

# Market Dynamics and Institutional Change: the Birth of the European Union in Historical Perspective

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**Colloque CEVIPOF - CERI**

«L'intégration européenne entre émergence institutionnelle et recomposition de l'Etat»

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**Market Dynamics and Institutional Change:****The Birth of the European Union in Historical Perspective**

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The central importance of an economic agenda in the re-launching of European integration since the mid-1980's is a well-recognized fact. The "1992" project of building a Single European Market was the catalyst for a new period of institutional activism. The most visible consequence of that renewed activism was the maturation of the European Community (EC) into a European Union (EU) with a single currency – the euro – at its core. The increased academic focus on the political economy of European integration indirectly reflects the particular salience of economic issues in that period of transition.<sup>1</sup> In fact, the process of European integration that culminated in the birth of the European Union constitutes was contemporaneous with a global as well as European trend of marketization. The suddenly enhanced status of "the market" in European collective consciousness affected almost every aspect of political and economic life – not only the institutional process of European integration. The end of the Cold War division of the continent with the apparent victory of the Western liberal democratic model ushered a period of rapid economic liberalization and restructuring, during which European economies shed their primarily national orientation and increasingly became part of a "regional" or even a "global" economy.

While it is easy to observe that many of the formal institutional changes that we commonly associate with the birth of the European Union were of "economic" character or focus, this does not necessarily tell us *why* institutional change has occurred. In retrospect, it is quite difficult to unravel the many threads of recent political and economic developments. Many of these developments were self-reinforcing or mutually linked in very complex ways. This paper will not engage in a comprehensive synthesis of the many phenomena that are usually bundled in evocative terms such as the "marketization", the "globalization", or the "regionalization" of the European economy. Instead, it will focus on the task of establishing distinctive series of stylized linkages between the sudden ideational salience of "the market" and various aspects of European-level institution-building over the period 1985-2000. In so doing, it makes the case that the importance of "the market" derives from the fact that, in a certain historical context, it suddenly became the nexus of various rationales for building the European Union.

More specifically, the market was invoked by promoters of European integration roughly in three ideal-typical ways. First, and perhaps most easily understandable, the market was increasingly perceived as a powerful substantive logic, i.e. a set of "forces," that drove the actual

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<sup>1</sup> "Political economy" cannot be construed as a coherent theoretical or methodological perspective shared by all its academic practitioners, but it certainly constitutes a major theme in the recent literature on recent European integration. Scholars who have adopted some version of the political economy approach as a lens for analyzing recent European integration include: Wayne Sandholtz and John Zysman, "1992: Recasting the European Bargain." World Politics vol. 42 (October 1989); David R. Cameron, "The 1992 Initiative: Causes and Consequences" in Alberta Sbragia, ed., Euro-Politics (Washington: Brookings Institution, 1992); Geoffrey Garrett and Barry Weingast, "Ideas, Interests, and Institutions: Constructing the European Community's Internal Market," in Judith Goldstein and Robert Keohane, eds., Ideas and Foreign Policy (Ithaca: Cornell University Press, 1993); Barry J. Eichengreen and Jeffrey A. Frieden, Forging an Integrated Europe (Ann Arbor: University of Michigan Press, 1998); Kathleen R. McNamara, The Currency of Ideas: Monetary Politics in the European Union (Ithaca: Cornell University Press, 1998); Andrew Moravcsik, The Choice for Europe: Social Purpose and State Power from Messina to Maastricht (Ithaca: Cornell University Press, 1998).

behavior of economic agents. Secondly, the market was embraced as a normative model of how resources should be allocated for the purpose of achieving greater “efficiency”. Thirdly, the market presented the advantage of supplying a versatile platform of political discourse that permitted to accommodate a variety of otherwise largely conflicting views of the world. In short, the market appeared to possess a number of desirable characteristics – it was more the expression of “substantive forces”, normatively “more efficient”, and generally “more adaptive”. These were all characteristics that existing institutional forms inherently failed to exhibit, so to speak, precisely because they consisted of relatively formalized modalities of collective interaction – and, therefore, were apt to appear as “merely” formal, “inefficient,” and “rigid”. By contrast, the power of the market as an informally institutionalized mode of rationality was that each of its suddenly prominent characteristics could feed into a certain vision of “Europe” – European integration appeared as a pragmatist response to substantive market realities, as a modernist answer to the increasing power of market norms and, finally, as a utopian perspective that prolonged the versatile quality of the market in political discourse. Thus, the process of regional integration altogether acquired unprecedented credibility and political urgency as a “logical” response to the market.

This argument permits to clarify the linkages between ideational context and the process of institutional change – in this case, between market rationality and the process of European union in the last fifteen years of this century. A direct corollary is that the market cannot be understood only as a set of “forces”, nor even as an overwhelming “efficiency” imperative that pushed in the direction of European integration in any straightforward manner. In the process of recent European integration, the dynamic of the market was not a simple, unidirectional movement in a certain institutional direction that corresponded to the main actors’ changing preferences and power resources. To be sure, the presence of powerful technological trends and competitive forces provided a crucially important historical backdrop for the birth of the European Union. Yet there was no simple cause-to-effect relationship between the evolution of Europe’s economy and the development of regional institutions. The dynamic push of the market did not only stem from the raw effects of competition between utility-maximizing agents. Rather, the market embodied a dynamic set of interests and meanings that became, in a specific historical context, available to be mobilized for the purpose of institutional reform. In the process of European union, market rationality was the common source of qualitatively different arguments that were marshaled by certain core actors who, for a variety of reasons, were in favor of greater regional integration.

The argument bears certain implications in terms of the contemporary literature in international and comparative political economy. Within and beyond the literature on recent European integration, contemporary understandings of the market amongst students of political economy exhibit a certain divide between “structuralist” and “constructivist” perspectives. Some

authors envision the market primarily as a set of “forces,” while others analyze it primarily in terms of well-defined subsets of beliefs or “ideas”.<sup>2</sup> Yet the assumptions that underlie these two broad conceptions (and various combinations thereof) often remain implicit, so that areas of overlap and disagreement on what we mean exactly when we refer to “the market” remain largely unspecified. While this paper strongly leans in the direction of a constructivist stance on the market, it also suggests that the strength of market ideas stems not from their conceptual coherence, but from their relative malleability. In other words, there is not *one* idea or coherent set of ideas about the market, but many. In schematic terms, it is possible to delineate at least three different market-based dynamics of European institutional integration. The literature on recent European integration, when it has recognized the centrality of the market in recent European integration, has disproportionately focused on a first type of market dynamics – namely, on the effects of the market as a substantive reality, as a set of objective “forces” driving the process of institutional reform. The other two types of market-based dynamics – the market as a normative model of resource allocation and, above all, the market as a versatile platform that permitted to integrate otherwise divergent views of the world – have remained relatively in the dark. While scholars of political economy have granted generous attention to the first meaning, they have paid relatively less attention to the second and especially the third meaning and/or have dismissed them as “ideological” cloaks of discourse that masked power- or interest-driven behavior. This is an important shortcoming that deserves to be addressed because these two dynamics are, in some respects, just as important as the first one to understand the dynamics of recent political-economic trends such as market globalization or regional integration.

The rest of this paper proceeds in three steps. A first section recounts the ideational rise of the market in European politics in the 1970’s and 1980’s. In the minds of many Europeans, the market apparently achieved a more prominent status than ever since the demise of the old nineteenth-century classical liberal order after the First World War. The progressive emergence of the market as a prevalent mode of rationality in the sphere of political economy constitutes a crucial development from the perspective of this paper’s argument. A second section delves into this market rationality and distinguishes three meanings of “the market” as they recently emerged in several West European settings – in certain very exposed economic sectors and aspects of

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<sup>2</sup> In the first category, I would classify many works in the tradition of political economics or endogenous policy theory, including: Peter Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press, 1986); Ronald Rogowski, Commerce and Coalitions (Princeton: Princeton University Press, 1989); Jeffrey A. Frieden, Debt, Development, and Democracy (Princeton: Princeton University Press, 1991); Judith Goldstein and Robert Keohane, eds., Ideas and Foreign Policy (Ithaca: Cornell University Press, 1993); Robert O. Keohane and Helen V. Milner, eds., Internationalization and Domestic Politics (Cambridge: Cambridge University Press, 1996); Geoffrey Garrett, Partisan Politics in the Global Economy (Cambridge: Cambridge University Press, 1998); Andrew Moravcsik, The Choice for Europe. In the second category, prominent works include: Peter Hall, The Political Power of Economic Ideas (Princeton: Princeton University Press, 1989); “Policy Paradigms, Social Learning, and the State,” Comparative Politics, vol. 25, no. 3 (April 1993); Judith Goldstein and Robert Keohane, eds., Ideas and Foreign Policy (Ithaca: Cornell University Press, 1993); McNamara, The Currency of Ideas.

economic policy-making, but also in relatively protected sectors of activity and public policy formulation and in broad worldviews of the balance between public and private power. It highlights three areas of tension between the market and existing political-economic institutions, corresponding to the three meanings of the market – as substantive reality, normative ideal, and versatile platform. Finally, a third section makes the connection between these three meanings and three recent types of Europeanism which I call pragmatism, modernism, and utopianism. Through a survey of key policy agendas and treaty ratification debates that surrounded major EU-level political-economic reforms of the 1980's and 1990's, it suggests a few generic reasons why the EC, far from sinking into irrelevance and oblivion, appeared historically as a viable framework to resolve political-economic tensions.

## **I. A resurgence of the market**

The political-economic order that was born in Western Europe after World War II, which is generally characterized as a rather coherent combination of market capitalism and public intervention in the economy, lasted at least until the 1970's. By then, the institutions of West European political economy had become a viable if relatively static formal reality. In the mid-1980's, this institutional order was disrupted by a particular historical development, namely the rise of "the market". As a matter of fact, the marketization agenda of the 1980's provided the informal background for a number of formal institutional reforms that can be understood as part of a general process of European union whose most climatic moment was the birth of a new institutional entity called the European Union. Over time, reformist actors gathered around a newfound political formula of European union through the market. This section serves to sketch the broad historical context of this phenomenon, i.e. the entrenchment of a particular balance of public and private power that quickly crystallized in post-World War II Europe and later began to dissolve with the sudden and rather disruptive rise of the market since the 1980's.

### *The balance of public and private power in postwar Europe*

The singularity of the 1980's ideational environment in Western Europe must be understood against the historical background of the previous period, roughly starting at the end of the Second World War. From a historical perspective, the policy agenda of the 1980's was generally based on principles that were quite different from those that gained currency in Western Europe after the Second World War and remained in place roughly until the mid-1970's. As Karl Polanyi shows in

The Great Transformation, the liberal idea of a free market developed historically in lockstep with the rise of the industrial bourgeoisie and the particular social and political order brought into being by the industrial revolution.<sup>3</sup> As the early spirit of the industrial revolution receded into the past and protective social legislation was adopted across industrial societies of Europe, liberal ideology became increasingly divorced from reality and began to clearly fall out of favor around the time of the First World War. Yet it took the traumas of the Great Depression and World War II for liberal ideology to be discredited as a backbone of economic and political order in Europe. Published in 1942, Joseph Schumpeter's book Capitalism, Socialism, and Democracy built on the assumption that capitalism was in a state of "decomposition"; the author viewed that assumption as almost "universally accepted, even by conservatives".<sup>4</sup> Two years later, Polanyi's indictment of the "evils" of the free market was itself fairly representative of an immediate postwar consensus on the unsustainable character of the free market and the necessity of reforming its foundations. In early post-WWII Europe, market liberalism was routinely blamed for the economic and social hardships of the Great Depression and for the near-total collapse of liberal democracy in World War II. That consensus was especially apparent across West European nations, whose political foundations had just been twice badly shaken in less than two decades.

Partly as a result of that consensus, the formal organization of postwar European economies increasingly reflected a relatively great ideational deviation from the classic liberal principles of a capitalist economy. In order to ensure the maintenance of social order, the presence of the state and other institutional mechanisms were seen as necessary counterparts to market principles. Thus, in a variety of ways, the social and institutional that prevailed across the postwar economies of Western Europe rested on a mix of market liberalism and public intervention and protection – what Andrew Shonfield suggestively called the "balance of public and private power".<sup>5</sup> To be sure, that postwar order did include the principle of free enterprise. But the important fact of the immediate postwar period is that market rationality was often compensated by other principles of economic and political organization, some of which were directly antagonistic to the market. The market was accepted, but for historical reasons it remained tainted with suspicion and appeared in certain regards as somewhat illegitimate or even unorthodox. While mainstream West European political discourse was often quite liberal, this proclaimed liberalism was rather superficial and often inconsistent with the general orientation of economic institutions and practices. Economic organization rested everywhere on a number of distinctly *illiberal* institutions. Public power in the

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<sup>3</sup> Karl Polanyi, The Great Transformation (Boston: Beacon Press, 1957).

<sup>4</sup> Joseph A. Schumpeter, Capitalism, Socialism, and Democracy (London: George Allen and Unwin, 1942), preface of the original edition.

<sup>5</sup> Andrew Shonfield, Modern Capitalism (London: Oxford University Press, 1969).

economy was buttressed by an elaborate panoply of welfare mechanisms and policy instruments aimed at correcting market imperfections. This model was historically designed to ensure a certain level of public provision of basic goods and services that, according to its proponents, were not adequately provided by the sole mechanisms of the market. It is debatable whether this mixed model of economic organization was objectively “better” than the classical model of a market economy, but the fact is that its heyday coincided with a remarkable period of economic prosperity.

In retrospect, Europe’s political-economic model as it progressively emerged after World War II can therefore be characterized by two fundamental elements – one international, one domestic – that constitute the recurrent themes of the scholarly literature on this topic.<sup>6</sup> At the international level, the Europeans benefited externally from an almost uninterrupted postwar period of economic growth fuelled by an important expansion of regional trade as well as the remarkable openness and stability of international economic relations among the Western bloc. The establishment of the European Communities in the 1950’s can be understood in this context. In particular, the main achievement of the European Economic Community was to work as a customs union within which tariff barriers no longer existed. Article 3 of the EEC Treaty calls for “the elimination, as between Member States, of customs duties and of quantitative restrictions in regard to the importation and exportation of goods”. After the transition periods determined by the Treaty for various goods and economic sectors, this treaty provision was as a rule strictly respected by the signatory states. As a result, intra-EEC trade soared and many European countries, with volumes of foreign trade reaching in some cases more than 25% of their GDP, essentially became “trading nations”.

While it took many years before the depth and intensity of regional exchange relations reached levels that existed before the First World War, the renewal of European trade was nonetheless a striking contrast to the preceding era of war and protectionism. This commercial expansion took place both within the framework of the General Agreement on Tariffs and Trade and by derogation to the universal “most-favored nation” trading regime normally required from its signatories by the GATT (pursuant to its article 4). The GATT essentially embodied a piece of what John Ruggie has called a regime of “embedded liberalism”, i.e. a formal arrangement that ensured the openness of national economies within limits. It was part of a series of political compromises

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<sup>6</sup> The huge literature in political science and history on this topic includes: Andrew Shonfield, Modern Capitalism; Peter Katzenstein, ed., Between Power and Plenty (Madison: University of Wisconsin Press, 1978); John G. Ruggie, “International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order,” International Organization 36 (Spring 1982): 379-415; John Zysman, Governments, Markets, and Growth (Ithaca: Cornell University Press, 1983); Peter A. Hall, Governing the Economy (Cambridge: Polity Press, 1986); Charles S. Maier, In Search of Stability (Cambridge: Harvard University Press, 1987); Peter Hall, ed., The Political Power of Economic Ideas (Princeton: Princeton University Press, 1989); Gøsta Esping-Andersen, The Three Worlds of Welfare Capitalism (Cambridge: Cambridge University Press, 1990); Alan S. Milward, The European Rescue of the Nation-State (University of California Press: Berkeley and Los Angeles, 1992); John Ikenberry, “A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement,” International Organization, vol. 46 (1992): 189-321.



struck by the United States and its European allies, whose general historical purpose was to strengthen transatlantic relations while establishing a durable basis for political stability in the states of Western Europe.

At the domestic level, the openness of European economies was mitigated by an extensive system of social protection and redistribution mechanisms orchestrated either directly by the state as such, or by public or semi-public institutions – the European “model” of the modern welfare state. In the historical context of post-Great Depression and postwar Europe, the welfare state progressively came to encompass various formal policies and organized mechanisms whose mandate was to ensure the provision of a certain level of welfare among the citizens of these countries. These services were publicly provided “from cradle to grave”, often at the cost of rather high taxes and/or compulsory membership fees. They generally included a rather extensive social safety net and other social benefits, ranging from unemployment benefits, basic and quasi-universal healthcare, free or quasi-free public education up to the university level, retirement money, and a variety of other collective services that ranged from public transportation to telephone connection and electricity supply.

Overall, the European welfare state – understood as a model of public provision of goods and services by state or public organizations – covered an extensive array of policies and programs across all the member states of the European Community. Amongst advanced industrial societies, this second foundation of European prosperity is fairly specific to Western Europe. While the modalities and extent of the European welfare state are and have always been contested in Europe, it remained nonetheless a powerful component of European understandings of the role of the state. This model was particularly widespread and resilient, if only because it was recognized as valuable by substantial constituencies across Western Europe. In some although not all national cases, it was buttressed by a substantial recourse to economic planning and various forms of state intervention in the economy. In some cases, the state even asserted some measure of direct public control over economic activities, either in the form of macro-economic or micro-economic (“industrial”) policies. Macro-economic intervention demand management, justified by Keynesian ideas, often involved elaborate and highly formalized incomes policies and mechanisms for collective wage bargaining. Industrial intervention was justified by the responsibility of the state to ensure the welfare of its citizens through the development of national infrastructures and the security and stability of the country through a close public oversight of “strategic” industries, including in some cases through the public ownership and/or control of business corporations in these economic sectors.

*The rise of the market*

A very strange development occurred in Western Europe in the 1980's. These societies distinguished themselves, within the universe of advanced industrial democracies, by their relatively elaborate welfare safety nets and often also by the importance of the public sector in the economy. Yet a whole generation of political leaders and policy-makers, spanning the entire spectrum of mainstream political parties, suddenly made room for new catchwords in their political platforms and policy agenda. A variety of new structural objectives – modernization, liberalization, decentralization, privatization, and/or deregulation – progressively emerged as important items both at the national and the international level. These objectives increasingly reflected the penetration of the informal institution of the market into the sphere of public discourse.

It is therefore somewhat of a twist of fate to see the forceful return, in the 1980's, of what Polanyi considered an obsolete "utopia". The causes of this phenomenon are complex and, in a sense, not specific to Europe. They are technological, economic, and political all at the same time. The informal institution of the market rose to prominence gradually and not very coherently, as a result of several trends that can be traced back the late 1960's. Retrospectively, it is hard to convey the depth of the predicament in which governing parties and elite segments of European societies found themselves in the late 1970's and especially the 1980's.<sup>7</sup> The remarkable period of robust and continuous economic growth experienced since 1945 by most European economies drew to a close, almost inexplicably. Traditional macroeconomic ("Keynesian") recipes for steering demand and creating growth seemed ineffective. The much-taunted "failure" of France's experiment of "socialism in one country" (1981-82) was widely interpreted as a symptom of a broader problem – the failure of a European social-democratic attempt to find a "third way" between capitalism and socialism. Up until the mid-1980's, the option of a "neo-corporatist" alternative to free-market capitalism remained open – a Germanic and Scandinavian combination of low inflation, centralized wage-bargaining, and full employment. But by the late 1980's, important elements of that model had begun to break down and critics of German- or Swedish-style "rigidities" were increasingly vocal. While the United States and Japan experienced significant phases of economic

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<sup>7</sup> On the political perceptions of the 1970's recession and the policy remedies applied in the following two decades, see for example: Suzanne Berger, Organizing Interests in Western Europe (Cambridge: Cambridge University Press, 1981); Mancur Olson, The Rise and Decline of Nations (New Haven: Yale University Press, 1981); Andrea Boltho, The European Economy (Oxford: Oxford University Press, 1982); Zysman, Governments, Markets, and Growth, esp. chapter 6; Michael J. Piore and Charles F. Sabel, The Second Industrial Divide (New York: Basic Books, 1984); John H. Goldthorpe, ed., Order and Conflict in Contemporary Capitalism (Oxford: Clarendon Press, 1984); Leon Lindberg and Charles Maier, eds., The Politics of Inflation and Stagflation (Washington: Brookings Institution, 1985); Peter Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press, 1986), esp. chapter 5; Peter A. Hall, Governing the Economy (Cambridge: Polity Press, 1986); Fritz W. Scharpf, Crisis and Choice in European Social Democracy (Ithaca: Cornell University Press, 1991); Robert B. Reich, The Work of Nations (New York: Alfred A. Knopf, 1991); Peter A. Hall, "The Movement from Keynesianism to Monetarism: Institutional Analysis and British Economic Policy in the 1970s," Sven Steinmo, Kathleen Thelen and Frank Longstreth, Structuring Politics (Cambridge: Cambridge University Press, 1992): 91-113; Bruno Jobert, ed., Le Tournant néo-libéral en Europe (Paris: L'Harmattan, 1994); Suzanne Berger and Ronald Dore, eds., Global Capitalism and National Diversity (Ithaca: Cornell University Press, 1996); Herbert Kitschelt, Peter Lange, Gary Marks, John D. Stephens, Continuity and Change in Contemporary Capitalism (Cambridge: Cambridge University Press, 1999).

recoveries and managed above all to keep unemployment within moderate limits, much of Europe appeared to be stuck on low-growth/high-unemployment trajectories or even in the “stagflation” pattern of the 1970’s. The European economy was widely perceived as lagging behind the US and Japan, particularly in the fast-growing and crucial industrial sectors of advanced information technology.

In that context, many began to question longstanding tenets embodied and institutionalized in the postwar European economic governance models – in particular, the notion that a certain level of public intervention was desirable in order to correct the imperfections of a market economy. In the capitalist economies of Western Europe, the repertoire of economic liberalism, despite a long eclipse, had never completely disappeared from political discourse. The principles of a free market had been a continuous focus of political attention and debate since the days of the industrial revolution in Britain and elsewhere. While many saw in the Great Depression and the Second World War a permanent downfall of the free-market model, the principles of a “market economy” certainly recovered a considerable measure of legitimacy with the postwar accession of the United States to the status of “leader of the free world” in the ideological confrontation with the Soviet Union. Throughout the postwar period, continental European attitudes toward “Anglo-Saxon capitalism” were characterized by a mixture of aversion and envy. Thus, the apparent regeneration of economic liberalism both in the United States under Reagan and in Britain under Thatcher certainly exerted a certain fascination in a context of deep continental European recession. Surreptitiously, the perception that conventional ways of making sense of reality have become obsolete triggered a relative loss of legitimacy of the existing balance between private and public power in the sphere of political economy. That pressing search for new governance models of the economy in the late 1970’s and early 1980’s certainly contributed to the rise of market ideas across Western Europe.

Meanwhile, the sudden development of communications technologies certainly contributed to the particular pregnancy of the “global market” metaphor. Across and beyond the industrialized world, global communication channels were visibly becoming tighter and faster. Even more important perhaps, the rapidity of communication channels led to the emergence of new global flows of commodities, especially “soft” commodities like financial, telecommunication, and other “immaterial” services. Sophisticated technology became available for trading almost instantaneously all kinds of commodities, adding an important global dimension and reach to spheres of economic exchange that used to operate overwhelmingly at the local level. In the 1980’s, images of a “global village” increasingly cropped up in newspaper articles, television advertising, movies, and popular culture. It became conventional wisdom to say that

communication and exchange linkages have become so global as to erode the jurisdictional boundaries between previously autonomous political and economic units.

## I. Three meanings of the market

The rise of the market was a rather odd development on the background of European postwar political economy. A comprehensive survey of the many aspects of this phenomenon in Europe since the 1980's is well beyond the scope of this paper. Instead, we will approach the question from a more conceptual angle and suggest that one important reason why "the market" suddenly became so salient is that it was used as a broad category to *make sense* of various transformations that traversed Europe's political economy starting in the mid-1970's. Technological and economic factors certainly played an important role, but the perhaps the most important changes occurred at the level of common representations. In fact, market rationality extended to certain issue areas where material market "forces" were either relatively weak, or seemed to point toward contradictory reforms. Thus, as we will see, the rise of the market as an idea expressed and fed back into several areas of tension within the European postwar political-economic model. The very idea of a resurgence or a globalization of the market provided a way to comprehend these various tensions in a uniform and relatively satisfactory manner. This section first discusses the particular nature and status of "the market" when considered from an ideational perspective, then highlights three of its recent manifestations in the evolution of Europe's political economy.

### *The market as an informal institution*

It is quite permissible to call "the market" an idea, but in many ways the market is more than just what we call an idea in a modern sense. The market is not just one idea, but a very encompassing term that stands for several ideas at the same time. In addition, it is also endowed with a particular compelling power and potency that most ideas do not have in the contemporary historical context. Therefore, the market is better understood as an *institution*. Yet it is also immediately clear that the market is not "an institution" as conventionally understood by most political scientists – i.e. a concrete, formal organization endowed with political power, nor even a set of formal constraints, rules, and opportunities that structure a given sphere of social life. This is why I call the market an *informal institution*, that is to say an informally organized or "established" way in which people lead their lives. Unlike the law and other types of formal institutions, the

modus operandi of the market is not tied to a relatively well-circumscribed formal logic. Although our representation of the market does not exist independently from a variety of formal arrangements (including a set of property rights, relative prices, and economic regulations), the market remains nonetheless largely informal. To a large extent, it is a spontaneous order that emerges from the actions of a multitude of individuals.<sup>8</sup> And when compared for example with the apparatus of the state, the market is indeed relatively “free” since there are no single constitutions, treaties, or other resilient legal rules and provisions that tightly and inherently bind the way in which it operates.

Thus, the market is an institutionally sanctified, albeit informal, way of thinking about reality that penetrates our vision of the world and how it is organized.<sup>9</sup> It represents a mode of rationality, i.e. a conventional body of discourse that has particular currency at a given time and in a given institutional sphere. When we begin to unpack the various aspects of the market, we observe that there exist relatively distinct informal understandings of how the market is supposed to operate. It is on these understandings that we will focus particularly in what follows. More specifically, this section will delineate three ideal types of these informal understandings. In each case, it will define the exact meaning of the market and its manifestations. It will also highlight the tensions that appear between these informal understanding and the formal reality of the pre-existing institutional order. As we will see, many of these tensions originate from the discrepancy between the global reach of the market as an informal institution since the 1980’s and the local basis of the previous institutional order.

### *First meaning: the market as substantive reality*

Some informal (or meta-) institutions are more salient – in a way, more “institutionalized” – than others. They seem more rational, or more legitimate, and therefore carry more weight and are more resilient than most others at a given point in history. When we think about the situation in the

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<sup>8</sup> In his examination of the market-building during the industrial revolution, Polanyi showed that the idea of a free market was itself the product of politics. Yet it is possible to accept this historical insight and still envision the free market as a spontaneous order, *if* by “spontaneous” we refer not to the historically formative moments of actual markets, but to the idealized mechanism of the market in normal times. Polanyi’s characterization of the “self-regulating market” as a “utopia” may be valid, but this should not distract us from the fact that this utopia is constitutive of many current understandings of how a market ideally operates. However we resolve the question of whether any market economy actually operates on this ideal model, we can nonetheless recognize the peculiar attraction of this model in contemporary political economy.

<sup>9</sup> The market is sometimes described as an “institution” or a “meta-institution,” but I prefer to use the adjective “informal” to stress the anthropological nature of the market as an abstract social representation and its contrast with the more concrete quality of “formal” institutions. For a labeling of the market as an “institution” or a “meta-institution,” see the brief characterization of Polanyi’s work in: Steinmo and Thelen, Kathleen Thelen and Sven Steinmo, “Historical Institutionalism in Comparative Politics,” p. 31, in Sven Steinmo, Kathleen Thelen and Frank Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992). My understanding of informal institutions as informal and abstract social representations owes a lot to the anthropological conceptualization developed by: Mary Douglas, *How Institutions Think* (Syracuse: University of Syracuse Press, 1986).

early 1980's, it is important to remember first that, from a historical perspective, the market did *not* make instant and perfect sense as a metaphor to understand the organization of Europe's political economy. Before acquiring the status of an orthodox mode of rationality, the notion of a free market was largely a paradox amidst the formal institutions of European political economy. The experience of the postwar period made it difficult to conceive that financial resources could be allocated by "the market" without reserving an important allocative role to public institutions. In a world of financial scarcity and given the memories of the Great Depression, the very notion of a market-based allocation of financial resources was downright impractical if not heretical.

Yet the market ceased to be a paradox and actually becomes orthodox when a critical mass of actors came to believe that it existed as a strong determinant of reality, and when they started to behave accordingly. In other words, the metaphor of the market, when it takes hold of people's minds, acquires the quality of a "self-fulfilling prophecy". Added to the precipitous downfall of the socialist model of economic planning that culminated in the break-up of the Soviet Union, recent technological developments have contributed to establish the dominance of the "global market economy". More Europeans than ever before experienced the existence of the market as a mode of economic organization and exchange and as a set of forces constraining the formulation of economic policies. It embodies relatively intuitive and often unexamined assumptions and expectations about "the way things work". In this instance, the existence of "the market" makes certain aspects of the social world understandable and even, to some extent, predictable. Producers are expected to compete to offer the best products and/or the best prices for a given product, while customers know they should shop around and rely on market competition to improve quality and to drive down prices; employers compete for (skilled) workers, while workers compete for jobs and are generally careful not to let themselves be undercut by others who will accept lower salaries. These relations (producer-customer, employer-employee) are two central types of market relations, but there are many others – some of which suddenly came to the fore in the 1980's. As a result, the informal institution of the market has supplanted potential contenders as a mode of economic organization.

While the market, as a conventional reading lens of reality, confers a certain measure of meaning, legitimacy, and stability to certain formal institutions, it is at the same time one step removed from and inevitably a more or less acute distortion of these formal institutional realities. In most cases, this lack of harmony remains limited, as formal and informal institutions tend to move slowly and in lockstep. For example, the market has historically been one of the supportive principles of the institutions of the liberal democratic nation-state. Yet there are times in which the contours of a prevailing informal institution evolve so much and so suddenly that it becomes increasingly antagonistic to a corresponding formal institution or set of formal institutions. This

opens the possibility that the prevailing informal institution no longer serve as a shield protecting the existing formal institutional structures against antagonistic pressures. On the contrary, the informal institution then becomes a corrosive force against these formal institutions.

This is what happened with the market in the 1980's in a few particularly exposed and fast-moving sectors of Europe's economy and in certain areas of economic policy-making that were functionally related to these sectors in a direct way. Increasing numbers of people started to invest capital, to trade commodities, to travel, and to work across what was increasingly becoming, at least informally – i.e., in the eyes of many people – an “international” or even a “global” economy. Although this trend was neither homogenous nor necessarily irreversible, it was in evidence at least since the end of the World War II and underwent a dramatic acceleration since the 1980's. At the point where the market becomes an orthodox substantive depiction of reality, social actors come to believe that certain formal organizational characteristics of the economy, to the extent that they are incompatible with the market, have de facto become empty shells. In the above financial example, this displacement of formal institutions by the informal institution of the market began to take place in the late 1960's and accelerated in the 1970's and 1980's, largely for technological and economic reasons.<sup>10</sup> Since non-market financial regulations and mechanisms were more and more easily ignored or circumvented, they no longer commanded any great respect and thus started to appear as “merely” formal arrangements, devoid of “actual” or “substantive” content.

The tensions between “the market,” experienced as a new or even revolutionary substantive reality, and certain institutional legacies of the past, which suddenly seemed completely obsolete, cut across a variety of issue areas starting in the late 1970's. Suddenly, the market metaphor seemed most appropriate to make sense of the growing mobility of capital across borders. Most visibly, a rapid technological evolution – some authors even speak of a “revolution” – affected the sectors of finance, telecommunications, and information technologies, with direct consequences for macroeconomic policy-making, tax collection and transfer policies, and a variety of other ripple effects.<sup>11</sup> With individual actors and firms increasingly turning to sophisticated portfolio investment strategies, taking advantage of tax heavens or loopholes, and shopping around for suppliers, the market was increasingly an economic reality that could no longer be neglected or easily manipulated. Old (“Keynesian”) recipes for running the national economy became old hat simply

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<sup>10</sup> On two main aspects of this phenomenon – the increased pace of capital mobility and financial innovation – and their political accommodation, see John B. Goodman and Louis Pauly, “The Obsolescence of Capital Controls: Economic Management in an Age of Global Markets”, *World Politics* 46 (October 1993); Moran, Michael, *The Politics of the Financial Services Revolution: The USA, the UK, and Japan* (New York: St Martin's Press, 1991). For historical perspectives and overviews, see Eric Helleiner, *States and the Resurgence of Global Finance* (Princeton: Princeton University Press, 1996); Barry Eichengreen, *Globalizing Capital* (Princeton: Princeton University Press, 1996); Beth A. Simmons, “The Internationalization of Capital,” in Kitschelt and al., eds., *Continuity and Change in Contemporary Capitalism*.

<sup>11</sup> See for example, on the problems created by capital mobility: Paulette Kurzer, *Business and Banking* (Ithaca: Cornell University Press, 1993); Michael Loriaux et al., *Capital Ungoverned* (Ithaca: Cornell University Press, 1997).

because they appeared not to work any longer under the conditions of an increasingly global capital market. Pressures on political actors to reform their macroeconomic and industrial structures began to accumulate as a result of a variety of underlying economic trends and forces.

*Second meaning: the market as normative ideal*

These economic trends and forces do not exhaust what we mean by “the market”, however. In a sense, a second meaning of the market that we will now consider is both the extension and the negative image of the above substantive meaning. It is particularly visible as such in the many shady areas of political economy where the global market has *not* clearly become an overwhelming substantive reality. Indeed, in many economic sectors or areas of policy-making, the existence of “competitive forces” followed rather than predated the expansion of market norms. In some cases, even these “competitive forces” have even remained weak relative to the power of existing institutional arrangements. While the substantive reality of the market certainly came to the fore in the 1980’s, the depth and long-term significance of this development is extremely hard to assess. The various images of a global market undeniably reflect a certain kernel of reality, but they are also hugely exaggerated. Recent scholarship suggests that the exact reach of the “global market forces” is debatable and that sweeping claims about the obsolescence of national borders and institutions may be premature.<sup>12</sup> The fact is that, in many important ways, political and economic activities remained formally embedded in local institutional frameworks inherited from the past.

If we accept that substantive economic pressures are not uniform and do not all call for uniform policy or institutional responses, then the particular appeal of the market metaphor as a relatively uniform source of policy and institutional inspiration nonetheless remains to be explained. Why did marketization become such a powerful element of European policy agendas? The first answer that comes to one’s mind is “ideology”, but this is not a sufficient answer if we only attach a narrow meaning to this word. The image of a “global market” does not simply mark the return of old-style liberal economic ideology as a direct effect of substantive economic forces increasing the power resources of certain political actors and social groups. While certain aspects of the market are strictly “ideological” in the sense of being directly self-serving for well-identifiable actors and groups – for example the calls for all-out labor market deregulation and a complete abandonment of the distributive functions of the state – these aspects only constitute one of the many dimensions of what people routinely identify as the market model in a contemporary context.

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<sup>12</sup> See for example Suzanne Berger and Ronald Dore, eds., Global Capitalism and National Diversity; Peter Evans, “The Eclipse of the State? Reflections on Stateness in an Era of Globalization,” World Politics vol. 50, no. 1 (October 1997): 62-88; Kitschelt et al., eds., Continuity and Change in Contemporary Capitalism.



In fact, the metaphor of the “free market,” analyzed by Polanyi as the thinly veiled ideology of the rising industrial bourgeoisie in the nineteenth century, came back in the different, less emotionally loaded, but altogether more pervasive figure of a dominant mode of rationality. In particular, it denoted a set of principles of economic organization that are generally considered as operational functional principles in the economic sphere and thus need to be taken into account for the purpose of generating growth and prosperity within a given society. As a normative model, the market is said to represent first and foremost a path of superior “efficiency”. Compared with an ideology, an informal institution gains in pervasiveness what it loses in emotional intensity. In the context of advanced industrial societies, it is hard to seriously argue against the idea of efficiency, even though it is possible to question its relevance and compelling force in particular cases. As a matter of fact, some of the most potent informal institutions that we encounter take the appearance of sets of seemingly positive or functional tenets rather than overtly normative and therefore ideological visions. The market is certainly one of them. It represents a more diffuse, less politically loaded, and therefore less easily identifiable mode of rationality than ideology as commonly understood.

During the 1980’s and 1990’s, the imperative of market efficiency percolated as a very important normative model of how resources should be allocated. This change is perhaps most visible in the area of public sector structure and the general principles guiding the formulation of public policy. Until the 1980’s, certain economic activities and administrative practices that were considered part of the public sector were purposefully removed from the sphere of the market and the reach of its forces. Of course, these activities and practices were not completely sheltered from economic forces, yet they were at least partially protected from the effect of these forces. Increasingly, however, the old rationales of public intervention in the economy – including the correction of market failures, the development of public infrastructures, the promotion of equal access to public services, the orderly pursuit of prosperity on the basis of long-term planning – were supplanted by the imperative of market efficiency.<sup>13</sup> Unlike the substantive meaning of the market, this was not always due directly to the presence of market “forces” that literally forced a revision of well-institutionalized practices. Economic forces created dysfunctional and sometimes counterproductive outcomes, but this had always been the case and the market model was neither an obvious nor a surefire remedy against these problems. Yet there occurred a noticeable convergence of political forces and normative orientations on that market model, which then triggered a wave of public sector reform and in some cases the privatization of potentially

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<sup>13</sup> Martha Derthick and Paul J. Quirk, The Politics of Deregulation (Washington: Brookings Institution, 1985); John Vickers and Vincent Wright, eds., The Politics of Privatization in Western Europe (London: Frank Cass, 1989); John Waterbury and Ezra Suleiman, eds., The Political Economy of Public Sector Reform and Privatization (Boulder: Westview Press, 1990).

competitive activities. The generically stated intent of these reforms was to run the public sector more on the model of the market – even though economic forces alone did not necessarily point in that direction and there were other possible reform options.

While the causes of marketization were not unambiguously “structural”, this trend did entail very profound structural effects in an organizational sense. Gauged by the normative ideal of market efficiency, the organizational forms that structured many sectors of activity suddenly appeared as completely “inefficient”. The many waves of privatization of public-sector industries throughout Europe, the decline of labor unionism, and the growing relative importance of service sector activities in the economy, combined to reinforce an ideational environment in which the conflict between the norm of the market and potential contenders in the economic sphere clearly turned to the advantage of the former. Here, the market was conceived not so much as a set of international economic forces that made change directly necessary, but as a norm whose relation to the increasing “competitive pressures” of a “global economy” was relatively indirect. The catchword was not only “efficiency”, but also “flexibility” and above all “competitiveness”. The privatization of various firms or even integral pieces of the public sector proceeded swiftly. In France most dramatically because of the historical role of the state in the economy, the contribution of public-sector firms to the GDP dropped from over 20% in the early 1980’s to about 7xx% in the late 1990’s. In Britain, the share of traditional industry fell from xx to xx%, and the number of public-sector employees declined from xx to xx. The liberalization of many sectors was undertaken throughout Europe, not only in technologically fast-moving sectors like finance and telecommunications, but also in transportation (airlines, trucking, and railroads), energy (gas and electricity), and postal services.

Associated with these trends, there was certain universal, albeit uneven, shifts in patterns of interest representation. First, there was a decline in union membership, which especially dramatic in some cases.<sup>14</sup> Once market norms of organization became widespread, there was simply less space for the unions to assert themselves in collective bargaining situations. In France once again, the rate of unionization amongst employees sharply diminished, from 22% in 1975 to less than 10% in the 1990’s. Even in Germany, where the national labor confederation (DGB) was historically very established and remained strong relative to other countries, union membership declined from 35% in 1975 to less than 30% in the 1990’s. Secondly, there were certain practical changes in channels of interest representation. “Corporatist” channels of interest representation still functioned, yet in some countries – especially Britain and Sweden – they were increasingly

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<sup>14</sup> For rich data on the declining membership of unions, see Miriam Golden, Michael Wallerstein and Peter Lange, “Postwar Trade Union Organization and Industrial Relations in Twelve Countries,” in Kitschelt and al., eds., Continuity and Change in Contemporary Capitalism

challenged by a tendency for collective bargaining to move from the national to the regional level, the company level, or even the shop-floor level. While these examples were sometimes isolated and extreme, they were nonetheless fairly representative of broad cross-national tendencies.

These trends eased the spread of the normative model of the market to previously unchartered territories, yet they did not prevent the emergence of numerous tensions, here again, between the traditionally prevailing institutional forms and the new norm of the market. The sudden emergence of a market norm of economic efficiency in previously sheltered economic activities did not occur without creating important tensions. Many interest groups and social coalitions within European societies adopted a defensive stance and resisted the practical consequences of that trend, sometimes with success.<sup>15</sup> The tensions became especially visible with the increase of public sector strikes and administrative resistance to that trend. While efficiency as conventionally defined by economists (as “Pareto efficiency”) is simply a criterion of greater exploitation of the individual welfare gains from economic exchange, the normative ideal of “competitiveness” implies a much deeper level of structural reform than simply that which is warranted by the realization of Pareto-efficient transactions. This drive for greater competitiveness was not a universal trend, but it touched certain domains of activity that were previously thought as “special” or inherently “public,” where the presumption of market failure and the ensuing choice of non-market modes of resource allocation had relegated the achievement of cost- and price-competitiveness to the rank of secondary problems, and where the competitive logic was almost completely absent. Thus, the rapid spread of the market as a prevalent normative model was accompanied by a widely felt sense of disorientation in many segments of European societies.

### *Third meaning: the market as versatile platform*

In advanced capitalist societies, the market reflects, both as a substantive understanding of reality and as a normative model of how resources should be allocated, a set of assumptions and tenets that enable people to make sense of a world in flux. But insofar as the existence of the market has certain broad consequences for the general balance of principles that characterize modern liberal democracy, it is also an important platform of political discourse as well as a topic of periodically heated political debate. In the last two decades of the twentieth century, the principle of the market once again came to the fore of the European political scene with the enactment of an impressive series of “market-oriented” reforms. It could be argued, once again, that this latest

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<sup>15</sup> For example, Miriam Golden, Michael Wallerstein and Peter Lange show that, despite a declining membership, labor unions remained well-entrenched in labor relations and wage-bargaining institutions. On the adaptation of labor unions in Germany, see also: Kathleen A. Thelen, *Union of Parts* (Ithaca: Cornell University Press, 1991).

development was simply old wine in new “ideological” bottles – the straightforward effect of unprecedented technological and economic forces. To be sure, the market before the 1980’s was already part and parcel of the West European model of liberal democracy. In addition, the market did not suddenly displace all other principles of political and economic organization. Liberal democracy is a multi-dimensional cosmological construct, which generally integrates several coexisting principles of organization – the market clearly being one of these principles in the post-World War II era.

Yet something very important changed toward the end of the 20<sup>th</sup> century. What was altered in the course of the 1980’s and 1990’s was the overall *balance* between the market and other principles of political and economic organization. This was partly an effect of the resurgence of the market as a substantive reality and as a normative model, which was bound to somehow affect the set of principles that operate in the political sphere. But it is also a self-contained phenomenon with its own distinctive characteristics. In the 1980’s and 1990’s, the market as a platform of discourse progressively gained a currency that it had arguably never achieved before in European politics. Furthermore, the market was revealed as a particularly versatile platform that could accommodate otherwise divergent political worldviews. Even among those political actors who “accepted” the existence of the market, there remained a wide spectrum of attitudes on what the existence of the market exactly entailed. From a political perspective, the market did not at all constitute a single coherent normative ideal on which expectations converged. Rather, it was a minimal meeting point or synthesis amongst a variety of agendas and motivations.

This existence of the market as a minimal versatile platform of political discourse is particularly visible at the level of transcending political rhetoric and the diverse agendas of political parties.<sup>16</sup> Before the 1980’s, most European mainstream political parties were noticeably ambivalent toward the market. Conservative parties were traditionally in favor of free enterprise, yet they harbored certain concerns about the dangers posed by the market for the maintenance of social order. Insofar as the market was seen as a potential source of social unrest, such conservative positions on social and political issues actually weakened their commitment to liberal economics. Meanwhile, the left was even more reluctant toward liberal economics. A central and explicit objective of Europe’s communist and old-style socialist parties, especially in Southern Europe, was to eventually move away from the model of market capitalism. Communist parties wanted to do it in a revolutionary fashion, whereas the method proposed by socialist parties was

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<sup>16</sup> There was undoubtedly a universal shift from a broad rhetoric of expanding welfare entitlements to one of welfare retrenchment – even though the actual effects of this new rhetoric in terms of welfare cuts are debatable. See for example: Paul Pierson, “The New Politics of the Welfare State,” *World Politics*, v. 48, no. 2 (1996): 143-179; John D. Stephens, Evelyne Huber, and Leonard Ray, “The Welfare State in Hard Times,” in Kitschelt et al. *Continuity and Change in Contemporary Capitalism*; Jonah Levy, “Vice Into Virtue,” *Politics and Society*, v. 27, no. 2, (June 1999).

cast in reformist terms, but their stated long-term objectives were similar. As for the social democratic parties of Northern Europe, they were generally willing to accept the continued existence of market capitalism, but on the condition that it be counterbalanced by a strong role for public or semi-public bodies or other modes of public regulation, interest-intermediation, or intervention in the economy.

During the 1980's, by contrast, conservative parties across the European continent became more vocally pro-market than before, in the wake of Thatcherite Britain. There was a partisan ideological subplot to this trend, as many of Europe's conservative parties that were shopping for new winning ideas to add to their agendas in the mid-1980's often picked up neo-liberal proposals à la Thatcher. But perhaps even more tellingly, the European left converted en masse to the principles of market economics, to the point where the specificity of its policy agenda became somewhat blurred.<sup>17</sup> This was not a huge step to take for social-democratic parties, but for it was not an easy one to take for socialist parties like the French socialist party for instance. The diminishing prestige of Soviet-style economic planning and then the collapse of the Soviet Union obviously played a role here, since it no longer made sense to aspire to a socialist "middle ground" between capitalism and communism. But even Europe's social democrats were led to fundamentally revise some of their most important policy tenets, like the principle of full employment.<sup>18</sup> As for communist and other far-left parties, who until the 1980's represented as much as 15-20% of the electorate in countries like Italy or France, they dwindled into an electoral fringe phenomenon in most countries. By the late 1990's, the communist electorate represented nowhere more than 10% of the voters. In most West European countries, the communist party actually changed its name and, in particular, abandoned the political objective of a revolutionary break away from liberal democracy and market capitalism.

None of the above is intended to suggest that this resurgence of the market as a versatile platform occurred without tensions, however. Only in retrospect is the versatility of the market platform particularly striking. The minimum areas of agreement that makes political debates possible between conflicting worldviews change very rarely and, when they do change, this generally occurs through intense debates or conflicts. Within each tradition of discourse, reform-minded actors who seek to achieve their preferred options need to overrule what they see as "rigid" institutional settlements. But in so doing they run against the preferences of other actors who defend the status quo, which inevitably generates tensions. With the 1980's-1990's resurgence of

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<sup>17</sup> See for example: Herbert Kitschelt, The Transformation of European Social Democracy (Cambridge: Cambridge University Press, 1994); Perry Anderson and Patrick Camiller, eds., Mapping the West European left (London: Verso, 1994); Geoffrey Garrett, Partisan Politics in the Global Economy (Cambridge: Cambridge University Press, 1998).

<sup>18</sup> Fritz Scharpf has aptly described this turning point as the "crisis of social democracy". See Scharpf, The Crisis of Social Democracy

the market on a apparently global level, the tensions between the formal and informal institutional bases of European political economy crystallized as an apparent discrepancy between the local basis of Europe's political organization – i.e., to a large extent, the state – and the comparatively global reach of its dominant economic mode of rationality – i.e., the market.

In a sense, this discrepancy was not specific to Europe, since the rise of a “global market” was a phenomenon of world-historical magnitude. In all advanced industrial democracies, economic activity is, almost by definition, an extremely important sphere of activity – what Weber called a “way of life” – and it remains organized overwhelmingly at the local level. But the tension was especially striking in Western Europe due to the exceptional weight and role of the public sector. In particular, a whole range of policies and mechanisms that had come to represent a certain social ideal of fairness and solidarity sanctioned by and embodied in the West European welfare state were at least indirectly at stake. These highly formalized, well-entrenched aspects of the European state seemed to contradict the new market orthodoxy of the day. This was in and of itself not very surprising, given the fact that these policies and mechanisms owed their existence to a general lack of confidence in the market to ensure desirable levels of social stability that culminated in Western Europe after the Great Depression and World War II. Yet in the context of the 1980's, the dual basis of Western Europe's postwar political compromises, perhaps best captured by the German notion of a “social market economy” (*Sozialmarktwirtschaft*), suddenly appeared as rife with internal contradictions to the point of being almost unsustainable.

This alteration in the balance of organizing principles that constituted the discursive sphere common to the most prominent West European political worldviews created perhaps the greatest number of tensions. The sense of disorientation was profound both amongst traditional political party militants and in the electorate. The rise of new types of political parties that self-identified on the far right or on the margins of the traditional left-right cleavage, such as green or regionalist parties, upset the traditional balance of political forces in most European countries. In France and Italy, for example, mainstream parties ranging from moderate conservative parties to the non-communist left represented more than 70% of the votes from 1945 to the early 1980's. These parties played the game of electoral competition, mostly on traditional distributive politics issues and on how much the market should be regulated or left unleashed. Yet by the mid-1980's, the same parties represented only xx% of the electorate. The rise of a nationalist backlash in reaction to “the global market” and in the name of defending a certain vision of “national sovereignty” certainly expressed the anxieties of many voters vis-à-vis the new turn in European politics and the unprecedented salience of the market in political discourse. In the 1980's and 1990's, the political parties that had been historically strong in Western Europe throughout the postwar period – including communist parties in countries like Italy or France – often seemed unable to capitalize on

voters' discontent. The tension between the market and the state were perceived as potentially threatening and seriously affected the legitimacy of traditional political actors and parties. For the first time, the core principles of Western Europe's postwar political order, including the existence and future of the welfare state, seemed to be at stake.

## **I. Toward a European formula of reform**

The historical resurgence of the market created important tensions with the existing institutional framework of European political economy. Since these tensions were quite visible and seemed to affect the core foundations of Europe's postwar political order, they quickly became a focus of attention. Principles of political-economic organization are generally sticky, if only because its exponents acquire a vested interest in the persistence of the prevailing principles. In addition, they can serve to shield the existing order of things against external pressures. For example, a particular institutional order that is legitimized in terms of "the state" (or "the market") may be politically unfair, socially unstable, or economically sub-optimal, yet it also embodies particular resource allocation mechanisms that are valued by at least some citizens and political leaders in part because they constitute a relatively harmonious and comfortable, albeit sometimes fragile, political equilibrium. To the extent that a given formal institution represents a widely shared means of livelihood in a given society, it is relatively impervious to external pressures.

When informal understanding undergo such major shifts as the resurgence of the market in late twentieth-century Western Europe, it opens up the possibility of institutional reform, but it does not necessarily provide a surefire formula for institutional reform. However justified by the evolution of reality on the ground, the prospect of reform is always difficult to envision because it threaten to upset hard-won and elaborate institutional equilibria and to provoke a political backlash against its initiators. Any broad process of institutional change is fraught with tensions, and therefore a particular political formula for reform is generally needed for the process to continue. Before a new institutional equilibrium can emerge, some form of political give-and-take must generally take place.

In late 20<sup>th</sup>-century Western Europe, there were a number of tensions between the state and the market and there was a broad political demand for some kind of resolution; yet there was no obvious solution. Increasingly, however, these tensions were met by a new solution, namely "Europe". The advantage of "Europe" was that it could be used as a solution – and political slogan – to resolve each set of tensions. To each aspect of the market – substantive reality, normative idea, and versatile platform – corresponded a particular type of European solutions of pragmatist, modernist, or even utopian character. "Europe" emerged as a particular search focus, according to

the widespread notion that the solution “must” be international since the problem was a discrepancy at the international level between the state and the market. The political formula of European union through the market emerged very progressively. European integration appeared either as a way to pre-empt and thus to indefinitely postpone radical economic liberalization, or on the contrary as a way to accelerate that process. Of course, this formula did not completely resolve the problem of a discrepancy between formal and informal institutions – new gaps constantly arose, calling for new reforms. But it provided a sense of directionality that was lacking in the context of 1980’s and 1990’s European politics.

### *First resolution: Europeanism as pragmatism*

The first manifestation of Europeanism is perhaps best encapsulated in Delors’s depiction of the 1992 agenda as “pragmatic”.<sup>19</sup> In the historical context of the mid-1980’s, the market orientation of the European reform agenda seemed to impose itself as a matter of course. In this sense, Europe appeared simply as a realistic solution to the economic tensions of the 1980’s. Due to the increasingly visible transnational dimension of economic evolution and substantive pressures, the idea of “unleashing” market forces by freeing trade on a regional scale gained momentum. There was nothing particularly revolutionary in this idea, which consisted of a straightforward extension of classical economic reasoning in terms of comparative statics and the possibilities to exploit economies of scale and comparative advantage. What was new was the sense of that this drive toward greater economic exchange had acquired a particular urgency due to an accumulation of economic pressures. The Single Market appeared as a rather natural and logical next step for a set of mature European economies to adapt to a new substantive reality – as a way for the political leaders of Europe to cope with the pressures of an increasingly global economy in a carefully controlled way.<sup>20</sup> As a matter of pure economic and political pragmatism, it seemed logical to adapt to the internationalization of economic relations through a corresponding internationalization of economic policy-making.

There is a good deal of empirical evidence that tends to support this view of Europeanism as pragmatism. The 1985 White Paper on the Internal Market, which served as a blueprint for the Internal (or Single) Market agenda of “1992,” was consistently sold by its promoters as a necessary adaptation to new substantive realities and a way to solve the problems encountered by the

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<sup>19</sup> Jacques Delors, *L’Unité d’un homme* (Paris: Odile Jacob), 1994, p. 220.

<sup>20</sup> This is perhaps the crux of the explanation of recent European integration based on endogenous policy theory, most notably: Moravcsik, *The Choice for Europe*. Similar albeit less sophisticated interpretations of EU-level reforms as the “necessary” response to global economic pressures can be found in the broader policy literature, especially in the economic press: see for example *The Economist*, “Thatcherites in Brussels (Really),” March 15, 1997.



member states of Europe in dealing with the international dimensions of policy-making. It was formulated as a list of about 300 realistically achievable measures that were intended to bring down the many non-tariff barriers (NTB's) that still existed within the Community – the “physical” barriers such as border controls, “technical” obstacles such national norms and standards, and the “fiscal” distortions that is to say the many tax practices that discouraged trade between the member states. Clearly, the White Paper was a complex document and the whole “1992” endeavor was a response to a variety of trends.<sup>21</sup> But the initiative was introduced in the context of a universally acknowledged trend of increased intra-EEC protectionism that had surreptitiously accompanied the recession of the 1970's.<sup>22</sup> While some European countries saw a certain level of protection as a rightful defense against the penetration of imports from third countries, the common memories of the disastrous beggar-thy-neighbor protectionism of the 1930's were nonetheless still vivid and protectionism did not appear as a satisfactory long-term solution to economic competition and adjustment problems. Insofar as the Internal Market initiative was aimed to reverse that trend and facilitate the circulation of goods, capital, labor and services throughout the Community, it built upon and revived a number of earlier EC initiatives aimed at this objective.<sup>23</sup> The choice of a catchword like the “internal” or “single market” seemed an adequate policy response to the fact that the substantive reality and inescapability of market forces that originated beyond fragmented national boundaries loomed particularly large in European elite perceptions at the time when the project was adopted.

The construction of the 1992 agenda with reference to the substantive reality of the market must also be understood in the context of the historical objectives of the EC, which made a market agenda seem rather innocuous. In many ways, the market was the essence of the European Community – the EC itself was in fact better known as the EEC (“European *Economic* Community”), or even more tellingly, as the “Common Market”. When the Jacques Delors toured the capitals of Europe in late 1984 to sell this idea to the member states as a return to the original idea of Europe's founding fathers, there was no a priori objection to it.<sup>24</sup> The substantive deal on

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<sup>21</sup> Useful discussions of the various trends that contributed to the “1992” initiative can be found in: Wayne Sandholtz and John Zysman, “1992: Recasting the European Bargain” *World Politics* vol. 42 (October 1989); David Cameron, “The 1992 Initiative: Causes and Consequences” in Alberta Sbragia, ed., *Euro-Politics* (Washington: Brookings Institution): 23-74; Andrew Moravcsik, *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht* (Ithaca: Cornell University Press, 1998), chap. 5.

<sup>22</sup> On the general phenomenon of policy divergence in the 1970's, see Katzenstein, *Between Power and Plenty*. An interesting index of renewed intra-EEC protectionism is the increased number of cases under investigation by the European Commission of countries breaking EC prohibitions of import restrictions, which jumped from 60 in 1974 to about 400 in 1978: see “What Common Market?”, *The Economist*, October 28, 1978; “Trade Barriers in the EC,” *Financial Times*, October 15, 1981.

<sup>23</sup> The most recent high-profile initiative before the White Paper was the Internal Market Council, formed in 1982 and spearheaded by its chairman German Finance Minister Otto von Lambdorff (also a leader of the Liberal Party FDP at the time) and EC Commissioner Karl Narjes (also a German). See “EEC Trade Evangelists Tackle Trade Protectionism,” *Financial Times*, February 1, 1983.

<sup>24</sup> Delors recounts his own experience of this period in Jacques Delors, *L'Unité d'un homme* (Paris: Odile Jacob, 1994), pp. 219-222.

the Internal Market was soon buttressed by the signing of a new treaty, the Single Act, whose central novelty was to empower the Council to adopt by qualified majority vote those “measures [...] which have as their object the establishment and functioning of the internal market” (Article 100a). The member-states were thus formally *reasserting* a commitment to tread down the path of the “internal market”. While there was no guarantee that this would indeed happen and that the EC would shortly thereafter become the EU, it is nonetheless important to understand that this outcome was thoroughly predicated on the existence and the reassertion of the original goal of the European Community as it was spelled out in the 1950’s.

Perhaps even more importantly, the Single Act resuscitated the “Community method”, i.e. the practice of majority-rule decision-making, at least on matters relating to the “internal market”.<sup>25</sup> The Single Act itself implied a certain abandonment of the so-called Luxembourg compromise – i.e., an intergovernmental gentlemen’s agreement by which any member state could legitimately veto any proposal that its official representatives considered contrary to the national interest.<sup>26</sup> The problem with this informal agreement was that it effectively trumped the formal decision-making structure and the spirit of the Community, whose explicitly agreed-upon normal voting principle was majority rule.<sup>27</sup> The problem here was a little trickier than with the rejuvenation of the “Common Market” objective of the 1950’s into what became known as the “Single Market”. The issue was perhaps most sensitive in France, where the party in power was the self-proclaimed Gaullist RPR and where the shadow of de Gaulle’s past intransigency toward the EC still hovered over party and parliamentary politics. Yet what redeemed the new treaty in the French Parliament was the precisely the fact that the Luxembourg compromise had always been informal – and, therefore, its explicit repudiation was not necessary.<sup>28</sup> As long as the substance of EC decisions remained

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<sup>25</sup> Longtime Community observer François Duchêne (a former aide to Jean Monnet) recently expressed the following view: “[In the mid 1980’s] EC countries were persuaded to make a real effort to achieve the ambitions of the Treaty of Rome. This meant rally introducing the joint regulations needed to make the customs union into a true single market, which it still was not; and for this purpose reviving majority voting as the treaty had initially intended. The result was a European Community which from 1987 to 1992 worked perhaps for the first time as it was originally designed to do.” See François Duchêne, Jean Monnet (New York: Norton, 1994), p. 337.

<sup>26</sup> The Luxembourg compromise was informally established in 1966. It was originally a concession made to France by other member states, in exchange for President de Gaulle’s agreement to end France’s “empty chair” policy in European institutions. In successive drafts of the Single European Act, Commission officials had pointedly downplayed the significance of this sensitive point.

<sup>27</sup> See for example the unsuspecting assessment of Commission President Walter Hallstein in 1962: “The principle of majority voting is employed by the Community for its regular proceeding; the rule of unanimity, which was one of the stumbling blocks of previous experiments, is here reserved for exceptional cases which bear heavily upon national sovereignty in fields in which the principle of the treaty have to be made more precise in order to become directly applicable. Moreover, majority voting becomes more and more the norm for Council decisions as the treaty’s transition period progresses.” See Walter Hallstein, United Europe: Challenge and Opportunity (Cambridge: Harvard University Press, 1962), p. 23.

<sup>28</sup> In the course of the French parliamentary debate, the prospect of doing away with the Luxembourg compromise was rejected. It was reported at the time that Premier Jacques Chirac promised that the compromise would remain valid, in order to reassure the Gaullist old guard. See “Relance européenne: l’Assemblée prend acte,” Libération, 20 novembre 1986; “L’Acte Unique: Chirac rassure le CDS,” Le Figaro, November 6, 1986. Yet this promise did not carry many obligations for the government since the compromise had no official existence in any EC legal document. Chirac’s act was aptly summarized by Maurice Couve de Murville, an RPR senator and former foreign minister under de Gaulle: “Nothing is repealed since the Luxembourg compromise does not exist”. See interview of Couve in Le Quotidien de Paris, November 7, 1986.

circumscribed to “the market” and presumably did not affect “vital interests”, it seemed once again rather logical to support a treaty that merely facilitated the adaptation of Europe to the new economic realities of the market.

Thus, in the context of the mid-1980’s, the large community of European policy-makers eventually sided in favor of the Internal Market objective – at least at a rhetorical level – both because “the market” fit the dominant substantive understanding of the economy in European elite and because it appeared to be in tune with the natural vocation and competence of the European Community. The Single Act was ratified by all twelve member states without any major problem – either by the national parliaments or by referendum in the case of Ireland and Denmark. In France, a large multi-partisan majority of the National Assembly (498 votes out of 572) eventually emerged in favor of the Single Act on November 20, 1986.<sup>29</sup> In Britain, the debate pitting Mrs. Thatcher against the “anti-Marketeters” was cast in terms of “sovereignty,” and thus somewhat similar to the French debate; but Thatcher’s majority in the Parliament was so overwhelming that the Single Act passed also without any difficulty.<sup>30</sup> In Germany, the main point of contention was the Bundesrat’s demand to participate in the decision-making process at the EC level, which was not supported by the federal government and was ultimately withdrawn.<sup>31</sup> The Netherlands, Belgium and Luxembourg ratified the Act without difficulty, as well as Spain and Portugal, the two most recent newcomers to the European club. Ireland voted by referendum in favor of the treaty also without any problem.<sup>32</sup> The only delay in the ratification process actually occurred at the very beginning, as a result of Denmark’s decision to abstain from signing the treaty until it held a referendum that approved the decision.<sup>33</sup> After the Danish referendum was held, Greece and Italy, which had also abstained from signing the treaty as a gesture of solidarity with Denmark and of protest against the “narrow” range of the reform, soon rejoined the European chorus.

However “narrow” it may have seemed, the Single Act’s apparently modest focus on making the market “function” more effectively, was probably the condition of its success. As it later turned out, “the establishment and functioning of the internal market” could be taken to mean quite different things. The meaning of an informal institution such as the market is, by definition, a matter

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<sup>29</sup> This overwhelming vote hailed as a victory of “Euro-realism” in Le Monde’s op-ed of November 26, 1992.

<sup>30</sup> For the British ratification debate, see for example, “Last Haul on the Drawbridge” Financial Times, July 7, 1986; “Thatcher, still the sceptic in Europe”, The Times, June 30, 1986

<sup>31</sup> Die Zeit, xxx

<sup>32</sup> In the referendum, the main issue was preservation of neutrality and the prohibition of abortion, but the three main parties were in favor of a yes vote to avoid losing EEC contributions of £1 billion annually and other adverse economic consequences. See “Apathy dominates Irish vote on EEC law”, The Guardian, May 25 1987

<sup>33</sup> The yes vote won by a short majority (52.6%) on February 26, 1986, but this result was hailed as “historic” by Prime Minister Poul Schlüter given the uncertainty of the pre-referendum polls in Denmark. See Financial Times, February 17, 1986, and Financial Times, March 1, 1986.

of intersubjective understandings. The market consist of broad sets of principles, categories, and metaphors delineating how the economy “works”, rather than of a coherent programmatic policy blueprint or paradigm. It therefore remains relatively blurred and amorphous as long as it is not articulated into formal arrangements and policies. Yet a key to the political success of the Single Market agenda was the fact that – despite its name – the radical orientation of the proposed solutions did not become visible immediately. The concrete proposals contained in the White Paper on the Internal Market did spell out certain important reforms that promised to generate conflict, yet they were so detailed that the bigger picture was not immediately apparent.

### *Second resolution: Europeanism as modernism*

The drive toward “more Europe” was not merely a matter of strict economic and political pragmatism, however. Another element that played in favor of a European solution to the tension between “the state” and “the market” was the ever-more widespread diagnosis of “Eurosclerosis” – and its implicit cure, consisting of market modernization. In this sense, the 1992 project was can be legitimately called “a true blend of vision and pragmatism”.<sup>34</sup> Two elements can indeed be distinguished within this view of Eurosclerosis. First, it served as a descriptive label for a diffuse series of economic, social, and political problems that seemed to affect the old continent. The crux of Europe’s sclerosis lay in the apparent permanence of sluggish rates of economic growth. It was a distinctively European disease, since the United States and especially Japan at that time were undergoing a certain economic renewal fed by a growth of modern information and communication technologies. The perception of Europe as a technological laggard and a less-than-average economic performer fed into the diagnostic of Eurosclerosis. To be sure, there was a substantive reality behind that diagnosis. European firms had difficulty keeping with the accelerating pace of business cycles and very few of them figured among the world’s leading corporations in the vanguard technological sectors.<sup>35</sup> Partly as a result of this relative technological lag, the macroeconomic situation was characterized in most European countries by a combination of stagnation and inflation, which generated massive and durable unemployment – something that both the United States and Japan had managed to circumvent.

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<sup>34</sup> These were the words used by Arthur Cockfield, the author of the White Paper. See Arthur Cockfield, “The Real Significance of 1992”, in Colin Crouch and David Marquand, eds., The Politics of 1992: Beyond the Single European Market (Oxford: Basic Blackwell, 1990).

<sup>35</sup> For the various rationales behind this perception, see Sandholtz and Zysman, “1992”. One leading European industrialist echoed the common perception in the mid-1980’s: “A leading-edge manufacturer has to have a Europe-wide market to repay his investment fast and provide a springboard to world markets before the Japanese or US competition swamps the smaller European firm.” (quoted in the New York Times, December 2, 1985).

Yet what is perhaps most interesting about the vision of European economies as completely mired in red tape is the second element of the diagnosis – its peculiar normative appeal. With the convenient label of “Euro-sclerosis”, a link was established between a region-wide problem of economic stagnation and the lack of progress in the area of European market integration. Somehow, the sluggish progression of the economy was conflated with the stasis in the process of regional integration, and an equation was implicitly established between a political re-launching of Europe and the possibility of an economic renewal.<sup>36</sup> While the Euro-sclerosis diagnosis suggested that the market was a substantive reality that could not be ignored, it also provided a path of regeneration for a European continent afflicted by economic illness. The beauty of the market vision, in this case, is that it established a causal connection between the debilitating pressures that afflicted the organizational basis of European economies and the remedial purge that was best fit for this situation – between a substantive understanding of what was really happening in those economies and a normative model of how they should be reformed. The solution to market pressures and constraints was precisely to yield to the market and thus to turn it into a positive economic opportunity. It became conventional wisdom that the traditional European models of public regulation and/or public sector presence in the economy had become obsolete; and, *therefore*, the solution must be an ambitious European-scale initiative that would sweep away these antiquated economic governance models.

Progressively, Europe and its normative ideal of market reforms became identified with a path toward economic modernity. This development was rather complex and is aptly illustrated throughout the many EU documents that call for greater “competitiveness” and faster progress in the implementation of market reforms.<sup>37</sup> On the one hand, the new equation between European integration and growth gave voice and respectability to a set of well-known liberal economic arguments. The liberal critique of the European model of the welfare state and public intervention in the economy was partly recycled at the service of European integration. Perhaps not surprisingly, some of the traditional free-market recipes were generalized beyond the areas where the market was already a substantive reality. There was undoubtedly an ideological dimension to this process, which partly reflected nothing more than the political pressures of political parties and interest groups who had a direct stake in the extension of the norm. On the other hand, the European solution to the problem of Euro-sclerosis was not “ideologically” liberal in a simple sense.

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<sup>36</sup> This is particularly clear in the editorial pages of the business opinion leaders of the late 1980's, especially The Economist and The Financial Times.

<sup>37</sup> See especially the introduction of the 1985 White Paper on Completing the Internal Market, the 1993 White Paper on Competitiveness, Employment, and Growth, the 1995 Report on the Single Market, the quarterly Price and Costs Competitiveness published starting in 1996, the 1997 Single Market Action Plan, as well as the many unofficial studies of the “costs of non-Europe” and the “achievements of the Single Market” – many of them commissioned or sponsored by the European Commission – that contributed to diffuse the ideal of competitiveness in European policy circles throughout the period of 1985-2000.

It also resulted from the intuitiveness – what sociologists would call the “taken-for-grantedness” – of the market norm in the context of the 1980’s. That peculiar historical timeliness created political opportunities for those who found it expedient to rally under the banner of the market, even in issue areas where the market was *not* previously perceived as a substantive reality. This was especially the case in three key areas of European policy-making since the 1980’s – technology, competition, and structural policies.

First, European “technology policy” consisted in developing and spreading cutting-edge technologies across the European economy, especially through various European technology programs. This endeavor was clearly reminiscent of traditional industrial policy and public intervention in the economy, yet its basic outlook was somewhat different. The goal was not so much to control and direct the operation of markets, but to generate innovation and complement private efforts in this area. The first major programs launched by the European Commission in the mid-1980’s, such as the 1984 initiative to launch a European Strategic Program for Information Technology (ESPRIT), were designed to support “pre-competitive research,” especially in technological R&D, with the intent of competing with the United States and Japan.<sup>38</sup> While free-marketeers hoped to impose their preferred agenda in the name of “Europe,” supporters of the public sector wanted to push at the European level precisely the type of policies that they felt could no longer be pursued only at the national level. In addition, the mercantilist appeal of the competitiveness agenda periodically resurfaced and afforded a view on the ambiguities of various actors in their nominal commitment to the norm of the market.<sup>39</sup> From the beginning, European Commission officials gave verbal support to the idea of an industrial policy – even though its content was never all that clear, in part because the very principle of industrial policy was potentially in conflict with that of competition policy.<sup>40</sup> It remains nonetheless that R&D policy, i.e.

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<sup>38</sup> ESPRIT was the most high-profile technological support program, but there were others, including RACE, BRIT. The EC research and technology policy notably accelerated after 1984, after the publication of the Commission’s assessments in this area. See Commission of the European Communities, The Community Policy on Research and Technology: Developments until 1984 (Luxembourg: Office for Official Publications of the European Communities, 1984). For a thorough study of these early European initiatives and their impact, see Wayne Sandholtz, High-Tech Europe (Berkeley and Los Angeles: University of California Press, 1992).

<sup>39</sup> This is true not only of traditional adepts of dirigisme but also of certain influential segments of the European business elite who were split between their ideological inclination for laissez-faire and their rather mercantilist vision of the global competition for market share between rival firms. See for example the speeches of French CNPF representatives “European companies – and especially French companies – need a powerful internal market to reach the efficiency thresholds that will determine their competitive capacity and their attack potential. [sic] [...] Let us take advantage [of the size of the European market] to avoid that the internal market be raped, and then surrendered [sic]. [...] Europe must aim at monetary solidarity.” (Figaro, “Pour une Europe libérale et conquérante,” February 2, 1984, my translation). The same ambiguity was still in evidence in 1988, at the time of the debate on “fortress Europe”: “The CNPF is in favor of a Europe that will be sufficiently powerful to be generous, a Europe open to the world but lucid. Free trade calls for another key principle: reciprocity. [...] To build Europe does not mean to build a fortress, but to protect a way of life, certain values, to ensure both economic progress and a level of social protection of which we are proud.” (Interview of CNPF Chairman François Périgot, Le Figaro, December 13, 1988; my translation).

<sup>40</sup> The critical event that demonstrated this possibility of conflict was the Commission’s decision to block the merger between French-Italian aerospace consortium ATR and Canadian aircraft manufacturer de Havilland. For an account of this controversy, see George Ross, Jacques Delors and European Integration (Oxford: Oxford University Press, 1995), pp. 176-180. For arguments

a very specific type of industrial policy, became an ever more tangible reality. Most clearly, it was the object of a steadily expanding EC-level investment over time. The amount of EC money spent on common R&D programs increased from 1.6% of the total EC budget in 1981 to about 3.6% of the considerably expanded EU budget in 1999.

Secondly, European competition policy certainly became one of the best-known aspects of EU economic policy-making in the 1980's and 1990's. This policy area emerged relatively slowly, however. Only in 1989, when the European Council of Ministers passed the long-awaited Merger Regulation, did autonomous EU powers on competition policy really become far-reaching.<sup>41</sup> More generally, the normative model that underpins European competition policy derives from the ideal of a free competitive market. If an economic entity holds a dominant position for the supply of a certain category of products or services, then there is a risk of "monopoly rent" and the competitiveness of the economy is at stake; therefore, certain steps must be taken in order to ensure the maintenance of economic competition. While European competition policy is supposed to be neutral vis-à-vis the private or public nature of corporate ownership, the European Commission – especially its Competition Directorate General (DG IV) – is also in charge of discouraging "state aid" to industry and, in practice, it has subjected public firms to relatively stricter scrutiny than private firms.

Thirdly, European "structural" policies cover a variety of targeted economic infrastructures and regional development programs. The term was coined in the Commission's 1993 White Paper on Competitiveness, Employment, and Growth. That document contained three parts. The first part built on the earlier 1992 initiatives and simply called for a better implementation of the original agenda ("improving" the internal market), especially in the area of frontier controls and public procurements, as well as for a better tax "coordination" – after the relative failure of tax harmonization. But the most innovative part was the third one, calling for "trans-European networks" (TEN's) in the area of energy, transportation, and telecommunication. Its emphasis was on "coordination" rather than competition. This idea itself can be traced back to a "European growth initiative" adopted by the Edinburgh council in December 1992, and can even be traced back to a 1985 plan called the Missing Links project, presented by the European Roundtable of Industrialists, that called for an investment package of 60 billion dollars for the construction of

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along this line, see Pierre Buigues, Alexis Jacquemin, André Sapir, eds., European Policies on Competition, Trade and Industry: Conflicts and Complementarities (Aldershot: Elgar, 1995); Hervé Dumez and Alain Jeunemaitre, "The Convergence of Competition Policies in Europe: Internal Dynamics and External Imposition" in Suzanne Berger and Ronald Dore, eds., Global Capitalism and National Diversity (Ithaca: Cornell University Press, 1996); Francis McGowan, "Competition Policy," in Helen Wallace and William Wallace, eds., Policy-Making in the European Union (Oxford: Oxford University Press, 2000).

<sup>41</sup> The Regulation gave the Commission the competence to closely oversee or even prohibit any merger that would lead to the creation of a corporate entity whose gross annual receipt in excess of 5 billion ecus (now euros). The Commission must ensure that any such merger will not harm competition between businesses and European consumers' freedom of choice.

transportation systems and links that would make internal borders virtually irrelevant.<sup>42</sup> This was industrial policy if anything – and very different from the more laissez-faire, lobbying-oriented Business Roundtable in the US.

Altogether, the motivations behind the accelerated development of these various EU policies to support “competitiveness” were in fact very mixed. Inevitably, many member states showed a lot of reluctance when time came to renew or increase the funding for costly industrial or developmental programs.<sup>43</sup> After the 1990’s recession hit Europe, there was even less funding available, and the White Paper of 1993 was quietly shelved for better times.<sup>44</sup> Yet, despite the overall shift toward more market-oriented reforms, the problem of engineering the allocative efficiency of resources through direct microeconomic interventions in the economy has remained to this day a legitimate object of policy debate at the EU level. The normative spread of the market norm was certainly facilitated by the fact that the idea of industrial policy was put on the back burner but kept alive, rather than completely abandoned. In general, the policy content of the European “competitiveness” agenda of the 1980’s and 1990’s offers an insight into the growing normative status of the market and its utilization for the purpose of greater European integration. “Building competitiveness” was a roof for a relatively broad spectrum of proposals, some of which were not particularly liberal in character. Part of its broader appeal when compared to earlier European initiatives to revive the Common Market was precisely the fact that the European 1992 competitiveness agenda was not exclusively couched in liberal terms.

This broad appeal was especially conspicuous at the beginning of the reform process, when the re-launching of Europe was closely associated with a desire for closing the technological gap with Japan and the United States. As the Single Market and thereafter Economic and Monetary Union increasingly occupied the center stage of European reforms and policy-making in 1988-92, the liberal aspects of the agenda often appeared as relatively more salient. Even then, however, the goal in many instances was to generalize a more “modern” and “market-based” model of economic governance, rather than to bring policies and governing mechanisms in tune with a substantive pre-existing market force or reality. Traditional policy approaches were clearly altered, but not entirely jettisoned. There was a continuing debate on the “integrity” of Europe’s economic

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<sup>42</sup> See “European Roundtable Aims to Open Up the Borders”, *New York Times*, February 6, 1985. On the role of the ERT, see especially Maria Green Cowles, “Setting the agenda for a new Europe : the ERT and EC 1992,” *Journal of Common Market Studies*, v. 33, no. 4 (December 1995), pp.501-526.

<sup>43</sup> This was true not only of traditionally “liberal” states like Britain and Germany, but also of more dirigiste France. See for example “Les industriels français s’inquiètent de l’avenir d’ESPRIT” *Le Monde*, 19 décembre 1986. More generally on the fluctuating fortunes of European R&D programs until the early 1990’s, see Sandholtz, *High-Tech Europe*.

<sup>44</sup> On this episode, see Ross, *Jacques Delors and European Integration*, pp. 221-226.



“space” and on the “reciprocity” requirements vis-à-vis third countries.<sup>45</sup> Thus, the broad normative understanding of the market and the ideal of competitiveness left room for the continuing aspirations for certain forms of political control over the economy.

Of course, the Europeanist drive to “modernize” the economy did not translate into an industrial policy on a scale anywhere near that of traditionally “dirigiste” states like France. The idea of an “industrial policy” was not particularly attractive in Britain or Germany to begin with – except, in the case of Britain, if the corresponding industrial subsidies could somehow replace the agricultural subsidies at the EC level and thus consecrate Thatcher’s demand for her “money back”.<sup>46</sup> Yet by the mid-1980’s, even countries like France were suspicious of traditional forms of industrial policy based on the promotion of individual firms or industries, given the blatant transformation of many would-be “national champions” into actual “lame ducks”.<sup>47</sup> With the experience of such failures, Delors and other promoters of “competitiveness” policies at the European level wanted to invent a new kind of industrial policy, geared primarily toward the diffusion of technological R&D in the economy, the development of public infrastructures, and other programs of “structural” assistance. There was a demand for new public policy ideas in the area of economic policy-making, to which “Europe” appeared to bring certain answers.

The Single Market agenda of “1992” came to embody a sort of minimal normative consensus on the inescapability and superiority of the market over other modes of economic organization. Even those policy-makers who – like Delors – had no particular ideological inclination in favor of free-market liberalism embraced some of its tenets and supported the objective of the Single Market. The Single Market, and more generally “Europe”, presented the advantage of focusing on a given political level a diffuse call for market reforms. Since the 1970’s, policy-makers in the member states of the European Community were widely searching for solutions to the problem of sluggish growth. The apparent bankruptcy of old recipes for producing growth seemed to call for new and presumably more “market-oriented” policy initiatives. The stage was therefore set for a new European initiative and market reforms had become politically acceptable.<sup>48</sup> Under the uniform modernist heading of the Internal Market, the competitiveness agenda was in fact a

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<sup>45</sup> Delors’s concern with preserving the “European social model” can be seen in this light. See Grant, Delors, p. 83-87; Ross, Jacques Delors and European Integration, chapter 4.

<sup>46</sup> “Europe’s Missing the Revolution,” The Times, April 9, 1984.

<sup>47</sup> See especially John Zysman, Political Strategies for Industrial Order (Berkeley: University of California Press, 1977); Elie Cohen, L’Etat Brancardier (Paris: Calmann-Lévy, 1989).

<sup>48</sup> From the perspective of the broad evolution of European political economy, Peter Hall offered this assessment of the 1992 initiative: “The international reflection of [Europe’s] ‘movement toward the market’ was the Single Market initiative taken by the European Community in 1985. Although complexly determined, it was inspired by the general *enthusiasm* for market mechanisms surging through Europe at the time.” (Italics are mine.) See Peter Hall, “The Political Economy of Europe in an Era of Interdependence,” in Kitschelt et al., eds., Continuity and Change in Contemporary Capitalism, p. 154.

relatively eclectic grab bag of recipes for spurring economic growth. The evolution of the West European economic context provided a legitimate basis for the trial of new economic recipes and therefore a ready-made rationale to justify unprecedented and possibly unpopular political-economic reforms. All other things being equal, it is easy to understand that the Single Market agenda and, to a lesser extent, EMU were bound to meet a rather positive reception in that context.<sup>49</sup> By the same token, one can safely assume that the same program would probably not have encountered the same immediate success ten years earlier.

### *Third resolution: Europeanism as utopianism*

The market agenda of the 1980's and 1990's reflected a shift in the balance of public and private power in the economy. As we saw, it would be misleading to interpret this shift as a strictly "ideological" cover for the social interest groups empowered by substantive economic trends. It also reflected a broader enhancement in the status of the market as normative model of resource allocation and as versatile platform between largely conflicting worldviews. Regarding the latter development, Europe served once again as a tension-reducing device. A cosmological shift of this magnitude – somewhat like a *Gestalt* or paradigm change – never occurs automatically as a result of substantive material forces. And while it may accompany the diffusion of a normative ideal, it tends to be more reflexive, more politicized, and less incremental than the process of normative diffusion. Any such big-picture change requires a massive political accommodation that goes well beyond the substantive check of reality and the normative call for modernity. In the context of a transition to a more market-centered minimum platform of political discourse, "Europe" played an important part precisely because it was a sort of utopian land that could be filled with a variety of aspirations, many of which were difficult to reconcile or even in direct contradiction with each other. In this sense, "Europe" also represented a kind of utopia that could serve to deflate the difficulty of reconciling conflicting views of the world whose core and also largely elusive nexus was the existence of "the market".

As we already began to see, the Single Market, though clearly centered on liberalization proposals, did not simply embody the liberal creed of a lean state and a free market. Delors and his staff consistently made conscious efforts to distinguish their proposed reforms from the agenda

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<sup>49</sup> Delors himself was very conscious of this favorable political context – and decided to take advantage of it. In 1994, he wrote about the Single Market project the following sentences: "The question was, how can we relaunch Europe? [...] I had to settle for a pragmatic objective that also corresponded to the *Zeitgeist* [*air du temps*], since at that time all the buzz was about deregulation, the breaking down of all barriers to competition and to the free play of the market." (Delors, *L'Unité d'un homme*, p. 220). By the same token, Delors also has a simple explanation for why he chose not to add the word "social" in the heading of EMU (Economic and Monetary Union), despite his belief that EMU would necessarily have important social implications in the long run: "It would have never passed!" (Delors, *L'Unité d'un homme*, p. 247).

of a “liberal” Europe at the service of big business.<sup>50</sup> Two observers of Brussels politics offered the following view in 1990: “During the particular decade of the 1980’s, Europe has been relaunched upon a wave of liberal thinking. [...] It is an irony that this liberal consensus served to deepen the EC’s supranationalism irrevocably. Whether it continues to set the tone of that supranationalism is open to doubt [...] But for the moment the rallying point for Europe’s beleaguered interventionists are the ‘social dimension’ of the Community”.<sup>51</sup> The exact nature of the balance between market liberalism and the social dimension in recent European integration is an object of debate.<sup>52</sup> And indeed, the Single Market as designed and elaborated in the 1992 project could be fashioned to fulfill a variety of political as well as economic objectives. The utopian political dimension of the European enterprise perhaps surfaced most clearly during the ratification process of the Maastricht Treaty, however. It then became clear that the common aspiration for “more Europe” permitted to assuage – but not to completely avoid – a clash of grand political visions on the respective status and role of the state and the market. Over the course of a decade, EMU crystallized many aspirations and was characterized by very complex negotiations.<sup>53</sup> Yet a fundamental and consistent element of the political dynamic that fuelled the progress of EMU was that this objective could be pursued in the name of greater and more harmonious market integration. The whole enterprise of monetary union can in fact be viewed as a balancing act between a desire to regenerate the “sovereignty” of the state and a call for more “orthodoxy” in the management of the economy and public finance.<sup>54</sup> For the purpose of clarifying the discursive context of this endeavor, however, a brief survey of the ratification process of the Maastricht Treaty in the member states already makes it abundantly clear that the stakes of EMU reached well beyond a simple calculus of economic costs and benefits of moving to a new currency.

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<sup>50</sup> Delors was particularly careful, especially after 1987-8, to present the 1992 project as “market-building” rather than just economic liberalization. He claimed to be constructing a political entity with a particular cohesion, an “organized space” that would support a “European social model”, as opposed to what he called a “mere free trade area”. See Delors’s interview to the Tribune de l’Economie, November 27, 1987: “The twelve member states [...] have decided to cast the foundations of the European home, which cannot be reduced only to the large borderless market (i.e., the 1992 project). That project was the central element of the European relance but not all of it. [That agenda comprised] the large market, monetary solidarity, technology, and a social dimension.” See also Charles Grant, Delors (London : Nicholas Brealey Publishing, 1995), pp. 83-87 ; George Ross, Jacques Delors and European Integration, pp. 108-109.

<sup>51</sup> See Nicholas Colchester and David Buchan, Europe Relaunched: Truth and Illusions on the Way to 1992 (London: Hutchinson Business Books, 1990), chapter xx (“The ideology of 1992”).

<sup>52</sup> On the terms of this debate, see in particular: Wolfgang Streek and Philippe Schmitter “From National Corporatism to Transnational Corporatism,” Politics and Society, v. 19, no. 2 (1991): 133-164; Stephan Leibfried and Paul Pierson, eds., Fragmented Social Policy (Washington: Brookings Institution, 1995); Fritz W. Scharpf, “Negative and Positive Integration in the Political Economy of European Welfare States,” in Gary Marks et al., eds., Governance in the European Union (London: Sage, 1996); Liesbet Hooghe and Gary Marks, “The Struggle Over European Integration,” in Kitschelt and al., eds., Continuity and Change in Contemporary Capitalism.

<sup>53</sup> Kenneth Dyson and Kevin Featherstone, The Road to Maastricht: Negotiating Economic and Monetary Union (Oxford: Oxford University Press, 1999).

<sup>54</sup> For a more in-depth discussion of this dynamic, see Nicolas Jabko, “In the name of the market,” Journal of European Public Policy, vol. 6, no. 3 (September 1999).

The political debate on the Maastricht Treaty slowly picked up speed and then dramatically put the whole European enterprise in question after the Danish rejection of the Treaty by referendum on June 2, 1992 (50.7% voted against the treaty).<sup>55</sup> Of course, that result did not mean the death of the treaty. In most of the twelve member states, the treaty was to be ratified by national parliaments. In the European context of unitary systems of government, this meant that the treaty would almost certainly be ratified, as long as governments reflecting parliamentary majorities had signed it. There was limited contradictory debate on the treaty in Italy, Spain, Portugal, Greece, where the direct benefits from EC membership were so visible that the support existed for almost any initiative geared toward closer union. This was also true for historical reasons in Belgium, the Netherlands, Luxembourg and to a lesser extent in Germany, where the federalist impulse was dominant.<sup>56</sup> Popular referenda were scheduled only in Denmark, Ireland, and France. The Danish referendum came first, but two weeks after the Danish *nej*, the Irish referendum was held and the vote was overwhelming in favor of the treaty.<sup>57</sup> Furthermore, as soon as the Danes rejected the treaty, EU legal experts started to design ways of circumventing the problem by organizing a second referendum in Denmark. Even the British government was concerned about the Danish rejection, since new Prime Minister John Major wanted to clear himself from the Thatcherite legacy of nay-saying on Europe and build a leadership role for Britain in the Union.<sup>58</sup> The referendum eventually took place in May 1993, this time resulting in a positive result.

Yet the interesting side-effect of the June 1992 negative result of the first Danish referendum was to trigger considerable debate throughout Europe as to the finality of the treaty and of “Europe” more generally. Two issues acquired particular salience on a cross-national basis. The first central issue, as in the debate on the Single Act but with greater intensity, was “sovereignty” – and whether Europe meant “giving it away” to faceless technocrats sitting in Brussels. In Britain, the Tory old guard immediately jumped on the opportunity to criticize the protectionist and centralizing

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<sup>55</sup> The Danish no was unexpected and came despite the endorsement of the government and all mainstream parties. There were many reasons but perhaps most importantly the impression of being governed by a foreign elite of technocrats. See “Mutiny rocks EC ship of state,” *Financial Times*, June 4, 1992.

<sup>56</sup> In Germany, polls immediately showed that the voters were hostile to the idea of doing away with the *deutschemark*. There was also some opposition from members of the SPD – before a decision to support the Treaty was taken by the party leadership – and a threat from regional governments in the face of treaty provisions that they feared would reinforce the power of Bonn. See “Post-Maastricht Tension,” *The Economist*, May 9, 1992.

<sup>57</sup> In order to ensure this positive result, the Irish government had taken the precaution of organizing two referenda – one on the treaty itself and another one strictly on the issue of abortion, since Ireland was recurrently faulted by EU judicial institutions for its law prohibiting abortion. In addition, Irish Premier Albert Renolds invested huge personal political capital in favor of the Treaty. According to the polls voters were concerned with the possible end of the EU manna of regional development funds if they rejected the treaty.

<sup>58</sup> See “Hurd prepares to fight on two fronts,” *Financial Times*, July 2, 1992.

tendencies of “fortress Europe” and erected itself as the defender of British sovereignty.<sup>59</sup> The German debate rarely put the problem in such terms, yet the polls clearly suggested that Germans had strong misgivings about giving up the most vivid trapping of “normal” statehood that they had – their currency. Given the considerable political clout of defenders of the deutsche mark, especially within the independent German central bank, the prospect of moving toward a single currency seemed dim. In France, socialist leader Jean-Pierre Chevènement and other “sovereignists” immediately marked their disapproval of the treaty.<sup>60</sup> Under strong political pressure after the negative result of the Danish referendum, French President Mitterrand decided to also organize a referendum in France on the ratification of the Maastricht Treaty. This peculiar context thus made the French referendum particularly important and revealing of popular perceptions and contradictions about European integration. The eventual result of September 20, 1992, was a “*petit oui*” – with 51.04% of the votes in favor of ratifying the Treaty – but the debates preceding the votes were intense. As in other EU countries, sovereignty was a difficult issue both for the left and the right.<sup>61</sup> On the right, most politicians stayed silent but opposition leader Jacques Chirac and his party the RPR were notoriously ambiguous. When Chirac finally decided to support Maastricht, it was largely for electoral reasons – in order to achieve to reunite the ranks of the “pro-European” right outside his party and thus to reach the presidency.<sup>62</sup> The call was tougher than for the Single Act, but Europe still represented a certain form of pragmatism.

Even more interestingly, however, the ratification debates – unlike the 1986 debates on the Single Act – overtly centered on a second issue, namely the relative importance of “the market” in the whole European agenda. This was particularly clear in France, where the Maastricht debate squarely raised the question of the future nature of a united Europe – whether it should be a “free trade area” or something else, “more political”. For some Europeans, Europe was almost inherently turning into a liberal beast that they rejected. For example, the Maastricht Treaty was disliked by the overwhelming majority of communists who criticized more generally the “Europe of capitalists”.<sup>63</sup> But for many others, the treaty represented a step beyond the market – a way to balance the 1992 project of a Single Market. Many socialists found Maastricht better than the

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<sup>59</sup> See for example Thatcherite minister Nicholas Ridley’s article “Castles in the European air”, *Times*, December 12, 1991.

<sup>60</sup> See an interview of Chevènement : “Une corbeille à moitié vide à moitié pleine”, *Quotidien de Paris*, December 12, 1991.

<sup>61</sup> See “Un enjeu de politique intérieure dépassant les clivages des parties,” *Tribune de l’Expansion*, April 13, 1992.

<sup>62</sup> See “Chirac: sortir du piège”, *L’Express*, April 23, 1992

<sup>63</sup> See any of the editorials of French communist newspaper *L’Humanité*. See also for example the interview of Communist Deputy Roger Garaudy, “Les vassaux de l’Amérique”, *Figaro*, August 20, 1992.

Single Act because they judged it more “political and social”.<sup>64</sup> More surprisingly perhaps, that was also the rhetoric adopted by many prominent members of the French political right.<sup>65</sup> Similar debates took place in other countries, even though they were often less explicit and public since the ratification process remained in most cases confined to the floors of national parliaments. In Germany, the ratification debate had a greater resonance and lasted for a very long time – until October 93 – not because of a referendum, but because it was delayed by a legal recourse against the Treaty before the Constitutional Court of Karlsruhe. Over time, Kohl progressively chose to “package” the realization of the Maastricht Treaty and monetary union as the fundamental foundation of a stable peace between European nations.<sup>66</sup> This broad security rationale was probably an accurate reflection of Kohl’s vision of Europe as a necessary future for Germany given that country’s historical and geopolitical situation. Yet it was also a very abstract vision of Europe forty years after World War II, and one that did not really impinge on the actual bargaining and political process that led to the treaty. The politics of EMU in Germany were such that “the domestic power of ordo-liberalism was a reality to which [Kohl] recognized that he had to accommodate his approach”; hence, “the critical importance of economic stability as a pre-condition and goal of EMU”.<sup>67</sup> Thus, Kohl’s vision of Germany within a “stable” Europe hinged on his capacity to exploit and update an “ordo-liberal” rhetoric founded on a particular vision of the market inherited from the 1950’s – the “social market economy”. Here again, the market therefore constituted a versatile platform of political discourse.

Thus, the prospect of European union served the political function of facilitating and accommodating a broad shift in worldviews that hinged on a more positive acceptance of “the market”. In many ways, European integration was a way for political actors to hedge their bets without losing face. In the mid-1980’s, the central goal of a Single European Market rallied both the traditional economic liberals, like Thatcher, for whom the remedy to “Eurosclerosis” was simply

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<sup>64</sup> See “Vers l’Europe sociale”, Le Figaro, May 7, 1992. In a debate with Maastricht opponent Philippe Séguin, Socialist Minister for European Affairs Elizabeth Guigou defended Maastricht as a “political project” – both in monetary and foreign policy terms – that permits to go beyond the “technical” achievements of the EC thus far (Libération, August 31, 1992). Socialist deputy and former Prime Minister Michel Rocard was perhaps most explicit about it when he made the following declaration: “European integration is none other than the construction of a public authority. That is not a liberal idea. [...] It amuses and ravishes me to see the Right take up the task of building a public authority at the European level. This right-wing attitude is all the more fortunate for the left, who has not completely finished the task of updating a doctrine that still bears the imprint of economic dirigisme.” (“L’Europe, c’est la social-démocratie,” Libération, July 3, 1992).

<sup>65</sup> See for example an interview with former Prime Minister Raymond Barre: “Europe mustn’t only be an economic entity, but [must] become a political entity, the embodiment of a civilization model at the service of peace. [...] There has always been in France and Germany a political vision that inspires the construction of Europe. As for the English, they have always had a purely economic conception of the Internal Market. [...] [The Maastricht Treaty] is the accomplishment of a qualitative leap. It marks the transition from a predominantly economic notion of community to the notion of European union, which is both economic and political.” (Libération, September 1, 1992)

<sup>66</sup> See Helmut Kohl, Ich wollte Deutschlands Einheit (Berlin: Propyläen Verlag, 1996); Dyson and Featherstone, The Road to Maastricht, chapter 6.

<sup>67</sup> Kenneth Dyson and Kevin Featherstone, The Road to Maastricht (Oxford: Oxford University Press, 1999), pp. 284-285.

“less state” in the economic sphere, and the advocates of a reformed but persistent public-sector role and protective regulatory framework for the economy, like most French socialists but also the social democrats and some moderate conservatives of northern Europe. The European platform of “competitiveness” policies and especially the agenda of monetary union represented an attractive compromise between those Europeans who aspired for liberal market reforms and those who were not particularly enamored with the Single Market yet saw it as an interesting opening or at least a welcome respite in their search for new economic and political governance models.<sup>68</sup> Thus, Europeanism represented a sort of utopian balancing act between these various constraints and aspirations.

The politically open-ended nature of Europeanism was nothing new. The integration of Europe has always followed a logic of postponing conflicts and conflict-ridden choices. Already at the origins of the European Community, the founders of Europe were careful to strike a balance between economic liberalism and *dirigisme*, so as to appeal to the widest possible political clientele.<sup>69</sup> To some extent, this remained the case – one important reason why Europe’s institutional integration could continue to progress was that its ultimate political nature and shape remained open-ended. An important attraction of “Europe” for its proponents in the early 1980’s was that, at least initially, it embodied a tacit truce between the advocates of economic liberalism and the supporters of various traditional elements of public power in the economy. The prospects of greater political as well as economic integration, especially on the monetary front and beyond, satisfied those who aspired to something “positive” through and beyond the Single Market of 1992 – even if there was little concrete basis yet for these aspirations in the actual text of the White Paper on the Internal Market and the Single Act.

What was new, however, was the constant reference to “the market” and “market-oriented” policies in the most important institutional innovations that fed the momentum of European integration from 1985 until the advent of monetary union. The re-launching of Europe in the form of the “1992” agenda fudged as well as reflected the 1980’s shift in the ideological pendulum. The fact that Europe took up the banner of the newly prevalent informal institution of the market certainly contributed to the initial vogue of the Single Market agenda. Within this very peculiar

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<sup>68</sup> Characteristic of this tendency was Commission President Jacques Delors himself. In 1988, he declared: “Europe has regained momentum, she has a purpose: in 1992, to realize a common space in economic and social matters. [...] The path is open for a great collective ambition, for the resurgence of solidarity values that are inherent to what is best in European civilization.” (interview with Jacques Delors in March 1988, cited in “1992: L’enjeu”, *Le Monde*, April 19, 1988). See also: article by Alain Joannes on ambiguities of the consensus on 1992 in *Revue Politique et Parlementaire*, January-February 1988.

<sup>69</sup>For a discussion of this dynamic in the 1950’s, see Ernst B. Haas, *The Uniting of Europe* (Stanford: Stanford University Press, 1958), part I, esp. pp. 19-31.

context, it was indeed the result of grand bargains between the member governments.<sup>70</sup> To be sure, Thatcher made it clear that she would support nothing other than a free-market Europe and then the other member governments agreed to launch a Single Market initiative as a way to re-launch Europe. Yet this is a case where the broad ideational context may have mattered more for the success of the new European initiative than its narrow and largely unspecified material content. While the idea of “the market” certainly captures the main spirit of what happened in the area of European integration in the last fifteen years of the century, this does not mean that European integration was fuelled primarily by concrete economic forces and motivations. This becomes clear if we look at “the market” not only as a substantive reality, but also as a normative ideal and above all as a versatile platform of political discourse that permits to partly reconcile otherwise conflicting worldviews.

### **Conclusion: The market beyond economics and endogenous policy theory**

This paper has suggested that the market is a loaded term. It constitutes a very encompassing informal institution that serves to characterize at least three different orders of phenomena – substantive reality, normative ideal, and versatile platform. Consequently, the three foregoing market-based dynamics of European integration reinforce each other, yet they convey different aspects of the process. For the purposes of clarity, they ought to be more consistently separated from each other – even though they each derive their rationales from the sudden salience of “the market”. Invocations of the market for the purpose of institutional reform should not always be interpreted as “economic” in a straightforward way. This *may* be the case if the phenomena that we are referring to are economic in a strict sense and when the primary motivation of reform is to pursue aggregate economic welfare or interests in the face of changing substantive conditions. In such cases, the substantive recognition of the existence and preeminence of a market – and the corollary understanding of Europeanism as a variety of economic pragmatism – can be rightfully called “economic” in the strict sense of being a direct way to apprehend and react to the economic forces of supply, demand, and price-sensitive individual behavior. There is no doubt that this type of dynamic – especially the visible and especially dramatic changes in finance and some other fast-moving economic sectors in the 1980’s – fostered certain political opportunities and incentives and directly played a role in the genesis of the Single Market program, the Single Act, and the Maastricht Treaty.

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<sup>70</sup> Andrew Moravcsik, “Negotiating the Single European Act,” in Robert Keohane and Stanley Hoffmann, eds., The New European Community (Boulder: Westview Press, 1991).



Yet many other market-centered rationales of reform are more properly called *political*. These are arguably more important than the purely economic rationales, if the goal is to understand the dynamic of many recent European-level reforms. When the market was invoked as a normative ideal or as a versatile platform, this was not directly the result of “market forces,” and therefore not strictly a matter of “economics”. Neither was it a straightforward political consequence of the broad economic evolution, i.e. the translation of growing economic resources for certain groups into a new balance of political power and outcomes that unambiguously reflected the preferences of these groups. In this sense, one vision of “political economy” – the notion that economic trends mechanically percolate in the political sphere as growing power resources and influence for certain economically defined interest groups – may be misleading. In some cases, this can be taken as an accurate substantive depiction of the political evolution, but in other cases we are really talking about a genuinely non-economic phenomenon that takes the *appearance* of economic necessity for expedient political reasons. In the 1980’s and 1990’s, “the market” certainly was a fundamental underpinning of Europeanism, but this does not mean that European integration was fundamentally about economics nor even about “political economy” understood as the political pursuit of clear economic interests. The fact is that justifications of reforms in terms of the market rested not only on a substantive reality of economic forces and interests, but also on the generalization of a normative ideal and on a shift in the cosmological balance of the political order. This tends to cast doubt on the usefulness of the economic and endogenous policy perspectives. What I have called the modernist and utopian motivations of European integration directly rely on the historically acute *political* appeal of the market as normative ideal and as versatile platform.

By the same token, this reminder of the political nature of many market-based justifications of the recent drive toward greater European institutional integration brings me to an important caveat. In this paper I have focused on the broad historical context. I have barely touched upon the concrete politics of the process of European union. My intent was to characterize the ideational context within which these reforms were undertaken – a certain golden age for “the market” in substantive, normative, and discursive terms all at the same time. This ideational context became an integral part of the political formula that led to European union. At least three ideal-typical meanings of the market were mobilized in the process of European union, but they predated that process. These three distinctive and informally institutionalized meanings of the market were readily available for actors to mobilize. Yet in order to fully explain the various facets of the transition from the EC to the EU, it is of course necessary to delve in much greater detail into the politics of the reform process in various issue areas. This chapter completely left aside the task of showing how actors mobilized these meanings in concrete cases of reform. Its more limited

purpose was to set the historical stage for such an interpretation of recent European integration.<sup>71</sup> Its working assumption is that it is important to understand that historical context because it set the terms of the debates about European reforms since the 1980's. This chapter simply contends that these meanings formed an important historical backdrop for the political mobilization of arguments in favor of "Europe" in a variety of issue areas.

Some preliminary lessons can already be drawn from such a broad historical overview. It should come as no surprise, after all, that a deep-reaching process on the scale of recent European institutional integration, culminating in the creation of a common currency, was in fact intensely political. Over time, the differences in motivations behind the choice of Europe in the mid-1980's were bound to resurface periodically on the path of reform. Based on the divergence of motivations among European governments, it would have been difficult to predict the remarkable success of a set of European reforms premised on "market-building". That development, in turn, involved a series of difficult choices and reforms across European economies and could not come simply as the result of coincidental convergence of interests in the new context of market orthodoxy. The common ground, at the beginning, was a minimal consensus merely on acknowledging the problem of "Eurosclerosis" and on the general objective of a "Single Market," rather than on a detailed set of solutions to the problem. After all, liberal economics had always been and remained controversial in a European political context, despite the rise of the market as a widespread mode of rationality. While the origins of that process can indeed be traced to various elements of a new economic context as well as to a certain bargaining situation, it is not completely clear whether these first steps really "explain" the snowballing dynamic of reform that followed the Single Act.

To be sure, some degree of marketization was going to happen anyway in some technologically fast-moving sectors of the economy such as finance or telecommunications, and the corresponding establishment of market arrangements at the European level can be read as a straightforward result of this market dynamic. Traditional national models of economic governance were behind the curve of technological and economic evolution and there was a general sentiment that they must be reformed. Thus, certain liberal reforms that were central to the European agenda of "1992" – such as the lowering of regulatory barriers between Europe's financial systems or the opening of telecommunication networks – may have been indispensable and represented nothing more than a victory of common sense over institutional inertia. A fundamental contributing factor for the progress of reforms is that, once the market became established as an orthodox informal institution, it ceased to be paradoxical. Suddenly, it is the formal institutional foundations of

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<sup>71</sup> It serves as an introductory historical chapter to a series of case studies of the European political-economic reform process.

European political economy that appeared paradoxical – literally, contrary to the new market orthodoxy. Particular social groups who had a stake in their perpetuation found it increasingly difficult to defend these formal institutional structures by invoking broadly acceptable principles, categories, and functional metaphors that were largely antithetical to the market.

Yet the fact remained that these groups of people were or felt directly threatened, in their way of life, by the prospect of formal institutional change. Scholarship in the historical institutionalist tradition clearly suggests that formal institutions, as structures of power, have a peculiar rigidity – precisely because they are more formal, rest on clear material bases, and take definite and concrete real-world forms endowed with considerable inertia. While the recent political economy literature in the tradition of endogenous policy theory usefully points out the importance of economic resources in politics, it also overestimates the sheer impact of market forces in processes of institutional reforms. In fact, when such explanations in terms of “the market” are unpacked, they often conflate different meanings of the market that should instead be separated for the sake of greater conceptual clarity. Insofar as a process of giving birth to institutional reforms generally affects well-entrenched actors, such a process is bound to run into political obstacles from institutionally entrenched constituencies. Some actors may be empowered by economic evolution, but the greater availability of economic resources does not always overcome institutional inertia. The process of European integration certainly fits this pattern. As it turned out, many items of the “1992” agenda had a certain logic that involved a radical departure from the formulas of political-economic order established in Western Europe in the aftermath of the Great Depression and the Second World War. The rising informal institution of the market seemed to justify certain reforms that happened to be orthogonal to the formal institutional structures of postwar West European economies. Sooner or later in the reform process, the discrepancy between the new market orthodoxy and certain non-market institutional structures inherited from the past was bound to become more apparent and politically problematic.

On the face of it, there was a qualitative jump from the 1970’s diagnosis of ineffective macro-economic policies to the 1980’s series of structural reforms resulting in a change of the balance of public and private power in the economy. Beyond a small number of indispensable reforms, it is arguable whether the *particular set* of political-economic reforms implemented at the regional level were unambiguously the most appropriate to modernize the formal configuration of Europe’s economy, or that they clearly corresponded to the changing economic interests of powerful groups in West European societies. Somehow, a political formula had to be found in order to resolve the resurfacing conflict between “the market” and “the state” – between the formal and the informal institutional bases of European political economy. As it turned out, a crucial element of the remarkable recent progress of European union was the mobilization of the market

as an informal institution and the elaboration of a set of evocative arguments about how to respond to the challenges of globalization. Only the political mobilization of a variety of market arguments – substantive, normative, and discursive – eventually permitted to trump the inertia of existing institutions and thus to durably re-kindle the process of European integration. It is toward this complex but very vivid political mobilization of market arguments in favor of a more integrated Europe that we need to direct our attention.