes. The learning…would not have occurred in the same way without the existence of an alternative – monetarism – and an example – Germany – to guide adjustment (1998: 129).

The influence that neoliberalism has changed the economic and political terrain of Europe in fundamental ways. Germany had the longest tradition of monetarism, enshrined in the independent monetary policies of the Bundesbank, which offered a model to its European partners. France, seen as one of the strong holdouts of 'socialist' policy making, adopted a comprehensive restrictive monetary policy through the Barre plan in 1976. The four key policies of this plan to fight inflation were: 'first, control of the money supply through published targets; second, restrictive budgetary policies; third, wage restraint by the social partners; and fourth, stabilization of the franc' (McNamara 1998: 130-1). Italy followed suit in 1976 adopting a comprehensive reform package. Belgium, the Netherlands and Denmark, which had performed well in maintaining the link with the deutschmark throughout the 1970s, also took on further fiscal and regulatory reforms in the early 1980s (McNamara 1998: 140).

Some significant aims of neoliberal policy presciptions in the EU context are: the free movement of capital within Europe; monetary policy aimed at low inflation (monetarism); austerity and marketisation of the welfare state; and the restructuring of the (Fordist/corporatist) production regime. This model for Europe was aimed to enhance profitability for capital operating in the region along with rationalising the organisation of capital accumulation by eliminating barriers (such as capital controls and increasing wages) to capital's ability to pursue the best rate of return.

Individuals within the nation state have been decisive in the shift from state interventionist Keynesian policies to an increase in market oriented 'deregulation'. The

shift toward marketisation of some social services in some European countries has been supported by the policy shifts of nation states. This reorganisation of social relations has been legitimised through nation states' proclamations of the need for 'belt-tightening' throughout society in these tough economic times. The impact of neoliberal policies has not been even throughout the EU. The need to work through national systems of social relations to develop consent for restructuring has resulted in a variation of policies and their effects. Rather than convergence around a model of social welfare, for example the American model, neoliberal reforms are embedded within the national institutional structures. Rather the convergence is around a trajectory of rationalisation and increased marketisation.

The examination of the political and economic context of the 1980s and '90s, not only of Europe but globally, can provide clues as to why movement toward EMU has occurred more decisively than in the past (such as when it was first introduced by Werner in 1970). Dyson, Featherstone and Michalopoulos (1995) assert that in order to understand the actions of central bankers in the process of European integration, there is a need to identify.

> ...the powerful structural forces that have shaped and transformed their position... [Many theories do not] give sufficient emphasis to structural change in the nature and culture of capitalism, and to the impact of economic crises in transforming perceptions of the role and significance of central bankers. Structural change provides a crucial part of the context and terms of interactions within the central banking community (Dyson *et al* 1995: 479).

There are many aspects to the structural changes that they speak of. The commitment to low inflation policies and the fashioning of society to facilitate the freedom of capital have greatly altered the political landscape. Some of these structural changes can be seen as political "convergence criteria", created in the wake of neoliberal fervour, that laid the foundation upon which to build EMU in the manner desired by central bank governors and the political elite.

In general, Europe was adopting monetarism, yet in its own way, embedded in national consensual bargaining systems and legitimised as an important requisite for monetary stability offered by the EMS, ERM and EMU.

> A version of the monetarist approach that added fixed exchange rates to the monetarist agenda became part of the policy arsenal of many European governments in the late 1970s because it offered an alternative to and justification for the ineffectiveness of traditional postwar government policy to achieve the goals of full employment and growth without unreasonable inflation (McNamara 1998: 147).

Conclusion

As this chapter has discussed, the policy choices made by governments are influenced by a number of factors. The interplay of events, ideas, actors, interests and institutions shape and reshape the configuration of policy paradigms.

During times of stability the existing institutions tend to be characterised by policy consistency and little experimentation in the policy realm. Yet when crises come to the fore, the political space for policy debate is opened up. Keynesian policies were chosen after the war, as they were able to address specific problems that nations were facing in the wake of the depression and the post war reconstruction. The policy paradigm advanced by Keynes was not simply aimed at alleviating economic problems. The Keynesian model also specifically addressed the need to tie labour into a productivity deal that would provide stability in the workplace, combined with the expansion of the state provision of social services to provide stability throughout society.

This model was not able to survive or reorient to new, unforeseen problems. When the institutionalised expectations for wage increases began to surpass the growth in productivity, capital was no longer supported the industrial relations framework offered by the Keynesian model. The Keynesian model was also not able to accommodate the prolonged economic crisis and novel experience of stagflation of the 1970s. Yet the institutional legacy of Keynesianism made it difficult for policy regimes to make a clean break. The 1970s saw a policy mix that borrowed from various models, but was not able to resolve the crisis.

This extended period of instability created the climate for welcoming new policy paradigms. Monetarist thinkers tailored their prescriptions to address the specific problems that plagued national economies throughout the 1970s – inflation, stagnation and inflexible labour regimes.

These opposing models were not merely different ways to address the technical organisation of the economy. Each was founded on the basis of creating political coalitions whose interests could be met and stabilised through these models. The Keynesian model brought together primarily the large industrial interests and the labourers in these firms around a programme to improve the economic position of both sides. Monetarist policies aim to redefine the institutions and social expectations formed through this coalition that impede the profitability for capital that is no longer nationally bound. This paradigm represented the interests and concerns of mobile capital that was driven by a more competitive imperative than its nationally bound counterparts of the post-war era.

This chapter has shown that policy-making is not just a technical exercise aimed at resolving economic problems, but that policies are part of an extensive process of remaking social and political coalitions. Policy shifts tend to take place in the context of political and economic crises, and usually entail a crumbling and reformation of coalitions within society (Gourevitch 1986).

The Keynesian Welfare State and the coalitions that were formed in this paradigm were influential in the creation of social market Europe. The collapse of this model and the realignment of social forces bring forward the following question: where is the commitment to social market Europe to be found in the new integrated Europe?

The movement toward the creation of the single currency entailed an unprecedented transformation in the institutional structures that redefined governance in the EU. This transformation of institutional structures and their functions have in turn altered the traditional patterns of social relations. In considering the factors that have influenced and this transformation, it is important to address how they have defined the new Europe, and what this definition means for the future character of the EU.

The process of institutional development has been uneven. The creation of the single European Central Bank and the required changes at the national level for EMU have been pushing the integration process forward. Some national decision-making powers have been transferred to the supranational realm, while other areas, such as European-wide fiscal coordination or social policy, have remained underdeveloped. The general unevenness of governance at the EU level, for examnple the lack of economic governance or a political constitution has led some to question the legitimacy of the European institutions.

Given the asymmetrical nature of the transference of power throughout the EU, the institutional transformation has been a complex process that needs to be examined closely. This leads to the following question: what is the character of the institutional transformation of the European Union and what type of governance has been established?

In order to answer this question the chapter will first discuss the transformation of the nation states and supranational institutions within the EU, focusing on the interaction between the two levels. The subsequent section reflects on these institutional developments and the implications that they have for the European model of society. The final section draws some conclusions about what this means for the future of Europe.

Institutional Transformation: From National to Supranational and Back Again

The institutions of the EU had been set up during the relatively stable Bretton Woods world order, and thus were not designed to meet the needs of the Community once that arrangement had crumbled. Lindberg and Scheingold argued that in order for

the integration process to move forward in the face of change the leaders of the Community needed to play an active role in promoting forward linkage solutions (Lindberg and Scheingold 1970: chapter 6). During the 1970s this was not the case. The institutions of the EU did not advance new Community alternatives, and were not likely to restore the international exchange rate stability that characterised the Bretton Woods period. Therefore European national elites felt that their only option was to devise national solutions to the crisis (Streeck and Schmitter 1991: 143-4). This lack of faith in the utility of the EU's institutions in resolving the economic problems facing all of Europe's member states marked a significant step backward on the path to integration. The lack of success in these nationally oriented strategies led to the reinvigoration of the integration process near the end of the decade.

European Monetary System

EU cooperation resumed with the creation of a fixed (but adjustable) exchange rate system, the European Monetary System (EMS) in 1979. This system provided an opportunity for national states to better protect the profitability of capital investment in European industry, particularly for export manufacturers via the intervention of central banks to shore up any EMS currency under speculative attack. Coordinated currency stabilisation allowed an immediate mitigation of capital outflow crises; however, these responses alone did not deal with the underlying concerns of capitalist investment. The desire of financial markets for economies more subordinate to the imperatives of transnationally-enabled capital required a fiscal response from EU member states. This was provided for by the deutschmark's dominant position in the EMS. The German Bundesbank in effect set monetary policies for the region, which had a deflationary effect on EU national economies.

The restrictive monetary policy of the Bundesbank was accepted by the other countries in the EMS to ensure the fixed but adjustable parity of exchange rates in the EU. The pressures to stay within the framework of the EMS, as well as the increased power of capital strikes against expansionary macroeconomic policies, enforced policies

of austerity throughout Europe. The crises that occurred during the operation of the EMS gave credence to 'sound money' solutions, which produced an important shift in the course of EMU.

> Irresponsible' government use of fiscal policy, particularly reflected in the accumulation of public debt, was increasingly identified as the source of economic problems; the remedies were identified in the realm of monetary policy. The most dramatic change was the new ascendancy of 'sound money' ideas in economic theory, and a revival of interest by economists in the role of central banks in economic policy (Dyson *et al.* 1995: 482).

The transformation of the European Union in the 1980s and 1990s was built upon this precedent of the transformation of national economic paradigms.

The Single European Act

After the commitment to price stability was well established in the EMS, the next phase of European integration was the extension of free trade. The Single European Act (SEA) of 1986, which was to complete the common market project initiated in 1958, allowed for the liberalisation of capital movements, which resulted in 'altering the systemic relationships that govern monetary policy making' (Dyson *et al.* 1995: 466). The increased mobility of capital in Europe created greater pressure for national governments to adopt policies favourable to capital, in order to compete for investment.

Despite the complete liberalisation of capital mobility in the European Union, the creators of the SEA argue that the goal of a unified Europe could be best realised through a single monetary policy. The idea of eventual progression to monetary union was inherent in the European Community's decisive removal of any barriers to the functioning of the internal market. 'With the ratification of the SEA, EMU was enshrined once more as a policy objective' (Cameron 1995: 2). This is attributed to Jacques Delors' persistence that there was an inherent logic that connected the idea of a single currency to the facilitation of capital's freedom of movement and investment in the functioning of the internal market. The creation of the SEA was a significant initial step in the process of genuine free trade in the region. EMU is the completion of that process.

Economic and Monetary Union

Signed in February 1992 at Maastricht, the Treaty on European Union (TEU) outlines a clear path and pace for Economic and Monetary Union, in a more decisive fashion than any other previous proposals.

The Three Stages to Economic and Monetary Union		
First stage	1 July 1990 to 31 December 1993	• Free movement of capital between Member States; • Closer coordination of economic policies; and • Closer cooperation between central banks.
Second stage	1 January 1994 to 31 December 1998	• Convergence of the economic and monetary policies of the Member States (to ensure stability of prices and sound public finances).
Third stage	from 1 January 1999	• Establishment of a European Central Bank; • Fixing of exchange rates; and • Introduction of a single currency.

Source: www.europa.eu.int

The Maastricht Treaty on European Union incorporated the proposals of the Delors Report with very few amendments (Verdun 1998a: 182).

Although the SEA made definitive alterations to economic activity throughout the EU, the Treaty on European Union, which outlined the steps to creating Economic and Monetary Union is arguably the most decisive shift in the integration process.

> The decision to assign responsibility for defining and implementing monetary policy within a group of member states to a single central bank, and to cede all responsibility in the domain of exchange-rate policy to the institutions of the EU, undoubtedly represents one of the most significant extensions of supranational authority in the four decades since the Treaty of Rome (Cameron 1998: 189).

The sentiment expressed here by David Cameron in his discussion of the causes and effects of EMU reflects a commonly held opinion concerning the TEU. The fundamental change in the institutional terrain of the EU concomitant with the TEU cannot be understated.

Supporters of EMU have argued that a single monetary policy would provide the stability necessary for regional trade by eliminating the costs of exchange rate differentials. A single currency and monetary policy throughout the region would provide the market security for productive capitalist activity in Europe. Thus the completion of

EMU is seen as having a functional linkage to the 1992 project. 'The argument is that complete capital liberalisation (undertaken in July 1990) and exchange-rate stability (in the EMS) are incompatible with divergent national monetary policies' (Sandholtz 1993: 20).

Independent economic policies have become less attractive, due to numerous factors. The incentives to cooperate are real. The form of the cooperation is highly dependent on the predominant economic model that is providing answers to the current economic problems. The argument that free movement of capital, fixed exchange rates and independent monetary policies are an 'unholy trinity' is based upon an idea of what monetary policy should be.

Throughout the 1980s European governments' policy priorities were in line with the monetarist emphasis of anti-inflationary policies. These same European state leaders chose the central bankers and economists for the Delors Committee that created the blueprint for EMU, knowing well (given their interests and conceptions of feasibility) that these individuals would propose the centralisation of monetary power through the creation of an independent central bank. The path that was proposed by the committee was not a fundamental shift in the strategy that member states were following, but rather an institutionalisation and formalisation of that process. Or as Moravcsik (1998: 3) has stated it, the progression of integration occurred through a series of rational choices by national leaders pursuing the economic interests of their state; when the interests of production and the adjustment of macroeconomic policies converged, further integration was possible. Thus the mandate from the heads of states and governments given to the Delors committee clearly illustrate Moravcsik's assertion that 'the integration process did not supersede or circumvent the political will of national leaders; it *reflected* their will' (Moravcsik 1998: 4).

The mandate of the European Central Bank (ECB), which determines a single monetary policy for all countries in EMU, is based on a monetarist economic paradigm. It is claimed that this is the only possible arrangement to ensure low inflation and the credibility of EMU in financial markets. The institutional isolation of economic policies

enshrined in EMU provides member states with the ability to enact unpopular economic decisions while avoiding the direct political consequences. Thus EMU promises the continuance and deepening of the restrictive economic and monetary policies that nation states have been pursuing, albeit unevenly, since the 1980s, through the institutionalisation of monetarist policies in the ECB.

But the type of sound money solutions, the creation of a single currency and the development of a single monetary policy controlled by an independent European System of Central Banks, were not the only means to resolve the credibility concerns of European currencies. The central bankers themselves have played an important role in creating the belief that Economic and Monetary Union was the best alternative.

Although the analogy of Odysseus 'strapping himself to the mast' has been used to describe the behaviour of the central banking community (Dyson *et al* 1995: 466), central bankers have been much more decisive than that would suggest. EC central bankers have taken the helm and are setting the course of European integration. The changed political and institutional conditions are the still waters, and the ideological victory of neoliberalism has put the wind in their sails. And, like any good navigator, they are trying to gain as much distance as possible while the conditions are favourable.

Central bank economic experts and the EC heads of states and governments have played a key role in determining the direction of integration. Member states at the Hanover Council meeting in 1988 created the Delors Committee and gave it the explicit objective to 'propose concrete stages' (Dyson 1994: 132) for moving towards EMU. As a member of the Delors Committee has said, 'governments in part had this type of EMU in mind when they decided to ask a group of primarily central bank governors to draft a blueprint for EMU' (quoted in Verdun 1998a: 184-5). Thus integration is moving in the direction envisaged by member states, regardless of the different compromises each has had to make. The Delors Committee, which drafted the proposal for EMU, is an important example of an epistemic community in the EU (Verdun 1998a). The Delors Committee's membership consisted of central bankers and other economic experts, all of whom had a similar vision of the future of Europe. These people recognised the

opportunity offered by the current political period, and situated themselves at the helm of the new Europe. The Delors Committee laid out a clear proposal for decisive movement toward EMU that government leaders could accept.

The mandate of the ECB, which determines monetary policy for all countries in the European Economic and Monetary Union (EMU), is based upon a monetarist economic paradigm. EMU is the completion of the separation of economic policies from political pressures that was initiated with the adoption of neoliberal restructuring policies. The transfer of economic power to the supranational ECB is thus the extension of this neoliberal model of the separation of economics from formal democratic political control that was already underway at the national level among the member states of the European Union.

The central bankers of Europe have been able to fill a vacuum in the EU. They have provided effective leadership by making concrete proposals for the realisation of deeper integration: Economic and Monetary Union on the basis of a single currency and thus a single monetary policy.

Under the leadership of Jacques Delors, the committee situated itself at the helm of the EU, and laid out a clear proposal for decisive movement toward EMU that government leaders could accept. The central banking community has played an important role in creating the belief that Economic and Monetary Union is the best method to create economic stability for Europe. Not only has the proposal of the Delors Report been accepted as advancing the best route to EMU, their prescriptions (summed up in the TEU) are pronounced as the only realistic means by which to have a properly functioning European Union. The high level of acceptance of the current EMU model, combined with a lack of any concrete alternative, gives the illusion of a 'spill-over' pattern of integration.

Tommaso Padoa-Schioppa (Deputy Director of the Bank of Italy and member of the Delors Committee) has stated that throughout the 1980s:

> [A] latent logic . . . started to impress itself upon decision-makers in Europe . . . . [F]ree trade, unconstrained mobility of capital, fixed exchange rates [aspects of the Single European Act] and independent

> national monetary policies cannot co-exist for long (Padoa-Schioppa 1997: 163).

Although I would argue that the path proposed by the Delors Committee is not a fundamental shift in the strategy that member states were following, EMU offers an institutionalisation of that process. Many of the prerequisites of the central banking community's version of Economic and Monetary Union had already been, or were in the process of being, carried forward by the commitment of many of the European governments. 'EMU . . . was a result of consensus among policy makers that further integration at this point was only feasible in the realm of *monetary* policy making' (Verdun 1996: 80). The commitment to monetary integration as a defining feature of the European Union was essential as an institutional justification for central bank independence.

Multilevel Governance in Europe

The process of moving toward EMU as outlined by the TEU was mutually reinforcing for both the supranational monetary authorities and the member states. National and supranational institutions thus were not adversaries but rather partners in developing the nature of the new European Economic and Monetary Union. The central banking community needed Europe-wide commitment to macroeconomic discipline as a basis for a single monetary policy. The institutionalisation of the commitment to price stability in the treaty and the independence of the ECB would together provide a basis of credibility for Europe's new monetary arrangement in the financial markets. It was also a guarantee for stability in the climate of uncertain economic convergence of the EMU participants (Verdun 1998a: 181-2). This institutionalisation of monetarist economic principles in EMU is not compatible with the expansion of social market reforms on the supranational level. As Colin Crouch asserts

> important elements of the European integration process itself conflict with the 'social Europe' elements…European integration measures therefore primarily take the form of breaking down highly specific organizational forms in favour of those that most closely resemble pure markets…[T]he rigid criteria for economies to enter the European Single Currency,

> together with the long-term rules for managing the new currency, are making it difficult for many European governments to operate generous welfare states [or] Keynesian solutions to demand management (Crouch 1999: 408).

Not only did this design of EMU provide credibility in the financial markets; it also provided legitimacy for governments implementing austerity policies in the domestic realm. In countries where governments face greater pressures against neoliberal economic restructuring, EMU is an important legitimising force. As Sandholtz explains, there was quite an incentive for national governments to support EMU:

> For governments that found it difficult domestically to achieve monetary discipline, EMU offered the chance to have it implemented from without. Governments could even escape the blame when tight monetary policies pinched (Sandholtz 1993: 38).

For example, Italy has found it difficult to implement a thorough restructuring of its labour market, as workers have resisted this process. Yet the desire of the Italian population to be part of an economic project that will provide a stable currency has allowed the government to implement otherwise unpopular policies in order to meet the convergence criteria for participation in EMU (Croci and Picci 2002).

Amy Verdun (1996) has asserted that the monetary authorities and employers' organisations felt that restructuring the national economies to purge inefficient welfare state policies would be necessary for countries to remain competitive, and were enticed by restructuring via market principles that EMU offered (1996: 75). Because of the politically sensitive nature of breaking the Keynesian consensus and diminishing welfare state responsibilities these measures were carried out in the economic realm.

> Thus the strategy of relying on market forces to exert pressure on domestic political actors to restructure the national welfare state, and the subsequent harmonisation *via market forces*, was considered attractive (Verdun 1996: 76-77, italics in original).

EMU is the completion of the separation of economic policies from political pressures that was initiated with the adoption of neoliberal restructuring policies. The transfer of economic power to the supranational ECB is thus the extension of the

neoliberal model of the separation of economics from formal democratic political control that was already under way at the national level among the member states of the EU.

A single monetary policy is not an absolute requirement in order for capital liberalisation to be recognised; EMU is not just an economic goal. EMU is a political goal supported by sections of the European business community, political elite and policy makers that want to enhance the market's influence on aspects of the economy. '[B]ecause they would benefit the most from EMU, Europe's leading financial and multinational firms have been a stronghold of support for breaking down remaining barriers to EC financial and monetary integration'(Frieden 1991: 441).

The plan for EMU aimed to institutionalise macroeconomic discipline in Europe through the creation of an independent central bank with a strict commitment to price stability, which was created with the launch of the single currency in 1999. The ability of this EMU model to maintain price stability without leading to deflation and unemployment has yet to be seen. The commitment to low inflation dictated by the ECB hinders counter-cyclical response to economic downturns, whether they are nationally specific or Europe-wide. Also, because of investment pressures and the influence of neoliberalism on the national level, governments are no longer able to kickstart the economy via increased social spending, by monetising debt or deficit generation.

The asymmetrical nature of EMU, in particular the lack other economic policy coordination, has resulted in a lopsided institutional framework in Europe. This is the focus of the following section.

The Institutional Implications of Multilevel Governance in a Restructured Europe

The growing similarity of the political convictions and commitment to macroeconomic discipline of the member states has also provided an incentive for policy coordination at the supranational level. States continued to face problems meeting their economic goals, and thus sought an international (regional) arrangement under which to make that possible. The commitment to a regional solution has played an important role in legitimating the turn to monetarist policies. As Hoffmann has argued, 'the EEC has

also served as an alibi for governments too weak to take unpopular measures on their own, or strengthened their hand against protectionist or inflationary pressures' (Hoffmann 1982: 35).

A related argument put forward by Marks, Hooghe and Blank is that there are benefits to 'decisional reallocation' (1996: 349) that takes place in a multilevel governance system. A shift in responsibility can allow governments to avoid political pressures or consequences of some policy areas. This is similar to the arguments made by Verdun and by Sandholtz (referred to above) that national governments found it advantageous to have the imperative for restructuring social relations based along market lines dictated by the EMU agreement, thereby allowing them to deflect criticism for unpopular policies. This is discussed in further detail in the following chapter.

Although the adoption of neoliberal policies assumes generalised deregulation, a combination of deregulation and re-regulation through different institutions has occurred (Majone 1997: 143). Parts of state administrations have become decentralised and regionalised, and activities have been broken down into single purpose areas and delegated to various agencies. These agencies are often comprised of 'experts', thus giving more legitimacy to their regulatory strategies than the state may have had in following the same strategy (Majone 1997: 146, 154).

As the above discussion has outlined, the institutional transformation of Europe has been characterised by the creation of an independent monetary authority, and the removal of barriers to trade. Fritz Scharpf has labelled the latter as 'negative integration'. 'Positive integration' refers to the creation of new common policies in the European Community. The European integration process has been characterised almost exclusively by negative integration. Trade barriers have been lowered through the decline and elimination of tariffs, subsidies have been restricted, and, with the implementation of austerity polices, the social expectations of populations have been declining. Attempts to create European standards and agencies for social policies have been strongly opposed by member governments. Furthermore, the discussion in this section has shown that the institutional transformation of Europe has not been a direct transfer of policy authority

from the national to the supranational level. Some policy areas have been transferred to the European level. Others have stayed at the national level, but have been circumscribed, as they had previously been part of a policy complex that has now been divided.

The institutional transformation of Europe has been an asymmetrical process that has left out numerous important elements required of a political entity. As Kohler-Koch has asserted, a unique feature of the EU is that there is no political constitution, only an economic constitution (Kohler-Koch 2001). This economic constitution, outlined in the Treaty on European Union, has precedence over the democratically elected national governments. The rules of EMU will stand even if national governments change. This is one of the central examples of EMU as an institutionalisation of the separation of economic and political choices.

Institutional Design of Mutlilevel Europe: A Democratic Deficit

Not only do the economic forces weigh against the formation of a social market for the EU, the Treaty on European Union (TEU) has not allocated the institutions of the EU to develop this European social market. One of the most outstanding features of the TEU is the lack of fiscal and further political integration to accompany economic integration. In general, the transformation of Europe has led to a 'democratic deficit'. Fewer individuals, most often not popularly elected, have more say over issues that impact greater numbers of people. National concertation, which entails input from various social partners, has been undermined, and no equivalent systems of social bargaining have developed at the supranational level. This does not mean that such developments are not possible in the future; but at this point they are not even being considered.

The lack of democratic accountability will also become a thorn in the side of the ECB. We have already seen a push for national governments to have a greater say on the policy choices of the ECB, and for the operations of the bank to become more transparent (Oskar Lafontaine, for example, called for a review of the priorities of the ECB). As the distributional consequences of the ECB's policies become felt more broadly, it is likely

that demands for a review process and the establishment of flanking supranational institutions will increase. The French were the consistent advocates of the creation of an economic government to flank the ECB, while the German authorities were the main opponents to this proposal. The central bankers consistently opposed such an initiative, and Hans Tietmeyer, the president of the Bundesbank in 1997, went as far as to warn 'that such an effort did not conform to the treaty' (quoted in Cameron 1998: 214). Article 107 of the TEU clearly states that no government should attempt to politically influence the operation of the ECB, thus effectively ruling out political interference. Although an economic government could also be a venue for developing common economic policies, it was seen, particularly by the Germans, as a way to undermine the stability of ECB independence. Monetary discipline would be less guaranteed under an arrangement of economic governance, as countries such as France with a history of interventionist economic policies could undermine the credibility of the EU commitment to price-stability. An informal body (the so-called Euro 12 Council) meets to discuss issues of macroeconomic policy coordination, but its purpose is only advisory.

The independence and isolation of the ECB is unprecedented, and may not be the ideal form for meeting the goals of low inflation combined with economic growth. The ECB is not only independent, but nation state macroeconomic policy is now constrained by the monetary framework laid out by the central bank. Although the Bundesbank was highly independent, it was still embedded within national systems of wage and price stability as well as federal redistribution policies that could counteract distributive consequences of monetary policy (McNamara and Jones 1996; Verdun 1998b). The model for the ECB is based upon the German institutional design for the Bundesbank, yet decontextualised from the domestic setting, where the national government maintains a system of redistributive policies and can overrule the central bank's decisions (Verdun 1998b: 115-6). The ECB has no such related Europe-wide counterbalancing institutions.

Whereas monetary policy has been transferred to the ECB, other economic competencies, such as fiscal policy, are still in the hands of national governments. This division of traditionally linked policy areas may create a problem for Europe in the

future. Nation states are no longer able to rely on expansionary monetary policy to address country specific shocks, which in turn limit options in other policy areas. Euro-zone members that face country specific economic shocks will be constrained in addressing these through the traditional use of combined monetary and fiscal policy shifts. This in itself would decrease the effectiveness of policy reform. The lack of economic and fiscal integration also enhances the problem of national divergence. In addition, with the single goal of price stability for European monetary policy, countries facing an economic crisis would not be able to expect any necessary loosening of the restrictive monetary policies set by the ECB.

The creation of an independent central bank for Europe was argued as a way to solve the economic ails of the EU. Yet the exclusive focus of the bank on the maintenance of price stability has resulted in redistributive consequences on the European level. There are no European institutions to address this and there has been resistance to the creation of institutions to deal with distributive issues (Verdun 1998b). Despite these problems resistance to the idea of economic governance remains strong. The ECB is not accountable to any political institution and the concerns of European citizens over the redistributive consequences of the ECB's policy choices are not being addressed. The loss of democratic control over monetary decisions, resulting from the institutionalisation of technocratic isolation, weakens the impact of social concerns on the policy makers. No institutional framework at the European level is responsible for addressing this problem in a systematic manner.

The ECB's mandate is the maintenance of price stability, which is seen as an 'efficiency policy'. Efficiency policies can be controlled by a non-elected body, in that the mandate is a technocratic one set by the elected representatives. Yet as Verdun argues, the problem arises when the policy choices made by the ECB go beyond the efficiency realm to effect 'redistributive' policies. There is no body in the current institutional design of EMU delegated to deal with this problem if and when it arises (Verdun 1998b: 115-6).

Hall and Franzese (1998) argue that the ability of an independent central bank to meet low inflation targets with low unemployment costs is highly dependent upon flanking institutional structures. They argue that independent central banks can reach the goal of low inflation with low unemployment costs only in systems where wage bargaining coordination exists, as was the case in Germany. In systems where this coordination does not exist, independent central banks are able to reach low inflation goals only with high unemployment costs. Therefore, they argue, economic performance is deeply affected by the institutional organisation of the political economy (Hall and Franzese 1998: 525-6). EMU has no such correlating structures, and therefore will need to develop them in order to meet economic goals. Transferring and/or sharing authority and responsibility within multilevel systems reduces national autonomy and renders national institutional structures less effective.

Conclusion

The decisive movement towards an integrated and neoliberal Europe, represented by EMU, was prompted by the impact of globally intensified economic competition and the increased influence of transnational neoliberal thinkers. The economic priorities outlined in the 1992 Treaty on European Union is the institutionalisation on the EU level of neoliberal economic priorities that were already well embedded in the economic policies of the various member states. EU states have chosen to ensure the maintenance of anti-inflationary economic policies by creating a single currency and a centralised monetary authority that is less susceptible to political pressure. The decision to move toward a single currency for the EU represents a new strategy of nation states for achieving their goals of maintaining the monetary system in a context of increased uncertainty, through a redefinition of the nation state's role in economic decision-making.

The economic developments since the collapse of the Bretton Woods economic order, including the process of European integration, 'have led to a fundamental reorganization of political authority in Western Europe' (Hooghe and Marks 1999: 70). The political power of mobile capital has increased dramatically and the ability of nation

states to follow independent expansionary economic policies has been tightly constrained, as evidenced by the French experiment in the early 1980s. This weakened capacity of the nation state has influenced the decision to the shift responsibility for economic governance to the supranational realm, through the establishment of the ECB.

Although there has been significant restructuring of institutions in the European Union, the process is by no means complete. Too many areas have been left out of the integration process to allow for smooth functioning of the economic and social systems in Europe. These will become increasingly apparent in the face of future crises. The following chapter will address the consequences of this asymmetrical model of multilevel governance on social market Europe.

CHAPTER 5: SOCIAL MARKET EUROPE?

Europe has generally been known for its generous welfare state models. The notion of the European model of society has been one of social capitalism, where competition and the market mechanism are seen as important, but supplemented by a commitment to social responsibility. The early stages of integration in Europe were compatible with this model of social responsibility. Initial arguments in favour of integration posed the prospect of enhancing and expanding the social welfare model, where cooperation among nation states would lead to greater economic growth, allowing for a larger wealth foundation upon which to build a Europe-wide social welfare system.

Yet integration of the sphere of welfare has not taken place within the EU; it has been strongly resisted by the member states. European nations are facing similar pressures to transform their societies. The processes of globalisation and regionalisation are subjecting nation states to greater international competition and pressuring for increased flexibility of labour markets and welfare state institutions. Privatisation and deregulation are current trends throughout the industrialised world, as nation states succumb to these pressures. Rather than enhancing social welfare at the supranational level, interdependent economies of Europe are rationalising social welfare institutions at the national level to meet the requirements of EMU. Welfare provision still remains strictly in the hands of national governments, but the convergence criteria and the stipulations of the Stability and Growth have had an impact on the these policies..

At the same time, ideological commitments have also been recast. Governments are no longer willing to spend their way out of an economic downturn; those who try risk alienating capital as well as their trading partners. These experiences have shown that governments are no longer able to independently go against the wishes of capital. This would suggest that the only possibility to ensure commitment to social welfare is through a multilateral cooperative arrangement. Some have suggested that the EU is the ideal region for such a project, given its economic weight, its regional institutions, and its long-standing reputation as a social market system.

Many welfare state institutions and policies are increasingly viewed as the products of a previous era. During the post war period, when welfare institutions were being expanded and consolidated, the economic situation was quite different than it is now. Markets were embedded within institutional rules and national protectionist policies, and there were limitations on the free movement of capital.

With the exponential expansion of capital mobility over the past three decades, welfare states and their policies face additional pressures for restructuring. Economic policy-making has significantly altered since the late 1970s. It became clear that investment capital would not support expansionary monetary policies (once a central counter-cyclical tool for national governments to address economic downturns) as they were incompatible with competition.

Yet the pressures for welfare state and policy reform go beyond the realm of economic policy-making. Other policy areas, such as social and industrial relations, are increasingly subject to demands for restructuring. The main pressure is for the development of what are dubbed 'employment friendly' or 'investment friendly' policies, wherein businesses are exempt from their contribution to employment taxes, and the labour regime is subject to more flexible arrangements. Pressures for the most investment friendly business climate are influencing the policy options of national governments in Europe, faced with high unemployment and recession.

Despite this evident trend in state/market relations, there are those who argue that European integration represents a social market regionalisation project. Given the transformation of ideological perspectives, government competencies and monetary policy-making outlined in earlier chapters, it seems likely that the European project will be defined more by neoliberal than social market policies. These factors have shaped the reorganisation of the nation states in Europe in ways that challenge the social market model that Helleiner discusses. The shifts that took place throughout the 1980s and the 1990s, as discussed in previous chapters, clearly indicate that the social market model was under increasing pressure at the national level, had not been enhanced at the supranational level.

This poses two main questions to address. First, are the distinct welfare state traditions in Europe moving towards a lowest common denominator convergence, or are these variations being sustained? Second, is the EU retaining the commitment to a redistributive social market society through developments at the European level?

To address these questions this chapter discusses some of the areas of policy convergence and divergence, and developments at the supranational level. The first section examines the redesign of national welfare states, including policy shifts, and identifying areas of convergence and divergence. The second section looks at the development of social policy at the European level, addressing whether minimum standards can and are being established at the supranational level. The final section concludes with a reflection on what these changes mean for the future character of welfare states and social policy at national and supranational levels.

EMU: Upsetting National Systems of Social Welfare

One of the general institutional consequences of integration in Europe is the undermining of established relationships between the various social partners that led to the development of mutual expectations and stable social relations. As more policy areas are left to the market mechanism there is likely to be a decline in the effectiveness of some national institutional structures and increased instability of social relations in Europe.

This institutionalisation of monetarist economic principles in EMU seems incompatible with the expansion of social market reforms on the supranational level. Not only did this design of EMU provide credibility in the financial markets, it also provided legitimacy for governments implementing austerity policies in the domestic realm. In countries where the government faces greater pressures against economic restructuring along neoliberal lines, EMU is an important legitimising force. As Dyson argues:

> [EMU] began to be seen in more positive terms as a catalyst for necessary domestic structural reforms to labour markets, wages policy and the budget. By institutionalizing fiscal and market discipline, and forcing German policy-makers to attend to the new realities, EMU promised to speed up the process of market liberalization (2002: 175)

Instead of developing legitimacy for policy changes through the traditional European systems of corporatist bargaining, the threat of being excluded from EMU has been the trump card for member states' governments to legitimise the pursuit of unpopular austerity policies. It has been used to impose discipline on the labour market through the increase of labour flexibility, the decline of wages and social security benefits and the general deterioration of social expectations. The creation of a single monetary policy with the goal of low inflation has led to the reduction in policy options available to national governments.

At the same time the strength of unions is also undermined. The coordination of wage negotiations on the national level, and the general system of national bargaining structures had given unions power at the national level. These relationships do not exist at the European level. The union movements at the international level are still very weak and there are significant barriers, such as regional divergence in the standard of living, that act to impede the development of EU-wide networks among labour organisations.

Although that we are not seeing a homogenisation of national systems, there is convergence along restructuring trends with significant implications for the European model of society. As more policy areas are limited by the budgetary restraints required by EMU and the Stability and Growth Pact, some national institutional structures are losing their effectiveness. Institutionalised practices are being transformed under the constraints of EMU, and more policy areas become subject to marketisation. We are seeing convergence among the nation states in the EU regarding the enhanced role of market prescriptions in the determination of policy choices.

Redefining Social Welfare

Integration in Europe is not only weak in the area of social policy, but the requirements of the convergence criteria have forced member states to adopt similar restrictive economic and monetary policies leading up to the EMU agreement. The establishment of the European Central Bank (ECB) and the single monetary policy for

EMU members have further limited the policy options for nation states. This restriction of policy options has narrowed the scope for social policy arrangements in Europe.

The shifts that took place throughout the 1980s and the 1990s clearly indicate that the social market model was being reformed at the national level, increasingly influenced by market principles.This process included the deregulation of the labour market, decentralisation of negotiations, the dismantling of collective bargaining, and the end of government commitment to redistributive economic policies (Streeck and Schmitter 1991: 146-8). The privatisation of state owned industries has resulted in a reduction in the quality and accessibility of the services provided, as well as a taming of the once powerful public sector unions.

Social policy expenditures are regarded as excessive due to the arguments of economic rationalism. The exit option for employers also provides a powerful blackmail potential that further undermines the ability of unions to make demands for increased wages and social security. EMU enhances the pressure to adjust labour market rigidities, implying the general lowering of wages, security of employment, shop-floor autonomy and social benefits. Martin Rhodes in one of the theorists of EMU who argues that this disciplinary pressure can be good for European welfare states. Rhodes (2002) argues that EMU allows states to pursue wage moderation and that it provides states 'with the kind of externally-constrained domestic stability…allowing policy-makers to make sometimes long-overdue reforms in public finances and welfare programmes' (2002: 310). In general Rhodes argues that the 'extremely generous' (316) pensions and unemployment benefits have threatened the sustainability of welfare programmes, therefore requiring the reforms that EMU was able to facilitate. He also argues that the 'high social charges and wage floors have blocked the expansion of private service jobs' (Rhodes 2002: 319). The overall conclusion that Rhodes offers is that welfare programmes and wage levels throughout Europe have been far too generous, and that the reforms that can be adopted as part of the preparations and requirements for EMU are a long-overdue model to enhance the sustainability of welfare programmes.

It is certainly true that welfare programmes were facing an economic crunch due to the pressures of an aging population, requiring more pension pay-outs and health care spending. Yet the policies adopted to provide 'sustainability' are shifting the costs away from capital (through lowering payroll and employer taxes) and placing them onto the general population through increased general taxation, increased user-fees and lower benefits, leading to an increasingly asymmetrical distribution of wealth in European countries.

Despite similar trends, distinct national welfare models continue to exist throughout Europe. In some respects the existence of these distinct models has inhibited the creation supranational competence in these areas, as an agreement on which model to replicate would be hard to achieve. Yet all of these models are facing the same pressures to enhance the role of the market in determining distributive matters, and in adopting flexibility in the labour market.

Some authors (e.g. Scharpf and Schmidt 2001) have tried to assess whether policy choices regarding welfare state reform are effective in the face of the challenges brought about by the international economic environment, characterised by increased interdependence and collective vulnerability to international competition, both for goods and for investment. Scharpf and Schmidt recognise that the policy legacies of the different welfare states are now subject to the pressure to compete with other frameworks of social and industrial policy (2001: 329). All states face the same competitive imperative, yet, according to Scharpf and Schmidt, there has not been convergence around a single policy model. They argue that policies must accommodate the pressures of internationalisation to ensure a competitive welfare state model (Scharpf and Schmidt 2001: 226-7). Their analysis concludes that as long as states pursue redistribution through public expenditures, not employment policies, and taxation from non-capital incomes and consumption taxes of the non-mobile, political choices concerning the welfare state are still possible (Scharpf and Schmidt 2001: 336).

There are important concerns, though, that Scharpf and Schmidt do not address. Welfare states structures as they stand are based upon an accumulation of wealth that

began, for the most part, after the Second World War. These institutions require continuous inputs to maintain sustainability. Although these current changes may be able to sustain certain levels of social welfare in the short-term, it is doubtful that these can be feasibly sustained, economically or legitimately, by relieving capital from any responsibility to contribute to its maintenance. This is becoming more evident, and can only increase, with the escalating crisis of infrastructural and demographic pressures.

Additionally, welfare state protections, even if capital does not have to finance them, are seen as interfering with the market mechanism. Welfare protections can bolster wage and social expectations, which can increase the costs of employment or reduce employment incentives. This will lead to further competition between different welfare state models. Also, in a circumstance of economic crisis, the pressure for the privatisation of the direct assets or resources of the state will continue to undermine the public provision of welfare.

Conclusions such as those made by Scharpf and Schmidt regarding the future of welfare states are pragmatic in the assessment of what is possible in the current circumstances, given the significant limitations that cannot easily be overcome. Yet they neglect to address that, by accepting the pressures of capital to free itself from any responsibility for welfare expenditures, Scharpf and Schmidt have accepted the abandonment of one of the key original principles of the welfare state. The costs of maintaining the welfare state were to be distributed across society; without including capital in the partnership of financing these structures, an important redistributive aspect of the welfare state, redistribution between the classes, has been lost from the equation.

Scharpf and Schmidt do not comment on the potential or influence of the EU to enhance or determine minimum standards for welfare provision. Could not the EU as a whole embark upon a strategy of standardising the requirements for contributions from capital sources for welfare provisions, thereby limiting the competitive pressure for freeing capital from any such obligation? To assess the possibilities for this type of solution it is necessary to look at the developments in social policy that the EU level.

Social Policy at the EU Level

One significant impediment to Europe-wide social policy is that this provision has always been the domain of the nation states. As the institutions of the welfare state are restructuring at the national level 'their replacement by functionally equivalent European institutions is ruled out by problems of diversity and the interdependence of national economies' (Rhodes 1998: 107). Not only is there an absence of institutional frameworks to coordinate Europe-wide social policy, there has not been any transfer of funds to the EU for this task.

Although the development of significant social policy at the EU level could be a possibility if the political will was there to do so, in reality there has been little development of regional social policy in concrete terms. The institutional design of European integration has followed the pattern of what Fritz Scharpf refers to as 'negative integration'(1998). Developments in European integration have been primarily in the area of abolishing trade barriers and establishing a convergence of economic indicators. 'Positive integration', i.e. a harmonisation of social policy or the development of European competences in the realm of social welfare, has been underdeveloped, as represented by the vagueness of the Social Pact. Europe-wide standards are difficult to agree upon, due to a high degree of national divergence, and are even more difficult to enforce, given the lack of resources for a Europe-wide institution to monitor adherence.

Opposition to community-wide regulations on social and fiscal policies remain strong. The politically sensitive nature of welfare state policies has impeded the willingness to integrate these policies. Yet economic integration was forcing a *de facto* restructuring of welfare state policies along neoliberal lines, while allowing the maintenance of the appearance of national control of these policy areas. Although similar restructuring programmes were taking place across the EU, there continue to be significant structural impediments to the centralisation of fiscal and social policies. As Fritz Scharpf outlines, welfare state arrangements are very diverse across the EU: budgets are spent in different social policy areas and come from different revenue sources, and

the institutional forms of welfare states are highly heterogeneous, from universalist to corporatist (Scharpf 1997: 26).

> Under these conditions, any attempt at European harmonization would require fundamental structural and institutional changes in most of the existing national systems, and we should expect fierce conflicts over which of the institutional models should be adopted at the European level (Scharpf 1997: 26).

Despite the reluctance of states to transfer control over social policy to the supranational arena there have been some developments in community-wide social policy. Although the European Economic Community Treaty of 1957 implicitly affirmed 'that welfare would be provided by the economic growth stemming from the economics of a liberalised market and not from the regulatory and distributive capacity of public policy' (Falkner 1998: 57), there were some arrangements made for harmonisation. Equal pay for both sexes, paid holiday schemes and the creation of the European Social Fund were the first interventionist agreements on EU social policy. The issue of paid holidays was dropped, and gender pay equity was not enforced until a European Court of Justice decision in the mid-1970s (Falkner 1998: 57, 61). A further expansion of EU social policy accompanied the Single European Act. These included minimum harmonisation of health and safety standards, protection of pregnant and breastfeeding workers, young workers and migrant workers (Falkner 1998: 59, 62).

As Falkner asserts, there were also important developments towards a corporatist policy community on the supranational level (Falkner 1998: 31). At the EC summit in Paris in 1972 government leaders began to call for an increase in the participation of the social partners in EC level tripartite negotiations. Although such talks did take place between the social partners, the framework was severely underdeveloped. The European employers' association (UNICE) was unwilling to commit to any binding agreements, as they felt no pressure from the unions, which were unable to organise significant EU-wide collective action. The European Trade Union Confederation (ETUC) withdrew from the discussions, because of this lack of progress (Falkner 1998: 71-2).

During the 1980s the European Commission became the driving force promoting tripartite negotiations. The Commission pushed for a social dimension of the internal market at the Hanover Council meeting in 1988, but the Heads of State were uninterested. The Council adopted the Social Charter in 1989, but as a non-binding agreement (Falkner 1998: 65-6). During the negotiations on the Treaty for European Union the Social Charter was attached as an appendix called the Social Protocol. The Social Agreement (part of the Social Protocol) once again extended the competence of the community in social policy areas.

> These include working conditions, the information and consultation of workers, equality between men and women with regard to labour market opportunities and treatment at work,...and the integration of persons excluded from the labour market...Some issues were, however, *explicitly excluded* from the scope of minimum harmonisation under the Maastricht social policy provisions: pay, the right of association, the right to strike and the right to impose lock-outs (Falkner 1998: 81).

Another example is the European Works Council Directive (EWCD) adopted in 1996, which proposes that employees have the right to information and consultation, a concept widely supported in the EU, although not by employers. National governments blocked progress on this through veto, until the rules of qualitative majority voting subjected the proposal to a vote not requiring unanimity. The final directive allowed flexibility and a broad scope for adaptation where national factors, such as industrial relations systems and negotiations between social partners, played a significant role in shaping the outcome of the directive.

The involved process of network interaction in developing EU social regulations illustrates why social policy development has such a long gestation period and is so tentative. In order for social policies to see the light of day, social democratic impulses must be made compatible with market competition; therefore, developments in social policy in the EU are likely to remain slow and tentative (Roberts and Springer 2001).

Although these are important developments in commitment to social policy on the supranational level, these agreements did not have wide ranging impact on the conditions of workers throughout the community, and compliance with the principles was not

readily achieved. As Gerda Falkner argues 'only reluctant and incremental use was made of the Social Agreement' (Falker 1998: 147). The establishment of welfare policies at the EU level faces many problems. As discussed earlier, the TEU made no provisions for an EU body to deal with the redistributive consequences of EMU. There is no institution assigned the responsibility of initiating a response to the crisis of social welfare in the European Union, and the political will to create such an institution is non-existent. In order to create effective welfare institutions at the supranational level, member states would have to be willing to commit funds to the EU. That is highly unlikely. Instead we have seen governments stress their unwillingness to maintain current funding levels. A poignant example is the statement from Chancellor Schröder that Germany has acted for 30 years as Europe's bankroller, to the point where in 1998 it paid for 30 per cent of Europe's budget while receiving only 15 per cent of EU spending. Schröder suggested that Germany should seek to get some of its contributions back (Walker 1998: 6).

Another prerequisite for the creation of Europe-wide social welfare is the development of a strong continent-wide union organisation dedicated to the creation of such a programme. Business has generally been opposed to the extension of EU level regulatory measures, and has been better able to effectively organise on the supranational level. Without the development of a corresponding labour organisation that is able to elaborate effective supranational strategies and action to demand the creation of EU level welfare policies, it is unlikely that such welfare policies will be expanded. Furthermore, unions are unlikely to develop the means to enforce labour rights on a Europe-wide level while they are losing this battle on the national level, the only front where labour organisations currently have some strength.

The current trajectory of European integration is an expression of the dominant position of neoliberal perspective over the European project. Structures have been established that institutionalise the commitment to neoliberal austerity policies. The most powerful institution of the European Union is the ECB, which ensures the commitment to price stability regardless of the social costs.

The reason for the continued dominance of the neoliberal agenda is that the alternative projects for European integration do not have detailed elaboration in the community agreements. The agreements of the European Union outline general principles, which are only symbolic. As van Apeldoorn argues, the demands of the neomercantilist and social democratic projects for the creation of the European order are incorporated 'in such a way that these concerns are in the end subordinated to the overriding objective of neoliberal competitiveness' (van Apeldoorn 1999b: 243).

Due to the asymmetrical development of European policy competence, it is difficult to predict the future character of the European Union. There are competing visions of an integrated Europe, including neoliberal, neomecantalist, and social democratic projects. As Bastiaan van Apeldoorn has argued, 'the social democratic interpretation of Maastricht, however, has largely failed so far to materialize' (van Apeldoorn 1999b). Hooghe and Marks suggest that the definition of the new European order is still an open question:

> At this point in time…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 (Hooghe and Marks 1999: 96).

The development of the national social market in European countries was rooted in a very specific historic conjuncture. States were facing economic crisis with the breakdown of the international economic order, coupled with the political crises brought on by union and social protests in the late 1960s and early 1970s. The creation of the neocorporatist framework on the national level sought to reincorporate labour demands into policies that also facilitated the stability of capital accumulation at the national level.

The breakdown of nationally oriented stabilisation programmes in the face of pressures from increasingly mobile capital resulted in nation states losing of the ability to use reflationary monetary policies to increase employment and investment. Thus nation states were unable to maintain the stability of corporatist structures that facilitated national stability. The implementation of neoliberal policies on the national level represented the commitment to a new type of economic governance that subordinated

social market principles of redistribution in favour of market dictated economic governance. This policy direction requires legitimisation, which can be accomplished by removing the affected groups from the sympathy of the moral majority (Scharpf and Schmidt 2001: 231).

The developments on the supranational level showed that the facilitation of free trade and the consolidation of monetarist policies were institutionalised in the Single European Act and the Treaty on European Union. EMU has provided the member states with the legitimacy to continue curtailing national redistributive policies. With the ECB explicitly instructed to not yield to political pressure to alter its commitment to price stability, market forces are paramount in determining monetary policies throughout the region, which in turn impacts the options for economic policies in general.

Not only has the harmonisation of social policy been limited, and the creation of supranational institutions with the power and resources to facilitate Europe-wide social market legislation not yet occurred, there are no indications that these will develop. Demands from Lafontaine, the former German finance and economic minister, that the ECB lower its interest rates provoked hostile responses from the business and finance community, representing a general hostility to such regulatory developments. Pressure from capital against the development of social market-type regulation has been very effective. At the same time the reorientation of the trade union movement towards strategies on the supranational level has been limited. Without an effective mobilisation on the part of organised labour that leads to collective action capable of disrupting Europe-wide economic activity, which has been an important tool for realising demands at the national level, it is unlikely that labour will be able to force an incorporation of their demands into the regulation of the EU.

The evidence shows that the European regionalisation project is not enhancing the social market model outlined by Helleiner, and it seems unlikely to move in that direction without a major shift in the European political situation. Rather than institutionalising the social market model on the supranational level, EMU provides the legitimacy and the obligation for states to rationalise the social market at the national level.The development

of the neoliberal hegemony and the weakening of popular organisations have allowed nation-states to increase their independence from domestic popular pressures for economic spending. The institutionalisation of neoliberal policy goals that EMU offers is in this respect a mechanism through which states are better able to ensure policies of 'sound money'. It is clear that the trajectory of the European integration project as is stands today is strongly influenced by a neoliberal logic. The European Union will need to experience significant development of supranational institutions to administer the integration of other policy areas in order for other visions of Europe to be realised. At this point such developments seem distant in their realisation.

CHAPTER 6: CONCLUSION

The aim of this thesis has been to examine whether European integration will uphold or undermine the model of social market Europe. There are a number of factors that influence the future of social market Europe that are not simply a result of the integration process, but of international changes that took place in the course of European integration. In order to address this question this study has examined a wide range of literature that addresses the transformation that has taken place over the past three decades in Europe. I have used sources and theories that offer important insights into various aspects of the process of European integration.

Although the thesis was not based upon extensive empirical research, the focus on the transformation of ideologies and institutional structures at both the national and supranational levels has offered insight into the impact that these changes have on the reform of social market Europe and its future. The altered political expectations and governance structures in the EU present common pressures and institutional structures that impact on national models of social welfare. There are also significant limitations to the development of extensive social market regulations at the EU level. This conclusion revisits some of the points that addressed in the thesis.

Theoretical Tools

First, Chapter Two outlines the theoretical traditions of European integration theory and how these have changed over time, to reflect the changes in the dynamic process they were theorising. This has shown that the most relevant theories are those that are intricately linked with the development of the process they address. Recent theories that identify other trends, such as globalisation, transnationalism, and multilevel governance, which assist in understanding the current developments in European integration are also discussed.

This chapter also examines critical theories, such as constructivism, that provide a useful tool for conceiving of social ontologies as socially and historically produced. In this sense, critical theories highlights the importance of the contextualisation of political

and social processes, as well as focussing our attention on the political struggle and social purpose bound up in societal transformation.

This highlights the relevance of the agency and structure debate. When structures are challenged by new economic and social conditions, social agents are better positioned to intervene and redefine the structures. Agents who are aware of the specific contexts under which structures are created are better able to challenge effectively those structures. Therefore, effective social and political actors are those that understand how the factors that lead to the creation of specific institutions have changed over time. Crises open up 'policy windows' (Checkel 1999) where organised political or social agents can effectively alter social structures. These theories provided insight into how key moments, such as the crisis of the 1970s, can lead to the development of new paradigms for social relations and economic policies.

The Imperative for Restructuring

Chapter Three addresses the transformation of nation states during the economic and political crises of the 1970s. The breakdown of nationally oriented stabilisation programmes in the face of pressures from increasingly mobile capital resulted in nation states' losing the ability to use reflationary monetary policies to increase employment and investment. Thus nation states were unable to maintain the stability of corporatist structures that facilitated national stability. The crisis of the Keynesian model and of national corporatism opened up a policy window that was utilised by those actors politically committed to economic and trade liberalisation and 'sound money' solutions. The implementation of neoliberal policies on the national level represented the commitment to a new type of socio-economic governance that rejected many social market principles of redistribution in favour of market driven economic governance.

This new hegemony has become increasingly consolidated over the past decade; neoliberalism has become increasingly dominant in the ideological realm and better placed in both transnational and national institutions to enhance its political influence. Margaret Thatcher's claim that 'there is no alternative' seems even truer today, as this

type of monetary policy-making is not challenged by a comprehensive alternative economic scheme that addresses current economic conditions. The impact of globally intensified economic competition and the rise of transnational neoliberal ideologues prompted the decisive movement towards economic integration and free trade in Europe, represented by SEA and EMU.

Institutional Transformation

Chapter Four is focussed on the institutional developments in the EU. The paramount importance of EMU in advancing continental integration is an expression of the dominant position of the neoliberal perspective over the European project. EMU is a product of the convergence of neoliberal policy choices and economic imperatives identified by the governments of member states, transnational capital, and supranational institutions. This change in monetary and fiscal policy frameworks at the national level lessened the divergences among member states and was a prerequisite to moving toward monetary union. The economic priorities outlined in the 1992 Treaty on European Union is the institutionalisation at the EU level of economic priorities that were already well embedded in the economic policies of the various member states.

EU states have chosen to ensure the maintenance of anti-inflationary economic policies by creating a single currency and a centralised monetary authority that is less susceptible to political pressure. The developments on the supranational level show that the facilitation of free trade and the consolidation of monetarist policies are institutionalised in the Single European Act and the Treaty on European Union. The decision to shift responsibility for economic governance to the supranational realm in the move toward a single currency for the EU represents a new economic strategy of nation states. Through redefining the nation state's role in economic decision-making, states aim to achieve their goal of maintaining the money system in a context of increased uncertainty. Supranational structures have been established that institutionalise the commitment to neoliberal austerity policies. The economic developments since the collapse of the Bretton Woods economic order, including the process of European

integration, 'have led to a fundamental reorganisation of political authority in Western Europe' (Hooghe and Marks 1999: 70). This transformation of separating economic decisions from political governance has provided the member states with the legitimacy to continue the dismantling of national redistributive policies. With the European Central Bank explicitly instructed not to yield to political pressure to alter its commitment to price stability, market forces are paramount in determining economic policies throughout the region.

Social Market Europe?

Chapter Five discusses the impact of these institutional changes on the possibilities for social market Europe, looking at how national systems have been transformed and the developments that have been made at the supranational level. The reason for the continued dominance of the neoliberal agenda is that the alternative projects for European integration do not have detailed elaboration in the Community agreements. No supranational institution has been developed with the responsibility of addressing the distributional consequences of European integration. The agreements of the European Union concerning social standards outline general principles, which are only symbolic. As van Apeldoorn argues, the demands of the neomercantilist and social democratic projects for the creation of the European order are incorporated 'in such a way that these concerns are in the end subordinated to the overriding objective of neoliberal competitiveness' (van Apeldoorn 1999b: 243).

At the same time, national welfare systems are facing increased pressure for reform. Economic and demographic pressures are forcing nation states to look into privatisation and other reforms that ease the cost of both governments and employers. The requirements of reducing deficits and debt in order to meet the criteria for EMU participation allowed many governments to pursue unpopular reforms. The permissive consensus of European integration has allowed for the imposition of sacrifices on labour and other social groups, who hope to see an improvement in their economic positions through EMU.

Conclusions

In order to thoroughly assess the potential future of social market Europe, a detailed analysis of the relationship of forces in each member state is necessary. This thesis identifies some of the common factors that have an impact on welfare systems throughout the EU. Yet each member state has different institutional and social systems that impact on the outcome of reforms that are responses to these pressures. For example, the role of social democratic parties in government in the late 1990s is particularly instructive, both in terms of illustrating the general trend towards economic liberalisation as well as the specific, embedded ways in which this is expressed. Of special interest would be to compare the record of two key EU countries with social democratic governments, Germany and France, which have, within a broader adherence to neoliberal imperatives, substantial differences in how they relate to the pressures of civil society allies and opponents.

It is also important to examine further how the potential for social market regulations at the supranational level may develop. The veto that was once forthrightly exercised by Britain regarding social policy regulations is no longer an institutional impediment to such developments in a limited range of areas. At the same time the resources and political will required to give increased competence over welfare policies to the EU governance structures are currently not present.

These are some of the important processes identified in this thesis that need to be watched closely as they develop. European integration provides a unique lens with which to observe both the process of neoliberal globalisation and regionalisation as well as the divergences born of embedded social systems and continued national tensions.

The material addressed throughout the thesis points to the conclusion that the developments in European integration have weakened the social market model that has been identified as a key feature of continental Europe. Although there is potential for the development of stronger social regulation and protection at the European level, progress in this area has been slow and has had limited impact, especially when compared with the

extensive impact of EMU in advancing neoliberal objectives. Rather than institutionalising the social market model on the supranational level (one of the greatest fears of Margaret Thatcher) European integration, and EMU in particular, provides the obligation and legitimacy for the reduction of the redistributive aspects of the social market at the national level. At the same time EMU offers nation states the opportunity to redirect blame for the consequences of these changes onto the imperatives of supranational institutions. Significant development at the supranational level would need to take place to reverse these trends. Neither the political will nor popular pressure is there to effectively defend, let alone extend social market Europe.

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VITA

Surname: Wylie Given Names: Lloy Amber Christine

Place of Birth: Edmonton, Alberta, Canada

Educational Institutions Attended:

University of Victoria	1997-2002
Simon Fraser University	1992-1996

Degrees Awarded:

B.A.	Simon Fraser University	1996

Publications:

"Chapter 5: EMU: A Neoliberal Construction" in Amy Verdun (ed.) *The Euro: European Integration Theory and Economic and Monetary Union.* Boulder, CO: Rowman and Littlefield, 2002, pp. 69-89.

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Lloy Amber Wylie

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