

## Europeanization and the Mechanics of Economic Policy Adjustment

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### Keywords

europeanization, comparative public policy, economic policy, sectoral governance, globalization, France, U.K., Germany, political science

### Abstract

To explain divergence in member-state policy adjustment in response to the economic pressures of globalization and Europeanization (distinguished from European integration as the impact of EU level decisions on national level policies and institutions), this paper identifies five mediating factors: economic vulnerability, political institutional capacity, policy legacies, policy preferences, and discourse. In addition to these factors, it outlines four institutional adjustment pressures, including when an EU model is required, recommended, suggested, or not, to help explain the differential outcomes to Europeanization, whether policy inertia, absorption, or transformation. To illustrate, it focuses on the policy responses of three countries, France, Britain, and Germany, in such sectors as monetary policy, financial services, telecommunications, electricity, transport, the environment, and employment.

### Kurzfassung

Dieses Paper bestimmt fünf vermittelnde Faktoren, welche Abweichungen mitgliedstaatlicher Politikanpassung als Antwort auf den ökonomischen Druck der Globalisierung und Europäisierung (im Unterschied zu europäischer Integration, verstanden als Einfluß von Entscheidungen der EU-Ebene auf Politiken und Institutionen auf nationaler Ebene) erklären: ökonomische Verwundbarkeit, politisch-institutionelle Kapazität, politische Altlasten, Politikpräferenzen und Diskurs. Zusätzlich zu diesen Faktoren werden vier institutionelle Anpassungszwänge ausgeleuchtet: wenn ein EU-Modell nötig ist, wenn es empfohlen ist, wenn es vorgeschlagen ist, bzw. wenn dies nicht der Fall ist. Dies soll zu einer Erklärung der unterschiedlichen Ergebnisse der Europäisierung, nämlich Politikträchtigkeit, Übernahme oder Transformation, beitragen. Zur Illustration liegt der Schwerpunkt auf den Politikreaktionen dreier Länder (Frankreich, Großbritannien und Deutschland) in Sektoren wie Geldpolitik, Finanzdienstleistungen, Telekommunikation, Elektrizität, Transport, Umwelt und Arbeit.


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## 1 Introduction

Since the mid- 1980s, the process of European integration has produced dramatic policy changes in the member-states of the European Union. The EU has gone way beyond any other set of supranational trade associations in opening up its members to the economic pressures of globalization even as it has protected against them through convergence in monetary policy and coordinated liberalization in industrial policy. Moreover, it has done this through a vast array of rules and rulings that go way beyond any other international or regional economic authority with regard to the institutional adjustments demanded of its member-states. And it has been driven by ideas related to a common political project for economic liberalization which have been much more compelling than those of any other regional grouping of countries in the world, and which have served as a complement to the liberalizing ideas related to globalization.

This is not to suggest, however, that European member-states are therefore all converging on a single liberalized policy regime, led by the EU. Much the contrary. To begin with, European policies have tended to follow national policy responses to globalization as much as lead them, with national policies having shaped those of the EU as often as EU policies have shaped those of its member-states. Moreover, despite EU policies that tend to push all member-states in the same general direction, national economic policy adjustment remains nationally specific and path dependent. Countries have responded to the pressures of Europeanization as they have to those of globalization at different times to differing degrees with different results.

Given such differences, one cannot make any simple generalizations about the impact of Europeanization or globalization on EU member-states. One can, however, explain the differential outcomes by reference to a number of intervening variables. These encompass, first of all, certain mediating factors that shed light on when, how, and why countries altered their policies. These include

countries' vulnerability to global and European economic forces, their political institutional capacity to alter their policies and policymaking institutions as necessary, the extent to which the proposed policies went against their policy legacies and preferences, and the discourse that may have enhanced their capacity to respond by changing perceptions of vulnerabilities and legacies and ultimately, therefore, preferences. The mediating factors alone, however, are not alone enough to understand the mechanics of adjustment in specific policy sectors. For this, we need to consider further variables, including the adjustment pressures from EU decisions, that is, how constraining those decisions are on member-states because the EU requires, recommends, suggests, or not, a particular model of implementation; and the adjustment mechanisms tied to those pressures, that is, whether the processes of adjustment involve coercion because the model is required, adaptation because the model is recommended, mimesis because the model is only suggested, or regulatory competition because barriers to trade are simply removed, without any model proposed. Only with these additional variables, considered together with the mediating factors, can we hope to explain countries' differential policy outcomes in response to EU decisions over the course of the 1980s and 1990s in different policy sectors. These ran the gamut from inertia because of resistance to EU decisions, to absorption because such decisions resulted in minimal policy change, to transformation because such decisions resulted in radical policy change.

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In its effort to provide a systematic account of the main variables involved in economic policy adjustment across a full range of policy sectors, the paper builds on the sector-specific work of scholars of comparative public policy. To illustrate, it focuses on the policy responses of three countries: France, Britain, and Germany. To develop its arguments, the paper first considers Europeanization and its relationship to globalization as well as to European integration. Then, after a brief definitional section on the intervening variables involved in policy adjustment, it explores the mechanics of adjustment in such sectors as monetary policy, financial services, telecommunications, electricity, transport, the environment, and employment, to elucidate how general EU adjustment pressures and adjustment mechanisms interact with the mediating factors to produce different outcomes in different policy sectors.

The paper demonstrates that while Britain, Germany, and France differ in their responses to the pressures of globalization and Europeanization across sectors, certain patterns nevertheless emerge. Britain, having felt the economic pressures of globalization early and transformed its policies in response, anticipated many of institutional as well as economic pressures of Europeanization and subsequently absorbed most of the policy changes related to EU decisions. Germany, having felt the economic pressures of globalization and Europeanization late, responded first with inertia to EU decisions but ultimately transformed itself in most policy sectors. France, finally, having felt the economic pressures of globalization as early as Britain, transformed itself early in some sectors with policies that then led EU decision-making but responded late and with inertia to EU decisions in a number of other sectors.

## 2 Europeanization, European Integration, and Globalization <sup>↑</sup>

Before discussing the dynamics and mechanics of economic policy adjustment, it is necessary to define our terms. Globalization is perhaps the most controversial of these terms, given the wide discrepancies in views of its sources, reach, and impact on countries' policy choices. But there is no need here to go into the debates over globalization (see Busch 2000; Weiss 1999; Rhodes 1996), since we seek only to make note of the pressures. And over these, there is comparatively little controversy. The economic pressures from globalization are related to the increasing internationalization of the financial markets and the rapid expansion of international trade, with the concomitant rise in importance of institutional

investors and multinational corporations (Cerny 1994; Cerny 1995; Helleiner 1994; Boyer and Drache 1996; Doremus et al. 1998). The institutional pressures come from the growing number of rules and rulings of supranational governance organizations and collective actors which increasingly operate in place of or in coordination with national governments (Vogel 1996; Strange 1996; Kapstein 1994; Helleiner 1994). And the pressures of ideas come from the economic and institutional pressures of globalization being presented as imperatives for change (Hay and Watson 1998; Weiss 1997; Zysman 1996). Moreover, whether scholars privilege economics, institutions, or ideas in their explanation of change, and whether they see globalization as a threat or opportunity, as a driving force or as a tool for internally-driven forces, most tend to agree that the countries' responses to globalization have involved changes in policies, mainly through monetarism, deregulation, and privatization; in practices, through greater emphasis on firm profits and labor flexibility; and in politics, with changes in interest coalitions, party positions, public opinion, and public discourse.

But if globalization can be defined most simply and broadly as a set of international economic, institutional, and ideational forces for change affecting national policies, practices, and politics, then Europeanization can be defined equally simply and broadly as a set of regional economic, institutional, and ideational forces for change also affecting national policies, practices, and politics. What this means is not so simple, however, given the complex set of interrelationships between globalization, Europeanization, and European integration.

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It is important for purposes of clarity first of all to distinguish Europeanization from European integration as a way of highlighting two separate aspects of one intertwined phenomenon. I define European integration as the process of EEC/EC/EU construction and policy-formulation by a wide range of actors—representative of governmental as well as non-governmental entities, of member-states as well as of the EU—engaged in decision-making at the EU level. Such decision-making, including both the EU level process and its outcomes, generates the economic, institutional, and ideational forces for change in member-states' policies, practices, and politics which I term Europeanization.<sup>(1)</sup> As such, whereas European integration can be pictured with vertical arrows going up from the member-states to the EU, along with horizontal arrows at the EU level representing the complex EU decision-making processes among actors, Europeanization can be pictured as consisting of vertical arrows going down from the EU to member-states, with a feedback loop into the vertical arrows going up, as member-state responses to Europeanization affect their further positions on EU level decision-making (see Figure 1).

### Figure 1

Thus, my focus in terms of the literature is not on the “ontological” debates on European integration of intergovernmentalists and supranationalists who disagree over the evolution of the balance of power at the European level but rather on the “post-ontological” issues (Caporaso 1996) related to the impact of European integration on the national level, whatever the evolving balance of power. Moreover, within the context of Europeanization, since my topic is restricted to the impact of EU economic policies on national economic policies and policymaking, I do not have room to explore other aspects of Europeanization, in particular the impact of the EU on “polity” (see Morlino 1999) rather than policy, that is, how EU governance structures affect national ones (Mény, Muller, and Quermonne 1996; Schmidt 1999a; Rometsch and Wessels 1996; Marks et al. 1996); how EU policymaking processes impinge on national ones (Schmidt 1999b; Kohler-Koch and Eising 1999); how national administrations have responded to EU membership (Harmsen, 1999); how political parties have shifted in response to the EU (Ladrech and Marlière 1999; Morlino 1999); and how national interest group activity has altered in response to EU interest intermediation (Cowles 2001; Coen 1997).

But before developing the discussion of national economic adjustment to Europeanization further, it is necessary to elaborate on the relationship between Europeanization and globalization. Most importantly, one cannot say that Europeanization has principally been a regional variant of globalization, even if one can say that it has been the most advanced such variant. For although the developments related to Europeanization meet if not surpass the ideas and ideals of globalization for the progressive opening of capital and product markets, these developments are also part of a complex set of regional dynamics accompanying, but not subsumable under, the set of international dynamics related to globalization.

To begin with, the ideas behind EU member-states' support for the renewed push for European integration in the mid 1980s, which came around the same time as the intensification of globalization pressures, differed greatly, and were often separable from the ideas or ideals attached to globalization (Ross 1998). Moreover, the policies implemented did not necessarily follow from the liberalizing global ideas of the moment, since they were grounded in earlier European ideas about integration, e.g., the completing of the Single Market and monetary union which were broached in 1969 at the Hague Summit in order to carry out the "finalities" of the Rome Treaties. And yet Europeanization, despite being the unintended, path-dependent product of strategic choices meant to confront problems which had little or nothing to do with globalization, has nonetheless ensured that globalization has been more pronounced in Europe than elsewhere (Ross 1998, p. 175).

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This does not mean, however, that Europeanization is simply a regional extension of globalization. Much the contrary, because Europeanization has represented a regional foil to globalization as much as a regional variant of it. In the monetary and industrial policy arenas, Europeanization has not just been a force accompanying globalization, by adding a layer of Europe-specific financial market pressures and a set of Europe-generated competitive challenges. It has also served to contain globalization by reducing European member-states' exposure to the currency markets through the European Monetary System (EMS) and then the European Monetary Union (EMU), by improving European member-states' competitiveness in global markets through the discipline of monetary integration and the economies of scale afforded by the Single European Market, and by providing protection through the common agricultural policy (CAP), anti-dumping measures, and common industrial policies.

Social policy is another matter, however. Here, in the absence of common policies, European member-states have been left to cope largely on their own with social security deficits, unemployment, and/or poverty in a climate of budgetary austerity (Leibfried and Pierson 1995, p. 74). Moreover, while EMU has added to the constraints generated by globalization through the even greater demands for budgetary austerity (A. Martin 1997; Pierson 1997), the "negative integration" represented by liberalization and deregulation may act as a source of regulatory competition among member-states in the absence of significant "positive integration" related to European level social regulation, as pressures mount for reductions in such things as payroll taxes and labor protections in order to increase countries' attractiveness to investors and firms' competitiveness (Scharpf 1996; 1997; 2000a).

### 3 The Mechanics of Policy Adjustment

Countries have felt the economic constraints of globalization and Europeanization to varying degrees at differing moments, and have responded at different times to differing effects, depending upon five main mediating factors: economic vulnerabilities, institutional capacities, policy legacies, policy preferences, and discourse (see [Table 1](#)). Within particular policy sectors, moreover, additional institutional constraints related to Europeanization are also at play, including four different kinds of adjustment pressures and adjustment mechanisms. Such constraints are related to whether an EU

decision proffers a required model, a recommended model, a suggested model, or no model at all. And these in turn entail different adjustment mechanisms, that is, whether change in member-states follows respectively from processes of coercion, adaptation, mimesis, or regulatory competition. In the end, such adjustment pressures and mechanisms, considered in conjunction with the mediating factors, may lead not only to differential losses of autonomy and control but also to differential outcomes, that is, whether member-states' responses in a given policy sector are characterized by inertia, absorption, or transformation, and differing amounts of sectoral convergence.

### 3.1 The Intervening Variables

Of the five mediating factors that help explain countries' responses to the pressures of globalization and Europeanization, economic vulnerability is probably the most straightforward.<sup>(2)</sup> Countries generally tend to be more open to policy change when they are faced with economic crisis, that is, when recessionary pressures hit and business investment lags, competitiveness decreases, unemployment rises, and consumption declines. Even without crisis, however, they may be open to change depending upon the extent to which they find themselves vulnerable to the pressures from increasing competition in the capital and product markets, with some countries more vulnerable than others depending upon the strength of their currencies, the size of their financial markets, and the scope of their businesses (Scharpf 2000b).

Table 1

Economic vulnerability is not the only variable to consider, though. After all, in much of the postwar period, smaller countries, which by their very nature have been more vulnerable to international economic pressures, proved themselves in many cases better able to adapt than some of the larger countries, mainly because of their political institutional capacity (Katzenstein 1985). Capacity to adjust to the new international environment depends primarily upon the political interactions and institutional arrangements that affect principal policy actors' ability to impose and/or negotiate reform. This is related to the political powers of principal policy actors—based on party politics, elections, interest coalitions, and the like—as they play themselves out within different institutional contexts, that is, in political systems with few veto points on executive leadership or many, where “veto-players” facilitate or constrain reform efforts (Tsibelis 1995; Scharpf 1997b). More specifically, in “single-actor systems” such as France and Britain, as unitary states with a concentration of power in the executive and “statist” policymaking processes that allow the executive to formulate policy largely absent societal interest intermediation, a restricted group of primarily governmental policy actors have the capacity to impose their decisions—subject, however, to electoral sanctions and protest in the streets (in particular in France) (Schmidt 1996). By contrast, in “multi-actor systems” such as Germany, as a federal state with a diffusion of power among different branches and levels of government and “corporatist” policymaking processes that include the social partners and the Länder in decision-making, the executive cannot impose, and therefore must negotiate with a wide range of policy actors. The ability to impose or negotiate reform in turn may depend upon a variety of other elements. These include the resources of domestic actors, whether material, informational, legal, or other, that enhance actors' capacity to act; policy learning from past mistakes; culturally grounded patterns of interaction; and collective understandings making up national decision-making or policy styles, whether conflictual or cooperative (Scharpf, Schmidt, Vad 1998; Hemerijck and Martin Schludi 2000). Ability to implement the decisions once taken is another matter, not dealt with here, but also part of political institutional capacity (see Duina and Blithe 1999).

Political institutional capacity, however, is a necessary but generally not a sufficient condition for predicting a country's ability to generate adequate policy responses to globalization. This is because

countries' policy legacies have made it easier or harder for them to adopt and adapt to liberalizing reforms while their policy preferences have made them more or less amenable to such reform. Policy legacies involve questions of "fit," that is, whether a country's long-standing policies and policymaking institutions are compatible with the new, whether in terms of the substantive content of policies or the regulatory structures and processes.<sup>(3)</sup> Where little change in existing policies or policymaking institutions is required, political institutional capacity to adjust is barely at issue. But where a major transformation is demanded, political institutional capacity is of the essence, either to impose or negotiate change. But even this is not enough.

Much also depends upon how readily principal policy actors and/or the public are able to countenance reform, that is, how strongly they hold to their traditional policy preferences and/or how readily they embraced new ones. The preferences themselves may be primarily a question of interests, and especially those of well-entrenched interests against newly-formed coalitions whose interactions are analyzable through rational choice institutionalism and game theory (Scharpf 1997). But they are likely also to be based on certain shared cognitive and normative structures, that is, supported by ideas about the necessity of particular policies and beliefs about their appropriateness (March and Olsen 1989) and therefore interpretable through sociological institutionalism.

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One question remains: How do we explain change in preferences? The answer brings us back to questions of economic vulnerability, with economic crisis a spur to reform. But it also takes us forward, to the politics of adjustment, and in particular the discourses that may serve to enhance policy actors' capacity to impose or negotiate reform by altering perceptions of economic vulnerabilities and policy legacies and, thereby, policy preferences. The discourse serves to alter preferences through cognitive arguments about the logic and necessity of new policies in the face of the failures of previous policies and through normative appeal to values (either on-going or newly-emerging) that suggest why the new policies are not only sound but appropriate. This ideational component of discourse, moreover, is joined by an interactive one, since discourse serves relevant policy actors as the means not only to coordinate the construction of a new policy program but also then to communicate it to the general public. It is this interactive component of discourse that serves to enhance political institutional capacity, by contributing in single-actors systems to the executive's ability to gain public acquiescence for decisions that it imposes and in multi-actor systems, to principal policy actors' ability to reach agreement for decisions they negotiate (see Schmidt 2000a, 2000b).

This last variable is different from the others, since discourse cannot be readily separated from the preferences which find expression through it or from the cognitive and normative structures that shape its perceptions of economic vulnerabilities or policy legacies. While discourse may serve to change perceptions and preferences, through the reconceptualization of interests and the reframing of cognitive and normative structures, it may instead merely reinforce them. Discourse, in other words, sometimes matters and sometimes does not, sometimes exerting a causal influence on policy change, sometimes not (see Schmidt 2001, n/a). This is very much the case for discourses linked to globalization as well as Europeanization, both of which have often but certainly not always been a powerful ideational force for change, sometimes tipping the balance in favor of interest coalitions seeking to alter the policies of a given sector.

When explaining the differential effects of Europeanization on EU member-states in specific policy sectors, however, other variables must be considered in conjunction with these mediating factors. This is because Europeanization as an institutional force has exerted different adjustment pressures on member-states depending upon how constraining the decisions taken at the EU level have been in their implementation at the national level (however they were arrived at).<sup>(4)</sup>

To begin with, the adjustment pressures differ according to the degree of constraint related to an EU decision, that is, whether it requires member-states to apply an elaborated EU model to a given policy sector; if instead the model is recommended and can be adapted in the transposition into national law; if the model is merely suggested and member-states are free to imitate as they see fit; or if barriers to trade are simply lifted without any model at all to follow.<sup>(5)</sup> Depending upon the degree of constraint in adjustment pressures, the adjustment mechanisms for member-states may be potentially ones of coercion, adaptation, mimesis, or regulatory competition (see Radaelli (2000a; 2000b)).

The adjustment mechanism is potentially one of coercion where the pressures for convergence are high since member-states must comply in all ways to the EU model; adaptation, where member-states have some lee-way in the implementation of the EU model and some divergence in regulatory regime is allowed; mimesis, where member-states can choose to follow the EU example, whether closely, loosely, or not at all, and pressures for convergence are low; or regulatory competition, where member-states need not change anything, since no policy constraints are imposed and there are no direct pressures for convergence, even if there may be indirect ones (resulting from competition) (see [Table 2](#)). Potential adjustment pressure, however, is different from actual pressure, and any one model may in practice be linked to any one of the adjustment mechanisms in any given case. This is because even if a model is required, it may not be experienced as coercive to a member-state for which it fits policy legacies and preferences, while even a suggested model may seem coercive to a member-state that feels pressured to conform, if only by the force of ideas. Similarly, moreover, whereas mimesis can occur even with required or recommended models, as countries search for solutions to regulatory requirements and recommendations, even regulatory competition may exert pressures for convergence when domestic actors feel empowered to press for national regulatory change.

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### Table 2

In different policy sectors, moreover, as a result of the mediating factors discussed above, one can differentiate among three kinds of outcomes in response to the pressures of Europeanization (Héritier 2000a; Cowles, Caporaso, and Risse 2001; Börzel 1999; Radaelli 2000a). Inertia, that is, slowness or resistance to change, appears where actors feel little economic pressures to change, see little “fit” in terms of long-standing policies or policymaking institutions, would prefer not to change, have little capacity to negotiate or impose change, and/or have no discourse that could persuade of the necessity and appropriateness of change. With inertia, policy legacies and preferences are maintained at the price of adjustment. Absorption is when accommodation occurs without significant change, given a good “fit” with national policy legacies and preferences as well as institutional capabilities for adaptation (see Héritier 2000).<sup>(6)</sup> Here, policy legacies and preferences are maintained at virtually no cost at all, and neither politics nor economics are at issue. Transformation is when changes occur that reverse policy legacies and go against traditional policy preferences, which often assumes significant economic vulnerability and political institutional capacity, which in turn presupposes a transformative discourse. Only here is the price of adjustment the end of policy legacies and preferences (see Figure 2).

### Figure 2

Complicating this picture is the question of how differences in the kinds of constraints EU decisions place on implementation also interact with the mediating factors to influence these outcomes and even alter the expected adjustment mechanisms. But for this, it is necessary to look more closely at the different EU decision constraints.

## **3.2 The Mechanics of Adjustment to a Required EU Model**



Generally speaking, the potential convergence to the same sets of policies and policymaking institutions is highest and the adjustment mechanism coercion where member-states must conform to an EU model for a given policy sector. However, the actual outcome is mediated by the factors discussed above. Moreover, coercion is not always present and transformation and convergence not always the end result, given absorption for some and inertia for others, whether through opt-outs or failure to comply.

In European monetary integration, for example, although convergence is potentially very high and the adjustment mechanism in principal coercion—given that with EMU all countries participating are required not only to meet the macroeconomic targets related to public deficits, debt, and inflation rates but also to bring their macroeconomic management systems in conformity, in particular with regard to the independence of the central bank—the actual outcome varies. Here, the political institutional capacity to change has not been so much at issue. Not only has monetary policymaking tended to be the exclusive purview of the state or state-delegated bodies, with government capacity to impose change generally higher than in most other policy areas, but in most countries by the 1980s it had been “captured” by a highly restricted policy elite dedicated to monetarism (Dyson and Featherstone 1999). But vulnerability to intensifying global economic pressures was an issue, although it was greater for some member-states than others, given very different levels of exposure to the currency markets as well as very different macroeconomic management systems—some of which worked better than others in a rapidly internationalizing economic environment. The decision to join the European Monetary System in 1979 and later the European Monetary Union, with all that this meant in terms of changes in monetary policies and institutions, however, was more difficult for some countries than others, depending upon questions of “fit” in terms of policy legacies and preferences and the ability of the discourse to persuade policy elites and/or the general public of the necessity and appropriateness of changes in monetary policies and institutions to promote monetary integration.

In Germany, economic vulnerability was not much of an issue until the 1990s, mainly because of the success of the Bundesbank’s early turn to monetarism in 1974 in response to the country’s vulnerability to global economic pressures. This fit with the Bundesbank’s traditional preference for stability above all else and with its legacy of policies focused on combating inflation first and foremost, even if this meant risking rising unemployment. But the switch to monetarism worked only because of the political institutional capacity of the social partners to deliver on wage moderation (Scharpf 2000, pp. 32-33, 45-46). Moreover, it set Germany up not just as the lead economy in Europe but as the preferred model for European monetary policy—enabling it largely to absorb any further policy change related to the European Monetary System beginning in 1979 and to the run-up to EMU beginning in 1992 without any sense of coercion (McNamara 1998; Thiel and Schroeder 1998). The advent of the euro, however, has brought transformation with the loss of the national currency and the transfer of responsibility for monetary policy to the European Central Bank; and this has presented difficulties in the discourse, given public concerns about the loss of the Deutschmark, one of the closest things to a symbol of national sovereignty in Germany (Schmidt 1997).

In Britain, economic vulnerability to global forces was even higher than that of Germany in the early 1970s, but the country responded later, with the turn to monetarism in 1979 following the lead of the Federal Reserve Bank and the example of the Bundesbank. Although this went against the policy legacies of neo-Keynesianism, it fit with policy preferences for a strong pound as an international reserve currency. By joining the European Monetary System but not the Exchange Rate Mechanism (ERM) in 1979 and then opting out of EMU, moreover, Britain managed to avoid any coercion related to European monetary integration with the exception of its brief (and disastrous) foray into the ERM between 1990 and 1992 (Artis 1998)—although Blair has kept his options open to opt back in by, among other things, setting the Bank of England on the path to independence. This inertia with regard to

European monetary integration, however, has meant that Britain has maintained its policy legacies and preferences at the price of adjustment. The inertia itself stems not only from the fact that policy elites remain divided over whether European monetary integration would make Britain more or less economically vulnerable to globalization. It is also because they are paralyzed by the lack of a persuasive public discourse capable of convincing the public (and even more importantly the media) not just of the necessity of change but even more importantly of its appropriateness, given concerns about encroachments on national sovereignty (see Schmidt 1997; 2000c).

In France, finally, economic vulnerability to globalization in the early 1970s was almost as high as that of Britain. But although the country made an early and full commitment to European monetary integration by joining the EMS in 1979, the country turned to monetarism even later, in 1983, and in response not just to global economic forces but also to the institutional constraints imposed by the EMS (Schmidt 1996). This delay in moving to monetarism can be explained by the government's reluctance to reverse policy preferences and legacies involving neo-Keynesian policies and the state-controlled macroeconomic system of credit allocation. Once the government decided it had no other choice if it wished to remain in the EMS,<sup>(7)</sup> however, it was able to transform its policies and policymaking institutions quickly, aided by its political institutional capacity to impose change along with a persuasive discourse about its necessity (Schmidt 2001). France, in short, underwent a transformation in monetary policy in response to the pressures from Europe's required model of monetary integration as well as from globalization, whereas Germany absorbed all aspects of the European model without experiencing constraints except for the very last phase and Britain mainly responded with inertia throughout.

Another example of the impact of the EU required model, albeit in a domain outside our immediate subject of study, is in the environmental policy arena, where convergence has also been potentially high for the wide range of environmental protection regulations requiring conformity from member-states in policies and/or procedures, although again the outcomes vary. For instance, both France and Britain (initially) responded with inertia to the 1980 Water Directive, where the EU prescribed uniform standards and formal, legalistic patterns of interest intermediation. In France, this was because the new EU rules went against the traditional higher level civil servants' administrative discretion in implementation and, thus, against the legacies of its policymaking institutions; in Britain, similarly, because it went against its own legacies of industry self-regulation—until the British government changed its policy preferences with regard to the water industry, and transformed the regulatory system to follow the EU model as it privatized the water industry. Germany, by contrast, responded with absorption to the Water Directive, given that the EU's prescribed legalistic and interventionist patterns fit with its policy legacies, although its demand for higher water quality standards, which conflicted with the preferences of some groups (polluters) but was in keeping with those of others (water providers and environmental associations), meant that it took government some time to negotiate (see Knill and Lenschow 1998; Knill 1998; Knill and Lehmkuhl 1999).

Fit with policy legacies or preferences, however, is not always sufficient to predict the results. This is because adjustment capacity is also a major mediating factor, with principal policy actors' ability to impose or negotiate reform often determining the outcome, whether or not an EU decision is compatible with long-standing policies or preferences. In the Waste Packaging Directive, for example, where the EU also prescribed relatively high, uniform environmental protection objectives and formal, legalistic patterns of interest intermediation, the "misfit" with British policy legacies and preferences for self-regulation and low standards did not stop the transformation of the sector. This was mainly because the British government, intent on guaranteeing the free movement of goods and in favor of harmonization, was not only willing to go against its traditional preferences, it was also able to impose an innovative set of changes in conformity with the EU model that industry was unable to stop—given

a unitary, statist system in which societal actors are weak and government strong. In Germany, by contrast, where the EU model seemingly fit with long-standing German policy legacies, since it required an equally legalistic approach which did not challenge the regulatory style, inertia rather than absorption was the result. This was mainly because the larger number of actors with a say in decision-making in the country's federal, corporatist system were able to resist the much more minimal Europe-led changes—and no amount of government discourse focused on the necessity of conforming to EU decisions could persuade them of the appropriateness of watering-down the higher German environmental protection targets (Haverland 1999). In this case as in others, in short, even where an EU model is required, convergence in policies and policymaking institutions is not always assured, with some modicum of diversity remaining.

### 3.3 The Mechanics of Adjustment to a Recommended EU Model [↑](#)

By comparison with required models, the pressures for convergence are less great where the EU level decision only recommends a model. This is because countries are freer to choose how to implement the decision, with the adjustment mechanism more likely to be adaptation rather than coercion.<sup>(8)</sup> Moreover, the actual degree of policy convergence may vary across industrial sectors, depending upon the sector's level of vulnerability to global and European economic pressures. And where the level of exposure is high, the adjustment pressures from EU decisions (i.e., EU institutional pressures) may represent more an accompaniment to national change than a leader of it. Sectors such as financial services and telecommunications in fact exhibit greater convergence due to intensified economic pressures from international competition and Europe-wide industry consolidation, as well as advances in technology, than other sectors of the economy which have been less vulnerable to global competition because they are more strictly European (e.g., electricity) or even national (e.g., the railroads or road haulage) in scope, and less driven by technological change, competitive pressures, or potential profits. These latter sectors are where the EU has more often led reform efforts rather than followed them (see Table 3).

Table 3

In the financial services sector, for example, the main pressures for change came from the internationalization of the financial markets, which were facilitated by rapidly changing technology, made attractive by high profit potentials, and spurred by the 1979 U.S. stock market deregulation. Some countries responded to those pressures earlier than others, however, ahead of any European decisions in the area. Britain transformed its financial markets with the “big bang” in 1986, having had the capacity to impose deregulation in response to concerns about the City's ability to meet the competitive challenges following from U.S. stock market deregulation. France's transformation, with the “little bang” of the same year, resulted from an equally high capacity to impose reforms that went hand in hand with privatization, as a means to ensure the successful sell-off of public enterprises while also providing alternative sources of capital for businesses no longer able to turn to the now cash-poor state (given the turn to monetarism). What is more, European integration in financial markets in some sense followed from French financial market liberalization, given that it was the key to French support for an integrated European market for financial services, and a sine qua non of the Single Market (Mélitz 1993). Germany, by contrast to both France and Britain, did not reform its stock market until 1995, with inertia explainable in terms of its lack of economic vulnerability in the 1980s to either global or European economic forces and its lack of political institutional capacity to change, given opposition by the large national banks and the regional governments. Transformation came in response to the growing competitive pressures from European capital market integration (Story 1996), and was spurred not by the European Commission but by domestic actors, once the banks began internationalizing through the acquisition of British investment houses in the late 1980s, having recognized that Germany would be

left behind if it did not liberalize (Lutz 1998). Moreover, although there has been a reasonable amount of convergence in all three countries, since they all have indeed liberalized in similar ways, the distinctiveness of national policymaking institutions remains, given the British regulatory system based on public law, the French SEC-like structure, and the German federal agency (Lutz 1998).

In telecommunications, much like in financial services, change has also been driven mostly by the increasingly intense global competitive pressures, the technological possibilities, and the potential profits, spurred by U.S. deregulation in the 1970s and early 1980s. Here, however, EU decisions did play a greater intermediary role in transmitting, channeling, and amplifying global pressures, and in structuring the resulting regulatory systems of most member-states (Schneider 2001; S. Schmidt 1998). This was least the case for Britain, however, which transformed its telecommunications sector early, ahead of EU adjustment pressures, having deregulated and privatized in 1984. Britain, therefore, simply absorbed most subsequent changes resulting from the increasing importance of EU decisions in the 1990s. For Germany and France, the EU was a much more significant force, not only as a source of adjustment pressure but also as a source of legitimation for change through national discourse, especially by governments of the left faced with opposition from political allies as well as from telecoms trade unions and employees (Thatcher 2000).

Germany transformed its telecommunications sector later than Britain, over the late 1980s to the early and mid 1990s, but before or at the same time as European decisions (some of which it was instrumental in passing). The changes in policy preferences were related to the costs of unification as well the coming challenges of competition in European markets. Deregulation and privatization were the result not only of changing preferences, however, but also of Germany's political institutional capacity to engage in a slow, politically-initiated, pragmatic, and consensus-focused process of negotiation with the wide range of affected actors, including Deutsche Telekom management and workers, which ensured the successful 1989 restructuring and the 1994 agreement to privatize the company by 1996. France's experience was different, mainly because incremental reforms in the late 1980s were followed by inertia in the 1990s, mainly because French governments were stymied by the lack of political institutional capacity to change in the face of strong union opposition and public attachment to the ideas of "service public" as the obligation of the Republican state. Transformation ultimately came as a result of a shift in the preferences of the French government and France Télécom's top management, fueled by ideology, technological innovation, and interest in pursuing global and European alliances. The government's 1993 reversal of its long-standing opposition to opening the market to competition translated itself into cooperative negotiations at the EU level. This in turn produced European decisions that the government and top management were then able to use domestically in the discourse to justify reforming France Telecom, including partial privatization as of 1997 (Thatcher 1999; Thatcher 2000; Schneider 2001).

Convergence is evident in the fact that all three countries liberalized their telecommunications sectors almost entirely through the introduction of competition in traditional telephony, that they have privatized (at least partially) their former public operations, and introduced independent regulatory agencies for the tasks of monitoring, licensing, and regulating. But here, too, distinctiveness remains in the policymaking institutions, with the British set-up granting greater freedom to the regulatory agency in terms of licensing and retail pricing than either France or Germany (Thatcher 1999).

In electricity, by contrast with the telecommunications and financial services sectors, economic vulnerability was not as much of a factor, given that there was little direct pressure from globalization in a sector with few technological changes and little competition in highly protected markets. Here, Europeanization was the main (institutional) pressure for liberalization, with the EU Commission the principal instigator of reform, and the EU decision-making process crucial in getting member-states to

accept changes which for some went completely against their policy legacies and preferences. This was not the case for Britain, which absorbed the reform without affront to policy legacies or preferences, given that it had deregulated already in 1990. But for France and Germany, the countries which had been largely responsible for the inertia in the sector through the 1980s and early 1990s, major changes followed from the electricity liberalization directive of December 1996 (but which was not applied until 1999)—although without as much convergence as one might have expected (Eising and Jabko n/a). This is because although both countries agreed to open up highly protected markets to phased-in competition, they both managed largely to maintain the institutional arrangements of the past. France kept its single, dominant, nationalized player, even though Electricité de France (EDF) lost its monopoly, and Germany, its decentralized market.

The difference in the experiences of the two countries, however, is that whereas Germany transformed its electricity sector by liberalizing much more than the EU directive demanded, France resisted transformation, with inertia largely the outcome. In Germany, in fact, federal government actors and industry supporters changed their preferences while the directive was being negotiated, and then gained in political institutional capacity to negotiate reform by using the EU in the discourse to persuade all of the appropriateness of change. In France, by contrast, the government held on to the defense of the idea of the “service public,” concerned about opposition from EDF (after initial support in the late 1980s) as well as negative public reactions, in particular strikes by the public service unions. Thus, not only did the reform remain largely against the French policy preferences, the French government was also unsure of its political institutional capacity to impose reform in the face of opposition—a fact that was born out by the protracted approval process in Parliament, which delayed implementation until 1999 (Eising and Jabko n/a). Thus, although competition has been introduced into the French electricity sector, there has so far been no transformation of the sector—although this may be an ultimate consequence of the sector’s being opened up to competition.

In air transport, much as in electricity, reform for France and Germany was driven by the EU Commission, despite the fact that global competition exerted some pressure and U.S. deregulation acted somewhat as a spur for change. Such non-EU pressures were much more significant for Britain, however, where privatization and deregulation came in the mid 1980s, and EU decisions had little effect on the substance of policy, the availability of traditional policy instruments, or the introduction of new ideas, although it no longer enjoys absolute discretion over market access, capacity, tariff-setting, or licensing. Thus, Britain mainly absorbed the changes related to EU decisions in air transport. France, by contrast, as in the case of electricity, resisted change, with inertia the outcome. The government sought to do as much as possible to maintain the dominance of its single nationalized player, Air France, even as it was forced to abandon its traditional preference for a public service monopoly that provided an extensive air services network within a protected domestic market, and to allow foreign competitors into the domestic market. Germany, by comparison, as in the cases of telecommunications and electricity, transformed the sector, even though the process was very slow, given initial opposition from some Federal States worried about the impact on the airline's relationship with German aerospace firms located in their regions and the need to work out the specifics between labor and management. Moreover, here too, as in the telecommunications case, the EU push was not as significant as internal pressures for change that came from actors’ concerns about firms’ global competitiveness. The privatization of Lufthansa in the mid-1990s, although certainly spurred in part by the creation of the single market, was much more related to domestic concerns about the performance of the public enterprise and pressures on public finances (Kassim 1998).

In all of the industrial policy areas covered by EU decisions with recommended models, then, the convergence is less than where the model is required because the policymaking institutions remain somewhat divergent even when the policies implemented transpose the same directive. The mechanics

of adjustment differ even more with regard to suggested EU models, or where there is no model.

### 3.4 The Mechanics of Adjustment to a Suggested EU Model or No Model

In areas where the EU provides only suggested models for a policy sector or no model at all, the divergence in policies as well as policymaking institutions may remain high. In the case of a suggested EU model, the adjustment mechanisms involve primarily mimesis, as countries are expected to consider the EU's ideas and suggestions for liberalization, and to learn from them as well as from one another on the liberalizing possibilities. In the case of no model at all, the adjustment mechanisms involve primarily regulatory competition, as barriers to the free movement of goods, capital, services, and/or people, are lifted.

In the case of a suggested EU model such as the EU's efforts following upon the Luxembourg and Lisbon Summits to coordinate national employment strategies through "benchmarking" national performance, mimesis best explains the adjustment process, as countries learn from one another's "best practices" and are at best "named and shamed" into meeting their self-set targets. But convergence is not only not an issue, it is not possible, given the tremendous diversity of employment and social welfare systems, even if countries may pick up on policy innovations in other countries. And changes in the welfare state can only be understood by considering the complex causes and dynamics of policy adjustment, country by country.

Although there is no room here to go into the complexities of the process of reform in these three countries (but for this, see Scharpf and Schmidt 2000), we can point to the differences in economic vulnerability related to globalization that made reform more imperative in Britain in the 1980s than in Germany until the 1990s and to Europeanization (principally EMU) that pushed France to begin reform in the mid 1990s; in political institutional capacity to impose or negotiate change when countries are faced with protest in the streets (France) or strong unions resistant to pension reform (Germany) by contrast with citizen passivity and union demobilization in Britain; in policy legacies and preferences, which made it somewhat easier for Britain to reform its "liberal" welfare state than France or Germany, with their legacies of a Bismarckian "conservative" welfare state (Rhodes 2000); and in the discourse. In the reform of social policy even more so than of industrial policy or monetary policy, policy elites have experienced great difficulties in convincing the public of the appropriateness of reform, even when they are able to show its necessity. It has taken Blair to complete the Thatcher revolution with a renewal of Thatcher's neo-liberal discourse, with the discourse of the "third way" that speaks to the appropriateness as much as the necessity of reform in terms that resonate better with the British public. It took Jospin to make strides in welfare reform with a discourse about balancing efficiency with equity, in great contrast to predecessors on the right and left who spoke to the necessity of reform but not its appropriateness. Schröder, however, has yet to convince the relevant policy actors as well as the public of either the necessity or the appropriateness of significant reform (Schmidt 2000b, n/a).

Mimesis is also the adjustment mechanism in other areas where the EU provides "soft" framing mechanisms, such as minimalist directives, non-compulsory regulations, and EU policy recommendations that serve to legitimate and/or influence national plans for reform; or even high-level EU policy committees that serve to socialize national policymakers into accepting or rejecting certain policy practices. In the railways directive, for example, which was compulsory only in terms of changes in national accounting systems, the EU provided the British government with extra legitimation for its radical privatization program and the German government with the necessary legitimacy to enable it to negotiate domestic-driven reforms that had been stymied, even if the EU had comparatively little effect on the French government (Knill and Lehmkuhl 1999; Héritier 2000). In television policy, the EU use of the instrument of audience share in media ownership policy provided both Germany and Britain with ideas for reform (Harcourt 2000). And in tax policy, the Council group dedicated to the peer review of harmful tax practices led to the shelving of certain bad practices already in the pipeline (Radaelli 1999).

Finally, where the EU simply opens up a market without imposing any requirements in the way of regulatory regime but where a suggested model has nevertheless emerged from the EU-level deliberations and decisions not taken, the EU's action may indirectly promote change by altering the distribution of resources and power among domestic actors. In the case of road haulage, for example, the cabotage directive which introduced the right of non-resident transport haulers to operate in foreign markets but allowed quantitative restrictions and price controls to remain had little direct effect on national regulatory policies or policymaking institutions. Indirectly, however, it acted as a spur for change where domestic coalitions were able to use the new EU rules to challenge the existing equilibria, with highly differentiated results. In the already liberalized regulatory regimes of Britain and France, absorption was the result. In Germany, by contrast, transformation toward a more liberalized regime came after a long period of inertia, with the EU rule acting as a spur to the formation of new domestic coalitions for reform (Héritier, Knill, and Mingers 1996; Knill and Lehmkuhl 1999). (9)

Only the principle of "mutual recognition," which provides for the acceptance throughout the EU of products that meet the standards of one member nation (as long as national provisions do not violate primary Community law), exerts almost no pressure for convergence. One can safely say that the ECJ decision enabling French beer to be sold in Germany, even though it did not meet German beer brewing requirements originally set in the sixteenth century, has not affected traditional policy legacies or preferences, nor has it altered German beer drinking habits. In cases of mutual recognition, in fact, where there is no EU model at all, given that barriers to trade are simply removed without change to existing regulatory arrangements, convergence may be negligible, with regulatory competition the main adjustment mechanism.

## 4 Conclusion

Thus, there are no simple generalizations to be made about the mechanics of member-states' adjustment to Europeanization, given the mediating factors influencing outcomes. And although convergence is most often the result where an EU decision model is required, as in the case of EMU and certain environmental standards, there are always exceptions even here. By contrast, recommended models generally allow for greater divergence in policymaking institutions as long as the policies implemented are largely the same, as in much of the "service public" sector, although economic vulnerability to globalization represents another convergence pressure. Moreover, suggested models allow great divergence in policymaking institutions and policies, as in employment benchmarking, railways and road haulage, even if there is also often movement in a liberalizing direction. And no model ensures continued divergence in policies and policymaking institutions, as in the case of mutual recognition.

For Britain, the pattern of policy adjustment is one of early response to globalization, with absorption of EU decisions in areas where Britain anticipated Europe-led liberalization, that is, in financial services, telecommunications, electricity, air transport, railways, and road haulage, but with inertia in European monetary integration. For Germany, by contrast, we find absorption only with regard to European monetary integration, the result of a very early response to globalization, but very late transformation in all the other political economic policy sectors in response to European decisions and pressures. In France, finally, the pattern is more mixed, with early transformation in response to globalization pressures in European monetary integration, financial services, and road haulage, late transformation in telecommunications, and inertia in all other areas which are traditionally seen as part of the "service public," i.e., electricity, air transport, and railways.

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## Endnotes

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(1) By separating out European-level decision-making and institution-building from its impact, my definition differs from the many scholars who put the two together (e.g., Cowles, Caporaso, and Risse 2001); Rometsch and Wessels 1996) or those who concentrate primarily on the European level (e.g., Caporaso and Jupille 1998). Its focus is similar to those of Ladrech 1994, Radaelli (2000) and H eritier

and Knill (forthcoming). And it is the latter of Wallace's (2000) twin processes of "EU-isation" and "domestication." For a review of the many possible definitions, see Featherstone (2001).

(2) In sectors other than political economy, vulnerability would not be economic but, say, military, as in the securities and defense arena, or ecological, as in the environmental arena.

(3) The notion of "fit" has been variously conceptualized as a problem of "misfit" (Börzel 1999; Börzel and Risse 2000); Duina 1999); "mismatch" (in Héritier, Knill, and Mingers 1999) or "goodness of fit" (in Cowles, Caporaso, and Risse 2001).

(4) I speak here only of decisions in the regulatory arena. In distributive policies, such as research and development or structural and cohesion policies, there are probably not the same set of dynamics or mechanics. Moreover, these are areas in which the arrows go up and much as down.

(5) On the constraints related to European models, Knill and Lehmkuhl (1999) refer to "positive integration" in what I term cases of required and recommended models, to "negative integration" in cases of no model, and to "framing" where a model is suggested.

(6) Börzel and Risse (2000) further differentiate between absorption and accommodation, where absorption provides for no change to existing policies or policymaking institutions, accommodation for modest change due to readjustments that have little real effect on existing policies or policymaking institutions. Similarly Knill and Lenschow (2000) differentiate between "confirmation of the core or compliance without change" and "change within a static core." For purposes of simplicity, I use absorption to include both meanings.

(7) David Cameron (1996) makes the point that although by 1983, the French government did indeed have little choice, there were actions it could have taken earlier to avoid such a radical shift in policy, such as an earlier devaluation of the currency.

(8) Admittedly, there is also an element of coercion here, given that in place of the arrangements of the past member-states are required to open up to competition while setting up a regulatory agency. However, there is still more choice in the arrangements than in the clear-cut standards or rules under the required model.

(9) In Italy, by contrast, the domestic coalitions united against liberalizing European trends ensured that the resulting inertia could be seen as retrenchment, given a move toward greater protectionism in the sector

## **Table I**

### **Mediating Factors in Policy Adjustment to Globalization and Europeanization**

Mediating Factors in Policy Adjustment	
Economic Vulnerability	Presence or absence of economic crisis; competitiveness in capital and product markets
Political Institutional Capacity	Principal policy actors' ability to impose or negotiate change, depending upon political interactions and institutional arrangements
Policy Legacies	"fit" with long-standing policies and policymaking institutions
Policy Preferences	"fit" with the old preferences and/or openness to new
Discourse	Ability to change preferences by altering perceptions of economic vulnerabilities and policy legacies and thereby enhance political institutional capacity to impose or negotiate change

## **Table II**

### **Potential Convergence in Relation to EU Adjustment Pressures and Adjustment Mechanisms**

Pressures for Convergence	EU Adjustment Pressures	Adjustment Mechanisms	Examples
High	Required Model	Coercion	Monetary integration, environmental standards
Medium	Recommended Model	Adaptation	deregulation of financial services, telecom, electricity, air transport
Low	Suggested Model	Mimesis	Employment bench-marking, railway directive, road haulage
Negligible	No Model	Regulatory Competition	Mutual recognition of products

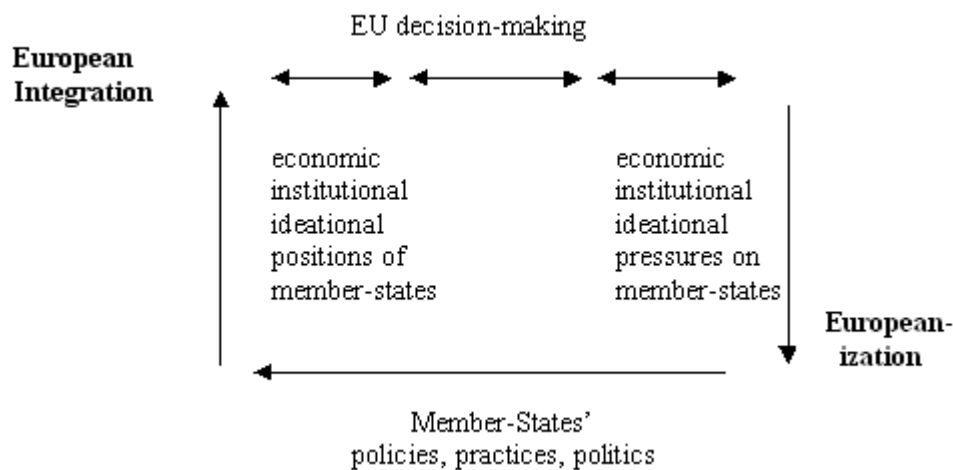
# Table III

## Impact of Adjustment Pressures on Policy Sectors

	Monetary Integration	Financial Services	Telecom	Electricity	Air Transport	Railways	Road Haulage
U.K. Timing Pressures EU response	Not yet Global. Inertia	Early Global. Absorption	Early Global. Absorption	Early Global. Absorption	Early Global. Absorption	Early Internal./Eur. Absorption	Early Internal. Absorption
FRANCE Timing Pressures EU response	Early Global./Europ. Transf.	Early Global. Absorption	Late Global./Europ. Inertia/Transf.	Late European. Inertia	Late European. Inertia	Late European. Inertia	Early Internal Absorption
GERMANY Timing Pressures EU response	Early Global. Absorption	Late Global./internal Transf.	Mid Global./unific. Inertia/Transf.	Late European. Transf.	Late European. Transf.	Late European. Transf.	Late European. Inertia/Transf.
Convergence	High: Fr, Ger	High: Fr, Ger, UK	High: Fr, Ger, UK	Medium: Ger, UK	Medium: Ger, UK	Medium: Ger, UK	Medium: Fr, UK, Ger

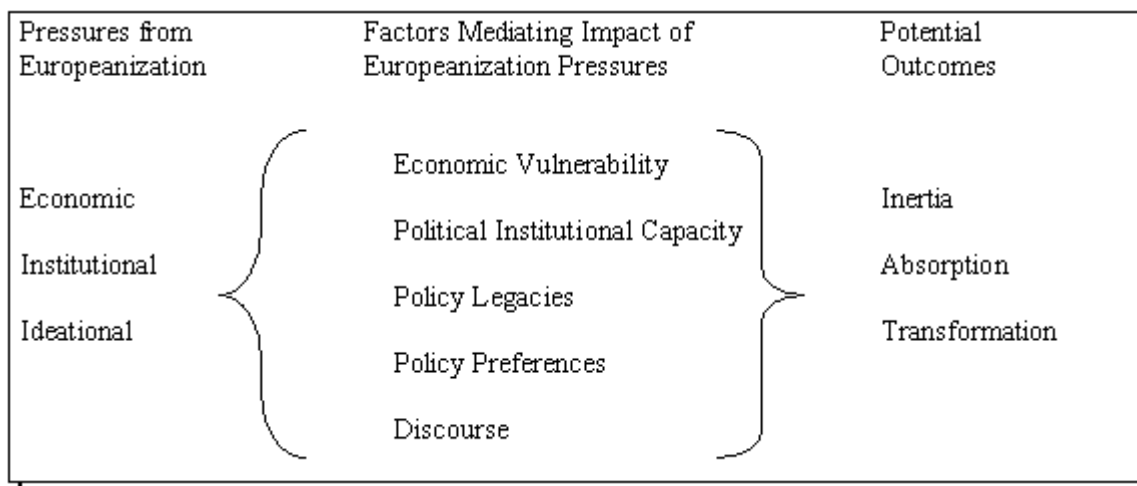
# Figure 1

## Europeanization vs. European Integration



## Figure 2

### Europeanization Flow-Chart



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