





**Forschungsgruppe Europäische Gemeinschaften (FEG)**

Studien  
der Forschungsgruppe Europäische Gemeinschaften (FEG)

Nr. 13

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# **Dimensions of a Critical Theory of European Integration**

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Marburg 2000

**ISBN 3-8185-0299-4**

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**FEG am Institut für Politikwissenschaft**

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## Introduction

This conference is dedicated to the analysis of „Dimensions of a Critical Theory of European Integration“. <sup>1</sup> At the beginning I would like to mention two - rather general - approaches to this subject. The first is connected to the experience of fundamental changes going on in the world during the last quarter of this 20<sup>th</sup> century which Eric Hobsbawm, in his „Age of Extremes“, characterized as „The Landslide“. <sup>2</sup> European societies and politics have been deeply transformed and restructured by these transformations - not only as a consequence of external events like the breakdown of state-socialist systems in Eastern Europe and of German Unification but also of endogenous technological, economic and social change. At the same time progress in European Integration - starting with the Common Market project in the mid 80es and continuing with Maastricht (1991) and Amsterdam (1997) until the achievement of the Common Currency, the „Euro“ (1999) - has had considerable impact on social and political science research and debate in this field. Old theoretical paradigms - for instance neofunctionalism, the „method Jean Monnet“ - seem to be exhausted. New efforts in Political Science research - for instance the multi-level-governance-approach or the institutionalist revival in Political Science - indicate growing interest for new tendencies in European integration, connected to new dimensions of transnationalisation of politics, to transformations of form and function of the capitalist state, policy networks and new actors' constellations in European politics.

The second approach - still rather general - refers to the status of critical theory in the tradition of Historical Materialism. <sup>3</sup> Of course, the influence of critical theory is affected by the Big Landslide and the Big Crash of Socialism in the past decades. In large parts of the global system of social and political science, critical theory today is rather marginalized, not necessarily beneficial to academic careers. On the other side, there is a growing interest for International Political Economy since the 80s reflecting not only the hegemony of capital in the consequence of globalisation and the victories over socialism everywhere, but also reflecting the need for a critical approach to the analysis of the contradictions obviously inherent to this new type of capitalism: social polarization, mass unemployment, poverty and cultural deformations, new warfare, destruction of nature etc.

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<sup>1</sup> The conference took place at the University of Marburg, 15./16. October 1999. The preparation and editorial work of this study were supported by the Rosa-Luxemburg-Stiftung (Berlin) and the Noies-Schrittweis-Stiftung (Marburg/Diemelsee).

<sup>2</sup> Cf. Eric Hobsbawm, Age of Extremes. The Short Twentieth Century 1914 - 1991, London 1994, pp. 403 ff.

<sup>3</sup> Cf. Stephen Gill (Ed.), Gramsci, historical materialism and international relations, Cambridge 1993.

In the past ten years our Marburg Research Group on European Integration has realized some projects which were dedicated to an analysis of social, economic and political transformation within the European Union. We started with a project analyzing the Common Market Program '92 and its implications for Industrial Relations in the member states.<sup>4</sup> We confirmed a diversity of institutional systems within the member states, but at the same time there is a convergence of a common pressure - based upon the new market dynamics and - since the early 80s - neoliberal politics of deregulation and privatization. This pressure works in the direction of weakening collective labour law, welfare state regulations, trade unions, workers councils, strengthening at the same time the power and bargaining position of management - especially of transnational corporations - as well as the political forces of neoliberalism.

Some years later another project was dedicated to the topic of „Unemployment and the Welfare State in Western Europe“ (1997).<sup>5</sup> Now, we were already referring to one of the central contradictions of transnational capitalism in the age of neoliberal hegemony: the continuous increase in unemployment in Western Europe. Again, the national welfare systems - reflecting institutional and legal diversity – are put under pressure by the costs of unemployment and poverty on the one side and transnational markets, competitiveness, austerity and deregulatory politics on the other. There exists however a diversity of different „paths“ (in different countries or regions) which are a result not only of traditions, but also of concrete relations of social and political forces, and of social and political struggles. We therefore provided some arguments for actual political debates, referring to „models“ where the problem of unemployment *seems* to have been solved or - at least - considerably reduced: the United States and Great Britain, the ideal model of neoliberalism and market radicalism; and/or the corporatist model of the Netherlands, and/or the Scandinavian countries, foremost Denmark which still has strong welfare politics and active labour market policies.

Since 1997 we have continued this kind of investigation - always including empirical research - with a project entitled „Employment Policy within the European Union“ (directed by Stefan Tidow) referring to the new employment Title of the Amsterdam Treaty, the new kind of bench-marking-policy-processes and of course, to the tensions between national employment policies and the range and effects of a European employment governance-system which raises many questions related to the

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<sup>4</sup> Frank Deppe / Klaus-Peter Weiner (Hrsg.), Binnenmarkt '92. Zur Entwicklung der Arbeitsbeziehungen in Europa, Hamburg 1991.

<sup>5</sup> Hans-Jürgen Bieling / Frank Deppe (Hrsg.), Arbeitslosigkeit und Wohlfahrtsstaat in Westeuropa. Neun Länder im Vergleich, Opladen 1997.

character of the institutional elements of the European political system and its dynamics.<sup>6</sup>

This summary would however remain incomplete without referring to our efforts to combine empirical analysis with a more theoretical reflection of the transformations and the dynamics of modern capitalism. For some time, we felt quite sure characterizing our own approach as a „Regulation school approach enlarged by Neogramscianism“. Our primary intent is to integrate the regulationist approach to the transformation from Fordism to Postfordism<sup>7</sup> with the Gramscian School of International Political Economy founded by Robert Cox in Toronto.<sup>8</sup> This school - within the discipline of International Relations - focuses upon „historical blocs“ of transnational hegemony on the structural basis of a certain formation of capitalism and realized by the actions, conflicts and struggles of „social forces in the making of history“ (Cox). We found it quite productive to confront mainstream social science theory with these approaches. We are still convinced that by this way we can grasp the inner relationship between the transformation of modern Capitalism - the dissolution of the Fordist coherence between the accumulation regime, a mode of regulation and a hegemonic paradigm - on the one side and the changes in the dynamics and the mode of European Integration on the other - as one pillar of the advanced international capitalist system still dominated by the United States. Kees van der Pijl, Otto Holman and Henk Overbeek from Amsterdam have developed a better understanding of the transnational class basis in the formation of hegemony.<sup>9</sup> To achieve a more precise concept of the changing role and function of the capitalist state - under the pressures of capital hegemony and globalisation - we integrated the concept of the „competitive state“ (Joachim Hirsch)<sup>10</sup> or the „Schumpeterian workfare regime“ by Bob Jessop<sup>11</sup> into our discussions. We believe that there are still considerable deficits in the application of these theoretical approaches and traditions to the analysis of European Integration.

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<sup>6</sup> Stefan Tidow, Europäische Beschäftigungspolitik. Die Entstehung eines neuen Politikfeldes, FEG-Arbeitspapier Nr. 18, Marburg 1998; Frank Deppe / Stefan Tidow, „Auf der europäischen Tagesordnung ganz oben“ - Ein Neuanfang in der europäischen Beschäftigungspolitik? In: Klaus Busch u.a. Wege zum sozialen Frieden, Osnabrück 1999, S. 95 ff.

<sup>7</sup> Cf. Alain Lipietz, Die Welt des Postfordismus, in: ders. u.a., Labour Markets and Employment Policy in the European Union, FEG Studie Nr. 10, Marburg 1997, S. 9 - 48.

<sup>8</sup> We were very happy to welcome him for a lecture at Marburg University in May 1998, cf. Robert W. Cox, Weltordnung und Hegemonie. Grundlagen der „Internationalen Politischen Ökonomie“, mit einem Vorwort von Hans-Jürgen Bieling, Frank Deppe und Stefan Tidow, FEG-Studie Nr. 11, Marburg 1998.

<sup>9</sup> Cf. Kees van der Pijl, Transnational Classes and International Relations, London and New York 1998.

<sup>10</sup> Joachim Hirsch, Der nationale Wettbewerbsstaat. Berlin 1995.

<sup>11</sup> Bob Jessop, Die Zukunft des Nationalstaates: Erosion oder Reorganisation? in: ders. u.a., Europäische Integration und politische Regulierung, FEG Studie Nr. 5, Marburg 1995, S. 9 - 48.

Speaking about a whole period of research on transnational capitalism and European Integration we may conclude that - though there is obviously an accumulation of knowledge - there are still many open questions in respect to the character of social conflicts, power relations and future structures of hegemony.

By now we know a lot about the erosion of the Fordist formation of World Capitalism which was constructed after the Second World War, in the now „Golden Age“ of post-war capitalism: technological revolutions on the basis of microelectronics, growing importance of the service sector and of the financial sector, transformations in the social structures of advanced capitalist societies and in the modes of socialization, the impact of global competition, the new role of the national state as an agent of enforcing deregulation and competitiveness.

We do know a lot more about the changes in the global political and power structures which followed the Cold-War-period. State Socialism - with the Soviet Union and the Warsaw Pact as its focus - does not exist any more as a relevant force in world politics. The Third World, which gained self-consciousness as a consequence of anti-colonial and anti-imperialist movements since the second World War and as a consequence of discussions on the New International Economic Order in the 70s, has dissolved as a political unity and is no longer a challenge to the developed capitalist world.

We know much more about the intensified competition between the centers of capitalism in the North and the old and new divisions between North and South. Some of us - following the international debate opened by Paul Kennedy in 1987 on the decline of the US<sup>12</sup> - have been astonished by the revival of the military and, even more, by the economic power and dynamics of US-capitalism in the 80s and especially in the 90s.

Finally, we know much more about the defeats of the Left in this period of transition. It is not only the breakdown of Socialism in the East and - often forgotten - in the Third World, but also the dramatic change in the relations of social and political forces in the centers of developed capitalism - especially in Europe which is the only continent with a strong tradition of socialism.<sup>13</sup> Left wing parties (communists and socialist) and trade unions suffered substantial losses in power, membership, votes, resources and their capacity to mobilize and lead the working class.

I will begin with the last point mentioned. We still do not know whether this process of radical changes in the relation of forces will lead to a new and rather stable formation of capitalism, including a new mode of regulation with respect to class relations.

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<sup>12</sup> Cf. Frank Deppe, *Jenseits der Systemkonkurrenz. Überlegungen zur neuen Weltordnung*, Marburg 1991.

<sup>13</sup> Cf. Donald Sassoon, *One Hundred Years of Socialism. The West European Left in the Twentieth Century*, London 1996.

European Social Democracy - since the mid 90s - has revived as a governing party in most of the EU-member states<sup>14</sup>; but it still seems to be quite open where European Social Democracy will go. This does not only refer to strategies of modernization but also to the role of social and political conflicts and movements within the European Union.

More generally, there is no law of history that can foresee the future. In the 90s the global capitalist economy has been struck by a series of economic and financial crises - in Japan, East Asia, Russia, Latin America. How long will the boom of US-capitalism go on? What would be the consequences of a crash of US-capitalism for transnational capitalism and politics? What will be the future „Peace Formula“ for the regulation of capital-labour-relations? Which role will be played by the national state in the restructuring of international power relations and internal class relations?

We know that since the end of the Cold War international tensions, ethnic conflicts, nationalism and fundamentalism have increased. We have already got accustomed to the every day presence of warfare - not only in Germany where the Kosovo War, for the first time after the Second World War, opened the opportunity for a final German „return to normality“ or the „champions league“ of international politics (as our secretary of defense likes to say!). At the same time the new NATO strategy (exemplified during the Yugoslav war) seems to have become the most effective instrument of regulating transnational power relations. The United Nations as an instrument of collective conflict solution and multilateralism have been seriously devaluated (since the days of the Reagan administration proclaiming that the US must become „Number One“ in World Politics again!).

It is exactly this simultaneity of knowledge and uncertainty which not only structures scientific analysis and debates, but which also constitutes much of the Fin de Siècle pessimism, including all these post-Nietzschean revivals which attack decadence, favor social darwinism and dream of new elitist regimes beyond democracy. In these days DIE ZEIT published an article on the present relationship between German top managers and the Schröder government. The article concluded that still a considerable proportion of German managers accepts the „German Model“ of Social Partnership at the enterprise level; yet - in their relation to politics - a growing number of them follows the slogan of Jack Welch, boss of US-Giant-General Electric: „Get out of my way“!

The cultural contradictions of present capitalism are of course not the subject of our conference. However, this simultaneity of knowledge and uncertainty also dominates the evaluation of the processes of European Integration in the 1990s. Obviously the character of the integration process - of its driving forces, framing conditions and of

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<sup>14</sup> Cf. Hans-Jürgen Bieling, Neo-liberalism and Communitarianism: towards a new type of employment policy in Western Europe? Amsterdam International Studies, Working Paper No. 54, Amsterdam 1999.

its political system - has significantly changed. I only mention the fact that with the end of the Cold War one central motive of European integration since the early 50s has disappeared. The coherence of interests holding together the Union is more than ever before determined by economic interests, but also - according to the character of capitalism - by transnational market competition. At the same time European integration and European Politics no longer function in a relationship of complementarity to the sovereign national member states (Patrick Ziltener). The EU has brought forth a political system sui generis with a dominant mode of „network governance“ (Kohler-Koch) which progressively influences (or rather determines) national and subnational politics.

This transformation is primarily a result of two big - hegemonic - projects , which were launched since the mid 80s: the Common Market project and - with Maastricht (1991) - the Common Currency-Project („Euro“), based upon the convergence criteria, the „Stability Pact“ and the European Central Bank. The project itself imposes fiscal and monetary discipline upon national governments. The so far successful implementation of these two - closely interconnected - projects (both aiming at making Western Europe „fit“ for global competition) - together with institutional reforms since the Unitary European Act of 1985 which enlarged the competence but also the scope of policy moderation by the European Commission - have deeply transformed the mode of integration - and I believe this might well be one of the central subjects of our conference. Integration theory is challenged by the new polity of the European Union - a new kind of relationship between elements of statehood at the EU-level (the EU does not have the quality of a state but contains elements of statehood), and the national and subnational level and by actor constellations dominated by state and non-state actors. Thomas Risse, Maria Green Cowles and James Caporaso for instance speak about a „fourth phase“ of European integration analysis „in which integration is examined in conjunction with the transformation of the very domestic society and polity which during the first and second phase assumed a dominant causal role affecting integration“.

A critical theory of European integration will, however, focus on contradictions inherent to the new dynamics and the new polity of the European Union. The hegemony of neoliberalism - at the international as well as at the national and subnational level - produces contradictions, conflicts and resistance. Stephen Gill has stressed the tendency towards „disciplinary neoliberalism“ articulated not only by the strengthening of the repressive apparatuses of the state, but also by the military role of the USA and of NATO. On the other hand neoliberalism fails to solve the problems of a revitalization of capitalist growth and of solving the problems of unemployment, social polarization, mass poverty etc. On the contrary, neoliberalism - dis-embedded transnational capitalism - produces and multiplies these contradictions. One of the most interesting questions to be discussed will therefore refer to the potential of resistance and alternative politics on the one side, the emergence of new forms of

policy and governance within the EU (for instance the new employment policy of the Amsterdam treaty) which reflect the changing relation of forces within the EU and the need to react against social disintegration produced by transnational capitalism and neoliberal politics. This debate might include the question whether the whole period of neoliberal hegemony since the late 70s has come to an end, has entered a final phase of erosion or has been succeeded by a new formation under social democrat governments) characterized by a new coherence (and stability) of economic accumulation and social and political regulation.

Mainstream integration analysis and theory seems to be rather uninterested in these elements of a social and political crisis. The integration process itself is, however, confronted with a large potential of crisis and stagnation. I only mention two aspects of the problem. While the hegemonic projects (Common Market, Common Currency) have been successfully implemented, a lot of political projects - for instance the expansion towards Eastern and South Eastern Europe as well as the institutional reforms of the EU - so far have not found any solution. The once declared parallelism between deepening and enlarging the Community is seriously questioned - especially in respect to the future of Eastern Europe and Turkey within the EU. The institutional problems of the Community may be best illustrated by the collective retreat of the European Commission in spring 1999 as a consequence of allegations of corruption and mismanagement. Never before this happened. It may be interpreted as a potential „democratic cartharsis“ within the EU.

It might, however, also be conceived as a serious devaluation and weakening of the political role of the Commission in respect to the open problems that have to be solved. At the same time - since Maastricht - the EU has entered a crisis of legitimation. We called it the Post-Maastricht-Crisis<sup>15</sup> already in 1993: the end of the „permissive consensus“ has come; large parts of the electorate in the member states are uninterested or rather hostile towards European politics. Parties in national governments must defend their majority rather by nationalist than by „European“ (internationalist) arguments. The „Euro-Barometer“ which showed extremely low participation rates in the elections for the European Parliament in 1999 illustrate what I mean by a deep crisis of legitimacy which goes hand in hand with a revival of nationalism, racism and other forms of reactionary politics directed against internationalism, democracy and the welfare state. The successful electoral campaign of Jörg Haider in the recent Austrian elections clearly illustrates this argument!

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<sup>15</sup> Frank Deppe / Michael Felder, Zur Post-Maastricht-Krise der Europäischen Gemeinschaft (EG), FEG Arbeitspapier Nr. 10, Marburg 1993.

Those who prepared a paper for this conference beforehand were asked the following questions:

- What are the most serious problems within the discussion on integration theory and how can they be solved?
- How can important insights derived from state theory and international political economy prove to be useful for the analysis of European integration?
- In what way can the different approaches of transnational historical materialism and critical institutionalism be connected with each other?
- Which significant developments of the eighties and nineties indicate new theoretical insights?

## Theoretical Foundations of a Neo-Gramscian Analysis of European Integration

### Introduction

The conference organisers have asked us to consider certain contemporary problems of European integration with a view to their implications for the development of a theory of European integration. They have posed three sets of questions concerning the problems for integration theory and their possible solution - in light of theories of the state and the global political economy. In order to answer these questions we will follow a methodological injunction of Gramsci's historicism, and try to distinguish the "occasional" from the "permanent", or what Fernand Braudel called the event, the conjuncture and the very long-term or *longue durée*, for example in the analysis of crises that may last for decades.<sup>1</sup>

Thus, from the viewpoint of the *longue durée*, the 1990s *par excellence* may be considered to be a new phase of the bourgeois revolution with its origins in the Glorious Revolution in England in 1688 and the American and French revolutions at the end of the eighteenth century. This revolution is experienced in the periphery of western Europe as a "passive revolution". In the twentieth century, the USA has been central and often decisive in the spread of this revolution. Indeed, its form of state, civil society and mode of accumulation have become models for passive revolution elsewhere. Moreover, since the 1940s, the USA's military dominance in Europe partly exercised through NATO means that any discussion of European integration has to be placed in the context of what Gramsci called the "relations of force". The economic, political and military dimensions of European integration operate in and across different "complexes" of state and civil society and civilisation.

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<sup>1</sup> In the notebook "Relations between structure and superstructures" Gramsci wrote about the events in France between 1789-1870. He points out that only in 1870-71, with the attempt at the Commune were the seeds of 1789 "historically exhausted", that is when a new class "struggling for power" demonstrated its vitality over "the old and the very new". The internal contradictions in the French social structure that took form in 1789 were therefore only resolved with the Third Republic after several "waves of upheaval". Gramsci indicates that only by careful study of these waves (1789-94; 1794-1815; 1815-30; 1830-48; 1848-70) of varying duration "makes it possible to determine the relations on the one hand between structure and superstructure" and the "permanent and the occasional" (Gramsci and Buttigieg 1992: 177ff).

## **The object of analysis of political science**

What I have mentioned in the introduction forms the theoretical perspective from which we shall approach the question of European integration in a particular historical situation.

In order to show that the theoretical and practical object of political science is the historical situation, in The Modern Prince, Gramsci compares the theoretical and practical “object” of Machiavelli with that of Bodin (1530-1596), who was analysing the *internal* class relations within a unified France. By contrast, Machiavelli was dealing with a situation where the political institutions of Italy between 1500-1700 were underdeveloped primarily because of the *primacy of international relations over internal relations*.

Gramsci points out that Machiavelli as a “man of his times” sought to deduce the rules and principles for the foundation of a new form of state from the international context of his era - that is in a Europe where Absolutist and centralised state forms had been created in France and Spain, but not in Italy. By contrast Bodin was concerned not with the problem of founding a unified state but with “balancing the conflicting social forces within this strong and well-implanted state”; that is, his problematic was the construction of consent within France at the time of the civil wars, that is the problem of forming a new hegemony, that is a form of leadership that incorporated subordinate classes. Thus Bodin lays the foundations of political science in France “on a terrain which is far more advanced and complex than that Italy offered Machiavelli”. This also explains why Machiavelli’s ideas were already at the “service of reaction” in a France where dominance belonged to the Third Estate, operating through the rule of the absolute monarchy (Gramsci 1971: 142).

Thus, at the very start of one of the key texts of Gramsci, we can see that what was really at issue for Gramsci was not the national or the international *per se*: it was the analysis of the effective reality of a concrete historical situation in order to clarify the political questions of today and tomorrow. Thus with respect to theoretical development we might start by saying that the key is to fruitfully combine different perspectives (comparative, international) to produce a convincing explanation of an historical situation. In order to do this, Gramsci introduces his method of the “relations of force”.

### **Relations of force and the problem of hegemony**

With this in mind in the Prison Notebooks, Gramsci asks whether “fundamental historical events” are caused by prosperity or economic malaise and his reply is that no general answer seems possible and it is only part of “the equation of the relations of

force” and it is a question that cannot be reduced by the application of economic forms of analysis of particular historical conjunctures: there is no necessary link between economic and political crisis (Gramsci 1971: 181). The “relations of force” operate at three interlinked levels:

- 1) *Structural*. These are social forces “closely linked to the structure”, an “objective relation” that can be measured to estimate the formation of and alignment of “groups in relation to production”. This enables the examination of the question whether “the necessary and sufficient conditions exist in a society for its transformation.” (Gramsci 1971: 179).
- 2) *Political*. This involves an assessment of the degree of homogeneity and political consciousness amongst different classes and political groupings, viz.:
  - a) The primitive economic moment, reflected in awareness and solidarity couched in terms of “corporate” interests for example between merchants, or between manufacturers to advance their economic position.
  - b) The attainment of solidarity; this poses the question of the state in terms of “rudimentary political equality”, normally reflected in a politics of reform within an existing framework.
  - c) The hegemonic moment, where there is a consciousness that “corporate interests” go beyond the specific confines of an economic group and can and must become the interests of the subordinate groups. This is the most purely political phase that culminates in hegemony.
- 3) *Strategic*. This primarily involves the relation of military forces, “which from time to time is immediately decisive”, for example the occupation of one state’s territory by another involving the former’s subordination, as when an imperial state dominates a colony, and when a conquering state occupies the defeated state, as was in effect the case in the Former East Bloc after the collapse of communist rule. Indeed, we might add that the strategic question is at the heart of any problematic for understanding and explaining European integration today (Gramsci 1971: 181-2).

Taking a longer historical view enables us to bring into relief some of the important conjunctures in the twentieth century, with respect to the relations of force, for example aspects of the *structure* as Gramsci defines it. Thus it is worth noting that the nature of contemporary capitalism in western Europe - in part because of the influence and power of the USA - is quite different to that in the 1930s. For example, despite the existence of mass unemployment in Europe today, the dislocations associated with contemporary capitalist development are different in terms of their material and political

implications. For example at the time of the Wall Street Crash in 1929 the service sector in western Europe and North America comprised approximately one-third of all workers, whereas at the beginning of the crash of 1987 two-thirds of all workers were in services, and half of those service workers were within the public sector. In 1929 transfer incomes in western Europe amounted to less than 4 percent of GNP, whereas in 1987, because of unemployment benefits, pensions, family and social security allowances, transfer payments amounted to 30 percent of GNP. Thus the scourge of mass unemployment today involves lower levels of social dislocation than in the 1930s, and despite the secular trend towards lower growth few speak today of a crisis of capitalism

With respect to the *political* level of analysis, or the second moment in the relations of force, if we look at the situation in Europe today in contrast to the 1930s, once again the liberal democratic political form has been consolidated, and indeed has now become relatively universal in European politics in not only the European Union but also the Former East Bloc, although this is not necessarily commensurate with the spread of substantive or direct democracy.

Indeed, in the West European context the main achievement of socialism and social democracy have been couched in terms of the *corporate* or *reformist* moments of consciousness, that is with welfare-nationalism understood primarily as a national project. The central goal of socialism and social democracy (and of some of the communist parties) seems to have been not the replacement of capitalism, but the civilising of the capitalist mode of production, in effect conferring it with a *hegemonic* aura. Thus most of the institutional innovations associated with the post-war European welfare states, as well as the institutional order of the liberal international economic order that was restored after World War II, have been connected to the stabilisation and legitimation of capitalism through the use of an expanding sphere of state regulation. That is, the *hegemony* of capital has been largely reinforced although we have entered a period in which the nature of state forms is undergoing transformation.

Moreover, of course, communism in Europe, at least as a form of rule, has collapsed and as such really existing alternatives to capitalism are notable by their absence. This is not to say that alternatives to the dominant political orthodoxy do not exist, especially on the right.

With respect to the *strategic* or *military* level of force, perhaps the central feature of the 1990s is how the power and influence of the United States has increased. Here we understand the USA as a state civil society complex, as a locus and model of accumulation and as a crystallisation of military power and power projection capabilities. This is despite the efforts of other nations, for example China and Russia, to counterbalance some of this strategic power; and despite efforts to countervail American economic and monetary power through the process of European integra-

tion, for example by developing a single currency in EMU. One indicator of this relates to the redefinition and extension of NATO and its use in the Balkans, most recently in the former Yugoslavia and Kosovo. Most of this has occurred on American terms, and the 1990s have shown once again the subordination of the European Union to American military supremacy.

The rest of the world is also subjected to the threats that emanate from American power projection and its capacity to sustain remote controlled aerial warfare, irrespective of whether this power is sanctioned or legitimated by a UN mandate. Moreover, this has political implications for European integration. The penetration of European economic development by American power means that European integration is limited politically by the way that the USA is at the centre of a "hub and spoke" relationship with each member state, that is to say that European Union nations have stronger ties to the USA than they have with any other European Union member (with the possible exception of Franco-German relations). That is each state necessarily responds to and is partly subordinate to American foreign policy, its power potentials and institutional preferences, irrespective of their pooling of sovereignty in the European Union, and as the wars with Iraq and Serbia indicated, some nations, for example the UK, are more subordinated than others to United States world order projects.

In sum, we might ask what does this analysis imply for the discourse of politics in the process of European integration, for example from the perspective of radical-democratic forces?

## **Passive revolution and the absence of hegemony**

So far we have largely discussed the dialectic between capitalist hegemony and the subordination of socialism and social democracy to that hegemony. However a key concept in Gramsci's lexicon relates to a situation associated with the creation of a new form of state characterised by the absence of the hegemony of a leading class. Gramsci called this a situation of passive revolution.

Generally for Gramsci, passive revolution refers to two sets of situations.

- 1) A revolution without mass participation that is often prompted by external forces. This type of revolution can often be rapid, involving what Gramsci called a "war of movement".
- 2) A capillary or molecular social transformation which occurs more slowly, beneath the surface, particularly where the most progressive class must advance its position

surreptitiously. This may involve a different political strategy, or what Gramsci called a war of position, which he often understood as something long-term.<sup>2</sup>

The concept of passive revolution and the two strategic concepts (wars of movement and position) are derived from what Gramsci calls the “the two fundamental principles of political science”:

- 1) that no social formation disappears as long as the productive forces which have developed within it still find room for further forward movement;
- 2) that a society does not set itself tasks for whose solution the necessary conditions have not already been incubated, etc.”(Gramsci 1971: 106)

Thus for Gramsci, the European question of the nineteenth century is interpreted in terms of the relationship between the revolutionary French state and the states of continental Europe. He argues that this “should be based on the study of four elements”:

- 1) The revolutionary explosion in France with a radical and violent transformation of social and political relations;
- 2) European opposition to the French Revolution and to any extension of it along class lines;
- 3) war between France, under the republic and Napoleon, and the rest of Europe - initially, in order to avoid being stifled at birth, and subsequently with the aim of establishing a permanent French hegemony tending toward the creation of a universal empire’,
- 4) national revolts against French hegemony, and the birth of the modern European states by successive small waves of reform rather than by revolutionary explosions like the original French one. The “successive waves” were made up of a combination of social struggles, interventions from above of the enlightened monarchy type, and national wars - with the two latter phenomena predominating. ... restoration becomes the first policy whereby social struggles find sufficiently elastic frameworks to allow the bourgeoisie to gain power without dramatic upheavals, without the French machinery of terror. The old feudal classes are demoted from their dominant position to a “governing” one, but are not eliminated (Gramsci 1971: 114-5).

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<sup>2</sup> The main examples Gramsci gives are the bourgeoisie in Restoration France after 1815 and the emergence of Christianity within the Roman Empire. Gramsci also uses the concept relative to Italian Fascism which he interprets in a way similar to the role of Napoleon III in France. See (Gramsci 1971: 106-120).

Gramsci then asks “Can this “model” for the creation of the modern states be repeated in other conditions? The answer to this question seems to be in the affirmative, partly because it is, like most of Gramsci’s concepts, very elastic and only attains a precise meaning when it is used in the context of an historical situation. In the case of Europe in the 1990s, for example, the fourth element is crucial to our interpretation. A parallel might be the revolts against communist rule that have been followed by externally determined reforms, and it of course places the question of European integration on an international as well as the regional scale - that is in the context of the disintegration of the Former East Bloc.

Moreover, the notion of passive revolution is crucial to Gramsci’s analysis of what today have been described by Michel Albert as “competing capitalisms” (Albert 1993). The concept is used to characterise the relationship between Americanism and Fordism, on the one hand, and the backward forms of political economy in Europe, notably in Italy, on the other. In the latter case it involved efforts to introduce advanced methods of capitalist production in the absence of bourgeois hegemony, both before and immediately after the war, the latter in the context of the American occupation and the Marshall Plan, when efforts were made to comprehensively introduce Fordist production under reformist conditions imposed from the outside, in order to both preserve European capitalism and to subordinate it to American dominance.<sup>3</sup>

As we noted, the concept of passive revolution is particularly useful for analysing the transformation of the former Soviet bloc, and its gradual incorporation into the institutional and constitutional forms associated with Western capitalist hegemony, and in time with European integration. Here it is noteworthy that the reform programs that have been introduced not just by external forces drawn from Western Europe, but within the broader framework of the institutional complexes of transnational capitalism linked to the leadership of the United States in the G7. The process of transformation from state socialism and Soviet communism to liberal capitalism has been a classic example of the introduction of new constitutional and political forms from above - in order to advance capitalism in the absence of a domestic capitalist class.

In this connection, the latest phase in the passive revolution of capital can be understood in terms of the two fundamental principles of political science that Gramsci, drawing upon Marx, outlined above. First, the social formations in the former Soviet bloc had reached the limits of their potential for “further forward movement”. Second, the rulers had set tasks for whose “solution the necessary conditions have not already been incubated”, that is the goal of the Soviet Union to achieve ideological, military,

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<sup>3</sup> Moreover, other theorists have applied the concept of passive revolution not only to Western Europe, but also to the former Soviet Union (Pijl 1993) and to Third World, for example to Latin America and India (Chatterjee 1986).

strategic and economic parity with the United States and NATO had not been, nor could be achieved. The USSR faced impossible odds; the dynamism and flexibility of American capitalism and its military industrial complex organised organic alliances with other West European, North American, Pacific and other nations. Moreover, this goal became increasingly chimerical as the former East bloc nations drained Soviet resources throughout the 1980s, a time when Soviet economic growth and innovation stagnated.

The new situation in the Former East Bloc can yield the following interpretation. On the one hand, the desire for politico-constitutional forms that would allow for freedom and equality before the law meant that Western political models held out considerable long-term appeal to the populations of the east (moment of consent). The appeal of the latter was connected to a longer-term war of position on the part of the west designed to roll-back communism by using a combination of propaganda and persuasion largely built on the success of the Fordist-consumerist formula that succeeded in post-war western Europe. On the other hand, the conditionality that was imposed on the former East bloc nations by the West left little choice: either accept a Western liberal political and constitutional framework, with absolute guarantees for private property rights, or Western aid would be denied and those who refused would be severely punished, for example Serbia. This would correspond to the moment of coercion, involving a rapid war of movement, with the main weapons being shock therapy, allowing rapid entry of free enterprise and free exchange and swift imposition of market-based capitalist discipline throughout the economic structure and on the state. The tactics for this on the part of the West were established in restructuring programmes for not only Poland, but also and more importantly, the restructuring of the Former DDR following its *de facto* annexation by West Germany.

Thus, the reforms were intended to domesticate radical-democratic impulses and allow both the restoration of capitalism in the east (moment of revolution-restoration) and the further weakening and incorporation of the enemy. The strategic aim was to extend the boundaries and political basis of the western bloc and incorporate a newly empowered bourgeoisie in the East, as well as subordinating or appropriating its military assets under NATO command, whilst preventing a purely European solution to the question of restructuring.<sup>4</sup>

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<sup>4</sup> Moreover, whilst the reforms were the direct product of domestic legislation and initiative, in reality they were administered under the supervision of not only the international financial institutions, but also the European Union, the European Bank for Reconstruction and Development, and of course the agencies of the West German state in the DDR, plus the operations of the military security forces of NATO and the secret intelligence agencies, after the collapse of the Berlin Wall. A form of political re-education was linked to the formation of new political cadres and entrepreneurs drew on experts from western governments, universities, think-tanks and management consultancy, drawn from the major G7 countries, led by the United States. A World Bank public education project was launched in the early 1990s to retrain and re-orient the thinking of the Ukrain-

Today, a decade later, much of the evidence indicates that the restoration of capitalism has brought about a catastrophic decline in the standard of living and quality of life for the vast majority of the population in the Former East Bloc, with women, children and the elderly particularly hard hit. Not only has there been a decrease in life expectancy, especially in Russia, but there has been a precipitate drop in the birth-rate, as women, like men, experienced greater anxiety and insecurity about the post-Communist future. Since 1989, there has been a steep increase in murder, suicides, crime rates, domestic violence, and a rapid increase in income inequality.<sup>5</sup>

## **European integration/disintegration; between hegemony and passive revolution**

When Gramsci addressed the question of Europe in the 1930s the question posed was not of European integration but its opposite: the disintegration and destruction of European civilisation. Gramsci argued that an organic crisis was manifest: where the old was dying and the new was struggling to be born, and in the interregnum there arose “many morbid symptoms”. No solution to the crisis was evident: the best that Gramsci could do from his prison cell was to invoke his favourite political slogan: to combine “the pessimism of the intelligence” with the “optimism of the will”. The crisis of the economic structure was a crisis of hegemony for capitalism as a system, a general crisis of the state and of political authority. “Popular masses” no longer adhered to the orthodox political ideologies that legitimated the relationship between rulers and ruled. Thus the coercive face of power came to the fore and the ruling-classes in many states were prepared to sacrifice constitutionalism and democracy at the altar of reaction and Fascism.

Of course, it took the most destructive war in history for the organic crisis to be resolved, although the struggle did not produce an authentic revolution against capital as such. In fact, in western Europe, the defeat of fascism led to the restoration of capitalism and the rebirth of liberal democratic constitutional forms which had been supplanted or obliterated by authoritarianism and fascism throughout much of the conti-

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ian ministers and civil servants towards an understanding of market economics - a programme which is apparently paying dividends because of the high level of mathematics among the post-Soviet cadres. It attracted the attention of George Soros, who announced in September 1994 that he would like to finance a Ukrainian centre to co-ordinate public economic education. See J. Barshay and C. Freeland, ‘Economists go back to school’, *Financial Times*, October 6, 1994. In the Third World, whilst the supply of western “know-how” has been plentiful (in Africa in the early 1990s there were more foreign consultants, business and government personnel than there were during the height of the colonial period), the supply of funds has been relatively meagre (at least, for example, when compared to Marshall Aid after the second world war). Indeed, there was a net outflow of funds from most black African countries to the North during the 1980s.

<sup>5</sup> Much the sorry evidence for this is documented in a recent report by UNICEF, *Women in Transition* (New York, 1999).

ment during the 1930s. The wartime alliance between Soviet Russia and the capitalist allies paradoxically allowed for the re-legitimation of capital in Western Europe under the aegis of the Marshall Plan. The geopolitical context was the emergence of the Cold War following the deterioration of United States-Soviet relations after the use of atomic weapons by the United States in Japan. The symptoms of morbidity between 1939 and 1945 involved the deaths of perhaps 50 million people.

Nevertheless, in his analysis of the condition of political life in the inter-war years, Gramsci posed the question whether the advance of Americanism and Fordism constituted the beginnings of a new historical epoch, or simply a combination of particular events that had no long-term significance. Indeed, he posed the question relative to the forms of state and class structures of the old and new worlds to ask whether the emergent historical bloc of American power in the international relations of the inter-war period was provoking a “transformation of the material bases of European civilisation” (Gramsci 1971: 317). Well before his incarceration Gramsci thought that the revolution in production in the new urban centres of industrial capitalism clarified the class struggle and symbolised the fundamental political issue for the future of Europe.<sup>6</sup>

The dialectic between hegemony and passive revolution is a central theme of Americanism and Fordism. For Gramsci, Fordism and Americanism represented an acceleration of a new social form based upon a deep organic link between form of state, civil society and mode of production, and as such, represented a new form of planned economy where hegemony was based in the forces of production and “was born in the factory”. By contrast the European class structure involved power blocs that were degenerate and had many parasitic elements in the class structure, which Gramsci indicated as he unravelled the so-called “Mystery of Naples”.<sup>7</sup>

This situation that was not unique to Italy since it was found throughout “Old Europe” and in an even more extreme form in India and China. As such the bourgeoisie were

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<sup>6</sup> “At the root of every production problem is the political problem, that is, the problem of social relations, of the organic functioning of society. In order to organise production seriously, it is necessary first or, better, simultaneously to organise all of society in relation to production, which is the most general and direct expression of society. Production is society’s soul, its most comprehensive and immediate *symbol*.” “*Produzione e politica*”, L’Ordine Nuovo, 24-31 January 1920.

<sup>7</sup> He noted that in contrast to America, where even millionaires worked until the day that they died, Naples represented here the sad urban spectacle of a decaying and outmoded economic system. The *rentier* and unproductive classes, that is the Southern landowners and the petit-bourgeoisie exploited the producers, the peasantry and went to Naples to spend the pensions and rents extracted from the peasants. Gramsci also noted how an enormous proportion of the Italian population, perhaps one tenth of the total, lived off the state budget. By contrast, in a modern industrial city like Turin was the locus where the struggle between capital and labour occurred - without the dead weight of the parasitic strata and as such, it indicated the social basis for the new society.

not hegemonic in these societies, and the transformations took the form of “passive revolution”, and often political dominance was manifested by a regressive caesarism. The productive apparatus of society was not shaped by the hegemony of capital in civil society but from control from above by the authoritarian state apparatus, mobilising the petit bourgeoisie and repressing the working-class as in Fascism.<sup>8</sup>

The ideological hypothesis could be presented in the following terms: that there is a passive revolution involved the fact that – through the legislative intervention of the State, and by means of the corporative organisation – relatively far-reaching modifications are being introduced into the country’s economic structure in order to accentuate the “plan of production” element; in other words, that socialisation and co-operation in the sphere of production are being increased, without however touching (or at least not going beyond the regulation and the control of) individual and group appropriation of profit (Gramsci 1971: 119-120).

By contrast Fordism had triumphed in the USA by a combination of *force*, (destroying working-class unionism and solidarity), and *persuasion* (high wages, social benefits, ideological and political propaganda) to create a new form of worker subjected to intense and “Puritanical” moral and social regulation (requiring monogamy and freedom from alcoholism). However, Gramsci considered each of these weapons of exploitation as a doubled-edged sword: workers resist the imposition of moral regulation and identify the hypocrisy of the ruling classes with respect to sexual relations; the workers gain “a state of complete [mental] freedom” after the worker has “overcome the crisis of adaptation” associated with repetitive mechanical work, so that he has “greater opportunities for thinking” (Gramsci 1971: 310).

Americanism and Fordism required a particular form of state and social structure, namely a liberal state based on free initiative and economic individualism and a corresponding form of civil society, but the very development of a planned economy and the need for social and moral regulation meant an increase in state intervention. Thus, the capitalist state can never be the same as before. The state increasingly intervenes in the process of production, even reorganising productive processes according to plans and assuming the nationalisation and socialisation of risk. Thus the formal character of the liberal state is preserved within civil society at the level of

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<sup>8</sup> “The characteristic feature of fascism consists in the fact that it has succeeded in creating a mass organisation of the petty bourgeoisie. It is the first time in history that this has happened. The originality of fascism consists in having found the right form of organisation for a social class which has always been incapable of having any cohesion or unitary ideology: this form of organisation is the army in the field”. (Gramsci and Hoare 1978: 261)

freedom of initiative and enterprise but with its fundamental meaning reconfigured by statism, industrial concentration and monopoly.<sup>9</sup>

## Historical blocs and International Relations

If Gramsci were alive today, it is likely that he would have identified the central question of Europe by combining those posed earlier by Machiavelli and Bodin: how to create not a new form of state as such, but a new transnational political community in the European space, and how to construct radical-democratic hegemony within that space, a problem involving past, present, and future.

In this context, we now introduce what Gramsci called an historical bloc. This concept helps to describe the basis of a form of state and its capacity for rule and leadership.<sup>10</sup> A historical bloc may be formed “through a series of compromises or force of arms.” A historical bloc is, however, not simply the creation of leaders, since it also allows the collective will of groups to be realised as they seek to forge their own personality, that is it combines structure and superstructure, the material and the ideological, in an organic way (Gramsci 1971: 137 ff.).<sup>11</sup> Indeed, as Gramsci shows the historical bloc is not something that depends upon a specific “state” for its existence as such. The Modern Prince principally explores the case of modern Italy, which was a nation *before* it had a state, and as such, the formation of a *blocco storico* preceded the unification of Italy in the nineteenth century under Garibaldi. So here, in the spirit of Gramsci’s conceptual elasticity, we use the idea of historical bloc to analyse forms of state or political association in and across “complexes of civilisations”.

As we have seen, twentieth century European development and identity has been over-determined by American globalism and Soviet communism. The result for the European Union, is that the national state-society formations are penetrated by, or interpenetrated with, those of other nations and by international organisations. Of course, the USA is the imperial sun in this respect with its power radiating across the political universe of less powerful states. Indeed, after World War II, in the context of

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<sup>9</sup> Gramsci took the broader political implication of this to be as follows “The “collective worker” understands that this is what he is, not merely in each individual factory but in the broader spheres of the national and international division of labour. It is precisely in the organisms which represent the factory as a producer of real objects and not of profit that he gives an external, political demonstration of the consciousness he has acquired”. (Gramsci and Boothman 1995: 202).

<sup>10</sup> For a full elaboration of my conception of an historical bloc and its use in understanding International Relations see (Gill 1990).

<sup>11</sup> “... the conception of historical bloc in which precisely material forces are the content and ideologies are the form, though this distinction between form and content has purely didactic value, since the material forces would be inconceivable historically without the form and the ideologies would be individual fancies without the material forces” (Gramsci 1971: 377).

the Marshall Plan, NATO and the emergence of the EEC, the *Pax Americana* involved an *international historical bloc* built on Fordist foundations, and on the internationalisation of aspects of the American New Deal state form, modified by wartime mobilisation and the subsequent establishment of the military-industrial complex (Pijl 1984). The new political settlements included moderate organised labour and big capital - as well as leaders from civil society for example in the media, centrist and political parties and churches - in a series of European and transatlantic political settlements under American leadership. It thus combined coercion and consent with Fordist accumulation and the legitimation of the material basis of the system through mass-consumption. Its ideological banners included the concepts of liberty, modernity, affluence, welfare and the 'end of ideology', fused into a concept of 'the West' and an anti-Communist alliance. The bloc balanced national and transnational capital, organised labour and the state. This transatlantic bloc was constructed during the late 1940s and 1950s, and lasted until at least the late 1960s (Gill 1990: 49).

Recently, political change and economic globalization have undermined this integral hegemony. For example, there has been an ideological shift towards neo-conservatism in politics and neo-liberalism in economics. Finance has taken the place of production as the main determinant of capitalist accumulation strategies. A political shift occurred which marginalized labour and social democratic parties from the inner circles of power (less so in some countries, such as Germany, than in others, e.g. the USA, UK, and Japan). What I call the "terrain of political contestability" has shifted to the right in the OECD countries since the early 1970s and it has moved further in a neo-liberal direction during the 1990s period of American triumphalism.

Thus the transatlantic historical bloc was unravelled in the 1960s and 1970s not by changes in the inter-state distribution of power as such (remember this was a period where American power was supposedly in relative decline), but by effects of the restructuring of capital both within and across states. This involved internationalisation and gradual liberalisation of production, capital and exchange markets, complex communications grids, rapid innovation and diffusion of technology. Above all, change was accelerated by cumulative and accelerating growth in the globalization of finance with American capital at the vanguard, a process that was facilitated and promoted by both state power and a resurgence in the power of capital.

In time, therefore, with the emergence of a more integrated global political economy, the former *international historic bloc* has been transformed into an American-centred and led *transnational historic bloc*, where organised labour has been virtually marginalised. At its apex are elements in the leading states in the G-7 and capital linked to advanced sectors in international investment, production and finance, and the ac-

cumulation patterns of virtual accumulation. Increasingly in the 1990s these have been American firms, partly reflected in the Wall Street boom.<sup>12</sup>

By contrast, one of the most salient features of the 1990s is an unprecedented increase in social inequality, and an intensification of exploitation of both people and nature in an increasingly naked pursuit of profit, a development that is particularly noticeable in the USA.<sup>13</sup> At the same time, the neo-liberal shift in government policies has tended to subject the majority of the population to the power of market forces (most workers, small businesses) whilst preserving social protection for the strong (e.g. highly skilled workers, oligopolistic corporate capital, those with inherited wealth).

Indeed we might say that the “ideological hypothesis” today is that neo-liberal forms of accumulation are associated increasingly with a politics of supremacy, rather than hegemony. By a situation of supremacy is meant rule by a non-hegemonic bloc of forces that exercises dominance for a period over apparently fragmented populations until a coherent form of opposition emerges, for example relative to the social disintegration in the Former East Bloc and the divide between the employed and unemployed, “locals” and immigrants, in western Europe. The supremacist bloc is based on giant oligopolistic firms that operate politically both “outside” and “inside” the state and form part of the “local” and “global” political structures. The central purpose of this bloc is the intensification of the discipline of capital within state and civil society in order to increase the rate of exploitation and long-term profit flows.

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<sup>12</sup> For example in the 1999 Financial Times Global 500 Survey of the world’s largest corporations by country, the U.S. ranks highest with 244 American owned and controlled firms (up from 222 in 1998) with a market capitalisation of \$7.3 trillion dollars; the UK is next with 53 firms valued at \$1.2 trillion ; Japan comes third with 46 companies valued at \$866 billion ; then Germany with 23 firms at \$654 billion, and France with 27 firms at \$490 billion. Nine of the top ten corporations is American. The most noticeable sectoral trend is that banking, finance, insurance, business services, telecommunications, computer software, high-technology and pharmaceuticals are the largest sectors, thus indicating a shift towards what might be called “virtual accumulation”: Microsoft is now the world’s largest company.

<sup>13</sup> For example the UNDP Human Development Report (1997) estimates showed that the world’s 225 billionaires had a combined wealth of over one trillion dollars, equal to the annual income of the poorest 47 percent of the world’s people (2.5 billion). Indeed, the three richest people in the world had assets greater than the combined annual output of the 48 least developed countries. One billion people had no access to safe drinking water. 842 million adults are illiterate. 158 million children under 5 were malnourished. In 1996 there were 1.3 billion in the world: 20 percent of the world’s population are living below the income poverty line. At the same time, unemployment has been rising throughout the world. The International Labor Organization estimated that in 1996 about one billion people were unemployed. They note that this global unemployment crisis began in the early 1980s.

## Implications for theories of European integration

To return to the question posed by the organisers: what are “the most serious problems within the discussion on integration theory and how can they be solved?” I have already given some of my answer to this question. The solution to the serious problems in Europe today, depends, however, on collective action.

As I hope to have shown, or at least to have intimated, any theory of European integration will only be fully complete if it is placed in the context of an analysis of the relations of force in the context of global, regional, national and local politics in the past, present and future. Local changes interact with and overlay the specific national and international struggles to define the nature of the European integration project, as well as the constitutive frameworks of the globalization of capital and world order. In this sense, any theory of European integration is necessarily a theory of the state and civil society as well as a theory of International Relations and Political Economy and indeed, of European civilisation more generally. Moreover, since the European question is by definition one that involves the past, present and future of European civilisation, any theory that seeks to explain European integration must always be a theory in development - that is one that is related to the concrete historical situation of Europe, a situation that is by definition, in movement.

What this actually means in practice depends on the different forms of state and capitalism in western Europe and the balance or equilibrium of forces within and between them. Thus the precise admixture associated with the neo-liberal trend varies in different state-civil society complexes or in forms of what Gramsci called the “extended state”. Gramsci’s concept of the extended form of state (represented by the formula state = political society + civil society) helps us to understand some aspects of this process. Political society includes the “public” sphere of government, administration and law and order, as well as security. Civil society includes those elements normally considered “private”, such as free enterprise, political parties, churches, trades unions, etc.

So what is the contemporary and historical terrain upon which we might seek to build a theorisation of European integration? Put differently, what are the contemporary changes that are structural, or relatively permanent, and what changes are incipient as we enter the twenty-first century?

Here I want to mention three sets of changes that combine coercion and consent that might be discussed, in addition to what has already been mentioned:

- 1) The reconfiguration of patterns of accumulation at the macro and micro-economic levels, associated with *disciplinary neo-liberalism and virtual accumulation*. This involves the rivalries and collaborations between European and American capital in

ways reminiscent of the earlier issues discussed relative to Americanism and Fordism. Part of what is at issue is a gradual and still far from complete redefinition of continental European corporate governance in ways that prioritise shareholder value and the discipline of capital markets along Anglo-American lines. This trend allows for the structural power of mobile financial capital to be exerted more effectively. More generally, microeconomic discipline of the disciplinary neo-liberalism type is largely coercive for the majority in society, since social protection (socialisation of risk, for example pension, unemployment benefits) is rolled back.

- 2) The reconfiguration of state forms according to the principles and practices of *new constitutionalism*, thus indicating a gradual shift away from the social market as well as certain forms of planning, thus allowing for the consolidation of “locking in” of a more limited but still powerful neo-liberal state form insulated from popular-democracy accountability. Examples of this include the independent European Union Central Banks, the trend towards greater centralisation of power in the executive branches and in the largely unaccountable European Union bureaucracy, the Commission as well as in national “quangos”.
- 3) The reconfiguration of civil society and civilisational forms, associated with the spread of possessive individualism, privatisation and the marketisation of institutions in *an emerging market civilisation* premised upon commodified desire as a means to generate consent. One indicator is the massive growth in private satellite TV, and the proliferation of advertising and merchandising linked to not only soccer and other corporate products, but also to public institutions, such as schools and universities.

For example the Maastricht Agreements express a characteristically European constitutional moment in these processes of global political restructuring and hierarchy. It reflects a synthesis between western European and American interests in a pan-European historic bloc. Its reform and constitutional project is primarily informed and led by *disciplinary neo-liberal social forces*. As we have shown in an earlier work, EMU is commensurate with a neo-liberal framework of governance: *new constitutionalism*, which restrains democracy and protects private property rights and sets the governance frameworks that impose macroeconomic discipline under a regime of austerity (Gill 1998).

Thus the dominant transnational historic bloc has a significant European basis. In a previous work co-authored with Magnus Ryner we summarised the characteristics of the pan-European transnational historic bloc as including (a) a *relative* preponderance of export oriented productive capital as well as financial or *rentier* capital and

(b) the crucial importance of the 'social market' to forge mass consent.<sup>14</sup> Indeed, a stable compromise between market discipline, public goods-provision, and welfare state entitlements seemed to have been reached by the late 1980s, combining social provisions and entitlements with market discipline: a combination we call *compensatory neo-liberalism*.<sup>15</sup>

However in some parts of the political spectrum this constellation is being called into question, partly because of continuing economic stagnation, and partly because of mass unemployment. These questions frame the struggle, or in Gramscian terms a *war of position* between those forces advocating a purer and more disciplinary neo-liberal reform (especially to impart flexibility or liberalisation to the 'negotiated' labour market) versus and those that advocate a new Keynesian direction and thus emphasise the more compensatory aspect of neo-liberalism. In this context, the German position in the EMU project becomes particularly interesting since social forces in Germany reflect both of these positions.

Thus the neo-liberal trend varies in different state-civil society complexes or in forms of what Gramsci called the "extended state" and thus each requires careful empirical research, as do the forces - on the right and on the left - that oppose it.<sup>16</sup> Thus, in the context of a hypothetical continuum, the UK gravitates most towards the more pure variant of disciplinary neo-liberalism whereas the new German state with its strategy of progressive competitiveness seems caught between the Scylla of the social market and the Charybdis of neo-liberal globalization.

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<sup>14</sup> Magnus Ryner and Stephen Gill. "Disciplinary Neo-liberalism and the Social Market: Germany and the European Order" Annual Meeting of the British International Studies' Association, University of Sussex, Brighton, UK, December 14, 1998.

<sup>15</sup> For example backing for EMU was strongly linked to the interests of large financial houses and firms, government bureaucracies and European Union organisations, with the governments of Germany and France pressing strongly for its realisation. The wider transnational historic bloc associated with empowering corporate capital incorporates a wider range of interests and identities, including many privileged workers, members of the professions and small business people (who often do subcontracting or supply to large transnational corporations; import-export businesses) as well as international and national firms in accountancy, law, consultancy, advertising, public relations, computing, stockbroking, and increasingly, educational entrepreneurs, architects, urban planners and designers, and many of the top sports stars that serve to market corporate images and identities. The bloc comprises interests of both capital and labour, and elements of the state apparatus, although it is dominated by the largest and most internationally-mobile transnational firms.

<sup>16</sup> That is we need to understand the state not only as a legal and juridical form, but also in terms of the interpenetration of "political" and "civil society" that constitutes a particular form of state. In the European Union this means political forms that are simultaneously national and transnational, and that are lodged within the European constitutional order and security regime .

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# Hegemonic Projects in the Process of European Integration

## 1. Introduction

Approaches of transnational historical materialism, especially if they are neo-Gramscian, pay particular attention to the concept of hegemony. Hegemony thereby is not, as in neo-realism, tantamount with structures of dominance, but it rather describes a certain kind of social reproduction, even supported by those who are ruled and powerless. As Gramsci explained, hegemony is primarily based on a consensus. However, if it is questioned as in times of serious social crisis, it is backed by coercion, i.e. the repressive power of political institutions. In a way, this complementary relationship between consensus and coercion corresponds with that between civil society and political society. Whereas consensus is primarily formed in a civil society generating a specific co-operative political culture, coercion is first of all a matter of state apparatuses, above all of the army and police. Even if this distinction within the whole complex of state-society-relations, i.e. the overall political superstructure or the state in a wider sense, is rather analytical, it shows clearly that from a neo-Gramscian point of view hegemony involves always both, consensus and coercion, civil society and the state, and the engagement of social and political forces.

It was above all Robert W. Cox (1987) who has demonstrated that the Gramscian concept of hegemony is not only useful for analysing national but also transnational power structures and modes of socio-economic reproduction. In an article on Antonio Gramsci published in the early eighties he developed a very famous definition of *transnational hegemony*: 'Hegemony at the international level is thus not merely an order among states. It is an order within a world economy with a dominant mode of production which penetrates into all countries and links into other subordinate modes of production. It is also a complex of international social relationships which connect the social classes of the different countries. World hegemony is describable as a social structure, an economic structure, and a political structure; and it cannot be simply one of these things but must be all three. World hegemony, furthermore, is expressed in universal norms, institutions, and mechanisms which lay down general rules of behaviour for states and for those forces of civil society that act across national boundaries, rules which support the dominant mode of production.' (Cox 1983: 171-2)

In principle, this understanding of hegemony can not only be applied to world orders but also to regional (con-)federations as the *European Union*. For this, however, it is

necessary to point to some *conceptual modifications*: First, there is no unambiguous single mode of production which ascends from one dominant economy and then penetrates the others. Of course, there are asymmetrically structured modes of economic interdependence, but there is no single European superpower based on a superior national economy. Thus, within the EU we can rather observe dense cross-border networks of economic, social, and political interactions, which tend to be dominated by the concerns of the most powerful nation states (Germany, France, and Great Britain) on the one hand, and the strategic interests of transnational capital on the other. Second, Cox emphasises the relevance of transnational organisations – their rules, norms, ideologies, and co-opting capacities – for reproducing hegemonic structures. This applies particularly to the agreements and institutions of the EU. Compared to the regimes of global governance, the regimes of European governance are more dense and durable, and have more regulative, conditional, and obligatory capacities at their disposal; hence, at least recently some scholars of European integration prefer to speak of the emergence of corporatist policy networks within a multi-level-governance structure (Falkner 1998; Marks et al 1996; Jachtenfuchs/ Kohler-Koch 1996). And finally, hegemonic structures in the EU seem to be more complex and dynamic than global ones, since they are subjected to pressures and incentives for supranational co-operation. Thus, it is probably useful to pay particular attention to the relevant political projects which spurred the launching of European integration during the past two decades.

## **2. The meaning of ‚political projects’: some theoretical reflections**

Highlighting the generation, implementation, and the effects of political projects has also an impact on the theoretical concept. It contributes to a more complex and perhaps even more comprehensive understanding of hegemony, since it stresses the social constructivist dimensions, i.e. the active involvement of social actors and political organisations, in the processes of hegemonic restructuring. The advantage of this is at least twofold: first, it avoids or compensates for a sometimes too narrow, one-sided structuralist and elitist interpretation of neo-liberal restructuring. This does not mean at all that the structural and behavioural power of transnational capital, the ‘new constitutionalism’ and the disciplinary effects of neo-liberal restructuring (Gill 1992; 1997; van der Pijl/ Holman 1996) should be ignored, but these aspects are neither based merely on coercion nor on a kind of consensus which is exclusively produced by the manipulative power of the mass media. Current hegemonic structures are based on the spread of the ‘rentier mentality’ (Gill 1998) as well as on the attractiveness of consumerist life styles. To put it another way: from the mid-eighties onwards hegemony within the European Union is more than tacit agreement of the masses; at least partly it involves *active consent* and *self-motivated engagement* as

well as *material compromises* with (parts of) the subaltern classes. This means that the EU represents a polity-based arena which is dominated by initiatives of neo-liberal forces without being completely controlled by them. Besides this, to set off the role of hegemonic projects involves a second advantage. It gives some causes to rethink the social theoretical foundations of neo-Gramscian approaches. The conventional perspective is to attribute political strategies, culture, ideology and other phenomena merely to the interests of social forces, above all classes. This must not be necessarily wrong, but it involves the danger of socio-economic class-reductionism. At least it brings up the serious problem of how to mediate socio-economic structures and political class action. To avoid the pitfalls of many class theoretical approaches it seems useful to invert the relationship between political projects and the social structure, i.e. to regard political projects not only as the outcome of class action, but also as discursive and strategic means to reconfigure social power relations.

In principle, the concept of political projects leads to a differentiated and more dynamic understanding of hegemony. In referring to Gramsci, hegemony can be discussed in different contexts and on different analytical levels. At least three of them are particularly relevant: first, there is the term '*historic bloc*'. Herewith, Gramsci refers to a social order as a relative coherent ensemble of coercive and consensual institutions, inclusive of a particular mode of social development, which lasts for a longer period of time. Looking back to the time after the Second World War 'Fordism' represents such a 'historic bloc', very typical for most developed capitalist societies. It was based on a particular combination of certain technologies (e.g. the assembly line), industrial mass production and mass consumption supported by strong trade unions and an expansive welfare state. The socio-economic exhaustion of this model (declining rates of productivity, growth, and profits but increasing indebtedness of the state and high rates of inflation) and the erosion of the stabilising international settlement (the break down of the Bretton Woods System) caused a fundamental crisis of the old configuration, which in view of its effects (high economic growth rates, the extension of social rights and social security, and full employment) might be called a 'Keynesian' one. In the meanwhile, due to the socio-economic and political restructuring during the past two decades this 'keynesian configuration' is replaced by a new one, which might be called 'neo-liberal'. It can be regarded as the political crystallisation of the new 'historic bloc' of 'transnational high-tech-capitalism', which is based on a set of new technologies, forms of production, a transnationalised mode of accumulation, a changed social structure and class relations, different criteria and forms of regulation etc.

The second level of analysis refers not to the structural conditions and the general mode of social evolution, but to the social and political forces, which are shaping, directing or even steering its internal development. Of course, in principle all these forces pursue particular – partly competing, contradictory or even antagonistic – in-

terests so that, in order to be successful, most of the time they are caused to co-operate, agree on compromises, and form alliances. If these alliances are dominant and stable, i.e. if they last for a longer period of time, they represent a *'hegemonic bloc'*. As a rule such a 'hegemonic bloc' defines the cornerstones of the prevailing world-view. In this connection, intellectuals play a crucial role. In organising political and ideological leadership, they are involved in both, in the making and in the disintegration of social alliances ('hegemonic blocs') and social orders ('historical blocs'). However, the compliance with the hegemonic core beliefs is not merely organised by discussion and conviction. As hegemony includes not only consensus but also coercion, it is as well, if not primarily based on commitments guaranteed and enforced by the state or, as in case of the European Union, by state-like institutions and agencies. The regulative and distributive capacities of the governance structure for their part reflect institutional inheritances and existing social power relations. In a way, they rest on a complex social (class) compromise, which over and above stabilises the whole 'historic bloc'.

The dimensions of social action will even be stressed by a third level of hegemony, that of *'hegemonic projects'*. In general, hegemonic projects are political projects, which have also a stabilising, however, compared to the institutionalised social (class) compromise, more dynamic and potentially transformative impact on the 'historic' and 'hegemonic bloc'. By changing the forms of regulation and creating widespread public support, 'hegemonic projects' influence both, the material and ideological modes of social reproduction. In this context, they have not the same meaning as 'comprehensive concepts of control', which, according to Kees van der Pijl (1989: 33) 'seek to convey the idea that a particular accumulation strategy acquires relevance for the social order as a whole and thus *becomes* a "hegemonic project".' Instead of this primarily economically grounded, rather structural, and very encompassing view, regarding the 'great narrative' of neo-liberalism as a whole as a hegemonic project, the argument of this paper assumes that 'hegemonic projects', frequently are more particular and more concrete political initiatives presented as solutions of pressing social, economic, and political problems (e.g. the 'grand bargains' of constitutional reform such as the EMS, the Single Market, and EMU). Thereby, it should not be denied that most of these recent initiatives in the European Union have been neo-liberal in character. However, in order to understand the process of neo-liberal restructuring, it seems to be useful to analyse its succeeding phases and concrete steps – which are accompanied by very specific, partly contradictory motives, strategies, and effects – more separately.

From a Gramscian point of view, hegemonic projects fuse many different dimensions of social and political action: material interests, strategic orientations, discursive and cultural meanings, ideological convictions, affections etc. Nevertheless, they are not merely muddled together, but articulate themselves normally in specific ways. Whatever the concrete pattern is, if political projects become hegemonic, they operate as

a *'motivating social myth'* (Augelli/ Murphy 1997), i.e. they engender a mode of collective action or behaviour which under the spell of a political vision galvanises or fascinates large parts of the population. Originally, this idea dates back to the writings of George Sorel (1981), who himself was inspired by Henry Bergson's 'live philosophy' and praised the 'general strike' as the great imaginative political project to overcome the decadent bourgeois social order. Of course, applying the meaning of a 'hegemonic project' as a 'motivating social myth' does not necessarily mean remaining in the concrete theoretical and historical context of Bergson, Sorel, and Gramsci. For perhaps the idea behind this interpretation is more general. It refers to the point that political, particularly 'hegemonic' projects never rely alone on material-based interests and rational strategies of social actors. They always involve more: meanings, interpretations, forms of culture, ideologies, subjective feelings, imaginations, passion etc. In principal, all these different *resources of social action* can be summarised under two headings: practices of discursive interaction on the one hand and forms of affective imagination on the other hand. Depending on the concrete configuration, developments in both dimensions complement – i.e. reinforce and/or undermine – the forms of interest-based rational strategies.

To avoid any misunderstanding, affective imaginations are not necessarily irrational, but they are not necessarily rational either. At least in the first instance, they follow completely other criteria. In a way, they are more or less explicitly included in the meaning of a 'motivating social myth'. The dimension of affective imagination refers partly to deep emotions and the unexplainable dark ground of human behaviour, and partly it concerns the innovative or better: creative potentials of social interaction. Whereas emotional powers such as failed recognition, dissatisfaction, fear, aggression, rage, soreness but also desire, aspiration, consent, passion, and enthusiasm can largely be subdivided into either positive or negative affections, which either support or reject political projects, it seems to be more difficult to assess and categorise their creative potentials. On a rather abstract level, it can be maintained that hegemonic projects stimulate imaginative fantasy. For groups and individuals, who are enchanted by hegemonic projects, are more or less willing to develop or at least to accept new ideas, new perspectives, new ways of thinking, etc.

This creative potential is certainly stimulated by the dimension of discursive interaction, since discourses as cognitive filters of meaningful communication generate and form new ideas, thoughts, political concepts etc. However, it is more important that discursive interaction as a moment of political projects operates as an essential resource to stabilise or to transform the 'hegemonic' and 'historic bloc'. Even without providing a 'great narrative' – religious redemption, enlightenment and social progress, political emancipation etc. – discourses express and determine the meaning and content of social interaction and political decision-making. The concrete meanings and contents are by no means socially unbounded. They are always connected – more or less directly – to the interests of particular social and political forces. If these forces are able

to present those discourses, which are representing their specific interests, in a way that they become accepted as the 'general interest', they can be regarded as hegemonic. However, this understanding of hegemony is not only confined to the ability to generalise a specific world view and conception. As the early Laclau (1977: 161) points out, it refers as much 'to the extent that it (a class or class fraction) can articulate different visions of the world in such a way that their potential antagonism is neutralised.'

With respect to political projects, all these different resources and dimensions outlined above – interest-based rational strategies, practices of discursive interaction, and forms of affective imagination – do matter. In general, hegemonic projects as a motivating social myth are characterised by a congenial interplay of all three. However, the social and political effects of hegemonic projects vary considerably. This is not only due to their specific contents, but also due to social and political struggles as well as their course of development. Usually, several *succeeding steps or phases* can be distinguished: initiative, agenda-setting, political decision-making, generation of public support, and structural adjustments by implementation. Whereas most of the time the initiative is taken by only a small group of intellectuals, politicians, and/or business people, the process of agenda-setting requires the involvement of other interests and the broadening of support. Nevertheless, as long as the political decision is not made, the forming of alliances – at least insofar as European projects with far-reaching consequences are concerned – is largely confined to an elite of politicians and some powerful organised interests. Only after they agreed on further steps in the process of a 'new constitutionalism', was the nationally fragmented European public involved. During the recent decade the public has become more sceptical and critical of European projects; due to the fact that neo-liberal and monetarist reasoning intensified, large parts of the population feel more and more the disciplinary effects of neo-liberal restructuring (van der Pijl 1998: 43-49). However, for the time being, most reactions – protest voting, demonstrations, strikes etc. – are highly emotional and primarily defensive.

### **3. Projects of neo-liberal restructuring**

In the following, these theoretical reflections should be discussed in more detail by referring to the concrete projects and developments in the recent history of European integration. Before doing this, however, two aspects of the argument presented so far should be summarised: First, 'hegemonic projects' are not only part (corner stones) of a process of social restructuring, moreover, they are elements of a *strategy of 'transformismo'*, i.e. of social and economic reform 'from above' in order to co-opt large parts of the population by providing allegedly attractive solutions for pressing economic and social problems. This 'top down' style of governance is even reinforced on the European level, since at this site all successful initiatives have

been taken and pushed forward by a very small circle of economic and political elites. A second aspect worth mentioning is the way the different resources – interest-based rational strategies, practices of discursive interaction, and forms of affective imagination – articulate themselves. The *mode of articulation* indicates the specific character of the individual projects. In analysing their internal coherence and/or their contradictory potential it seems to be possible to ascertain more precisely the prospects of a further – more or less dynamic – reproduction or crisis of the ‘hegemonic’ and ‘historical bloc’. In doing this, this paper still tries to answer some very general neo-Gramscian questions: what kind of hegemonic structures prevail, how are they organised and reproduced through political projects enforced, supported or tolerated by particular social and political forces, and how are the internal contradictions of the recent period of neo-liberal restructuring in the European Union to be understood?

For this purpose we will look more closely at the main European projects of the past two decades (see also table 1 at the end of this chapter). We proceed from the assumption that the generalisation and reproduction of neo-liberal hegemony in Western Europe was mediated above all by the EMS, the Single Market program and the EMU (Röttger 1997). All these projects involved not only a particular interaction of rational strategies, discourses, and affective imaginations, but also a specific combination of permissive, consensual, and coercive elements. The coercive elements are primarily aimed at an improved global competitiveness of European economies. As cornerstones of a conditioning framework they set up two underlying logics of European integration, which enforce more or less explicitly neo-liberal strategies of adjustment: whereas the logic of ‘*competitive deregulation*’, induced by more deregulated and flexible markets for goods, capital, services (and the workforce), is due to the program of the Single Market, the logic of ‘*competitive austerity*’, by which governments and central banks are obligated to pursue monetarist policies (i.e. accepting the primacy of monetary stability and budget discipline), was established by the EMS and the EMU.

### **3.1. Preparing the European Agenda**

The collapse of the Bretton Woods system in the early seventies and the growing importance of the financial sphere in the following period marked a structural change in the global and national reproduction of socio-economic and political relations (Helleiner 1994). One striking feature is the new primacy of financial capital in relation to productive capital, and the supremacy of both over labour and solidaristic national governments. This can be observed not only in terms of profit and income distribution (Holman/ van der Pijl 1996), but also in terms of the redefinition of political priorities. Neo-liberal and monetarist objectives came to the fore and exerted increasing pressure on the national modes of regulation, above all on the Keynesian welfare state. Ideologically, this process was reinforced by the ‘neo-liberal counter-

revolution', which was prepared and pushed by a range of important (Anglo-Saxon) think tanks (Plehwe/ Walpen 1999; Cockett 1995), proclaiming to liberate market forces from regulative interventions and restrictions. The core ideas of these think tanks – less state intervention, supply-side economics, politics of austerity etc. – formed the intellectual basis for a process of social roll-back in Europe. First, in the late seventies and early eighties, the adoption of neo-conservative and neo-liberal approaches, heavily supported by transnational fractions of capital, was not concerted European but primarily national. The Thatcher government was the first in Europe to set a neo-liberal program – very fast and in a very radical manner – on the political agenda. However, since the mid seventies even the countries of continental Europe gradually introduced some key elements of neo-liberal politics (Ziebur 1997: 271).

Despite these signs of modest reorientation, at the end of the seventies Europe suffered from a virtual standstill of the integration process. Although the *acquis communautaire* was not questioned, European integration entered a period of '*Euro sclerosis*'. Diverse attempts to accelerate the process of *political* integration and to extend the supranational elements failed (e.g. Werner-plan, agreement on economic convergence, more ambitious social policy initiatives) due to a crisis-prone world economy and a general re-nationalisation of politics, e.g. of economic and foreign trade policy. Additionally, these tendencies were even reinforced by the insight that the EC's regulating capacities and financial resources were far from being sufficient to react effectively to the economic crisis (Ambrosius 1996: 123). Both elements – the lack of an attractive integration project and the increased political salience of neo-liberal ideas already translated into action in several nation states – prepared the ground and offered the chance to launch a neo-liberal project on the European level.

Although the European Monetary System (EMS) seems to represent a rather technical measure, it played a key role in the beginnings of neo-liberal restructuring of European integration. Generally, with the end of the Cold War, which was in the offing, and the decline of American economic and financial dominance, the question about the future role of Europe became more urgent. Nevertheless, the reason for a common European exchange system was more concrete and defensive: the breakdown of the Bretton Woods system caused the risk of high volatility rates and undermined the calculation base for transnationally oriented corporations. This applied especially to the German export industry, but also to the other European economies suffering from fluctuating currency exchange. Hence, the common aim was to create reliable and less vulnerable intra exchange relations and to stem the dependency of the European export trade from the fluctuating D-mark/dollar relation. Moreover, the French government hoped to import the German 'stability culture' and simultaneously to gain some influence on monetary policy in Europe. However, the following period showed that the Franco-German compromise was asymmetric because the German

Central Bank, which strongly supported the creation of the EMS, could foster its dominance in European exchange relations.

Besides these attempts to stabilise European export, the EMS worked as a mechanism which generalised politics of austerity in Western Europe. Via EMS the international capital market gained disciplining and even sanctioning power on the political orientations of national governments. In other words, the implementation of the European Monetary System stimulated a neo-liberal discourse which most of the governments inspired to pursue a politics of deregulation and privatisation. France realized in the early eighties that the scope for political action was already very constricted. The demand-side politics of the left wing government – deficit spending, a reduction of working hours, wage increases, and a steady devaluation of the franc – was contradictory to the neo-liberal framework executed by the EMS. Because he wanted the franc to remain in the EMS, Mitterand finally had to bury the strategy of ‘Keynesianism in one country’, and the ‘toughest nut’ (Howell 1992) for the implementation of neo-liberal elements was cracked.

In retrospect, on the one hand, the EMS could be seen as the *starting point* for European monetarist restructuring, as it has broken up traditional institutional structures, forced the member countries to accept budget discipline and tight money efficiency and last but not least revitalised Franco-German co-operation, which was considered as the power-tandem for further steps of European integration. On the other hand, the EMS did not give yet the integration process a decisive push. It was regarded primarily as a *technical matter*, and not as a project demanding additional political initiatives. In other words, the EMS was not considered as an attractive project which could get rid of its administrative character. It provoked no debates on the future of Western Europe. In this sense it remained in the realm of an academic or expert discourse. Despite the agreement on monetary co-operation the population in general remained indifferent towards European issues.

### **3.2. Euphoric neo-liberalism**

This changed with the next step of neo-liberal restructuring and the implementation of the Single Market in the mid-eighties. At the beginning of the eighties, the ‘internal’ crisis of the European economies have not yet been overcome. The adjustment pressures executed by the transformation of the world economy cherished protectionist and disintegrative tendencies within the European Community. As a result of the world economic crisis from 1979-82 economic restructuring seemed to be more urgent than ever. Since the productivity gap’ widened between the EC on the one hand and the United States and Japan on the other, a vast deregulation programme on the European level was considered as an indispensable prerequisite to withstand intensified global competition (Sandholtz/ Zysman 1989).

Without doubt the Single Market project represents the primacy of economic issues in the process of European integration. The completion of the Common Market by abolishing non-tariff – technical, administrative, and political – trade barriers fostered intra-European competition, facilitated the market access for transnational corporations, and led to a strong base for the development of the European economy in the nineties. Under the common aim of an improved competitiveness, the Single Market was backed by a broad coalition of national and supranational actors. It was above all the export-oriented capital fraction, particularly transnational business corporations, which not only supported the project but also strongly influenced via the European Round Table of Industrialists the shape of the Single Market program (Doherty/Hoedemann 1997; Cowles 1995). At the same time, the European Commission performed and developed its role as a policy maker. It was above all the Commissioner for industrial policy, Etienne Davignon, and the president of the EU Commission, Jacques Delors, who created strong discursive and ideological ties between transnational big business, the Commission, and national governments. However, it was only successful since the Single Market program was in tune with the modernisation discourse in the member states, where in the meantime governments turned towards neo-liberal principles of policy-making.

The key topic of the national and European discourse of modernisation was 'competitiveness' which meant in the end a strategic priority to economic integration by means of deregulating national markets. An expression of these efforts were the famous four liberties, i.e. of capital, commodities, services and workforce, as they are written down in the Single European Act. Instead of '*positive integration*', i.e. the supranational harmonisation of the diverse norms and institutions, '*negative integration*' became the dominant principle of the integration modus. It describes the abolishment or mutual recognition of existing national norms and standards, and by this it stimulates the market driven competition between the different national regimes of political regulation. In this sense the Single Market program provided an agenda for several nation states to complete their industrial, economical and social modernisation by referring to European commitments.

The turn towards European integration was also stirred up by a very optimistic prognosis about the effects of the Single Market. The Cecchini-report, which was published in 1987, proclaimed that a so-called "demand-shock" would lead to welfare gains of up to 6.4 percent, a relief of the public budgets of about two percent, and 1.8 million more jobs for the short term. In the longer run it expected five million jobs and economic growth of about seven percent (Cecchini 1988). Like the EMS the Single Market was a project, legitimised first and foremost by economic success. And in fact, due to the boom during the second half of the eighties, economic growth and an increase in job creation covered the negative sides of the neo-liberal strategy to improve competitiveness: i.e. via labour markets flexibility in favour of capital interest,

accelerated rationalisation, and a gradual dismantling of the welfare state (e.g. the reduction of unemployment benefits).

In this sense the Single Market was the culmination of a functional top down adjustment, which was legitimised not by an *ex ante* (active) consensus but by the 'good performance of the task' (Mitrany 1975). In other words, functionalist projects are (passively) legitimised by the success and efficient work of the bureaucrats and not by democratic debate or even approval. This '*permissive consensus*' on further integration between elites and population could be maintained as long as the projects bring about advantages or – in more defensive terms – do not harm directly the social and material status of wider parts of the population. The Single Market consolidated this consensus to a degree, since it was accompanied by flanking policies. It was expected that the deregulation project would give a signal to set off to further integration. At least in the medium term the Single market should lead to a 'spill-over' on other policies concerning employment, technology, and monetary issues enhancing political and social integration.

Although more ambitious social expectations proved to be false, the attractiveness of the '1992'-project was very strong. It worked as a double myth: With respect to global competition it suggested 'a more dynamic, forward-looking pan-European political and economic identity in the next millennium, implying that the twenty-first century will be the European century, rather than the "Pacific century".' (Gill 1992: 164). And with respect to internal reorganisation of socio-economic structures, it suggested a very convincingly presented chance to overcome the problems of sluggish economic growth and persistent unemployment. Obviously, it had some impact on the relationship between national identity and Europeanisation. In France, for example, since 1984 the interest-driven change of preferences about the European order lead to a Europeanisation of the French identity. At that time it was widely accepted among economic and political elites that in the long run the Single Market would contribute to a common European identity by establishing a distinctive European social model differing from the social models of the United States and Japan (Morin 1987).

### **3.3. Adjustment discourse and politicisation of European integration**

The next step of neo-liberal restructuring, the EMU, was still prepared in the maelstrom of the 'Europhorie' in the second half of the eighties. It gained momentum when the German reunification provoked political as well as economic/monetarist challenges for the hegemonic structure of the European Union. The fragile 'balance of the imbalance' between France and Germany, which was based on the 'bomb and the D-Mark' (Moisi 1988), was strongly disturbed by the geopolitical change. In view of the fading importance of their security aspects, France and the United Kingdom feared that in the long run their status in Europe would diminish and Germany would

achieve more economic and even political power. Furthermore, the tight monetary politics of the German Central Bank after the reunification showed clearly that it became more and more illusory that the EMS would be able to establish common control over monetary policy in Europe. Despite strong economic downswings in the neighbour countries, caused by a sterilisation of internal demand through high interest rates, the German Central Bank pursued a strict monetarist strategy.

Against the background of this configuration it is no surprise that in the course of the ratification process *competing rationalities* became apparent. Beneath the common aim of reduced transaction costs of intra European trade, national governments linked different, sometimes contradictory aims with the EMU. On the one hand, it had the general purpose of integrating a geographically, economically, and politically united Germany more closely into European structures. Especially the Latin countries wanted to attain more influence on monetary politics by replacing the German dictate through a common policy executed by the European Central Bank. On the other hand Germany and, more specifically, the Central Bank were very reserved towards a premature monetary Union. Since the German government could not block the *political* decision, it sought to accommodate it to monetarist principles expressed in the convergence criteria, and thus finally intensified monetary discipline.

In this context, neo-liberal forces still tried to depoliticise the EMU, i.e. to manage it technocratically. For obviously, the EMU project did not provide any new sources of legitimacy. On the contrary, it accelerated the shift towards a more disciplinary neo-liberalism. The coercive dimensions were strengthened by institutionalising monetarist principles on the European level (treaty agreements, convergence criteria, stability pact). The EMU insulated the pressures for fiscal consolidation from democratic accountability, whereas the consensual dimensions – dominant during the implementation of the Single Market – were no longer sufficient to ensure allegiance and sustain neo-liberal hegemony. One consequence of this ‘new constitutionalism’ was a *strengthened technocratic discourse* ignoring or suppressing its social and political implications. However, the different rationalities and the more coercive character of neo-liberal hegemony already expressed the fading legitimacy of the neo-liberal discourse. In the early nineties, since the start of recession and rising unemployment, the attractiveness of further monetary integration decreased. In the face of social cut backs, unemployment and disintegrated societies the contradictory combination of economic integration and monetary dogmatism on the one hand and the attempt to absorb the social fragmentation on the national level on the other hand became more and more apparent. Unlike the Single Market project the EMU was not considered to contribute to a solution for the urgent problems. On the contrary: It was experienced even as an acceleration of the monetarist logic, which annuls the remaining – but already very constricted – scope for political action in the member states. Growing fear of severe economic crisis and an integration project which was hardly communicable because of its obviously devastating social consequences set

an end to the euphoric phase of European integration. The ratification problems in France and Denmark (followed by the 'NO' in Norway and Switzerland) represented the prelude of an incessant legitimacy crisis ('Post-Maastricht-Crisis') (Deppe/Felder 1993).

The legitimacy problem comprises several dimensions. Among these are the lack of transparency and the nature of the Union's governance structure, the crisis of representation, the weakness of politics and the absence of any European identity. e.g. shared values, history and culture (Obradovic 1996). However, the most salient fact throughout that period was the rise of unemployment and the fragmentation of society, both undermining passive pro-European attitudes. Thus the crisis of identification and representation was not limited to the European level. It includes also those national governments, which have been responsible for initiating and carrying through the measures of neo-liberal adjustment. For the privatisation of public services, expenditure cuts in the realm of education and the general dismantling of the welfare state began to threaten even the more privileged strata of the wage-earners. Also in Europe, a diffuse 'fear of falling' (Ehrenreich 1994) haunted large parts of the middle class, whose concerns were closely linked with the direction of European integration. Next to the general fear of 'social dumping' they did not accept the tough austerity measures to fulfil the convergence criteria and the stability pact. In 1995/96 this still rather diffuse discontent was expressed in the strikes in France, where left wing intellectuals interfered in the basic questions about 'whose Europe' and thereby called into question the relationship between politics and economy (Bourdieu 1997). In this context, it seemed that the functionalist 'permissive consensus' dissolved. Since the integration process became politicised by social forces critical of the neo-liberal projects, the affective dimension of European integration became more important.

#### **4. The current European configuration**

As noted above, we have identified interest-based rational strategies, practices of discursive interaction, and forms of affective imagination as the main components of political projects of European integration. At the end of the nineties it became apparent that there are a range of tensions between the different components, i.e. within the political projects. Whereas the content of discursive interaction – even if sometimes complemented or modified by communitarian ideas (Bieling 1998) – becomes more and more neo-liberal, large parts of the population, particularly members of the working class are less willing to accept the social consequences of neo-liberal restructuring. The impact of the interest-based rational strategies seems to be less clear and appealing than before. In the early nineties the loss of diffuse consent became evident up to the point of open discontent and a manifest crisis of legitimacy.

For a long while in the past, legitimacy and the consensual elements of neo-liberal hegemony have been founded on the expected benefits of economic success: 'Functionalism's construction of the future as a rational timeless extension of the present is coupled to a vision of politics as technical efficiency. This has, of course, long been part of the economic aspect of functionalism in the EU: experts are by their very nature most suited to address questions of the market and as efficiency of economic integration is undisputed, there is no reason to draw representation politics into its regulation nor to expect legitimacy problems to occur.' (Hansen/Williams 1999: 244). During the past decade, however, the functionalist '*discourse of depoliticising*' – the Monnet-method – has been called into question repeatedly (Patomäki 1997). It is in particular the neo-liberal overstretch of the utilitarian and productivist narrative of European integration which produces internal disruptions. Of course, these disruptions are due to many causes. One of them might be the well-founded feeling by large parts of the population that they are bearing the cost of economic modernisation and adjustment while simultaneously being excluded from (supranational) decision-making. Another reason might be that the traditional arrangements (consent on stability, modernisation, adjustment) are weakened, because Europe became a contested issue of domestic debates dominated by contradictory attitudes of different social forces. Obviously, there are not only competing national, but also competing social interests in the process of European integration; and since the EU does not provide adequate resources, means, and strategies for satisfying the social needs of its population, it will remain under public criticism and pressure in the years to come. To sum it up, in view of its internal – economic, social, and institutional – problems, the EU seems hardly prepared to meet the '*new challenges*' of the next decade.

Despite varying political assessments, most observers and commentators largely agree on this point. On the one hand, they stress that some fundamental reforms are required to overcome the crisis of legitimacy, e.g. institutional reforms, new criteria and modes of financial redistribution (particularly in the area of regional and agricultural policy), a remarkable reduction of unemployment etc. On the other hand there is a common view of those objectives representing the most pressing challenges for the EU: above all the successful completion of the EMU, the definition of the new role of unified Germany, and the process of eastward enlargement (Anderson 1997). However, aside from this general, rather superficial agreement about the difficulties in the process of European integration, most scientific analysis, inclusive of its political recommendations, remain very restrained. In a way, they plea for some minor (technical, regulative, and communicative) adjustments without really combating the causes of current difficulties, which seem to be rooted primarily in the *socio-economic constitution* of the EU, inclusive of its institutional framework and the underlying power relations. In other words: since most political and scientific observers forego a more profound investigation and questioning of the criteria and the charac-

ter of the integration process, they demonstrate clearly a lack of radical thinking. This would presuppose acknowledging that in view of the 'new challenges', the EU needs a political project, which leads not merely to more flexibility of European institutions of multi-level-governance, but first of all to changes of its inherent disciplinary mode of neo-liberal restructuring.

At the moment, however, political and economic elites in the national and transnational arena are neither willing to change the socio-economic course of European integration nor do they have a new political project at their disposal. They provide no convincing vision which bundles up competing social and national interests. The proposition to reinforce the centralisation of political competencies by simultaneously allowing for greater flexibility (Moravcsik 1998) is not sufficient at all, since it represents at best a technocratic answer but no 'motivating social myth'. Obviously, it does not fill those parts of the population with enthusiasm who demand a changed European agenda for more welfare, social justice, and democratic participation. These issues become increasingly important as with economic and political restructuring more and more people actually lose or fear to lose their job or social status. Besides, the social, occupational, and spatial or regional concentration of particular loser groups creates new conditions of protest and resistance against neo-liberal measures, in particular, if it induces a snow-ball-effect as happened with the protest wave in the mid-nineties. Hitherto, however, the concrete results of these protests can be described as insufficient, since even the electoral success of Social Democratic parties in the EU implies no real change of political strategies, neither on the national nor on the European level. To put it another way: despite persistent or even swelling socio-economic problems and sporadic political protest, the guiding principle of the current stage of European integration is not to change but to *consolidate* the neo-liberal configuration.

From the angle of economic and political elites, the consolidation of the neo-liberal socio-economic order is of course a very urgent task. They regard this intention not only as an inevitable precondition for the eastward enlargement, but also as a necessary step for the further adjustment or even dismantling of national welfare states. Thus, one might be tempted to object that all measures of consolidation represent parts of a wider political project, which aims to improve the very basic conditions – the institutional, regulative, and political infrastructure – for the sake of further social and economic success in the near future. Nevertheless, even if the current period is oriented towards a model which tries to consolidate the EU by stimulating a 'competition oriented modernisation of economic structures, social relations and institutional regulations', it provides no new political project in the sense of a 'motivating social myth'. In order to manage the coming challenges, the consolidation strategy is neither sufficient nor convincing. In relying primarily on the imperatives of economic power relations and the operation of market dynamics it gives at best unreliable, highly controversial, and technocratic answers as e.g. the stability pact and the

agenda 2000. Against the background of an aggravated socio-economic situation and deepened social tensions the lack of a new attractive project means that European issues – above all, if questions of redistribution are involved – become potentially more contested, within European societies as well as between the member states.

In principle, the potentially increasing social contest and intergovernmental conflict is of course both, stimulated and balanced within the European multi-level system. On the one hand, the socio-economic constitution of the EU compels governments and other political actors to comply with the dynamics of 'competitive deregulation' and 'competitive austerity' and thereby to accept intensified socio-economic problems. Despite some minor modifications of the EU-treaty – e.g. introduction of majority voting in the area of social policy, a new chapter on employment policy – it is likely that such tendencies will intensify. On the other hand, political decision-makers are increasingly aware of – at least after the so-called 'Post-Maastricht-Crisis' – that they cannot follow this path of European integration anymore without stabilising European societies. Hence, on the supranational and on the national level they try to stimulate a *new political culture of consensus and co-operation* by involving the so-called social partners, i.e. employer organisations and trade unions (Dølvik 1999; Falkner 1998). It remains to be seen whether this attempt to improve and broaden public consent will be successful. There is some reason to believe that this largely symbolic form of co-operative decision making is not sufficient, perhaps even not durable. On the one hand it concerns only those areas which are at best of secondary importance, e.g. working place regulation and labour market policies. As the treaty agreement lays down, the more fundamental issues of economic and monetary policy are still insulated from corporatist influence and democratic control. In being primarily symbolic in character, the new (supranational) type of corporatist structures varies considerably from the old ones: as already mentioned, it is not only restricted to some minor topics. Furthermore, the new corporatist elements emerge in a completely changed socio-economic environment with a less interventionist state. This is particularly the case with respect to the European level. In comparison to the old (national) forms of corporatist policy-making, it takes place in a very different institutional and organisational framework. The federal organisations of capital and labour (UNICE and the ETUC) are fairly weak, and due to the distribution of competencies and resources the EU Commission as the involved state-like European institution has not much to offer to promote for more far-reaching and binding compromises.

As recent developments show, the disciplinary neo-liberal content of European constitutionalism is not only accompanied by symbolic corporatist elements of the supranational level, but also by the emergence or redefinition of corporatist structures within individual member states (Rhodes 1998; Schmitter/ Grote 1997). Instead of improving social cohesion the *new 'competitive corporatism'* primarily improves the competitiveness of the economy by meeting the conditions of the neo-liberal Euro-

pean agenda in a socially co-operative way. One clear expression of this tendency towards a 'competitive corporatism' are the 'new social pacts' in a range of EU member states. As Anke Hassel (1998) explains, these pacts address first of all three objectives: first, with respect to collective bargaining they imply *wage restraint* and *wage flexibility*; second, with respect to labour market policy they are concerned with an improved *employability* of the national workforce by restricting social entitlements and promoting more flexible employment regulations; and third, with respect to the reform of social welfare they intend to *relieve the burden of employers* by reducing their contributions to social insurance. All in all, these objectives should contribute to the reduction of public debt and budget deficits, what is seen as a precondition of a stable European currency.

In a way, these 'new social pacts' may operate as a motivating myth on the national level. The listed objectives may produce broad public support and affective imagination, since they claim to provide a pragmatic way to reduce unemployment by simultaneously improving the national infrastructure and the quality of the labour force. However, even if the 'new social pacts' are relatively successful – as in Ireland, the Netherlands, and in Denmark – there remains some serious doubt that they contribute to a consolidation of the European configuration. For on the one hand, 'new social pacts' are political projects which are *primarily national in character*. It is above all the national element, e.g. the pride in the national skill and efficiency, which generates additional public support and legitimacy. This might include that the 'competitive corporatism' in the long term undermines common European objectives. On the other hand, as all political projects the 'new social pacts' have a particularly short half-life period. They are rather defensive and *imply no change* in the general European configuration. Moreover, they provide no solution to a lot of problems concerning social security, and as a beggar-my-neighbour approach they produce their own consequential problems.

## **5. The prospects of alternative projects**

Currently several member states try to consolidate the mode of neoliberal restructuring by establishing a new 'competitive corporatism' on the national level. Nevertheless, since the mid-nineties we can observe increasing resistance against the character, content, and direction of European integration. The concerted politics of austerity in Europe on the one hand and the national blame deflection on the other lead step by step to a common awareness that the present European policy is responsible for further social cuts and increasing fragmentation of European societies. In other words: in referring to the requirements of the EMU the governments of almost all countries in western Europe dismantled those institutions which were responsible for a certain degree of social coherence: i.e. social security systems, public services, education, etc. European integration is now a major theme of domestic

political debates and closely linked with the prospects of social development in the member countries. This 'état d'esprit' is also expressed in most public protests and conflicts during the past few years. Besides the (European) marches of the unemployed in 1997 and the struggle of German trade unions for the continuity of payments in case of illness, the protest waves in France 1995/96 are good examples for an extended focus of class struggles: while the conflicts in the branches about earnings, pensions, and dismissals represent the core of the strikes, the protest marches for public services and social care stimulated resistance within wider areas of society. Participants in this movement understood themselves not only as 'employees' but also as 'citoyens' who under conditions of generalised insecurity fight for minimum social guarantees provided by public agencies (Groux 1997; van der Pijl 1998: 31-49).

This – rather diffuse – resistance to the 'neoliberal invasion' (Bourdieu) executed by the integration process was accompanied by an intense debate among critical intellectuals (economists, journalists, sociologists, etc.) on how to combat the problems of mass unemployment and social fragmentation in European societies. In contrast to former discussions in the eighties when there was – above all in France – a clear-cut distinction between the defenders of national integrity and the advocates for (passive) adjustment to supranational constraints, the current debates refer to a range of different proposals and projects for a socially responsible Europe. All critical interventions stress the need to put the economy back in service of society. More concrete: the priority of financial, economic, and social politics should be the struggle against unemployment without relapsing into nationalistic patterns of political action.

Apart from these common objectives the particular projects differ in terms of the relationship between the national and supranational level, the influence on current debates, and the utopian content. The different proposals reach from common measures to launch an economic boost up to a break with the stability handicaps and the creation of a European Welfare State. In this sense we can currently distinguish grosso modo three alternative projects:

1. The French sociologist Pierre Bourdieu – since the strikes of 1995/96 an important intellectual advocate of social achievements in continental Europe – considers a *European Welfare State* as the only possibility to avoid both a 'true nationalism and a false internationalism which is only the mask of a veritable imperialism' (Bourdieu 1996: 178). From this point of view a renewed political definition of Europe has to be developed in four central fields concerning the future of the welfare state, transnational trade unionism, the harmonisation of the education and training systems as well as the relationship between economic and social policy (Bourdieu 1998: 129). Bourdieu suggests a mode of gradual development – so-called 'generative politics' – in the form of vague projects supported by intellectuals, trade unions and other progressive organisations. Eventually, this should lead to an 'International of intellectu-

als and social movements'. One of his main intentions is to rehabilitate utopian thinking. 'Reasoned utopianism (...) is undoubtedly what is most lacking in Europe today. The way to resist this Europe – the one that bankers' thought is trying to railroad us into accepting – is not to reject Europe itself from a nationalist position, as some do, but to mount a progressive rejection of the neoliberal Europe...' (Bourdieu 1998, 128).

Bourdieu hardly explains a concrete strategy of his vague concept of a European Welfare state. His suggestions are not founded on an analyses of the political and structural problems which prevent a substantial supranational regulation and substitution of national welfare systems. For apart from some exceptions – like the protest in Vilvorde – until now unions and social movements largely remain captured within the context of national public policies. So far they have failed to formulate some concrete political objectives, which may stimulate a common European consciousness up to the organisation of a European social movement. His 'reasoned utopianism' rests in a way too abstract i.e. above and beyond – even progressive – debates on the future of European integration. Bourdieu's intervention can therefore perhaps strengthen a certain general *idea of social Europe*. However, within the foreseeable future it is very unlikely that it will stimulate a powerful discourse among progressive social forces, and thus becomes an attractive and mobilising project forming an alliance of 'social movements and intellectuals'.

2. The current strategy of the European trade unions, which play a key role in the concept of Pierre Bourdieu, is less ambitious, however reflecting the huge obstacles to build up a coherent supranational collective bargaining system. In view of national institutional diversity, the traditional differences of social systems and the resistance of the employers to re-establish a kind of regulation on the supranational level which substitutes the national regulations seems to be blockaded.

An alternative approach currently pursued by the trade unions is the so-called 'co-ordination approach'. Instead of centralised *European* collective bargaining this approach stresses the transnational co-ordination of *national* trade union strategies. While the focus of political action is still on the national level, the improved co-ordination should lead to agreements on some minimum standards in order to avoid competitive social dumping. This concept is already part of concrete trade union strategies. At least in some sectional trade union committees, particularly in the metal industry and between trade unions of several EU countries (see for example the declaration of Doorn) general guidelines for national collective bargaining in terms of wages and working conditions are achieved (Schulten/Bispinck 1999).

Compared with the supranational approach, the transnational co-ordination approach has the advantage that it is not dependent on a substantial reorganisation of collective bargaining systems. At first glance it weakens also the logic of competitive deterioration of wages and working conditions between member countries and symbol-

ises a first step to overcome the dichotomy between the European and national level. However, whereas the reasoned utopianism in the concept of Bourdieu is hardly linked with concrete aspirations, the very pragmatic approach of the trade unions lacks any utopian momentum and offers no comprehensive vision of an alternative European project. Still focusing on national strategies, trade unions are in a way outside all initiatives and struggles concerning the development of the European Union. Moreover they run the risk that in case of severe economic crisis the relatively weak institutionalised 'obligation' of transnational co-ordination erodes and the much stronger ideology of national competitive pacts succeeds.

3. Therefore, in the long run, the minimum consent of the co-ordination approach can only be successful if it is embedded in a substantial change of the macro-economic European framework. Some trade unions and national governments are at least implicitly in favour of this. While lacking the material and political capacities to put a change of macro-economic conditions on the European agenda, they regard such a reorientation as a pre-condition to overcome pressing social problems and the ongoing crisis of political legitimacy. In short, the necessity for supranational change is stressed by several political and scientific advocates. Alain Lipietz (1997), for example, argues in favor of a European energy tax in the context of a general harmonisation of the main principles of the national tax systems. Furthermore, he makes the point that further reductions in working hours should be co-ordinated on the European level to avoid competitive disadvantages between the different countries. A concrete agenda transcending the neo-liberal configuration is also presented within a 'Memorandum of European Economists' (1997), which argues for an alternative macro-economic approach considering above all four dimensions:

- with respect to monetary policy, the tight criteria of monetary stability should be released to stimulate growth and employment;
- with respect to fiscal policy, on the one hand a tax harmonisation should prevent fiscal dumping and on the other hand the budget of the EU-Commission should be enhanced to invigorate investment, infrastructure, and employment programmes;
- with respect to labour markets, a further reduction of working hours is suggested;
- and finally with respect to welfare policy, the memorandum demands more supranational regulation – minimum standards, social rights of participation etc. – and a reversal of social redistribution, which in the past decades has been in favour of profits, interest, and high income groups;

These proposals comprise both pragmatic elements – like the question of the convergence criteria – and a utopian thinking which might be combined with discourses of progressive social forces, e.g. the initiatives for a reduction of working hours. However, the debates on an 'alternative constitutionalism' are far from being he-

gemonic. The power of neo-liberal principles inherent in the international economic configuration and the process of European integration as well as the broad acceptance of the neo-liberal discourse show clearly that it is a long way from alternative proposals to an emerging alternative bloc of social forces. In recent decades one of the biggest obstacles to raising the question of 'Social Europe' was the lack of public awareness of its necessity. At the end of the nineties it seems that this is beginning to change. Once conceptualised as a matter of economic and political elites, European integration is now a major theme of domestic political debates. However, so far the discourse of an alternative macro-economic approach has not reached or inspired any lasting diffuse protest against neo-liberal Europe. Partly this is due to the fact that neoliberalism seems to be very strong in terms of discursive interaction. Yet, also relevant is that the alternative proposal represents itself in a technocratic way. It neither takes up explicitly the motives of the protest movements nor shows it how to democratise the EU. Such an embedding in a more comprehensive strategy of the transformation of the EU, however, might give alternative projects a more appealing character.

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**Table 1: Hegemonic projects of neo-liberal restructuring**

	<b>European Monetary System</b>	<b>Single Market</b>	<b>European Monetary Union</b>
<b>structural change/perception of problems</b>	Break down of the Bretton Woods system; world economic crisis; uncertainties of exchange-rate-fluctuation	Weakness of the European economy in global competition with the North America (US) and Southeast Asia (Japan)	dictate of the financial markets and the German Bundesbank; political control of Germany after reunification
<b>rationality/ interest-based rational strategies</b>	Asymmetric compromise between France and Germany based on the common objective to avoid high volatility of currencies	productivity gains, improved competitiveness, and economic growth as a consequence of market deregulation within the EC	different interests and strategies: a) completion of the Single Market: less transaction costs (TNC's) b) influence on European monetary politics: breaking the dominant role of the D-Mark (F) c) securing a stable currency and tight monetary and fiscal policies (FRG) d) legitimising sound budget policies (I)
<b>practices of discursive interaction</b>	Technocratic expert discourses on international currency relations and monetary stability	relatively consensual discourse of neo-liberal modernisation; modest dispute on the character of market flanking policies (market generating and/or market correcting)	a) discourse of economic adjustment (top down) b) discourse of social welfare (bottom up)
<b>forms of affective imagination</b>	Disinterest, apathy, indifference	euphoric visions about the future of Europe; positive attitudes due to expected economic and social benefits	Diffuse discontent and concerns about the social consequences and the character of European integration (ref. France/Denmark)



# **Towards a Neo-Gramscian Theory of European Integration -The Example of the Tax Harmonisation Question**

## **1. Transnational Historical Materialism and European Integration**

There is no comprehensive theory of European integration from the perspective of transnational historical materialism or 'neo-Gramscianism'. There are, as a matter of fact, very few comprehensive treatises on European integration from an (even vaguely) Marxist perspective. The debates in the early 1970s (Mandel 1968, Poulantzas 1974, Galtung 1973) still produced what may be considered a comprehensive Marxist textbook on European integration (Deppe 1975). The relaunch of European integration in the mid-1980s with the Single European Act revived a 'critical' interest (e.g. Grahl/Teague 1990).

From a broadly conceived 'neo-Gramscian' perspective, countless contributions to an understanding of European integration in the 1980s and 1990s have appeared in the form of articles and conference papers. There have also been some excellent book-length studies (e.g. van Apeldoorn 1999, Bieler 1999, Holman 1996, Röttger 1997). These however are, notwithstanding their great merits, still only partial studies which make no claims to present a comprehensive 'critical' theory of European integration.

This state of affairs, this lack of an attempt to break the monopoly of neo-realist and institutionalist approaches on the textbook market, is the more remarkable and indeed deplorable if one realises that the study of European integration in fact has stood at the cradle of (at least one core strand of) transnational historical materialism, namely the 'Amsterdam' school (cf. van der Pijl 1978, 1989), and remained a central element in other works of this group as well (e.g. van der Pijl 1984, Overbeek 1990, Holman 1996, van Apeldoorn 1999).

The present conference challenges us to take stock of the state of affairs and to re-examine our understanding in light of the most recent developments in the process of European integration. Which problems does our approach have, how valid still are its core propositions, how can they be reformulated to deepen our understanding of the present stage of European integration? It is the objective of this paper to raise some of these questions, and to attempt to suggest answers on the basis of a case study of an issue which recently moved to the top of the political agenda in the EU, namely the issue of tax harmonisation.

This paper will proceed as follows. First it will identify the key elements of the Amsterdam approach and survey the criticisms to which this approach has been subjected (section 2). It then reviews the 'Amsterdam' account of neo-liberal restructuring both at the global and at the European level (section 3). Then, we will make a detour and analyse the recent conflicts in the European Union over the issue of tax harmonisation (section 4). In this case study we are specifically concerned to see whether the core propositions of the 'Amsterdam approach' are still valuable in the analysis of contemporary developments. Finally, section 5 will attempt, by way of conclusion, to draw out the implications of the previous sections for the future construction of a more comprehensive critical, neo-Gramscian account of the process of European integration.

## **2. Essentials of the Amsterdam School of Transnational Historical Materialism**

The Amsterdam School can be distinguished by its adherence to four key elements, namely historical materialism, a transnational perspective, 'neo-Gramscianism', and 'fractionalism'.

The first element is shared with all those approaches in political economy which situate themselves in the broadly defined Marxist tradition. A much smaller range of approaches, particularly in international political economy, subscribes to the transnational and Gramscian components while others separately also use each of these perspectives. Finally, within 'neo-Gramscian IPE (or preferably Transnational Historical Materialism, cf. Overbeek forthcoming) the so-called 'capital fractions approach' specifically distinguishes the Amsterdam tradition. We will briefly discuss each of these.

### **2.1. Historical materialism**

The historical materialist approach consists of

- a materialist philosophy of history (to be found particularly in such classic texts by Marx and Engels as *The German Ideology* and the Preface to *Contribution to the Critique of Political Economy*) which leads to the ontological primacy of 'social relations of production';
- a rejection of the separation between subject and object which is characteristic of 'positivist' social science and the adoption of a dialectic understanding of reality as a dynamic totality and as a unity of opposites: in the words of Lucien Sève, "when the attempt to grasp the essence of things leads us invariably to contradiction, it is because contradiction is the essence of things" (Sève 1975, 676 [my translation, HO]);

- the method of abstraction as outlined by Marx in the Introduction to the *Grundrisse*.

Any analysis of the world we live in must, from the standpoint of historical materialism, be grounded in an understanding of the way in which human beings have organised the production and reproduction of their material life. For Marx, this is the meaning of 'social': the totality of all activity undertaken by human beings towards the (re-)production of their existence.

The most explicit attempts to construct a theory of the contemporary global political economy based on this departure point are to be found in the works of Robert Cox (1987), Kees van der Pijl (1984, 1998) and Mark Rupert (1995). In his study of class formation at the Atlantic level in the years between 1945 and 1973, building on earlier work on European integration published in Dutch (van der Pijl 1978), Kees van der Pijl organises the analysis around the "successive levels of decreasing abstraction" (van der Pijl 1984, 1), i.e. the *labour process*, the level of *circulation relations* and the level of the *profit distribution process* at which concrete class fractions form. It is in the labour process where the real subordination of labour to capital takes place, the precondition for extended capital accumulation. Van der Pijl assigns special importance to the shift from the production of absolute surplus value to the production of relative surplus value, i.e. the introduction of new management techniques and production technology to improve the productivity of labour, which took place in the United States in the early decades of the twentieth century. In van der Pijl's later work (most elaborately in his 1998 book) the dynamics of contemporary social relations are traced to the contradictions engendered by two processes, *commodification* and *socialisation* (or *Vergesellschaftung*). Commodification entails the incorporation of more and more dimensions of the lives of ever more people into "tendentiously world-embracing market relations" (van der Pijl 1998, 8). Socialisation is the process (driven by the division of labour and the extension of commodification) in which individual 'integral' labour is transformed into functionally differentiated specialised labour and in which individuals are drawn out of closed self-sufficient kin-ordered communities into wider circles of social interdependence and 'imagined' communities.

## 2.2. Transnationalism

Secondly, transnational historical materialism is characterised by the consistent treatment of social relations as being constituted transnationally, i.e. in a spatial domain which is not defined in terms of 'national boundaries'. This perspective is not universally shared among all strands of historical materialism, but has nevertheless become widespread since the late 1970s.

The foundations for this transnational perspective are to be found in scattered fragments in the work of Marx on the world market. In Marx' view, the history of capitalism

has been, in the Hegelian sense, the history of the dialectical process of the realisation of this global nature, the history of the process of the globalisation of capitalist class relations. Capitalist expansion from Europe partly took place through the subordination (not: displacement or destruction) of non-capitalist economies to the needs of capital accumulation in Europe. Marx recognised that from the very beginning, the introduction of slavery and of the plantation system in the New World played a central role in the development of industrial capitalism in England:

"Liverpool grew fat on the basis of the slave trade. This was its method of primitive accumulation." (Marx 1867, 924).

Not only was the rise of industry in England predicated upon the slave trade; more fundamentally, the break-through of capitalism as such had been conditioned by the widening of international exchanges from the end of the fifteenth century onward (Marx 1894, 450-451).

The understanding of capitalism as a global system, significantly weakened under the impact of Stalinism, was greatly enhanced by the rise of world-systems theory (cf. Wallerstein 1974, 1979, 1980, 1989). The greatest promise of the world-system approach has been this recognition that capitalism and capitalist class relations were from their very inception located in a global context (i.e. the world-economy) and not in national economies.<sup>1</sup> The dynamics of that global system are for Wallerstein to be located in the process of the international division of labour and the resulting patterns of trade and productive specialisation. One of the earliest, but still most forceful, statements of the basic hypothesis of the world-system approach is that by André Gunder Frank:

"In fact, though there are state generated organizational discontinuities within the world capitalist system, there are in a very real and important sense no 'national economies' at all" (Frank 1963, 93).

Capitalist development is thus conceptually, and has been historically, a global process of class formation since the rise and expansion of European capital in the sixteenth century. The bourgeoisie has tended to define itself as the universal class, and important sections of it have, through the ages, attempted to organise themselves politically as a transnational class (Wallerstein 1974, 352; Cox 1987, 360). However, political power is organised within national states, and since the rise of industrial capital especially, classes 'für sich' are constituted on a national level (cf. Pooley 1991). Thus, the

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<sup>1</sup> Important contributions to the revival of this quintessential Marxian perspective were made in the German debate on state theory in the early 1970s (cf. Klaus Busch 1974, Claudia von Braunmühl 1973, 1974, and Christel Neusüss 1972).

globalisation of capital and the continued relevance of the state are one. In fact, the contradiction between the global and the national is the manifestation at the level of capitalism as a global system of the basic contradiction between the socialisation of productive forces and the private appropriation of surplus. If we restate the problematic in this manner, we put the notion of class in the centre of the analysis. This enables us to cut across the boundaries between state and globe: 'class' transcends the distinction between the national and the international. The international division of labour can be conceived as the social network through which production relations spread and class formation is 'nationalised', i.e. the process through which global class formation is articulated with the processes of nation-building and state formation. Such a more dialectical view of the relation between "external" and "internal" factors is essential for a better understanding of the nature of international relations.

### 2.3. Neo-Gramscianism

The Marxist debate on the political articulation of class interests was long dominated by an instrumentalist understanding of the *Communist Manifesto* on the one hand (e.g. Miliband 1973), and a structuralist one on the other (e.g. Poulantzas 1968). Both of these views in their own way were rather deterministic, allowing little autonomy to the political and ideological spheres. The adoption of Gramsci was of crucial importance in overcoming this dichotomy.<sup>2</sup> Gramsci was concerned to rethink political strategy in light of the very different experiences of the Russian and the West European revolutions of 1917-1919. It is really in the context of this project that all the concepts that have come to serve as keys to recognise "neo-Gramscian work" were developed (civil society, hegemony, historic bloc, organic intellectuals, passive revolution, *trasformismo*, war of manoeuvre and war of position).<sup>3</sup> In the West, the political power of the ruling class does not rest (exclusively or primarily) on the control of the coercive apparatus of the state, but is diffused and situated in the myriad of institutions and relationships in civil society. This form of class rule, hegemony, is based on consent, backed up only in the last instance by the coercive apparatus of the state. Ideological and moral elements play a crucial role in cementing the historic bloc (in Cox's words, it is 'a configuration of social forces upon which state power rests' [Cox 1987, 105,; also 6, 409 n. 10]) and its

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<sup>2</sup> Gramsci's work was 'rediscovered' in France, particularly after 1968. In the English-speaking world the *New Left Review* published a series of articles by Tom Nairn and Perry Anderson in 1964-1965 making use of Gramsci's work to reinterpret British history, but it was not until the appearance of the translation of the Prison Notebooks (cf. Gramsci 1971) that the wider dissemination of Gramsci's thought picked up pace (see also Anderson 1977). Of course it is not possible in this paper to go into the debates that the discovery of Gramsci has engendered, and to which Germain and Kenny (1998) refer extensively in their critical assessment of the contribution of the 'new Gramscians' to international relations theory.

<sup>3</sup> The first coherent exposition of these concepts, particularly in terms of their relevance to understand international politics, can be found in Cox (1983). More extended discussions are Cox (1987), Augelli and Murphy (1988), Gill (1990, 1993) and Rupert (1995); see Tooze (1990) for a review of Augelli/Murphy and Gill.

hegemony in wider society (Gramsci 1971, 161, 168). Organic intellectuals of the dominant social groups formulate and disseminate these intellectual and moral ideas, transforming them into 'universal' ones which bind subordinate groups into the existing social order (e.g. Gramsci 1971, 181-2).<sup>4</sup>

More than anything else, the notion of 'organic intellectuals' and their role in cementing and spreading the ideas of the historic bloc brings into view the importance of *agency*. It is precisely in the consideration of the strategic dimension of agency that the 'Amsterdam' approach differentiates itself from other neo-Gramscian approaches.

## 2.4. Fractionalism

What determines the content of the hegemonic ideology, or at least the overall strategic orientation of the historic bloc of any particular period? The most systematic attempt to develop an understanding of the relationship between the substance of hegemonic ideas and the underlying dynamics of capital accumulation from a non-deterministic standpoint is the 'capital fractions approach'. The starting point for this analysis is taken from Volume 2 of *Capital* in which Marx considers the different functional forms capital assumes in the circuits composing the overall reproductive circuit of capital: commodity capital, money capital, and productive capital. In terms of concrete firms, merchant houses, financial firms, and industry approximate these fractions respectively.<sup>5</sup>

In turn, this process of fractionation of capital shapes class fractions which share common orientations, interest definitions, and collective experiences providing ingredients for a coalition of interests aspiring to represent the 'general interest'. These formulations of the 'general interest' are called comprehensive concepts of control (van der Pijl 1984, 1989; Overbeek 1990). Van der Pijl has defined comprehensive concepts of control as follows:

"A concept of control represents a bid for hegemony: a project for the conduct of public affairs and social control that aspires to be a legitimate approximation of the general interest in the eyes of the ruling class and, at the same time, the majority of the population, for at least a specific period. It evolves through a series of compromises in which the fractional, 'special' interests are arbitrated and synthesized." (Van der Pijl 1984, 7).

Concepts of control are constituted around two prototypes, the money capital concept and the productive capital concept. The latter reflects the particularities of the produc-

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<sup>4</sup> The focus on dominant social groups and on the mechanisms of hegemony have often led to criticisms of an elitist bias in neo-Gramscian work (cf. Drainville 1994). The criticism will be addressed below.

<sup>5</sup> Cf. Van der Pijl 1984, 1-20; idem 1998, 49-63; also Overbeek 1990, 23-29, 176-181.

tive process and its social context. Usually those groups assert themselves most effectively whose specific group interests at a given juncture most closely correspond with the prevailing objective state of capital accumulation and class struggle (van der Pijl 1984, 33-4).

Comprehensive concepts of control express the ideological structure of particular historical configurations of capital, and function to organise and direct bourgeois hegemony. The notion of 'concepts of control' thus provides a clue to understanding the nature of the relation between structure and agency: the structure defined by the process of the accumulation of capital, the agency of the concrete social forces which originate from the sphere of production relations and which struggle continuously over the direction of the accumulation process, over the role and nature of the state, and over the world order. To put it another way, concepts of control capture the strategic element in the construction of a historic bloc by linking the construction of politico-ideological projects in a non-reductionist manner to the structural underpinnings of the social order.

This approach can interestingly enough be subjected to two diametrically opposite critiques. On the one hand, 'fractionalism' has been equated by what one might term 'fundamentalist' Marxists with voluntarism and pluralism.<sup>6</sup> The other view is that fractionalism is deterministic and elitist (see footnote 4). Without immediately discarding this critique, it is important to distinguish between two forms of 'elitism'. Elitism can be seen as unduly deterministic if it is assumed that elite (or ruling class, or fractional) thinking and behaviour shape and condition the political process, irrespective of the agency of other (subordinate) social forces. In such a case one accords, at the level of *theory*, primary explanatory power to elite rationality. Alternatively, elitism can also refer to a focus in *empirical* analysis on the agency of elites, in which case there is no *necessary* prioritisation of elite agency in *theoretical* terms.

In the case of the work of the 'Amsterdam school', much of the focus in empirical work on elite agency has come from dissatisfaction with the state-centric discourse in integration theory on the one hand, and of structuralist determinism in Marxist theories (e.g. the work of Althusser) in the 1970s on the other. However, the major works in this tradition (cf. van der Pijl 1984, 1998; Holman 1996; van Apeldoorn 1999) clearly and unambiguously situate elite agency *within* the dialectic of class struggle. What remains is a lack of attention, at the level of empirical analysis, for the agency of subordinate social forces, which explains the relative incapacity of the approach to formulate

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<sup>6</sup> See for instance Peter Burnham: "The neo-Gramscian analysis [...] simply offers a pluralist analysis of global capitalism which overemphasises the role of ideology in economic policy and regime formation, illegitimately invokes the dominant ideology thesis and fails to specify its implicit fractionalist theory of the state." (Burnham 1991, 90-1; see also Clarke 1978 for an early critique of fractionalism). Rather than extrapolating Gramsci, Burnham tells us that we must understand that "the culmination of 'scientific political economy' is to be found in a critical reading of the work of Marx" (Burnham 1994, 222).

meaningful conclusions towards the formation of a counter-hegemonic bloc (again, cf. Drainville 1994).

### 3. Neo-Liberal Restructuring and European Integration

European integration in the view of the 'Amsterdam School' refers not just to the process of political integration in the form of the European Communities, but more broadly to the process of transnationalisation of economic, social and political processes in the European space.

Patrick Ziltener (1999) distinguishes between two modes of integration. In the first one, which he calls the 'Monnet mode' (see also Wallace and Wallace 1996), he places the process of European integration in the context of what he calls keynesian-corporatist statehood. This mode was dominant in the period from the early 1950s to the mid-seventies. It was succeeded by the 'competition-state mode', placing European integration in the context of the rise of the post-keynesian 'Schumpeterian workfare state' (a phrase first introduced by Bob Jessop).

In fact, although not spelled out in so much explicit detail, the Amsterdam theorists have developed a very similar schema of European integration, where the first phases of the project are understood in the context of the rise of an integrated Atlantic economy with an increasingly integrated market to accommodate the transatlantic expansion of corporate liberalism. US-initiated processes overdetermined these episodes of European integration. The foundation work here is Kees van der Pijl's study of the Schuman Plan, which he calls an 'American Plan for Europe' (Van der Pijl 1978). In these early days van der Pijl's thinking was influenced, amongst others, by the debates about the processes of capital interpenetration and the political implications. The question was poignantly put by Robin Murray who spoke of the "territorial non-coincidence" between the global reach of capital and the territoriality of the nation-state (Murray 1971). Murray argued that the internationalisation of capital in fact eroded many of the functions that a state is supposed to fulfil in a capitalist society, providing a powerful stimulus to international co-operation and integration. For Mandel, thinking along similar lines, this provides the clue to understanding European integration (Mandel 1968; see also Galtung 1973). The European Community is seen here as an emergent federal state serving the needs of an increasingly tightly knit *European* monopoly capital.

Nicos Poulantzas addressed the same issues, but approached them from a different angle (1974). His central thesis was that the American dominance established after 1945 was a new form of imperialist domination in which the dominant capital had established itself directly in the dominated economies themselves, i.e. in Western Europe. Important sections of the European bourgeoisie had become dependent on American capital to such an extent that they had become support bases for American capital *within* the European political and social arena. The European bourgeoisies

were as if they were carved up in layers, which either became appendages of American interests, or were increasingly marginalised because they lacked access to the technological resources monopolised by the American corporations.

Kees van der Pijl took the debate further in his book on *The Making of an Atlantic Ruling Class* (1984). He analysed the rise of American hegemony at three levels: that of the social relations of production, that of the state and the relations between fractions of the bourgeoisie, and that of international relations. For a starting point he posited the thesis that after World War Two there has been a process of economic integration at the level of the Atlantic region. Van der Pijl partly follows Poulantzas, but criticises him for seeing Atlantic integration too much as a one-sided process, acknowledging the fractionation of European capital but viewing American capital as undifferentiated. Referring to research into international interlocking directorships (Fennema 1982), Van der Pijl argues that the process of Atlantic integration must be analysed in terms of *transatlantic* class configurations. In his view, the post-war era can be seen as a succession of periods in which specific class coalitions on both sides of the Atlantic dominated American and European politics and shaped the contours of Atlantic integration. Imperialist rivalry, in this view, can no longer simply be conceptualised as rivalry between states, but must be understood as the rivalry between competitive strategies of *transnationally constituted* coalitions of social forces. The process of international integration in Western Europe, primarily the origins and development of the European Communities, is equally understood as being subject to the dynamics of transnational political struggle between competing concepts of control, with the corporate-liberal concept being hegemonic. The process of further integration in Europe could be temporarily obstructed by a coalition of political forces opposed to the corporate-liberal consensus (as by the French government under De Gaulle), but the process of underlying structural change in the transatlantic economy continued.

The beginnings of the second era of European integration (the transition to the 'competition state mode' in Ziltener's words) can be traced back to the mid-1970s, a period of organic crisis in the post-war order. This is not the place to develop a detailed account of the factors contributing to this crisis, and the structural changes it set in motion (for this, see Van der Pijl 1989, Overbeek 1990, and Overbeek 1993). We must however shortly mention the crisis-ridden developments in the international sphere to contextualise the world-wide rise of neo-liberalism and the transformation of the European integration process. Of course one essential dimension of the crisis is the derailment of the virtuous circle of Fordism and the decline of Keynesianism. But without the inclusion of the global dimension, important aspects of this transformation will escape us. In the mid-seventies it is the decline of American hegemony - highlighted by the monetary crisis of the years 1967-1973 which culminated in the permanent adoption of floating exchange rates, the Middle East war and the oil crisis, and the American defeat in Vietnam - which sets in motion a rethinking in ruling European circles of the transatlantic relationship. The first tangible manifestation of this is the foundation of the

European Monetary System by Giscard d'Estaing and Schmidt, creating a momentum that by 1984 had built up to an 'extended relaunch of European integration' (cf. Holman 1992). By the early 1980s leading European multinational corporations, organised in the European Roundtable of Industrialists, are able to leave a clear mark on these developments. Initially, the strategic orientation of the ERT was neo-mercantilist in the sense that their main objective was to acquire the support from stronger European institutions in their struggle with American and especially Japanese competitors. By the early 1990s the process of restructuring of European capital was so far advanced that the orientation of the ERT became outright neo-liberal. The European integration project became primarily one of what has become known as 'open regionalism', the combination of liberalisation and deregulation in a regional context, and open to a globalising world economy. The institutional arrangements within the European Union are increasingly geared towards these goals, and the initial tendencies towards something akin to 'Euro-Keynesianism' under the first Delors presidency have all but disappeared.

In van der Pijl's later work on integration, the concept of a Lockean 'heartland' has become central. This 'heartland' is characterised by a particular pattern of relations between the state and an emancipated and largely self-regulating civil society. The first Lockean state/society complex came into being in England: its essence however was transnational. Emigration and colonisation projected 'English' civil society across the seas, and the coherence of this emerging transnational civil society was cemented by the rise of cosmopolitan banking families such as the Rothschilds and transnational elite networks such as the Round Table Society. Through this gradual expansion there emerged a hegemonic 'core' of the state system, or a Lockean 'heartland'. The infrastructure of the heartland has two crucial features: the transnational spread of civil society, and the establishment of a single state, or a group of states with quasi-state structures, serving as the world's banker and providing the power to safeguard capitalist relations of production around the globe. This Lockean heartland is the sphere where comprehensive concepts of control circulate:

"The struggle for hegemony between fractions of the bourgeoisie, through which the general tendency of the transnational ruling class asserts itself nationally, and between different states within and outside the Lockean heartland, replaces the traditional forms of world politics ever more by 'global domestic politics'." (van der Pijl 1989, 19).

The expansion of the heartland has historically taken place in confrontation with a variety of 'Hobbesian' contender states where the state/society complex is based on mobilisation by one single dominant class. The 'Hobbesian' state/society complex is characterised by a fusion of ruling class and governing class into a single 'state class' which is constrained in its capacity to articulate [its] interests in the transnational space dominated by the Anglo-Saxon ruling class (van der Pijl 1998, 78-83). Hob-

besian states are thus forced to a continuous catch-up drive (*revolution from above*) that mostly ends in failure, collapse, or violent defeat by the Lockean heartland. This defeat is followed either by gradual incorporation into the heartland (as with Germany after 1945) or by disintegration (as has so far been the case with the Soviet Union). Van der Pijl calls this incorporation 'hegemonic integration' in the context of an analysis of how the dynamics of capital accumulation, institutional developments and ideological processes combine to produce a truly transnational society.

So here is a new understanding of 'European integration' as a process of the spread of a Lockean pattern of state/society relations in areas which were hitherto characterised by a non-hegemonic or even 'Hobbesian' state/society configuration. This conception is useful not just for an understanding of the original European integration process that incorporated France and Germany into a Lockean mould. Its relevance has been shown by Holman (1996) for an understanding of the Mediterranean enlargement of the European Community in the mid-1980s, and is underscored very vividly by the current process of the 'Eastern' enlargement of the European Union.<sup>7</sup>

The money capital concept embodied in neo-liberalism has been victorious in Europe. In two distinct steps, the process of political and economic integration has been relaunched, first in the form of removing the legacy of obstacles to further integration left by the 1960s against the background of a restructuring race of European capital in the face of intensified global competition, then in the form of a full-scale neo-liberal offensive of liberalisation, deregulation and flexibilisation (cf. Holman/Overbeek/Ryner 1998). If not hegemonic, neo-liberalism since the early 1990s definitely rules supreme in Europe, regardless of the nominal political traditions of the parties in power. The scope for contestation by proponents of a rival concept of control has become very restricted. Nevertheless, as an excursion into the politics of European tax harmonisation will make clear, European politics is still structured by a bifurcation between strategic conceptions underpinned by a money capital perspective and rival conceptions which reflect, at least to some extent, the logic of productive capital, be it in the context of a thoroughly globalising world economy.

#### **4. The Debate on Tax Harmonisation in the EU**

This section looks in a very tentative manner at the politics of taxation in the EU. Early attempts to increase the co-ordination of tax policies in the EC include the agreement on a minimum VAT rate, and later the abolishment of tax free shopping

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<sup>7</sup> Otto Holman is preparing a number of publications on the Eastern enlargement of the EU, among them a major study provisionally entitled *Integrating Central Europe*. Van der Pijl's current work focuses on the resurgence of strategic conflict within the West over the form of relations between the West and Russia. Developments such as the war in Kosovo and other Balkan conflicts, and the struggle for control over the energy resources of the Caucasus must be seen in this light.

as a result of the implementation of the Single Market. Another issue that has been on and off the table for a long time is the introduction of a common 'withholding tax' on interest from savings and bonds (first introduced in 1989). The issue was revived in 1998 and has become a serious bone of contention, which will have to be decided at the December 1999 summit in Helsinki. In the course of 1998, the new German government, and particularly the Minister of Finance Oskar Lafontaine, added the issue of 'unfair tax competition' to the political agenda, arguing that income tax rates and particularly corporate tax rates vary too widely and are used too often by governments to lure foreign investors, thus both eroding employment and undermining the capacity of national governments to raise revenue.

The politics of taxation in Europe cannot be understood in terms of inter-state bargaining alone. The faultlines really run between transnationally constituted coalitions. These coalitions are made up of a range of actors (to a certain extent varying from issue to issue), from political factions to private companies, from ruling governments to sectoral business associations, from international organisations to global business forums. The recent debates in the EU regarding tax harmonisation and the imposition of a common withholding tax on interest are cases in point.

#### **4.1. Tax Harmonisation**

The issue of harmonisation of tax policy in the European Union, especially of (corporate) income tax, was put forcibly on the political agenda by the incoming new German government after the summer of 1998. Harmonisation of taxation in the EU had been restricted to the levy of indirect taxation, primarily the value-added tax, which was harmonised in 1977 (Grahl and Teague 1990, 35-37). This had been followed in 1990 by an agreement on a common system of taxation applicable to mergers, divisions and transfers of shares involving companies of different member states as well as to parent companies and subsidiaries of different countries. In 1992 agreement was reached (in the context of the completion of the Internal Market) on the establishment of a 15 % minimum VAT rate as well as on the harmonisation of various excise rates, including the abolishment per 1 July 1999 of intra-EU duty free sales (FT 9/12/98).

In the area of direct taxation there was growing unease during 1997 over what is called 'unfair tax competition', especially in the rates for corporate profits (The Economist 5/4/97). Globalisation, it is feared by many, undermines the capacity of the state to raise taxes and induces tax competition.<sup>8</sup> Those concerned with the negative effects of tax competition, such as former German Finance Minister Oskar Lafontaine, point to the reduction in the state's capacity to raise revenue and in the conse-

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<sup>8</sup> A good survey of the general arguments involved, and a nuanced rejection of this thesis, can be found in Kudrle (1999).

quent shift in tax burden from mobile to fixed assets, from capital to labour and from high incomes to low incomes. According to data from the European Commission, the share in the total tax take of taxes on capital and self-employed labour has declined from around 43% in 1980 to about 35% in 1996. In the same period, the share of taxes on wages and salaries has increased from 35% to 43% (The Economist 5/12/98). A study of the Institute for Fiscal Studies for Britain corroborates these findings: it concludes that during the 1980s there has been a shift from direct to indirect taxation, resulting in gains for those with high incomes and losses for those at the bottom of the income distribution (Giles and Johnson 1994, 21).

Neo-liberals argue that tax competition is a good thing because it lowers tax rates. When faced with tax evasion and erosion of the tax base, governments should not tighten their tax rules and increase their rates, but instead should lower their rates. This would result in a more competitive tax climate and would eventually raise instead of lower the total tax take (e.g. Bracewell-Milnes 1999; Ellis 1999). A survey carried out by the Dutch government shows that in practice almost all European governments are putting this neo-liberal logic into practice: the deviation of effective corporate tax rates from statutory rates varies from 1.88 percentage points in France and 3.2 % in the Netherlands to 11.5 % in Germany, 15% in Italy, 19 % in Belgium and over 22% in Portugal (FT 28/4/99).

Given that the logic of this form of competition would be the complete elimination of corporate taxation in the long run, governments in the OECD area agreed that something must be done to eradicate the worst abuses and protect the legitimacy of the tax system. Both in the EU and in the OECD this resulted in discussions over a 'voluntary' code of conduct for governments. The OECD published a report on the issue in 1998 (OECD 1998), and held a conference in December 1998 to consider measures to curb 'harmful tax competition' in the form of a voluntary code of conduct (cf. Nettinga 1999, and Weiner and Ault 1998).

In December of 1997, the EU finance ministers had already agreed on the principles of a non-binding and restricted 'code of conduct' for tax policy to be drawn up by Internal Market Commissioner Mario Monti.<sup>9</sup> The 'Monti package' was finally presented in December 1998. It included the proposal for a directive imposing a minimum 20% withholding tax on income from savings and investment, a proposal to eliminate withholding taxes on payments between associated companies of different member states, and a voluntary code of conduct on business taxation aimed at eliminating 'unfair' tax competition (FT 3/12/98). German and French Finance Ministers Lafontaine and Strauss-Kahn added fuel to the fire flaring up by calling for majority voting in the EU Council on taxation matters. This proposal was immediately opposed by

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<sup>9</sup> Given the overlap in membership it is of course no surprise that there is a close correspondence in substance between the two codes of conduct.

Britain, Luxemburg and Sweden (FT 2/12/98), while the new Internal Market Commissioner Frits Bolkestein also declared that he was opposed to tax harmonisation (FT 7/9/99).

The ensuing months saw an increasingly vehement debate on these issues both in the Council and also within several of the member states.

In the case of *Britain* both the New Labour government and the financial world in the City consistently opposed the idea of majority voting on tax matters, as well as the introduction of harmonised taxation. In December of 1998 CBI Director-General Adair Turner, the spokesperson for British multinational non-financial corporations, on the contrary announced that British companies would not be opposed to EU measures directed at 'unfair' tax practices (FT 28/12/98), although a later survey of European business opinion showed that most European employers' organisations, including the CBI, would not support tax harmonisation (FT 1/3/99).

*Sweden* joined Britain in its opposition to tax harmonisation from the beginning (FT 10/12/98). The Swedish Social-Democratic government went much further in late February, announcing a far-reaching tax cuts programme based on the argument that the prevailing Swedish tax regime penalised senior executives and was driving Swedish business abroad (FT 27-28/2/99). The Swedish telecom and electronics giant Ericsson in particular repeatedly threatened that it would move its headquarters to London in case the Swedish government would not be more forthcoming (FT 6-7/3/99). The new budget announced in September accommodated Ericsson and delivered big income tax cuts (FT 21/9/99).

In *Germany* tax politics played a crucial role in the ousting of Finance Minister and SPD party leader Oskar Lafontaine. Early on in the game it did not look like this: the British were disappointed when Chancellor Schröder backed Lafontaine's plan (proposed with Strauss-Kahn) for majority voting (FT 3//12/98). However, when Lafontaine subsequently launched his proposals for domestic tax reform the storm gathered steam. Lafontaine pushed simultaneously for domestic legislation closing loopholes used by companies to 'avoid' taxation (without a 'compensating' reduction in the rates applied to corporate income) and for European harmonisation of corporate taxation to reduce 'unfair competition' from countries levying little or no corporate taxes. Early in March German business applied strong pressure. Allianz (the biggest European insurer), RWE and Veba all threatened to transfer (part of) their operations abroad if Lafontaine's proposals went through and scheduled a meeting with Chancellor Schröder to discuss proposals to lift the tax burden (FT 2/3/99). Schröder's willingness to talk to the CEO's of these companies clearly indicated that Lafontaine was losing ground. Later that week a letter by 22 bosses of German companies to Chancellor Schröder on the same issue was leaked to the press. The revolt of the bosses clearly had other motives behind it than the tax issue: after all, a recent study by the London-based Institute for Fiscal Studies had shown that in the mid-

1990s Germany had the lowest level of corporate income tax revenues as % of GDP in the G-7 countries (FT 6-7/3/99). As John Plender rightly concluded: "The revolt is, in reality, as much about clipping Mr. Lafontaine's wings as tax" (ibid.).

On the 9th of March, Schröder held a meeting with representatives of the energy sector protesting the proposal for an energy reserves tax, who simultaneously announced a pull-out of separate talks on a schedule for closing 19 nuclear power stations. On the 10th, the Finance Ministry conceded that its forecasts concerning the energy reserves tax had been misleading. Oskar Lafontaine stepped down as Finance Minister and party leader on the 11th, and in the following weekend SPD leaders moved to quell the left wing of the party (as the caption of a FT article read, FT 16/3/99).

"In a letter to the government made public yesterday [i.e. on the 15th of March, HO] DaimlerChrysler, one of Germany's biggest companies, underlined the continuing sensitivity of tax issues even after Mr Lafontaine's departure. Manfred Gentz, DaimlerChrysler's finance director, warned the government that high taxes could result in job losses at the German-US group by making Germany less attractive." (Ibid.)

It is clear from these developments that the struggle over taxation policy within the German government was to a certain extent a proxy fight, pitching the sole remaining representative of a more 'traditional', collectivist social democracy against the overwhelming neo-liberal majority in the new government. It took repeated interventions from the outside, by employers and by the (international) media, to decisively tip the balance of forces against Lafontaine.<sup>10</sup> Lafontaine's successor, Hans Eichel, wasted no time in addressing the grievances of Germany's business elite. In the plans for a new system of corporate taxes a prominent place was taken by an annual 'give-away' of eight billion D-mark, and a rate cut to 25% by 2001 (FT 24/6/99).

An important boost to those propagating a harmonisation of corporate taxation in the EU was given by a ruling of the *European Court of Justice* in October 1999. In a procedure against the German state started by the French chemical conglomerate *Saint-Gobain* the ECJ ruled that Germany may not discriminate (in terms of applying different tax regimes) between a Saint-Gobain branch (of the French parent company) and a Saint-Gobain subsidiary incorporated in Germany. The potential impli-

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<sup>10</sup> Of course, the tax issue was not the only issue over which Lafontaine and Schröder collided. They for instance also fell out over the German policy vis-à-vis the Kosovo crisis and over the new NATO strategy to be approved in April at NATO's 50th anniversary. Unconfirmed rumours even imply that American and German government and security circles have collaborated to force Lafontaine to resign. In this paper, however, we will only note that the pressure which German big business brought to bear on the government, and the remarkable ease with which Chancellor Schröder sided with the German employers against his own Finance Minister, might have been enough to force Lafontaine out.

cations of this ruling may be momentous and the occasion underscores the importance of the ECJ in extending the reach of Community law and to reduce the scope for member state autonomy (cf. Wallace and Wallace 1996, 61-63).

## **4.2. Withholding tax**

In 1963 the US Federal government levied an 'interest capitalisation tax' on interest received on bonds. The result of this imposition, as the neo-liberal press does not tire pointing out, was to drive the bond business out of New York. It settled in London, making the City the prime global market place for the international bond business (FT 9/12/99).

Withholding tax (tax on interest income on savings and bonds withheld at source) became an issue in the European context after the 1987 EC Directive on the elimination of capital controls. Germany, which introduced a national withholding tax in January 1989, was the main driving force behind the February 1989 proposal by the European Commission for the introduction of a common 15% withholding tax on interest from savings and bonds. The rationale for the introduction of such a tax is the erosion of the tax base, and with that of overall state revenue, resulting from the liberalisation of international capital movements. The proposal was supported in the Council by Germany and Italy, but opposed by Britain and Luxemburg in particular (and also by the Netherlands, Greece and Denmark), and later in the year the idea was laid to rest.

The German introduction of a national withholding tax meanwhile led to a record outflow of funds (in excess of DM 100 bn), putting such pressure on the D-Mark that the tax was abolished (Dehejia and Genschel 1998, 17, 20; see also Grahl and Teague 1990, 121). In January 1993 Germany "reintroduced a national withholding tax, and, again, suffered from a massive outflow of funds. The main beneficiaries were Luxemburg and the German banks doing business there" (ibid., 18). As a result, the number of foreign banks in Luxemburg jumped from 187 in 1992 to 213 a year later, mostly by the influx of German banks (ibid., 25). Early in 1993, and again in the Spring of 1996, Belgium and Germany relaunched the plan for a common EC withholding tax, but they failed both times to gain the necessary unanimity: Britain and Luxemburg maintained their opposition, supported by the Netherlands. Throughout 1997, the issue of withholding tax remains on the political agenda.

Dehejia and Genschel argue that the best explanation for the positioning of governments on the issue of a common withholding tax is given by the 'small is competitive' hypothesis. Small countries within the EU tend to lure savings by private and institutional investors from big countries by offering low tax rates and privacy protection. This hypothesis explains the behaviour of France, Germany and Italy, who all are in favour of a common withholding tax, and it explains the behaviour of Luxemburg, Denmark and the Netherlands, who oppose it. Belgium, which also supports the

withholding tax, seems to fall out, but its position is primarily explained by its relationship to Luxemburg, in comparison with which Belgium can count as a 'big' country. The inexplicable anomaly for Dehejia and Genschel is Britain, which is 'big' but opposes the common withholding tax nevertheless (Dehejia and Genschel 1998, 22-26).

The account of Dehejia and Genschel raises a number of questions. First, the discourse of the analysis is strictly state-centric. The role of some of the relevant actors in this matter (esp. banks, institutional investors, private investors, and transnational business) is not systematically discussed. Secondly, the discourse is European centred and fails to bring in the global context. The failure to consider these dimensions in particular accounts for the difficulty Dehejia and Genschel have in understanding the British opposition to a common withholding tax, but they also fail to raise questions with regard to the German position, and particularly with regard to the role of German banks who have profited greatly from the abolition of capital controls by relocating operations to Luxemburg. The subsequent developments in 1998 and 1999 make it clear that these dimensions must be brought into an analysis of the politics of European taxation policy. The debate on the withholding tax makes it abundantly clear that the taxation issue has become an important battleground for competing concepts of control. The proposal to introduce a common withholding tax represents what Pollard has called the 'regulated capitalism' perspective (cf. Pollard 1998). It is supported not so much by 'big countries' as by (forces within) governments subscribing to the idea that rentier and speculative capital mobility must be restrained in order to protect the tax base. In Britain, a 'big' country, the government is guided by neo-liberal concepts favouring the position of internationally mobile capital. This orientation has been shaped by historical structures and reproduced by the interaction between political and business actors for more than a century (cf. Overbeek 1990). The German government, no matter how far some of its leading members have moved ideologically to a neo-liberal position, nevertheless continues to represent a position that is structurally shaped by the predominance of productive capital in Germany (cf. Van der Wurff 1993). The fact that the German government pushes so hard for the withholding tax even though it is German banks profiting from the capital flight from Germany to Luxemburg illustrates this.

In December 1998, when the 'Monti package' was announced, Britain slightly modified its opposition by changing from an all-out rejection of the withholding tax to the proposal of an exemption for all Eurobonds (FT 10/12/98). During most of 1999 the discussion on the EU withholding tax has dragged on without any major changes in position taking place. Attempts to formulate compromises have failed consistently. The British and Luxemburg governments consistently represent the viewpoint of the rentier interest. The British Chancellor of the Exchequer (Minister of Finance) Gordon Brown (of the Labour Party, sic) even announced a plan (for domestic political purposes no doubt) to "appoint a personal representative who will bring financial

market opinions into the discussion” (FT 9-10 October 1999). A month later, the sectoral associations organising the City firms involved ( the London Investment Banking Association LIBA and the International Primary market Association IPMA) added fuel to the fire by expressing their support for the UK government: the proposal for a common withholding tax is seen as a “grave risk” (FT 19/11/99).

In the days surrounding the Ecofin meeting of 29 November the neo-liberal position was expounded once more in editorials in the financial press (e.g. The Economist of the 27th and the Financial Times of the 30th). On the other side, the pressure on the British government to give in was stepped up as well, by the governments of France and Germany, by the European Commission and most recently by the Italian finance minister, who linked Britain’s position on the withholding tax to future EMU membership for the UK (FT 18/11/99). The Ecofin meeting of 29 November predictably failed to reach an agreement, leaving the last chance for a resolution to the Helsinki Summit in December 1999.

## **5. Towards a Critical Theory of European Integration**

The discussion in sections 2 and 3 of this paper on the ‘Amsterdam’ approach to the study of European integration, and the analysis in section 4 of the politics of tax harmonisation in the EU prompt me to formulate five tentative conclusions. These conclusions are intended to serve as hypotheses to be examined in further research , and hopefully as building blocks for a more comprehensive ‘critical’, transnational historical materialist theory of European integration.

The first point is to underline the complex and dialectical relationship between neo-liberalism as process and neo-liberalism as project. The capital fractions approach has been accused both of pluralism (i.e. there being no relationship between structure and agency) and of determinism (i.e. of seeing politics as being determined by the ‘economy’. Crucial to a dialectic understanding of the relation between structure and agency, however, is the notion that a hegemonic project or comprehensive concept of control is shaped, and continuously reshaped, in the process of struggle, compromise and re-adjustment. In the words of André Drainville, “... neo-liberalism is *both* a broad strategy of restructuring *and* a succession of negotiated settlements, of concessions to the rigidities and dynamics of structures as well as the political possibilities of the moment.” (Drainville 1994, 116). More explicit attention on the agency of subordinated groups and their ability to make an impact on the shaping of concepts of control is badly needed: “the analysis of concepts of control must beget original concepts of resistance” (ibid. 125).

Secondly, and following from this, we must take into account the *phasing* of the process of global restructuring and the neo-liberal ascendancy. Elsewhere I have devel-

oped this point further (cf. Overbeek 1999). In fact, for our purposes here, it seems useful to distinguish three distinct moments in the trajectory of neo-liberalism, namely

- neo-liberalism as a *de-constructive* project (neo-liberalism emerges as the concept with the most convincing analysis of the crisis of Keynesianism and defeats corporate liberalism and social democracy in one country after another);
- neo-liberalism as a *constructive* project (the phase of the imposition of structural adjustment, liberalisation, deregulation, privatisation; corporate liberalism is discredited, no new alternative can be articulated, and the tenets of neo-liberalism are increasingly accepted as valid and legitimate);
- neo-liberalism in its *consolidation* phase (internationally as well as within the countries of the Lockean heartland, any notion of an alternative to the global rule of capital has become utterly 'unrealistic' and discredited and neo-liberal reforms are 'locked-in' or 'normalised' in the Foucauldian sense).

The third conclusion is that the process of European integration must be situated in the context of transatlantic and transnational class formation, not as an autonomous process (as is so often the case in 'mainstream' theories of European integration). The foundation, development, and periodic extension of European integration are fundamentally moments of the expansion of the Lockean heartland. This process itself, although its rhythm is dictated up to a point by the dynamic of American capital, is contradictory. The transatlantic linkage therefore fundamentally influences European integration, but it is not simply subject to or determined by American control.

This brings me to the fourth point, namely to emphasise the need for a better understanding of what we mean by 'transnational'. Much space has been devoted in numerous writings to discuss the distinction between international and global, or between the international economy and the world economy, but one is hard pressed to find a good definition of *transnational*. Transnational, I would put forward, must not be juxtaposed to 'national' (as if it is synonymous to international or supranational). Rather, I submit, the notion of *simultaneity* is crucial to an understanding of what is specifically transnational. Transnational processes are those that take place simultaneously in subnational, national *and* international arenas: their dynamic is not fundamentally defined by the existence of national boundaries (although these do exist and continue to remain important).

Finally, this conceptualisation of transnationality must also be brought into a fundamental rethinking of the concepts of sovereignty, governance and statehood in the era of globalisation. This is true for an understanding of what is called 'global governance' but equally applies to our understanding of the exact nature of the emerging European polity, which is neither a federal superstate nor a stage for intergovernmental bargaining, but something fundamentally new. It is a system of multilevel

governance, yes; but the theories of MLG in Europe so far have been marred by a strong institutionalist bias, which ignores the embeddedness of the institutional structures of governance in the forcefield of social, economic, political and ideological interests and conflicts. This is precisely where the challenge lies for a critical theory of European integration.

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# Transnational Class Agency and European Governance – the Case of the European Round Table of Industrialists

## Introduction<sup>1</sup>

This article analyses the political and ideological agency of an emergent European transnational capitalist class in the socio-economic governance of the European Union (EU) by examining the case of the European Round Table of Industrialists (ERT). It seeks to show that the ERT – as an elite forum mediating the interests and power of the most transnationalised segments of European capital – has played a significant role in shaping European governance inasmuch as it has successfully articulated and promoted ideas and concepts that have at critical times set the political agenda, and, beyond that, has helped to shape the discourse within which European policy-making is embedded. Here, the increasingly neoliberal orientation of the ERT reflects, and at the same time is a constitutive element in the construction of a new European order in which governance is geared to serve the interests of a globalising transnational capitalist elite, and hence to the exigencies of global ‘competitiveness’. Although in recent years some detailed work has been done on the role of the ERT in the internal market programme, there has yet been little attention to (and interpretation of) the *content* of the ideas promoted by the ERT, and hence to the ideological power that this forum of transnational capitalists exercises.<sup>2</sup>

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<sup>1</sup> For useful comments and suggestions on earlier versions of this paper I am grateful to Colin Crouch, Stephen Gill, Otto Holman, Thomas Risse, and Wolfgang Streeck.

<sup>2</sup> An exception is formed by Otto Holman, ‘Transnational Class Strategy and the New Europe’, *International Journal of Political Economy*, Vol. 22, No. 1 (1992), pp. 3-22. For the best documented study of the role of the ERT in the Europe 1992 programme, see Maria Green Cowles, *The Politics of Big Business in the European Community: Setting the Agenda for a New Europe*, unpublished Ph.D. Dissertation, The American University, 1994. See also Maria Green Cowles, ‘Setting the Agenda for a New Europe: the ERT and EC 1992’, *Journal of Common Market Studies*, Vol. 33, No. 4 (1995), pp. 501-526; Nicola Fielder, *Western European Integration in the 1980s: The Origins of the Single Market* (Peter Lang, 1997), and Wayne Sandholtz and John Zysman, ‘1992: Recasting the European Bargain’, *World Politics*, Vol. 42, (1989), pp. 95-128. The research on the ERT presented in this article has been conducted for the authors’ Ph.D. Dissertation (Bastiaan van Apeldoorn, *Transnational Capitalism and the Struggle over European Order*, unpublished Ph.D. Dissertation, The European University Institute, 1999). The lion’s share of the research material consists of about two dozen interviews with (former) members, senior officials, and so called ‘associates’ of the ERT. Unless indicated otherwise, all interviews cited have been conducted by the author. The interviews were conducted in the native language of the interviewee (either English, German, French, Dutch, or Italian), translations (of quotations) into English are my own.

The article is divided into four main parts. The first briefly elaborates the theoretical framework that informs my analysis. Drawing upon what has come to be labelled the 'neo-Gramscian school' in International Relations (IR), I will advance a historical materialist understanding of the dynamics of European integration, emphasising in particular the role of *transnational* social forces – as engendered by the capitalist production process – in the political and ideological struggles over European order.<sup>3</sup> The second part introduces the case of the European Round Table. I will claim that the ERT is neither a simple business lobby nor a corporatist interest association, but must rather be interpreted as having developed into an elite platform for an emergent European transnational capitalist class from which it can formulate a common strategy and – on the basis of that strategy – seek to shape European socio-economic governance through its privileged access to the European institutions. It is this latter role of the ERT that will be the focus of the final two parts. The third part presents an analysis of the evolution of ERT's strategic project and the initiating role the Round Table played in the relaunching of the integration process from Europe 1992 to Maastricht. Following this, the fourth part will analyse the ideological orientation and strategic outlook of today's Round Table and its current role in shaping what I will call the neoliberal discourse of *competitiveness*, which, I argue, increasingly underpins European governance.

## **Transnationalisation, capitalist class strategy, and European governance**

In its focus on the strategic role of a *transnational* capitalist class in shaping European *socio-economic* governance, the following analysis goes beyond the established approaches to the study of European integration – in particular the still dominant rival perspectives of intergovernmentalism versus supranationalism – in several respects.<sup>4</sup> First, conventional integration theories tend to focus largely on the institutional *form* of the integration process, thus ignoring the question of its socio-economic

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<sup>3</sup> A good introduction to the 'neo-Gramscian school' of IR is provided by Stephen Gill (Ed.), *Gramsci, Historical Materialism and International Relations*. See also Kees van der Pijl, *Transnational Classes and International Relations* (Routledge, 1998) and Robert Cox, *Approaches to World Order* (Cambridge University Press, 1996).

<sup>4</sup> The intergovernmentalist perspective has been most developed by Andrew Moravcsik, see his *The Choice for Europe* (Cornell University Press, 1998). A recent collection of essays by authors working from a supranationalist perspective – which draws at least in part on earlier neo-functionalist theories – can be found in Wayne Sandholtz and Alec Sweet Stone (Eds.), *European Integration and Supranational Governance* (Oxford University Press, 1998).

conomic *content*, or the 'social purpose' underlying European order.<sup>5</sup> Whereas inter-governmentalists and supranationalists quarrel over the relative power of, respectively, national and supranational public authorities in the decision-making process, a focus on the social purpose of European integration, I suggest, calls for an understanding of the *social* power underpinning public power, and thus for an analysis of the underlying *social forces*.

Second, established integration theories tend to suffer from a narrow rationalism that disables them to acknowledge the power of ideas and ideological practices in the construction of European order and in defining its social purpose.<sup>6</sup> There, however, our analysis cannot stop as we have to examine how, by whom, and for what purpose that discourse has been constructed. From a Gramscian perspective it is emphasised that ideas must be located in social practice, and thus cannot be separated from the (social) structures in which actors are located and that shape their agency. Ideas are produced by human agency in the context of social power relations, and are as such bound up with the strategic action of social actors.

Third, whereas in intergovernmentalist accounts the transnational level is ignored altogether, supranationalist approaches do explicitly acknowledge the role of transnational actors but tend to see that role as subservient to the alleged functional logic of the integration process and/or to the supranational leadership of the European Commission, thus denying the autonomy of these actors.<sup>7</sup> Point of departure for the present analysis is that the social forces underpinning European order are not necessarily internal to the EU nor to its member-states but must rather be located within a global political economy in which capitalist production and finance are undergoing a sustained transnationalisation and globalisation, reflected *inter alia* in the increasing dominance of the transnational corporation (TNC) as an actor in the world economy, and the concomitant growing structural power of transnational capital.<sup>8</sup> This

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<sup>5</sup> Borrowing the words of John Ruggie, 'International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order', *International Organization*, Vol. 36, No. 2 (1982), pp. 379-416, esp. p. 382.

<sup>6</sup> The rationalist assumptions are strongest and most explicit in the (liberal) intergovernmentalism of Moravcsik (see his *The Choice for Europe*). Neo-functionalists and later supranationalists have always been drawn from time to time to the role of ideas and *values* in supporting the European integration process, but without asking the question *what kind* of ideas support *what kind* of European order.

<sup>7</sup> See for instance Sandholtz and interpretation of the ERT – with regard to its role in the 1992 process - as a 'political interest group [constituted] by community action' and used as such by the Commission to push through its programme (Sandholtz and Zysman, '1992, Recasting the European Bargain', p. 117).

<sup>8</sup> There are now about 45.000 TNCs in the world (up from 7000 in 1970), together controlling US\$ 3.2 trillion in foreign direct investment (FDI) stock (up from US\$282 million in 1975). Indicating the present centrality of TNCs in the world economy it is estimated that the 600 largest TNCs are producing more than a fifth of the world's real net output of industrial production, whereas about 40% of employment in the industrialised world depend directly or indirectly on TNCs. See *World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy* (United Nations, 1997).

transnationalisation of global capitalism can be argued to engender a transnationalisation of social forces, and in particular of those forces bound up with transnationalising and globalising capital. In what, following the pioneering work of Kees van der Pijl and others, could be conceptualised as a process of *transnational class formation*, we witness the rise of transnational capitalist elites as key actors in global politics.<sup>9</sup>

In its focus on *class* agency, this article also aims to contribute to a research agenda that reclaims the centrality of class agency in the study of political economy. The class-theoretical premise underlying this agenda is that the class domination by which capitalist societies are characterised, cannot be understood from a structuralist perspective that merely focuses on the structural domination of capital over labour, but that the reproduction of this power of capital – and of the capitalist class – has to be explained also in terms of collective human agency within concrete social power struggles taking place on the structural terrain of the accumulation process. As Leslie Sklair puts it: '[capitalist] class hegemony does not simply happen as if by magic. The capitalist class expends much time, energy and resources to make it happen and to ensure that it keeps on happening'.<sup>10</sup>

The transnational capitalist class engendered by the globalisation of capitalist accumulation is not conceived here as a unitary actor. In fact, significant differences in ideological and strategic orientations may exist within the ranks of this class, differences related to structural (but not fixed) divisions within capital.<sup>11</sup> The important point for the purpose of this article – which focuses on the role of transnational class strategy in European governance – is that through the *political* organisation of capitalist class elites these differences can be (temporarily) transcended and a unity of purpose and direction achieved, a unity that may then be elevated to a higher plane, that is constituting an appeal across different groups and classes (and class fractions), thus entering into the struggle for – to use a Gramscian term – hegemony.<sup>12</sup> In this process of capitalist class formation transnational elite groups and their (infor-

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<sup>9</sup> The two most important works of Van der Pijl in this respect are his *Transnational Classes* as well as his earlier *The Making of an Atlantic Ruling Class* (Verso, 1984).

<sup>10</sup> Leslie Sklair, 'Social movements for global capitalism: the transnational capitalist class in action', *Review of International Political Economy*, Vol. 4, No. 3 (1997), pp. 514-38, p. 520.

<sup>11</sup> Most fundamental are the functional difference between financial and industrial capital as well as differences in what we could call the geographical scale of operation of capital, where, even within the elite of large transnational corporations, we find important differences as some firms are more global than others (who may limit their transnational activities only to a single region of the global economy. Cf. Van der Pijl, *Transnational Classes*).

<sup>12</sup> For Gramsci hegemony signified a mode of governance that rests upon a set of institutionalised practices and norms 'freely accepted' by subordinate groups but nevertheless expressing a structure of domination (see Antonio Gramsci, *Selections from the Prison Notebooks of Antonio Gramsci* (Lawrence and Wishart, 1971), pp. 169-170, and *passim*).

mal) organisations are seen as playing a key role.<sup>13</sup> This article interprets the European Round Table of Industrialists (ERT) as one such organisation with respect to the process of transnational class formation in Europe.

The political agency of the ERT must be located, however, within a wider configuration of social forces dominated and cemented by a globalising transnational elite consisting primarily of the top managers and owners of transnational capital, but also of politicians and civil servants occupying key positions in transnationalising state structures. In the emergent *transnational* state-society complex of the EU we may thus, I suggest, start to discern the contours of a transnational power bloc at the apex of which we find a transnational capitalist class elite allying with the more outward-looking elements of 'EU government', the European Commission in particular. As the case of the ERT will show, parallel to the relaunching of the integration process – and marking a sharp contrast with the relatively antagonistic relations of the 1970s – the mid-1980s and 1990s witnessed the development of what has been described as a 'partnership' between big business and the Commission. The other side of the coin of this partnership is the extreme weakness of organised labour within the Euro-polity, where it can make for less of a counter-veiling force than it could at the national level at which capital was to some degree 'locked into' (neo-) corporatist structures.<sup>14</sup>

The strategic alliance between the corporate executives of Europe's leading TNCs and the political executives of the Commission that will transpire from our analysis of the ERT can be seen as indicative of the growing power of transnational capital and is further facilitated both by the position of the Commission within the overall structure of EU governance as well as by the nature of the EU polity in general. With regard to the first point, the fact that although the Commission has the right of initiative (and can thus to an important degree shape the EU agenda) its policy-making is dependent upon the decision-making power of the Council of Ministers, and hence often upon the veto-power of individual member-states, means that it is often crucial for the Commission to enlist the support of powerful social groups.

With regard to the second point, the undemocratic nature of the EU polity in general – including its underdeveloped system of political parties and lack of other institutions, strong organised interest for instance, that can generate not just legitimacy but indeed also the demand for legitimacy and (democratic) accountability – makes it easier for the Commission to rely rather exclusively on 'business advice' without needing to legitimate this. Indeed, one could argue that the democratic deficit of the

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<sup>13</sup> Here I draw upon the work of Van der Pijl (*Transnational Classes*, esp. Chapter 4) as well as that of Stephen Gill, *American Hegemony and the Trilateral Commission* (Cambridge University Press, 1990).

<sup>14</sup> Cf.. Wolfgang Streeck and Philippe Schmitter, 'From National Corporatism to Transnational Pluralism', *Politics and Society*, Vol. 19, No. 2 (1991), pp. 133-164.

EU on the one hand, and the increasing dominance of social forces bound up with transnational capital and its largely neoliberal project on the other, are two sides of the same coin inasmuch as the former can be seen as reflecting a wider phenomenon that Stephen Gill calls the 'new constitutionalism', which 'is the politico-legal dimension of the wider discourse of disciplinary neoliberalism' seeking 'to separate economic policies from broad political accountability in order to make governments more responsive to the discipline of market forces and correspondingly less responsive to popular-democratic forces and processes'.<sup>15</sup> It is within this context that we must place our analysis of the ERT and its role in European governance.

## **The European Round Table: an elite platform for Europe's transnational capitalist class**

*I would consider the Round Table to be more than a lobby group as it helps to shape policies. The Round Table's relationship with Brussels is one of strong co-operation. It is a dialogue which often begins at a very early stage in the development of policies and directives.*

Wisse Dekker, former Chairman of the ERT<sup>16</sup>

*The ERT is not a lobby, but rather a group of European citizens who express their opinions on the best ways to make Europe and European companies competitive on a world-wide basis to politicians, governments, the Commission, and other institutions.*

Jérôme Monod, former Chairman of the ERT<sup>17</sup>

*The ERT is partially a lobby, but not for the interests of individual sectors, but for the competitiveness of Europe. As this is a fundamental concern, which the European public authorities share with us, we are also a privileged partner in the dialogue about these concerns.*

Helmut Maucher, current Chairman of the ERT<sup>18</sup>

When integration was at a low-point in the early 1980s and growing global (mainly Japanese and US) competition threatened the position of large sections of European industry, leading members of Europe's business community began to perceive the need for a European-level political initiative. As Europe's official employers' organi-

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<sup>15</sup> Stephen Gill, 'European Governance and New Constitutionalism: Economic and Monetary Union and Alternatives to Disciplinary Neoliberalism in Europe'. *New Political Economy*. Vol. 3, No. 1, pp. 5-26, p. 5..

<sup>16</sup> Wisse Dekker, quoted in 'Industrialists Drive for a Stronger Europe. Interview with Prof. Dr. Wisse Dekker', *Europe 2000*, Vol. 2, No. 2 (1990), pp. 17-19, p. 18.

<sup>17</sup> Monod in: ERT, *European industry and the Developing World: A Dialogue between Partners* (European Round Table of Industrialists, 1994), p. 1.

<sup>18</sup> Letter from Dr. Helmut O. Maucher to the author, dated 12 June, 1997.

sation, UNICE, was deemed to be ineffective, it was at the initiative of Pehr Gyllenhammar, the cosmopolitan CEO of Volvo, and with the support of Etienne Davignon, the European Commissioner who had been instrumental in creating the new *rapprochement* between big business and the Commission in the preceding years, that 17 industrialists of major European companies came together in 1983 to found the Roundtable of European Industrialists (later ERT).<sup>19</sup> The self-proclaimed aim of the new organisation was 'to revitalise European industry and make it competitive again, and to speed up the process of unification of the European market'<sup>20</sup>, two goals that became part of a single strategy in which 'Europeanisation' was seen as the answer to European industry's lack of global competitiveness.

Today, the ERT consists of 45 CEOs and chairmen of Europe's most transnational and biggest industrial corporations, with almost all EU countries as well as most industrial sectors 'represented' (see table 1 for current membership).<sup>21</sup> The membership of the ERT is personal (rather than corporate) but is at the same time dependent on the member's continued position as the CEO or chairman of his company. As a senior official<sup>22</sup> of the ERT explains: 'we insist that it is the chief decision maker who is the member, for the simple reason that eventually these great men, when they have decided something at the table, have to go home and *put their mouth and their money to the policies*.'<sup>23</sup> Looking, then, at the capital behind the private 'European citizens' (see quotation from Monod above), we find that 36 companies of the current 45 (see table 1) members appear on the *Financial Times* Europe 500 (which ranks Europe's companies by market capitalisation and therefore excludes companies that are not publicly quoted), of which 20 are amongst the top 100.<sup>24</sup> On a global level, *Fortune's* Global 500, which ranks companies by total sales, lists 27 compa-

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<sup>19</sup> On ERT's formation, and the role of Davignon, see also Cowles, *The Politics of Big Business*, chapters 3 and 4. As Cowles and others have also stressed, UNICE's relative weakness, was one background factor against which we have to understand the formation of the ERT. Davignon, who for years had been trying to strengthen the ties between business and the EC executive, also did not find UNICE a suitable interlocutor for the Commission as he regarded it more a traditional lobby club than as a 'partner with which a dialogue could be developed' (Interview with Etienne Davignon by author and Otto Holman, Brussels, 6 June, 1993).

<sup>20</sup> These are the words of co-founder Wisse Dekker, quoted in 'Industrialists drive for a stronger Europe', p. 17.

<sup>21</sup> The ERT meets in a Plenary Session twice a year, but the existence of a Steering Committee (the organisation's leadership); a Brussels-based secretariat; numerous working groups on different policy themes, and the assistance of so called 'associates' (also often senior managers from ERT companies) ensure a more continuous activity of the group.

<sup>22</sup> In terms of organisation the ERT is very small and non-bureaucratic but a key role is played by a Secretary-General and an Assistant Secretary-General.

<sup>23</sup> Interview, Brussels, 24 May, 1996.

<sup>24</sup> *Financial Times's* Europe 500, [http://www.ft.com/fts-surveys/ft5\\_eur.htm](http://www.ft.com/fts-surveys/ft5_eur.htm).

nies of ERT members.<sup>25</sup> We are thus dealing here with a group of Europe's largest non-financial enterprises. As such, the ERT membership makes up a substantial part of Europe's corporate elite, the internal coherence of which is established and maintained through a process of networking, *inter alia* through organisations like the ERT.<sup>26</sup>

**TABLE 1: MEMBERS OF THE ERT AND THEIR COMPANIES, MAY 1999**

NAME	COMPANY	COUNTRY	SECTOR
Americo AMORIM	Amorim Group	Portugal	cork products
Percy BARNEVIK	Investor AB	Sweden	holding company
Jean-Louis BEFFA	Saint-Gobain	France	building materials
Peter BONFIELD	British Telecom	UK	telecoms
Cor BOONSTRA	Philips	Netherlands	electronics
Antony BURGMANS	Unilever	Neth./UK (Neth.)	agro-alimentary
Bertrand COLLOMB	Lafarge	France	building materials
François CORNÉLIS	Petrofina	Belgium	oil
Alfonso CORTINA	Repsol	Spain	oil
Gerhard CROMME (Vice-C.)	ThyssenKrupp	Germany	mech. engineering
Dimitris DASKALOPOULOS	Delta Dairy	Greece	agro-alimentary
Etienne DAVIGNON	Société Générale de Belgique	Belgium	conglomerate
Carlo DE BENEDETTI	Cofide-Cir Group	Italy	holding company
Thierry DESMAREST	Total	France	oil
Jean-René FOURTOU	Rhône-Poulenc	France	chemicals
Paulo FRESCO	Fiat	Italy	motor vehicles
José Antonio GARRIDO	Iberdrola	Spain	utilities
Fritz GERBER	Hoffmann-La Roche	Switzerland	chemicals
Ulrich HARTMANN	Veba	Germany	conglomerate
Daniel JANSSEN	Solvay	Belgium	chemicals
Alain JOLY	Air Liquide	France	chemicals
Jak KAHMI	Profilo Group	Turkey	electronics
David LEES	GKN	UK	engineering
André LEYSEN (Vice-Chair)	Gevaert	Belgium	chemicals
Flemming LINDELØV	Carlsberg	Denmark	agro-alimentary
Helmut MAUCHER (Chair)	Nestlé	Switz. (Ger.)	agro-alimentary
Charles MILLER SMITH	ICI	UK	chemicals
Jérôme MONOD	Suez Lyonnaise des Eaux	France	utilities
Mark MOODY-STUART	Shell	Neth./UK (UK)	oil
Egil MYKLEBUST	Norsk Hydro	Norway	oil
Jorma ØLLILA	Nokia	Finland	electronics
Heinrich VON PIERER	Siemens	Germany	electronics
Lars RAMQVIST	Ericsson	Sweden	electronics
Frank Riboud	Danone	France	agro-alimentary
Nigel RUDD	Pilkington	UK	building materials
Richard SCHENZ	OMV	Austria	oil and gas

<sup>25</sup> *Fortune's* 1998 Global 500, <http://cgi.pathfinder.com/fortune/global500>.

<sup>26</sup> One indicator of this internal coherence and the networking by which it is supported can be found in the high number of ERT members that are 'outside directors' of other ERT companies, see Van Apeldoorn, 1999, Chapter 4.

Manfred SCHNEIDER	Bayer	Germany	chemicals
Jürgen SCHREMPP	Daimler-Benz	Germany	motor vehicles
Louis SCHWEITZER	Renault	France	motor vehicles
George SIMPSON	Gen. Electric Company	UK	electronics
Michael SMURFIT	Jefferson Smurfit	Ireland	forestry & paper
Peter SUTHERLAND	BP Amoco	UK (Irish)	oil
Morris TABAKSBLAT	Reed Elsevier	UK/Neth. (Neth.)	publishing
Marco TRONCHETTI PROVERA	Pirelli	Italy	rubber products
Cees VAN LEDE	Akzo-Nobel	Netherlands	chemicals
Mark WÖSSNER	Bertelsmann	Germany	media

*Sources:* Names of members and companies: ERT website (<http://www.ert.be>). Country and sector: own research. *Note:* If the nationality of the member differs from that of his company, the former is given in parentheses.

Although but one of many European business groups, the ERT occupies a unique place within the EU's evolving landscape of 'transnational pluralism'.<sup>27</sup> The agency of the ERT falls neither under the logic of pluralist lobbying nor under that of corporatist interest intermediation<sup>28</sup>, but should be interpreted as that of an elite organisation of an emergent European transnational capitalist class, articulating and defending the long-term interests of this class.<sup>29</sup> As such, the ERT must also be distinguished from the kind of 'functional' interest groups that early integration theorists expected to be instrumental to the functional logic of the integration process, and in which category we would for instance find UNICE. Whereas UNICE is the official European federation of national employers' associations that as such has a public and formal ('corporatist') role to play *vis-à-vis* the Commission, and as a 'social partner' in the dialogue with the European trade union federation (ETUC), ERT is not an interest association at all. In contrast to corporatist organisations, the ERT has no members either to represent or to discipline. Rather, the ERT *is* its members. As Vice-Chairman of the ERT, Gerhard Cromme, who formerly also had a leading position within UNICE, puts it:

<sup>27</sup> Streeck and Schmitter, 'From National Corporatism to Transnational Pluralism'. The number of 'interest groups' seeking to influence European policy-making has grown dramatically since Europe's *relance* in the mid-1908s, and is now estimated by the Commission to total about 3000, including over 500 European and international federations (Justin Greenwood, *Representing Interests in the European Union* (MacMillan, 1997), p. 3)

<sup>28</sup> In the growing literature on organised interests in the EU part of the debate has come to revolve around the question whether these emerging supranational patterns of interest representation are either (neo-)corporatist or pluralist (see, e.g., Sonia Mazey and Jeremy Richardson (Eds.), *Lobbying in the European Community* (Oxford University Press 1993, and Justin Greenwood et al (Eds), *Organized Interests and the European Community* (Sage, 1992). I maintain that the ERT fits neither 'model' well.

<sup>29</sup> It should be pointed out that in fact this was a gradual development and that what follows is an interpretation of the ERT of today. Moreover, as we shall see later on, the early ERT could not yet function as an elite organisation for Europe's transnational capitalist class because initially its membership was too narrowly concentrated in certain sectors of European industry.

The European Round Table is a forum in which European business leaders meet (..) we are not an association, we are not an interest group (....) and we also do not engage in lobbying in that sense but leave that to the relevant institutions (...) UNICE is an association of interest representation whereas ERT is not .. [but is] a private gathering of people who discuss themes and then try to arrive at a common opinion.<sup>30</sup>

As many ERT members and associates emphasise, these organisational characteristics of the ERT – a private and relatively small club of heads of Europe’s largest corporations – give the ERT a number of advantages over formal associations.<sup>31</sup> First, compared to big cross-sectoral associations representing several ‘constituencies’, the Round Table has less diverging interests to balance and can act with relative speed and flexibility. Moreover, unlike UNICE which as the official voice of business has to respond to the details of all proposed EU regulation, the ERT is free to ‘set the political highlights’ according to its preferences.<sup>32</sup>

Second, the fact that the members themselves *are* the Round Table, *and* that these members control Europe’s biggest companies, gives the ERT a power that in at least its immediacy cannot be matched by any interest group in which that power is mediated through a bureaucracy of representation. It is thus that according to another prominent ERT member, who also had a leadership position within UNICE, the Round Table ‘tends to be taken more seriously’, precisely ‘because it are the big industrial leaders [themselves] who go and talk with the Commissioners, [the ERT] has a more direct access’.<sup>33</sup> The ERT, then, has a privileged political access directly deriving from the power positions of its individual members, as is also underlined by the following quote from Peter Sutherland, now ERT member, but also a prominent former Commissioner (for competition) under the first Delors’s Presidency:

I think that the importance of the ERT is not merely in the fact that it co-ordinates and creates a cohesive approach amongst major industries in Europe but because the persons who are members of it have to be at the highest level of companies and virtually all of them have unimpeded access to government leaders because of the position of their companies ... That is exactly what makes it different [from other organisations]. The fact that it is at head of company level, and only the biggest companies in each country of the Euro-

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<sup>30</sup> Interview, Essen, 4 September 1996.

<sup>31</sup> Interviews.

<sup>32</sup> Interview with senior German ERT associate, Brussels, 30 May 1996.

<sup>33</sup> Interview, Antwerp, 21 May 1996.

pean Union are members of it. So, by definition each member of the ERT has access to the highest level to government.<sup>34</sup>

Third, ERT's elite character allows it to play a more *strategic* and pro-active role, one that transcends lobbying or interest representation in a more restricted sense. The ERT does more than defending relatively clear-cut (narrow) corporate interests but rather seeks to define the *general class* interests of transnational (industrial) capital, that is, to formulate a relatively long-term and forward-looking strategy oriented towards the shaping of European socio-economic governance.<sup>35</sup> As former ERT Vice Chairman, David Simon, explains, precisely because it brings together around '45 bosses who run businesses, they [the ERT members] will tend to take a more strategic view than an association ... because after all that's what they're responsible for, they're responsible for direction and strategy. [The ERT thus] tries to concentrate on strategy and direction for the economy at large'.<sup>36</sup>

## The political agency of the ERT

Although occasionally also engaging in more conventional lobbying activities as well, ERT's agency normally transcends that level inasmuch as it seeks to set political the agenda, and beyond that, to shape the discourse in which European decision-making is embedded.<sup>37</sup> Such an exercise of *ideological* power is what distinguishes the ERT most clearly from more traditional business lobbies.

The ERT communicates its ideas in different ways. It regularly publishes reports on either specific themes or of a more comprehensive nature, and frequently sends letters and communiqués to individual politicians or to collective bodies such as the European Council. But, as Keith Richardson, ERT's former Secretary General, points out: 'the most influential mode of all is perhaps still face-to-face communication' between the CEOs of the ERT and Europe's leading politicians and policy-makers.<sup>38</sup>

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<sup>34</sup> Telephone interview, 27 January 1998.

<sup>35</sup> Or, as in the words of one long-serving ERT associate, who drew the comparison with the US Business Roundtable, (which has four times as many members as the ERT), ERT is 'less interested in specific themes (...) *within the life of the firms* [and more] interested ... in themes of the medium-long term, that is to say, themes that concern the future of Europe', whereas its US counterpart is 'much more *lobbyistic*' (Interview, Ivrea, 2 December 1997).

<sup>36</sup> Interview, London, 12 September 1996.

<sup>37</sup> On the concept of agenda-setting see Cowles, *The Politics of Big Business*.

<sup>38</sup> Keith Richardson, 'Europe's Industrialists Help Shape the Single Market', *Europe*, EC Commission Office, Washington D.C., December 1989. Direct contacts between ERT members and political leaders have according to one ERT official been especially developed under the chairmanship of Jérôme Monod (from 1992 to 1996), who with his own political past and continuing strong links to French politics and politicians, further fostered this mode of communication: it was 'under Monod that the idea of going to see Juppé, Kohl, and so on [became normal practice] that was very much Monod's habit, to pick up the phone [and say] OK, we go

With regard to the intergovernmental level, the ERT first of all operates through its individual members. In this respect it is significant that the ERT consciously recruits its members from all member-states. Furthermore, in conjunction with its biannual plenary session, the ERT also always meets (usually in the form of a dinner) with several prominent members (normally including the prime-minister) of the government then taking over the Council presidency on the eve of the Council summit. At the supranational level, this transnational elite interaction is probably even more significant. A Round Table delegation generally meets the Commission president about twice a year rather formally.<sup>39</sup> In addition, ERT members often have more *ad hoc* meetings with various Commissioners. The direct personal access to the Commission is probably facilitated by the fact that the Round Table has always had one or two former Commissioners amongst its membership, most notably Davignon from 1986 onwards, and more recently Peter Sutherland who joined as chairman of BP (while also serving as the chair of the European arm of Wall Street's quintessential investment bank, Goldman Sachs).<sup>40</sup> At the national level, former ERT Vice Chairmen, David Simon, recently made the reverse step, that is, from business (and membership of ERT ) to government by becoming a minister for Trade and Competitiveness in Europe in the new UK government, making him, in the words of one senior ERT associate, 'a very useful contact'.<sup>41</sup>

In sum, what we see developing around the ERT is a transnational elite network that ties together the elite of European business with key policy-makers and politicians at both the national and supranational levels of the European polity. In the remainder of this article I will examine how the ERT has used this position to shape European socio-economic governance.

## **ERT's evolving strategic project and the relaunching of Europe**

The relaunching of European integration with the internal market programme has been interpreted by intergovernmentalists as the result of a convergence of national policy preferences enabling successful intergovernmental bargaining and by supranationalists as driven by the policy-entrepreneurship of the Commission, operating in alliance with transnational business (but the latter playing a merely supportive role),

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and see somebody, we go and see Balladur to get the Uruguay Round tied up' (Interview, Brussels, 24 May 1996)

<sup>39</sup> This tradition has been first established with Delors and is now continuing with current Commission president Santer (Interview with senior ERT official, 24 May, 1996).

<sup>40</sup> Former Commission President François-Xavier Ortoli was also a member for a short period in the early 1990s.

<sup>41</sup> Interview, Ivrea, 2 December, 1997.

and responding to Europe's perceived economic decline after the end of the 'golden age'.<sup>42</sup> I maintain that if we want to understand the socio-economic *content* of the relaunched integration process we have to understand it as the outcome of political struggle, not so much between states but between social forces (who may be 'represented' by a variety of actors) developing strategies and engaging in a struggle over European order at all levels of Europe's polity.<sup>43</sup> As indicated, the most dominant of these social forces increasingly operate within a transnational setting, in particular, an emergent transnational capitalist class bound up with the transnationalisation of capital.

In the remainder of this article I seek to show that the ERT as (gradually evolving into) an elite organisation defining and propagating the interests of this class has played a significant role in not only giving the integration process a new boost by mobilising big business behind the completion of the internal market, but also in developing and promoting ideas and concepts that have helped to shape Europe's emergent regime of socio-economic governance. Of course, the ERT is only one of many actors active within the transnational arena of European integration (albeit one with exceptional clout) and to understand its role, and to understand the changing content of its strategy, we have to place it within a wider context of the evolving struggle over European order.

Taking the relaunching of Europe from the mid-1980s onwards as the historical context, I claim that one can identify three rival projects within the subsequent transnational struggle over Europe's social purpose.<sup>44</sup> In the *neoliberal project* – which first found ideological expression in the early 1980s in the 'Eurosclerosis' discourse – the relaunching of the integration process was conceived as an opportunity to further open up the European region to the globalising world economy, and moreover to accelerate the deregulation and privatisation of the European economies, thus liberating the 'beneficial' forces of the market from the fetters of government intervention and other 'rigidifying' institutions impeding the necessary adjustments to a changing global environment. The benefits of the internal market project were thus seen as principally deriving from the freer market it would create, emphasising its deregulatory effects and expected efficiency gains.

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<sup>42</sup> See, respectively, Andrew Moravcsik, 'Negotiating the Single European Act: National Interests and Conventional State Craft in the European Community', *International Organization*, Vol. 45, Winter (1991), pp. 19-56, and Sandholtz and Zysman, '1992'.

<sup>43</sup> A somewhat similar approach has been recently advocated by Liesbet Hooghe and Gary Marks, 'The Making of a Polity: The Struggle over European Integration', in: Herbert Kitschelt et al (Eds.), *Continuity and Change in Contemporary Capitalism* (Cambridge University Press, 1999), pp. 70-97. Hooghe and Marks, however, do not propose a theoretical framework to understand *which* actors play *what* role in the struggle over European integration and what might account for the outcome of that struggle.

<sup>44</sup> For a more elaborate analysis of these three projects and of the context in which they developed, see Van Apeldoorn, *Transnational Capitalism*, Chapter 3.

Advocates of the *neo-mercantilist project*, in contrast, blamed Europe's loss of international competitiveness less on labour market rigidity, trade union power, or the welfare state, and more on the fragmentation of the European market, insufficient economies of scale, and the perceived technology gap *vis-à-vis* the US and Japan, all in a context of intensifying global competition. This project thus constituted a more defensive regionalisation strategy in which the internal market was conceived as the creation of a European 'home market' in which (would-be) 'European champions' would be able – thanks to the larger economies of scale – to successfully confront the growing non-European competition. Such a regeneration of European industry was to be further promoted by an active pan-European industrial policy, in particular in the area of new technologies, of which a protectionist European trade policy was often advocated as a (temporarily) necessary complement.<sup>45</sup>

The *social democratic project*, finally, sought to re-embed the new European market in a supranational framework of social regulation and thus protect and consolidate the so called 'European social model'. This project developed within the context of the initial success of the internal market programme as social democrats came to see European federalism as the answer to the dilemmas of the European Left in an era of globalisation, and was advocated most prominently by Jacques Delors, who as President of the Commission sought to move the integration process beyond market-integration and towards state-building, hence promoting his vision of an 'organised capitalism'.<sup>46</sup>

Neoliberalism and neo-mercantilism can be interpreted as contending strategies on the part of rival groups or 'fractions' within the ranks of Europe's emergent transnational capitalist class. Throughout the 1980s and into the 1990s the main dividing line within this transnational elite was between on the one hand a 'globalist' fraction consisting of Europe's most globalised firms (including global financial institutions), and on the other hand a 'Europeanist' fraction made up by large industrial enterprises primarily serving the European market and competing against the often cheaper imports from outside Europe.<sup>47</sup> The perspective of the former has tended towards neoliberalism, whereas the latter came to promote the neo-mercantilist project.

Although they aspired to become more global, in the 1980s many of Europe's large industrial firms were still more *regional* TNCs. The ERT in this period was also dominated by this Europeanist fraction, and its strategic orientation thus tended towards a

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<sup>45</sup> See for an account of this strategy Joan Pearce and John Sutton, *Protection and Industrial Policy in Europe* (Routledge and Kegan Paul, 1986).

<sup>46</sup> See George Ross, *Jacques Delors and European Integration* (Polity Press, 1995).

<sup>47</sup> This division of European capital is an adaptation from one proposed by Holman, 'Transnational Class Strategy and the New Europe'.

defensive regionalism, the heart of which was the promotion of a big (and if necessary protected) European home market.<sup>48</sup>

## From Europe' 92 to Maastricht

ERT's campaign for a completion of the internal market was launched right after its founding in 1983 with a memorandum to Commissioner Davignon in which the Roundtable stated that: 'Europe remains a group of separated national markets [which] prevents many firms from reaching the scale necessary to resist pressure from *non-European* competitors. The European market must serve as a unified "home" base necessary to allow European firms to develop as powerful competitors in world markets'.<sup>49</sup>

Although plans for the completion of the internal market had been circulating within the Commission for years, concrete progress was not made and it was in this respect that the pro-European offensive on the part of the Roundtable had a very significant impact.<sup>50</sup> Indeed, ERT members such as Gyllenhammar and Wisse Dekker of Philips were among the first within Europe's elite to publicly propose a *European* solution – in contrast to the then dominant *national* (champion) industrial strategies – to Europe's economic woes. Whereas up to the mid-1980s Europessimism was still pervasive, the ERT warned in a 1985 report against the danger of the idea of Europe's decline 'being etched permanently into a new European consciousness', and concluded that 'Europe is not locked into decline – the exit doors are wide open. It remains only to go through them'.<sup>51</sup>

The basis of ERT's agenda-setting role with regard to what came to be the Europe 1992 programme had been a plan presented in the autumn of 1984 and in January 1985 by the then CEO of Philips, and founding member and later chairman of the Round Table, Wisse Dekker, which laid out a detailed programme for the creation of a 'European Community Home Market' by 1990. Dekker's 'agenda for action' – which was quickly adopted by the whole Roundtable – has been said by many to have directly inspired the Commission White Paper of June 1985.<sup>52</sup> Indeed, in this respect

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<sup>48</sup> For a more elaborate analysis of this early ERT strategy and how it was bound up with the structural composition of its membership, see Van Apeldoorn, *Transnational Capitalism*, chapter 5.

<sup>49</sup> ERT, *Foundations for the Future of European Industry*, Memorandum to EC Commissioner Davignon, 10 June 1983.

<sup>50</sup> An argument that is also made more elaborately by Cowles, *The Politics of Big Business*, chapter 4 (see also Cowles, 'Setting the Agenda'. Moravcsik, *The Choice for Europe*, chapter 5, denies the initiating role of the ERT in this respect but fails to come up with convincing evidence contradicting that of Cowles.

<sup>51</sup> ERT, *Changing Scales* (Roundtable of European Industrialists, 1985), pp. 3, 15.

<sup>52</sup> See Cowles, *The Politics of Big Business*, chapter 4. See also Alex Krause. *Inside the New Europe* (HarperCollins, 1991).

the ERT has been acknowledged as playing a critical role by several of the actors involved. Former Commissioner Peter Sutherland for instance stated that:

I believe that it [the ERT] did play a significant role in the development of the 1992 programme. In fact one can argue that the whole completion of the internal market project was initiated not by governments but by the Round Table, and by members of it, Dekker in particular, and Philips playing a significant role and some others (...) And I think it played a fairly consistent role subsequently in dialoguing with the Commission on practical steps to implement market liberalisation.<sup>53</sup>

Although the ERT was thus instrumental in relaunching the European project by rallying around the idea of a unified European market, the internal market that was created on the basis of the White Paper in many ways did not turn out to be the kind of home market that many of the early Round Table members (of the Europeanist fraction) had envisaged, that is a relatively protected market in which Euro-champions could prosper in order to confront the global competition. The internal market did favour the creation of further economies of scale, and did make the European market a home market more comparable to that of the US and Japan. In the end, however, the internal market programme was hardly supported by the kind of 'flanking' policies that the neo-mercantilists had advocated. Responding to the demands of, among others, (members of) the ERT, the Commission did launch intra-European co-operation programmes in R&D such as ESPRIT, and also later started to promote the development of trans-European infrastructure networks (so called TENs). Such policies, however, fell far short of any neo-mercantilist industrial *relance*. The fears of a protectionist Europe also turned out to be unfounded. Although those sectors of European industry – in particular cars and electronics – that lobbied the hardest for protectionist measures<sup>54</sup>, had their demands partially met, these limited protectionist policies have since gradually been ended, accelerating the integration of the EU into the global economy.<sup>55</sup>

In the transnational struggle over Europe's relaunching, neoliberal social forces were thus gaining the upper-hand over those that had favoured a neo-mercantilist inter-

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<sup>53</sup> Telephone interview with Peter Sutherland, 27 January 1998. In order to help to keep momentum behind the implementation of Europe '92 the ERT set up a 'watchdog' committee, the Internal Market Support Committee (IMSC), whose members (all prominent Roundtable members) had many private consultations with both the Commission and with national government leaders, top-level meetings that were supported by 'thousands of contacts on an ad hoc basis' between ERT associates and Community officials (Interview with Wisse Dekker by author and Otto Holman, Eindhoven, 6 September 1993).

<sup>54</sup> Including CEOs from these sectors within the ERT (Interviews).

<sup>55</sup> See Brian T. Hanson, "What happened to Fortress Europe?: External Trade Policy Liberalisation in the European Union", *International Organization*, 52, 1 (1998), pp. 55-85.

pretation of the internal market. This struggle had also been fought out within the ranks of Europe's transnational business elite as united within the ERT<sup>56</sup> – in which the Europeanist fraction was slowly losing its dominant position and moreover itself gradually abandoned its earlier neo-mercantilist perspective. Not only did many globalist companies join the Round Table, the older ERT companies that were formerly still more oriented towards and dependent upon the European market became more global themselves.<sup>57</sup> This shifting balance of power between the globalist and Europeanist camps must, however, also be seen in the context of the rising dominance of neoliberal ideology within the European political economy and the appeal neoliberalism gained as an alternative strategy after the political failure of the neo-mercantilist project. Concomitant, then, to the changing composition of its membership, the ideological and strategic orientation of the ERT gradually shifted away from a protective Europeanism and towards a neoliberal globalism. The broadening of ERT's membership with many prominent exponents of the globalist fraction (such as the heads of global giants like Unilever, Shell, BP and La Roche) also allowed the Round Table to develop more into an elite forum for the *whole* of an emergent European transnational capitalist class. The ERT of the 1990s has thus become a forum within which this class came to redefine its interests along neoliberal lines and from which it has sought to shape European governance accordingly.

A first testimony of ERT's shift away from its earlier protective regionalist orientation can be found in its September 1991 report *Reshaping Europe* – even if this still also contained many elements that revealed an as yet uneasy compromise between globalists and Europeanists – in which it presented its blue-print for the post-1989 European order in the run-up to the Treaty of Maastricht.<sup>58</sup> In the report the ERT called for both a widening and a deepening (and in this sense still going beyond a neoliberal conception) of the European integration process, with monetary union singled out as the most important next step. Support for the single currency was not equally strong amongst all members, however.<sup>59</sup> The French and Italian members were strongly in favour of it, whereas most Germans and British were still only lukewarm. *Reshaping Europe* – reflecting part of the old neo-mercantilist agenda, albeit

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<sup>56</sup> One prominent representative of ERT's neoliberal wing at that time, the then chairman of Unilever, Floris Maljers, in fact indicated that the 'struggle between liberals and protectionists' became a constant feature of the internal policy debates at the end of the 1980s and beginning of the 1990s (Interview by Otto Holman and author, Rotterdam, September 3, 1993).

<sup>57</sup> For evidence on the "globalisation" of ERT's membership see Van Apeldoorn, *Transnational Capitalism*, chapter 6. The biggest sudden change in the composition of membership was due to a merger in 1988 with another, but largely ineffectual, transnational business forum, the *Groupe des Présidents*, whose membership included more of truly global TNCs, and thus had a more liberal and free-trade orientation (Interviews).

<sup>58</sup> ERT, *Reshaping Europe* (European Round Table of Industrialists, 1991).

<sup>59</sup> Interviews.

in recast form – furthermore advocated an ‘effective industrial policy’, giving ‘top priority’ to Trans-European Infrastructure Networks (TENs).

In contrast to the 1992 project, ERT’s direct involvement in the Maastricht process was limited inasmuch as the initiative now seemed to have been taken over again by Europe’s politicians, no longer needing business interests to prod them along the path of deepening integration. Indeed, one can argue that Maastricht was partly the result of a kind of ‘spill-over’ effect from the success of Europe 1992 and the temporary ‘Europhoria’ to which it had led.<sup>60</sup> Inasmuch then as the ERT has played an initiating role with regard to the internal market programme one can argue that it by that very fact has also helped to set the stage and create the pre-conditions for the second phase in Europe’s ‘relaunch’. Moreover, when we analyse the (socio-economic) *content* of the Maastricht treaty, we encounter several of the ideas that the ERT, or at least part of the ERT membership, had been pushing for years, in particular the idea of monetary union as a necessary complement to the internal market, as well as an enhanced European role in infrastructure and research and technology. Moreover, other parts of the treaty, most notably the social protocol, were not only testimony to the efforts of social-democratic forces to put this on the agenda, but as much, if not more, to the role of transnational capital – represented *inter alia* by the ERT – in watering it down, and seeing to it that this minimal programme would only be minimally implemented.<sup>61</sup>

The ERT also had made quite extensive use of its high-level contacts to promote its agenda. Delors got an advance copy of the *Reshaping Europe* report,<sup>62</sup> and there have been several consultations between the ERT and important Commissioners like Frans Andriessen, Ray MacSharry, Sir Leon Brittan and Delors himself, that is with people ‘to which we [the ERT] could explain our views on the Maastricht process’.<sup>63</sup> On the national level there have been similar consultations between individual members of the ERT and key policy-makers of their respective national governments.<sup>64</sup>

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<sup>60</sup> See for a detailed analysis of these and other factors Wayne Sandholtz, ‘Choosing union: monetary politics and Maastricht’, *International Organization*, Vol. 47, No. 1 (1993), pp. 1-39.

<sup>61</sup> Apart from communicating its neoliberal views through its reports and through other channels, at several critical moments the also ERT intervened directly to halt the construction of ‘Social Europe’. For instance, as chairman of the ERT, Wisse Dekker send a letter to Commission President Delors and all 12 EC ambassadors rejecting the proposed European Company Directive, arguing that industrial relations should remain at the national level (Martin Rhodes, ‘The Social Dimension of the Single European Market: National versus Transnational Regulation’, *European Journal of Political Research*, Vol. 19, No. 2, pp 245-80, p. 260.

<sup>62</sup> Interview with senior ERT Official, Brussels, 27 April 1993.

<sup>63</sup> Interview with Maljers (by Otto Holman and author), Rotterdam, 3 September 1993.

<sup>64</sup> *Ibid.* A senior official of the ERT’s also recalls a lengthy meeting between an ERT delegation and the then prime minister Ruud Lubbers at the time of the Dutch presidency under which Maastricht was concluded (Interview, 24 May 1996).

With regard to monetary union it has to be pointed out that as a strong consensus was lacking, the ERT could not push so strongly for EMU as some members would have liked. However, these members did organise themselves in a separate organisation called the Association for Monetary Union of Europe (AMUE). Amongst the core membership of AMUE we find many ERT companies such as Fiat, Philips, Siemens and Total, whereas prominent (former) ERT members such as former Vice Chairman André Leysen, Giovanni Agnelli (Fiat), and Etienne Davignon are long-serving members of AMUE's governing board.<sup>65</sup> From the start, the industrialists of AMUE had close contacts with the Commission and in particular with Delors in their efforts to promote monetary integration. At a joint press conference of a delegation of AMUE (consisting of the CEOs of Fiat, Philips, Solvay and Total) and Delors, the latter expressed his appreciation for the 'very important' support of AMUE and stated that 'company managers not only follow us, but often precede us'.<sup>66</sup> Already in April 1988 – two months before the Delors Committee was set up, which subsequently prepared the way for EMU – AMUE presented a detailed blueprint for monetary union and in the following years published annual surveys indicating wide business support across Europe.<sup>67</sup> On the eve of the Hannover summit, at which the Delors Committee was created, AMUE sent a communiqué to the government leaders expressing their support for the creation of an independent European Central Bank.<sup>68</sup> Although more research needs to be carried out on the role of AMUE, it is at least evident that a large section of transnational business had effectively organised itself to help to set the agenda with regard to monetary union. Moreover, the close connections between the ERT and AMUE do suggest that it is by and large the same elite of European transnational capital that has constituted at least one powerful interest pushing for both Europe 1992 and EMU.

At a more abstract level, the (socio-economic) content of Maastricht can be interpreted as reflecting the transnational configuration of social and political forces within the European political economy at the end of the 1980s. The Round Table here represented important sections of the ruling elite within that configuration, and as such was one important forum from which that elite could shape the debates that at the ideological level conditioned the political bargaining process. However, it was in the run-up to Maastricht that the social-democratic project led by Delors also temporarily gained momentum and at least partly helped to set the agenda for Maastricht, even if

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<sup>65</sup> <http://amue.lf.net>.

<sup>66</sup> *Agence Europe*, No. 4728, 22 February 1988.

<sup>67</sup> Moravcsik, *The Choice for Europe*, pp. 393, and 434.

<sup>68</sup> *Agence Europe*, No 4811, 25 June 1988.

that agenda at the end largely failed to materialise.<sup>69</sup> Maastricht was neither a triumph for Thatcherite hyper-liberalism, nor for the social-democratic vision, nor, for that matter, for the neo-mercantilist strategy, but in fact contained elements of all three rival projects, even though it was biased in favour of the neoliberal project given the neoliberal orthodoxy underpinning the convergence criteria of EMU. Since Maastricht, however, the evolving European regime of socio-economic governance has witnessed a further shift towards 'disciplinary neoliberalism' as the austerity race to meet the convergence criteria put even more people out of work and put further strains on the welfare state, as the EU further integrated itself into a global free trade regime under the new WTO, and as 'competitiveness' – increasingly narrowly defined as the freedom for transnational capital to maximise (short-term) profit – became the primary 'benchmark' for European public policy. Below I will argue that in the construction of this new European order we can once more observe the political and ideological agency of the ERT.

## **ERT's neoliberal offensive: shaping the discourse of European socio-economic governance**

After Maastricht, ERT's neoliberal shift has been further consolidated as transpires from its reports, which have increasingly come to focus on deregulation, labour market flexibility, downsizing the public sector, etc., while the commitment to global free trade is expressed more unequivocally than ever.<sup>70</sup>

With regard to ERT's strengthened free trade orientation, the crucial battle was probably that over the conclusion of the Uruguay Round of the GATT trade talks (in December 1993), which in retrospect probably signalled the final defeat of the Euro-protectionists, both within the Round Table and the European capitalist class more widely.<sup>71</sup> After having reached internal unity on this point, the Round Table subsequently intensified its lobby campaign for a speedy conclusion of the trade negotiations, and was probably one of the more important actors instrumental in changing the position of the French government.<sup>72</sup> According to the then director of the GATT,

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<sup>69</sup> See for a more elaborate discussion, Van Apeldoorn, *Transnational Capitalism*, chapter 7. See also Ross, *Jacques Delors*.

<sup>70</sup> See for instance ERT, *Beating the Crisis: A Charter for Europe's Industrial Future* (European Roundtable of Industrialists, 1993).

<sup>71</sup> This was at least the perception of former ERT Vice-Chairmen Floris Maljers (Interview by Otto Holman and author, Rotterdam, 3 September 1993) and David Simon (Interview, London, 12 September 1996).

<sup>72</sup> At least according to a senior ERT official who related that the ERT, then chaired by Frenchman Jérôme Monod, met with French prime minister Balladur to discuss with him how the French government could say yes to the conclusion of the Uruguay Round [which is what it wanted but did not know how to given domes-

Peter Sutherland, 'the ERT was active and supportive of the Uruguay Round at the later stage when I was at the WTO'.<sup>73</sup>

The post-Maastricht period also witnessed a deepening of the consensus in favour of monetary union, with the Round Table becoming more active in supporting this project.<sup>74</sup> The crises of the EMS in 1992 and 1993 convinced in particular the Germans that the Deutschmarkzone did not provide sufficient stability. Moreover, the neoliberal wing of the Round Table has also come to be more convinced of the virtues of EMU, principally because of the 'salutary' disciplinary effects the EMU criteria so far have had and continue to have on the socio-economic policies of Europe's national governments.<sup>75</sup>

The emphasis on the positive role of market forces has never been so strong as in current Round Table discourse. The ERT of today stresses that we live in a new world, in which 'nothing can be done today the same way as we did it yesterday; that is what we mean by 'flexibility' and 'freedom'.<sup>76</sup> It is in the area of social and labour market policies that ERT's current discourse is most explicitly neoliberal. Well aware of the negative employment effects of the cost-cutting accumulation strategies that their companies have now adopted, the ERT capitalists in a 1993 report gloomily warn that 'a hard core of persistent unemployment will remain into the next century', but add that this core might yet be reduced if Europe is willing to 'flexibilize and upgrade the supply of labour'.<sup>77</sup> The former is defined primarily in terms of external flexibility, which hence means that the burden of adjustment will have to be carried by labour as the ERT itself is in fact frank to admit: '[a] very large amount of the effort to adjust European labour markets will rely on labour'.<sup>78</sup> In the end, the desired 'adaptation' of labour implies a fundamental restructuring of state-society relations.

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tic opposition) without angering public opinion, and particularly the farm lobby too much (Interview, Brussels, 24 May 1996).

<sup>73</sup> Telephone Interview with Peter Sutherland, 27 January 1998.

<sup>74</sup> Thus, in a letter send by the ERT to all the heads of state and government on the eve of the Madrid European Council of December 1995, the ERT reiterated its full support for monetary union and asked the government leaders to ensure 'monetary stability based on economic convergence and financial discipline'. (Mimeo., Letter dated 17 October 1995 and signed by Jérôme Monod, then Chairman of the ERT. A copy of the letter was also send to Commission president Jacques Santer, and the issue was discussed with him a few weeks later).

<sup>75</sup> As a current prominent ERT member notes: 'Maastricht already has had its biggest effect. It would never have come to such a convergence if it had not been for the Maastricht criteria. Belgian politics [for instance] is unthinkable without Maastricht, then we would not have any break on making big deficits'. Interview, Antwerp, 21 May 1996.

<sup>76</sup> ERT, *Beating the Crisis*, p. 28.

<sup>77</sup> ERT, *European Labour Markets. An Update on Perspectives and Requirements for Job Generation in the Second Half of the 1990s* (European Round Table of Industrialists, 1993), pp 8, and ii.

<sup>78</sup> *Ibid.*, p. 16.

Again the ERT is well aware of this, and, speaking the language of hegemony, it appeals for the creation of a 'new social consensus':

Enabling Europe to return to high employment growth requires more than replacing policy instruments, it calls for a change of our economic and social structures. But governments are only able to change structures when there is a *new social consensus*, i.e. the convergence on principles and, ultimately, agreement on the goals for that change among the social partners, governments, the opinion leaders and ultimately, population. ... We need a consensus on the European level that *only a healthy, efficient and competitive private sector is able to provide sufficient jobs, and that markets should be left to allocate labour efficiently.*<sup>79</sup>

Creating this new consensus means that the existing 'distorted [sic] social balance'<sup>80</sup> has to be changed. A key concept in the discourse in which this nascent hegemonic project of Europe's transnational capitalist class is articulated is that of 'competitiveness'. Competitiveness has been able to come to function as such a key concept because of its potential to represent the 'general interest' as it appeals equally to neoliberals, neo-mercantilists, and social-democrats alike. But what competitiveness actually means, and how it has to be achieved, is an open question decided in concrete struggles. Below I argue that competitiveness is increasingly being defined in neoliberal terms and that the ERT has been one important forum promoting such a definition.

### **The new competitiveness discourse**

Competitiveness has become the keyword not only in ERT's discourse, but in socio-economic discourse at large. The argument put forward here is that the ERT has been one of the more important 'authors' of this competitiveness discourse within the European context. The first testimony (at the EU level) of the power of this discourse was the Delors's White Paper on 'Growth, Competitiveness and Employment', which since then has become one of the main intellectual reference points in the socio-economic policy debate within the EU.<sup>81</sup> Different pieces of evidence suggest that the ERT had a significant input into the development of this key Commission document.<sup>82</sup> At the press conference after the December 1993 Brussels summit at which

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<sup>79</sup> Ibid, p. 9 (original emphasis).

<sup>80</sup> Ibid., p. ii.

<sup>81</sup> European Commission, *Growth, Competitiveness, Employment. The Challenges and Ways Forward into the 21st Century. White Paper* (Office for Official Publications of the European Communities, 1994).

<sup>82</sup> In the view of former ERT Vice-Chairman André Leysen the White Paper can be taken as a good example of ERT's influence (Interview, Antwerp, 21 May 1996).

Delors had presented his White Paper, the then Commission president recalled his consultation with industry and the support he had received for his proposals by the ERT.<sup>83</sup> The week before, Delors had also participated in the press presentation of the ERT report *Beating the Crisis* that was meant as its contribution to the Commission's future economic strategy.<sup>84</sup> As a senior ERT official commented upon the relation between these two reports:

It was very parallel, and we saw their drafts and they saw our drafts. And one of my friends, a very senior official in the Commission, he said to me, there is basically no difference between them ...: very similar, growth, investment, competitiveness, and employment. What we have tried to do is to get these things fixed together in people's minds (...) the message is the same, these things all go together, you won't fight unemployment, if you don't fight for competitiveness, you won't get growth if you don't have investment.<sup>85</sup>

Indeed, careful reading of the two reports does reveal some striking similarities. Most importantly, they share the basic premise that higher growth and employment can only be achieved through promoting the competitiveness of European industry. Moreover, the strategy (with regard to these objectives) outlined by the White Paper also echoes that of *Beating the Crisis*. In the Commission document, the road to higher employment follows a strategy based on the three 'inseparable elements' of, one, a 'macro-economic framework which instead of constraining market forces (..) supports them', two, structural adjustment of policies 'aimed at increasing the competitiveness of European industry and at removing the rigidities which are curbing its dynamism', and, three, 'active policies and structural changes in the labour market and in the regulations'.<sup>86</sup> Just as the concept of industrial policy is recast in a more liberal frame, so the Delorist vision of a 'social Europe' is further watered down in the paper.

Notwithstanding this, Delors's Paper was still largely an attempt at a compromise between neoliberals and social democrats.<sup>87</sup> Since then, however, competitiveness is increasingly being defined in neoliberal terms within the Commission's policy discourse. As indicated, the ERT has constituted a key forum within which this neoliberal competitiveness discourse has been articulated. A senior ERT official explains the way in which competitiveness has become the key concept as follows: '[t]he

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<sup>83</sup> *Agence Europe*, No. 6127, special edition, 12 December 1993.

<sup>84</sup> *Agence Europe*, No. 6122, 6 December 1993.

<sup>85</sup> Interview, Brussels, 24 May, 1996.

<sup>86</sup> European Commission, *Growth, Competitiveness, Employment*, p.61.

<sup>87</sup> This point is also made by Ross, *Jacques Delors*, pp. 224-225.

members of the European Round Table perceive it as their role to make some input into policy making at a European level on those issues which are of crucial importance for the economic strength of Europe, what we are now calling the sort of general term of competitiveness. *And competitiveness is now a useful word but it is really like a paper bag into which you put things*.<sup>88</sup> What the ERT has been trying to put in the bag – that is, the meaning it has sought to attach to the concept of competitiveness – is, I contend, increasingly of neoliberal origin.

Although competitiveness as a political catchword has only recently risen to its current heights, competitiveness was already much talked about in the 1980s, not in the last place by the ERT. However, then the meaning of competitiveness was still primarily bound up with a neo-mercantilist ideology in which competitiveness meant being able to compete in the global market place by first shielding oneself from the forces of global competition, in order to then enter the fray on the basis of increased strength achieved partly through *non-market* means. Now competitiveness is about survival of the fittest in a fully open environment of a global free market in which competitive performance is what the market measures it to be.

ERT's promotion of the concept of competitiveness has certainly contributed to the rise of that concept within European governance. A first testimony to this was the setting-up by the EU of a 'Competitiveness Advisory Group' (CAG) in the beginning of 1995, just over a year after the ERT had first proposed the creation of such a group.<sup>89</sup> The CAG membership consists of CEOs, as well as leading trade union representatives and other 'eminent persons' (usually former politicians) but is dominated by the former group.<sup>90</sup> At the time of its founding, three ERT members (Barnevik, Maljers, and Simon) joined the 13 member council, and at present Marco Tronchetti Provera (of Pirelli) maintains the links between the two groups. It should not surprise us therefore that the 'advice' this group has so far given (biannual reports to the European Council) closely resembles that of the ERT, with both the Round Table and the CAG spreading the new competitiveness gospel.<sup>91</sup> As a senior official of the ERT remarked: 'One thing that is quite important in this whole scenario, is multiplicity of messages and delivery systems around the whole theme'.<sup>92</sup>

As an operationalisation of its competitiveness ideology, the ERT has, in tandem with the CAG, started to promote the concept of 'benchmarking' *vis-à-vis* the Commission

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<sup>88</sup> Interview, Brussels, 24 May, 1996.

<sup>89</sup> ERT, *Beating the Crisis*, p. 27.

<sup>90</sup> For a list of present and former members as well as other information on the CAG, see <http://europa.eu.int/comm/cdp/cag>.

<sup>91</sup> See its first four reports as collected in Alexis Jacquemin and Lucio R. Pench (Eds.), *Europe competing in the global economy. Reports of the Competitiveness Advisory Group* (Edward Elgar, 1997).

<sup>92</sup> Interview (Brussels, 24 May, 1996).

and the member-states. Benchmarking means 'measuring the performance' of individual firms, sectors, but also of nations against that of the 'best competitors' in the world.<sup>93</sup> After launching the idea, the Round Table has organised several seminars with Commission and government officials to promote the concept.<sup>94</sup>

In its report *Benchmarking for Policy-Makers*, the ERT is very explicit about how policy-makers should 'measure' competitiveness: the country or (macro-) region that is most competitive is the country that is most successful in attracting mobile capital: 'Governments must recognise today that every economic and social system in the world is competing with all the others to attract the footloose businesses'.<sup>95</sup> That the expected outcome of this competition for transnationally mobile capital will be a deepening of neoliberal restructuring transpires from the kind of 'benchmarks' that are for instance proposed with regard to the policy goal of creating employment: the level of 'labour costs (..), the flexibility of labour; working and factory hours (..) termination costs'.<sup>96</sup> The Maastricht criteria are also mentioned as a successful application of the benchmarking concept.<sup>97</sup>

At the same time, the ideological potential of a concept like benchmarking, and indeed its capacity to appeal to a wider set of forces within society and to incorporate them into the emergent hegemonic bloc, is also not lost on the Round Table capitalists as the report stresses that benchmarking is 'not just an analytical device' but also 'carries a symbolic message':

At a time when the European model of society is experiencing some difficulties, and change may be perceived as painful (though not nearly so painful as the results of not changing), *the role of symbols* in mobilising human effort may become more important, and benchmarking can be part of this.<sup>98</sup>

Competitiveness and benchmarking have also become the key concepts within the public (socio-economic) policy discourse of the EU. Analysing the policy documents of the Commission one also sees how these concepts are mobilised to promote a programme of neoliberal restructuring aiming to remove, in the words of the Director-General for Industry, the still remaining 'rigidities and distortions ... that prevent

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<sup>93</sup> ERT, *European Competitiveness*, p. 4.

<sup>94</sup> Interviews (see also *Agence Europe*, 23 November 1996).

<sup>95</sup> ERT, *Benchmarking for Policy-Makers: The Way to Competitiveness, Growth and Job Creation*. (European Round Table of Industrialists, 1996), p. 15.

<sup>96</sup> *Ibid*, p. 13.

<sup>97</sup> *Ibid*, p. 18.

<sup>98</sup> *Ibid*, p. 17.

Europe from fully exploiting its potential'.<sup>99</sup> ERT's promotion of the concept of benchmarking *vis-à-vis* the Commission has been particularly successful. In the same month that the ERT published its report on benchmarking the Industry Directorate-General came out with a document entitled *Benchmarking the Competitiveness of European Industry* in which it suggested that benchmarking should be used as a central policy-guideline at all levels of EU governance.<sup>100</sup> In a follow-up Communication the Commission explicitly acknowledges the input of the ERT as the first business organisation to draw the Commission's and the Council's attention to the benchmarking concept.<sup>101</sup> In this Communication – and at the request of the Council of Ministers<sup>102</sup> – the Commission launched a number of concrete initiatives to put the concept of benchmarking into practice, including the establishment of a 'High Level Group on Benchmarking' – made up by 'experts' from industry – and the initiation of a number of so called pilot projects in different member-states to start identifying Europe's 'weaknesses and inefficiencies' at the enterprise, sectoral, and public policy level (or what is referred to as 'framework conditions').<sup>103</sup>

Invoking the inevitability of globalisation and 'hence' the need for adaptation the Commission defines benchmarking as a tool for improving competitiveness and with that as 'a tool for promoting the convergence towards best practice'.<sup>104</sup> This involves the global 'comparison of societal behaviour [sic], commercial practice, market structure and public institutions'.<sup>105</sup> As the 'High Level Group on Benchmarking' – chaired by a board member of Investor, the investment company controlling the Swedish Wallenberg empire – makes clear in its first report, the object of all these 'comparisons' is to promote rapid 'structural reforms' that will allow Europe to adapt to the exigencies of globalisation: 'this involves further liberalisation, privatisation ..., more flexible labour laws, lower government subsidies, etc.'<sup>106</sup> Similarly, the Commission identifies labour market reform as a 'vital factor for the competitiveness of

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<sup>99</sup> Director-General for Industry, Stefano Micossi, in the 'Preface' of: European Commission, *The Competitiveness of European Industry* (Office for Official Publications of the European Communities, 1997), p. 5.

<sup>100</sup> European Commission, *Benchmarking the Competitiveness of European Industry*, (Com (96) 436 final, 9 October 1996), p 16, and ff.

<sup>101</sup> European Commission, *Benchmarking: Implementation of an Instrument Available to Economic Actors and Public Authorities* (Com (97) 153/2, 16 April 1997), p. 3.

<sup>102</sup> At the Industry Council of 14 November 1996. The Council recently called again upon the Commission 'to ensure the ongoing development of benchmarking' at all levels (see European Commission, *Bulletin EU*, 4-1999, point 1.3.79).

<sup>103</sup> Commission, *Implementation*.

<sup>104</sup> Commission, *Benchmarking*, p. 16, and Commission, *Implementation*.

<sup>105</sup> Commission, *Implementation*, p. 3.

<sup>106</sup> High Level Group on Benchmarking, 'First Report by the High Level Group on Benchmarking', *Benchmarking Papers*, No. 2 (1999), European Commission, Directorate-General III, p. 13.

European industry', calling for 'a radical rethink of all relevant labour market systems – employment protection, working time, social protection, and health and safety – to adopt them to a world of work which will be organised differently'.<sup>107</sup>

## Conclusion

To sum up, then, the social purpose of the new Europe is increasingly oriented to serve the interests of a globalising transnational capitalist class. This article has argued that the European Round Table has developed into a key elite organisation articulating and defining the interests of this class and propagating them *vis-à-vis* the European institutions and within public debate. As such, then, I claimed that the ERT has played a significant role in mediating the material and ideological power of this transnational class and thus in contributing to the neoliberal transformation of European order. Nevertheless, capital too, and in particular industrial capital, cannot live by the logic of what Karl Polanyi called the self-regulating market alone, but needs supporting government policies and social (non-market) institutions in order to accumulate wealth.<sup>108</sup> These conflicting requirements of capital may work themselves out in different ways, depending on the prevalent configuration of social forces.

Given the preponderance of globalising transnational capital within that configuration the conflict for now is settled in favour of 'the principle of economic liberalism'<sup>109</sup> and all its socially uprooting effects. Still, at least within continental Europe, the neoliberal project has yet to fully disembed the European market economy from its post-war social and political institutions. On the one hand, the primacy lies with freedom of capital and of markets, implying that the post-war 'European model' needs to be fundamentally restructured. On the other hand, it is recognised that this restructuring process cannot take place overnight, that it will have to be a gradual process, in which a high degree of social consensus is maintained. These limits to a full-fledged (*laissez-faire*) neoliberalism are even acknowledged by the ERT, which after all is predominantly a club of transnational *industrial* capitalists<sup>110</sup>, who tend to be more aware (than financial capitalists) of the social requirements of the reproduction of capital. Thus, notwithstanding its neoliberal competitiveness discourse the ERT also still calls for a *European Ordnungspolitik* clearly more in tune with the German model of Rhineland capitalism than with the (UK) neoliberal model. Moreover, in spite of the

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<sup>107</sup> European Commission, *Benchmarking*, p. 11., see also European Commission, *Competitiveness of European Industry*, chapter 4.

<sup>108</sup> Karl Polanyi, *The Great Transformation. The Political and Economic Origins of Our Time* (Beacon, 1957).

<sup>109</sup> Polanyi, *The Great Transformation*, p. 132.

<sup>110</sup> Although in the case of some key ERT members the phrase 'finance capitalists' would be more correct given the links these industrialists have (via interlocking directorates) to financial institutions.

opposition that the ERT has waged against EU social policies, it is also keen to preserve the ideology and practice of 'social partnership, thus rejecting a full-fledged neoliberal (Anglo-Saxon) model of industrial relations.<sup>111</sup>

Still, this articulation of the original neoliberal project with some elements of what were originally opposing projects (neo-mercantilism and transnational social-democracy) thus far seems to be more of a hegemonic strategy of incorporation that seeks to further the neoliberal agenda than one that offers genuine prospects for a substantive 'embedding' of the new European market. That is to say, the limited elements of 'embeddedness' that we may discern in, for instance, ERT's discourse seem to be primarily oriented towards the interests of globalising transnational capital. The question remains then to which extent the social purpose of the emergent European order may yet be constructed on a different ideological basis than that contained in the idea that the ultimate 'benchmark' for the 'performance' of a society is its ability to accumulate wealth in private hands. The answer to this question depends at least in part upon the extent to which labour as well as other groups that lose out in the neoliberal globalisation process, will be able to form a stronger countervailing power at both the national and European levels. From a critical perspective, examining these possibilities, however remote they may presently seem, should be a necessary complement to the research agenda that has informed this article on the ideological power of Europe's transnational capitalist class.

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<sup>111</sup> For a more elaborate analysis of these 'limits to neoliberalism' in ERT's current discourse, see Van Apeldoorn, *Transnational Capitalism*, chapter 8.

## Recent Discourse on the “Third Way”: On the Dynamics of Social Democratic Neo-Liberalism

European social democracy is undergoing a fundamental ideological transformation, which somewhat unoriginally has been coined ‘the politics of the Third Way’. This transformation is best interpreted in terms of an attempt to integrate social democracy into an emerging transnational neo-liberal intersubjectivity (Gill, 1998).

Using the Gramscian master-concept ‘historic bloc’ a set of works has recently been written that show how this politico-ideological phenomenon fuses with material developments in various parts of the European Union today (Hay & Watson, 1998; Ryner & Gill, 1998; Waringo, 1999; Ryner, 1999). These works contribute to critical research by treating the intellectual tendency in question as an external phenomenon, subject to social-scientific analysis. From this vantage point, the logic of internal coherence of this bloc is analyzed, as is also the social stratification and exclusions it implies, as well as its socio-political contradictions. The general diagnosis of these works is that, by consenting and even identifying with a policy of market discipline, Social Democratic governments of today do not represent an alternative to neo-liberalism, but tend to actively promote neo-liberal restructuring in Europe. Possibly, the representational and mobilizational channels of Social Democratic parties and trade unions might stabilize neo-liberal restructuring by making ‘competitive austerity’ and further re-commodification of labour markets acceptable in societies that had become disillusioned with the ‘euphoric’ neo-liberal phase of the early 1980s. Serious questions are raised, however, over not only the economic, but also the political contradictions that this implies, including a vacuum of social representation. As social democratic governments affirm that ‘There is No Alternative’ (TINA), serious rifts are provoked within its own internal (party and trade union) structures. In society at large, this tends to breed apathy and cynicism towards democratic politics. Paradoxically, by demobilizing welfare state constituencies and nurturing a kind of ‘anti-politics’, the political failure of social democratic neo-liberalism is likely to further enhance the ‘deregulatory’ thrust of neo-liberal politics. At the same time, democratic forms and content are further hollowed out. Against this backdrop, the critical works in question point to the inherently *political* nature of neo-liberal restructuring and thereby indirectly refute the TINA arguments of social democratic elites. In this sense, like Gramsci and Machiavelli, they fuse their political analysis with advocacy in their conclusions.

This paper approaches the same subject-matter ‘the other way around’, as it were, and as such it constitutes a complementary and alternative method of critique to the

one just outlined. It begins by engaging the ideological discourse of the 'Third Way' from 'within' and subjects it to a critique from the common vantage point of social democratic politico-philosophical commitments and common sense, that also the Third Way - however neo-liberal it may be - must invoke. It then works itself 'out' towards real concrete developments in order to illustrate, validate and enforce its points.<sup>1</sup>

This strategy is based on Gramsci's conception of ideology as an intellectual activity, that at the same time is a material practice. Ideology in this sense is a multi-levelled phenomenon that contains and fuses a wide range of - more or less coherent - discursive forms from 'common sense' to 'philosophy'. These discourses are fused through political practice by organizations in political society (such as state apparatuses, political parties and the mass-media). The function of ideological discourse as a whole is to cement (or better, interpolate) multifarious segments of society, to a broad political direction. Politicians and mass-parties play a strategic role in this intellectual activity as 'organic intellectuals'. Their role is to integrate multifarious social segments and interests, by elaborating and mediating different interpretations of 'common sense', with a coherent and operational political strategy in the state (and other public authority agencies), that also is consistent with material developments (Häusler & Hirsch, 1989). The recent joint statement issued by Blair and Schröder (1999) on the 'Third Way' attempts to set the framework for such a mediation.

But also social scientists and philosophers may under certain conditions play a crucial role in ideological activity. They may provide ideological discourse with a special logical coherence, direction, and authority, by drawing on 'scientific' and philosophically grounded arguments. Hence, the capacity of politicians to fuse social interpolation with operational unity is enhanced. It is obvious that economic corps has played a role for neo-liberalism in this context, by giving public policy a certain direction and authority. However, after the end of the 'euphoric' (Thatcherite) stage of neo-liberalism, it seems as if this economic discourse has not successfully provided adequate for social legitimation (see also Bieling, 1998). In this context it is interesting to note that the cosmopolitan intellectual of the Third Way *per excellence* is a sociologist, whose past lies in the intellectual milieu of the 'New Left', and who seeks to fuse neo-liberal economics with more 'social' and communitarian sentiments. I am referring to Tony Blair's 'allegedly favourite intellectual', the Director of the London School of Economics, Anthony Giddens. His *The Third Way: The Renewal of Social Democracy* (1998) has the stated aim to be an ideological treatise for a 'modernized' social democracy, and it is quite clear that it is the main source for the aforementioned Blair-Schröder document.

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<sup>1</sup> This distinction between 'inside' and 'outside' is of course a bit overdrawn. All types of critical theory fundamentally deny the ontology of a subject-object division.

In this paper, I will critique the discourse of the 'Third Way' exactly on the level where Anthony Giddens seeks to pitch it: as a social-scientific/philosophical justification for a neo-liberalization of social democracy. Hence, his book is the focus for the first part of the paper. This strategy of critique has two merits: First, the self-reflexivity and logical coherence of the intellectual discourse of an academic intellectual allows me to specify exactly in what sense the 'Third Way' is neo-liberal, and how it attempts to articulate social-democratic principles. Second, a critique pitched at this level becomes a direct antithesis to the academic intellectual version of the 'Third Way' discourse. This, it is hoped, will provide a fruitful basis from which one can develop a coherent left alternative. There is a grave need for such an alternative today. The limitation of the alternative critical method described earlier, which focuses on the analysis of historic blocs, is due to the indirectness of its critique. It is often unclear exactly what its implications are for an alternative political strategy.

I will argue that Giddens' proposals for a democratization, de-bureaucratization, and pluralization of public policy contradict his proposed agenda for a more market-oriented 'supply-side' form of economic regulation. The former proposals, reminiscent of arguments that have been pursued by the New Left since the late 1960s, are actually well founded, and ought to be part of a renewed European left politics. However, they are not likely to achieve any meaningful content, given the kind of market- and supply side-oriented economic structure that is the likely result of Giddens' principle of 'no rights without responsibilities'. Giddens demands too much from the citizen. S/he should be an active, responsible and ethical participant in the public sphere, and a nurturing parent, while at the same time s/he is to be a rugged and mobile risk-manager on the labour market and in the management of her/his assets. This underestimates the extent to which the commodity-economic logic needs to be checked in order to create sufficient *leisure* for meaningful democratic participation. The likely outcome is a further exacerbation of the contradictions of capital accumulation, distribution and democratic legitimation. Giddens' ideological construct does not face up to this, because it is fundamentally based on a conflation of three different types of risk. Giddens incorrectly treats ecological, social and economic risk as synonymous.

In order to rescue Giddens' conception of a democratized public policy, therefore, I suggest that we continue to consider ways of using public authority to restrict the commodity-economic logic of the market economy (*de-commodification*). Giddens, of course, would counter that this is exactly the type of 'traditional social democracy' that has been rendered obsolete by the intensifying processes of globalization and technological change. However, here my paper leaves the realm of textual exegesis and enters debates about the nature of real concrete developments in 'post-industrial' and 'post-Fordist' political economy. Here, invoking recent research in comparative political economy on 'models of capitalism', I challenge the stylized characterization of these developments that one finds in the work of Giddens as well as in the

recent work of Esping-Andersen (1996). Drawing especially on developments in Sweden, I will show that Giddens underestimates the continued salience of the 'traditional social democratic' project of a 'humanization of capitalism', and the extent to which traditional social democratic institutions might provide appropriate institutional forms for such humanization in the present phase of capitalist development.

At the same time, Sweden did enter a period of crisis in the 1990s and no doubt 'globalization' had a lot to do with this. However, this crisis, as well as the general thrust of globalization that we presently experience, was in a decisive way socio-politically constructed. In this construction, the type of ideology that Giddens promotes - insofar as it had permeated the commanding heights of economic regulation in Sweden - was very much part of the problem. In other words, as the work of the Gramscians just quoted has shown, by rendering the contingent necessary through a policy of 'new constitutionalism', the politics of the Third Way became a self-fulfilling prophecy as it undermined a 'humanization of capitalism' approach in favour of neo-liberalism. The implication of this is that the crisis of social democracy is not due so much to the dysfunctionality of the welfare state in an era of global competition. Rather, the crisis is fundamentally political and ideological. Social democracy does not at present seem to possess the *virtú* to tap the potential that exists to further develop its project of a democratic welfare state.

I

It should be made clear from the beginning that when it is here suggested that Anthony Giddens contributes to the hegemony of neo-liberalism, it does not imply that his views are identical to Thatcherism/Reaganism. In fact, for Giddens, there is a significant role for welfare state intervention. In addition, his critique of bureaucracy and arguments in favour of a democratization and pluralization of the welfare state are reminiscent of those of the 'New Left' in the early 1970s (eg. Habermas, 1976; Offe, 1985). But then, hegemonic politics is not primarily about articulating a common vision, but rather about '[articulating] different visions of the world in such a way that their potential antagonism is neutralized' (Laclau, 1977: 161). It is exactly this that Giddens does. The effect of his particular variant of a politics of *commodification*, and a *politics of no alternatives* would be to interpolate the outlook of the New Left generation of intellectuals into the neoliberal bloc. There would be contest in such a bloc, but there would be agreement about the necessity and desirability of commodification.

Giddens' intention of integrating social democratic ideology with the inherently neo-liberal conception of commodification becomes especially clear in his discussion of the meaning of 'left' and 'right' in politics, adopted from Norberto Bobbio.

When parties and political ideologies are more or less evenly balanced [...] few question the relevance of the distinction between left and right. But in times, when one or the other becomes so strong that it seems 'the only game in town', both sides have interests in questioning that relevance. The side that is more powerful has an interest, as Margaret Thatcher proclaimed, in declaring 'there is no alternative'. Since its ethos has become unpopular, the weaker side usually tries to take over some of the views of its opponents and propagate those as its own opinions. The classic strategy of the losing side is to produce a 'synthesis of opposing positions with the intention in practice of saving whatever can be saved of one's own position by drawing in the opposing position and thus neutralizing it'(cf Bobbio, 1996: 16). Each side represents itself as going beyond the old left/right distinction or combining elements of it to create a new and vital orientation, [and thereby a new left-right polarity]. (Giddens: 41, cf Bobbio, 1996).

Hence, Giddens proceeds to lay out a 'new left polar-position'. But this is to be understood as a polarity *within* the 'politics of no alternative' as defined by Thatcher: 'a synthesis of opposing positions, which draws in the opposing position and neutralizes it, to save whatever can be saved'. It is exactly in this neutralization, however, that the hegemony of the opposing position is reaffirmed. It has become 'common sense'.

What, then, more specifically is Giddens' understanding of the 'politics of no alternative'? And, especially, in what sense can one say that he accepts the politics of a neo-liberal common sense? The neo-liberal aspects of Giddens' argument pertain specifically to issues of economic rationality. Quite plainly, he states that the 'old style' social democratic claim that capitalism can be humanized by public intervention has been rendered passé by the 'death of Marxism', sealed by the collapse of the East Bloc. Social democratic theory – also in its Keynesian variant – was always inadequate in terms of its conceptualization of 'supply-side' aspects of markets, such as issues of innovation and productivity (Marx and Keynes took productivity for granted). It was also inadequate due to its underestimation of the importance of markets as informational devices. These inadequacies were revealed in the 1980s, 'with intensifying processes of globalization and technological change'(Giddens, pp. 4-5).

Giddens' economic critique of 'old style' Social Democracy centres on a particular conception of risk, and its role in society. The welfare state, as advocated by Social Democrats, has until now been based on the minimization of risk for the individual, based on the idea of social pooling. Individuals have been able to unconditionally claim social entitlements from public programmes in the case of illness, unemployment, old age, and so forth. While Giddens does not argue for the abolition of this type of risk-pooling altogether, he does argue that such protection of risk cannot and

should not be absolute and unconditional. Welfare policy should not only minimize risk, but also:

harness[...] the positive or energetic side of risk and provide [...] resources for risk taking. Active risk taking is recognized as inherent in entrepreneurial activity, but the same applies to the labour force. Deciding to go to work and give up benefits, or taking a job in a particular industry, are risk infused activities – but such risk taking is often beneficial both to the individual and to the wider society (Giddens, p. 116).

Risk taking is, for Giddens, essential, given the logic of technological innovation in the competitive globalized economy. With respect to this point, he is particularly critical of unconditional social citizenship entitlement, that traditionally have been advocated by social democrats, and that have been institutionalized in the Nordic countries. On this point, he invokes the argument of *moral hazard* of the Swedish economist Assar Lindbeck, who has been at the forefront arguing for neo-liberal reforms in Sweden.<sup>2</sup> According to the moral hazard thesis, public insurance protection (against unemployment and illness for example), make people alter their behaviour in a way that makes them sub-optimal market actors, engendering, for example, higher levels of absenteeism and lower levels of job-search (Giddens, pp 114-15, cf Lindbeck, 1995). This is, of course, held to undermine economic competitiveness, and the economic basis for the welfare state. In place of the risk-minimizing welfare state, Giddens wants to promote a 'social investment state' of 'positive welfare', where there are 'no rights without corresponding duties', and where the framework of action of social subjects is thus regulated so as to make them healthy risk-takers. This means, above all, that welfare expenditure should be switched 'as far as possible' towards human capital investment.

Included as measures of 'positive welfare' and 'social investment' is active labour market policy ([re]-training of the labour force and 'life-long education'). But proactive encouragement of entrepreneurial initiatives is also included. The premise here is that 'Europe still places too much reliance upon established economic institutions, including the public sector, to produce employment' (Giddens, 1998: p. 124). Under social investment heading comes also the idea of abolishing statutory pension-ages. Due to the general improvement of health, the elderly should not be forced into retirement, but should be allowed to continue to work. Giddens envisages a more indi-

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<sup>2</sup> Assar Lindbeck, a member of the McCracken Group in the 1970s, with their 'narrow path to growth' thesis, chaired a major public commission in Sweden in 1992, that was appointed by the Conservative-led government of Carl Bildt. In this report, Lindbeck and his colleagues provided comprehensive prescriptions for a neo-liberal transformation of Swedish society, including the curtailment of union power, labour market deregulation, and a move towards a residual welfare state. The Final Report of the Lindbeck Commission has been translated into English (Lindbeck *et.al.*, 1994).

vidualist and flexible type of pension savings. Pensions should be individualized both on the savings and withdrawal side, in order to allow people to organize their work in the life-cycle as it suits their individual needs. This means that a larger proportion of private pensions savings must be allowed in European pension systems, although a certain public component must be maintained to ensure some form of safety net, and a sense of obligation also by the better-off to the public sector. This type of arrangement would mobilize the old as a resource, and would serve to prevent the fiscal crisis associated with an increase of pensioners today (*Ibid.*: pp. 118-20).

More generally on the theme of flexibility of entry and exit to the labour market, Giddens advocates measures that allow people to pursue individual strategies to combine work with reproductive functions and life-long learning (through 'family friendly workplace policies' such as child-care, telecommuting, work-sabbaticals). (pp. 118-26). ), Further, since Giddens agrees that it is doubtful that we can return to full employment in the postwar sense, he also envisages 'active redistribution of work'. But this, for him, should be left to the practices in the private sector, as public legislation is unlikely 'without counterproductive consequences' (*Ibid.* pp. 126-27).<sup>3</sup> In this context it should also be pointed out that Giddens is not adverse to labour market regulations ('labour market rigidities like strict employment legislation do not strongly influence unemployment'). But they can only be accepted if they do not encourage moral hazard (Giddens, p. 122).

As indicated above Giddens insists that 'adequate' state-pensions will remain a necessity (though it is unclear what 'adequate' might mean when risk minimization is replaced with risk management). This is connected to a continued commitment of the view that it is necessary to have programs that are universal, in the sense that basic entitlement should ensure that those on the bottom of the social income-hierarchy do not become so destitute that they are 'excluded from the mainstream of society', while programs also provide those on the top with a certain utility, so they do not 'exit' public schemes altogether, or lose their 'loyalty' to them. Examples of programs that should be configured for this end are education and health (*Ibid.*: pp. 107-08). Anti-poverty programs will also continue to be necessary, but they should be designed so as to facilitate 'community care' (p. 110). It should be emphasized, however, that the most significant measure available for the pre-emption of social exclusion in a 'society where work remains central to self-esteem' are labour market policies. And, given the technological revolution on the labour market with its secular reduction of the demand for unskilled labour, the answer to this problem must be the aforementioned investments in lifelong learning, and retraining, where the individual takes responsibilities in order to assert this right.

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<sup>3</sup> Giddens invokes in this context the Hewlett Packard plant in Grenoble, which is kept open 24 hours, seven days a week, but the average working week has been reduced to 37.5 hours, without loss of weekly income, since productivity increases have underwritten individual worktime reduction.

Contrary to the Thatcherites, Giddens does not want to abolish the welfare state. Rather, he wants to reform it so as to subject it and make it serve market-economic rationality. In his justification of this position, Giddens pursues arguments that are strikingly reminiscent of neo-Marxist arguments from the 1970s, such as those of Jürgen Habermas (1976) and Claus Offe (1985). The problem with Thatcherite *laissez faire* arguments, advocating a total abolition of the welfare state, is that it rests on a nostalgia of 19<sup>th</sup> century free market liberalism. But 19<sup>th</sup> century liberal society necessarily presupposed a substructure of tradition. The patriarchal extended family, and quasi-feudal community was important in this context. It served important reproductive functions, such as child rearing, health care, care of the elderly, and care for the poor. It provided informal networks that made sure that exposure to life-risks did not threaten social order. This particular construction of a communal lifeworld also ensured the reproduction of 'self evident' norms (especially through religion), that provided for motivational inputs for the economy ('work ethic') and for the cementing of consent to public authority ('law and order'). This substructure was in fact undermined by the process of market-driven restructuring itself, and the welfare state has taken over many of these essential functions. There is no going back to this pre-modern society, and in this sense the welfare state serves necessary functions that the market itself cannot provide for, and in this sense the welfare state is 'irreversible' (Giddens, 1998: pp. 70-77).

At the same time - and this was also the argument of neo-Marxists as well as that of Giddens - also the full employment conception of Keynesian social democracy presupposed a 'traditional' form of family, with a male 'breadwinner' and housewife (more to the point, this is to be understood as a transitory form of family). Further, its bureaucratic, uniform and centralized solutions to social service provision, also relied on an undemocratic, authoritarian welfare-state form, that is rendered increasingly anachronistic. Moreover, apart from these issues, that pertain mainly to (inner) socialization of human nature, both neo-conservatives and social democrats have been inadequate in their treatment of outer-socialization: the relationship between human activity and ecology.

Discussing these developments under the heading 'individualism', Giddens argues that the effect of recent socialization processes and transformations has been a 'proliferation of lifestyles' requiring more cultural pluralism (Giddens, p. 34). Another important dimension of this development has been the undermining of the patriarchal family structure, with a stay-at-home housewife. There has also emerged a kind of anti-politics, where people abandon their involvement and loyalty to mass-political organizations, like parties. The latter does not mean that people have become egotistical and apathetic. Present generations show a greater sensitivity towards moral concerns than previous generations, 'but they do not accept traditional modes of authority and legislation of lifestyles' (*Ibid.* p. 36) associated with the parties and in-

terest group organizations that emerged in the early part of the 20<sup>th</sup> century. Rather, they tend to engage in single-issue politics (*Ibid.* pp. 49-53).

These developments pose threats to social solidarity as organized through present institutions and policies – especially the conditions of the homogenous working class community have been undermined. But at the same time they suggest that new forms of solidarity are possible, and a politics of the third way should seek to devise the appropriate institutions and policies to foster this. (*Ibid.* p. 37). For Giddens (as well as the neo-Marxists of the 1970s), the general formula in this context is to democratize political authority structures, including the welfare state, in order to create spaces for human self-fulfilment.

Social cohesion cannot be guaranteed by the top-down action of the state or by appeal to tradition. We have to make our lives in a more active way than was true of previous generations, and we need more actively to accept responsibilities for the consequences of what we do and the lifestyle habits we adopt (*Ibid.* p. 37). These themes of self-fulfilment and economic rationality, as well as a politics of environmental sustainability are tied together by Giddens, through the theme of *democracy (rights) but responsibility*.

Underlying Giddens argument on economic rationality, the welfare state and civic involvement and their relationship is a conception of '*risk society*' that he adopts from Ulrich Beck. This notion of risk is most clearly developed in relation to ecological questions. The basic idea is that the ecological sphere has been so socialized that there is no 'original nature' to which to return anymore. Hence, we have to cope with the question of how we 'construct' ecology and manage ecological risk. At the same time the interventions and their human implications are so complex that we can no longer rely on experts and an unambiguous objective science to establish objective regulatory norms that can be straightforwardly encoded in the regulations of the bureaucratic state. There are always scientific controversies, that in fact only can be mediated through active civic involvement in ecological risk assessment (Giddens, p. 59 cf. Beck, 1994).

Giddens extends this argument to arguments about the spheres of subject formation and representation, and to the socio-economic management of allocation and distribution.

Providing citizens with security has long been a concern of social democrats. The welfare state has been seen as the vehicle of social security. One of the main lessons to be drawn from ecological questions is that just as much attention needs to be given to risk. The new prominence of risk connects individual autonomy on the one hand with the sweeping influence over scientific and technological change on the other. Risk draws attention to the dangers we face – the most important of which we have created for ourselves – but

also to the opportunities that go along with them. Risk is not just a negative phenomenon – something to be avoided or minimized. It is at the same time the energizing principle of a society that has broken away from tradition and nature (*ibid.* pp. 62-63).

But Giddens' extension of Beck's conception of ecological risk is a conflation. This conflation is necessary in order for his ideological treatise to hold together. That is, to account for how imperatives of capital accumulation, legitimation, social representation, and civic participation consistently hold together and can be achieved simultaneously. It is beyond the purpose of this paper to assess Beck's conception of ecological risk in any detail. It seems to have considerable merit. But it is far-fetched indeed, to suggest that this type of risk is of the same ontological quality as the kind of risk that is associated with the management of financial assets, which so severely constrain welfare states through globalized financial markets. Moreover the 'human energies' required for civic involvement, mutual fund management, and reasonable assessment of ecological risk are hardly the same. In fact one can make the case that they stand in fundamental conflict. The conflict between these types of risk management can be inferred from arguments by Polanyi and Marx and most recently they have been elaborated by Offe, drawing on Habermas' conception of 'discourse ethics' (Offe, 1996). These conflicts are simply swept under the carpet by Giddens.

The fundamental point here was already present in the work of Aristotle. According to him *leisure* is required for civic involvement and ethical deliberation in the polity. This is certainly not granted to the rugged possessive individualist, who is (necessarily) taking calculated risks on the stock market in order to maximize profits – not to mention the wage labourer in precarious consumer service employment (see Nussbaum, 1990). This kind of risk-taking is also likely to lead to atomization and anti-communitarian behaviour as actors are disciplined and socialized into *commodified* relations of self regulating markets. One wonders where one might find Giddens' heroic rugged competitive, flexible and mobile individual, who also a nurturing parent, is rooted in a community, in which she has time and energy to invest civic involvement, and who can arbitrate in complex scientific debates about the wisdom of authorizing genetically manipulated produce. It would be a repressed super-ego indeed, that in this context would refrain from engaging in power-charged strategic language games driven on by economic necessities defined by the terms of market participation.

To be sure, there is a lot of merit in much of what Giddens has to say about social democratic renewal – about environmental risk, diversification of lifestyles and the undermining of traditional authority which makes democratic deepening not only desirable but also arguably necessary. But remarkably he ignores the empirical evidence and the theoretical arguments that indicate how destructive self-regulating markets can be for the conditions required for such developments, and the extent to which he seems to underestimate the need for countervailing regulation – the old

fashioned project of a humanization of capitalism. I will pursue this argument in the subsequent sections, where I will also enforce and illustrate my points with reference to research on the conditions of the emerging post-Fordist and post-industrial form of capitalism.

## II

Giddens' argument is directed against the 'old style' social democratic project of a humanization of capitalism. This project has allegedly never been concerned with creating the conditions for improvement and rationalization of the economic 'supply-side' and productivity growth. Productivity growth has been taken for granted, and politics has been about social prevention of risk and about distribution. Giddens' 'modern' Third Way alternative is based on the idea that social policy should be subordinated to, and be made to serve, a supply-side oriented economic policy. Seen as a juxtaposition against the allegedly obsolete idea of a 'humanization of capitalism', this means that market forces should be given as large a room of manoeuvre as possible in the labour market and in risk management. Moral hazard is to be eliminated. A greater degree of private initiative and provision is also required in the areas of social insurance and policy, although public provisions are also required to prevent social polarization from becoming too large. This 'pluralization' is seen as part of a project to democratize the welfare state in order to enhance modern risk management and a culturally pluralist society.

Giddens' argument is problematic in a number of respects. To begin with, his characterization of 'old style' social democracy is a caricature, probably based on the comparatively unsuccessful experience of British Labourism. Anyone with more than a superficial acquaintance with the history of continental European and Scandinavian social democratic ideas would not recognize them in Giddens' characterization. Social democratic doctrines have indeed emphasized the idea of a progressive humanization of industrial capitalism as a gradual project of reformist socialism. But the doctrines were also and *simultaneously* concerned about the development of the productive forces. Therefore they were indeed very much concerned about the 'supply-side', as well as 'demand-side' 'planning' measures that would achieve productivity growth and socially reflexive rationalization. We see this, for example, in the theory and practice of the 'expansive wage policy' of Germany's IG Metall (eg. Markovits & Allen, 1984). We also see this in a more developed form in the Swedish 'Rehn-Meidner model' - a theoretical elaboration of thoughts on 'solidaristic wage policy' that had preoccupied the Swedish trade union movement since the 1930s (Johansson, 1989). Rehn and Meidner suggested already in 1947 that selective labour market policy could serve as a supply side instrument - an idea that has been taken out

of context and adopted in a more vulgar form by present day social democratic 'modernizers'.<sup>4</sup>

The Rehn-Meidner model was conceived by economists of the Swedish trade union federation, LO, after the Second World War (Rehn, 1947; Meidner, 1947; LO, 1951). Its aim was to make a humanization of capitalism compatible with economic rationalization, by devising regulatory institutions that modified the capitalist wage relation. In the model, trade unions use their bargaining power in centralized negotiations with employers to maximize the wage-share for workers in the economy as a whole. But there is only one general negotiated macro-wage increase in the entire economy. This means that low productivity firms are punished, and are likely to go out of business. But firms with high productivity growth are rewarded through lower wage rates and higher profits than they would receive in a 'free' labour market, where the labour supply would be scarce and they would be forced to increase wages further. This hastens the structural transformation and diffusion of core-technologies in the economy. Capital and labour are freed from the low productivity firms to the high productivity firms through the 'transformation pressure' that negotiated wages exert (Erixon, 1994). The transformation is further enhanced by public investments in selective labour market policy, which ensures that the labour force is trained according to the new labour demand. Grants are also provided for the relocation to new jobs. This is the 'supply-side' of the model that minimizes structural and 'frictional' unemployment. On the demand side, macroeconomic policies are pursued to prevent cyclical unemployment. The full employment policy ensures that the unions have the power to exert transformation pressure through bargaining.

So much for the 'productivity' side of the 'equation'. Concerning 'humanization', the Rehn-Meidner model is geared towards the guarantee of full employment, equal pay for equal work, and specifically to eliminate poverty traps in dead-end jobs. The conception of 'equal work' is not determined by the market here, but by the subjective conception of a 'just wage' of the wage-earner collective, defined and organized from within encompassing trade unions (Swenson, 1989). This defines the terms of legitimacy for trade unions in wage bargaining. It provides an incentive for unions to set the macro-wage high, so that the room of manoeuvre of market determined wages ('wage drift') is minimized. As long as an appropriate macro-economic stance is kept, this is productive because it facilitates transformation pressure. It should be noted that the model ought to be an instance of 'moral hazard'. Wages are not contingent

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<sup>4</sup> In the Rehn-Meidner model, labour market policy such as labour force training, is only one component of policy that necessarily requires the other elements. It requires a solidaristic wage policy that squeezes out capitalist enterprises that cannot pay the negotiated wage increases. It also requires a macroeconomic full employment commitment on behalf of the government, so that sufficient demand is generated for the creation of new jobs. In other words, the Rehn-Meidner model does not see labour force training as a panacea, wherein *qua* Say's Law, labour supply automatically finds its demand.

on the performance of individuals. The state is unconditionally committed to pursue full employment. Should an individual nevertheless not obtain a job, or should wage-labour be insufficient to meet the publicly defined 'income norm' set by the Ministry of Social Affairs, then universal social insurance and service schemes are available according to the principle social citizenship. This model provided the chief policy-paradigm for Swedish post-war politico-economic development, and was remarkably successful in ensuring a combination of economic growth, equality and social security (Hedborg & Meidner, 1984).

If the model had an achilles-heel, it was on the financial side. How could one ensure that capital (investments) were to a sufficient degree channelled to high productivity ventures given that profits squeezed in order to avoid wage-drift? This problem was redressed in the post-war period through a low interest-rate policy made possible by a whole host of public interventions in financial and monetary intermediation (Notermans, 1993). The Bretton-Woods system is one important but often neglected instance in point (Ryner, 1994; 1999). Other examples were the usage of public pension funds for productive investments, which set the stage for the most radical proposal of wage earner funds, when contradictions of capital accumulation mounted in the 1970s (Hedborg & Meidner, 1984). This was also described as a 'Third Way' - between capitalism and East European central planning - and it would have set the stage for a democratic market socialism (Meidner, 1980). But it was defeated through political (if you will, class) struggle, where the Swedish social democratic party quite clearly lost its nerve and retreated from the proposal.

Underpinning the Rehn-Meidner model was a particular ideological-intellectual knowledge perspective that sought to synthesize insights from Marxian and institutionalist political economy. In Swedish social democracy, these ideas centred around a notion of 'mis-rationalization' in advanced capitalism. The notion was introduced to Swedish socialists via the work of Austro-Marxist Otto Bauer, through trade union debates on strategy in the 1930s (De Geer, 1978). According to Bauer, misrationalization occurs when there is a discrepancy between private-economic rationalization (implemented by individual enterprises in order to increase its profits) and societal rationalization. The reduction of costs of production for the individual capitalist is not necessarily the same as the reduction of costs for society. Bauer argues that in advanced, functionally differentiated and organically complex capitalism, the tendency is towards increased instances of misrationalization. This tendency has its origin in the fact that wage labour is a commodity in capitalist society that the capitalist purchases only as long as s/he needs it. However, the costs for (re)-production of labour power falls on society as a whole (and in the case of *laissez faire*, the cost is distributed to each individual wage labouring household). The discrepancy between private and social rationalization can only be bridged where economic-production and social

reproduction are unified within the same organizational principle or meta-principle (for Bauer, the state).<sup>5</sup>

In this ideological conception, rationalization as a principle is affirmed. However, the naive equation of rationalization with the unleashing of market forces is profoundly problematized. What Swedish social democrats took from Bauer as a guiding principle in their pragmatic search for appropriate welfare state mechanisms, was the idea that economic and social rationalization had to be viewed from an integral and holistic perspective, that a common organizational meta-principle was needed (often referred to as 'planning'), and that the reproduction of labour was at the core of the problem. What was required was an *integral welfare state*, that had at its regulatory core, institutions that could promote economic rationalization at the same time as this rationalization was checked for social concerns. Swedish social democrats postulated certain political goals of social security, that were held to be consistent with socialist principles as they were achievable within the present development of productive forces. From this vantage point, they inquired empirically and experimentally which form of social organization was the most suitable to meet the ends in a given instance. Markets actors that could not deliver were to be eliminated, and where appropriate, replaced by public or cooperative forms.

This was highly controversial and politically explosive because it implied a serious challenge to the absolute discretion of private ownership of the means of production (on this point, see eg. Kalecki, 1943). As a result, Swedish capitalists have continuously fought off the most radical and logically consistent political implications of this thinking, such as the wage earner funds and Gunnar Myrdal's notions of democratic planning in the immediate post-war period. Nevertheless, Swedish social democrats in the post-war period were sufficiently strong to maintain this principle in the form of the Rehn-Meidner model. In other countries, this control of the 'supply side' has been weaker - perhaps particularly in Britain, where Labour in the end only came to subscribe to a vulgar variant of demand-side Keynesianism, without any elements of integral planning. But this 'retreat to the demand side' was a signal compromise from the position of weakness. Seen from this perspective, Giddens' characterization of the demand-side orientation as the essence of social democratic ideas is not only inaccurate but ironic.

I would maintain that this kind of integral welfare state perspective, that centres on a decommodification of the wage-labour relation, is as relevant and important a principle as it ever was. If it is true that social policy becomes more complex and difficult to implement in a culturally heterogenous and 'de-naturalized' society where norms must be discursively established, then it is more universal programmes and entitle-

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<sup>5</sup> The argument could be extended to the cost of incorporating nature in the metabolism of capital accumulation.

ments that are needed, combined with regulatory policies that prevent capitalist misrationalization *ex ante* (see Offe, 1996). It is a fallacy to think that cultural heterogeneity is antithetical to universalism. Only if social entitlements are formulated on a universal level can they be sufficiently abstract to include a multifarious range of identities and interests (Rothstein, 1998). Only through abstract social policy norms can the welfare state 'do its job' without refraining from the impositional encoding of 'correct living' on social groups. Such general norms are also necessary in order to allow the state to transfer the implementation of welfare policy to different groups, so that they can gear the general entitlements towards their particular needs and situation. Moreover, such a universal-abstract conception of social citizenship is needed to prevent social divisions and distributive conflicts between different groups.<sup>6</sup> It is only through this broader conception of social citizenship that one can envisage a 'discourse ethics' emerging, that would allow citizens to cope, for example, with the environmental risks that Giddens raises by invoking Beck (see Offe, 1996). But to be meaningful at all in this context, universal entitlements need to be set at generous levels, and services need to be of a high quality. This means that they are costly and that they require high tax-rates (Rothstein, 1998). It also means that distributive questions are best resolved *ex ante* at the level of the wage-relation, which as we have illustrated through the exposition of the Rehn-Meidner model requires a tight discipline on capital. In other words, social wage relations need to be modified before the capitalist labour market generates its external effects on the lifeworld. This is another way of saying that misrationalization needs to be prevented through and integral welfare state.

In contrast to this 'integral' welfare state perspective, Giddens in fact conceives of a '*residual*' welfare state. In the residual model, the market mechanism is not modified *ex ante* but construed as the basic mechanism of social organization. Welfare state measures are merely used as 'correctives' *ex post* when people cannot for 'valid reasons' manage to make ends meet through market participation. This type of welfare state thinking is not new. It is the type that has tended to characterize western capitalist societies, especially in the Anglo Saxon world (Esping-Andersen, 1985; 1990). If anything Giddens - and neo-liberals more generally - are merely advocating a purer type of residualism. Such a welfare state, however, is full of contradictions. Though justified in a society that on the level of ideas privileges 'individual freedom', this type of welfare state by necessity must be selective and intrusive, as it is forced to economize on scarce welfare state resources. Hence the freedom of its clients is restricted and violated. This is as a result of the constraints that the unregulated capitalist market economy sets on it, in terms of limited rates of taxation, and ine-

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<sup>6</sup> On the integrative qualities of welfare universalism and the Gender-nexus, see Sainsbury (1996). Similar arguments pertaining to the welfare state and immigration are raised in Bommes & Geddes, 1999, especially in the contributions of Banting as well as Ryner.

qualities implied in unregulated labour markets. As neo-Marxist political economy established already in the 1970s, this type of welfare state is not propitious to the freedom required for democratic participation and inclusion in social life. Giddens totally ignores the contradictions between the terms of capital accumulation and his goals for social inclusion and democracy. I have in part already discussed how this is so in relation to his conflation to risk. In the next section I will continue on this theme in relation to the developments of postindustrial and post-Fordist capitalism.

### III

The difficulties of simultaneously achieving the conditions for a socially cohesive society, democratic participation and a dynamic capitalist development is illustrated by a set of works which are in agreement with Giddens on the necessity of an economic 'modernization' of social democracy, but that have no illusions what this implies for social inequality. Here I will specifically refer to the recent work of Esping-Andersen (1996) on 'post-industrial' welfare capitalism in an era of 'global competition' and Jelle Visser's and Anton Hemerijck's (1998) work on the on the „Dutch Model“. I will use these works, and their empirical findings about the nature of 'post-industrial' capitalist restructuring, in order to illustrate the contradictions implied in Giddens' treatise. These works have the merit of being bluntly honest about what it would mean for social democracy to adopt itself to disciplinary neo-liberalism, given the nature of the capitalist post-industrial labour market. However, I will then take issue with these works in their argument (or implication) that social democracy *by necessity* has to accept to neo-liberal norms. I will use my research on politico-economic developments in Sweden in the 1980s and the 1990s to make my point (Ryner, 1994; 1996; 1999).

According to Esping-Andersen, the basic dilemma of advanced welfare states concerns how they should cope with ageing populations, lower fertility rates, and differentiated 'life-cycles' on the one hand, and, on the other hand, the slower rates of growth that is implied in a shift from a manufacturing-centred 'industrial' economy, to a service-centred 'post-industrial' economy, that at the same time is facing the increased constraints of global competition. Especially, demographic trends, with a projected 50 percent increase in the age-dependency ratio between 1996 and 2020, threatens to over-stretch welfare state capacities (in areas such as health and pensions), given present rules, benefits, and rates of economic growth. To meet such commitments resources equivalent to an estimated additional 5-7 percent share of GDP would be required. This indicates the severe fiscal strain that this secular trend exerts on welfare states (Esping-Andersen, 1996: p. 7 cf. European Community, 1993: p. 24; OECD, 1988). Given the imperatives of global competition, increased taxation is, according to Esping-Andersen, hardly a feasible route to raise the required resources. On the other hand, increased rates of productivity growth could

underwrite such needs for additional expenditure. An additional increase of 0.5-1.2 percent of real taxable earnings would be sufficient to finance additional expenditure (Esping-Andersen, 1996: p. 7 cf. OECD, 1988: p. 70). But Esping-Andersen suggests that such additional growth is difficult to achieve in the post-industrial economy. In post-industrialism there is an increased trade-off between employment, equality and high rates of productivity growth. This is because high value added jobs in manufacturing are becoming increasingly scarce as a result of increased capital intensity, generated by the introduction of automation-technology. The new jobs are increasingly to be found in the low productivity service sector, where wages consequently have to be lower. The alternative to the creation of a low-wage economy is mass-unemployment, which further exacerbates the tendencies towards fiscal crisis.

Esping-Andersen concretizes his argument with reference to different types of advanced welfare capitalism in the „OECD-world“. Here he uses the typology of three 'policy regimes' that he has developed elsewhere (Esping-Andersen, 1985; 1990). He argues that the 'continental-European model' - where christian democratic and corporatist norms have been particularly dominant - is trapped in an unsustainable trajectory of 'jobless growth', mass unemployment and fiscal crisis. In this model, wage norms, negotiated between trade unions and employers, characterize the labour market. The development of tax-financed public welfare-services is limited. Welfare benefits and expenditure tend to be of a 'social insurance' type (health & unemployment insurance and pensions) funded primarily through 'pay as you go' employers and employee contributions, calculated from the wage rate (*Lohnnebenkosten*). Eligibility tends to be segmented according to occupational status. In this welfare state type, high wages and a rigid wage leads to capital intensive corporate restructuring in the manufacturing, export-oriented sector. High wages also retard the development of the service sector. Whilst this development results in high productivity growth and high wages for those who remain employed (the 'insiders' of the labour market), labour is to a significant extent shedded. In addition, the supply of labour has increased because of increased female participation rates, which increasingly counters the assumption (and core-value) of Christian Democracy of 'the traditional family'. Continental welfare states have responded to this excess labour-supply, through schemes of early retirement, reduction of working hours, and high levels of unemployment insurance benefits. The problem is, however, that these have to be funded through an increase of payroll *Nebenkosten*, which increases wage costs further, and compels companies to further labour shedding. According to Esping-Andersen, the continental model is engaged in a hopeless battle to remain fiscally solvent, as growth rates no longer can be maintained to generate sufficient revenue for its transfer payment programmes. This is especially so, because increased capital intensity means that the payroll-tax revenue/growth rate ratio tends to decrease. Additionally, the unemployment problem becomes increasingly acute. The scope to switch to alternative forms of taxation, such as the taxation of capital, is

considered very limited in an era of global competition and transnational capital mobility (Esping-Andersen, 1996b; see also Streeck, 1995).

A more sustainable alternative, for Esping-Andersen, is the neo-liberal route of deregulation of the Anglo-Saxon residual welfare state as practised in the United States and Britain. Here, labour market deregulation, and a reduction of social benefits has resulted in a reduction of unemployment. It has created the conditions for the development of a labour-intensive service sector, which depends on low wage flexible labour but that also offers high skill and high (albeit often flexible and insecure) wages at the apex of its occupational stratum. Esping-Andersen argues that fiscal pressures and unemployment problems tend to be resolved in this model. The emerging service sector has proved to be capable of absorbing surplus labour, which off-loads fiscal burdens for the state. Furthermore, pensions become increasingly a private matter, generated through private savings and managed by mutual funds. Indeed, pension-fund management plays an important role in the emerging service economy.

Esping-Andersen argues that welfare state retrenchment and accommodation to this type of service economy will be necessary in order to stabilize welfare capitalism. Compared to Giddens however, he is refreshingly blunt about what the distributive implications are of this type restructuring. He predicts that the result of this neoliberal thrust will be increased polarization and segmentation between core and periphery in the labour market, (leaving little room for Giddens' 'social cohesion'). Drawing on the American and British experience he points out that the trend towards 'flexible' and reduced wages has produced 'unprecedented levels of poverty' (Esping-Andersen, 1996: p. 8). He (rightly) does not even seem to think it worthwhile to entertain the prospect that this type of welfare state might generate more participatory forms of democracy. From Esping-Andersen's account we can define a 'burden of proof' that Giddens' account would need to meet, but that he has not even attempted to meet: How can the wage conditions of the market-driven service economy be made compatible with the idea of social cohesion, when it manifestly seems to be based on generating a precarious peripheral labour force?

This is of course also a question for Esping-Andersen, and perhaps somewhat surprisingly he no longer offers the 'Scandinavian social democratic model' as a solution (compare with Esping-Andersen, 1990). Rather he seems to consider a kind of 'neo-liberalism with a human face' as the 'best of possible worlds'. Wage segmentation and deregulation would here be tolerated, in order to generate the conditions for an employment-intensive, market-driven, service economy. But this model also includes a strong dose of active labour-market policy and retraining as in the 'Scandinavian Model'. Such measures are not likely to reduce inequality at any one time, but over the life-cycle, it is hoped, people should be able to move from low wage to high wage work. Further, for Esping-Andersen, corporatist wage negotiation *a la* the continental as well as the Scandinavian model would have a role to play. Through a sort of con-

cession bargaining, such negotiations would determine the pace and set the terms for a shift towards wage flexibility, and thereby hopefully make sure that the starkest of inequalities could be avoided.

Esping-Andersen's prescriptions are in the end similar to those of Giddens. They are also similar to those that both predict and prescribe a 'competitive corporatism' as an answer to contemporary welfare state imbalances (eg. Streeck, 1998; Rhodes, 1998; for a critical review, see Bieling, 1999). For these analysts, the „Dutch Model“ of restructuring in the 1990s has been held up as a possible case of 'best practice' to emulate. More broadly, the Dutch Model has become a favourite case of social democratic modernizers, and its merits have been encanted in fora such as *Die Zeit* over the last few years. It is seen as an affirmation of the possibility to implement market oriented, supply-side reforms, and still maintain a somewhat retrenched, but nevertheless well developed welfare state.

The Dutch experience in the 1980s and the 1990s has been described in quite benevolent terms by Visser and Hemerijck (1998). Theirs is a story about how a continental, welfare state has managed to generate employment growth and resolve fiscal crisis. A crucial reason behind this success has been wage moderation, negotiated through the corporatist 'social partners' (a process started by the Wassenaar Accord on 1982.) Fundamentally, this has included negotiated wage *segmentation*. A significant component of restructuring of the labour market has been the increased prominence of part-time and time-specific contracts, managed by labour bureaus, operating as recruitment subcontractors. As a result of these changes, a larger proportion of women are now absorbed by the labour market, while men - previously employed in 'regular jobs' - now tend to a larger extent to have precarious employment. The authors celebrate this as a successful attempt to move away from a male dominated labour market, to a more gender-egalitarian system that makes employment compatible with child rearing. In addition, to the changes of labour market regulation, the state has taken on a greater role in the area of social security at the expense of proto-public corporatist 'pillar-organizations'. The state has used its capacities to reduce social entitlements, and to make them increasingly conditional on active job search.

But the celebration of the 'Dutch Model' is problematic in a number of ways. The 'achievements' of the Dutch Model ought to be relativized. Employment rates may have increased. But this is from one of the absolutely lowest levels in Europe. Hence, it is therefore doubtful whether labour supply is 'better' absorbed in the Netherlands than in Sweden (with the highest participation-rate in Europe) even when the latter has reached high levels of unemployment. Second, the higher employment levels in the Netherlands come at the price of income polarization. Between 1985 and 1994, the percentage increase of wage dispersion in the Netherlands (as measured by '90-10 ratios') increased by 17.2 percent. This is higher than the percentage

increase in the USA between 1979 and 1995 (13.7 percent), and slightly lower than that of the UK (18.6 percent). Admittedly this change is from a lower level of dispersion, but the change has taken place in a shorter time-frame. These three countries stand out as the OECD countries where wage-dispersion grows the fastest (Clayton & Pontusson, 1998 cf. OECD, 1993; 1996).<sup>7</sup> Third, the Dutch record of production and productivity growth is actually not particularly impressive. If one of the criteria of social democratic modernization is higher productivity growth, then the 'Dutch Model' is a failure. Finally, claims that the Dutch Model is gender-progressive should be treated with great scepticism. The policies are not designed to relieve women from reproductive work. Rather, they seek to make waged work compatible with women's (assumed) child rearing duties, and hence make it possible for them to take on a 'double burden'. This is also a double burden they are increasingly compelled to take if their partners also are employed in precarious work. The main point here is that even if progressive males agrees to share this burden, the work time required for generating sufficient wages and reproductive tasks in the household has increased for the family as a whole. Capital and the state, on the other hand, incur no extra labour force reproduction costs, and average wage costs decrease. In other words, the rate of exploitation of women and men is increased.

In addition to this relativization of Dutch welfare-state achievements, it is important to ascertain whether the Dutch Model could be emulated elsewhere. Here, also Visser and Hemerijck (1998: p. 184) eschew making any recommendations for other societies. In the Dutch case, a facilitating condition seems to have been its export structure. The Netherlands has managed to reduce its energy import-costs as a result of gas-reserves in the North Sea. This has allowed the Netherlands to tie its currency to the Mark, and to maintain a low cost of imports. Consequently, wage moderation has been easier to achieve. More broadly, the Netherlands function as a service center and a transportation-hub for the German economy. In this context, undercutting German wages has been important. This is, of course, an option that is not available to Germany, for example. And one has to ask what might happen to the 'Dutch miracle' when Germany begins to close the wage-gap?

The latter point indicates an important conceptual blind-spot of a single-minded comparativist and supply-side focus of the authors reviewed. They do not take into account the 'fallacy of composition' that is implied in the dynamics of neo-liberal socio-economic restructuring. Political economists associated with the 'regulation school' (eg. Lipietz, 1989; 1995; see also Albo, 1994) have in this context talked about a self-enforcing policy trend of 'competitive austerity' that is particularly rele-

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<sup>7</sup> By comparison, the percentage increase in Canada was 4.7 (between 1981 and 1994), in Australia it was +6.1 (1980-1994). The Swedish rate increased slightly from a very low base rate between 1980 and 1993 (+4.4). In Norway and Finland wage differentials actually narrowed slightly. In Germany, wage rates narrowed markedly between 1983 and 1993 (13.8 percent).

vant to post-Maastricht Europe. In their pursuit of a single-minded supply-side agenda: monetarism, budget consolidation, wage moderation and welfare state retrenchment, states reduce the aggregate demand growth of the world and European economy, the markets upon which their export oriented strategies depend. As a result further competitive austerity is required, that further reduces aggregate demand. Of course, some small economies, with a favourable location in the international division of labour, such as the Netherlands, might develop sustainable growth strategies on this basis, but they are contingent on a particular configuration of the export structure. Also Germany's growth model in the 1970s and the 1980s was based on this type of export orientation. Ironically, though, this kind of supply side orientation is increasingly unsuitable for Germany. This is not only because of the 'import-drag' of the former GDR, but also because Germany to a much lesser extent than before can count on extracting surpluses from its transnationalizing companies for the purpose of public and private mass consumption (Ziebura, 1997; Ryner, 1998).

The authors in question also ignore the inhibiting constraints that the service sector exerts via global finance, not only on the welfare state but also on the rationalization of productive forces. There is strong evidence that the privatization of pension savings contributes significantly to myopic investment decisions. Adam Harmes (1997) has shown that pension fund managers are notorious for following the highly speculative 'hedge funds' in their investment and swap-decisions. This observation is meaningfully considered in relation to Susan Strange's work on 'Casino Capitalism' (Strange, 1989). According to Strange, hedge-funds have become the main source for currency-instability in the world economy, that they are supposed to hedge. Hence, they have become the creators of their own demand, that impose severe costs on productive corporations of the futures market. In addition, Strange argues that these currency movements are detrimental to the time-horizons in investment and innovation, which has had demonstrabated negative effects on productivity developments and the productive diffusion of new technology in the European economy (Michalet, 1991).

Consequently I would argue that one can discuss the competitive austerity problematic, which the Third Way discourse obscures and promotes, with reference to Bauer's aforementioned notion of 'misrationalization'. In the next section I will draw on my analysis of Swedish political economy in the 1980s and the 1990s to further concretize the thesis that competitive austerity and a single-minded market driven supply-side orientation *a la* Giddens' (and Esping-Andersen's) 'Third Way' promotes a misrationalization of the potentials unleashed by the post-Fordist forces of production. We can understand this as the social opportunity cost of *not* realizing the potentials of creating the conditions of social cohesion necessary for civic involvement.

## IV

One striking feature of Esping-Andersen (1996) is his rejection of the 'Scandinavian social democratic' ideal-type model of post-industrialism that he had defined and defended in the latter chapters of *The Three Worlds of Welfare Capitalism* (1990). In this model, mass unemployment is avoided through tax-funded public investments in labour-intensive social welfare services. Especially, the welfare state is expanded in 'reproductive' spheres, through the expansion of public child care and care and services for the elderly. Employment expansion proceeds in the model without significant wage-segmentation, because public service workers are unionized, and wages are determined through inter-sectoral coordinated and solidaristic wage policy. Surplus is thereby transferred from the low productivity, domestically oriented service sector, to(?) the export oriented high-productivity manufacturing sector in two ways: First, taxes (income taxes, corporate taxes, sales taxes and payroll taxes) are used to finance public service sector production, including its wage bill. Second, through coordinated and solidaristic wage policy, workers in the export-oriented manufacturing sector forfeit some of the wage increases, that productivity increases in their sector would grant, in favour of wage increases above productivity rates in the public service sector. (for economic-theoretical models, following in the tradition of the Rehn-Meidner model, developed jointly by economists representing employers and workers, see Edgren, Faxén & Odhner, 1970; Faxén, Odhner, Spånt, 1989).

Esping-Andersen's abandoned 'social democratic' model of post-industrialism could have significant merits from the point of view of generating balance in the welfare state. As a consequence of full employment and high levels of tax revenue, fiscal resources could be used to maintain transfer payment systems such as public pensions, unemployment insurance and other universal benefits. In the model, income segmentation would be checked and income security would be maintained. If the model could be combined with a reduction of work-time, and a de-bureaucratization of social service delivery, it might also provide the 'leisure' and spaces necessary for a culturally pluralist civic involvement. A relatively equal distribution of income would also mean that capacities for such involvement might be relatively equally distributed.

Nevertheless, Esping-Andersen no longer believes that the model is compatible with the imperatives of economic rationality, and he invokes the Swedish experience in the 1980s and the 1990s to make his point:

...[the] achilles heel of the system....is the growing tax burden that a huge public labour market incurs. With high rates of productivity growth the system can be sustained: when productivity of private investments are sluggish, severe cost problems emerge. This is exactly the situation that especially Swe-

den faces today: declining fiscal capacity combined with rising pressures on public job creation/or income maintenance. Swedish policy makers and unionists can no longer avoid wage flexibility and major social benefit cuts (Esping-Andersen, 1996: p. 12).

In the wake of the run on the Swedish Crown in 1992, and the exceptionally deep recession 1991-93, which brought mass unemployment and a fiscal crisis to Sweden, it is impossible to deny that the Swedish social democratic project of the 1970s and the 1980s, that more or less conforms to Esping-Andersen's ideal type post-industrial ideal type, failed. This project was above all advanced by state managers in the labour market and social service ministries and by trade unionists. It emphasized expansion of public service and expansion of solidaristic wage policy. It also emphasized statutory employment-security and the need for co-determination of workers and trade union rank and file in the organization of the workplace. It is certainly also true that the root of the failure was the inability to mediate the terms of distribution with the imperatives of export oriented capital accumulation. Indeed, a sluggish productivity rate was the key indicator for this failure, as it expresses its inability of creating the conditions for an intensive regime of intensive capital accumulation based on relative surplus value augmentation - the necessary condition for any labour inclusive class compromise in capitalism (cf. Aglietta, 1979).

But Esping-Andersen's analysis is based on a surprising conjecture. The last sentence of the quote cited suggests that the root of poor productivity growth is to be traced to the lack of flexibility on the labour market. In other words, Esping-Andersen uncritically accepts the neoclassical 'Eurosclerosis-thesis', that dynamic inefficiencies (lack of productivity growth) are epiphenomenal to static inefficiencies caused by regulatory distortions of the labour market (including 'moral hazard'). (For the such an interpretation of the Swedish case, see Lindbeck *et.al*, 1994).

Given its prevalence, it is remarkable how little empirical support there actually is for this thesis. A wide range of studies, using a variety of indicators and methods, have continuously shown that the Swedish labour market of the 1980s functioned comparatively well (Bosworth & Rivlin, 1987; Åberg, 1988: 76-84; Standing, 1988; OECD, 1989: 55-80; Holmlund, 1993). This, of course, is quite consistent with the idea that active labour market policy more than compensates as a generator of labour mobility, when wages are partly decommodified through solidaristic bargaining. Further, while it is true that productivity growth declined in Sweden in the 1970s, 1980s and the early 1990s, there is no evidence that there is a causal relation between this decline and market distorting regulations (SOU, 1991: 7-144; Wibe, 1993).

As to productivity-growth possibilities in firms attempting to adopt 'post-Fordist' techniques in an industrial relations system based on 'rigid' negotiated wages and co-determination, case studies such as those of Volvo's Uddevalla and Kalmar plants

(as well as other plants, see Sandberg, *et.al.*, [1994]), directly contradict the thesis that rapid productivity growth requires wage (numerical) flexibility. The Kalmar and Uddevalla plants demonstrated that bipartite co-determination of the division of labour, work-tasks, work-time, staffing level and promotion ladders, as well macro-corporatist can be productively organized to harness the economies of new technology. This also means that unions have some scope to ensure that technology is designed to minimize labour shedding in favour of negotiated work-time reduction. Especially the Uddevalla plant moved away from the mass-production conveyor-belt paradigm in favour of general purpose machines that in principle reintroduced a high tech variant of crafts production (each production worker in a work team could in principle produce a car on her/his own. Productivity increases were impressive. After only two years of operation, the Uddevalla plant superseded the neo-Taylorist Gothenburg plant in productivity. With its 32.8 hours/car in 1992, the plant was still less productive than the 25 hours/car of Toyota in Japan. But this was still in the early life-cycle of the plant, and with a 50% rate of productivity increase 1990-92, managers at Volvo did not doubt that this gap would be closed. The potential of the plant is indicated by the fact that one worker in Uddevalla built one car in 10 hours alone, although the lay-up was designed for a team of seven (Berggren, 1993; Sandberg, 1994).

It should be noted, as work-sociologist Michel Freyssenet points out, that there is no reason to assume that the logic of the techniques applied at Uddevalla are specific to automobile manufacturing. Rather

in seeking to attribute ordinary human cognitive and cooperative dimensions to work activity [and thereby making multiple motion compatible with high productivity][Uddevalla's organization] can be described as a different way of marrying manual activity with mechanization and automation, leaving the complex part of the productive process in the hands of the direct worker. In a dynamic manner it can be interpreted as another automation process, susceptible of generating a new social form of automation applicable to all production process phases and to all activity branches (Freysenet, 1998).

Freysenet argues that this form of production presupposes a particular social and organizational context of *negotiation and co-operation*. Here he turns the debate around, and argues that, because the system is based on active involvement, it also presupposes guarantees that labour saving techniques do not translate into redundancies etc. Hence, the question is not so much whether the system can be rendered compatible with decommodification associated with social citizenship norms. The question is whether the potential of new technology can be fully realized in an

organizational and social setting, when labour-power is treated as a commodity to be shedded when productivity increases.<sup>8</sup>

There is, in other words, good reason to abandon the idea that post-Fordism requires numerically flexible wages. In principle there is no reason to assume that it is impossible to pursue a 'social democratic' post-industrialism, based on full employment and the transfer of surplus to a unionized public service sector. It should be possible to generate productivity increases in the manufacturing sector, which in part could be used to subsidize wage increases in the public service sector. Further, solidaristic work-time reduction and partial workers' control of the introduction of new technology should also mitigate labour-shedding in the manufacturing sector. Such a development would correspond to what Dani lle Leborgne and Alain Lipietz (1988) call a 'negotiated involvement' trajectory of post-Fordism. Here, co-determination provides an organizational form for functional flexibility - or, „networking and skill to adjust volume to demand without productivity losses“ (Amin, 1994) - compatible with „general purpose“ machines and CAD/CAM technology. Active labour market policy facilitates workforce training and mobility. Here the aim is a universal and equitable integration into the labour market through a new capital/labour/social-citizenship accord, allowing for solidaristic distribution of work, wages and leisure, in exchange for public goods such as a stable supply of a skilled workforce, and public provisions cutting social overheads (such as health and child-care).

On the basis of this interpretation, I would contend that we can generate a more tenable hypothesis as to why the 'Scandinavian social democratic model' reached an impasse in the early 1990s, and hence we can specify more precisely what the constraints on social democratic renewal are. Regulation theory holds that a growth model needs to be encased in an institutional framework, a *mode of regulation* that is compatible with its central norms. It was the failure of implementing such a mode in the 1980s and the 1990s that pre-empted a negotiated involvement solution in Sweden.

The hypothesis can be specified with reference to certain functional strengths and weaknesses that we can derive from the structural properties of the negotiated involvement type of post-Fordism. On the one hand, as in Fordism, *ex ante* wage regulation could still serve the function of integrating mass production and mass consumption in the negotiated involvement model. The assumption would be, of course, adequate process innovation to ensure productivity increases. But at the same time stable aggregate demand-expansion may serve to facilitate the dynamic determinants of productivity increases (Boyer, 1991): "learning by doing", adequate invest-

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<sup>8</sup> Here Freyssenet invokes research in Japan indicating that, in their process of extending lean production, Toyota have had to take on principles from the Uddevalla model. *Ibid.* cf. (Shimzu, 1995). This corroborates well with arguments that Japanese lean production, which combines a loss of autonomy, with a demand of involvement is likely to run into social limits in the form of shop-floor resistance (Skorstad, 1994).

ment, capacity utilization and economies of scale. These are the so-called 'Kaldor-Verdoorn effects' that have been notable by their absence in the monetarist era of the 1980s, despite the technological revolution (Boyer & Petit, 1991). On the other hand, the negotiated model is much more vulnerable to breakdown resulting from contracting and unstable demand, because of its limited capacity for cost-cutting. In this sense it seems to require a "Keynesian dimension", in the sense of stable and expanding demand, as well as a predictable institutional framework in which corporate and financial planning, public policy and negotiation can proceed. Moreover, it requires a certain balance of power between labour and capital.

The next section will illustrate how one can use this general line of argumentation to make sense of the crisis of the 'Swedish Model' in the late 1980s and the early 1990s. It will be argued that the term 'globalization' could be used as a shorthand explanation of the crisis of Swedish social democracy. But contrary to the economic and determinist conception of globalization that Giddens uses, I will emphasize political dimensions and power relations of globalization. These are power relations that in fact have generated what Bauer calls social misrationalization - a socially suboptimal appropriation of productive forces. The 'organic crisis' of socio-democratic regulation has three main determinants: internationalization of production, and globalization of finance, both of which increased the structural power of Swedish transnational capital. The third dimension was the acceptance of neo-liberal norms by Swedish social democrats themselves (through which we can deduce that the discourse of the third way is part of the problem rather than the solution). The shift to a social democratic neoliberalism, in turn, can only be understood if we, following Poulantzas (1978), invoke the importance of the *epistemic forms* (cf. Foucault, 1970) associated with the 'institutional materiality' of the capitalist state practices, in which social democrats have become enmeshed, since they became engaged with the management of capitalism after World War II.

## V

If it had not become apparent earlier, it became evident in the recession of 1991-93 that Sweden had not managed to achieve a distinctly social democratic trajectory of 'post-industrial/post-Fordist development'. Particularly symbolic of the failure to translate promising micro-economic developments into a full fledged régime of accumulation were the closures of Volvo's plants in Uddevalla and Kalmar. Since these plants were demonstrably the ones with the highest productivity potential of Volvo's plants, it showed how myopic corporate management can be in periods of severe demand contraction, where cost-cutting is an imperative, and where questions of short-term transport costs and productive compatibility with plants of strategic partners, or sheer 'bureaucratic politics' within the corporation might overshadow other considerations (Sandberg, 1994). But more importantly sluggish productivity growth

throughout the 1980s (Erixon, 1991) indicates that there was a more general problem.

The essence of the problem of regulation is to be found in the interplay of the wage relation and the institutions of finance and investment. As a result neither the distributive nor the productivity enhancing mechanisms of the solidaristic wage policy were at work. The Rehn-Meidner model had in the 1950s and the 1960s facilitated the macroeconomic diffusion of productivity growth, through a careful balance of stable and expanding demand and a profit squeeze. (this is usually singularly) Administrative capital controls and the Bretton Woods system had played a crucial role for this purpose (Ryner, 1999). International expansion ensured adequate demand-pull for the Swedish export sector. As a result, the Swedish macroeconomic policy-stance could be slightly restrictive over the business cycle (high taxes were emphasized). Together with high general wage demands, this ensured that average profit rates were kept down, and this ensured a tendency towards wage equalization. It also ensured a high transformation pressure on the economy, where low productivity private enterprises were forced out of business. Low average profits were nevertheless compensated with exceptionally low interest rates, which ensured productive investments.

This relationship between demand, wages, profits, finance and investment did not obtain in the 1980s. International demand was not stable and expansionary after the Bretton Woods and the restrictive macroeconomic regime of the EMS-zone. One new development in this context was high international interest rates and high risk premia for currencies more inflationary than the Dollar and the Mark. This also affected Swedish interest rates as long as attempts were made to maintain a certain value of the Crown. As a result of this, it was extremely difficult to maintain a macroeconomic policy that was sufficiently restrictive to enforce a profit-squeeze and maintain full employment at the same time. In the first phase of the post-Bretton Woods period Swedish policy makers responded by attempting to increase profits and investment levels of Swedish corporations through devaluations. It was hoped that in exchange for these employment enhancing measures, unions would restrict their wage demands and thereby contain inflation (eg Feldt, 1982). At the same time fiscal policy would be restrictive, so that budget deficits generated during the phase of Fordist crisis in the 1970s could be eliminated.

The problem with such a strategy was that it created totally different terms for wage increases in the public service sector and the export oriented manufacturing sector. As a result, the goal of a solidaristic wage accord between the public and private sector unions and employers never materialized (Ryner, 1994 cf. Ahlén, 1989). The export sector achieved excess profits. In the absence of any employee investment funds or mechanisms ensuring that these profits would be transferred to the wage earner collective, it proved impossible for trade unions to legitimately contain wage

demands. This was especially so, when profits quite clearly were increasingly invested abroad, or were perceived to be used to increase the dividends of shares. Additionally interest rates had increased, which put pressure both on corporations to continue to achieve high profit rates, and on manufacturing unions to demand high nominal wages. By contrast, public sector unions were expected to maintain low wage increases. But given the organizational clout that an 80 percent unionization rate gives, it was unreasonable to expect that they would see their real wages decline, and they enforced wage demands in the 1980s through massive strikes if necessary. As a result of these developments, Sweden experienced high inflation, high levels of union rivalry, as well as capital-labour conflicts in the end of the 1980s. When the recession came in the 1990s, the cost structure of Swedish firms was unfavourable. In addition, a speculative financial bubble, generated by pent-up nominal demand, collapsed, and this resulted in a severe bank crisis, that virtually bankrupted the state as it saved the monetary system.

An important part of this story is the failure to generate productivity developments, that might have underwritten inflation. Two factors explain this absence of productivity growth. First, the devaluations combined with high interest rates favoured established companies, also those that ought to have been pushed out of business through transformation pressure. It also discouraged the investment in new high productivity ventures (Erixon, 1989). Second, Swedish firms used the profits generated to disproportionately invest abroad, especially high productivity firms were established or acquired on the continent, in order to obtain economies of market-proximity (T. Andersson, 1994).

We can thus see how internationalization of production, the collapse of the Bretton Woods, and the globalization of finance conspired to contain a social democratic mode of regulation. Internationalization of production, undermined the relationship between wage moderation and high productivity investments. The breakdown of the Bretton Woods, undermined the precarious balance between international demand, and domestic macroeconomic balance that had ensured the conditions of existence of the Rehn-Meidner model. Finally globalization of finance imposed higher interest rates. It also imposed more unstable and unpredictable interest rates and/or exchange rates. This totally undermined any possibility to calculate a fair wage/profit share, and wage distribution in the wage-earner collective, and any possibility to predict what kind of payoffs that wage moderation might yield in terms of future jobs. As a result the scope for 'responsible' coordinated bargaining was severely limited (Interview August 1993 with Harry Fjällström, LO Chief Negotiator).

To this it should be added that Swedish employers in the 1980s had adopted a neo-liberal ideological orientation. Hence they had deliberately begun to insist on a decentralization of bargaining, and they resisted any attempt to maintain solidaristic wage policy, either within the manufacturing sector or even less so with the service

sector. Increasingly they took the view that wages should be set according to the ability of the firm to pay. As a result, they used the increased structural power that transnational production implied and the divisions within the wage earner collective, that scopes for wage drift implied, to decentralize bargaining (Ahlén, 1989).

But not only business interest organizations acted deliberately to enforce this development. Also deliberate policies of the social democratic government served to enforce market driven restructuring and a preemption of negotiated involvement. Here I will put aside the political demobilization of the trade union demands for wage earner funds in the 1970s, that were actively promoted by the social democratic government that was elected in 1982 (see Lewin, 1988). Such funds were explosive because of their obvious challenge to capitalist ownership prerogatives. At the same time, they might have constituted exactly the kind of investment politics needed, to resolve the contradictions in bargaining between the need for an expansionary full employment policy and a restrictive anti wage-drift policy, since wage earner funds would have siphoned off excess profits to wage earner administered investment funds, with a direct mandate to reinvest in co-determined corporate restructuring.

Instead, I will focus on the deliberately destabilizing monetary and borrowing policy which the Ministry of Finance and the Central Bank pursued after 1985. This policy amplified in a critical manner the tendency towards higher and more unstable interest rates, and thereby further undermined the conditions for solidaristic wage policy. It expressed a change of orientation and outlook of social democratic economic state managers.

The government deregulated capital and money markets in 1985, and this was followed up by a formal deregulation of foreign exchange markets in 1989 (that by then in large measure was de facto deregulated anyway). Moreover, the strategy in managing the public debt changed. Together with a vow not to devalue again, the government declared it would no longer borrow abroad directly to finance the debt or cover balance of payments deficits, but would rather only borrow on the domestic market (i.e only issue bonds in Swedish crowns). This meant that in order to maintain a balance of payments, the Swedish interest rate would have to increase to a level where private agents would hold bonds or other debt in Swedish crowns, despite the devaluation risk (Bergström, 1993: 159-60). The broader purpose of this so called "norms based" monetary policy, was to contain inflation by exerting market discipline on collective actors, such as unions and social service agencies in wage- and budget bargaining (Sweden.Ministry of Finance, 1985; Hörngren, 1993). In other words, the Ministry of Finance and the Central Bank deliberately sought to amplify the territorial non-correspondence between global financial markets and collective- and state bargaining, for disciplinary purposes. This is quite clearly a variant of "disciplinary neo-liberalism". This can only be described as an attempt to redefine the terms of social regulation and representation in the tripartite state. In effect, the Ministry of Finance abandoned its sup-

port of solidaristic wage policy, since the effects of market forces on interest and profit rates which conditioned wage bargaining were to be maximized rather than minimized. The tendencies towards deeper commodification of the wage relation were thus enforced.

The structural power mobilized by this form of rule has been effectively used to create a "crisis consciousness" at strategic junctures. Previously inconceivable decisions "to calm the market" have been taken in the context of rapid capital flight, including the decision to apply to the EC and to formally abandon the full employment commitment in 1990. But the lack of consent, as well as further economic overheating, implied that fragmentation in bargaining and wage push inflation was amplified rather than mitigated. Moreover, it was in the context of the "extraordinary measures" of a wage freeze and a temporary ban on strikes (that did not pass Parliament) that the electoral support of the SAP plummeted to a historical low, ultimately leading to a humiliating electoral defeat in 1991 (Ryner, 1994). One cannot but conclude that capital deregulation and the strategy to increase Sweden's interest rate sensitivity seriously backfired. The basic fallacy was that such a constitutionalist form of regulation would enhance incomes policy. But short-termism and speculative nature of the international financial flows totally undermined any predictability for bargaining. This served to further destabilize the economy, and it in this context one should consider the massive imbalances in the Swedish economy in the early 1990s.

Social Democratic state agency was thus used to enforce the structural power of capital that was promoting neo-liberal restructuring. This raises the question why social democrats become neo-liberals? The policy of the Ministry of Finance are so antithetical to our understanding of social democratic rationality that it is tempting to invoke the term 'false consciousness'. The policy so clearly contradicted the terms of solidaristic wage policy, which also has been critical to the continued electoral hegemony of Swedish social democracy, based as it is on a 'wage-earner alliance' (Martin, 1993). The reasonable interpretation is that the Ministry of Finance acted according to its ideational convictions, and this would then be a case of the permeation of transnational neo-liberal hegemony in the practice of Swedish social democratic elites.

I have no problem agreeing with this thesis, provided that it is not seen (only) in terms of social democrats travelling to and participating in meetings of the Bank of International Settlements where they undergo a cathartic experience, or are convinced by domestic business lobbies with connections in the Trilateral Commission or the European Roundtable of Industrialists. What such accounts would fail to capture is the remarkable ease, and sense of perfect consistency, with which the social democratic managers in the Ministry of Finance (but *not* in the Labour Market Ministry or the Social Service Ministry) adopted the policies in question. In other words such accounts would not on their own be able to account for why social democrats would be so open and receptive to these policy ideas. My thesis (Ryner, 1996: ch. 7) concludes by showing

how this receptiveness was generated as a result of ideational developments within social democratic circles during the golden age of Fordism itself. Under the surface of policy-continuity, the way of arguing and justifying the mode of regulation changed. It changed from the Marxian/institutionalist conception discussed earlier, with its emphasis on the contradictions of capitalism, to a piecemeal social engineering conception, influenced by Popper's conception of falsification and experimentation. As a result of this, the crisis of the 1970s was not interpreted as a crisis of capitalism, but as a falsification of Keynesian ideas, which verified the 'null hypothesis' of monetarism.

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# Final Showdown and New Horizons: Transnational Integration and the Making of Wide Area Logistics Networks

## 1. Beyond national capitalism: Varieties of cross border reorganization

In this paper I want to introduce the field of transport and logistics „services“ as an area of interest to study processes of *transnationalized* (re-) organization and institutionalization. De- and Re-bordering (not necessarily along geographical and/or legal lines of the traditional nation state<sup>1</sup>) are significant characteristics of a new type of capitalist development going beyond national frameworks of accumulation and regulation, of economy, state, and society. Although neo-gramscian approaches have started to take the rapid advance of regional integration projects more seriously (Gamble/Payne 1996, Röttger 1997), a general problem of critical accounts of the transnational recombination of power projects remains. Much work done so far remains rather general with regard to significant changes in cross border production and regulation. Thus I want to propose the study of transformation processes at a sectoral and organizational level. I am therefore combining a neo-gramscian perspective on international relations (Cox 1987, 1983) with a neo-institutional and societal perspective in organization studies (Powell/DiMaggio 1991, Türk 1997). These approaches in organization theory have not lost their links to political sociology. Organizations can neither be separated from the societal context nor can they be understood as rational actors (which does not rule out rationality and efficiency as recurrent features of organizations). However, similar to the field of political science, the bridge between globalist/structuralist approaches, for instance global commodity chain analysis (Gereffi/Korzeniewicz 1994), and (national) institutionalist approaches, for instance the national business system scheme (Whitley/Kristensen 1996), has yet to be built to take into account both private economic forces and public institutional forces as well as the interaction between the two sources of power relations with regard to trans-border processes of societal development.<sup>2</sup>

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<sup>1</sup> An interesting perspective on new aspects of „postmodern“ statehood and a changing role of territoriality has been offered by Ruggie (1993).

<sup>2</sup> Interestingly, both Gereffi and Whitley as the leading proponents of the two theories agree with regard to a need to take supranational integration more thoroughly into account (see their debate Gereffi 1996, Whitley 1996) In particular the national business system approach is very reluctant to acknowledge the impact of

Examining the inter- and transnationalization of social relations should make it possible to „save“ the insights gained in the recent convergence/divergence debate („varieties of capitalism“, see Hollingsworth et. al. 1994, Unger /van Waarden 1995) while extending the analysis to supra- and transnational spheres of social relations. It is necessary in particular to develop societal/institutional perspectives which take economical and political integration projects such as the European Union more systematically into account , both for analytical and political reasons.<sup>3</sup> In short, I want to focus on both class and state *formation* (Jaques Tilly) processes beyond the nation state, on the relationship between new types of labor and power division, and on the formation of supranational power structures in particular.

To do so, state and infrastructure related sectors such as telecommunication, energy, and transport are likely candidates to provide empirical data and histories speaking to changing power relations both between private forces and between private and public forces. All these industries were characterized by what Rall (1986) called “blocked internationalization”. In the course of the 1980s and 1990s, the strictly national pattern of organization in state and infrastructure related services was unlocked. Within Europe in particular, supranational regulation and transnational integration was extended to cover many areas previously not touched. As many of the products and services rendered by the state or private companies concerned are highly important both to business and to private consumers, a new deal has to be struck between economic and societal needs.

Looking at contemporary development of transport and logistics systems of advanced industrialized countries, the formation of *transnationalized* business and power structures can be observed. *Transnational logistics complexes* are highly influential in Europe as well as in other supranational regions of the world (including special transatlantic links). At the center of the current restructuring are Europe's post offices. Within two years, the Dutch and German post offices have created international empires of transport and logistics businesses. In reaction to this, both the French and British post offices have bought networks of small and medium companies (German Parcel, DPD) in Germany and elsewhere. (Plehwe 1999) Closest to European trans-border reorganization histories of transport and logistics providers,

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internationalisation (Whitley 1998). Michel Aglietta (1998, 55) correctly argues that many accounts (like Whitley's and the governance literature) based on Polanyi's approach of embeddedness focus on the destruction and / or reinforcement of old institutions while ignoring the construction of new ones. Unfortunately, that's true for much of the work done by regulation theory scholars as well if it comes to regional integration projects such as the European Union.

<sup>3</sup> Although Boyer/Hollingsworth (1997) speak about the „international nestedness of the market relations“ signalling a departure of national embeddedness arguments, there is no adequate reflection of the transnational political economy of European integration in the conclusion to the book.. This is surprising since Schmitter's (1997) contribution to the book on the EU polity clearly demonstrates differences between EU integration and other international areas of politics.

connected trade associations, and expert networks as well as supranational (regulatory) state policies are restructuring events in North America's NAFTA area.<sup>4</sup>

Four important „innovations“ concerning transport and logistics are considered crucial in this „organizational field“ (Powell/DiMaggio 1991) and with regard to recent transformations of capitalism at large:

1. Firstly, an increasing leverage of „functional“ (border crossing) over „political“ geography in logistics organization challenging the traditional notion and comprehensiveness of national sovereignty;
2. secondly, changing and „liquefied“ organizational boundaries between logistics customers and suppliers in the process of ongoing logistical rationalization along the value chain challenging the traditional notion of organizational integrity of the firm („supply chain management“);
3. thirdly, the formation of innovative logistics intermediaries constituting a new variety of internationally operating enterprises challenging traditional government owned or state regulated transport organizations. These large scale, privately owned, (information) technology intensive, inter- and transnationally operating, and multimodal business organizations emerge to mediate process chains between business organizations eventually reaching into the organizations concerned. They are „networks within networks“. (Sydow 1992, 35-37) Apart from newcomers to the industry, some of the traditional transport companies with limited operational tasks hitherto (e.g. postal offices) thereby also turn into „glocal“ (global/local) problem solvers with a wide variety of tasks depending on the character of specific supply chains and business networks. Surprisingly or not, the new type of service company seems to develop faster in Europe than in the U.S. (Lieb/Millen/ Wassenhove 1993, FT Survey Logistics 7.10.1997) which might be due to the greater variety of business systems in the old world.<sup>5</sup>
4. fourthly, new sectoral and transsectoral as well as transnational business associations and „epistemic communities“ (Haas 1992) or „expert networks“ (made up by academic and business logistics experts) have been established in order to shape the future of transnationalized supply chains and logistics systems. These alliances reflect shifting regulatory circumstances and transformed private capital interests. They already have a tremendous influence on public policy making and

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<sup>4</sup> Information in this paper is based on my Ph.D. research on the issue of transnational integration of transport in North America (Plehwe 1997b). Current research projects focus on the European story taking „global“ developments under the GATT-Services regime into account (Plehwe 1997a, Plehwe/Bohle 1998).

<sup>5</sup> See Plehwe/Bohle 1998 for a discussion of logistics developments aiming to help reduce „created complexity“. See my paper on SAP (Plehwe 1998) for a parallel development in the business software market. The German enterprise has turned into almost a monopoly in a market dominated by U.S. producers until the late 1980s.

are set to gain an even stronger position. Whether or not knowledge and ideas play a role in public policy can be studied well in the field of logistics. The central insight to be gained, however, relates to the relations of knowledge production, and knowledge circulation in the organizational field. Political scientists are well advised to continue efforts to analyze the power behind specific knowledge and ideas apart from the content of concepts instead of (uncritically) celebrating knowledge and information societies.

What can be learned about the relationship of national „models“ and transnational structures, of national and transnational spheres of accumulation and regulation by way of scrutinizing these transformations? In an attempt to explore the erosion and rebuilding of „imagined communities“ (Benedict Anderson) and „real“ social relations I want to trace the history of logistics thinking and reorganization in order to investigate the causes of the large scale transformation of a traditional low profile „craft“ business and predominantly national state sector. I will start out with a (very) short discussion of the traditional (pluri-national and strongly segmented, pluri-modal) transport system functioning until the 1970s. The „discovery“ of the distribution function will be observed next to explain the origin of transport and logistics rationalization as a central feature of new „politics in production“ (Buroway 1985). The history of regulatory reform in transport frequently called „deregulation“ is looked at subsequently to address questions of the transnationalization of „politics of production“: regime competition coming up after national and international liberalization lowering or erasing internal and external barriers to trade and investment in transport services, intensified labor division and the making of transnational (state) formations in transport/logistics. In the concluding section I will discuss some of the features of major changes in transport and logistics mentioned before in an attempt to show some of the wider implications of the new patterns of intensified rationalization of the sphere of circulation. Powerful actors transformed national institutions to operate under a new set of transnationalized conditions and constraints (including supranational regions and international regimes). Both actors and structures have thus to be considered to understand the contemporary movement to build wide area logistics networks (Frybourg 1997) supporting transnationalized accumulation regimes.

## **2. Strictly national: transport systems until „deregulation“**

Transnationalized transport and logistics complexes grew out of traditional, strictly national and „statist“ or quasi „statist“ transport systems. Traditional transport companies such as airlines („national flag carriers“), railways, shipping, forwarding, trucking and postal companies etc. – historically often state owned administrations rather than business enterprises – have been and continue to be transformed in due course into integrated logistics service organizations helping to expand transnational

and inter-regional transport and logistics networks and to make them work. (Botelle 1998)

This was unthinkable under the terms transport organizations operated during most of the time of this century. Except for the United States, almost everywhere in the world almost all of the important transport organizations were state owned. Everywhere operations in national transport markets were severely restricted. The U.S. system of private transport industries (railways, airlines, trucking, etc.) supervised and regulated intensively by („independent“) agencies and commissions (like the Interstate Commerce Commission or the Civil Aeronautics board), however, can be interpreted as a functional equivalent to European style direct state ownership. The U.S. postal office, of course, continues to be one of the largest state owned companies in the world.

Under the terms of the old transport system, a postal company much like other transport companies was allowed to deliver mail (or other freight) to another country, but there was no legal way to do business within the foreign country *as a foreign* company until the 1980s.<sup>6</sup>

I do not want to engage in a discussion of the rationale of state ownership and/or state intervention into transport markets and regulation of transport organizations which is discussed at great length e.g. in contributions to welfare economics disputed by market radical economists among others.<sup>7</sup> Arguments of economists about „natural monopolies“ (in railways), „ruinous competition“ (in trucking), „external effects“ and the like only replaced previous political arguments to use transport operations for societal purposes (military, industrial, regional, etc.) at a certain point of time in the history of capitalist and nation state development.<sup>8</sup> According to German transport scholar Fritz Voigt – writing before the market radical reinterpretation of this sector was organized in the 1970s<sup>9</sup> – transport has to fulfill three basic functions in human affairs:

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<sup>6</sup> Of course foreign companies could become legal „nationals“ and operate in some markets at least. But transfer of personnel e.g. was (and continues in many ways to be) restricted. Cross border operations had to be export/import relations (interlining) making use of different organizations even if they were owned by one company. Many times foreign companies could still not enter a national market due to market entry regulations applying for nationals and nationalized foreigners alike.

<sup>7</sup> On the history of transport regulation in North America see Plehwe (1997b), on Germany Voigt (1973).

<sup>8</sup> See Scherrer (1987) for a discussion of regulatory theory, Alfred Kahn (1970/71), president Carter's chief inflation fighter and deregulation expert, provided an excellent overview of regulatory questions and the reflection of a new rationality of regulatory politics. On Kahn's role in the regulatory reform era see McCraw (1984).

<sup>9</sup> An excellent history of the rise of neoliberal market radicalism has been written by Cockett (1995). Unlike many other contributions to the role of ideas, Cockett links the history of the Mont Pèlerin Society founded in 1948 by Hayek and Friedman among others to the rise of think tanks and other channels of „second hand dealers in ideas“. He also links the different intellectual functions (production and dissemination of ideas) to

It is firstly a service to meet consumption needs; secondly, it is a necessary part of every division of labor and of every market and thirdly, it is an important sphere with regard to the *integration of the state and society*. (Voigt 1973, 7-13, emphasis added) Werner Sombart underlined the historic innovation of the post office. Not the transport aspect of the postal system was new since messenger services had existed for a long time. What was new would today be called logistics: systematic collection and distribution as a task preceding and following the transport process. Sombart emphasized that the most important aspect of the postal system built in the course of the 19<sup>th</sup> Century was the equality of users: Every single person can use the big machine.<sup>10</sup> (Sombart 1969, 364f.)

The second and the third functions mentioned by Voigt obviously are at the core of current tensions between patterns of intensified labor division regarding territorial and juridical boundaries as artificial and superfluous barriers (the market radical perspective) and the ongoing need for social, political, and economic cohesion at regional, national, and increasingly, supranational levels.<sup>11</sup>

For the purpose of the argument of this paper it is enough to point out that a „transnational“ or „global“ transport market did not exist since national statehood enforced the principle of national sovereignty strictly and extended it to ocean and air space. What today more and more is portrayed or appears as *one big transport and logistics market*<sup>12</sup> was (and continues to be in many areas) a strictly confined national system

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their financial sources and diverse private and public interests. The role of neoliberalism in reinterpreting the transport sector is analyzed in Plehwe (1997b).

<sup>10</sup> The universal price system was first suggested by Rowland Hills in Britain. The penny letter introduced in 1840 in the UK led to an enormous increase of postal traffic within the British Empire (Geistbeck 1986, 393)

<sup>11</sup> There is no way to base market radicalism in transport on Adam Smith as many neoliberal arguments try to suggest. Smith certainly was well aware of legal, and power barriers to transport and trade. He underlined the stimulus provided by inland water transport for the development of economies of scale, intensified trade and thence the opportunities of labor division. He was well aware of the fact that the advantages of natural trading channels like inland shipping routes fully accrue to territories governed by one (state) power only. In his famous book „The Wealth of Nations“ (1776, 39) he mentions the Danube traffic as a negative example because Bavaria, Austria and Hungary all had jurisdictions over parts of that river. Not only does the state matter in the thinking of Smith. Robert Reich, the former U.S. secretary of labor reminds us of Adam Smith's conviction about the use of traditional transport regulation by the nation state: „Nor did Adam Smith object in principle to government intervention when the nation's interest required it. He opined that the Navigation Acts (trade with the colonies was only permitted if British flag ships were used for the transport, D. P.) were 'perhaps the wisest of all commercial regulations of England' because „defense is much more important than opulence“, and that Britain should expand its empire by seizing islands from 'the Falklands to the Philippines'...“ (quoted in Reich 1992, 19) The British Empire in fact introduced the protectionist regime substituting a liberal ocean shipping order enforced by the Dutch before. Only in the late 19<sup>th</sup> Century, a liberal regime was reestablished by the now predominant British Empire until World War I – the overwhelming market power of British shipping lines did not need the extra protection any more to shield its hegemonic status. (Cafruny 1987)

<sup>12</sup> Those observers of the transport industries who claim that transport, and most „naturally“ ocean and air transport, are „global“ industries support this line of thinking, consciously or unconsciously. (Kasper 1988,

made up by many *segmented* markets. Segmentation in European national states as well as in North America included the separation of modal markets (rail, air, road, water, pipeline), regional (geographic) markets (licenses for local and long-distance transport), certain product markets (most obviously the postal market), and last but not least the differentiation between commercial suppliers and own account transport operators (of industrial and trading companies) with the latter possibly accounting for up to half of the market in most countries.<sup>13</sup>

Traditionally, therefore, transport users and transport suppliers were (and overwhelmingly are) rather opposite forces with the state mediating between the two. Historically, state institutions helped tipping the power balance far toward the commercial and state owned side of the business. Neither could large transport suppliers dictate prices (uncontrolled monopoly) nor could large transport users wring extraordinary concessions (monopsony power).<sup>14</sup> The national transport system thus was a part of what Ruggie (1982) called embedded liberalism. Not an overall globalization and integration of transport markets, but the reconfiguration and transformation of private and public as well as national and international relations in this area have to be understood.

International transport in any case constituted a special market segment which was (and continues) to be governed by *international regimes*. (Krasner 1983) One aspect of particular importance certainly constitutes the fact that long distance and trans border movements of freight in particular grew much faster than GDP during recent history.<sup>15</sup> The increase indicates a significant change in the overall geographic and organizational division of labor and possibly expresses and explains a shift of priority

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Ronit 1995) If this understanding is shared, the satellite industry would probably figure as a „business of outer space“ not matter whether or not the service is provided by American or European suppliers under specific legal arrangements.

<sup>13</sup> Counting not only transport but reshipment and warehousing as well as extended logistics services the European market is worth about DEM 900 billion. Less than 50 percent of this total is supplied commercially. (Klaus 1999) Own account transport was subjected to intensive regulation due to the fact that shippers could not offer own account services to others resulting in inefficient use of equipment („dead heading“ is interesting phrase used to describe trucks running empty and thus highlighting the valorization process).

<sup>14</sup> „Eine Zwischenstufe zwischen einem natürlichen und gesetzlichen Monopol und einem nur ökonomischen Monopol bildet das Monopol an den Verkehrsmitteln. Daher das Streben der Trusts, die Herrschaft über die Verkehrswege zu Wasser und zu Lande zu erhalten. Die Verstaatlichung der Verkehrsmittel verringert die Monopolfestigkeit und bewirkt so bis zu einem gewissen Grade eine Verlangsamung der Konzentration der Unternehmungen und des Eigentums.“ (Hilferding 1968, S.274)

<sup>15</sup> Compare data in WTO 1989, GVB 1997. Freight transport in Germany grew at a rate more than twice of GDP growth, 5.3 versus 2.2 per cent, respectively (1997). Road based freight long distance transport grew at 6.7 per cent. This development is strongly linked to intensified trade within Europe. (Aberle 1998)

in transport politics toward improving external transport chains (outside national space) rather than safeguarding national systems.<sup>16</sup>

So-called „Global“ international transport of goods (= inter, lat.: *between* national markets), however, remains one of the most intensively regulated business areas subject to a variety of international regimes like the World Trade Organization established and supervised by the international community of nation states and/or – increasingly – supranational authorities like the EU. The market segment(s) of „international transport“ have been regulated by multilateral regimes since the end of the last century. The world postal union was founded in 1874. (Geistbeck 1986) Air traffic is conducted under the regulations of the international transport law based on the Paris convention of 1919 which extended national sovereignty to the air space. After WW II both the International Air Transport Association (IATA) made up by the private and/or state owned organizations and the International Civil Aviation Organization (ICAO) provided the overall regulatory framework. (Doganis 1991) To regulate international ocean shipping, in 1956 the International Maritime Organization (IMO) was founded. Two predecessors, the International Shipping Federation und der International Chamber of Shipping, had failed to provide for the necessary framework. (Farthing 1993). A convention for multimodal transport services has been drafted and frameworks for other transport services are considered as topics of the GATT-Services negotiations. However, progress has been very slow to develop the „global“ multilateral framework under the accepted principles of the World Trade Organization. (WTO 1989, 1998a-d) It is quite amusing to read Kasper (1988) writing about the „global“ airline industry suggesting that the U.S. should not adhere to the most favored nation principle of GATT in the case of airlines and rather use bilateral agreements to achieve maximum liberalization (see Doganis 1993 on various future perspectives on the international regime regarding airline regulation).

Transport industries thus are „global“ only in the sense that international transport operations provide for channels and mediate the exchange within the multinational trading system. Susan Strange interprets international transport regimes as secondary power structure in the world system. Established regimes favored national companies in virtually every country in the case of airlines and more or less prevented such ownership in the case of ocean shipping.<sup>17</sup> (Strange 1988) Due to logistical re-

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<sup>16</sup> Part of the explanation has to do with the production of the means of transport: Europeanization was a precondition to enter the commercial aviation business for each European nation state confronted with the U.S. and Boeing. National systems of railways allowed Germany and France to develop High Speed rail equipment. Due to the limits of a national market, protected producers seem to be increasingly interested in entering foreign (protected) markets which is only possible if the home market is opened as well. On the history of Europeanization in this regard see Plehwe (1997a).

<sup>17</sup> It might be the case that the interest of the U.S. in selling Boeing and McDonnell Douglas aircraft to all the national airlines stabilized the regime before Airbus became a serious competitor.

organization, however, the lines between the primary power structure of the production system and the secondary power structure of the transport system are increasingly blurred.

Within this highly segmented and pluri-national framework, some transport companies started to expand strongly into foreign markets to offer new inter- and/or transnational services („single lining“ by one organization as opposed to inter lining by two or more organizations or parts of one organizations) since the late 1970s.<sup>18</sup> Before the 1980s and well into the 1990s, however, the transport industry belonged to the group of industries characterized by „blocked internationalization“. (Rall 1986) Why did the entrenched pluri-national and highly segmented system come under siege? Didn't it serve well the largest expansion in international trade, and thence transport in human history? What was the background for new regulatory frameworks erasing various barriers established by legal and ownership regimes? To understand why, we have to ascertain the discovery of the distribution (later: logistics<sup>19</sup>) function which occurred around the advanced industrialized world of the late 60s.

### **3. Strong visions back in the 1960s: The discovery of the logistics function**

During the decade of the 1960s a significant change began to occur in management attitude towards the role and importance of the distribution function of the business firm. This change was not confined by international boundaries or concentrated in any narrow segment of industry type. During this period a new literature of management philosophy emerged, encouraged by vigorous support from trade associations, the trade press, government, and the academic community. (La Londe/Grabner/Robeson 1993, 4)

The first issue of the U.S. *International Journal of Physical Distribution* (1970) contained an article by La Londe, Grabner, and Robeson on coming changes of the dis-

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<sup>18</sup> Certainly there have been multinationals in transport before liberalization created new opportunities: The Schenker organization (privatized since the late 1980s) counted more than hundred firms abroad already before WW II and as subsidiary of the German railway had more offices abroad after WW II than the German diplomatic service. On th history of the company originally inventing „less than truckload“ (rail wagon load originally) services see Matis (1995) and Plehwe (1994). However, the activities of transport (in the case of Schenker freight forwarder) capital were narrowly circumscribed and since market entry was by and large under state control it was difficult to expand operations abroad.

<sup>19</sup> Only since the 1950s an economic understanding developed in addition to the military use of the word. (Bjeljic 1987) Logistics in its modern economic sense means that goods have to be at the right place at the right time in the quantity and quality needed. Logistics management is thus concerned with organizational and operational tasks regarding aspects of time and space of the production (value creating) process. Central to logistics are transport, reshipment, and warehousing and connected information, communications and control processes. Functionally micro economists distinguish between supply, production, distribution and recycling logistics. (Danckwerts 1991)

tribution function in management (reprinted 23 years later in the renamed *International Journal of Physical Distribution & Logistics Management* 1993), almost a prophetic article in retrospective. It carried a description of the integration of the logistic functions as a single management task within the company in order to streamline and rationalize fragmented processes of material flow. The 1960s were described as the decade of marketing while the 1970s were to become the decade of distribution management due to new competitive constraints. The renewal of scientific management efforts, the impact of new technologies in data processing, the importance of distribution to increase consumer satisfaction and the prospective impact of cost reduction in distribution on overall profitability were all factors cited to raise the value of distribution management.

Distribution was not yet targeted then as a business area to be rationalized at large while the share of distribution costs of total costs was as high as 45 per cent in some product markets. „It would seem, therefore, that the new focus upon efficiency in distribution was a logical outgrowth of the American business environment. That is, one of the last remaining frontiers for significant cost savings in the business firm was the distribution area.“ (La Londe/Grabner/Robeson 1993, 7) The „last frontier“ was already recognized in 1962 by Peter Drucker who referred to distribution as the „dark continent“. And eight years even before Drucker, Paul Converse recommended academicians and practitioners to better address the physical distribution side of marketing. James R. Stock summarized this history of thought (and practice) indicating continuing difficulties to perceive the whole of the logistics chain (not just distribution) and the strategic aspect of logistics. According to Stock only outsiders to the logistics field such as Michael E. Porter helped to more thoroughly address the logistics function although there is still need to research the interaction of logistics and other functional areas of the firm. (Stock 1990, 3-6)

The increasing impact of logistic costs on profitability in any case was directly linked to increasing international competition by La Londe/Grabner/Robeson back in 1970 (1993, 7) – intensified international competition facilitated by the beginning of the relative decline of economic hegemony of the United States vis-à-vis Japan and Europe and the big crisis of accumulation later termed crisis of fordism (Aglietta 1979) may in fact explain why the time was ripe for the final discovery of logistics.

Logistics can be defined as a concept to guide economic *processes* (both at the micro and macro level of the economic system) and as a tool of rationalization to optimize specific areas of the labor process focusing initially on transport, reshipment and warehousing including cost reduction for such services. (Danckwerts et al. 1991, 39) The high share of labor costs in logistics operations led to the intensified class struggle in literally all areas of transport and logistics business after competition was

introduced into hitherto protected market segments. Maintaining or increasing margins necessitated deflated labor markets in the sector.<sup>20</sup>

Later on, logistics thinking certainly turned into a crucial component of the rapid spread of a wide variety of new production concepts such as Toyotism (just in time, quality control etc.) made in Japan and Business Reengineering (Dörrenbächer et al. 1997) again made in U.S.A.<sup>21</sup> In 1970, however, there was still a long way to go before reaching the stage of systemic (and inter and trans-organizational) rationalization. (Altmann et. al. 1986)

Separation of the distribution function in the early days of logistics thinking according to LaLonde et. al. (1993) would allow companies to better adapt to faster and more dynamically changing markets both with regard to product cycles and geographical expansion. The authors distinguished four factors with determining influence on the development of the distribution function in the course of the 1970s: Increasing acceptance of a *systemic* distribution approach, increasing weight of the demand side (buyers market), challenges coming from *multinational distribution* and *increasing state influence* on distribution policy and practice. (La Londe/Grabner/Robeson 1993, 9, italics added)

By 1980 in any case, most internationally operating companies would *separate and integrate* the logistics function **within** the organization. Increasing consumer importance would result from the rising use of electronic data processing of trading companies and from concentration of economic power in horizontal and vertical marketing structures. The authors stress attempts of trading companies to push back warehousing costs to producers. This long standing contest between industrial and trading companies could certainly be traced back to the old days of capitalism and is winning increasing momentum in the 1990s with large trading companies trying to force industrial producers to abandon their own logistics operations. (Bretzke 1999, Hector 1998, Plehwe et al. 1998, 30/31) The fight over control of logistics operations thus is another example of changing power relations between organizations along the value chain (historically, after the era of merchant capitalism, power centered on the industrial end producer as focal company). Toyotist „lean production“ reorganization of course intensified traditional hierarchies by creating first, second, and third (and may be more) tiers of supply companies. A new competitive dynamic has recently been addressed under the term „Wintelism“ (Microsoft Windows und Intel) by the authors Borrus and Zysman (1997). Not the traditional end producer, but produc-

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<sup>20</sup> Around five million workers (three million in trucking) made up the European labor force exempted from the European working time directive of 1993. Re-Regulation has been proposed to combat frequent abuse of transport labor contributing to frequent interruptions of the transport systems due to industrial strife (see EU Commission 1997a).

<sup>21</sup> „Cycle time compression“ and „reverse logistics“ (pull instead of push systems, efficient customer/consumer response) are the two most important concepts of the 1990s explained by LaLonde/Masters (1994).

ers of inputs somewhere along the supply chain occupy a more powerful position. Examples are Intel producing micro processors of computers and Microsoft producing soft ware. Manufacturers in the U.S. electronics business end up with a rather weak position of customized production demanding utmost flexibility to serve a wide variety of customers.

Multinational challenges in any case were of utmost importance to U.S. companies in the 1970s because the share of international sales was far lower in the U.S. compared to Europe (five versus 30 to 40 percent of GDP due to the tremendous home market). Companies in Europe (including several U.S. owned firms of course), therefore, were much more experienced with international distribution. However, U.S. based companies were perceived as being engaged in a drive to rapidly increase international production which would eventually transform the traditional export/import organization. Due to resulting internationalized restructuring of the production and distribution process, distribution managers were set to gain a more central position in the whole organization. LaLonde et. al. add a very interesting remark on supply structures of transport and logistics services:

Parenthetically, it might be interesting to speculate on the role of distribution middlemen in the new international environment. Both the evidence to date and the economic logic would seem to indicate that a ***new type of capital intensive conglomerate*** will emerge during the 1970s to meet the needs of worldwide distribution. The functions of export packaging, shipment consolidation, ship chartering, export-import documentation, stevedoring, storage, customs requirements, and ***multi-modal inland distribution*** will be offered ***by a single firm***. Thus it is suggested that a new form of distribution middleman with intermodal capability and spanning a wide range of intermediate distribution functions will emerge to serve the needs of the multinational distribution manager during the 1970s. (La Londe/Grabner/Robeson 1993, 11, emphasis added)

It is fascinating to see this forecast coming true only taking a little longer overall and involving a myriad of reorganization and deregulation battles. (Plehwe 1997a, b) Nevertheless, companies like Federal Express and DHL, hybrid transmodal and technologically advanced logistics providers, started up in the early 1970s. The U.S. Air Cargo Deregulation Act of 1977 was nicknamed FedEx bill because of the support lobby organized by FedEx CEO Fred Smith. (Hamilton 1990)

Increasing state influence addressed by LaLonde et al. is of particular importance, of course. Government investment in infrastructure and subsidies, anti-trust control with regard to supply structures and relations between shippers and suppliers, and the regulation of markets are mentioned as well as increasing indirect influences such as environmental and consumer protection measures (horizontal expansion of the state,

social regulation). Increasing product liability resulting from stronger government involvement in particular was seen as a key factor expanding the role of distribution management into new areas. Interesting enough, prospectively rising state influence is not confronted with the demand to reduce government impact in this early analysis of profound changes in transport and logistics. This demand was strongly developed by market radical think tanks (Stone 1996, Smith 1991, Swann 1993) established recently to advocate „deregulation“ and by the strongest private business forces during the 1970s. The Business Roundtable in the U.S., founded in 1972 by senior managers of large U.S. companies concentrated its attention on regulatory policies (both economic and social regulation) and mobilized support to the „deregulation movement“.<sup>22</sup> (Edsall 1984, Vogel 1981, Plehwe 1989, 351)

The argument of LaLonde et al. already suggested correctly, however, that it was becoming far more important for (logistics) management to get involved in the political (re-) organization of the market. New politics in production could only be developed by changing the politics of production: The „age of regulatory reform“ (Button/Swann 1991) was coming and „deregulation“ turned into an international movement (Gayle/Goodrich 1991) driven both by rising societal and state importance and by more aggressive reorganization strategies of business organizations and associations. The search for new accumulation strategies restoring micro economic profitability and enabling new growth patterns (eyeing international markets rather than the home market) placed internal and in particular external logistics reorganization very high on the agenda since the late 1970s. Politics in production in the case of transport and logistics necessarily had to become politics of production. It was certainly possible to implement new priorities within the organizations of transport users, to change the structures and the modes of operation in the commercial supply industries, management had to go politics. „Deregulation“ and privatization were the main concepts employed to overcome two important barriers to capital accumulation: state ownership of transport organizations and state regulation of market (entry).

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<sup>22</sup> The fact that many forces advocated regulatory change during the 1970s including trade unionists, consumerists, and ecologists should not wipe off the different agendas with regard to de- and re-regulation. Most certainly „deregulation“ was not just a „successful fight“ against „powerful private interests“ (regulated firms and trade unions) for the good of all as Derthick/Quirk (1985) want to make us believe in their history of deregulation. The authors themselves provide counter evidence to their argument (firms changing sides etc.). Of particular interest is the omission of discussion of air freight „deregulation“ (which nobody opposed) contradicting their argument and thus challenging the whole story. A detailed critique of this account and more evidence for the „business interest“ in deregulation can be found in Plehwe (1997a).

#### **4. New politics of production: „Deregulation“, regime competition, and transnationalization**

The politicization of the business community (van Schendelen/Jackson 1987) in general and the international „convergence“ on „deregulation“/liberalization, and privatization strategies in North America and Western Europe is well documented including the special field of transport. (e.g. Bell/Cloke 1990, Button/Pitfield 1991, Banister/Button 1991) Within little more than one decade almost every important industrialized and many developing countries implemented liberalization and privatization measures which is a puzzling phenomenon in itself suggesting strong convergence forces. Many comparative studies and books offering case studies in fact discuss national variations and the pros and cons of privatization and deregulation within the national economical and political environment (mostly praising the results). Even where (sub-) titles suggest the consideration of international dimensions (like Gayle/Goodrich 1991 and Button/Pitfield 1991), however, the international sphere is considered exclusively with regard to issues of regime competition pitting nation states like companies against each other only. One country has to deregulate etc. because another country did so „successfully“, one company has to change operations due to competitive best practice elsewhere. The story of politically active *transnational* market making by way of opening new spheres of private capital accumulation (privatizing state owned market share and removing legal restrictions) to national private and foreign actors is mostly ignored, not to mention the constitution of supranational state powers (de jure or de facto).

National regime competition extending to regional competition within states („competitive federalism“ instead of cooperative or fiscal federalism) certainly is a core element of contemporary capitalist reality, but it doesn't come along without (inter- and transnational) co-operation in the sense of voluntary or forcefully coordinated (state and private) action (Türk 1997). Already in 1978, OECD governments still led by the „trilateralist“ (cooperative) spirit decided to take coordinated steps to liberalize various infrastructure markets including transport (OECD 1986) thereby setting the stage for intensified „regime competition“ (negative or market-led integration) in transport. Instead of pragmatic, multilaterally coordinated liberalization as originally planned, the „aggressive unilateralism“ (Bhagwati/Hugh 1990) of the Thatcher and Reagan governments (the latter in particular) pushed a new confrontational style within the OECD world which endangered the original aims of the liberalization project at times and pitted regionalized economic blocs against each other at the end. For a while, regime competition looked quite like old fashioned imperialism. Within regionalized regulatory orders, however, economic nationalism and thus regime competition is narrowly circumscribed by legally binding obligations: the rule of law of a thence supranational state. New competitive integration strategies in Western

Europe and North America reinforced regionalization on both sides of the Atlantic since the mid-80s.

The European Community first refused U.S. calls for a new GATT round on liberalization in the early 1980s (including services in general and transport services in particular) and started to set up the 1992 agenda instead.<sup>23</sup> Paolo Checchini's (1988) report included a very positive evaluation of the U.S. transport deregulation experience – ignoring available counter evidence with regard to service, industrial conflict, anti-competitive features etc. – suggesting that the U.S. competitive position vis-à-vis Europe (suffering from perceived „Eurosclerosis“ at the time) had been strengthened due to transport deregulation.

Apart from the macro-economic „danger“ of cheaper transport prices across the Atlantic (supporting profitability in production and trade), the micro-economic challenge to European transport organizations already existed within the „fortress“. UPS, DHL, Federal Express, and TNT, so called integrators operating multimodal transport chains and accounting for almost all of the global market share in expedited freight traffic as well as some other transport companies from the U.S. had started operations in Europe in the late 1970s. These actors expanded aggressively – albeit not always obeying the existing rule of the law. (Campbell 1994) The foreign companies are the real competitive threat immediately felt by established firms in Europe and elsewhere. The new mode of operation changed politics in production of transport suppliers and users.<sup>24</sup> European observers openly stated the danger coming from the capital intensive U.S. integrators using modern information and communication equipment.<sup>25</sup> European customers nevertheless were happy to support new transport and logistics suppliers delivering cost cutting services not yet available from established (mostly national) organizations at the time. Internationally operating banks, consulting businesses, and industrial and trading companies used the new express

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<sup>23</sup> The original 1992 agenda did not include transport liberalization. Internal dynamics already grounded in the treaty of Rome were responsible for the inclusion of transport industries in the overall drive to complete the internal market. (Compare Plehwe 1997b for a detailed account of the story.)

<sup>24</sup> The innovative transport suppliers offered door-to-door services with guaranteed time schedules (money back). Speed and reliability was organized within one organization across the whole of the transport chain using modern hub-and-spoke systems (integrator: use of various transport modes). Later on the big four companies (UPS, FedEx, DHL, TNT) automated reshipment and warehousing and made intensive use of new information and communication technology (tracking and tracing via scanner and bar-code technologies, recently tracing via Internet. The whole system was built for freight up to 30 kg but supply structures in the heavier segments are imitating many of the central features. (Rendez 1992) Growth rates in this business area consistently exceeded overall growth rates in transport and only recently the growth curve is flattening a bit.

<sup>25</sup> „Die größte Herausforderung sind... die amerikanischen Großunternehmen mit entsprechenden logistischen Infrastrukturen, zumal sie mit dem Luft- und Seeverkehr verzahnt sind. Dabei spielt der Rechnerinsatz eine große Rolle“ (Bress o.J., 19).

business guaranteeing rapid and supervised service. (Wojtek 1987) Consider the breakdown of the postal order.

On the initiative of DHL, the private courier companies continuously stepped up their collective strategy in the 1980s and 1990s to gain access to protected postal markets. Until 1984, the private competitors to national PTTs worked in a grey zone of the postal market as international mail business was reserved for the national monopolies. Most postal authorities and in particular French La Poste undertook considerable efforts to stop the new services administratively (including raids by postal officers with police functions in France etc.). In 1984, however, German authorities decided on the legality of *express* delivery to Germany by outside firms. This legalized an important part of the new supply offered by the integrators in one country<sup>26</sup> thereby securing the first European bridgehead. The courier/express companies took it from there to other countries and involved supranational EC competition authorities which started to side with the private industry. (Campbell 1994) The support from EC competition authorities for the competitors to the national PTTs was all the more important since the European officials enjoy executive powers in the field of antitrust.

The International Express Carriers Conference (IECC), originally founded in 1983, was responsible for most of the collective action on behalf of the new competitors to the old post offices. Initially a rather loose association depending heavily on DHL's financial support, the big four companies strengthened their efforts in 1987 with TNT and Federal Express matching DHL contributions and UPS becoming a full member in 1988. (Campbell 1994, 125) In 1988, IECC realized the increasing importance of the supranational EU level to influence postal (and other transport) policy. At this time the big four attracted smaller national companies (sometimes separately organized) thus directly binding together outsiders and insiders with a common interest together.<sup>27</sup> Some IECC members differed, however, on the character of the planned European association. DHL wanted to limit the goals of the European association to traditional express service issues (its almost exclusive market) while the majority agreed on a wider agenda. (Campbell 1994, 126) In 1989, therefore, two competing European associations operated independently. The Association of European Express Carriers (AEEC) was founded by DHL and others while the other IECC members started the European Express Organisation (EEO). Competing strategies not-

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<sup>26</sup> The decision was made with regard to technical questions of postal operations. The regulatory body found Deutsche Post to have no proper authority for a certain type of express business. The legal loophole created a space big enough for the international express companies to come in. (For details see Campbell 1994, 133)

<sup>27</sup> In Germany, German private competitors of the Deutsche Bundespost joined the courier/express business association BIEK led by the international firms. In the Netherlands, the two associations, one combining 10 international companies and the other organizing 200 SMEs decided to merge in 1993. (DVZ 14.1.1992)

withstanding, the two associations fought a common battle against the (multi-) national postal monopoly.

It would be too long for this paper to trace the national and supranational histories of postal reform in the EU in detail (see Plehwe 1997a and König/Benz 1997). After many rounds of heated discussion, green and white book proposals of the European commission to reform the postal market in Europe in the course of the 1990s, considerable national liberalization and European re-regulation has been finally agreed upon on December 18, 1996 by the Council of EU ministers. The current arrangement leaves the postal monopolies with a reserved market for standard mail up to 350 grams and up to certain price levels to cover expenses needed to fulfill universal service obligations. Every country is free to open the market even farther, undermining the new balance from start. Germany's reserved market includes only letters of up to 200 grams. Full liberalization within the European Union is on the horizon (after 2002) with a decision to be taken by the Council in 2000. It has yet to be decided, however, how to finance universal service obligations if the remaining monopoly for regular mail is lifted. The important innovation emphasized by Werner Sombart mentioned above may be lost. The gap between business and private consumer services is likely to grow large.

In any case postal affairs have already lost their rigid "state service" character. Even restricted letter services are dealt with as a part of the larger parcel/postal and express markets as a part of the overall transport market indicating changing perception and regulatory/organizational practice. (Panorama of EU-industry 97, Europäisches Parlament 1997) Altogether, several 100.00 jobs have been lost in Europe's post offices.

Not only external and internal pressure by foreign companies, but internal struggles between different groups of capital (and state owned organizations) and alliances between "outside" and "inside" companies were thus driving the development and an increasing importance of triad competition.

Overall European 1992 planning in turn supported the U.S. shift away from cooperative multilateralism and towards a new regionalism propagating deeper integration with Canada (CUSTA) and Mexico (NAFTA). CUSTA and NAFTA were strongly supported by the initial refusal of the European Community to follow the U.S. call for a new round of GATT negotiations and by the lack of will to give in to U.S. demands during the long lasting Uruguay round starting in 1986. (George 1996, Payne 1996) In North America, however, both Canada and Mexico only accepted (the Mulroney government in Canada) or even pushed (the Salinas government in Mexico) regional integration after preferred strategies of lowering trade dependency on the giant neighbor failed. (Appel Molot 1994, Payne 1996) „Permeable fordism in Canada had meant the development of tighter and tighter links with the American economy. Thus,

the post-fordist Canadian economy was almost guaranteed to be even more permeable than the fordist one.“ (Jenson: 1989, 84)

#### **4.1. Transnational Varieties: North America ...**

Transport was not a sector subject to rapid liberalization in the CUSTA and NAFTA agreements written to protect national arrangements in transport by and large (compare detailed analysis in: Plehwe 1997b, 443-445). Thus it could be argued that transnationalization did not occur in North America, when one only regards the legal framework. The real development turned out quite different in the NAFTA region. The larger transport companies in particular answered to increasing demand for integrated trans border services of large shippers in particular and expanded operations into the neighboring countries despite strong obstacles. Integrated trans border organizations have been established by foreign direct investment (in the trucking, railway and ocean shipping sectors), and strategic alliances (in the trucking and airline sectors). (Compare major trans border moves of North American companies in the annex to this paper)

Aggressive unilateralism also threatened the declared aim of „open markets“ within the North American region spurring defensive protectionism during a phase that could indeed be called regime competition (between the U.S. and Canada until about 1988). A „trans border trucking war“ resulted from differing legal regimes benefiting Canadian truckers<sup>28</sup> until Canadian authorities gave in to demands of U.S. companies and politicians. The Canadian government subsequently adjusted the provincial and central state regulatory system to the liberalized U.S. framework. Large integrators like UPS and Federal Express at the same time massively entered the Canadian market. The Canadian Post office, however, in turn was allowed to buy the largest private parcel company in Canada, Purolator, to meet the new competition. The Canadian company started to provide cross border services with the minor U.S. integrator Airborne Express. Despite all these protectionist and competitive moves, both U.S. and Canadian companies expanded their organizational networks across the border, changing the terms of competition and the structure of logistics networks.

Regulatory frameworks have been adjusted by and large after a phase of intensified regulatory competition with Canada following the U.S. example. Continuing resistance by provincial governments was broken in Canada much like federal preemption clauses included in each U.S. law promoting regulatory reform in the transport sector transferred regulatory powers from the state to the federal level in the U.S. Consider the following court rule exempting Federal Express and UPS from state regulations related to trucking in 1991, for example:

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<sup>28</sup> In the case of airlines, Canadian passengers benefited from U.S. deregulation at the expense of Canadian airlines. Diversion was strongest from the airport of Montreal to the U.S. city of Burlington in Vermont.

FedEx is exactly the kind of expedited all-cargo service that Congress specified and the kind of integrated transport system that was federally desired. Because it is an integrated system it is hybrid, an air carrier employing trucks. Those trucks do not destroy its status as an air carrier. They are an essential part of the all-cargo service that FedEx innovatively developed to meet the demands of an increasingly integrated nation. Congress has freed it from the *constrictive grasp of economic regulation by states*. (Traffic World: 19.12. 1994, 24, emphasis added)

„Hybrid“ FedEx belongs to the five largest trucking companies and to the ten largest airlines in the U.S. at the same time. (Traffic World: 1.8.1994, 11) Certainly state influence has been diminished with regard to direct economic intervention in transport markets in many ways, but more important to an understanding of the story is the fact that state regulatory influence has changed substantially including the further centralization of regulatory powers.<sup>29</sup>

Even without supranational authorities, a North American regulatory framework provides for a transnationalized regime of capital accumulation. In the railway segment, North American transnationalization is even further advanced compared to Europe, although the merger of the German and Dutch freight railways signals a similar development. Road transport across borders instead is still far more restricted in North America. Limited cabotage rights (inland transport by foreign providers) established under NAFTA have not been implemented with Mexico.<sup>30</sup> UPS in turn withdrew from inner Mexican transport after Mexican authorities retaliated U.S. protectionism in trucking by restrictions on UPS operations. Across the Atlantic ocean, cabotage rights have been fully implemented in 1998 creating the legal opportunity to build a road based transport organization across the whole of the EU. Transnational integration in North America thus in many ways can be described as the extension of the U.S. regulatory framework into the neighboring countries meeting resistance wherever possible. Only after the Mexican peso crisis one year after the implementation of NAFTA, the Southern neighbor opened up many more national protected areas to foreign (U.S. in particular) investment, including the railway sector. Private organizations nevertheless have established trans-border logistics networks by and large free of state intervention. Little to no resources cross borders in North America to help underdeveloped regions (NAFTA is about trade, not aid) and fiscal federalism has

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<sup>29</sup> Among the many contributions to the history of deregulation the work of Dempsey (1989) provides the best assessment I know of.

<sup>30</sup> The Clinton administration thereby opposed both Mexican and U.S. trucking and shipping interests protecting pay and working conditions of unionized trucking labor. Unlike the Carter administration confronting a pro Republican Teamsters' organization, the Teamsters of the 1990s lean towards the Democratic Party. In addition to labor market concerns, safety issues related to outdated Mexican equipment played a role in the decision to delay liberalization of trans border traffic.

been reduced within the nation states. Infrastructure investment is thence dependent on regional wealth; polarization and uneven regional development are likely to increase.

## 4.2. ... and Western Europe

Complications with regard to liberalization and regionalization of transport systems in the U.S., however, do not come as a surprise considering the long European history of integration in transport. Until 1985, the so called *Common European Transport Policy* remained strongly constrained by the idea and practice of positive (policy led) integration (harmonization). Transport was considered a field of common policy describing the highest degree of integration in the initial 1957 treaty of Rome. (Reh 1993, 35) Compared to the two other fields of common policy, trade<sup>31</sup> and agriculture, very little resulted from the far reaching idea of a common European policy until 1985. Even at this point in time the European council of ministers was forced to develop a deeper integration strategy because of European court action. Members of the European parliament supported by the European Commission sued the Council of Ministers for not meeting the general requirements of the 1957 treaty of Rome. (Amtsblatt 1983, 9-10)

The court ruled the Council guilty. Already by 1969 the European council of ministers had been obliged to develop concrete plans to integrate European transport (developing specific rules for commercial trans border traffic) and was asked to do so immediately. Forced to act, the heads of European government decided at the Milan summit in 1985 to include transport in the 1992 program to complete the European common market. This program was originally inspired in 1982 by the European Roundtable of Industrialists, a group of leading managers representing Europe's largest industrial enterprises. (Holman/van der Pijl: 1992) It replaced the positive or policy led strategy of integration by a negative or market led approach. Old time plurinational integration in transport accepting the idea of unrestricted national sovereignty in transport within the nation state was thus replaced.

After 1985, nation states across Europe had to change transport regulations to allow for unhindered trans border transport organization, still an unfinished business to be sure. Liberalization of inner European traffic has been completed in the road, air, and inland water segments of the market. The railway segment is still lagging behind despite efforts to create European freeways, for example. The postal system is likely to be integrated almost completely into the European market framework by 2003. Unlike the North American path, regulatory market making is supported by financial

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<sup>31</sup> The European Commission represents the EU members with regard to foreign trade of industrial and agricultural products, but not in services. Currently the Commission tries to expand its responsibilities to cover the air transport sector.

support to poorer regions much of which is invested in transportation infrastructures. With the Maastricht Treaty, the European Commission gained new authority in infrastructure policies with the responsibility for the Trans European Networks (in railways, highways, electricity and communication links). (Jarzembowski undated, 1998) The European Commission, furthermore, is fighting to take the jurisdiction of international trade in services from the national governments in the field of airline traffic.

The previously unchallenged link of national transport companies and national transport equipment production was broken at the same time in Europe's 1992 program (in principle at least) due to the change in government procurement rules. The 1992 program forced each nation state to invite Europe wide bidding on larger contracts. (Busch 1991, 50-53) Since implementation both commercial transport and industrial production of transport equipment are no longer strictly national in Europe from a legal point of view. Today the German industry might find it more difficult to develop the ICE high speed train against the French TGV. ICE development was still possible within the old framework of protected national transport and equipment production markets.

These and other efforts with regard to the deepening of European integration reinforced the already existing European division of labor within transnationalized production networks. Although many restrictions (tax regimes, remaining universal service obligations of rail and postal companies, restrictive practices etc.) still constrain full integration even within Europe, transnationalization of transport and logistics services overall has nowhere else developed further. By 2003, even the universal service in the postal sector (already restricted to standard mail) will most likely be denationalized (and Europeanized!) realizing the vision of a postal union already expressed in the so called „Spaak-report“ spelling out the design of the European Economic Community. (Regierungsausschuß 1956) Today's market radical postal union of course is different from the European perspective back in the 1950s. Then cooperative and limited fiscal federalism (still propagated in the „McDougall“ report, see EC Commission 1997) was the mainstream and market radical perspectives on „competitive federalism“ (short for degenerating the EU system into a free trade zone like NAFTA) were at the margins. Today, the picture is different combining all kinds of „competitive federalisms“ and „competitive corporatisms“. <sup>32</sup> Instead of a coherent European transport system similar to those in developed national territories, a fragmented system is likely to result. The irony of history may have it that Europe is building up special regulatory agencies which have been dismissed in the U.S. in the age of regulatory reform in favor of direct administrative work. (Majone 1994 a/b) The European road to transnational integration, however, still knows many more com-

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<sup>32</sup> A campaign has been started recently by the German Naumann foundation to support the concept of competitive federalism, see Lambsdorff et al. (1998).

pensatory mechanisms than the North American region. Since none of the European countries is strong enough to dictate conditions, it is quite likely that competition plus compensation and a greater role of the Europeanized state will characterize the European system in the future as well.

## **5. Conclusion: Central features of transnationalized transport systems**

What will the impact of transnationalized transport and logistics systems be? What can be said about the central features already in existence and what kind of research is needed to better understand the restructuring? I will elaborate shortly on the four significant changes mentioned in the beginning.

### **5.1. Functional (cross border) logistics**

During the pluri-national, strictly national phase of transport policy making, the functional geography of logistics was determined by political geography. There is a long way to go to turn the resulting European patchwork into an integrated network. European railways, e.g., use five different electricity systems. But the importance of technological and infrastructure friction should not be exaggerated. It has been acknowledged in recent studies that full implementation of a common transport policy – depending mainly on the effectiveness of the regulatory state – is far more important to the truly integrated transport market than the infrastructure aspects so much discussed. (Ponti/Maffii 1997)

Already the implemented changes have changed distribution channels quite dramatically across Europe. Medical equipment producer Baxter International, for example, reduced 35 warehouses to five serving cross-national regions. (FT 15.10.1996, III) Many companies have been doing exactly the same (Norrman 1997, Hackman 1996) supported by logistics suppliers and mushrooming logistics consultant firms. The Financial Times writer emphasizes regionalized aspects of logistics reorganization in a survey quoting „...the trend towards greater geographic integration of supply chains in many industries, as manufacturers and retailers grasp the opportunities created by the removal of barriers to cross-border movement of goods within the expanding European single market.“ (FT 15.10.1996, III) Tensions between national and international regulatory frameworks thus turn into tensions between supranational regional and inter-regional entities with internationally operating producers and traders searching solutions for both wide area regional networks and „globalized“ logistics systems.

It is quite unlikely, however, that progress achieved within Triad regions with regard to liberalization will soon be transferred into a „global“ regime. Transport services are a hot issue in the upcoming GATT-Services negotiations, but experts already have

lowered expectations.<sup>33</sup> Whether tensions between regional and global types of „protectionism“ will increase or not will be an interesting subject to study. *National protectionism in transport is a matter of the past – in Europe and NAFTA-North America*<sup>34</sup> at least. The multinational fordist principle of living and getting along with the neighbors gave way to aggressive postfordist transnational merger and acquisition activity and regulatory realignment. Increasing cross-national penetration of productive capital goes along with increasing cross-national labor division and joint production which in turn strengthens demand for transnationalized transportation and logistics services. TNT Express company, for example, wrote a manual of how to take advantage of deepened European integration in transport in a series launched by the British manufacturing association Confederation of British Industry. (CBI/TNT 1992) This cooperative approach of logistics suppliers and customers brings us to the second feature.

## **5.2. Value adding partnership: third party logistics**

Conflicts between transport/logistics suppliers and users over prices for services were a recurrent theme under the state mediated system. Liberalization decided the conflict by and large in favor of large transport users who can now make full use of their monopsony powers vis-à-vis dependent service companies. All in all, the trend in logistics costs in Europe is downward (projected decline to 6.3% of GDP down from 7.2%) despite growing requirements. (ELA 1997, 11) Contrary to possible expectations, relations between transport and logistics suppliers and users did not worsen across the board despite the pressure created on the supply industries. Rather some segments of transport suppliers and some segments of transport users have had reasons to complain: small trucking companies and their employees and self employed drivers in particular have a hard time to recover operating costs let alone make a decent living (Bologna 1994). Reregulation of working time (including owner operators) in the transport sector (officially to improve safety at the workplace and for the environment) is partly a result of deteriorating conditions. (EU Commission 1997a)

Modern transport and logistics suppliers in fact have been able to separate secondary logistics (reshipment, warehousing etc.) functions from the primary transport business. The large logistics businesses operate huge networks and buy many of the transport services like the shippers themselves. Logistics suppliers in fact turn into

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<sup>33</sup> See for an overview WTO 1998 a-d, the European commissioner on foreign trade, Sir Leon Brittan, perceived only for the area of ocean shipping services an application on multilateral GATT principles. (DVZ 16.2.1999, 9)

<sup>34</sup> Though there was not much in terms of liberalizing all of the transport sector across borders, existing restrictions had to be registered. Transparency and the establishment of an official procedure of conflict regulation are the most important steps toward deeper integration apart from liberalization steps taken.

transport users this way. Such logistics companies enter medium and long term contracts with shippers to take over parts of the traditional commercial and own account business: in house transport, reshipment, warehousing, and sometimes even parts of manufacturing, marketing and other processes. (Aden et al. 1993) Shippers and logistics service companies this way create a rather stable „value creation“ partnership (Johnston/Lawrence 1989) and reconfigure the supply chain together. Logistics service companies insource what industrial producers and trading companies offer to source out.<sup>35</sup> Practically all of the large transport companies have developed such services. Recently, a second wave of large U.S. suppliers (after the integrators, airlines and forwarding companies) coming from the leasing industry (Penske and Ryder) have entered the European theater to take advantage of the growing market volume in contract logistics. In one of the largest projects reported in newspapers, TNT-Traco (the Italian subsidiary of TNT Automotive Logistics) took over more than 1.000 employees of the Italian car manufacturer Fiat in Turin. (DVZ 23.01.1997, 8)

This growing partnership between Fiat and TNT is a good example of many interorganizational networks being developed: The takeover of Turin in house logistics came after successful employment of TNT to run the spare part distribution first in Italy and later across Europe, and South America. This contract is worth more than DEM 400 Mio.<sup>36</sup>

Overall contract logistics is now the fastest growing transport market segment (GVB 1997) indicating a substantial change of logistics management including new efforts to coordinate supply chain management and shift labor from (frequently high paid) industrial producer organizations to service companies (usually having a lower pay load). Across Europe, about one third of logistics business is likely to be done in third party schemes, up from 10 to 20 percent depending on market maturity (compare table in annex). „Supply chain management is moving up the corporate agenda“, writes Charles Batchelor. „As competitive pressures increase, companies are being forced to rethink how – and where – they can squeeze costs out of the supply process.“ (Financial Times 1.12.1998, 1)<sup>37</sup>

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<sup>35</sup> Müller/Prangenberg (1997) provide a good overview over outsourcing except that their otherwise detailed book omits the logistics and business software completely.

<sup>36</sup> We found more than one hundred reports on 3<sup>rd</sup> Party arrangements in the German transport journal Deutsche Verkehrszeitung over the last years. Most examples are on the car industry followed by consumer goods and electronics. Toward the mid 1990s the number of reports on 3<sup>rd</sup> Party projects reaching into several countries have increased.

<sup>37</sup> An extreme example is the production of the SMART car at Hambach (Mercedes/Swatch) in France. All of the parts are sourced (modular sourcing) from only seven system suppliers and three logistics service companies. 85 percent of production is thereby sourced from outside suppliers. (Schumann 1997)

Companies are helped to do so by large third party logistics service companies, by software producers improving supply chain management writing logistics software (like SAP, BAAN, Oracle, and Peoplesoft) to improve the information flow across organizational and country borders, and by a growing community of consultants advising shippers to outsource all or parts of their logistics and connected operations. Almost every large consultancy firm in the meantime has hired logistics experts offering such services. Price Waterhouse Coopers e.g. is writing the industry analysis ordered by the European Commission in order to develop policies strengthening the European competitive position. (Financial Times 1.12.1998, I) Although European providers are considered to lead the industry, U.S. customers take better advantage from integrated services in Europe due to a long standing perception of Europe as an integrated market. (Hastings, 1997) Ongoing „dramatic“ industry restructuring in Europe and elsewhere results from supply organizations still too small to cover demand for geographically and diversified services.

### **5.3. New logistics service multinationals**

From what has been said before it should be evident that the supply industry of transport and logistics services already has undertaken massive reorganization efforts. Industry reorganization intensity may be exceptional indeed except compared to the telecommunications' sector. Financial Times speaks about „frantic restructuring“ (1.12.98) to build the national, transnational and interregional organizations able to meet the changing needs of logistics customers. After the „external shock“ (Fligstein 1991) of liberalization starting in the late 70s in the U.S. and in the mid 80s in Europe, many traditional companies be they airlines, railroads, trucking or forwarding businesses have reorganized their operations to build up economies of scale, reach, and scope. The two major ways of doing so are internal and/or external growth (mergers and acquisitions) or cooperation in strategic alliances.

Industry reorganization has developed in several waves in Europe with large forwarding companies being transformed to integrator like business at the end of the 1980s and the beginning of the 1990s. Instead of an expected period of rest, a new wave of m&a activity is shaking up the industry at the end of the decade with the postal companies taking center stage as already mentioned (p. 5) It is plainly evident now that alliances of small and medium enterprises eventually established to cover all of Europe are not strong enough to compete against the large logistics service conglomerates being formed. Even the strategic alliances of larger companies organized to face up to the integrated organizations are unlikely to survive. Since Nedlloyd agreed to sell its parcel and logistics business to Deutsche Post AG (and DP AG subsidiary Danzas AG) for around DEM 1 billion, the European E-1 alliance forged by the Dutch player is likely to dissolve forcing the partners of Nedlloyd to rethink their strategies and eventually to sell out to one of the few big players remaining in the market. (DVZ 20.3.1999, 1 / 2)

The structure of the reorganized transport and logistics sector is difficult to assess at this point. It is clear, however, that transnational concentration and centralization of private capital is becoming the central feature. Due to the takeover of DHL and TNT by European companies, the industry is not dominated by U. S. providers anymore, and the current reorganization of large European postal companies is likely to change the face of the industry again. Several large companies in a number of market segments are now protected by their size and market power rather than by regulatory frameworks. These companies cannot be compared with the traditional state enterprise: they are lean (and rather mean) co-managers of rationalized supply chains. Since rationalization of production is not promising anymore, rationalization of the sphere of circulation of goods and value is the order of the day: Cycle time compression and efficient customer response, reverse logistics etc. are the concepts developed by logistics experts to add value via logistics management. It is becoming more evident in the course of this change that transport is actually not a service but „the continuation of the production process in and for the circulation process“ (Marx 1981, 153).

Private logistics power is thus amassed at the expense of direct state control. Not only transport and logistics suppliers, and large companies in particular, but the changing relationship between logistics users in industry and trade and logistics suppliers have to be considered with regard to private interest formation processes creating new priorities in public policy making. In addition, a number of human „go betweens“ (academia and consulting) are positioned to reap enormous benefits from reorganization and restructuring. Logistics users, logistics suppliers, and „experts“ (sometimes appearing as scientists, sometimes as consultants) have created an „iron triangle“, a powerful transnational logistics complex within Europe and beyond.

#### **5.4. Interest representation: Transnational associations and „expert networks“**

Once national state and corporatist structures are undermined by liberalization and transnational market making, important changes in the way private (and public) interests are combined and represented can be expected. Deeper European integration has reinforced the attention of political scientists on interest groups and networking processes influencing European public policy making. (Eising/Kohler-Koch 1994) Optimistic observers expect new problem solving capacities at the supranational level of the European multi level polity while pessimistic observers regard transnational pluralism replacing national corporatism (Streeck/Schmitter 1994) as an obstacle to good governance. (Compare discussion on problem solving capacities in: Scharpf 1997) In transport and logistics, research to assess the changing system of interest representation has yet to be conducted. It is most obvious, however, that there has been a tremendous change in the way interest mediation in Europe and beyond works since privatization and liberalization took hold. What kinds of interests

do privatized railways have that expand in foreign countries, build up large road based organizations and develop logistics rationalization projects? What kind of interests do postal companies develop that become global logistics enterprises? Literally none of the markets of the transport/logistics sector is like it used to be 50 or one hundred years. Neither are the organizations dominating the industry.

Among the interesting aspects to be studied are the formation of transnational associations of large companies and new combinations of users and suppliers of transport and logistics services. The Freight Forwarders Europe group consisting of eight large companies was set up in 1994.<sup>38</sup> Due to the acquisition of the Swedish Bilsped group by the German giant of the industry Schenker, the association now counts seven members but is open to other companies of size. This group most likely has been set up to match the influence the large express companies (represented by the International Courier Conference (ICC)) have achieved in Brussels, basically breaking up the postal monopoly. (Campbell 1994) ICC was dominated by companies of U. S. origin and supported by national competitors to European postal monopolies. The association is now likely to be transformed substantially due to the acquisition of the small and medium sized company networks in the parcel market by expanding postal enterprises. Nevertheless there are (at least) two „transnational“ organizations of large companies operating in addition to traditional European networks of transport companies etc. The stability of the traditional networks combining national associations at the European level has been severely undermined in recent years.

The Clecat organization for example of (national) forwarder associations has been reported to almost break apart due to differing perspectives on future strategy. Some member associations (from weaker European economies) want a European orientation while others support a „global“ perspective indicating the ongoing struggle between what could be called Euro-protectionists and global(-ization) protectionists (DVZ: 8.10.1998, 1).<sup>39</sup> (Compare Cox 1995 on a similar typology of US companies with regard to NAFTA)

Contrary to Hérítier's (1997) and Eising/Kohler-Koch (1994), I do not think that national path dependency is the key to understand Europeanization of interest representation. Hérítier's (1997) analysis in four European countries of path dependencies and divergent developments in national adaptation to European liberalization in road transport fails to explain the reasons for specific paths of national business restruc-

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<sup>38</sup> In 1993 and 1994 alone, no less than seven new European associations in transport have been established. (DVZ: 5.1.1995, 1).

<sup>39</sup> Similar developments have been reported in the trucking and intermodal segments of the transport sector. A European trucking organization (UETR) was set up in 1997 by four national associations not satisfied with representation of the International Road Union (IRU) alone. (DVZ 23.8.1997, 2). Four companies in the intermodal (rail/road) market were unhappy enough with the European Intermodal Association to found Groupement des Transports Combinés in 1998. (Cargoworld 14.4.1998).

turing and is totally silent on reorganized interest representation at the European level. National model thinking actually seems to predetermine the analysis: the formation of a separate business organization of larger Italian companies is considered „paradox“ due to continuing corporatism in this country. The continuation of financial support of the state for small companies (now including foreign companies to conform with the European legal framework) is used as an indicator for continuously higher influence of small companies in the national polity. This perspective neglects the Europeanization of private interest power . A general focus on road transport much in general is not adequate anymore to understand the changing structure of the transport and logistics business.

May be even more important than new transnational associations of private transport companies are „transsectoral“ associations of a new type. In 1995, a special interest club of large logistics users and suppliers (50:50) has been founded. The aim of „European Freight and Logistics Leaders“ combining one hundred large shipping and logistics supply organizations is to support the value adding partnerships by shifting political priorities at the European level. Not any narrow perspective on parts of the transport and supply chain but an integrated approach is supported. (DVZ 19.11.1998, 9). Private producers thence take over a traditional state function: the integration of partial interests.

A similar perspective is guiding the European Logistics Association (ELA), a network of now 35 national logistics associations. (DVZ 10.12.1998, 7) This association assembles practitioners of the shipping and supply industries, and academics. Since the 1980s, a growing number of universities have established specific logistics professorships mostly in economics departments. Many of the predominantly micro economists teaching at universities, however, are also involved in consultancy services provided to both shippers and logistics suppliers such as the Berlin based „Zentrum für Logistik und Unternehmensplanung“.

The private/public expert network has expanded its presence in Brussels following suggestions of the European Commission to establish a logistics think tank. Asked whether or not *lobbying* activities will be strengthened, current head of ELA professor Pfohl (Darmstadt) suggested that he disliked the word, the network is out there to provide *knowledge*. ELA in any case will offer direct membership to large companies with the European level association. (DVZ 10.12.1998, 7)

Success in influencing agenda setting at the EU level by providing knowledge, and channels to communicate knowledge, and last not least some powerful private interests has been frequently observed in the recent history of European integration. Several initiatives of the Roundtable of European Industrialists have placed infrastructure and transport issues high on the European agenda during the 1980s and early 1990s (ERI 1984, 1987a/b, 1992 undated a/b). A more specialized network of logistics experts and special interest have taken over the job: In 1997, the first Euro-

pean logistics forum has been organized by ELA jointly with EC Commissions VII (transport) and III (Industry). In 1997 as well, the Commission published a new concept on freight transport using a logistics and systemic transport concept for the first time (EU Commission 1997).

Not unlike European developments, U.S. and Canadian logistics associations of industrial and trading companies have merged to form the International Association of Logistics Providers in 1994 (Transport Topics 15.8.1994, 6). The new association wants to take the Mexican counterpart in and opened membership to logistics suppliers. In 1995, an important new group called „Supply Chain Council“ has been set up by a U.S. consultant group. This Council combines the largest industrial and trading shippers, important logistics providers (mainly from Anglo-Saxon countries), the business software producers, and the international consultant firms (of course). European offices have been opened and European companies are invited to enter the transatlantic dialogue on how to further improve the making of transnational (and transatlantic in particular) logistics networks. (DVZ 3.11.1998, 1, see documentation of the Council in the internet: [www.supply-chain.org](http://www.supply-chain.org))

It almost goes without saying that consumer representatives, ecological activists, trade unionists, and „grass routes politicians“ are hard to find in the new transnational logistics complexes. Observers of the European and transatlantic integration process at the same time acknowledge the importance of private business groups (like the Transatlantic Business Dialogue) which drive the re-regulation process. (Lankowski 1997) Politics supposedly is all about problem solving. There is no doubt that “problem solving” capacities can be enhanced this way. The question to be raised remains, however, whose problems are solved. Some may continue to doubt that strengthening international (freight) transport links, which damage the ecological system and improve logistical rationalization strategies that reinforce jobless growth are appropriate answers to central European and indeed global questions. Kohler-Koch (1996) is right in any case to demand a better understanding of the interrelationship of special interest lobbying and regulatory politics, which is likely to be of some importance to the further development of transnationalized varieties of capitalism.

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## Annex: Major trans border initiatives in North America

### U.S. Companies in Mexico Ventures

<b>ABF</b>	<b>Servicio Libre a Bordo</b>	<b>Alliance (1993)</b>
<b>Celadon</b>	<b>Transportes Herchel</b>	<b>Alliance</b>
<b>Carolina</b>	<b>Tresguerres</b>	<b>Alliance (1994)</b>
<b>Challenger Motor Freight</b>	<b>TNL Internacional</b>	<b>Alliance 1993, since 10/94 own licence</b>
<b>Chemical Leaman</b>		<b>since 1976</b>
<b>Contract Freightliners, Inc.</b>	<b>Transportes Unidos Mexicanos</b>	<b>Alliance (1993) 8/95: 26 Mexican partners</b>
<b>J.B. Hunt</b>	<b>Transportacion Maritima</b>	<b>Alliance (1992)</b>
<b>Schneider National</b>	<b>Transpo Virel</b>	<b>1993, 100 percent own</b>
<b>M.S. Carriers</b>	<b>Transportes EASO</b>	<b>50 percent, 1994</b>
<b>Roadway Express</b>	<b>Transportes de Nuevo Laredo</b>	<b>Joint Venture TNL-Roadway 1995</b>
<b>Yellow Freight Syst.</b>	<b>Transportes Sierra</b>	<b>Alliance</b>
<b>GATX</b>	<b>GATX Mexico</b>	<b>1994</b>
<b>Ryder System</b>		<b>1994: planned investment US\$250 Mio.</b>
<b>Penske</b>		<b>1996</b>
<b>Transport International Pool, Inc. (TIP)</b>	<b>TIP de Mexico S.A.</b>	<b>1992</b>
<b>Xtra Corp.</b>	<b>Xtra Mexicana</b>	<b>1995</b>
<b>Union Pacific Rail</b>	<b>Transmex/USA</b>	<b>mind. seit 11/95</b>
<b>Norfolk Southern Rail</b>	<b>Transmex/USA</b>	<b>1995</b>
<b>United Parcel Service</b>	<b>UPS de Mexico</b>	<b>\$120 Mio. since 1991</b>

Source: International Brotherhood of Teamsters (summer 1996) based on reports of various journals such as Transport Topics, Traffic World, Journal of Commerce, Traffic Management, T and D, BNA International Trade Reporter

There are few large Mexican companies operating abroad. However, the shipping company, *Transportes Maritima Mexicana* entered in various alliances including the purchase of parts of the Mexican rail system (in the North East) together with U.S. road Kansas City Southern and the strategic alliance with Canadian Pacific, the large Canadian rail and ocean shipping company.

## **U.S. Companies in Canada (1990s)**

- ◆ **Allied Holdings** buys Auto-Trans (1994: 54 % market share car haulage, buys Ryders haulage business in 1997)
- ◆ **Consolidated Freightways** creates Epic Express (1995)
- ◆ **Union Pacific/Overnite**: all Canada Service 1995
- ◆ **Penske, Tower Group, Hub Group, Fritz Companies, International Logistics** all expand or enter Canadian market
- ◆ **Oxford Capital Inc.** purchases former CP parcel service Canpar
- ◆ **Roadway** buys Reimer Express, one of largest Canadian LTL companies
- ◆ **Yellow** declines to purchase Interlink, bankruptcy of one of the largest Canadian LTL carriers in 1997
- ◆ **American Airlines** buys stake in Canadian International

### **Major Canadian initiatives**

- ◆ **Canadian Post** purchases Purolator (Alliance with U.S. Airborne Express)
- ◆ **Various transnational alliances of Canadian companies with regional U.S. LTL carriers**
- ◆ **Canadian Pacific Railroad and Canadian North America** expand transnational railway network in the U.S., **Canadian North America** buys **Illinois Central**
- ◆ **CP** buys Lykes Shipping Line
- ◆ **Air Canada** buys stake in Continental, enters alliance with United

Source: Transport Topics, Traffic World, Journal of Commerce, Traffic Management, T and D, BNA International Trade Reporter, Deutsche Verkehrszeitung

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