

Can the European Union Control the Agenda of Globalization?

Dorothee Heisenberg,
School for Advanced International Studies (SAIS)
Johns Hopkins University

Working Paper

Martindale Center
College of Business and Economics
Lehigh University

February 2004

The European Union (EU),¹ a diverse collection of 25 states, was founded on the ideal of making war impossible by integrating the economies of its states to such an extent that armed conflict would be too costly for all sides. The idea of using economic means to achieve broader political goals therefore is not foreign to the EU. Over time, the economic integration between EU states has increased dramatically, and with each EU enlargement, new countries have redirected their trade toward EU Member States and, in effect, made the EU more self-reliant. As the size and economic independence of the EU increased, however, the economic policies of the Commission also became more neoliberal and strict in their attempts to promote free trade throughout the common market. This chapter examines the question of whether the EU actually can control the negative aspects of the phenomenon of globalization, or whether it instead has become the active agent of globalization's pressures.

It is important to define globalization as used in this chapter: Here the term refers only to increasing economic interdependence between noncontiguous countries. Keohane and Nye (2000) refer to these increasing ties as "thickening" globalization--more trade, more capital flows, more crossborder investment. Looking at statistics (see table 1) it is hard to dispute the conclusion that there has been accelerated thickening-- increased globalization-- and that the EU has been at the vanguard of these increasing economic flows. The larger and more difficult question is that of how globalization affects different states' abilities to have diverse economic policies and priorities. Broadly stated the question becomes: Can European states continue to have their own distinct economic policies or provide benefits above those set by a global market place? This chapter examines the role of the EU institutions in either preventing or enabling distinct European economic policies, and whether on balance the EU has been

more the sword of, rather than the shield against, globalization.

To what extent has the EU helped European companies by structuring the international competitive environment to their benefit? A perception exists that many of the international multilateral organizations and institutions set up after the end of the World War II (e.g., the IMF, World Bank and Bretton Woods system) implicitly or explicitly advantaged economic and political institutions resembling those of the U.S. Moreover, the U.S. was at the forefront of changes to the capital and currency markets (e.g., eurodollar markets) and trade liberalization agreements (GATT and WTO). Thus, there was a fear that other varieties of capitalism,² especially those systems in Europe, would eventually be forced to become more like the U.S. in order to effectively compete with U.S. firms internationally. However, beginning in the 1980s, the EU became a force challenging the dominance of the U.S. in the creation of international regimes. By helping to set the parameters within which the U.S. and European firms compete, the EU began to put its own mark on globalization.

This chapter argues that the process of deeper European integration and successive enlargements resulted in greater participation in global economic governance and more European policy autonomy. The logic of European integration and enlargement was *sui generis*, with countries cooperating in order to achieve pareto optimal results, and definitely not a response to globalization or an effort to play a more significant role internationally. Positive externalities of European integration and enlargement however were created. These externalities manifested themselves in the EU's ability to incorporate its preferences in global institutions to a much greater extent and to shield its Member States from some of the effects of the global marketplace deemed negative by a majority of their electorates.

This argument rejects claims (e.g., Moss 1998a and 1998b, Blyth 2002, McNamara 1998) that the EU became the agent of globalization in Europe. According to this line of logic, the EU facilitated

deregulation and a lowering of social protection in Europe by establishing the Single European Act (SEA, 1986), the Stability and Growth Pact (1997) and Economic and Monetary Union (EMU, 1999) without commensurate progress in European social policies. Thus, a neoliberal Europe, with emphasis on low inflation, low budget deficits, rejection of state subsidies for large employers, and tax competition amongst member states was created. This chapter will examine the merits of this view, but conclude that, rather than facilitating a “race to the bottom,” the EU saved social democracy from some of its most untenable economic policies and created a critical mass that preserved some of the essential social elements of each Member State’s economic preferences. Many of the arguments made by critics of the EU are based on macroeconomic policies agreed to by the Member States of the EU. Thus, the macroeconomic consequences of policies like the European Monetary System (EMS) and the EMU are the linchpin of the argument that the EU did globalization’s dirty work. However, it must be borne in mind that all states disinflated in the 1980s, whether or not they were in the EMS and the budget constraints posed by EMU’s convergence criteria or the stability and growth pact were de facto in place by currency markets and rating agencies (Moseley 2000; Sinclair 1994) and not significantly different than those of non-EU economies (see table 2). Moreover, one of the explicit aims of the single currency—to the extent that the euro was created in reference to global economic problems, which I argue was fairly limited-- was to create an international reserve currency that would reduce the constraints of international capital flows on the Member States as it had done for the U.S. (Emerson et al. 1992).

In contrast to the emphasis on neoliberal macroeconomic policies, this chapter will focus to a greater extent on the EU’s role in microeconomics. The role the EU plays in this arena is extremely important in structuring product competition within the EU, and its effects are largely to the benefit of

EU-based companies, and, by extension, EU Member States. By the 1980s, it had become apparent to all EU Member States that the economic basis for state action in social areas in the long-run depended on revenues derived from successful businesses within its territory. This political realization led to a consensus about establishing a competitive internal market by breaking down nontariff barriers. At that point, creating the conditions for EU businesses to compete successfully in international product markets became the leading strategy that the EU adopted. At the same time, however, the EU did not prevent the Member States from demanding the social engagement of corporations in their territory in exchange for selling on a larger EU market, and thus prevented some of the most reviled U.S. corporate practices and the kind of globalization that many Europeans feared.

The chapter is organized in four parts: the first section examines the EU's economic policies of the mid-1980s to the present. The second part shows that although the effect of these liberalizing policies were thought to create economic harmonization in the Member States' economies, significant variation continues to be the norm, blunting the argument that globalization creates "race to the bottom" harmonization. The third section examines the EU acting as a global economic actor in international forums. The paper concludes with an analysis of how the EU is able to control globalization to prevent the emergence of international institutions that would significantly challenge its social systems and values.

I. A Brief History of Economic Policies of the EU

It is essential to remember that both political and economic motives were at work in the founding of the EU. The idea of making war impossible between countries by integrating industrial bases was an essential element of the European strategy to create the EU. These ideas provided a rhetorical appeal and ideological justification for European integration that economic calculations alone would not have had. Indeed, except for the creation of a free trade zone (albeit with many nontariff

barriers) and an (inefficient) common agricultural policy, by the mid-1980s the EU had very little to show for its almost 30-year history. Without the political purpose that motivated its members to continue to push greater integration, it might never have become the economic power it is today.

This all changed in the mid-1980s, in part because some long-standing intra-EU disputes were finally settled, and partly because the external economic environment created incentives for Member States to cooperate on economic matters. On the political side, the Member States agreed to a rebate for Britain, which had held up all other business until it achieved a compromise on its EU contributions (Dinan 1999). With Margaret Thatcher appeased, the Member States could finally negotiate some of the other business that had accumulated over the past decade. Specifically, the increasing market share of Japanese consumer electronics and auto makers became the catalyst for greater interest in making Europe's internal market more competitive. There was widespread agreement that Europe was not going to be subordinate to the Japanese as well as the Americans, and hesitant governments agreed to cautiously deregulate the European market as part of a larger bargain that included institutional reforms. The SEA, signed in February 1986, established 297 specific proposals that could break down nontariff barriers preventing trade between Member States. Using a 1979 *Cassis de Dijon* ruling of the ECJ, the SEA committed Member States to accepting products of any standard from any other Member States to be sold within their borders (albeit with significant exemptions for health and safety considerations). This had the effect of removing nontariff barriers, and opened up the internal market to competition within its borders. There were widespread fears that the SEA would create a "Fortress Europe," advantaging European products over those of U.S. or Japanese competitors, but these fears were ultimately diffused by the absence of anti-U.S. or Japan discrimination. The net effect of greater U.S. and Japanese investment in the EU, however, was productivity growth and innovation such that in

the late 1980s and early 1990s the EU grew at a faster pace than the U.S. (Turner 2001: 139).

In the context of this chapter, the question must be asked: Did the EU deregulate its product market in response to globalization's pressures? Moravcsik's (1991) analysis of the SEA argued against such an interpretation, examining the role of transnational business groups and technocrats, but ultimately finding that various country-specific motivations produced a set of mutually agreeable bargains. For example, although French President Mitterrand was not interested in market deregulation, he shared Germany's interest in institutional reform. Britain's Thatcher, however, was uninterested in institutional change but was willing to countenance the deregulatory proposals drawn up by (British) Internal Market Commissioner Cockfield. This compromise between the two positions, coupled with side payments to Ireland and others made possible the SEA. The pressures of globalization per se were insufficient to get a consensus for EU deregulation. Ultimately, however, the SEA gave European companies a leg up on their non-EU competition in the form of a cohesive internal market that continued to grow with each enlargement.³

A similar case of domestic preferences creating EU bargains resulted in the EMU. Germany's Bundesbank ran the monetary policy of most of the EU member states in the 1980s as a result of the European Monetary System.⁴ France and other Member States had been promised that "further institutional development" of the EMS would occur within two years of 1979, but the Bundesbank continued to thwart any progress toward a Europeanization of its functions. The French government was loath to institutionalize a Germanesque, monetarist order at the EU level, but by 1988 it preferred having a seat at the monetary policy making table to continuing to react to solely German monetary policies.

EMU came about in part because German politicians were not in charge of Germany's

monetary policy (which was in the hands of the Bundesbank) and were thus less jealous of keeping their policy making prerogatives.⁵ Moreover, Chancellor Kohl and Foreign Minister Genscher were interested in EMU not for economic reasons but for political ones—furthering European integration. Using the frame of “Germany’s duty to Europeanize” as the leitmotiv of his arguments in favor of EMU (against highly skeptical German citizens and business interests),⁶ Kohl effectively blunted criticisms of EMU. Thus, when the French asked to negotiate the EMU, the sole constraint on Kohl was the Bundesbank, which could not veto EMU unless the new institution did not guarantee German stability. The neoliberal character of the ECB’s mandate and the existence of a stability and growth pact⁷ are direct outcomes of the institutional configuration in Germany, not an EU-wide consensus about best economic practice or a reaction to the exigencies of globalization. Again, the essential point is that domestic politics created EMU, not external, international economic forces.

II Economic Divergences Persist

By the late 1990s, the EU had become the largest single market and its policies had worked to stabilize economic production in the Member States. There had been product harmonization and the levels of intra-EU trade increased. At the same time, however, there was a somewhat surprising absence of harmonization of Member State practices in organizing capitalism. Whereas some early analysts of the EU⁸ had projected that increased integration would likely lead to a convergence of economic and legal systems of the Member States, by the 1990s, a new wave of scholarship⁹ subjected these claims to greater empirical scrutiny and discovered that distinct systems continued to persist within the EU. This observed divergence of systems within the EU is an important part of the argument that the EU shields its Member States from globalization.

Many conceptions of globalization incorporate a homogenizing mechanism that minimizes states’

authority. Most often macroeconomic constraints are the causal mechanism. Strange (1996) posits that the tremendous advances in technology and finance challenge the traditional power of states and disseminate authority to nonstate actors. “Power over outcomes is exercised impersonally by markets and often unintentionally by those who buy and sell and deal in markets.”¹⁰ The role of the state is diminished. Boyer (1996) describes the mechanisms by which one might assume globalization creates convergence without the assent of states: economic forces driving nonconformists out of business (convergence occurs through best practices, institutional copying): multinational corporations (MNCs) requiring a set of rules of the game (favorable to themselves); or supranational regulatory convergence whereby organizations like the WTO or the EU eliminate nontariff barriers, regulatory restraints, and divergent production processes. It is clear that although finance and technology have been fully integrated in the EU and non-EU MNCs have a sizable presence in the EU market, the Member States retain a good deal of leeway to organize their economies and retain different policies and institutions. This aspect of the EU deserves closer attention. Why have these different forms of capitalist production persisted?

One of the central themes of the “varieties of capitalism” literature (Berger and Dore, 1996; Hollingsworth and Boyer, 1997; Kitschelt et al. 1999; Hall and Soskice, 2001) is that distinct historical institutions may provide comparative advantage in product markets that countries can use in international competition. Prominent examples of these differing institutions, or “social systems of production” as Hall and Soskice termed them (2001;3) are industrial relations, vocational training and education, interfirm relations, corporate governance and firm-employee relations (ibid.). In each of these domains, scholars note the advantages of certain institutions (taken as a whole) to producing for global markets. Two key insights emerge from the case studies in these volumes that challenge significant assumptions of

globalization: (1) on balance these systems are equally good and stable, and (2) many, if not most, of the systems are indivisible, meaning that it is impossible to import parts of one system to graft onto another set of institutions and obtain the same benefits.

The first statement reflects a more realistic approach to global competition. Although firms may be competing for customers and the nature of that competition is zero-sum, the same cannot be said for states. As Turner (2001) argues, competition between states is hardly zero-sum, since the success of one state does not require the failure of another state. Thus two distinct economic systems may coexist indefinitely without one eventually driving the other one “out of business”—or forcing it to adapt. Further, as Boyer (1996:51) notes, even if one takes a leaf from evolutionary biology, the lessons are not only survival of the fittest, but also the long-run coexistence of various species. The EU is responsible for providing a reasonably hospitable environment for different economic and institutional systems to coexist. By establishing a market cohesion to allow these systems to coexist the EU did not force one system, or significant elements of one system, on the others.

How has the EU allowed Member States to retain different corporate governance systems, tax systems, production systems, and financial systems, among others? A part of the answer is structural—the creation of the EU itself. By creating a market large enough to allow European companies the economies of scale that heretofore only U.S. companies enjoyed (after the May 1, 2004 enlargement, the 25 Member States comprise 452 million consumers compared to the U.S.’s 288 million), the EU leveled part of the global playing field. The large EU market also includes most industries, sectors and classes of goods, minimizing the costs from redirection of trade.¹¹

The EU also is less open in the sense of trade dependency (exports plus imports as a percentage of GDP was 10% in 2000) than it was in the 1980s, and has a similar level of openness as

Canada and the U.S. together (8%).¹² This fact is important in light of scholarship linking the size of trade openness to the size of government spending (Cameron 1978, Ruggie 1983, Katzenstein 1985). The underlying argument about trade openness and government spending was that a political bargain was struck in countries that were very exposed to trade, which compensated the risks of trade openness with welfare payments. Thus Katzenstein (1985) studied small open European economies and found well developed mechanisms to guarantee employment or income that did not exist in countries less exposed to trade. The correlation between well developed welfare states and trade openness is robust, but, as Burgoon (2001) points out, these studies “skirted the longitudinal question of whether changes in openness inspired changes in welfare.”¹³ If one assumes that the risks of global trade to the Europeans is lower now than it was 30 years ago, then any observed reduction of welfare transfer payments in the EU states should not necessarily be perceived as an EU response to globalization, but rather may be due to declining risks of openness.

In point of fact, for all its deregulatory policies manifest in the SEA, for example, the EU by and large has allowed the essentials of each State’s economic systems to remain, by use of policies like mutual recognition and the extensive use of directives rather than regulations. Directives are broad policy guidelines which each Member State must write into national law and thus be consonant with its own institutions. The use of these mechanisms is not accidental; it is important to recall that the Member States are represented in the Council of Ministers and must approve all legislation in the EU. Although technically most commercial legislation has only to obtain a qualified majority of the votes in the council (a weighted vote of approximately 74%), in fact these countries decide by consensus more than 80% of the time, a practice which means that intensely held preferences will rarely be outvoted (Heisenberg 2004). The relevance of this practice is that when issues come before the council with the potential to

undermine one of the foundations of a national system, the other members defer to the affected state and reject or alter the legislation to make it compatible with the preferences of the affected state. A case in point has been the slow progress of the Financial Services Action Plan,¹⁴ a set of 43 legislative acts the Commission drafted to break down barrier to a great European capital market and more financial services integration. Where these barriers involved a significant challenge to one of the elements of a Member State's financial systems, little or no progress could be made,¹⁵ despite the rhetorical support of Member States for the goal of a unified financial market. Thus significant institutional variation continues to exist in the EU, and under the existing norms of procedure the EU has been reluctant to force fundamental change on a member state. As Schmidt (2002) concludes:

European countries have not only followed different pathways to [economic] adjustment, they are likely to maintain these differences into the future. National policies are not the same even when they are patterned on EU rules and regulations; national practices remain differentiable into at least three varieties of capitalism despite similar policies and common economic challenges; and national discourses remain distinct even when they seemingly use the same language.¹⁶

These different institutional structures serve the purpose of lessening the head-to-head firm competition within the EU, making the trade and investment relationships within the EU more stable. Where the EU has had an impact on intra-EU trade is in restraining "race to the bottom" competition between Member States by limiting tax incentives and increasing the environmental and labor standards in the states without a strong tradition in those fields. EU regulation is therefore often characterized by "trading up" to a higher standard rather than "trading down" to a minimum, a fact made possible by the size and attractiveness of the European market (Vogel 1997). Thus, although further study is needed, it might be argued that the risks of trade openness have been reduced within the EU and that any reduction in government welfare spending is a reasonable response to this phenomenon.

III The EU Explicitly Shaping Globalization

In the 1990s, the EU was more proactive in shaping international competition and institutions. Although it continues to suffer from a “representation” problem—the fact that the EU’s external representation is not cohesive or consistent makes it difficult for other world leaders to recognize the EU as an economic whole—the EU has been able to incorporate its preferences in international regimes and to shape global competition to be consistent with the preferences of its firms. Krasner (1991) points out that international cooperation, although pareto optimizing, can still advantage one country over the others by forcing the costs of adjustment onto the others. Krasner’s focus is telecommunications regimes, but other examples might be international product standards which, although they provide a benefit to consumers in that their products are interoperable, also create costs to manufacturers to switch to one standard.

Mattli and Buthe (2003) examined the process of making international standards at the International Standards Organization (ISO), and discovered that the EU, with its longstanding history of setting product standards within the EU, had a structural advantage over the U.S. and has had greater success in setting the standards than the U.S. According to the authors, as much as 80% of world trade is affected by standards or other technical regulations, and failure to use the technical specifications can be considered an “unnecessary obstacle to trade” in the WTO. This makes standards setting extremely important in establishing the parameters of global product competition; if the Europeans can set their standards more frequently than the Americans (or the Japanese), European firms will have a leg up in the global product competition. As Mattli and Buthe (2003:47) conclude, “European firms are involved much more frequently in international standardization institutions than U.S. firms and therefore able to capture more of the gains from coordination.” The success of EU firms in this international

setting, according to the authors, is due to the fact that existing domestic structures in several EU Member States which increased firm/government coordination and information relay have been transposed to the EU as a whole. The experience of arbitrating between different standards within the EU has been instructive in formulating a unified position and presenting it at the international level, leading to its adoption more frequently. As more and more products incorporate technology based on European standards, path dependencies will be established, benefiting European firms.

Europeans also shaped global regimes with less material, than ideological, content. The EU's 1995 Data Privacy Directive prohibited the use of any European's personal data unless it was sufficiently safeguarded. As part of this directive, firms were not allowed to transfer data to countries where these rights were not guaranteed, including the U.S. Part of the EU's interest in shaping global regimes stems from nonmaterial motives as well—by offering alternatives to U.S. proposals or practices, the EU presents citizens of the world a choice of regime that they would not otherwise have had the power to negotiate because of their size. By promoting European ideas and ideals at the global level, the EU not only creates alternatives to U.S. policies, but also forges a “European” identity, distinct from a U.S. (or any other developed country) identity.

Among decision makers in Europe, there is a consensus that because of its size, the EU should rightly take its place on the world stage and influence events and policies outside the EU's borders. A section of the 2001 Commission White Paper on European Governance, titled “The EU's Contribution to Global Governance,” explicitly endorsed an enhanced EU role in transnational governance:

The objectives of peace, growth, employment and social justice pursued within the Union must also be promoted outside for them to be effectively attained at both European and global level. This responds to citizens' expectations for a powerful Union on a world stage. Successful international action reinforces European identity and the importance of shared values within the Union... To achieve these objectives, the Union needs to speak more with a single voice. It

should strengthen its representation in international and regional fora, including in relation to economic and financial governance, the environment, development and competition policy (Commission, 2001a:26-7).

The case of the Data Protection Directive is precisely this kind of issue. The European Commission identified data protection as an international issue requiring harmonization in 1990, earlier than the U.S. did, and formulated the issue as a “fundamental human right” (making it nonnegotiable) as opposed to a commercial one. Moreover, the EU was proactive in securing its right to protect privacy in the WTO charter, thus making the data protection regime exempt from WTO jurisdiction. As a result of the widespread use of the Internet and the creation of e-commerce, the data privacy directive became a significant potential barrier to U.S.-EU trade. Although similar majorities of citizens of the U.S. and EU opposed the rights of companies to collect personal data and profile users, the Department of Commerce rejected any suggestion that the U.S. pass comprehensive privacy legislation to comply with the EU directive. In the U.S. privacy rights were defined sectorally (e.g., medical information privacy, financial sector privacy) and the prevailing philosophy of law makers was not to put barriers in the way of e-commerce and the new economy.

Other countries around the world, however, did pass comprehensive privacy legislation to comport with the EU’s directive. Many of them had been sympathetic to the ‘fundamental human rights’ approach to data privacy as a result of having signed earlier multilateral agreements¹⁷ with similar safeguards. For others, like Latin American countries, it was a chance to safeguard a growing commercial relationship with the EU. The net effect of the EU’s Data Protection regime was that many of its trading partners had adopted comprehensive privacy protection that mirrored that of the EU. The exception was the U.S.

Even the U.S., however, could not risk having its data flows cut off. The Commission estimated

that approximately \$120 billion¹⁸ in trade was at risk, dwarfing the heretofore largest trade dispute-- the foreign sales corporation dispute which cost \$4.2 billion. Thus, after intense negotiation between Internal Market and Department of Commerce representatives, a compromise of sorts was reached: the EU would agree to allow U.S. corporations to self-certify that they respected the directive's strictures and did not treat Europeans' data in a manner incompatible with the directive. This self-regulatory compromise was flawed in many respects¹⁹ but it did establish unequivocally the European's right and ability to create what amounted to a new global regime in privacy. Even as other countries, like Australia, railed against the EU's right to set high international data protection standards and called for a new multilaterally negotiated regime on privacy,²⁰ there was an underlying realization that enough countries had changed their privacy laws to emulate the EU regime so that moving away from that model would be difficult if not impossible.

Another example of the EU shaping globalization is the U.S.-EU cooperation on mergers and acquisitions (M&A) oversight. In Europe, one of the few areas in which the Commission has complete autonomy is Competition policy, which includes the approval of M&A deals. As Cini and McGowan (1998:33) relate in their history of Competition policy, Regulation 17 which set out the rights and powers of those parties involved, evolved to become a major part of the Competition directorate's work by the late 1980s. Despite appeals from Member States to shield EU firms from takeovers, the Competition directorate resolutely continued to approve mergers in a professional manner, leading to the credibility of the institution. Regulation 17, which gave the Commission the right to review mergers, allowed the Commission to set the thresholds of which transactions it should review. As globalization began to change the parameters of competition, the EU changed its approach to which deals it should review. Backed by the European Court of Justice, the Commission decided in 1972 that it should have

extraterritorial jurisdiction to review mergers that involved no EU firms but which would have an impact on the EU market. “Extraterritoriality dictates that the EU cannot be denied the right, on the basis of public international law, to take the necessary steps to safeguard its measures against conduct distorting competition within the EU’s market, even if those responsible for the conduct reside in non-member states.”²¹

With the expansion of the single market in 1980s, the Competition Commissioners became more active in reviewing mergers, even though the actual number of mergers denied was very small.²² Of that small number of mergers critically reviewed, however, were two deals involving only U.S. companies: the Boeing-McDonnell Douglas merger of 1997 and the proposed General Electric-Honeywell merger of 2000. In both cases, the merger had already cleared the U.S. antitrust agencies without controversy and there was an expectation on the U.S. businesses’ side that the EU’s merger review was a formality. Although the merger review criteria used in the U.S. and the EU were roughly similar, the different review procedures could create different outcomes.²³ When the Commission threatened to block the Boeing-McDonnell Douglas merger, the issue was raised at the highest levels of the U.S. government, with Vice President Gore stating that the U.S. would take whatever action is appropriate to prevent the EU from blocking the merger.²⁴ The Commission ultimately passed the merger, but stipulated that Boeing comply with certain conditions such as not enforcing the exclusivity provisions in its airplane sales agreements. More controversially, the EU blocked the GE-Honeywell transaction in 2001 after GE-Honeywell refused to make the necessary changes to the transaction deemed necessary by the Commission.

Although the U.S. government did not take an active role pressuring the EU to approve the GE-Honeywell deal, after the collapse of the transaction, there was renewed interest in some sort of

cooperation on international merger oversight. The idea of a bilateral regime to investigate merger transactions became accepted in the U.S. even as the Bush administration disengaged from other international constraints. In October 2002, the EU and the U.S. agreed to a set of “best practices on cooperation in merger investigation”²⁵ which sought to increase the communication between EU and U.S. regulators and to allow joint EU/U.S. interviews of the companies concerned. Despite the voluntary nature of the framework, the EU had an impact on the previously sovereign elements of government regulations.

One final example suffices to demonstrate that the EU has shaped the behavior of other States and hence influenced globalization to a degree. The EU’s resistance to Genetically Modified Organisms (GMOs) and its attempts to compel the U.S. to label any GMO products sold in Europe’s market have been a source of conflict between the EU and the U.S. for almost a decade. In the Spring of 1996, the EU approved the sale of GM soybeans but one year later, reacting to a backlash of consumers and food retailers, the European Parliament approved legislation requiring the labeling of the GM crops, including those it had already approved. The measure was backed by a majority of the EU population: 85% of European consumers told pollsters they would prefer not to eat GM foods (Vogel 1997: 26). The European Commission’s decision to require mandatory labeling under the circumstances was considered to be a somewhat protrade position, given that four EU Member States had already banned the sale of GMOs outright. The Commission announced “interim measures” for GMO approvals in July 2000, and anticipated that labeling and other controversial items would be worked out among the divided Member States. By 2004, there still had been no progress on GMO labeling standards, and the EU had failed to approve any new GMOs for the European market.²⁶ However, in August 2003, the U.S. (the world’s largest producer of GMOs), Canada, and Argentina sued the EU for not moving

forward on its GMO approvals. The U.S. did not claim that the authorization procedures (or the tracing and labeling regimes, per se) were flawed, but simply that the EU had not acted in a timely way to create new legislation that would preempt Member State bans on GMO foods or get the approvals going again. The U.S. had been prompted to act by the fact that not only had GMOs effectively been banned in most of the EU market, but also other parts of the world had been influenced by the EU's decision. Specifically, in 2002, the governments of several developing countries refused GMO crops. African countries refused food aid donated by the U.S. that contained GMOs, causing the U.S. to blame the EU for creating famine in Africa with its Luddite agricultural policies. For the purpose of this chapter, it suffices to point out that the EU was able to resist the U.S.'s global food export regime and to carve out a niche for its own preferences that established the opportunity for other, less powerful countries to adhere to as well. As such it can be considered an example of the EU shaping globalization.

IV Conclusions about the EU and Globalization

There is no real dispute about the fact that in international relations, size matters. Thus, although the EU is not a cohesive, large sovereign state in international affairs, it is one in commercial and economic matters, and it has become a powerful actor in international economics as a result. The EU has become a model for other regional associations for precisely that reason—a large market commands more power in the international sphere than many small or medium sized states. Although the EU has developed that power now, its success in creating the cooperation among sovereign Member States was due to its political agenda. A certain degree of trust and willingness to forego short-term gains for long-term benefits was an essential part of the EU's ability to create this economic power (and it is this element that continues to elude other regional organizations focusing exclusively on

creating a common economic market). This chapter examined the ways in which the EU deregulated the internal market to create business opportunities for EU (and other) companies on the one hand while on the other systematically resisting pressure to change idiosyncratic production systems. With different law systems and labor relations and financing of businesses, the EU has been able to harmonize those nonessential elements to advantaging one system over another, while leaving in place those elements that create national synergies. As such, the role of the EU is much closer to a gentlemen's club where economic compromises are made (a liberal intergovernmentalist approach), rather than a powerful supranational institution that can ride roughshod over the wishes of its Member States in economic matters (a supranational or neofunctionalist approach wherein the institutions develop their distinct preferences). There is an established norm that decisions with distributional consequences will be deferred or, if enacted, that side payments be transmitted to ease the transition. Contrary to critics of the EU, there is no neoliberal *directoire* governing the decisions made by the various institutions of the EU.

It is important to examine the implicit hypothesis of those who would argue that the EU is the agent of globalization. According to critics of the EU, the individual Member States would not have had to make cuts to their welfare spending, liberalize their capital accounts, or cease protecting and subsidizing their industries had the EU not forced them. This counterfactual claim is difficult to make in light of counterexamples of similar non-EU countries that show these countries did not resist globalization any better than EU Member States. The tighter fiscal policies of Norway, Iceland, Australia, or Canada suggest that the EU—through mechanisms like the Maastricht convergence criteria or the stability and growth pact—was not responsible for the budget balancing accommodations EU countries made. By and large, the non-EU countries had lower budget deficits or even surpluses (see

table 2), indicating that even without the EU these countries did not run huge deficits. Neoliberal (financial) economic policies²⁷ were transmitted to similar countries through mechanisms such as learning and a change in payoffs for each strategy, according to Simmons and Elkins (2004). It is unlikely that EU Member States, even large ones like Germany, would have been better off without the EU. To ignore the point that large country preferences matter more than small country preferences in the international economic system is to reject a significant portion of political thinking.

Further, it is important to note that many of the neoliberal policies that the EU supports rhetorically are often stymied in the agreement or even implementation phases of legislation by the Member States that would lose disproportionately from the legislation. Thus, when the EU proclaimed that it aspired to become "the most competitive, knowledge-based economy in the World by 2010" (primarily through deregulatory mechanisms) at the Lisbon summit in 2000, some observers hoped that finally the EU had turned its back on inefficient social protections that stood in the way of faster economic growth. Four years later, however, a report card on Lisbon prepared by the Center for Economic Reform concluded that "even the most enthusiastic proponent of the Lisbon agenda can only describe the EU's performance over the last 12 months as mediocre ... After a second consecutive year of disappointing economic growth, it is already apparent that the EU will miss some of its key targets."²⁸

Similarly, even formally established policies, such as the stability and growth pact, are not enforced when a state's economic viability is threatened. This was the case when Ecofin refused to sanction Germany and France in December 2003 because enough states felt that greater budget cuts would be counterproductive. The informal nature of the EU permits flexibility beyond the formal reading of the rules suggested by many critics. Although the Commission decided to challenge the decision by the Council before the ECJ, it is unlikely that the Commission will prevail because the inherent flexibility of the system also leads to vague and incomplete treaty language, and is thus hard to enforce. The fact that a significant consensus on

the need for economic reform must exist before the EU acts prevents short term or localized responses to economic developments at the global level.

In the final analysis, the EU has been a model for many different regions of the world because it has developed economic and hence political clout with the development of its internal market. Most of the regions aspiring to become like the EU (e.g., Mercosur, or ASEAN) deliberately eschew the political integration and focus on the economic benefits exclusively. In the words of Jorgensen and Rosamond (2001):

It is quite clear [...] that the model of institutionalised integration represented by the EU has been deliberately avoided by designers of regional orders elsewhere. Even if European integration has been a stimulus to other collective endeavours both during the 1960s and in the present period [...], there has been little inclination globally to either (a) go beyond the construction of free trade zones or (b) create active supranational institutions. The Community method has not been a successful European export to the global polity, but it remains a significant reference point for more or less any discussion about regional integration (if only in a negative sense).

The hope of other regions to become the next EU without the troublesome political squabbling reflects the widespread perception that EU integration has helped the EU to overcome some of the constraints of globalization. If the EU cannot outright prevent necessary macroeconomic adjustments, it can provide a buffer to ease the costs of adjustment. Similarly, it can raise standards so that regulatory competition occurs in a “race to the top” fashion more than vice versa, and this fact can also disadvantage foreign competitors that may not have the ability to compete effectively in quality or green terms. Finally, for historical reasons, the EU has institutionalized mechanisms for reaching agreement that are more well developed than in other countries. To the extent that creating regimes at the international level is the next step in globalizing governance and setting the parameters of economic competition, the EU is in a position to shape those decisions effectively.

Selected Bibliography

Berger, S., Dore, R. (Eds.) 1996. *National Diversity and Global Capitalism*. Ithaca, NY: Cornell University Press.

Blyth, M., 2002. *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*. Cambridge: Cambridge University Press.

Boix, C., 1998. *Political Parties, Growth and Equality: Conservative and Social Democratic Economic Strategies in the World Economy*. Cambridge: Cambridge University Press.

Burgoon, B., 2001. *Globalization and Welfare Compensation: Untangling the Ties that Bind*. *International Organization*, 55, 509—551.

Cameron, D., 1978. *The Expansion of the Public Economy*. *American Political Science Review* 72, 1243—61.

Cini, M., McGowan, L., 1998. *Competition Policy in the European Union*. New York, NY: St. Martin's Press.

Commission of the European Communities 1999. *Financial Services: Implementing the Framework for Financial Services: Action Plan*. Available at

http://europa.eu.int/comm/internal_market/en/finances/general/actionen.pdf

Davison, L., Fitzpatrick, E., Johnson, D., 1995. *The European Competitive Environment: Text and Cases*. London: Butterworths.

Dinan, D., 1999. *Ever Closer Union?* Boulder, CO: Lynne Rienner Publishers.

Doremus, P. N., Keller, W.W., Pauly, L.W., Reich, S., 1998. *The Myth of the Global Corporation*. Princeton, NJ: Princeton University Press.

Emerson, M., Gros, D., Italianer, A., Pisani-Ferry, J., Reichenbach, H., 1992. *One Market, One Money: An Evaluation of the Potential Benefits and Costs of Forming an Economic and Monetary Union*. Oxford: Oxford University Press.

Estevez-Abe, M., Iversen, T., Soskice, D., 2001. *Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State* in: Hall, P., Soskice, D. (Eds.), *Varieties of Capitalism: the Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

Evenett, S. J., Lehmann, A., Steil, B., (Eds.) 2000. *Antitrust Goes Global: What Future for Transatlantic Cooperation?* Washington, DC: Brookings Institution Press.

Garrett, G. 1998. *Partisan Politics in the Global Economy*. Cambridge: Cambridge University Press.

Gilpin, R., 2000. *The Challenge of Global Capitalism: The World Economy in the 21st Century*.
Princeton, NJ: Princeton University Press.

Gordon, P., Meunier, S. 2000. *The French Challenge: Adapting to Globalization*. Washington, DC:
Brookings Institution Press.

Hall, P., Soskice, D. (Eds.) 2001. *Varieties of Capitalism: The Institutional Foundations of
Comparative Advantage*. Oxford: Oxford University Press.

Heisenberg, D. forthcoming. *Data Protection Conflicts Between the European Union and the United
States*. Boulder, CO: Lynne Rienner Publishers.

Heisenberg, D. 2004. The Institution of 'Consensus' in the EU: Formal Versus Informal Decision-
making in the Council. *European Journal of Political Research* volume number and pages not yet
available.

Hirst, P., Thompson, G. 1996. *Globalization in Question*. Cambridge: Polity Press.

Hollingsworth, J. R., Boyer, R. (Eds.) 1997. *Contemporary Capitalism: The Embeddedness of
Institutions*. Cambridge: Cambridge University Press.

Jørgensen, K., Rosamond, B., 2001. *Europe: Regional Laboratory for a Global Polity*.

CSGR Working Paper No. 71/01.

Katzenstein, P., 1985. *Small States in World Markets*. Ithaca, NY: Cornell University Press.

Kierzkowski, H. (Ed.) 2002. *Europe and Globalization*. New York, NY: Palgrave Macmillan.

Kitschelt, H., Lange, P., Marks, G., Stephens, J. (Eds.) 1999. *Continuity and Change in Contemporary Capitalism*. Cambridge: Cambridge University Press.

Keohane, R., Nye, J., 2000. Introduction, in: Nye, J., Donahue, J.D. (Eds.) *Governance in a Globalizing World*. Washington, DC: Brookings Institution Press.

Krasner, S., 1991. *Global Communications and National Power: Life on the Pareto Frontier*. *World Politics* 43, 336—356.

Mattli, W., Buthe, T., 2003. *Standards Setting*. *World Politics* 56, pages unknown.

McNamara, K. 1998. *The Currency of Ideas: Monetary Politics and the European Union*. Ithaca, NY: Cornell University Press.

Meunier, S., 2000. *What Single Voice? European Institutions and EU-U.S. Trade Negotiations*. *International Organization* 54, 103—135.

Moravcsik, A. 1991. Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community. *International Organization* 45, 651—688.

Mosley, L., 2000. Room to Move: International Financial Markets and National Welfare States. *International Organization* 54, 737—773.

Moss, B. 1998a Is the European Community Politically Neutral? The Free Market Agenda. in: Moss, B., Michie, J. (Eds.) *The Single European Currency in National Perspective*. Houndmills: Macmillan.

Moss, B. 1998b. The Single European Currency in National Perspective: A Community in Crisis? In: Moss, B., Michie, J. (Eds.) *The Single European Currency in National Perspective*. Houndmills: Macmillan.

OECD, 2000. *The European Union's Trade Policies and their Economic Effects*. Paris: OECD.

Rodrik, D., 1999. *Has Globalization Gone Too Far?* Washington, DC: Institute for International Economics.

Ruggie, J., 1983. International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order. In: Krasner, S. (Ed.). *International Regimes*. Ithaca, NY: Cornell University Press.

Schmidt, V. A., 2002. *The Futures of European Capitalism*. Oxford: Oxford University Press.

Simmons, B., Elkins, Z., 2004. The Globalization of Liberalization: Policy Diffusion in the International Political Economy. *American Political Science Review* 98, 171—189.

Sinclair, T. 1995. Between State and Market: Hegemony and Institutions of Collective Action Under Conditions of International Capital Mobility. *Policy Sciences* 27, 447-466.

Strange, S., 1996. *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press.

Trondl, G. 2000. Fiscal Federalism and the Reality of the European Union Budget, in Crouch, C. (Ed.). *After the Euro: Shaping Institutions for Governance in the Wake of European Monetary Union*. Oxford: Oxford University Press.

Turner, A., 2001. *Just Capital: The Liberal Economy*. London: Macmillan Publishers Inc.

Vogel, D., 1997. *Trading Up: Consumer and Environmental Regulation in a Global Economy*. Cambridge, MA: Harvard University Press.

Vogel, S. K., 1996. *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial*

Countries. Ithaca, NY: Cornell University Press.

Weiss, L., 1998. *The Myth of the Powerless State*. Ithaca, NY: Cornell University Press.

Endnotes

¹ Throughout this paper, the name “European Union” will be used instead of the various appellations that existed at different times, including European Economic Community and European Communities.

² After the demise of communism, researchers discovered that the category of ‘capitalism’ had several significant varieties, with distinct production regimes, organization of capital provision, ownership rules and labor organization. Berger and Dore (1996) were the first to question whether these varieties of capitalism would eventually converge, or whether the deeply rooted systems might continue to diverge significantly. Other volumes (e.g., Kitschelt et al. (1999), Hall and Soskice (2000)) have empirically analyzed specific cases and sectors, and generally concluded that divergence among systems will likely continue.

³ Each country joining the EU must agree to the *acquis communautaire*, the set of treaty obligations, regulations and directives existing at the time of entry.

⁴ The EMS has been cited as another case of globalization creating neoliberal European institutions but a careful reading of the history shows that the EMS was never meant to be as anti-inflationary as it became. France thought it had negotiated a regime significantly more hospitable to its pro-growth policies than the EMS ultimately was, and in any case expected a European Central Bank-like institution with joint decision-making power and credit facilities by 1983 (Heisenberg, 1999 chapter 3).

⁵ For a longer exposition of the domestic bargains that led to EMU, see Heisenberg (1999) or Dyson and Featherstone (1999).

⁶ Contrary to Moravcsik, Germany business interests were at best ambivalent, but mostly hostile, to EMU (see Heisenberg forthcoming).

⁷ The existence of a stability and growth pact was due to the German government which understood that the both houses of the German parliament would need to approve the entry of the DM into the euro and that some assurances of post-EMU behavior would be needed to get the parties’ assent. See Heisenberg (1999) for more detail.

⁸ This perspective could be read into the work of Mitrany or Haas and other functionalists.

⁹ Berger and Dore (1996), Hollingsworth and Boyer (1997), Kitschelt et al. (1999), Hall and Soskice (2001).

¹⁰ Strange (1996) p. 13.

¹¹ Redirection of trade occurs when a tariff wall is established and the tariffs cut off a more efficient supplier

outside the trade union in favor of a less efficient supplier inside the union. OECD (2000) states that after the second enlargement, no diversion of trade effects were seen.

¹² The North American trade openness measure in 2000 was approximately 8% (OECD 2000:61) to the EU's almost 10% (ibid.).

¹³ Burgoon (2001) p. 511.

¹⁴ Commission (1999).

¹⁵ For example, the EU Takeover Directive was so significantly watered down by the Council that the Commission was ready to abandon it. *The Economist*, "Lowest Common Denominator: Too much compromise over the EU's Draft Takeover Directive," November 23, 2003.

¹⁶ Schmidt (2002) p. 303.

¹⁷ Council of Europe *Convention on the Protection of Personal Data* (1981) and the OECD *Guidelines* (1980).

18. Press Release, available at <http://usinfo.state.gov/topical/global/ecom/00053104.htm>

¹⁹ For greater detail on the flaws of the compromise, see Heisenberg (forthcoming).

²⁰ See the comments of Australia's Attorney General available at <http://www.ag.gov.au/www/attorneygeneralHome.nsf/Alldocs/RWPDD66625688FF5CACCA256DA300079B5?OpenDocument&highlight=data%20protection>

²¹ *Common Market Law Reports* (1972), cited in Davison et al. (1995) p.111.

²² Of the 2,235 mergers reviewed since 1990, the Competition directorate blocked only 18.

²³ Venit and Kolasky (2000).

²⁴ Cited in Boeder (2000:143).

²⁵ Available at http://europa.eu.int/comm/competition/mergers/others/eu_us.pdf

²⁶ Commission (2004). Available at http://europa.eu.int/comm/food/food/biotechnology/gmfood/gmo_comm_en.pdf

²⁷ Defined in this paper as current and capital account liberalization, as well as unitary exchange rate convertability.

²⁸ Quoted in *EU Observer*, March 9, 2004.