

Europeanization and the mechanics of economic policy adjustment

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ABSTRACT Europeanization, differentiated from European integration as the impact of European policies on national policies, practices, and politics, has had differing effects on EU member states, depending upon a number of independent variables. These include the constraints imposed by EU decisions in any given policy area, that is, whether the decisions demand that countries follow highly specified rules of implementation, less specified rules, suggested rules, or no rules at all. But adjustment also depends upon certain mediating factors, including countries' vulnerability to global as well as European economic pressures, their political institutional capacity to respond as necessary, the 'fit' of European policies with national policy legacies and preferences, and the discourses that influence policy preferences by changing perceptions of economic vulnerabilities and policies and thereby enhance capacity. Only by putting the decision constraints together with the mediating factors can we adequately explain countries' differential policy outcomes, whether inertia, absorption, or transformation. To illustrate, this paper considers three countries, France, Britain, and Germany, across a representative range of economic policy areas, including monetary policy, financial services, telecommunications, electricity, transport, and mutual recognition.

KEY WORDS Britain; economic adjustment; Europeanization; France; Germany; policy sectors; public policy.

Since the mid-1980s, the process of European integration has produced dramatic policy changes in the member states of the European Union (EU). The EU has produced a vast array of rules and rulings that go way beyond any other international or regional economic authority with regard to the institutional adjustments demanded of its member states. But this is not to suggest that European member states are therefore all converging on a single liberalized policy regime, led by the EU. Much the contrary. To begin with, European policies have tended to follow national policy changes as much as lead them, with national policies having shaped those of the EU as often as EU policies have shaped those of its member states. Moreover, despite EU policies that tend to push all member states in the same general direction, national economic policy adjustment remains nationally specific and path dependent.

Countries have responded to the pressures of Europeanization at different times to differing degrees with different results.

Given such differences, one cannot make any simple generalizations about the impact of Europeanization on EU member states. One can, however, explain the differential outcomes by reference to a number of independent variables. These encompass, first of all, the adjustment pressures and mechanisms related to EU decisions, that is, how constraining EU decisions are on member states because the EU defines highly specified and therefore highly coercive rules for countries to follow in implementing the decision; sets less specified and therefore less coercive rules; proffers only suggested rules where adjustment proceeds (or not) on the basis of mimesis; or offers no rules at all, where regulatory competition is the only pressure because barriers to trade are simply removed. These decision rules alone, however, are not enough to understand the mechanics of adjustment. For this, we need to consider national mediating factors that shed light on when, how, and why countries altered their policies. These include countries' vulnerability to global as well as European economic forces, their political institutional capacity to alter their policies and policy-making institutions as necessary, the extent to which the proposed policies went against their policy legacies and preferences, and the discourse that may have enhanced their capacity to respond by changing perceptions of vulnerabilities and legacies and ultimately, therefore, preferences. Only with these additional factors, considered together with the decision constraints, can we hope to explain countries' differential policy outcomes in response to EU decisions over the course of the 1980s and 1990s in different policy sectors. These ran the gamut from inertia because of resistance to EU decisions, to absorption because such decisions resulted in minimal policy change, to transformation because such decisions resulted in radical policy change.

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

The article demonstrates that while Britain, Germany, and France differ in their responses to the pressures of Europeanization across sectors, certain patterns nevertheless emerge. Britain, having liberalized early, thereby anticipating many of the institutional changes related to Europeanization, absorbed most of the policy changes related to EU decisions. Germany, by contrast,

liberalized late, having responded first with inertia to EU decisions but ultimately transformed itself in most policy sectors. France, finally, transformed itself early in some sectors with policies that then led EU decision-making but responded late and with inertia to EU decisions in a number of other sectors.

THE MECHANICS OF POLICY ADJUSTMENT TO EUROPEANIZATION

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

Thus, my focus in terms of the literature is not on the 'ontological' debates on European integration of intergovernmentalists and supranationalists who disagree over the evolution of the balance of power at the European level but rather on the 'post-ontological' issues (Caporaso 1996) related to the impact of European integration on the national level, whatever the evolving balance of power. Moreover, within the context of Europeanization, since my topic is

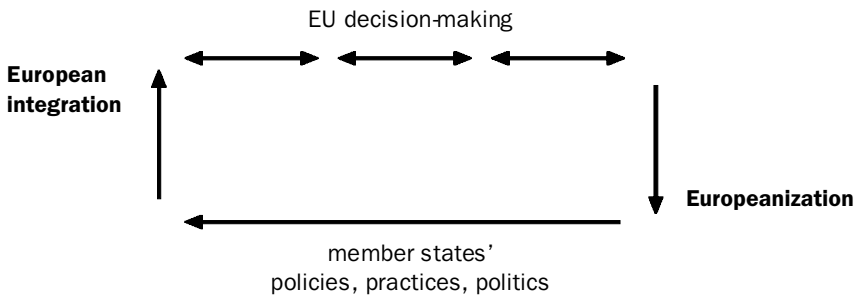


Figure 1 Europeanization vs. European integration

restricted to the impact of EU economic policies on national economic policies and policy-making, I do not have room to explore other aspects of Europeanization, in particular the impact of the EU on 'polity', that is, how EU governance structures, policy-making processes, and politics affect national structures, processes, and politics. Instead, I limit myself to the impact on national economic policy sectors of EU policies.

EU adjustment pressures and mechanisms

Europeanization has exerted differing degrees of adjustment pressure on member states with different adjustment mechanisms depending upon how constraining the decisions taken at the EU level are in their implementation at the national level (however they were arrived at).² Where an EU decision requires member states to follow a highly specified set of rules when complying with it, the adjustment mechanism potentially involves a high degree of coercion, as in the case of the Maastricht criteria in the run-up to European Monetary Union (EMU). Where the rules are less highly specified, leaving leeway in their transposition into national rules, the adjustment can be normally expected to entail a lower degree of coercion, as when the EU sets targets for the date, kind, and amount of liberalization of a formerly highly regulated sector such as telecommunications or electricity but leaves the country to specify many of the details of liberalizing policies and regulatory arrangements. By contrast, where the EU decision only suggests rules, which member states can choose to follow closely, loosely, or not at all, the adjustment mechanism is in principle one of mimesis, since member states are free to imitate or not as they see fit, as in the case of rail transport and road haulage. Finally, where an EU decision specifies no rules to follow, as in cases where it simply lifts barriers to trade, as in the mutual recognition of products, the adjustment mechanism involves regulatory competition, and in principle no institutional coercion, since no change in rules is demanded, even if there may be coercive pressures in the economic realm resulting from competition (see Table 1).³

Table 1 EU adjustment pressures and potential adjustment mechanisms

<i>Adjustment pressures</i>	<i>Potential adjustment mechanisms</i>	<i>Examples</i>
Decision rules highly specified	Coercion at a high level	European monetary union
Decision rules less specified	Coercion at a less high level	Deregulation of financial services, telecom, electricity, air transport
Decision rules only suggested	Mimesis	Rail transport, road haulage
No decision rules	Regulatory competition	Mutual recognition of products

Potential adjustment pressure, however, is different from actual pressure, and any decision rule may in practice be linked to any one of the adjustment mechanisms in any given case. This is because even if a decision rule is highly specified, it may not be experienced as coercive to a member state for which it fits policy legacies and preferences, while even a suggested rule may seem coercive to a member state that feels pressured to conform, if only by the force of ideas. Similarly, moreover, mimesis can occur even with rules specified to a greater or lesser extent, as countries search for the best solutions to regulatory specifications, or with no EU rules at all, if the example of another country appears particularly compelling. And while regulatory competition may exert significant pressures when domestic actors feel empowered to press for national regulatory change or challenged by economic competition, it may not where domestic actors are satisfied with the status quo. These complications can be explained by reference to the mediating factors, which consist of those factors which serve to differentiate how member states experience the decision rules as well as how they respond.

Mediating factors

Of the five mediating factors that help to explain countries' responses to the pressures of Europeanization, economic vulnerability to global as well as European economic forces is probably the most straightforward.⁴ See Table 2. Countries generally tend to be more open to policy change when they are faced with economic crisis, that is, when recessionary pressures hit and business investment lags, competitiveness decreases, unemployment rises, and consumption declines. Even without crisis, however, they may be open to change depending upon the extent to which they find themselves vulnerable to the pressures from increasing competition in the capital and product markets, with some countries more vulnerable than others depending upon the strength of their currencies, the size of their financial markets, and the scope of their businesses (Scharpf 2000).

Economic vulnerability, however, although an impetus to change, cannot on its own be a predictor of it. Adjustment also depends upon countries' political institutional capacity to respond to the external economic pressures. Such capacity depends primarily upon the political interactions and institutional arrangements that affect principal policy actors' ability to impose and/or negotiate change. This is related to the political powers of principal policy actors – based on party politics, elections, interest coalitions, and the like – as they play themselves out within different institutional contexts, that is, in political systems with few veto points on executive leadership or many, where 'veto-players' facilitate or constrain reform efforts (Tsebelis 1995; Scharpf 1997).

More specifically, in 'single-actor systems' such as France and Britain, as unitary states with a concentration of power in the executive and 'statist' policymaking processes that allow the executive to formulate policy largely

Table 2 Mediating factors in policy adjustment to Europeanization

<i>Mediating factors in policy adjustment</i>	
Economic vulnerability	Presence or absence of economic crisis; competitiveness in capital and product markets
Political institutional capacity	Principal policy actors' ability to impose or negotiate change, depending upon political interactions and institutional arrangements
Policy legacies	'Fit' with long-standing policies and policy-making institutions
Policy preferences	'Fit' with the old preferences and/or openness to new
Discourse	Ability to change preferences by altering perceptions of economic vulnerabilities and policy legacies and thereby enhance political institutional capacity to impose or negotiate change

absent in societal interest intermediation, a restricted group of primarily governmental policy actors have the capacity to impose their decisions – subject, however, to electoral sanctions and protest in the streets (in particular in France) (Schmidt 1996). By contrast, in 'multi-actor systems' such as Germany, as a federal state with a diffusion of power among different branches and levels of government and 'corporatist' policy-making processes that include the social partners and the *Länder* in decision-making, the executive cannot impose, and therefore must negotiate with a wide range of policy actors. The ability to impose or negotiate reform in turn may depend upon a variety of other elements. These include the resources of domestic actors, whether material, informational, legal, or other, that enhance actors' capacity to act; policy learning from past mistakes; culturally grounded patterns of interaction and national policy styles.

Political institutional capacity, however, is a necessary but generally not a sufficient condition for predicting a country's ability to generate adequate policy responses in the face of economic vulnerability. This is because countries' policy legacies have made it easier or harder for them to adopt and adapt to liberalizing reforms while their policy preferences have made them more or less amenable to such reform. Policy legacies involve questions of 'fit,' that is, whether a country's long-standing policies and policy-making institutions are compatible with the new, whether in terms of the substantive content of policies or the regulatory structures and processes.⁵ Where little change in existing policies or policy-making institutions is required, political institutional capacity to adjust is barely at issue and economic vulnerability not a significant threat. But where a major transformation is demanded, political institutional capacity is of the essence, either to impose or negotiate change. But even this is not enough.

Much also depends upon how readily principal policy actors and/or the public are able to countenance reform, that is, how strongly they hold to their

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

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

This last factor is different from the others, since discourse cannot be readily separated from the preferences which find expression through it or from the cognitive and normative structures that shape its perceptions of economic vulnerabilities or policy legacies. While discourse may serve to change perceptions and preferences, through the reconceptualization of interests and the reframing of cognitive and normative structures, it may instead merely reinforce them. Discourse, in other words, sometimes matters and sometimes does not, sometimes exerting a causal influence on policy change, sometimes not (see Schmidt 2001). This is very much the case for discourses linked to globalization as well as Europeanization, both of which have often but certainly not always been a powerful ideational force for change, sometimes tipping the balance in favor of interest coalitions seeking to alter the policies of a given sector. Generally speaking, where significant change is required, lasting reform is ensured only where a convincing discourse – meaning one with sound cognitive and resonating normative arguments – is provided in co-ordinative and/or communicative spheres, depending upon the institutional context (see Schmidt 2002a, 2002b).

Outcomes

As a result of these mediating factors, countries' responses to the adjustment pressures from the different EU decision rules can be differentiated among three kinds of potential outcomes (Héritier 2001; Cowles *et al.* 2001; Börzel 1999; Radaelli 2000). Inertia, that is, slowness or resistance to change, appears where actors feel little economic pressure to change, see little 'fit' in terms of long-standing policies or policy-making institutions, would prefer not to change, have little capacity to negotiate or impose change, and/or have no discourse that could persuade of the necessity and appropriateness of change. With inertia, policy legacies and preferences are maintained at the price of adjustment. Absorption is when accommodation occurs without significant change, given a good 'fit' with national policy legacies and preferences as well as institutional capabilities for adaptation (see Héritier 2001).⁶ Here, policy legacies and preferences are maintained at virtually no cost at all, and neither politics nor economics are at issue. Transformation is when changes occur that reverse policy legacies and go against traditional policy preferences, which often assumes significant economic vulnerability and political institutional capacity, which in turn presupposes a transformative discourse. Only here is the price of adjustment the end of policy legacies and preferences (see Figure 2).

The mechanics of adjustment to highly specified EU decision rules

The coerciveness of an EU decision is in principle highest where member states must implement a highly specified rule. In practice, however, member states are not likely to experience coerciveness if the rule fits with long-standing policy legacies. In such cases, the outcome of policy adjustment will be absorption. But even where a rule appears highly coercive, by going against a country's policy legacies and preferences, transformation may not always be the

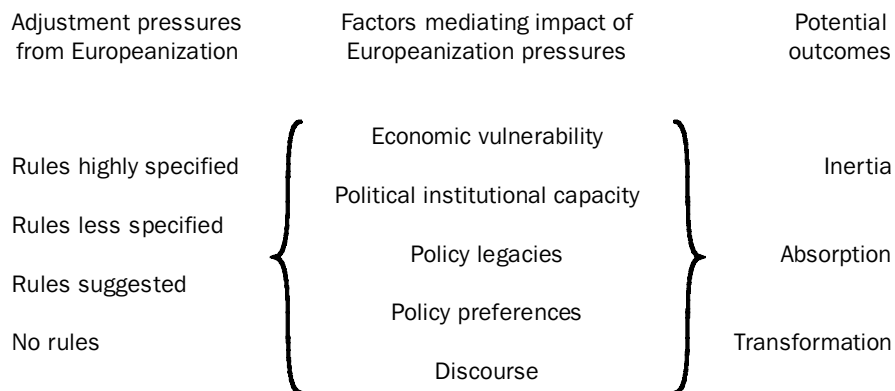


Figure 2 Europeanization flow-chart

end result, given inertia for some, whether through opt-outs or failure to comply.

In European monetary integration, for example, although the adjustment mechanism is in principle coercion – given that with EMU all countries participating are required not only to meet the macro-economic targets related to public deficits, debt, and inflation rates but also to bring their macro-economic management systems in conformity, in particular with regard to the independence of the central bank – the actual outcomes vary. Here, the political institutional capacity to change has not been so much at issue, since in most countries by the 1980s it had been ‘captured’ by a highly restricted policy elite dedicated to monetarism (Dyson and Featherstone 1999). However, vulnerability to intensifying global economic pressures was an issue, although more for some member states than others, given very different levels of exposure to the currency markets as well as very different macro-economic management systems. The decision to join the European monetary system (EMS) in 1979 and later the EMU, moreover, was more difficult for some countries than others depending upon questions of ‘fit’ in terms of policy legacies and preferences and the ability of the discourse to persuade policy elites and/or the general public of the necessity and appropriateness of changes in monetary policies and institutions to promote monetary integration.

In Germany, economic vulnerability was not much of an issue until the 1990s, mainly because of the success of the Bundesbank’s early turn to monetarism in 1974 in response to the country’s vulnerability to global economic pressures. This fit with the Bundesbank’s traditional preference for stability above all else and with its legacy of policies focused on combating inflation first and foremost, even if this meant risking rising unemployment. But the switch to monetarism worked only because of the political institutional capacity of the social partners to deliver on wage moderation (Scharpf 2000: 32–3, 45–6). Moreover, it set Germany up not just as the lead economy in Europe but also as the preferred model for European monetary policy – enabling it largely to absorb any further policy change related to the EMS beginning in 1979 and to the run-up to EMU beginning in 1992 without any sense of coercion (McNamara 1998; Thiel and Schroeder 1998). The advent of the euro, however, has brought transformation with the loss of the national currency and the transfer of responsibility for monetary policy to the European Central Bank; and this has presented difficulties in the discourse, given public concerns about the loss of the Deutsche Mark, one of the closest things to a symbol of national sovereignty in Germany (Schmidt 2002c).

In Britain, economic vulnerability to global forces was even higher than that of Germany in the early 1970s, but the country responded later, with the turn to monetarism in 1979 following the lead of the Federal Reserve Bank and the example of the Bundesbank. Although this went against the policy legacies of neo-Keynesianism, it fit with policy preferences for a strong pound as an international reserve currency. By joining the EMS but not the exchange rate mechanism (ERM) in 1979 and then opting out of EMU, moreover, Britain

managed to avoid any coercion related to European monetary integration with the exception of its brief (and disastrous) foray into the ERM between 1990 and 1992 (Artis 1998) – although Blair has kept his options open to opt back in by, among other things, setting the Bank of England on the path to independence. This inertia with regard to European monetary integration, however, has meant that Britain has maintained its policy legacies and preferences at the price of adjustment. The inertia itself stems not only from the fact that policy elites remain divided over whether European monetary integration would make Britain more or less economically vulnerable to globalization. It is also because they have been paralyzed by the lack of a persuasive public discourse capable of convincing the public (and equally significantly the media) not just of the necessity of change but even more importantly of its appropriateness, given concerns about encroachments on national sovereignty (see Schmidt 2002c).

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

The mechanics of adjustment to less highly specified EU decision rules

By comparison with highly specified rules, the adjustment pressures from EU decisions are less great when the rules are less specified, as is their coerciveness. This is because countries are freer to choose how to implement the decision. Moreover, the amount of coercion countries feel with regard to the institutional pressures from EU decisions may vary across industrial sectors, depending upon the sector's level of economic vulnerability to global and European competitive pressures.

In the financial services sector, for example, the internationalization of the financial markets, which was facilitated by rapidly changing technology, made

attractive by high profit potentials, and spurred by the 1979 US stock market deregulation, represented the main pressure for change in Britain and France, way ahead of any European decisions in the area. Britain transformed its financial markets with the 'big bang' in 1986, having had the capacity to impose deregulation in response to concerns about the City's ability to meet the competitive challenges following from US stock market deregulation. It subsequently absorbed the changes related to EU decision rules. France's transformation, with the 'little bang' of the same year, resulted from an equally high capacity to impose reforms that went hand in hand with privatization, as a means to ensure the successful sell-off of public enterprises while also providing alternative sources of capital for businesses no longer able to turn to the now cash-poor state (given the turn to monetarism). What is more, European integration in financial markets in some sense followed from French financial market liberalization, given that it was the key to French support for an integrated European market for financial services, and a *sine qua non* of the single market (Mélitz 1993). Germany, by contrast to both France and Britain, did not reform its stock market until 1995, with inertia explainable in terms of its lack of economic vulnerability in the 1980s to either global or European economic forces and its lack of political institutional capacity to change, given opposition by the large national banks and the regional governments. Transformation came in response to the growing competitive pressures from European capital market integration (Story 1996), and was spurred not by the European Commission but by domestic actors, once the banks began internationalizing through the acquisition of British investment houses in the late 1980s, having recognized that Germany would be left behind if it did not liberalize (Lutz 1998).

In telecommunications, much as in financial services, change has also been driven mostly by increasingly intense global competition, the technological possibilities, and the potential profits, spurred by US deregulation in the 1970s and early 1980s. Here, however, EU decisions did play a greater intermediary role in transmitting, channeling, and amplifying global pressures, and in structuring the resulting regulatory systems of most member states (Schneider 2001; S. Schmidt 1998). This was least the case for Britain, however, which transformed its telecommunications sector early, in the mid-1980s, through deregulation and privatization, ahead of EU adjustment pressures, and therefore simply absorbed most subsequent EU-related changes in the 1990s. Germany transformed its telecommunications sector later than Britain, over the late 1980s to the early and mid-1990s, but before or at the same time as European decisions (some of which it was instrumental in passing). The changes in policy preferences were related to the costs of unification as well as the coming challenges of competition in European markets, while deregulation and privatization were successful owing to Germany's political institutional capacity to engage in a slow, politically initiated, pragmatic, and consensus-focused process of negotiation with the wide range of affected actors, including Deutsche Telekom management and workers. France's experience was differ-

ent, with incremental reforms in the late 1980s followed by inertia in the 1990s largely because French governments were stymied by the lack of political institutional capacity to change in the face of strong union opposition and public attachment to the ideas of '*service public*' as the obligation of the Republican state. Transformation ultimately came as a result of a shift in the preferences of the French government and France Télécom's top management, fueled by ideology, technological innovation, and interest in pursuing global and European alliances. The government's 1993 reversal of its long-standing opposition to opening the market to competition translated itself into co-operative negotiations at the EU level. This in turn produced European decisions that the government and top management were then able to use domestically in the discourse to justify reforming France Télécom, including partial privatization as of 1997 (Thatcher 1999, 2000; Schneider 2001).

In electricity, by contrast with the telecommunications and financial services sectors, economic vulnerability was not as much of a factor, given that there was little direct pressure from globalization in a sector with few technological changes and little competition in highly protected markets. Here, Europeanization was the main (institutional) pressure for liberalization, with the EU Commission the principal instigator of reform, and the EU decision-making process crucial in getting member states to accept changes which for some went completely against their policy legacies and preferences. This was not the case for Britain, which absorbed the reform without affront to policy legacies or preferences, given that it had deregulated already in 1990. But for France and Germany, the countries which had been largely responsible for the inertia in the sector through the 1980s and early 1990s, major changes followed from the electricity liberalization directive of December 1996 (which was not applied until 1999) – although without as much convergence as one might have expected (Eising and Jabko, forthcoming). This is because although both countries agreed to open up highly protected markets to phased-in competition, they both managed largely to maintain the institutional arrangements of the past. France kept its single, dominant, nationalized player, even though Electricité de France (EDF) lost its monopoly, and Germany, its decentralized market.

The difference in the experiences of the two countries, however, is that whereas Germany transformed its electricity sector by liberalizing much more than the EU directive demanded, France resisted transformation, with inertia largely the outcome. In Germany, in fact, federal government actors and industry supporters changed their preferences while the directive was being negotiated, and then gained in political institutional capacity to negotiate reform by using the EU in the discourse to persuade all of the appropriateness of change. In France, by contrast, the government held on to the defense of the idea of the '*service public*,' concerned about opposition from EDF (after initial support in the late 1980s) as well as negative public reactions, in particular strikes by the public service unions. Thus, not only did the reform remain largely against French policy preferences, the French government was

also unsure of its political institutional capacity to impose reform in the face of opposition – a fact that was borne out by the protracted approval process in Parliament, which delayed implementation until 1999 (Eising and Jabko, forthcoming). Thus, although competition has been introduced into the French electricity sector, there has so far been no transformation of the sector – although this may be an ultimate consequence of the sector's being opened up to competition.

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

The mechanics of adjustment to suggested EU decision rules or no rules

In areas where EU decisions provide only suggested rules for compliance or no rules at all, coercion is generally low compared to EU decisions with specified rules. Suggested decision rules mainly occur in areas where the EU provides 'soft' framing mechanisms, such as minimalist directives, non-compulsory regulations, and EU policy recommendations that serve to legitimize and/or influence national plans for reform; or where it establishes high-level EU policy committees that serve to socialize national policy-makers into accepting or

rejecting certain policy practices. In these cases, the adjustment mechanisms involve primarily mimesis, as countries are expected to consider the EU's ideas and suggestions for liberalization and to learn from them as well as from one another on the liberalizing possibilities. Where there is no decision rule at all, generally the case of mutual recognition, the adjustment mechanisms involve primarily regulatory competition as barriers to the free movement of goods, capital, services, and/or people are lifted. But although there is no EU-related institutional coercion in either case, countries can nevertheless experience coercion as a by-product of the psychological pressures related to group processes or of the economic pressures from regulatory competition. EU decisions, however, may represent not just constraints but also opportunities, providing governments with legitimizing arguments and empowering new coalitions for reform.

In rail transport, the lack of economic vulnerability with regard to global pressures, together with decision-making rules based on unanimity in the Council of Ministers, ensured against any major EU regulatory overhaul of the sector, despite pressure from the EU Commission. Nonetheless, the railways directive, which outlined a series of deregulatory recommendations but was compulsory only in terms of changes in national accounting systems, has been a powerful ideational mechanism of adjustment for some countries. The EU's suggested rules provided the British government with extra legitimation for its radical privatization programme, thereby enhancing its political institutional capacity to reform. For the German government, the directive gave it the necessary legitimacy to negotiate domestic-driven reforms that had been stymied. By contrast, the EU had comparatively little effect on the French government, which resisted any radical reform while maintaining its long-held policy preferences and long-standing policy legacies in this '*service public*' area, as it had in electricity and air transport (Knill and Lehmkuhl 1999; Héritier 2001).⁷

In the case of road haulage, the driver of change came more from domestic groups empowered by the EU decision than from the ideational uses of the decision. Again, though, the EU decision was relatively limited: the cabotage directive which introduced the right of non-resident transport hauliers to operate in foreign markets but allowed quantitative restrictions and price controls to remain acted as a spur for change where domestic coalitions were able to use the EU rule to challenge the existing equilibria. This has led to highly differentiated results. In Britain and France, which already had liberalized regulatory regimes, absorption was the result. In Germany, by contrast, transformation toward a more liberalized regime came after a long period of inertia, with the EU rule acting as a spur to the formation of new domestic coalitions for reform. In Italy, by comparison, the domestic coalitions united against liberalizing European trends ensured that the resulting inertia could be seen as retrenchment, given a move toward greater protectionism in the sector (Knill and Lehmkuhl 1999).

Mutual recognition in principle involves the least amount of coercion, since it imposes no EU decision rules on member states as it provides for the acceptance throughout the EU of products that meet the standards of one member nation, as long as national provisions do not violate primary Community law. One can safely say that the ECJ decision enabling French beer to be sold in Germany, even though it did not meet German beer brewing requirements originally set in the sixteenth century, has not involved any coercion of German beer-drinkers, since it has not altered German beer-drinking habits one whit. Because mutual recognition simply allows for a good to be sold in a country, but does not obligate consumers to buy the product, coercion is not at issue – unless one wants to argue that simply introducing a product into the market is problematic, which one could conceivably do only in the case of British beef in France. However, indirect coercive pressures may nevertheless result from the regulatory competition that follows barriers to trade being removed, as countries may feel the need to alter their regulations to ensure that their products remain competitive, with all that this could mean in terms of competitive deregulation – even though the cases of the liberalization of transport policy and insurance markets (S. Schmidt, this issue) show that the lifting of barriers does not necessarily produce regulatory competition. But while regulatory competition may not engender a ‘race to the bottom,’ it has often empowered reform coalitions to push for change. Empowerment has been even greater in cases of more or less specified rules, however, where domestic actors can use litigation to push their governments to implement EU-mandated reforms.

CONCLUSION

Thus, there are no simple generalizations to be made about the mechanics of member states’ adjustment to Europeanization, given the mediating factors influencing outcomes. Country-specific patterns of adjustment nevertheless emerge, once one considers responses across political economic sectors (see Table 3).

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

Table 3 Impact of EU on policy sectors

	Monetary integration	Financial services	Telecom- munications	Electricity	Air transport	Railways	Road haulage
UK							
Timing	Not yet	Early	Early	Early	Early	Early	Early
Pressures	Global	Global	Global	Global	Global	Internal/ European	Internal
EU response	Inertia	Absorb	Absorb	Absorb	Absorb	Absorb	Absorb
France							
Timing	Early	Early	Late	Late	Late	Late	Early
Pressures	Global/ European	Global	Global/ European	European	European	European	Internal
EU response	Transform	Absorb	Inertia/ Transform	Inertia	Inertia	Inertia	Absorb
Germany							
Timing	Early	Late	Mid	Late	Late	Late	Late
Pressures	Global	Global/ internal	Global/ unification	European	European	European	European
EU response	Absorb	Transform	Inertia/ Transform	Transform	Transform	Transform	Inertia/ Transform

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NOTES

This paper was prepared for presentation at the American Political Science Association National Meetings, San Francisco (August 30–September 2, 2001). It is a revision of a paper presented at the Forum of the Robert Schuman Centre, European University Institute, Florence (April 26, 2001) and at the ECPR Joint Sessions Workshop on Regulation, Grenoble (April 6–11, 2001).

- 1 By separating out European-level decision-making and institution-building from its impact, my definition differs from the many scholars who put the two together (e.g. Cowles *et al.* 2001; Rometsch and Wessels 1996). Its focus is similar to those of Ladrech (1994), Radaelli (2000) and Héritier *et al.* (2001). For a review of the many possible definitions, see Featherstone (2001).
- 2 I speak here only of decisions in the regulatory arena. In distributive policies, such as research and development or structural and cohesion policies, there are probably not the same set of mechanics. Moreover, these are areas in which the arrows go up as much as down.
- 3 On the constraints related to European decision rules, Knill and Lehmkuhl (1999) refer to 'positive integration' in what I term cases of highly or less specified decision rules, to 'negative integration' in cases of no rule, and to 'framing' where a rule is suggested. On adjustment mechanisms, see Radaelli (2000).
- 4 In sectors other than political economy, vulnerability would not be economic but, say, military, as in the securities and defense arena, or ecological, as in the environmental arena.
- 5 The notion of 'fit' has been variously conceptualized as a problem of 'misfit' (Börzel 1999; Börzel and Risse 2000; Duina 1999); 'mismatch' (in Héritier 2001); or 'goodness of fit' (in Cowles *et al.* 2001).
- 6 Börzel and Risse (2000) further differentiate between absorption and accommodation, where absorption provides for no change to existing policies or policy-making institutions, accommodation for modest change owing to readjustments that have little real effect on existing policies or policy-making institutions. Similarly Knill and Lenschow (2001) differentiate between 'confirmation of the core or compliance without change' and 'change within a static core.' For purposes of simplicity, I use absorption to include both meanings.
- 7 The importance of ideas has similarly been evident in television policy, where the EU's use of the instrument of audience share in media ownership policy served both Germany and Britain as inspiration for their reform initiatives (Harcourt 2000). And in tax policy, the Council of Ministers group dedicated to the peer review of harmful tax practices led to the shelving of certain bad practices already in the pipeline (Radaelli 1999).

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