

# WRR

SCIENTIFIC COUNCIL FOR GOVERNMENT POLICY

## **THE POLITICAL ECONOMY OF EUROPEAN INTEGRATION IN THE POLDER**

**ASYMMETRICAL SUPRANATIONAL GOVERNANCE AND THE  
LIMITS OF LEGITIMACY OF DUTCH EU POLICY-MAKING**

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## CONTENTS

1	Introduction .....	4
2	The political economy of European Integration since Maastricht: The changing social purpose of European governance and its implications for legitimacy .....	8
2.1	The transformation of the European socio-economic order .....	8
2.1.1	The internal market and EMU .....	9
2.1.2	A social dimension? : Towards the Lisbon Agenda.....	11
2.2	The debate on the European socio-economic governance: market liberalisation, monetary union and the future of the European Social Model .....	12
2.2.1	The pessimistic view: the European Social Model endangered .....	12
2.2.2	The optimistic view: the European Social Model revitalised.....	14
2.3	European socio-economic governance as ‘embedded neo-liberalism’ .....	15
2.3.1	The rise of ‘embedded neo-liberalism’ .....	16
2.3.2	The contradictions of ‘embedded neo-liberalism’ and the unfolding European legitimacy crisis .....	22
3	European intergration and the Dutch political economy: Winners, losers and the legitimacy of Dutch EU policy .....	24
3.1	Form and content of Dutch EU socio-economic policy and societal embedding .....	24
3.2	The rise and fall of the Dutch model in comparative and EU perspective: the limits of ‘embedded neo-liberalism’ re-visited.....	28
3.3	The winners and losers of European market integration and Dutch EU socio-economic policies .....	33
3.3.1	Winners and losers from the internal market and monetary union.....	33
3.3.2	Winners and losers in the Dutch political economy .....	36
3.4	The 2005 turning point: a politico-economic analysis of the legitimacy crisis as signalled by the referendum .....	38
3.4.1	The political economy of the ‘nee’ .....	38
3.4.2	The binary framing of the Dutch referendum debate.....	42
4	Counterfactuals and conclusions: Where to go from here?.....	48
4.1	Enhancing output legitimacy? Towards an alternative socio-economic model of European integration? .....	48
4.1.1	The supranational welfare state model and the re-nationalisation model .....	49
4.1.2	Towards a new ‘Third Way’ for European socio-economic governance: the primacy of politics.....	52
4.2	Enhancing input legitimacy and improving societal embeddedness: towards a left-right politicisation of Dutch EU policy-making .....	57
4.3	Conclusion .....	62

## **1 INTRODUCTION**

When the Dutch with an unexpectedly large majority voted 'nee' to the European Constitution, it became apparent that in the traditionally pro-European Netherlands too, the project of European integration had entered into a serious legitimacy crisis. Many were quick to proclaim that the resounding no-vote to a large extent reflected several socio-cultural anxieties expressed over European issues, such as a possible future accession of Turkey, that had little to do with the Constitution as such, as well as reflecting a more general anti-establishment mood supposedly having a hold on the Dutch population since a few years. Notwithstanding the undoubtedly great significance of these and related explanations, arguably too little attention thus far has been paid to possibly underlying socio-economic concerns – concerns that may be seen as indicative of a legitimacy problem deriving from the (socio-economic) content of the European project itself. As European integration, primarily in the shape of market liberalisation, has deepened over the past two decades, it has increasingly deeply intervened in the domestic socio-economic order of members states; further undermined the policy autonomy of national governments, and increasingly has come to affect the daily lives of citizens. At the same time that citizens increasingly feel that they have little, not to say, no input into this, they are also increasingly worried about what they get out of it, that is, whether the produced output in any way satisfies their needs and preferences. In this respect, then, the Dutch referendum result, just like the French, as well as other signs of rising Euro-scepticism in other member states, may be very well seen as an expression of a deeper multi-level and transnational legitimacy crisis of the European Union (EU) that is bound up with the political limits of the current integration project as such.

Zooming in on the Dutch case, this paper will analyse this legitimacy crisis, examining its causes and implications, from a political economy perspective. Such a perspective seeks to address first of all the *cui bono* question, or as political scientist Harold Laswell once famously wrote, who gets what when and how? Secondly, it seeks to examine the implications of this in terms of sustaining mass legitimacy – analysing to what extent there are contradictions between actual political practices and the requirements of legitimacy in democratic societies, and if so, how those possible contradictions might be resolved (van Apeldoorn et al 2003: 17). Adopting such a perspective this paper is divided into two main parts. The first part focuses on the European level and on the legitimacy aspects of the transnational political economy of the recent European integration process. The second part switches the perspective to the Dutch case, drawing out the implications of the former analysis for Dutch EU policy-making, taking into account the specificities of the Dutch political economy.

In the first part, section 2, the argument is made that the political economy of the European integration has witnessed a transformation of what could be called the socio-economic content of the integration process, or the social purpose underpinning the European project. This social purpose has changed from a model of trade integration leaving national (Keynesian) welfare states intact to a model of much more radical market integration, arguably undermining those very same national welfare states that derive their legitimacy from the public goods they were set up to deliver. Interpreting the current integration process as a political project of market liberalisation the paper thus focuses in the first instance on the question of what with Fritz Scharpf we could call 'output legitimacy', that is, legitimacy deriving from the content of the policies made, or the extent to which citizens support those policies because they effectively solve common problems (see Scharpf 1999: 6-13).

A central question raised in this context is to what extent the current European project poses fundamental challenges to (aspects of) the so-called (emphasising the commonality of these various national models) 'European Social Model'. The debate on this question will be reviewed by looking at both more pessimistic and more optimistic assessments (reflecting a variety of analytical as well as normative positions). The latter for instance tends to interpret the evolving EU socio-economic governance regime positively as promoting a kind of European 'Third Way' capable of combining competitiveness with social cohesion. This paper will adopt a more sceptical approach, arguing that current EU socio-economic governance ultimately rests upon a number of inherent contradictions that make what I call the synthesis of 'embedded neo-liberalism' rather unstable. In the final analysis, the primacy of EU governance clearly lies with market liberalisation, and meeting the so-called exigencies of global competition, with social cohesion being subordinated to the latter goal, and thus reduced to the necessity of national 'social models' to adapt to the perceived needs of a globalised world. This way the losers of the integration process are ultimately more compensated on the symbolic level than in real, substantive terms. The legitimacy problems that the European project has run into are thus deepened.

The second part, sections 3 and 4, then seeks to draw out the implications of the above analysis for the Dutch political economy, and for Dutch EU policy-making. Starting with the latter, section 3 starts by observing that the Netherlands has long been a supporter of European economic integration, and that this did not change as the project of market liberalisation deepened from the 1980s onwards. In this context, the celebrated 'Dutch model' of socio-economic governance showed a strong congruence with the European model of 'embedded neo-liberalism' and as such became held up as an example for the rest of Europe. Although there were some first signs of rising Euro-scepticism, generally support for European integration remained high, if passive on the part of the general public, whereas the

'social partners' were tied into the pro-European consensus through the polder model of bipartite and tripartite policy concertation. But the success of the Dutch political economy as embedded within the European single market and single currency was not meant to last. As the performance of the Dutch economy deteriorated, also Dutch EU policy-making was confronted with weakening output legitimacy. Arguably, as my critical discussion of the rise and fall of the Dutch model suggests, this shows the limits of national 'competitiveness strategies' within the constraints of current European economic integration. This, then, partly explains the 'negative' referendum outcome, as is evidenced by electoral survey data, and hence argued in a political economy analysis of the 'nee'.

Negative sentiments about the 'output' of European integration is reinforced by the perception that it is an elitist project over which ordinary citizens have no control whatsoever, that is, reinforced by a problem of 'input legitimacy', that is, legitimacy deriving from the mode of policy-making, or the extent to which citizens feel sufficiently involved in the process, and collective choices made thus follow from their revealed preferences (Scharpf 1999: 6-13). I would suggest, however, that this problem of input legitimacy maybe significantly reduced even within the limits of the current of institutional set-up if only politicians in both government and in opposition (as well as civil society actors) would be willing to frame the debate not merely in binary terms of being either for or against Europe, but as also (potentially) being about different choices for different kinds of Europe in terms of the (socio-economic) content of policies. As the analysis of the referendum debate, which concludes section 3, shows, the latter (what could be called a left-right) dimension has in fact been noticeably absent from the Dutch debate so far. As a result, I maintain, a space for a more constructive opposition never gets created. Here the core argument advanced by this paper is that in the long run a more legitimate Dutch EU policy can only be sustained by a more open debate, in which the policy choices are defended for what they are, that is, as political choices. In other words, what we need is not a mere politicisation of EU policy-making, but, a politicisation that in fact allows for a broad discursive space in which choices can be made, for or against European integration in general, but also for or against different EU policy choices. As Loukas Tsoukalis has argued, and as I will argue in this paper:

“ Choices will become starker in a more political Europe. We have long pretended that inter-country divisions were the only ones that really counted and that the choice was essentially between more or less Europe. It is time to move on, building on a politically mature Europe. 'What kind of Europe?' now becomes the key question.” (Tsoukalis 2005: 228).

It is on the basis of this insight, and following from the analysis of the first two parts (sections 2 and 3) that the paper will end, in section 4, with the presentation of some counterfactuals, and concomitant conclusions, regarding how from a political economy perspective Dutch EU

policy-making indeed could be better 'embedded' (as it was formulated by the project for which this paper was commissioned), and thus achieve more legitimacy. Here I will first address the question what alternative model of EU socio-economic governance might in fact achieve higher levels of output legitimacy than the current model, and then argue how a sustained politicisation along a left-right dimension may also enhance input legitimacy.

## **2 THE POLITICAL ECONOMY OF EUROPEAN INTEGRATION SINCE MAASTRICHT: THE CHANGING SOCIAL PURPOSE OF EUROPEAN GOVERNANCE AND ITS IMPLICATIONS FOR LEGITIMACY**

This section provides the politico-economic context of European integration within which the Dutch political economy and the (legitimacy) of Dutch EU socio-economic policy-making must be placed. As such, in section 2.1 I will argue that European socio-economic governance has witnessed a profound transformation as it moved from a rather limited form of trade integration to a much a deeper form of market integration. Section 2.2 then reviews the academic debate on the implications of this transformation, in particular focusing on the question to what extent it threatens the 'European Social Model'. Section 2.3, finally, will outline my own perspective on this by interpreting current EU socio-economic governance in terms of an 'embedded neo-liberalism' in which the primacy lies with market liberalisation through supranational European governance whereas the responsibility for the embeddedness of the market, and thus for policies of social protection, remains at the national level. This asymmetry within EU multi-level governance reveals a contradiction inasmuch as the embeddedness at the EU level remains largely symbolic whereas the supranational governance mechanisms associated with the internal market and EMU lead to a further 'disembedding' at the national level. It is thus that in terms of popular legitimacy the limits of 'embedded neo-liberalism' become increasingly visible.

### **2.1 The transformation of the European socio-economic order**

For decades European economic integration has remained limited to a rather shallow form of trade integration. It was shallow inasmuch as non-tariff barriers (NTBs) to trade, and all the national regulations with which these were bound up, were left untouched, and the cross-border mobility of capital remained very restricted – allowing national political economies a considerable autonomy in developing what has been dubbed the Keynesian Welfare State (see Jessop 2002). This socio-economic model was premised on full employment, and on the so-called mixed economy (see Scharpf 1999: ch.1) associated with a growing role of the state in the economy, not only through macro-economic demand management, but also directly at the micro-economic level through industrial policy, as well as regional and income policies. Although of course, the early process of European economic integration also produced both winners and losers, the (potential) losers were both limited in number (given the limited impact of what still a very limited form of European market integration on national political economies) and well compensated for both through the national welfare states, and, in the case of farmers, through the Common Agricultural Policy (see also Tsoukalis 2005: chapter



3). In sum, European economic integration in its early phase was compatible with, indeed perhaps an expression of, Europe's mixed economy and national (Keynesian) welfare states.

As is well known, all of this changed in the 1980s with the so-called relaunching of the European integration process through the Commission's White Paper on the completion of the internal market as was subsequently incorporated into the 1986 Single European Act (SEA). This has signalled the start of a process in which, though a continuous deepening of market integration, what can be called European socio-economic order (or the way the economy is organised in relation to society and the state in the member states as well as in what is now the Union as a whole) has been profoundly transformed, changing the 'social purpose' of the European integration process (see on the notion of social purpose Van Apeldoorn 2002). As we shall see below, many authors argue that the much more far-reaching market integration process since the 1980s has not only – which is fairly uncontroversial – helped to break up the mixed economy, but also to undermine the viability of Europe's welfare states. Before discussing the arguments pro and con this latter thesis, let us first look in some more detail at the main developments that have come to constitute the EU's contemporary regime of socio-economic governance.

#### 2.1.1 The internal market and EMU

The Europe 1992 programme for the completion of the internal market finally made serious progress on realising the so-called four freedoms (the free movement of goods, services, capital and labour) that had formed the legal bedrock of the European project. As such, as Tsoukalis has noted, with Europe '92 the process of European integration, moving beyond the 'old trade model', entered a qualitatively new phase in which for the first time the integration process came to intervene directly into the existing socio-economic order of the different member states (Tsoukalis 1993: 99, 335; see also Scharpf 1999). By the end of 1992, the liberalisation of goods had taken a huge stride forward, especially through the principle of mutual recognition (effectively eliminating a good part of the many NTBs). After 1992, and in a direct challenge to the mixed economies of the post-war era, the internal market project continued, with the extension of market competition to an increasing number of sectors – from telecommunications to transport and the energy market – hitherto shielded from market discipline (see Scharpf 1999: 58ff). As the principle of free competition came to override old prerogatives of sovereign states, that is, to control certain economic sectors and keep it out of the market if that was deemed in the public interest, the internal market programme also came to challenge national public services. As Scharpf concluded in 1999: 'no area of service public is now beyond European competition law' (ibid.: 61). Another critical element of the ongoing deepening of the internal market is constituted by the project of creating a single European financial area. This project started with the original internal

market programme (Story and Walter 1997), but it was only in the 1990s that financial market integration became a key 'political project' of the European Commission, at the heart of a broader European marketisation project (see Bieling 2003; cf. Horn and Van Apeldoorn 2007a forthcoming).

In spite of these important advances throughout the 1990s and beyond, the internal market is still an unfinished project, at least from the perspective of those who favour unfettered competition within the Union (e.g., the case of the free movement of services, see Pelkmans and Van Kessel 2007). Still, our overall conclusion must be that 20 years of accelerated market integration after the previous period of stagnation, has created a supranational European market both deeper and wider than many would have imagined possible when the whole process was relaunched in 1985. Furthermore, this radical market integration has cut deep into the established national political economies, challenging many features of the 'post-war European model of capitalism'.

Monetary union is having a big impact too. With EMU states have not only given up what has always been a key symbol of national sovereignty, but also two key instruments of national macro-economic policy-making, that is, the exchange rate and the interest rate instrument. With monetary policy transferred to an independent European central bank, moreover constitutionally committed to prioritise price stability over growth and employment, national policy autonomy has thus been further curtailed. Given these radical implications, many had argued that monetary union would have to be complemented if not by a political union (as then Commission president Delors advocated, see Ross 1995), then at least by an economic union that could provide for substantial macro-economic policy co-ordination at the European level in order to overcome the challenges of EMU's one-size-fits-all monetary policy (see, e.g., De Grauwe 2006). However, notwithstanding the efforts by ECOFIN and the open co-ordination of the Broad Economic Policy Guidelines, EMU has, as Verdun (1996), has argued, remained a largely asymmetrical union, more monetary than economic. Rather unique in history (at least on this scale), the transfer of monetary policy has not been matched by any fiscal federalism, or even a minimal expansion of the European budget and its redistributive capacity. Similarly, in the absence of any constitutional mandate, and under the constraints of the Stability and Growth Pact (SGP), macro-economic policy co-ordination also has remained limited.

### 2.1.2 A social dimension? : Towards the Lisbon Agenda

Given the potential implications of the internal market, and later monetary union, some European social and political forces have from the late 1980s onwards called for a social dimension to complete the internal market and to protect and compensate its potential losers (see also below on this essentially social-democratic project). Seeking to move beyond the rather limited social content of the SEA, the new social Europe that was called for inter alia by the then Commission president Delors, and supported by the European Trade Union Confederation (ETUC) as well as by much of European mainstream social democracy and parts of Christian-democracy, was first of all about supranational labour market regulation. A first step on this road was made with the adoption of the Social Charter of 1989, in end a 'highly diluted compromise' (Rhodes 1991: 263). This was followed by a Social Action Programme consisting of many legislative proposals for regulating European labour markets and preventing a so-called race to the bottom. Most of these directives, however, never went beyond the drafting stage as they were blocked in the Council of Ministers.<sup>1</sup> The political limits of what we might call the Delorist project were also revealed by the very watered-down nature of the 1992 Maastricht 'social chapter' (see, e.g., Vogel-Polski and Vogel 1991; see also Ziltener 2000, Streeck 1995a ; 1995b; Van Apeldoorn 2002: 146-9).

After Delors, the activism of the Commission has been much toned down, and indeed EU social policy has moved away from the attempt to create a strong supranational framework of market-correcting regulation. In sum, the social dimension according to many critics has remained underdeveloped compared to the 'economic' dimension of the internal market and EMU. However, in the 1990s the social policy discourse shifted its focus to the fight against unemployment (and other forms of social exclusion). This resulted into the European employment strategy (EES) –as first launched in 1994 –as representing a 'new European social policy' (Mosher and Trubek 2003; on the EES see also Tidow 2003; Van Apeldoorn 2003), and a model for what became a much more generalised strategy with the adoption of the so-called Lisbon strategy in March 2000.

The Lisbon reform agenda has been promoted as Europe's response to the challenges of globalisation, as well as a new way forward for EU social policy. Seeking to build upon the internal market project, but also accepting the legitimacy of calls for social protection in the face of the potential negative impact of European and global market integration for some groups, the agenda proclaims to constitute 'a positive strategy which combines competitiveness and social cohesion' (European Council 2000: 2). In terms of advancing a new social policy agenda, Lisbon has been about advancing the model pioneered by the EES, that is, substituting hard top-down Community regulation with 'soft policy co-ordination' through a Commission-led peer review in which Member States's performances are measured

on the basis of common 'benchmarks', establishing so-called 'best practices' – or what has been baptised the Open Method of Co-ordination (OMC, see, e.g. on this new mode of governance, e.g., De la Porte and Pochet 2001) .

## **2.2 The debate on the European socio-economic governance: market liberalisation, monetary union and the future of the European Social Model**

The transformation of European socio-economic governance as described above has led to different interpretations in terms of what it exactly implies for Europe's national political economies, and in particular for states to achieve certain democratically determined goals with respect to the organisation and management of the economy. Here the academic debate has focused especially on what in both public and academic discourse has been dubbed the 'European Social Model' referring to some essential common elements uniting what is otherwise a variety of diverse national capitalisms (Hall and Soskice 2001) – elements such as a relatively generous and redistributive welfare state; a commitment to regulate markets in order to correct for market outcomes, and serve some goal of social protection, and (often) the involvement of so-called social partners ('corporatism' broadly defined) in achieving this and other goals of socio-economic policy-making (cf. Hemerijck 2002; Scharpf 2002; Hay 2004). The question is whether this European Social Model is now under pressure not only from globalisation but also, and maybe even more so, from European integration as that process has reached an unprecedented depth in terms of intervening in domestic socio-economic orders. We may distinguish here between a 'pessimistic' view that stresses how current European integration endangers the European Social Model and an 'optimistic' view that emphasises how at least some core elements of the model can be preserved, even if a transformation in other respects is both inevitable and desirable.<sup>2</sup>

### **2.2.1 The pessimistic view: the European Social Model endangered**

The most well-known formulation of the pessimistic view is probably (although he adds a qualified optimism to it as well) that of Fritz Scharpf who argues that 'the course of European integration has created a fundamental asymmetry between policies promoting market efficiencies and those promoting social protection and equality' (Scharpf 2002: 665; also Scharpf 1999). Within Europe's multi-level polity this asymmetry takes the shape of a 'selective Europeanization of policy functions' (Scharpf 2002: 647), that is to say, whereas European integration has created a supranational internal market (and later a currency union as well), thus transferring market-making policies to the European level, social, employment and other market-correcting policies have remained at the national level. This asymmetry is constitutional inasmuch as the doctrines of 'direct effect' and 'supremacy' mean

that the rule of free competition takes precedence over any national rule oriented towards social protection or equity (ibid.). What Holman (2004) has called the 'asymmetrical regulation' of European governance further undermines national states' capacity for regulating the market and steering the economy through the economic mechanism of regulatory competition. With a supranational internal market, on the one hand, and national welfare states formally remaining sovereign in the social realm on the other, states are bound to compete on these policies in order to attract or retain mobile factors of production, that is, capital (Scharpf 1999; for similar arguments on regulatory competition see, e.g., Streeck 1995a; 1996; 1998). According to Scharpf this regulatory competition is bound to add to the vulnerabilities of national welfare states.

Adding much to these pressures of policy competition within the single market are the constraints on macro-economic policy-making imposed by monetary union, which, as indicated, has taken away two critical national policy instruments of macro-economic adjustment (Scharpf 2002: 648). Martin (2004; see also Martin and Ross 1999) has made this argument most forcefully by claiming that EMU through the monetarism of the ECB and the fiscal policy constraints of the SGP is a recipe for high unemployment, thus undermining the sustainability of welfare states, while EMU's requirement of budget austerity will further add to the pressures for welfare state retrenchment. It is thus that many have argued that EMU's regime of 'disciplinary neo-liberalism' (Gill 1998) directly and indirectly undermines the welfare state (see also Martin and Ross 1999; Martin and Ross 2004; Ryner 2004; Hay 2004; Cafruny and Ryner forthcoming).

We may summarise this 'pessimistic view' with regard to the implications of European economic integration for the future of the European Social Model(s), by the following quote from Scharpf:

"In short, compared to the repertoire of policy choices that was available two or three decades ago, European legal constraints have greatly reduced the capacity of national governments to influence growth and employment in the economies for whose performance they are politically accountable. In principle, the only national options which remain freely available under European law are supply-side strategies involving lower tax burdens, further deregulation and flexibilization of employment conditions, increasing wage differentiation and welfare cut-backs (...). At the same time, governments face strong economic incentives to resort to just such strategies of competitive deregulation and tax cuts in order to retain mobile firms and investments" (Scharpf 2002: 649).

The competitive pressures emanating from the internal market as well as from EMU are also bound to create a legitimacy problem as the loss of steering capacity at the national level (because of market integration!) is not compensated for at the European level. This makes

that Europe, rather than helping national states in providing the welfare and other public goods that citizens demand and have come used to in the post-war era, actually becomes, or comes to be seen, part of the problem. The logical solution, according to Scharpf, would be to take social and welfare policies to the European level as well. However, a problem with this strategy is that it would move political responsibility to a level where democratic legitimacy cannot, Scharpf argues, be achieved given that there is no European demos (Scharpf 1999). Moreover, harmonisation is impeded by the wide economic divergence between the member states, and, even more so by structural and institutional differences between national welfare regimes (see Scharpf 2002). Scharpf, however, does see some potential in the OMC of the Lisbon strategy in order to tackle this challenge of diversity (that is, by respecting it) whilst at the same still seeking to achieve common social policy goals. But, then, this open and non-binding co-ordination should be supplemented by several (binding) framework directives redressing the constitutional balance between market-making and market-correcting policies (ibid.). For now, this is not on the agenda.

### 2.2.2 The optimistic view: the European Social Model revitalised

A more 'optimistic view' comes from scholars who would rather stress what they see as the potential for a successful 'self-transformation' of the European model (Hemerijck 2002; see also Ferrera et al 2000; Rhodes and Ferrera 2000; Rhodes 2001a; 2001b). The core of the argument advanced by these authors is that although European welfare states are faced with a common set of pressures, amongst which those emanating from European economic integration, in particular, EMU – next to other important exogenous factors such as globalisation, the ageing of populations and the changing gender structure of the labour market – these pressures ultimately do not threaten the viability of European welfare states or the core of the European Social Model. Rather, they form a positive incentive for reforming those welfare states in such a way that they are successfully adapted to the new conditions, thus raising competitiveness while retaining the normative commitment to social justice and social cohesion (Hemerijck 2002: 173). According to this literature, in the course of the past decades, albeit it to varying degrees, many EU member states have in fact successfully started to pursue such reforms (Hemerijck 2002; Ferrera and Rhodes 2000). Part of these reforms, in particular as they have been pursued by small countries like the Netherlands and Denmark, could be interpreted as offering a 'European Third Way' between neo-liberalism and traditional social democracy (Rhodes 2001b; Ferrera et al 2000; see also Visser and Hemerijck 1997; Hemerijck 2002).

Advocates of this 'Third Way' do not deny that European economic integration seriously constrains national welfare states. The internal market is seen as to large extent contributing to the problem of de-industrialisation (a decline in employment in the exposed sector), and

thus to one of the major challenges faced by the contemporary welfare state (Hemerijck 2002: 183). More emphasis, however, is put on EMU, as a 'major watershed in the process of European integration' (ibid.: 191) responsible for exerting strong new pressures on national welfare states to 'adjust to international competition' (ibid.). However as argued especially Rhodes (2002), these pressures are primarily beneficial inasmuch as they help to induce reforms that were necessary anyway in order to meet given exogenous challenges and thus contribute to the sustainability of the welfare state. Here EMU is seen as stimulating reforms that effectively combine efficiency with equity, competitiveness with solidarity (Rhodes 2001a: 165; cf. Streeck 1999).

As both Anton Hemerijck (2002) and Martin Rhodes (2001a; 2002) argue, although EMU has put severe pressures on national industrial relations systems this has not led - as was predicted by some - to the complete deregulation ('Americanisation') of European labour markets nor to the end of the European 'corporatist' tradition of collective (wage) bargaining. On the contrary, as EMU with its monetary and fiscal policy regime has shifted the burden of adjustment on to the labour market this has led to a renewal of corporatist traditions in countries like the Netherlands as well as to the proliferation of social pacts to countries with no such traditions (Rhodes 2001a). What in fact has emerged, so Rhodes (2001a) claims, is a new 'competitive corporatism' that seeks to 'combine wage moderation, the quest for lower social charges and greater flexibility of work conditions' (ibid.: 180) - reforms supposedly boosting competitiveness, growth and employment, expressing a new form of solidarity.

In sum, European integration, is ultimately not a threat to the European Social Model, but rather facilitates its necessary 'self-transformation'. It is from this perspective that this 'optimistic' side of the debate also celebrates the Lisbon agenda as representing this 'Third Way' at the European level (Ferrera et al 2000), with the OMC in social policy signalling a 'deepening of social Europe' (Hemerijck 2002).

### **2.3 European socio-economic governance as 'embedded neo-liberalism'**

From the perspective of seeking to combine 'competitiveness' with social cohesion / protection, the question now needs to be addressed whether the optimistic reading of current European socio-economic governance, with the Lisbon strategy at its core, is warranted. Are we indeed being offered a 'Third Way' in which capital is free to compete and be competitive globally; labour has been made flexible to adjust to the needs of mobile capital; yet growth, employment as well as relatively generous welfare states with high social security can be maintained? A strategy that would appeal equally to right and left, to employers and trade unions alike? I would maintain that this 'Third Way' in fact promises more than it can

deliver, and will prove to be a cul-de-sac, at least in terms of sustaining the popular legitimacy of the European project.

The notion of a 'Third Way' as a compromise between neo-liberalism and (traditional) social democracy at first sight makes sense in light of the political dynamics that have shaped the relaunching of the European integration process since the Europe '92 programme. These dynamics can partly be interpreted as a struggle between a neo-liberal project on the one hand, and a social-democratic (and partly Christian-democratic) project of 'regulated capitalism' on the other (Hooghe and Marks 1999). What I have identified as a 'neo-mercantilist' strategy can be viewed as a third project that competed in the transnational political struggles defining the socio-economic content of the relaunched integration process. In other words, as I have sought to show elsewhere, EU socio-economic governance as it has taken shape in the 1990s can be interpreted as the outcome of the struggle between the three contending projects of neo-mercantilism, neo-liberalism, and supranational social democracy (see Van Apeldoorn 2002).

In the neo-mercantilist conception, the project of European integration was conceived as a project of creating a big home market for European industry in which (would-be) 'European champions' could successfully confront the non-European competition. The neo-liberal project on the other hand, emphasised the free market aspects of the internal market, a free market that should be open to and fully integrated into the emerging global economy. The internal market project was promoted as boosting efficiency through increased competition. – not only, as Hooghe and Marks (1999: 82) pointed out, between firms and between workers, but also between governments and their respective regulatory regimes. Following what Streeck (1996: 305) calls the natural alliance of neo-liberalism and nationalism, regulatory competition is engendered by deliberately deepening the territorial non-coincidence between the state and the market (Murray 1975), that is, through creating an 'integrated economy governed by fragmented sovereignty' (Streeck 1996: 301; see also Streeck 1995a, 1998).<sup>3</sup> In contrast, the social democratic project sought to re-embed the new European market into a supranational framework of social regulation and thus protect and consolidate the 'European Social Model'. This, then, is essentially the Delorist project identified above (see Delors 1992; Ross 1995).

### 2.3.1 The rise of 'embedded neo-liberalism'

Analysing the outcome of the struggle between these contending projects we may indeed observe, starting with the Maastricht Treaty, the rise of a compromise. However, this has been a highly asymmetric compromise, one clearly biased in favour neo-liberalism. It has been the neo-liberal interpretation of the internal market, still at the heart of European socio-



economic governance that ultimately triumphed, although it did triumph through an incorporation of elements of the rival projects, an incorporation in which some of their concerns were addressed at a subordinate level. Through this incorporation the neo-mercantilist and social-democratic projects were both effectively neutralised.

With regard to the neo-mercantilist project, the way the internal market programme was actually implemented – treating non-EU owned subsidiaries the same as EU firms – only led to a further opening up of Europe's national economies to the global economy. It is thus that the regionalisation of the European economy, in the sense of the further integration of its national economic systems, went hand in hand – partly in the context of the GATT / WTO – with a further globalisation of the European region (see Hanson 1998). Yet, addressing the concerns of former neo-mercantilists, Maastricht for instance did contain chapters on 'Trans-European [infrastructure] Networks' and 'Research and Technological Development', providing a basis for some form of European industrial policy clearly more in tune with the German model of Rhineland capitalism than with the Anglo-Saxon neo-liberal model – even if subsequently such a German EU industrial policy has hardly developed (see Van Apeldoorn 2002: chapter 5).

As with the defeat of the Euro-protectionists Europe became much more integrated into the global economy, and European industry, and hence European workers, thus came to be exposed much more fully to the forces of global competition, a call for other forms of organising social protection at the European level came to be all the more urgent from the perspective of some social forces. However, as indicated, the Delorist social-democratic government that sought to create this 'European organised space', never really got off the ground either. The social democratic interpretation of Maastricht largely failed to materialise, and Maastricht, thanks in large part to the lobbying efforts of big business, may in fact be viewed as marking the final defeat of the Delorist project (Ziltener 2000), even if, importantly, the largely symbolic so-called 'social chapter' succeeded in incorporating European social democracy and trade union movement into the 'New Europe'.

As indicated, in retrospect, then, the Maastricht compromise reflected the gradual emergence of what I have identified as an 'embedded neo-liberal' synthesis.<sup>4</sup> In this synthesis, 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. It was particularly within the European context that the new neo-liberal policy paradigm had to adjust to the institutionalised traditions of corporatist industrial relations ('social partnership'); social and

industrial protection offered by an often interventionist state, and other elements of 'embeddedness'. Thus, the 'embedded' component of embedded neo-liberalism addresses the concerns of both the former neo-mercantilists as well as those of the European labour movement and social-democratic political forces, but this incorporation, I claim, is done in such a way that these concerns are in the end subordinated to what has become the overriding objective of 'competitiveness' defined in neo-liberal terms of market liberalisation and market discipline. In that sense the 'embeddedness' of 'embedded neo-liberalism' is rather shallow, it is more symbolic than substantive. It above all implies an attempt to embed the neo-liberal project in the social-democratic (and partially Christian-democratic) values of the so-called European Social Model, as well as to relate it to the concerns of that part of European industry in need of a more pro-active, though not necessarily protectionist, role of the state. Moreover, and crucially, inasmuch as 'embedded neo-liberalism' offers any real embedding of the market in non-market social institutions, for instance through government policies promoting equity and social cohesion, these elements of embeddedness are primarily to be found at the national level. But as we have seen, it is precisely this asymmetry of EU multi-level governance that constitutes the problem from the perspective of those favouring a more substantive embedding. As the process of market liberalisation at the European level deepens, the limited remaining embeddedness at the national level is further eroded. This, then, constitutes an inherent contradiction in embedded neo-liberalism. Ultimately, as I will argue below, any real embeddedness cannot be sustained in the face of the disembedding force of neo-liberalism.

In the context of a deepening European integration process, the neo-liberal primacy of the market has been promoted by a 'competitiveness discourse' legitimating the ongoing internal market project as it sought to push market liberalisation into new areas into the 1990s (van Apeldoorn 2003). In this competitiveness discourse globalisation is constructed as an inevitable reality against which one cannot and should not (wish) to protect oneself, but as containing a set of challenges that need to be confronted head on, necessitating an ongoing market liberalisation such that the European economy can fully meet the exigencies of 'globalisation'. Complying with the perceived needs of global markets has hence become the primary goal of European socio-economic governance. In this view, performance is what the (global) market measures it to be. In this respect, a critical role in the articulation of the new neo-liberal competitiveness discourse is played by the concept of 'benchmarking' (European Commission 1996) which subsequently has become a key element in the OMC. Invoking the concept of benchmarking, the industrialists of the European Round Table (ERT) for instance leave no doubt as to how competitiveness must be measured: the country or (macro-) region that is most competitive is the country or region 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' (ERT 1996: 15).

What such a competitiveness strategy implies can be most clearly read from the socio-economic agenda that the EU adopted at the Lisbon Summit of March 2000, which subsequently, at least in political terms, has come to constitute the heart of European socio-economic governance. The Lisbon agenda is, on the one hand, clearly drenched in the competitiveness discourse, whilst, on the other hand, also containing elements addressing concerns of the former neo-mercantilist wing of European business, as well as of transnational social-democratic forces. However, these concerns are incorporated in such a way that they remain subordinate to the overriding goal of 'competitiveness'. In fact, I would submit, the Lisbon strategy can be viewed as an attempt to bolster – through ideological and discursive mechanisms – the social support for the European integration project as primarily a project of market liberalisation. In this sense, the formula – at the ideological core of Lisbon – of combining competitiveness with and social cohesion' on close inspection boils down to a call for radical structural reforms aimed at inter alia 'completing the single market and opening up hitherto sheltered and protected sectors (...) to improve the climate for enterprise and business [and] to secure more flexibility and adaptability in the labour market' (High Level Group Chaired by Wim Kok 2004: 8). Thus 'social cohesion' is equated with what is called 'modernising the European Social Model (European Council 2000: 8), which above all entails the adaptation of workers 'for living and training in the knowledge society', moving away from the protection of workers towards promoting their 'employability' (ibid.: 8, 10). Whatever the merits of this strategy – and this of course depends also on one's normative perspective – this new agenda does imply a clear shift from an emphasis on supranational market-correcting policies to an emphasis on the co-ordination and facilitation of market-making policies (something that the 'Third Way' literature tends to downplay).

In implementing this 'new European social policy' (cf. Mosher and Trubek 2004), the instrument of benchmarking has taken centre-stage as part of the OMC. In social policy, benchmarking is preferred to top-down regulation not only because consensus cannot be reached under conditions of diversity (Scharpf 1999), but also because defining common benchmarks while formally preserving national policy autonomy, keeps the regulatory competition in this area intact. In this respect, it is significant that it is with respect to the social policy areas bound up with the goal of 'social cohesion' – in particular employment – that EU governance indeed remains limited to policy co-ordination through benchmarking, whereas in the case of several policies deemed critical for achieving 'competitiveness', 'old-fashioned', 'hard' supranational law-making is still preferred, especially in the area of financial market integration.<sup>5</sup>

In this sense, the OMC does not challenge the fundamental asymmetry of European governance and in fact may be argued to reinforce it, at least in the sense of being supportive of the neo-liberal restructuring that is part and parcel of the integration project as a project of market liberalisation. This can for instance be illustrated by reference to the precursor of the Lisbon social policy agenda, the EES. Operating within the constraints imposed by the internal market, and by EMU and the rules of the 1997 Stability and Growth Pact, the EES is in essence a supply-side strategy in which labour market flexibility is the main policy instrument (Streeck 1998: see also Mosher and Trubek 2003), thus promoting the kind of policies that Scharpf has argued would be almost the only policy option left (Scharpf 2002, see above). As such, the EES, nor any other 'new style' European social policy cannot aspire to provide the market-correcting role that a social dimension to European integration was supposed to fulfil before.

Due in part to constraints emanating from both the internal market and monetary union, as constituting the core of European supranational governance and as reconfirmed by the Lisbon strategy, national welfare states and national policies of social protection are indeed coming under increasing pressure (see, e.g., Streeck 1997; Ryner 2003; 2007 forthcoming; Clift 2003; Martin and Ross 2004; Scharpf and Schmidt 2000 for various national case studies; see also Becker and Schwartz 2005; Hay 2004). These pressures have contributed to what could be called a neo-liberal restructuring of Europe's national models of capitalism to such an extent as to lead to a partial erosion of these models. Of course, the extent, and exact manner in which this takes place varies from state to state, and depends in part on the extent to which countervailing tendencies are present – for instance, the institutional resilience of particular aspects of the welfare state as well as the societal resistance to particular types of 'reform'. Although the picture here is complex and differentiated, recent comparative research does indicate that there is evidence of what Colin Hay (2004) calls a 'common trajectory' in which the different European national varieties of the 'European Social Model' are moving closer towards the market-liberal or uncoordinated type of capitalism (Hall and Soskice 2000), in which the interests of transnational capital (in particular finance) takes precedence over the interests of (organised) labour, and social protection', through the welfare state and labour market regulation, is subordinated to the logic of the free market. It is thus that there are good grounds to doubt the optimistic assessment – discussed in section 2.2 – of those who interpret recent development in terms of the rise of a European 'Third Way' preserving the core of the European Social Model (this argument will be further supported by a critical discussion of the so-called Dutch model – one of the supposed success stories – in section 3).

Arguably these European pressures on national social models did also lead to, at least temporarily, a response in the form of 'competitive corporatism' in several European countries. Indeed, at the end of the 1990s so-called 'social pacts' became a rather wide-spread phenomenon (Ebbinghaus and Hassel 2000). As Bieling and Schulten (2003) and others have argued, this, has, however, often taken the form of concession bargaining, in particular wage concessions. Whereas the expected positive employment effects of such strategies are questionable (see the critique on the Dutch model below in section 3), this form of 'competitive solidarity' (Streeck 1999) has little to do with the kind of goals that were associated with the 'non-competitive' corporatism of before, namely one in which trade unions could from a position of strength bargain to dampen the logic of (price) competition within the labour market. It is in this sense that regime competition caused by European integration does change the content of European industrial relations, even if leaving its form much in tact (Streeck 1998).

We may in this context also see competitive corporatism as an example of the kind of national competitiveness strategies that member states now have to pursue in order to be competitive within the single European market. These national competitiveness strategies are by definition limited in what they can achieve since, as argued by Scharpf, not many policy instruments other than supply-side measures – aimed mainly at improving the adaptability of labour to the conditions of international competition – are left. Thus, member states are all facing the same pressures to, through these supply-side measures, attract or retain mobile capital. Although this arguably might indeed improve national competitiveness, some critical economists have argued that Europe's sluggish growth is probably as much or even mainly due to insufficient demand (Euromemorandum Group 2005). Leaving this aside, we may also note that it tends to produce a kind of 'rat-race economic nationalism' (the term is from Becker 2005: 1096), where each member state seeks to out compete the other by providing the better conditions to mobile production factors. It is unclear whether this will in fact improve competitiveness on any structural basis (see next section), whereas by putting the weight of adjustment to labour, the latter's position is weakened both politically, and economically. It may seem paradoxical then that the commitment to a supranational market (and governance) produces such a logic of nationalist economic rivalry, but in fact it might be seen as the logical consequence of the asymmetry of European governance, and the policy competition it engenders.

The more general problem, then, remains the regulatory asymmetry inherent in European governance, or the fact that 'multi-level' Europe above all means that market-making policies aimed at economic efficiency have been transferred to the EU level whereas market-correcting policies aimed at social protection and equity remain at the national level. Thus, as

indicated, with the drive for market liberalisation continuing to be advanced by the EU, the remaining embeddedness of the European political economy in a societal and political framework limiting the self-regulating market, becomes increasingly hollowed out.

### 2.3.2 The contradictions of 'embedded neo-liberalism' and the unfolding European legitimacy crisis

The 'embedded neo-liberal' concept is in fact stretched to its limits through the ongoing and deepening market liberalisation process (as described in section 2.1.). This heightens what I see as the fundamental underlying contradiction of current EU socio-economic governance, that is, the way it seeks to combine competitiveness with social cohesion. The way these goals are combined is, as argued, by defining the former in terms of market liberalisation and increased market discipline, whereas the latter is defined mainly in terms of adaptability of workers, and thus as subordinate (and indeed, instrumental) to the latter goal. Indeed, the primacy of market liberalisation has always been at the core of the embedded neo-liberal project. However, as Karl Polanyi's analysis (Polanyi 1957) showed, this commitment to the 'principle of economic liberalism' cannot but conflict with society's need for the 'principle of social protection'. The attempt of the Lisbon agenda to marry these two principles discursively, therefore had to be more underdeveloped in terms of substantive content. This then makes this strategy vulnerable to the critique that ultimately the balance between these two objectives, and their integration, is more apparent than real.

As the new Commission has recently revamped the Lisbon process by shifting the weight even more to the policy goals related to 'competitiveness', and scaling down its earlier very modest (and rather market-oriented) ambitions with regard to social cohesion, as well as environmental sustainability, these inherent tensions of Lisbon have of course only come more to the fore. <sup>6</sup> In this context, the ETUC has since 2000 grown increasingly critical of the Lisbon process, openly expressing its worries that the balance between the 'economic' and 'social' pillars was being lost in favour of a 'pure "business" or "market strategy"', and warning that under such circumstances, that is, if 'Lisbon becomes equated with the dismantlement of social Europe, the 'ownership' of the Lisbon strategy as such will be refused'.<sup>7</sup> Even though more radical critiques of neo-liberal Europe (see Bieler and Morton 2003) have arguably thus far only made a limited impact upon the wider public discourse on European socio-economic governance, this more critical attitude on the part of European transnational labour is another sign that the embedded neo-liberal project becomes increasingly contested (the recent struggle over the services directive is another case in point).

All of this then raises the question how viable the current European socio-economic governance is in the longer run, in particular in terms of the extent to which it is able to generate and sustain the necessary level of popular legitimacy. A first observation to be made is that the current integration project above all rests on the active consent of transnational elites, and that this consent tends to be much more passive amongst the European populations in general. Arguably, though with considerable national variation, this passive consent has been weakening in recent years to the extent of revealing a legitimacy crisis of the European project itself. Recent research has shown that Euro-scepticism has been on the rise both amongst Europe's electorates and within the discourse of (populist as well as mainstream) political parties.<sup>8</sup> Although also associated – particularly in the context of the recent as well as possible future round(s) of enlargement – with rising nationalism, xenophobia and other anxieties about national identity, worries about social issues and the (perceived) negative impact of European market integration on for example employment and social security also play a role in the growing alienation of Europe's citizens from its political institutions. Indeed, the latter may be in part an underlying cause of the former. Thus the socio-economic dimension, and in particular the perception that Brussels is trying to impose an 'ultra-liberal' model of capitalism that threatens job security, the national welfare state, and cherished public services – played for instance a particularly important role in the French discourse opposing the European Constitution (Grunberg 2005).

In sum, the legitimacy crisis that is now manifesting itself is thus bound up with a politicisation of the integration process itself (Hooghe and Marks 2006). I contend that what Europe here in part faces is a problem of output legitimacy, in particular as related to the socio-economic output of the EU. How can this general, and admittedly broadly brushed, picture of the political economy of European governance be applied to the case of the Dutch political economy as embedded within this European political economy? Who are the winners and losers of 'embedded neo-liberalism' in the Dutch case? And what role does Dutch EU policy-making play in this, and what are the implications for the latter's legitimacy? It is to these questions that we will turn in the next section, and second main part, of this paper.

### **3 EUROPEAN INTERGRATION AND THE DUTCH POLITICAL ECONOMY: WINNERS, LOSERS AND THE LEGITIMACY OF DUTCH EU POLICY**

In this part I will seek to place the Dutch political economy within the context of the political economy of European integration as analysed above, focusing in particular on the implications for the legitimacy of Dutch EU (socio-economic) policy-making. In the following I will first, in section 3.1, outline how the Netherlands has continued to support the European integration project during the 1990s, especially with regard to the internal market and monetary union, and how in fact the Netherlands own socio-economic policies at least ideologically fitted with the EU socio-economic governance regime as took shape in the 1990s. From this follows a critical assessment of the so-called Dutch model in section 3.2. The latter prepares the ground for the section, 3.3, which tackles the question of the winners and losers (in general and in particular in the Netherlands) of deepening European economic integration. It is against the background of the sharpening divide between winners and losers that we have to analyse, from a political economy perspective, the current legitimacy problems encountered by Dutch EU policy-making. These problems will be examined in more detail through a politico-economic analysis of the Dutch referendum on the European Constitution in section 3.4.

#### **3.1 Form and content of Dutch EU socio-economic policy and societal embedding**

As is well-known from the literature, the Netherlands has for a long-time been a staunch and loyal supporter of the European integration process (Voorhoeve 1979). As some have suggested (Koch 2001; Sie Dian Ho 2001), this support might have been very well less out of federalist normative commitments and more out of pragmatic self-interest, or rather the federalist outlook can be regarded as the ideological expression of the interests of a small nation-state with a very open economy (thus very dependent on international trade). The common market project fitted well with the Dutch internationalist orientation as a trading nation – and indeed it was a project that served the interests of Dutch industry well (Moravcsik 1998: 150, 154)– whereas the commitment to supranational integration must be seen as both serving the purpose of creating and consolidating that market as well as preventing a Community dominated by the larger member states. At the same, also in the Dutch case, the ‘old trade’ model to which European economic integration was initially limited, provided ample policy autonomy for the Dutch state to develop and maintain its own distinct welfare state and pursue its own market-correcting and industrial policies.



As argued in the previous section, this particular balance between the European and national political economies changed with the profound transformation of European socio-economic governance from the SEA onwards. The internal market project, was, however equally supported by the Dutch as it served well the interest of Dutch business, in particular those multinationals that were increasingly internationalising and needed a European home market as a base to successfully confront the increasing global competition (Dekker 1985), and to serve as a 'springboard' for the world market (van der Klugt 1988). In the meantime, the Dutch government, in concertation with the organised interests of employers and employees, also embarked on a number of reforms (Visser and Hemerijck 1997) that were in line with the market liberalisation trend that set in the then European Community from the 1980s onwards. In the 1990s, then, Dutch socio-economic policies were well embedded within a new European framework.

In some respects, also on the part of the government, a more critical, or some would say, 'realist' attitude towards the EU could be detected during the 1990s (van Keulen 2004). The main issue through which this transpired was that of the Dutch contribution to the EU budget (ibid.: 10). As the Dutch increasingly contributed more to the CAP and the structural funds than they got out of it, their financial position deteriorated to make it the largest net payer per capita. From the 1990s onwards and into the current decade, the Dutch government, and especially its finance minister, Gerrit Zalm, time and again publicly complained about this 'unfair' situation. In this context, the support for European integration became less enthusiastic than was customary in the preceding decades. Of course no government likes to pay much more (even if the sums are relatively small on the total national budget) than other governments of equally rich member states, in particular as this is bound to be hard to sell to the public. In this sense, the political calls for a reduction of the Dutch financial contribution can also be seen as an (anticipatory) response to a growing scepticism on the part of some sections of the Dutch population. However, on the other hand, we may also see it as reinforcing that scepticism. This then raises the question whether there were not also other reasons for the Dutch government to put so much emphasis on this issue. One thing that we may note is that from the 1990s onwards, and this applies even more to the governments of Balkenende I and II (from 2002 to the present), the Dutch government has also increasingly sought to put pressure on the EU budget as such, supporting efforts to make cut-backs in both CAP and structural funds (van Keulen 2004: 10). This not only fitted with the general Dutch financial interest, but perhaps also fitted with a neo-liberal ideological orientation that arguably came to dominate Dutch EU policy-making in the last decade or so.

In section 2 we already noted the natural alliance between nationalism and neo-liberalism. Although neo-liberals wholeheartedly favour the European project as a project of market

liberalisation as well as the 'disciplinary neo-liberalism' (Gill 1998) of EMU (or at least, continental neo-liberals), they are opposed to any European 'state-building' attempt (cf. Ross 1995) that would involve the transfer other than market-enabling policies to the European level. To this ideological position also belongs a scepticism vis-à-vis a more ambitious federalism as the Dutch government for instance had supported until the Maastricht treaty, as well as vis-à-vis the notion that the EU should have its own budget serving certain redistributive functions. In this respect, it is not surprising that this position was above all expressed by the free-market liberal party (VVD) in the various coalition governments. It nevertheless has also been the line of the government as a whole, and this serves to underline how the Dutch government, maybe even more than in the past, supports European integration project inasmuch as it is primarily a market integration project. Of course, co-operation in e.g. the realms of foreign policy or asylum policy are also important, but policies costing any money and involving some form of transnational redistribution are best to be avoided.

As the primacy of market integration is in fact also what underpins current EU socio-economic governance in general – with the desire to further trim the European budget also shared by other governments as well as by the Commission– it is perhaps wrong to see this policy as in any sense more 'Euro-sceptical', it is rather about supporting a particular kind of Europe. As indicated, another matter, however, is whether consistently hammering home the message that 'we' are paying too much is not feeding into Euro-scepticism amongst the public at large (to this we will return in section 3.4). Although it is not possible to prove any causality, during the 1990s support for European integration declined more rapidly in the Netherlands than on average in the EU (Netjes 2004: 6), even if remaining comparatively high.

In line with the neo-liberal position, and hence notwithstanding the more critical attitude noted above, the Dutch political elite throughout remained a loyal supporter of the current integration project, in particular regarding its socio-economic core, that is, the completion of the internal market and the discipline of monetary union, and social policy being relegated to efforts of supply-side policy co-ordination, but remaining effectively a competence of the member states who are thus facing increasing pressures of regulatory competition in this realm. Not only did the Dutch government actively support this evolution of European socio-economic governance (Sie Dhian Ho 2001), Dutch EU policy was also well embedded within Dutch civil society through the neo-corporatist polder model (ibid.; see also Woldendorp 2005). Through organisations like the Social and Economic Council (SER) – the pivotal institution of Dutch neo-corporatism –not only the Dutch employers associations, but, critically, also the Dutch trade unions were firmly tied into a pro-European consensus (cf.

Pelkmans and Van Kessel 2007). Here 'pro-Europe' meant above all a commitment to deepening European economic integration, including both the internal market and monetary union. With regard to the latter, the 'a priori commitment' to monetary austerity as an external constraint on the part of both the Dutch government and Dutch social partners already dated back to early 1980s when within the EMS the Dutch had accepted the D-mark as 'an external anchor' (De Beus 2004: 181, 186). Monetary integration subsequently has remained effectively depoliticised until very recently (see Engelen 2007). With regard to the (deepening of) the internal market, both social partners share the view that that European market integration is a sine qua non for a prosperous Dutch economy: it promotes exports, growth, and therefore also for jobs (see, e.g., SER 2004).

With respect to the position of the Dutch trade unions, it must be noted that they may very well have good reasons to take this positive view of European market integration. Given the nature of the Dutch economy, and how that economy has always benefited from its openness, Dutch trade unions arguably (at least taking some aspects of the current socio-economic order as given) did have an interest in European integration as market liberalisation to a considerable extent. What one might, however, add on a more critical note, is that the way the trade unions were incorporated into this pro-European consensus, that is, bound also to much of its market-liberal content, has made them perhaps put less stress on the possible downside of market liberalisation – such as the threats to the position of organised labour emanating from regulatory competition – then otherwise might have been, and perhaps should have been, the case.

To this we may add that the incorporation of the Dutch trade unions into Europe's (neo-liberal) marketisation project has arguably also been facilitated – just as the case of the ETUC at the European level – through the latter's discursive articulation with the values of the European Social Model, such as expressed by the Lisbon agenda. In this sense, the way Dutch trade unions too have been – facilitated by the role Dutch corporatism played in this respect – integrated into the elite consensus in favour of the current European project, may also be seen as an expression of what I have termed 'embedded neo-liberalism' – and a testimony to its success in uniting different social forces behind the economic integration project.

Although this societal embeddedness in the 1990s continued to sustain the legitimacy of Dutch EU policies, the drawback of this is that opposition to some aspects of European economic integration and socio-economic governance – as for instance to be found amongst the rank and file of Dutch trade unions (as was testified by the large majority of members that voted 'no' against the constitution, notwithstanding the positive attitude of the trade union leadership), as well as in less organised sections of society (the unemployed, non-

unionised labour)– was not well represented, or even articulated, at the national level. As such, the consensus was mainly an elite consensus. The risks inherent in this strategy have arguably become more apparent with the Dutch referendum (see section 3.4 below). In the 1990s, however, the happy marriage between the Netherlands and European integration was not yet over.

In fact, and anticipating the Lisbon agenda of supposedly combining competitiveness with social cohesion, the Dutch came to be seen as a leading example for the rest of Europe. The seemingly strong socio-economic performance of the famous Dutch model during in particular the latter half of the 1990s, fitted well with the EU's ambition to become the most competitive economy in the world while preserving (or at least claiming to preserve) the values of the European Social Model, even if the latter would have to be radically adapted in order to meet the demands of global competitiveness. It is this essence of the 'embedded neo-liberal' concept that also came to inform Dutch socio-economic governance in the 1990s, which was thus fully convergent with the European project. As such, the Dutch received much praise from the EU, while the Dutch government was a staunch advocate of this European agenda. This happy state-of-affairs came under pressure, when after the turn of the last century, the Dutch model suddenly did not perform so miraculously anymore. This then opened the space for growing discontent, with the output of both Dutch and EU socio-economic policy.

### **3.2 The rise and fall of the Dutch model in comparative and EU perspective: the limits of 'embedded neo-liberalism' re-visited**

The Dutch political economy is a much-discussed case in comparative political economy. Furthermore, although not much research has been done on the impact of European integration on the Dutch political economy, what came to be known as the Dutch model or 'polder model' has, until recently, often been held up as a shining example of socio-economic performance within the academic and public EU policy discourse, and also figured prominently within the 'Third Way' discourse of the late 1990s.<sup>9</sup> In particular, it has been held up as model for other the rest of Europe to follow in terms of socio-economic reforms allegedly necessary in the face of the growing twin pressures of globalisation and Europeanisation.

In the academic literature the so-called Dutch model that gained fame at the end of the last century has been analysed in terms of a 'Dutch miracle' that would have succeeded the 'Dutch disease' of the 1970s. The alleged miracle consisted in rapid employment growth on the basis of an improved competitiveness, while maintaining relatively high levels of social security, including a generous welfare state (Visser and Hemerijck 1997; cf. Becker 2005; Spithoven

2002; Woldendorp 2005). All of this was achieved with the active support of the 'social partners' within the framework of the Dutch system of national-level consultation (overlegeconomie). It has been in this context that Martin Rhodes (2001a: 184) has singled out the Netherlands as 'the most advanced example of "competitive corporatism"'.

The Dutch model was thus in this discourse made out to represent a successful case of combining enhanced competitiveness with maintaining social cohesion, which, as we have seen has come to be the 'hegemonic formula' underpinning the Lisbon reform agenda. Indeed, I would suggest, in terms of national varieties of capitalism, the Dutch model represents what I have termed the 'embedded neo-liberal' concept par excellence. In this sense we may also take it as a case of what 'embedded neo-liberalism entails in practice at the national level, and thus gain a fuller understanding of embedded neo-liberalism as a project of multi-level governance. As argued above, the limited embeddedness of embedded neo-liberalism takes place at the national level, that is, within the context of national state-society relations and their associated institutions. It is also at the national level that the social cohesion side of the Lisbon twin strategy needs to be effectuated, that is, under the conditions of the supranational regime of a single market and a single currency. As I argued, it is precisely this asymmetry of European multi-level socio-economic regulation that is problematic from the point of view of sustaining a more substantive form of embeddedness. Below, I will suggest that also in this respect the so-called Dutch model is a case in point. In other words, the problematic aspects that we above have identified with respect to the 'embedded neo-liberal' model in general, that is, as it has come to underpin the present EU socio-economic governance regime, may also be seen as applying to the Dutch case, which indeed here may be treated as paradigmatic.

In order to analyse the limits of the Dutch model of embedded neo-liberalism within the context of EU socio-economic governance, and to draw out the implications of this for the legitimacy and 'embeddedness' of current and future Dutch EU policies, we first need to take a closer and critical look at the argument that the performance of the Dutch political economy at the end of the 20<sup>th</sup> century was indeed miraculous.

Employing standard economic indicators, the performance of the Dutch economy has indeed been impressive since the late 1980s. GDP growth has been above the European average (though with rather minimal differences) and the employment rate has gone up in a period of 15 years from 50 % to 74 % in 2001 (Becker 2005: 1081: see also Woldendorp 2005: ch. 8). Yet since 2001, the Dutch economy has fared much less well, also comparatively, with growth stagnating, and both employment and inflation on the rise (more recently the performance has been a bit better, but not much). Some have suggested that this unexpected decline in

Dutch socio-economic performance casts serious doubt on the solidity of the so-called Dutch model, and in particular should make us question whether the 'Dutch miracle' was really built on any sustainable strategy, and in fact was not rather a myth (see especially Becker 2005; see for other critical accounts of the Dutch model: Spithoven 2002; Keman 2003; Woldendorp 2005). This is not the place to settle this controversy. Yet the story of the Dutch model and its critics does raise important questions with respect to the political economy of European integration and the position of the Netherlands within it.

The conventional explanation of the so-called Dutch miracle is that it was based on wage restraint, in particular the policy of keeping wages below productivity growth, thus increasing international competitiveness (as advanced by, e.g., Visser and Hemerijck 1997, but one that has in fact permeated the whole public discourse on socio-economic policies since two decades now, see on this also Becker 2005). The policy of wage restraint as a cornerstone of a national competitiveness in this argument had been enabled by a learning process on the part of the Dutch trade unions, and thus their new willingness to restrain wage demands as part of successive social pacts (from the 1982 Wassenaar agreement onwards). Another element that has been stressed is the flexibilisation of the Dutch labour market, although in this account not premised on the deregulated Anglo-Saxon model but combining flexibility with security (Visser and Hemerijck 1997; cf. Remery et al 2002). Both elements, wage restraint and increased labour flexibility, have been part of negotiated settlements between trade unions, employers and the Dutch government (Visser and Hemerijck 1997; cf. Woldendorp 2005). Hence they have been policies firmly embedded within Dutch civil society, and as such resting upon a broad consensus and concomitant legitimacy.

The orthodox view that the Dutch miracle happened because of a 'competitive corporatist' policy of wage restraint is not shared by everyone, however. Uwe Becker (2005) in fact calls it a myth. He claims that the Dutch job growth can be better explained in terms of a big increase in – mainly female and juvenile – part-time employment and a relative decline in the hourly wages of the latter, that is, compared to full-time employment (ibid.: 1086-9).<sup>10</sup> Job growth has thus mainly consisted of the growth of cheap part-time work. The growth of part-time employment has indeed been an exceptional phenomenon setting the Dutch experience apart from those of other EU countries. Thus, in 2004, the Netherlands of all the member states had the highest share of part-time employment, with a figure of 45.5 % out of total employment far above the EU-25 average of 17.7 % (and 19.4 % of the EU-15, Euromemorandum Group 2005: 11). The fact that these jobs are primarily in the sheltered service sector, rather than in the exposed sectors, would further undermine the claim that it has been enhanced competitiveness that formed the foundation of the Dutch employment success. Indeed, according to Becker's figures, during much of the period of the Dutch

miracle, the performance of the Dutch export sector worsened (Becker 2005: 1085). Becker therefore concludes that '[t]he Netherlands lost competitiveness during its "miracle" years', this despite the policy of severe wage restraint from the 1980s until 1995 (ibid.: 1094). The point made by Becker is hence not that wage restraint did not take place, but rather that it was not the prime cause of the Dutch employment miracle.<sup>11</sup> A strategy of price competitiveness, which is what wage restraint amounts to, may carry some benefits (vis-à-vis the foreign competition), but, apparently, in the Dutch case these did not offset the costs, or in any case not to the extent that it actually made a large positive contribution to employment. Employment was rather created in the form of female part-time employment in those sectors not directly exposed to foreign competition. Yet, the Dutch strategy of price competition did put increased pressure on its nearest competitors such as Germany. The proliferation of social pacts in Europe in the late 1990s (Ebbinghaus and Hassel 2000) must thus be seen in this context.

The increase in part-time employment as an explanatory factor is also stressed by other critics, who also point to significant cutbacks in social security as an additional element. As Woldendorp puts it: 'the 'Dutch miracle between 1995 and 2000 consisted of a considerable increase in part time participation of women on the labour market, combined with a major retrenchment of the welfare state' (Woldendorp 2005: 236; see also Keman 2003). Moreover, with the supply of new jobs mainly coming in terms of low-paid (in absolute as well as in relative terms) part-time jobs (mainly going to women and juveniles), the distribution of work and welfare among different demographic groups has according to Keman become less equal (Keman 2003: 118, 121-5). As the Netherlands has also been the leader in welfare state retrenchment during the same period, Keman concludes that for many in the Dutch workforce, '[l]imited working hours, often implying less income, seem to have replaced generous welfare benefits' (Keman 2003: 132). We can thus question to what extent the Dutch model indeed has been the successful case of combining competitiveness with social cohesion that it has been made out to be.

Whether or not we can agree with the above alternative account of the 'Dutch miracle', in particular the latter point, should make us aware that also the Dutch model of what I term 'embedded neo-liberalism' not only produces winners, and that there actually might have been more losers than is recognised by the literature that has celebrated the polder model as an example of successful socio-economic reforms necessary to be able to compete in the European internal as well as in the global market. Inasmuch as these losers may link their loss to (Dutch) EU policies, this may further help to explain the loss of legitimacy of the European project within the Dutch context (more on winners and losers in section 3.3.

below). Finally, to the extent that Dutch competitiveness indeed has not improved (or even deteriorated), this also, calls into question the whole strategy of 'competitive corporatism'.

The experiences of the so-called Dutch model may thus be seen as revealing the limits of national competitiveness strategies within the context of the EU's asymmetrical socio-economic governance regime. The Dutch competitiveness strategy has been premised on a supply-side economic philosophy emphasising in particular price competition (rather than on e.g. quality or other comparative advantages, see Becker 1999: 13-14) through keeping wage development below that in competing countries. According to Becker, this strategy was not only ineffective inasmuch as it did not actually raise Dutch competitiveness, it is also, even if it would (to some extent) work, a dangerous strategy, premised as it is on a 'beggar-thy-neighbour' philosophy. Becker, thus warns that the diffusion of this strategy 'would really endanger the world economy to become a zero-sum or, even worse, a negative sum game' (Becker 2005: 1096).

The fact that we have witnessed the dissemination of this strategy in the EU, and the fact that it continues to be part of the Dutch policy orthodoxy as well, may be explained partly in ideological terms. However, it must also be seen as bound up with the zero-sum logic that regulatory competition as inherent in European economic governance tends to produce. Here we must recall Fritz Scharf's argument that with the legal and economic constraints on traditional policy instruments of macro-economic steering, it are policies such as wage restraint; increasing wage differentials, promoting the flexibilisation of labour; and welfare state retrenchment that remain amongst the principal avenues still open to national governments (Scharf 1999; 2002; see section 2.2). Indeed, as we have seen all of these policies were part of the 'reform package' underpinning the Dutch model. This is not to say, that other strategies than the particular one followed by the Dutch would not have been possible –the variety of experiences amongst the member states in the 1990s and beyond would indicate that other paths were possible – yet the 'limits of the possible' seem to have narrowed (which, is also not to imply that we should resign to that, as widening the limits of the possible is also what politics is or should be about).

The above reflections on the Dutch political economy in the context of the European integration process thus brings us to the, from a political economy perspective, critical question of wins and who loses from European integration in its present mould. This *cui bono* question is, I will argue later on, also inextricably bound up with the question of public support and legitimacy and thus for the chances of a sustainable 'embedding' of Dutch EU policies and of the European project at large.



### **3.3 The winners and losers of European market integration and Dutch EU socio-economic policies**

The *cui bono* question is at the heart of political economy and indeed of politics. All (socio-economic) policies / political choices produce winners and losers (this would also be the case in more egalitarian societies). Even if sometimes all may win (in the long run), some will win (materially or otherwise) more than others, and those who win less might have won (much) more under different policies. The policies that underpin the (socio-economic content of the) European integration process are no exception to this basic rule of politics. Few would dispute Loukas Tsoukalis' (2005: ch. 3) claim that European integration knows clear winners and losers, and indeed this assumption underlies much recent research in the politics of European integration (see, e.g., Marks and Steenbergen 2004). Yet, little empirical research is available regarding for what for the purposes of this paper would be the most relevant dimension of the distributional conflict within EU politics, that is, the intra-country effects of certain EU policies in terms of who gets what, when, and how – whether between sectors, classes or other relevant categories. One reason for this dearth of reliable data is that it is just very hard to isolate the effects – positive or negative – of for instance EU – induced market integration from those of, let us say, globalisation or autonomous national policy choices (cf. Tsoukalis 2006: 2). This is already the case at the aggregate national level, let alone at lower levels of aggregation.

We therefore necessarily have to rely primarily on theoretical arguments of why (in terms of underlying causal mechanisms) certain policy-induced processes may have certain effects on certain groups. Indirect evidence for the validity of those arguments may then be gained from statistics on how certain groups have actually been doing. Below I will first review some of the general arguments as they in principle apply to all member states, and then examine how this (might have) worked out in the case of the Netherlands, in particular taking into account how particular outcomes have been mediated by Dutch policy choices that may have been shaped, though not fully determined, by the exigencies of European governance.

#### **3.3.1 Winners and losers from the internal market and monetary union**

On the basis of the literature, and partly following from the discussion in section 2 we may make the following arguments about the winners and losers within the internal market:

- 1) Removing the control of economic borders favours mobile factors of production. This then favours capital over labour, and financial capital over industrial capital. This changing power balance affects both the political and the economic position of capital and labour respectively. With respect to the former, the structural power of capital is enhanced principally in the

shape of its increased power to exit (that is relocate to another country) – where even the threat of exit can be sufficient to secure concessions from both trade unions and governments (see, e.g., Caporaso 1987; Gill and Law 1993; Keohane and Milner 1995; for the European context, see, van Apeldoorn 2002; cf. Scharpf 2002: 647). With respect to the latter, it is uncontroversial that transnationally mobile firms have benefited greatly from the opportunities offered by the internal market, in particular as it has offered them greater economies of scale. Those whose competitive position is strongest on the European market of course benefit the most from increased competition on that market. It was for that reason that European big business was the principal advocate of the completion of the internal market in the 1980s (Cowles 1995; Van Apeldoorn 2000; 2002). At the same time, the bargaining position of organised labour may weaken to such an extent as to force it to make concessions (with regard to wages, job security, etc.) that it otherwise would not have to make (Streeck 1998). Inasmuch as these pressures also lead to the adoption of policies that increase wage differentials (Scharpf 2002: 649) this of course will hurt certain groups of workers in particular, whereas others may win. This also applies to other forms of (external) labour market flexibility that might be promoted as a result of the regulatory competition inherent in the internal market, in particular the pressure to deregulate the labour market with respect to all kinds of worker (protection) standards. This of course hurts in particular those workers in relatively vulnerable positions, that is, particularly at the lower end of the labour market. Although the classical social dumping argument appears to have little evidence in support of it, the fact that major relocations of production within the EU has not taken place thus far (although it has taken place, and still takes place, for instance to what has now become part of the EU, Central and Eastern Europe), does not imply that certain types of labour market reform have not taken place in the face of a credible threat of exit on the part of European transnational business.

2) Economic integration may furthermore be argued to benefit highly skilled, professional workers at the expense of low skilled and unskilled labour because the former is itself more mobile and thus better placed to take the advantage of the opportunities that market competition offers. There is in addition also an, not uncontested, argument from the globalisation literature, namely that trade integration hurts 'unskilled' workers as it puts a premium on skilled labour as the relative demand for unskilled labour declines, that is, at least in the developed countries, where skilled labour is relatively abundant, as opposed to the developing countries where it is relatively scarce (e.g., Wood 1994; for a review see Kapstein 2000). Unskilled workers in the developed world thus have to compete against cheaper unskilled workers in the developing world. This leads either to higher wage differentials between skilled and unskilled labour, i.e., rising income inequality, and / or to higher unemployment amongst the unskilled. According to Wood and others, the latter

would be the case for Europe where a downward adjustment of wages is often prevented due to labour market institutions, whereas rising income inequality would be observed in a country like the US (Wood 1994: 15). Although such arguments are mainly about North-South trade and therefore do not seem to apply directly to the EU, in particular with the last enlargement some of these same dynamics might arguably also apply (albeit to a lesser extent) within the EU. Moreover, the argument might be made that as the EU's liberal trade policy, which is after all a core competence belonging to the single European market, further opens up that market to global trade with developing economies, such negative effects on the position of unskilled workers may also be attributable indirectly to policy choices made within EU governance.

3) To the extent that European market integration – both through legal constraints and regulatory competition – increases the pressure for welfare state retrenchment (see the arguments made by Scharpf and others as discussed in section 2.2.), those dependent (or becoming dependent) on the welfare state, suffer as a result. Whereas capital, and associated 'protected' workers, might directly benefit from the subsequent reduction of the non-wage costs of labour.

Monetary union, again from the perspective of intra-country effects, roughly produces the same balance of winners and losers on the basis of similar arguments:

1) Monetary union offers the most direct benefits for big transnational corporations (TNCs) and their owners as they profit from the reduction of transaction costs and the elimination of the risk of currency fluctuations (Frieden 1991). It was precisely for this reason that European big business from the start favoured a move towards a single currency in the wake of Europe '92 (see Van Apeldoorn 2002: ch. 4). Inasmuch as monetary integration stimulates the further integration of European financial and capital markets, holders of liquid capital such as investment funds benefit from monetary integration too (Lannoo 1999). Some elements of labour on the contrary may lose from the same process as transnationally mobile shareholders put increasing pressure on management to engage in corporate restructuring strategies that increases competition between workers within the enterprise, in which some may win and others lose, either by losing their job or having to accept a more precarious form of employment (see Höpner 2003).

2) Inasmuch as the loss of other forms of macro-economic policy adjustment (mainly monetary and fiscal policy) puts more of the burden of adjustment to labour this may also reinforce the pressure for a deregulation of labour markets, leading to a decrease in the levels of social protection offered to workers (Martin 2004). Inasmuch as this adjustment does not

take place through increased labour flexibility but through higher unemployment not only the newly unemployed, but also organised labour, suffer as a result (the latter as its bargaining position is weakened through higher unemployment).

3) To the extent that through the same mechanism, welfare state retrenchment is encouraged by monetary union (ibid., see also Scharpf 2002; Cafruny and Ryner forthcoming) it may contribute to a decommodification of labour which again weakens the position of trade unions as well as directly hurts the income position of those whose benefits are reduced.

Let us now examine these issues at a somewhat more empirical level for the Dutch case.

### 3.3.2 Winners and losers in the Dutch political economy

European market integration and monetary union have undoubtedly been a boon to Dutch TNCs such as Philips, Unilever, AKZO-Nobel, etc.. Whether their improved position has really significantly contributed to a structural competitiveness of the Dutch economy is another matter, however. As we have seen the position of the Dutch export sector has rather declined since the 1990s (see section 3.2.2). Arguably, due to the high degree of internationalisation of these companies (with often up to 90% of their production taking place outside the Netherlands), it is less the Dutch and more the shareholders of these firms that have benefited from this. Nevertheless, the conventional wisdom is that certainly a country like the Netherlands has benefited greatly from the internal market, that is, in terms of economic growth (however, for a study casting doubt on at least the very optimistic assessment the European Commission with regard to the expected economic benefits of the internal market, see Ziltener 2004). However, these benefits – however large, or not so large, they have been – have not been distributed equally.

Apart from big business profiting from the opportunities offered by the single market, Dutch employers generally may also argued to have benefited, in particular as their bargaining position has been strengthened vis-à-vis trade unions. Although a causal link cannot be empirically demonstrated, it is at least likely that the concessions, in particular in the form of wage restrained, that have been made by the Dutch trade unions as part of several national wage deals within the context of the polder model, were partly made under the (perceived) pressure of rising competition arising both from Europeanisation and globalisation. From the 1990s onwards, first the convergence criteria and then monetary union itself have likely added to these pressures. Thus the power balance between employers and employees has shifted towards the former. This, then, in part explains the role Dutch trade unions were willing to play in the 'Dutch model' of 'competitive corporatism' (cf. Woldendorp 2005; De Beus 2004).

As we have seen, not everybody has equally profited from this polder model, as work, income and welfare have been distributed unequally amongst different social groups (Keman 2003). Thus those in part-time employment remain part of a relatively precarious sector of the labour market, something that has affected women more than men. On the other hand, given the rising demand for skilled labour due to the openness of the Dutch economy, highly skilled labour belongs rather to the group of winners. To what extent this has led to rising income inequality overall is still a controversial question. Much depends on which measure of income inequality you employ. However, significantly, one study shows that due in part to the growing wage differential between part-time and full-time employment as well as the cutbacks in social security, the so-called Theill co-efficient, showed an increase of 41 % with regard to the total dispersion of wages and social benefits in the period of 1983 to 1994 (SCP quoted in Becker 2005: 1087).

With regard to the argument that European socio-economic governance may lead to higher unemployment, this would involve the counterfactual argument that without for instance the austerity imposed first by the Maastricht criteria and now by the Stability Pact, unemployment would have been lower. This is a hard case to make though it appears plausible that without the cutbacks made for instance in social security and the often procyclical policy that Dutch governments have generally followed since the 1990s, unemployment would have been lower at least in the short-run. Another question, however, is whether in fact the Dutch government has pursued a policy of welfare state retrenchment because of the pressures emanating from EMU, or whether this was merely a convenient legitimization of policies it wanted to pursue anyway out of ideological convictions, that is, as a political choice. Here De Beus (2004: 175) points out that although the Dutch 'trajectory of welfare state reconfiguration had already been set domestically', monetary integration (before and after Maastricht) was nevertheless significant as an external pressure keeping the Dutch policy regime on this path. Arguably then, both monetary union as well as the internal market – through the enhanced exit power of capital – have been one important factor in keeping the Dutch government on the path of welfare state retrenchment that it has followed over the past two decades. Together with the weakening (bargaining) power of Dutch trade unions as noted above, this then may help to explain of why behind the 'miracle' of the Dutch model, first celebrated as such a successful national competitiveness strategy, in fact a significant erosion of some elements of what we earlier have referred to as the European Social Model has been going on. In is thus that the winners and losers of the Dutch model in part overlap with the winners and losers of European integration.

### **3.4 The 2005 turning point: a politico-economic analysis of the legitimacy crisis as signalled by the referendum**

The end to the permissive consensus vis-à-vis the European integration process and the growing Euro-scepticism at both the elite and mass levels, became visible for all to see when 63 % of Dutch voters rejected the proposed European Constitution. Although this resounding ‘nee’ came as a shock to the political establishment it was in fact the culmination of some longer structural trends, and indeed may be symptomatic of a deeper legitimacy crisis. Hence, even if the national public debate on Europe now has petered out again, this should not be taken as a sign of rising levels of support for the current European project.<sup>12</sup> On the contrary, it should worry us as, for reasons I will spell out below, the lack of sustained public debate on Europe is more likely to further undermine mass legitimacy. In this sense the referendum of 2005 may be taken as a turning point with regard to Dutch EU policy making, its societal embedding, and its public support. As such the relevance of what is argued below with respect to what has caused the ‘no’ is intended to extend much beyond the Constitutional project to the whole (future) European project.

#### **3.4.1 The political economy of the ‘nee’**

If we want to know why people voted the way we did we tend to rely on survey research. The methodological problems involved in this type of research are well known. The outcome may be influenced by what type of questions are asked and how they are asked; people may not want to reveal their ‘real reasons’ for their voting behaviour, etc.. Also, even if we are able to discover people’s ‘authentic’ reasons or motives, this from another perspective does not necessarily offer a full explanation. That is to say, it does not explain the reasons themselves, of what made people adopt certain beliefs or preferences rather than others. And what may cause people to have certain reasons to vote in a certain way might be related to very different things than what is expressed in those reasons. For this, then, we need to move from the (aggregate) micro/ actor level to the macro/ structural level. The latter is then a matter of interpreting the survey results from a perspective that identifies possible underlying causal mechanisms emanating from certain structural forces. Here I will argue, the previous analysis of the limits of the ‘embedded neo-liberal’ model of EU socio-economic governance, and of the manifestation of those limits within the Dutch context, may indeed be enlightening. Combining both types of analysis, I suggest that the referendum result and the underlying legitimacy problems of European integration in the Netherlands, does carry an important socio-economic dimension, even if the importance of this dimension relative to other aspects (‘socio-cultural’, ‘identity’) cannot be exactly determined.

The only extensive survey research thus far done on the referendum is the one undertaken by Aarts and Van der Kolk (Aarts and Van der Kolk 2005a; 2005b; Van der Kolk and Aarts 2005). According to Aarts and Van der Kolk (2005a: 2), Dutch voters were above all concerned with the 'pace and scope' of the integration process. European integration was perceived as having gone too fast, especially with the move to monetary union. This would fit with the general hypothesis as put forward by Hooghe and Marks and others that since the Maastricht treaty the integration process has tended to become much more politicised since it has deepened to such an extent that it intervenes much more directly into people's daily lives and more directly enters into the domestic political arena ('Europeanisation'), and that with this politicisation contestation of the European project has risen with some political parties and other forces effectively mobilising against European integration (Hooghe and Marks 2006; Marks and Steenbergen 2004; Netjes 2004).

As indicated, in the perception of Dutch citizens the too fast a pace of the integration process is in particular linked to the advent of the Euro, the single currency that many felt no one had asked for and indeed nobody wanted, and which was consistently in the public discourse held responsible for higher consumer prices. And indeed the survey results show a 'close association' between negative perceptions about the Euro and the 'no' vote in the referendum (Aarts and Van der Kolk 2005a: 5). In addition to the pace of deepening, the pace of widening has also led to rising concerns, with citizens in particular expressing worries about the most recent round of enlargement (the 'big bang' of 2004) as well as possible future enlargements, in particular the possible accession of Turkey. Both issues, the 'expensive' Euro and possible Turkish membership, indeed figured prominently in the Dutch 'no campaign' in the run up to the referendum. Negative attitudes with respect to both issues have been reinforced by the perception that all of this – monetary union, enlargement – is the outcome of an elite process about which ordinary voters never had anything to say. As such, it reflects a deep gap between the Dutch elite and a majority of the Dutch voters, a gap that according to Aarts and Van der Kolk was not new but was 'fully exposed' for the first time by the referendum instrument, a novelty in Dutch national politics (*ibid.*: 3). The latter then might be indicative of an 'input legitimacy' deficit, but at the same time we may conclude that much of the reason why so many voters turned against the Constitution had to do with output legitimacy, and that this was also related to the (perceived) socio-economic output of the EU. In this respect Van der Kolk and Aarts (2005: 206) conclude from their survey that European integration in the Netherlands by the time of the referendum had increasingly come to be perceived as a threat 'a threat to welfare, a threat to social security and a threat to the national identity'. With respect to the former, perhaps primary (or so their figures seem to suggest)<sup>13</sup>, dimension, they conclude that the Dutch image of the EU has changed from 'one of "an institution stimulating international trade for the Dutch open economy" [to] "an institution costing too

much and threatening both our jobs and social security” (Aarts and van der Kolk 2005a: 2). Thus almost two thirds shortly after the referendum no longer believed that further European integration is likely to increase prosperity whereas 91.7 % believed that it will lead to relocation of production (and thus jobs) out of the Netherlands (ibid. 15). Even more striking, just before the referendum, 47 % of the electorate thought that ‘social services’ (social security) will (probably) disappear due to further integration (Aarts and Van der Kolk 2005b: 177), and 57% expected that Dutch social security would become less extensive if the Constitution were to be adopted (ibid.: 179).

Even if the apparent worries about jobs and welfare did not play such an explicit role in the public discourse around the referendum, the above statistics do suggest that for instance underlying the more manifest frustrations about the ‘rip-off’ that many felt monetary union was, as well as the sometimes xenophobic worries about enlargement, might very well be concerns about the social purpose of the current integration process. In particular the worry that the EU is no longer providing that upon which the legitimacy of the European integration process long rested, namely a set of institutions and policies supporting national prosperity and welfare, but, on the contrary, is helping to undermine these. In other words, Dutch citizens are not only worried about the pace of European integration, but also about its socio-economic content, about the kind of Europe that has been, and is being, constructed. Some would argue that the growing socio-economic insecurities, which as we have seen above are growing throughout the EU, are more due to false perceptions than to real effects of European economic integration. However, the analysis in section 2 on the effects of the ‘asymmetrical regulation’ (Holman 2004; also Scharpf 1999; 2002), as inter alia manifested in a growing divide between winners and losers within the member states as argued in section 3.3. suggest that this for some re-assuring (in the sense that it might be a matter of informing, indeed better educating the public) conclusion can not be so easily drawn. If our earlier arguments – about how regulatory competition as emanating from the internal market and the ‘competitive austerity’ inherent to the current monetary union threaten the viability of national welfare states and raise the pressure on labour to bear the burden of macro-economic adjustment – are correct then we may hypothesise that given the voting behaviour in the Dutch referendum there indeed exists a link between rising negative attitudes vis-à-vis the EU and the socio-economic policy output of the latter.

In other words, we might be witnessing a decrease in public support for European integration as a direct result of the loss of the steering capacity of national states, a loss not compensated for at the European level, that is, a loss of the capacity to provide prosperity and welfare (socio-economic security) for at least large groups of citizens. As market integration has deepened and traditional macro-economic policy instruments have also been taken away



because of monetary union, the integration process produces both more losers, and makes it harder for national states to compensate those losers through the welfare state. Arguably we have also seen this in the Dutch case, in particular as the limits of the so-called Dutch model came to reveal themselves from 2001 onwards. As long as the Dutch economy was still growing relatively fast (especially in the second half of the 1990s) and unemployment remained relatively low, already rising negative sentiments about the EU remained relatively subdued. When the socio-economic performance of the Dutch model rapidly deteriorated in the first years of this century, and the effects of the cut-backs made in the welfare state in the preceding decade became more sharply felt by a growing number of people, these negative sentiments, however, increased as well. It was in this context, in which the winners and losers of European integration became more visible, that the referendum was held. Survey data indicate that indeed it were those on the losing side that have voted the most against the Constitution. Thus those with low education, low income, and identifying themselves as working class were all overrepresented amongst the no-voters (Van der Kolk and Aarts 2005: 186). There were also slightly more female voters against than male (63 versus 59 %, *ibid.*). Even if the effect of European economic integration on these groups cannot be isolated empirically (and therefore not exactly quantified) from other variables, there are, as we have, seen at least strong theoretical reasons to suspect that the former constitutes an important part of the equation.

In sum, also in the Netherlands the socio-economic output of the neo-liberal model of European integration, is at least one important source of the growing loss of legitimacy of the European project. Given the fact that a significant majority of Dutch citizens (61 % according to Van der Kolk and Aarts 2005: 189) still support EU membership, the conclusion seems all the more justified that the debate ought to be indeed not only about 'more or less Europe', but also about 'what kind of Europe'. It is the current kind of Europe that people seem most worried about. In this context it is all the more striking that the debate on the Constitution during the Dutch referendum campaign was not at all framed like that but rather constructed in a binary fashion of favouring more or less integration. As I will suggest in the next section, it is this framing of the debate that also feeds into the growing lack of input legitimacy with regard to the EU and Dutch EU policy-making. As the public discourse does not allow the space for a choice between different kinds of Europe, then this will reinforce the sense of being excluded from the process, which thus leads more easily to a rejection of that whole process. If in the context of growing socio-cultural and socio-economic insecurity on the part of growing groups of citizens, people are only being given the choice between more or less Europe, many are bound to choose the latter.

### 3.4.2 The binary framing of the Dutch referendum debate

Even if in terms of deeper, structural causes, much of the opposition to the European Constitution, and the rising Euro-scepticism amongst Dutch voters generally, perhaps can be explained in terms of growing feelings of socio-economic insecurity, this rising discontent at least to some extent still had to be mobilised in order to create such a large majority against the Constitution as did in the end come about. As Netjes and Edwards (2006; see also Edwards et al 2005) have shown, what is called the cueing of public opinion by political parties plays an important role in this mobilisation.<sup>14</sup> In particular, this research claims, it are parties on both the left and right ends of the national political spectrums that since around the Maastricht treaty play such a role. A further claim made is that whereas parties on the 'extreme right' tend to oppose (further) integration out of nationalist motives concerning the preservation of sovereignty or keeping out foreign influences (or immigrants), and interpellate voters accordingly, parties on the extreme left criticise the EU on socio-economic grounds, and mobilise voters accordingly, that is, against what they see as 'neo-liberal Europe'.

In the Dutch referendum campaign, it were indeed parties on the 'extreme' right and left of the Dutch political spectrum that opposed the Constitution and led the no-campaign. On the right there was the nationalist and xenophobic campaign of ex-VVD (the free market-liberal party) member of parliament Geert Wilders, as well as the protestant orthodox SGP and the more modernist but also orthodox Christenunie (Christian Union). In spite of what some had feared beforehand, the no-campaign was far from dominated by right-wing nationalists. Geert Wilders did receive considerable media attention, but his early lead in the media within the 'no camp' was surpassed by the Socialist Party (SP) in the actual campaign of the final six weeks before the referendum (Kleinnijenhuis et al 2005: 134). On the right, the Christenunie (unlike their media-shy brethren of the SGP) did figure prominently in the no-campaign too (ibid.), but argued against the EU on the basis of a rather moderate 'national sovereignty' discourse which most political scientists would not recognise as 'extreme right'.<sup>15</sup>

The leading role in the mobilisation against the Constitution was, in fact probably played by the radical-left SP— whose campaign was probably the most well-organised and effective within the no camp (cf. Lucardie 2005). However, in contrast to what might be the case in other countries, and contrary to what the aforementioned literature on 'party cueing' claims, the SP as an 'extreme left-wing' party did not cue voters primarily on the basis of an opposition to the neo-liberal character of the integration project and the latter's (alleged) threat to the welfare state and to jobs (cf. Netjes and Edwards 2006: 9). Although with respect to the latter the SP's public discourse did seek to mobilise some feelings of socio-economic insecurity, this was not in any way linked to any fundamental critique of, e.g., the

internal market or the monetary union, and was in any case subordinated to a cueing on the basis of an opposition to an (alleged) further transfer of sovereignty to Brussels, thus tapping into feelings of socio-cultural insecurity. Although it would go too far as to say that the cueing on the part of the SP was in fact more similar to that what you would normally expect on the other end of the political spectrum, it is striking to see to what extent the party indeed did play the 'nationalist card', making its campaign in this respect at least ambiguous.

The perception that the Dutch Socialist Party mainly campaigned against the Constitution on the basis of an opposition to the neo-liberal project is probably based on the reading of the party's election manifestos and other official documents from before the actual referendum campaign. Here we do read for instance that Europe has degenerated into a 'neo-liberal project' (SP 2003: 62; see also SP 2004), as well as warnings against the dangers of tax competition (ibid: 63), and a critique of the Stability Pact as leading to cut backs in social security (SP 2004: 12). In the SP's interventions in the media, however, as well as in various campaign material used in the run up to the referendum, such criticisms, receded to the background, whereas appeals to national sovereignty came all the more to the fore. In one newspaper op-ed article, SP parliamentarian Harry van Bommel (who led his party's No-campaign) gave two main reasons why he would vote against the Constitution: one, because it would mean too big a step forward towards a federal Europe, and, two, because he deemed the Constitution too liberal.<sup>16</sup> Throughout the campaign this has been very much the order of the argumentation. In fact, more often than not it was only the first argument that was relayed in the public discourse. The message here time and again was that with the Constitution the Netherlands would become a 'powerless province of a European super-state'.<sup>17</sup> The best illustration of this national sovereignty discourse as articulated by the SP is, perhaps, the campaign poster they used, depicting a map of Europe with an extended North Sea having replaced the Netherlands.

The SP's choice to emphasise themes of national sovereignty (against Brussels 'taking over') instead of more explicit socio-economic themes, might have been partly tactical. That is to say, since they were not only appealing to their own voters, but wanted to mobilise as many as possible against the Constitutional treaty, they opted for what they thought would be the largest common denominator, namely the fear of a further loss of national sovereignty in a process that many people felt was going too fast too far. Indeed, with regard to the latter, the opinion survey carried out later on (Aarts and Van der Kolk 2006) has indeed proven them right in this respect. Although the same survey data also indicate that the SP leadership underestimated the scale of feelings of socio-economic insecurities, and, the (potential) opposition to further integration on these grounds, and thus the extent to which those feelings could have successfully been tapped in order further mobilise the opposition against

the Constitution. The SP, like others, did exploit quite consciously the frustration and anger many Dutch felt with regard to the Euro: tapping into feelings such as that 'we' supposedly 'sold' the Guilder much too cheaply when the conversion rates were set; that the Euro was accountable for steep price hikes, and that it was a project that no one had wanted in the first place. This opposition to the Euro, however, was not particularly 'left-wing', especially as it was not at all linked to for instance its possible redistributive consequences or its possible threat to the welfare state. Instead, also this socio-economic issue was more framed in nationalist terms of how 'we' were 'cheated' (see Van der Kolk and Aarts 2005: 197; Lucardie 2005: 117).

The Socialist Party's campaign strategy to appeal above all to 'nationalist' fears of loss of sovereignty was, however, not merely tactical. Indeed, it is part of the ideological stance of the SP, which in this respect clings on to the primacy of the nation-state as the level at which progressive policy goals can best be achieved (see SP 2004).<sup>18</sup> However, it may be, a fact is that the political parties opposing the Constitution, were more or less united around the theme of defending the nation-state. This implied that they argued that although European 'co-operation', for instance – to give one more example of the SP's discourse – with regard to the internal market (as if this is in fact not a piece of pure supranational integration!), was a good thing, the integration process should not go any further. In sum, it was a discourse of 'less' Europe, rather than 'a different kind of Europe'.

This, then, was the mirror image of the 'yes' campaign as pursued mainly by the parties of the governing coalition as well as the major opposition party, the social-democratic PVDA. The government was most of the time careful to avoid claiming that they favoured 'more Europe', but rather defended the Constitution as a necessary package of institutional reforms making European decision-making more effective and more democratic. At the same time, the opposition camp was time and again being accused of being 'against Europe', and thereby endangering the entire European project upon which both peace and Dutch prosperity had always depended (see Lucardie 2005). Although it would be unfair to claim that those opposing the Constitution were opposing the EU as such, the fact that the latter framed their opposition above all in negative terms, advocating 'less Europe' rather than another Europe, does help to explain how from both sides a rather simple dichotomy was created in which there was not much space of discussing the content of EU (socio-economic) policies or of the choices of the Dutch government with respect to those policies.

What is also illustrative in this context is how both opposing sides in the debate took up almost identical positions – both during and after the referendum – with respect to the issue of the EU budget and the Dutch contribution to it. For instance, both the government and the

SP demanded a major reduction of the latter as well as a downward adjustment of the former.<sup>19</sup> Fitting with its explicit preference for 'less Europe' the SP has consistently advocated not only slashing EU farm subsidies, but also generally a 'leaner' and 'cheaper' Europe (Van Bommel and De Hei 2006). It is almost stating the obvious that putting so much emphasis on the alleged 'costs' of the EU from a national perspective, and on the allegedly large size of the total EU budget (which in reality amounts to only little over 1 % of European GDP), may appeal to many voters, and re-assure them in the short-run that their worries are taken into account, but is surely not contributing to EU legitimacy and the legitimacy of Dutch EU policies in the longer run.

In the end, then, in the referendum debate both the major proponents of the Constitution (above all the governing coalition), as well as the major opponents (above of all the Socialist Party) never got beyond populist exchanges like: a no vote means that "the lights will go out in the Netherlands" – as the Dutch economics minister, Brinkhorst, put it (cited in Lucardie 2005: 117) – versus 'if you vote yes you will effectively abolish the Netherlands as an independent country'. It became close to a binary public discourse of for or against (further) European integration and so the debate on different policy alternatives, also on the crucial socio-economic dimension, was once again postponed. As I will argue in more detail in the concluding section, this in my view reinforces the legitimacy problems that the EU and Dutch EU policy-making are currently facing. If one seeks to bolster the legitimacy of whatever kind of European project, one first should start discussing what kind of Europe one wants to have. This would also mean creating the space for the dissenting voices from civil society that do favour 'another Europe', and do criticise the (socio-economic) content of EU policies, and in that sense do seek to go beyond the one-dimensional debate of more versus less Europe.<sup>20</sup>

As we have seen, in the elitist polder model, in which also both social partners have been tied into the pro-EU consensus, a political space for such groups has thus far been largely absent (cf. Van den Berg and Brandsen 2007). Indeed, all social partners within the Dutch polder were within the yes camp during the referendum campaign. Although for instance the largest Dutch trade union, the FNV, did not want to give an explicit 'voting advice', its leadership made clear it was in favour of the European Constitution and did put quite some effort in pointing to its alleged advantages for organised labour.<sup>21</sup> Arguably, the subsequent landslide victory for the no camp, with an overwhelming majority of their own rank and file having voted no, took the FNV leadership by surprise, and may have served as a warning that it had grown out of touch with its base, at least with regard to European issues.

Another illustration of how Dutch corporatism in this respect has worked to incorporate Dutch civil society into the European project, and therefore to create a societal base for Dutch

EU policy-making, is the support the FNV gave to the draft EU services directive in the months just before the referendum (that is, before the directive was amended by the European Parliament in February 2006 after mass protests across Europe). Although the so-called Bolkestein Directive was very controversial from the start in many member states (especially France), this was not at all the case in the Netherlands, where the issue was effectively depoliticised through the consensus-creating mechanisms of the Dutch polder. Thus, the FNV, in spite of some internal dissent, reached an agreement with the employer associations within the framework of the SER (Social and Economic Council), which unanimously came out in favour of the services directive in April 2005 (see Pelkmans and Van Kessel 2007). Pelkmans and Van Kessel (2007) in their study of the case of the services directive aptly call this a case of 'encapsulation' of technically complex, but potentially highly political issues, a phenomenon typical of the Dutch polder culture. Although this encapsulation had lent legitimacy to the services directive in the short run, it represents at the same time, as Pelkmans and Van Kessel (2007: 47) also suggest, a rather shallow form of societal embedding, one that may be less apt to sustain legitimacy in the long run. It is shallow inasmuch as through a process of depoliticisation, (passive) discontent with, or even outright opposition to, specific (Dutch) EU policies is not effectively channelled into the public policy realm. In this way, any serious contestation of European integration with respect to its (socio-economic) content is suppressed.

The binary framing of the European debate in the Netherlands has thus also been partly a product of the Dutch way of EU policy-making hitherto practiced. Only with the referendum on the Constitution could Dutch voters express their opinions for the first time, and only after the grand intergovernmental bargain had been concluded and signed. What was now being put up for public approval were in effect all the previous treaties, including, crucially the Maastricht Treaty creating EMU, about which the Dutch electorate had never been in any way 'consulted' at the time, and which many felt had been 'forced' upon them by elites unresponsive to their concerns. This, then, does not necessarily imply that the referendum is not a good instrument to achieve a better 'embedding' of Dutch EU policy-making. Maybe rather it could be taken to imply, that next to other avenues, we should have (had) more of them. This might also help to politicise European integration on a more structural basis, and in a way that can open up spaces for constructive debates about policy choices made within the EU. One lesson that we can draw from the 2005 referendum is that if for so long you have made EU policies in the mode that has been typical for Dutch EU policy-making, including the role played by Dutch corporatism in creating a rather shallow societal embedding, and thus effectively keeping the lid on the growing discontent with respect to the EU, at one point the consensus is likely to break down rather dramatically. That is to say, once the lid on the discontent is taken off, the politicisation then taking place will not be favourable to those

supporting European integration. This, then, is precisely what happened with the 2005 referendum.

## **4 COUNTERFACTUALS AND CONCLUSIONS: WHERE TO GO FROM HERE?**

Now that the European project in the Netherlands, like elsewhere, appears to have reached its limits in terms of popular legitimacy, the question arises, how, if at all, the European project, and, within that, Dutch EU policy could move beyond those limits. How, from our political economy perspective, to achieve a better (deeper) societal embedding, and thus enhance the legitimacy of, Dutch EU policy-making? To answer this question more fully, this final section will put forward some counterfactual arguments, and on that basis end with some conclusions and recommendations.

Here it is useful to recall (from the introduction) our distinction between output and input legitimacy (Scharpf 1999: 6-13), that is, between legitimacy deriving from the content of the policies made, and legitimacy deriving from the mode of policy-making. Of course the two are interrelated. I will now turn to the issue of how one could possibly improve the legitimacy output of (Dutch) EU policy-making and then switch to the issue of input legitimacy.

### **4.1 Enhancing output legitimacy? Towards an alternative socio-economic model of European integration?**

From a critical political economy perspective I argued that an increasing lack of output legitimacy is at least part of the problem, in particular the (growing) imbalance between market-making and market-correcting policies, or between market efficiency and social protection. As argued, what I have called 'embedded neo-liberalism' here offers a way of marrying the two latter principles that is more symbolic than substantive. It is thus that the formula of the Lisbon strategy – as fervently supported by the Dutch government – struggles to create consent for the European project on both a wide and durable basis. Most critically, 'embedded neo-liberalism' cannot offer a substantive embedding because of the fundamental institutional asymmetry within European governance between these two policy functions of modern capitalist states. What this exactly means for the development of national political economies varies from case to case. What is clear from the Dutch case, however, is that even what was held up as the model – for the rest of the EU – of combining competitiveness with social cohesion has on closer inspection found it hard to achieve either. That is, the economic success of the Dutch miracle was probably more due to the promotion of part-time labour, and a fortuitous combination of circumstances, than to any structural improvement of national competitiveness. At the same time, cutbacks in the welfare state that took place in the 1990s and beyond as well as the limits of 'flexicurity' (i.e., the fact for some groups insecurity has really increased) cast serious doubts on the claims that policies have really



supported social cohesion. Although for sure other national socio-economic policies would have been possible, it is likely that other governments, with different preferences, would equally have faced the constraints of the internal market and monetary union, and would thus have been constrained in effectuating national 'democratic choices' (as indeed transpires if we take a more comparative perspective). It is in this sense, I argued, that the problem is at least part a problem of the current European integration process itself.

The latter conclusion, however, does raise the question, what different kind of Europe, in the sense of its underlying purpose, we should then, construct. What alternative socio-economic models for the European project are there, and how desirable, and how politically feasible would these alternatives be? In the first instance I will distinguish two opposing models or scenarios, and argue (counterfactually) that neither is either a likely or necessarily a desirable route to take. I will conclude, however, that there is yet a third alternative that might inspire further debate on this question, a debate that I will argue next is in essential for enhancing the legitimacy of Dutch EU policy-making in the longer run. In this sense it must be remarked that the objective here is less to convince anyone of any particular policy alternative, but more to stress that there are in fact alternatives (cf. Watson and Hay 2003), including alternatives to the current neo-liberal policies emphasising the primacy of the market. There are no 'exogenous pressures' forcing us to adapt our policies in any fixed way. This is not to deny that there are real socio-economic changes – related to e.g. shifts in the world economy or in our demographic structures – taking place, changes that we can only control to a limited extent, and, need to be addressed. Yet, globalisation, the rise of China, or the ageing of our populations, do not necessitate any particular set of policy responses, leaving no alternative. There is never a single, objectively 'best solution' to any given problem but always a range of policy options that have different consequences for different groups of people (i.e., *cui bono?*).

#### 4.1.1 The supranational welfare state model and the re-nationalisation model

The two opposing models referred to above might be labelled respectively the supranational welfare state model and the re-nationalisation model.<sup>22</sup> The first model is the one that, as we have seen in section 2.3, was promoted by Delors at the end of the 1980s, that is, a supranational social-democratic project for a federalist 'social Europe' involving a strong harmonisation of social policy and labour market regulation; the creation of a European system of collective bargaining ('Euro-corporatism'), and ultimately a supranational welfare state (Delors 1989; 1992). It is also the model that according to Scharpf (1999, 2002), would appear to be the logical way to tackle Europe's socio-economic asymmetry. As we saw, Scharpf himself, however, sees two problems with this solution. First, the lack of a European *Gemeinschaft*, or a European people, would hardly make this solution democratically

legitimate. Secondly, and related to the first point, Europe is just too diverse in terms of socio-economic development and associated institutions, for such a social harmonisation to be politically or practically feasible.

With regard to the problem of democratic legitimacy in the absence of a European demos, I would argue that this problem tends to at least partially dissolve if one takes a more constructivist perspective. As Dick Pels (2007) argues, Europe is a political construct, and the somewhat primordialist view that without a demos we cannot have a democracy in this respect tends to function as a self-fulfilling prophecy. Thus, if we were willing and able to overcome this discourse about the constraining lack of a common European identity and construct a different narrative, then yet more supranational deepening also with respect to policies that have hitherto remained at the national level might yet achieve sufficient legitimacy. Moreover, maintaining a supranational internal market and monetary union without a strong social dimension arguably might be even more problematic in terms of sustaining popular legitimacy. Especially if one were to have a more open and more politicised debate (see on this below) on these issues, people might yet become more convinced than they are now of the necessity of such a strengthened social dimension.

The question, however remains, what kind of social dimension then, what concretely could be done at what level? If there is to be a common European labour market regulation, or, even more ambitious, a common European welfare state, which model should Europe adopt? The British, the Dutch, the French or the Swedish? Here European diversity indeed remains a problem. In this context, Scharpf (2002) has made the instructive counterfactual that a social Europe the way Delors and others wanted to construct would have been possible had it been created right in the 1950s when the Treaty of Rome was concluded, and there were still only six member states with relatively comparable levels of socio-economic development. Now, with the EU of 25 that opportunity indeed seems to have long passed. Moreover, a problem remains that those social forces, i.e., primarily forces bound up with labour, that often claim to favour such a supranational social Europe (and indeed arguably would see their interests better served than by the current neo-liberal arrangement), are at the same time through their official representatives, that is, the trade unions, still very much tied to the nation-state, and hence to diverging national perspectives. This often results in an economic nationalism that is 'reinforced by institutional nationalism [reflecting] both the investments of individuals and organizations in existing, inevitably national institutional structures and the uncertainty about the impact of Europeanization on them and the interests they represent' (Streeck 1995a: 419). Often unable to overcome national differences, transnational labour in the European political economy thus remains weak (see also Streeck and Schmitter 1991). Hence, it will be very difficult – although not necessarily impossible in the longer run – to build any

firm transnational social basis for such an alternative European project, in particular if this would involve extensive harmonisation of social policy. In sum, then, although this supranationalist scenario might certainly be desirable from a normative concern about the social costs of asymmetrical European socio-economic governance, and although it might yet be feasible in the longer run (at least this cannot be excluded), for the shorter to medium run it cannot offer us much guidance about how we might move beyond 'neo-liberal' Europe.

On the second alternative we maybe somewhat more brief. Given that Europe apparently cannot solve the problems it is itself creating (in terms of output legitimacy), would it not be better to abandon the European project altogether, or at least radically reverse the European integration process in many areas, effectively re-nationalising different policy areas? What for instance would happen if the Netherlands would leave the EU altogether and subsequently raise protectionist barriers against global and European market forces, so in order to, e.g., protect and save its own welfare state? This option would currently not find many adherents in the Netherlands, both the Dutch Eurosceptic right and the Eurosceptic left favour EU membership in principle and do not advocate a major re-nationalisation of policies. Whether seen from the right or from the left, this seems to be a sensible position.

Although I will below argue that some limits to European economic integration might very well both feasible and desirable, the national(ist) solution would in fact not solve anything. First, a small country like the Netherlands could never effectively isolate itself from the global and economy of transnationalised production and finance. Although we should be aware not too reproduce a globalisation discourse claiming that 'there is no alternative', as in fact there are always alternatives, also at the national level (Watson and Hay 2003), it is also true that global economic integration – in particular through the power of global financial markets, but also through the enhanced exit option of industrial capital – does impose serious (albeit politically mediated) constraints on national policy autonomy (for a nuanced account of the role 'globalisation' plays with regard to national welfare states, see Ryner 2002). It is of course precisely for this reason that as we have seen in particular many social democrats in the past have advocated a deepening of European integration, precisely with the aim of creating a bulwark against globalisation, of pursuing policies at the EU level that are no longer viable at the national level. In any case, however, and whatever one's preferred socio-economic order, full-blown protectionism such as would be implied by a radical re-nationalisation strategy would for a country like the Netherlands, whose economy has always relied upon and benefited from fully participating in an open international and European economy, seem to make little sense.

#### 4.1.2 Towards a new 'Third Way' for European socio-economic governance: the primacy of politics

If the supranationalist route to 'Social Europe' appears to be a road closed off, and the nationalist route out of Europe a road to nowhere, then, where can we go from here if we share the analysis that Europe's current regime of socio-economic governance is deeply problematic in terms of sustaining its democratic (output) legitimacy, that is, in providing the common welfare on the basis of people's real needs and interests? Although it falls outside the scope of this paper to offer any detailed blueprint in this respect, there is, I would suggest, a kind of 'Third Way' (although rather different than the 'Third Way' of what I called embedded neo-liberalism) that might offer prospects of a more equitable and democratically legitimate EU socio-economic order. This alternative route beyond neo-liberal Europe is firmly pro-European in its commitments; even sharing some of the more explicitly federalist ambitions for the future of the EU. It would, however, also be a project, that restores the primacy of democratic politics, as opposed to the current dominance of markets. It is furthermore pragmatic in that it recognises that such a primacy of politics cannot yet involve the creation of any single supranational social model. This then does imply some limits to European integration in some respects, in particular integration as market integration. At the same time it may imply supranational deepening in other respects.

The point-of-departure for this alternative strategy is that the (constitutional) asymmetry in European governance has to be addressed at the level of European regulation itself (on this see also Scharpf 2002). Social policy in terms of policies aimed at correcting market outcomes and promoting equity and social protection should be constitutionally on a par with market-making policies aimed at enhancing economic efficiency, rather than being subordinated to the latter both legally and in policy practice (as I argued is the case with respect to the Lisbon agenda). Although this does not, and should not imply, the creation of a single supranational social model, it will provide the basis for a more balanced approach to European governance –one that will allow member states more than currently is the case to preserve, and if they so choose, strengthen their own national social models. For this, however, to transpire, secondly, both the internal market and EMU, together constituting the heart of European socio-economic governance, will have to be reformed. Only then can the pernicious effects of both regulatory competition and 'competitive austerity' (Cafruny and Ryner forthcoming) be effectively tackled.

With regard to the internal market it will have to be recognised in European law that the so-called four fundamental freedoms (guaranteeing the free movement of goods, services, capital and persons) are far from absolute, and indeed more restrictions of free movement (and thus of free competition) should be allowed than is currently the case. This for instance

means that any future European constitution should not elevate 'free undistorted competition' (Article I-20 of the Constitutional treaty) as one of the fundamental objectives of the Union –but should rather explicitly recognise that the free competition of the internal market is ultimately limited by, and subordinate to, the democratic right of member states to defend (and if they so choose, expand) their own 'social acquis' by excluding certain areas of what we could call 'general public interest' from the laws of competition. Thus, the internal market should allow much more 'distortions' – in order to serve certain social ends – than currently is the case, or at least in the sense of member states being able to put a halt to the marketisation process that is currently at the heart of European governance, and that encroaches upon ever more areas of social life. The market after all should only be a means, never an end in itself. In this sense, it should be acknowledged that in many ways it is the market that does the 'distorting' and the 'disrupting' (hence we should also seek to change our language here, which is clearly biased in favour of the dominance of the market).

This then means at a minimum that we should move beyond the current situation in which no area of public service is outside the reach of European competition law (Scharpf 1999: 61), and thus outside the reach of the market. Rather, any European 'constitution' (or other amendment to the current treaties) should explicitly acknowledge the right of every member state to keep certain public services – of their own choosing – exempt from the discipline of the European market. This goes much beyond the notion of 'services of general economic interest', and the relevant provisions regarding these services, that were included in the Constitutional treaty (articles II-96, and III-166). In the first place, the notion of 'public services' as such goes much beyond that of services of 'general economic interest', as the former may in fact not be about any 'economic interest', but rather about (public, societal) interests that are, and arguably should remain, beyond the economic realm, or at least the realm of the market. In this context, and secondly, it must also be pointed out that the way 'economic' was defined in the Constitution was still very much still bound up with the dogma of the market and of undistorted competition.<sup>23</sup>

Apart from the area of public services, there might also be other areas where the internal market ought to be limited. For instance, one should maybe move beyond the current liberal orthodoxy regarding state aids even if outright national protectionism ought to be prevented. Another area pertaining to the internal market where common action needs to be taken in order to prevent damaging regulatory competition is tax competition (on how tax competition seriously constrains national welfare states, see Genschel 2002). Finally, with regard to financial market integration, or the integration of capital markets, including the related shift towards a more market-based corporate governance regime, policy-makers ought to be aware (although undoubtedly some of them are) how this above all advances the

interests of financial or liquid capital; further shifts the balance of power in corporate governance away from management (and workers) and towards shareholders; undermines the long-term growth prospects of industrial capital, while the corporate restructuring that results from the attendant increased pressures of capital markets may not only be costly in terms of (stable) employment, but also in terms of increasing the competition between groups of workers within and between firms, thus undermining the solidarity that forms the basis for trade union politics (see Van Apeldoorn and Horn forthcoming 2007b). Such a marketisation project of course sits uneasily with any progressive European project promoting equitable growth and social protection. Therefore, although capital market integration need not to be completely reversed, it is pertinent to carefully look at how, under what institutional conditions and constraints, and under which common rules, this financial integration takes place, and what kind of model of capitalism (including of corporate governance) is then promoted (cf. Rébérioux 2003).

Reasserting the primacy of politics in European governance will also have to involve a radical reform of EMU. What needs to be done first is that the ECB – through an amendment of the Maastricht treaty – is constitutionally held to balance the goals of price stability on the one hand, and economic growth and employment on the other. In order to enforce this more balanced responsibility, the ECB should ultimately be made accountable to democratically elected government (Martin and Ross 1999: 175), perhaps best through upgrading the economic governance function of the Council (with a strengthened role for the European Parliament as well). Second, the Stability and Growth Pact should be further reformed in order to allow for a framework that allows for both sustainable debt levels and maintaining (sustainable) growth prospects in both the short and long-run – this would minimally imply abandoning the current 3% deficit limit (for an interesting proposal for reform along these lines see the one put forward by the noted monetary economist Paul de Grauwe, 2003).<sup>24</sup> Combining these two sets of reforms, would at least correct the deflationary bias inherent in the current design of EMU. It would also, in the longer run provide a basis for a strengthening of EU fiscal policy co-ordination in order to stimulate and maintain economic growth and employment on a sustainable basis. Ultimately, however, this may require the creation of a real European economic government, something for which thus far political will has been clearly lacking. As De Grauwe (2006: 143) notes, the main flaw of the current EMU remains ‘the absence of a full political union which includes a Central European government with the power to spend and to tax’.<sup>25</sup> Obviously, such a scenario is far from politically viable at the moment. Yet, it would be important to put this discussion on the agenda again. A first step would be to strengthen the mandate of the Euro-group (of finance ministers of the Euro-zone) and have it in a more active dialogue with the ECB (see on this Euromemorandum Group 2005: 32).

Reforming the internal market and EMU in these ways, then, does not at all mean less Europe instead of more, let alone, that it leads to an overall roll-back of European integration. In fact, it may mean both a limitation on further integration in some areas, and a further supranational deepening in other areas. Ultimately, in terms of its budget and its redistributive functions, we need more rather than less Europe if we want to restore certain social objectives (as some would claim belonging to the European Social Model) without reverting to an economic nationalism and protectionism, which in the end may only endanger those social objectives further. Obviously there is no need for yet more agricultural subsidies (or a least not for production subsidies), but there might be all the more need for regional and structural aid in order to strengthen the social cohesion of the EU – both geographically across member states and across social groups within member states.<sup>26</sup> An expanded budget, especially if it raises European public expenditure in directly visible ways and to the benefit of larger groups of people (and not just well-organised interests such as rich farmers in Northwest Europe), may also directly contribute to enhancing Europe's output legitimacy (cf. Holman 2006). It may moreover help in ensuring the necessary socio-economic convergence in the Union of 25. This in turn may help to create the basis for a further deepening of the social dimension of European integration than is currently feasible. Although one may argue that for such an increased European budget and redistribution we need more transnational solidarity than Europe as a 'polity without a people' (cf. Scharpf 1999) can currently provide, we may also emphasise the converse logic, which would be that a gradual expansion of the budget, especially if targeted wisely and financed fairly, may also strengthen this transnational solidarity.

This then brings us to another area where arguably we need more rather than less Europe. Although a complete harmonisation of social policy is, as we argued, neither politically feasible nor possibly entirely desirable, this does not mean that not more can be done than is currently the case in terms of strengthening social protection at the European level through common rules and standards, in particular by setting minimum, and if necessary, differentiated – that is, taking into account the divergent levels of socio-economic development as well as the institutionalist differences between Europe's national welfare states – social standards (for an elaboration of this idea see Scharpf 2003: 662-65; see also Euromemorandum Group 2005: 34-5).

What the above scenario for a different kind of (socio-economic) Europe boils down to, and what is essential, is that we move beyond the current market dominance and associated regulatory competition that often tends to produce a supply-side economic nationalism that erodes some of the social achievements associated with Europe's post-war national varieties

of capitalism (especially on the Continent). This economic nationalism moreover tends to entrench neo-liberal governance politically and ideologically as it obstructs the deepening of the kind of transnational solidarity that any alternative European project would need.

The above brief outline of a possible alternative for EU socio-economic governance should, given its normative premises (which any concrete policy recommendation obviously has), obviously appeal most to parties on the left of the Dutch political spectrum. Yet, parties here have only just, if at all, begun the debate that this paper argued is so necessary, that is, on what kind of Europe we would actually want. Some of the proposals made above are actually to be found within Dutch left-of-centre political parties. Thus the idea of enshrining the right of member states to protect their own public services into European law has recently been embraced by a study group of the PVDA, the Dutch labour party, which was formed after the referendum (Werkgroep Europa van de Partij van de Arbeid 2005: 11). Even if their reformism with regard to the socio-economic content of European integration more or less ends there, this does seem to indicate a shift in the traditional pro-European (which then meant pro- the current market-liberal project) stance of the PVDA. Although in rhetoric (as well as out of ideological conviction) much more critical of 'neo-liberal' Europe, the SP, probably because of its anti-federalist convictions, does not in general seem to offer much of a vision of any alternative Europe, of a Europe that would go beyond the neo-liberal Europe that it claims to oppose. The SP does also favour the protection of national public services (and probably would want to go much beyond the PVDA here), stressing the right of each member state to decide for itself what should be the appropriate size, scope and purpose of its public sector (SP 2004: 18-9). It also advocates measures against tax competition, especially the introduction of a common minimum corporate tax rate (SP 2003: 63). But beyond that, and not only during the referendum campaign out of tactical considerations, the SP above all seems to want 'less' instead of 'more Europe'. This would actually be at odds with much of what I advocated above. Certainly the emphasis on 'less Europe' is not going to reinforce the transnational solidarity that is so badly needed in Europe, especially if one wishes to move beyond a Europe of mere market and monetary union.

Its importance notwithstanding, we cannot simply end this paper with a call to rethink the fundamentals of current EU socio-economic governance, and thus of the content of Dutch EU policies. For one, it is clear that many political and social forces – forces moreover represented by the current as well as all previous Dutch governments since the relaunching of the integration process – are politically and ideologically quite wedded to the current project where the primacy lies with market integration and market-making policies. Second, the main purpose of this paper is not to convince anyone of the virtues of any particular socio-economic model for European integration – the point is rather to stimulate a debate on this



question. In this spirit, two conclusions can be drawn. First, given that the asymmetry European multi-level governance is one of the primary sources of its current lack of legitimacy, any government, of whatever political colour, can only continue to ignore this insight at its own peril. That is, the implications of this should be taken into account one way or another. If one believes that the current way is the right way for Europe, then, how to make sure that civil society and citizens will go along with it? Second, and following up on the previous point, we can draw the conclusion that whatever kind of Europe one desires to construct, one can only do so in the context of an open and in some ways continuous political debate. However appealing they may sometimes look, strategies of depoliticisation, of keeping Europe outside the reach of mass public deliberation, are in the longer run doomed to fail. Different Europes are possible and different choices are being made, and it is only by being willing to argue the case for those choices in public debate – which first of all means that it is about choice rather than some kind of mythical economic necessity – that ultimately the choices made, whatever they are, in the longer run have a chance of being supported by sufficient levels of popular legitimacy. As European integration is still primarily about socio-economic issues, about regulating economic activities, about market-making policies that affect the life chances of many, about (the absence of) redistribution, etc., this kind of politicisation will arguably primarily have to take place along a (traditional) left-right dimension. Thus, although within the confines of this paper, we cannot fully answer the question ‘what kind of Europe’ in terms of its socio-economic content, the point is that we need to debate this question more.

#### **4.2 Enhancing input legitimacy and improving societal embeddedness: towards a left-right politicisation of Dutch EU policy-making**

As transpired from the analysis in section 3.4.2., the debate on Europe in the Netherlands – and the case of the debate around the referendum is the clearest example of this – thus far has remained rather one-dimensional, restricted to the ‘vertical’ dimension of more versus less Europe, or the nationalist / integovernmentalist versus the supranationalist vision. What thus has been ignored is the important ‘horizontal’ dimension in which the question of ‘what kind of Europe’ in terms of the substance of European integration is debated. For our purposes this horizontal dimension is primarily to be taken to represent a left-right opposition (cf. Hooghe and Marks 1999; Marks and Steenbergen 2004; Pelikaan et al 2007). There are different theories or models pertaining to the question of how these two dimension might be related or not. Whereas for instance Hooghe and Marks (1999) tend to see a strong correlation between left orientation and supranationalism (with the neo-liberal right on the other hand being much more ‘nationalist’), others have rather identified the reverse relationship, that is, identifying the left with (economic) nationalism (cf. Pelikaan et al 2007; Kiiver 2007). If ‘left’ is taken to mean defending the national welfare state and national

public services, this arguably seems to preclude strong supranationalist preferences, if not licensing a clear Euro-scepticism. On the other hand, it could be argued, as I have done in the preceding section, that the only sensible route to preserving (let alone deepening) certain national forms of societal embeddedness of the market is via the road of deepening European integration in at least some respects. In this sense, then, in seeking to identify the 'left' (or 'the right' for that matter) in two-dimensional political space, it depends on which left (or which right) we are talking about. As such, it makes sense to treat the left-right dimension as a separate, important (potential) dimension of political conflict over European integration.<sup>27</sup>

A recent plea for a deepening left-right politicisation of European integration has come from Simon Hix (2005). Hix argues that since the integration process has a clear left-right dimension, a dimension that has become more important with the deepening of market integration, producing winners and losers, it is only logical that this dimension is also politicised within Europe's multi-level polity. Such a politicisation is moreover desirable because of the way it may help to create and sustain popular legitimacy for the current European project, in particular as it forces a more open debate on the pros and cons of for instance market liberalisation – which might especially help to enlighten the opponents as their opposition, according to Hix is often based on ignorance fed by manipulative special interests. From another perspective, however, it may be argued that Hix underestimates the extent to which opposition to market liberalisation is in fact due to genuine concerns about the real 'disembedding' effects of the latter. In other words, if a more open debate, giving weight to dissenting voices hitherto not represented, will enable different social groups to discover their 'real interests' as Hix seems to suggest, the outcome of that process is far from pre-determined. If this prospect would dishearten the proponents of a market-liberal Europe and make them think twice about the alleged benefits of politicisation, one ought to be reminded that with the current elitist mode of EU policy-making, one is not engendering sufficient public support for that market-liberal integration project either. Indeed, on the contrary, as we have seen.

How then, would a scenario in which a stronger left-right politicisation leads to a better embedding of Dutch EU policy-making and thus to an enhanced legitimacy, look like? What would it take to achieve the latter end? In other words, under which conditions is this scenario likely to unfold? If a left-right politicisation of European integration had already happened in the Netherlands some time ago, how different would then the present situation have been?

A first point that needs to be made is that a left-right politicisation will not lead to enhanced legitimacy in the short-run. In the longer-run, however, a new consensus might be forged

that forms a more durable basis for Dutch EU policies. A second point is that, in this longer-term process a better embedding and an enhanced legitimacy can only be achieved if a new societal consensus – that might arguably be the outcome of a more open and continuous debate – is effectively translated into new and effective policy choices within the realm of Dutch EU policy-making. That is, only if the democratic process is taken to its logical conclusion, that is, that the outcome of the democratic deliberation is effectuated into policy-making, can the latter achieve democratic legitimacy.

With regard to the first point it can be argued counterfactually that if this process of multi-dimensional politicisation would have started much earlier in the Netherlands, we would have been in a rather different situation at the time of the referendum on the Constitution. The Maastricht treaty for instance passed without any public debate in the Netherlands. The heart of the treaty, EMU, was not at all contested. This climate of a permissive consensus persisted at least until the introduction of the Euro in 2002 – the new currency only became controversial afterwards and in particular in the run-up to the referendum (see Engelen 2007). Arguably a different scenario would have unfolded if a referendum had been held on the Maastricht treaty too. Especially if then the debate would have taken place not only on the vertical (more versus less Europe) dimension but also on the horizontal left-right dimension, whereby the benefits and drawbacks of this particular kind of monetary union from the perspective of different groups would have been seriously debated.<sup>28</sup> Ideally this debate would have started already before the conclusion of the IGC. That might then also have led to a different outcome in terms of the Maastricht treaty itself. More importantly, it would very likely have strengthened the legitimacy of the final outcome, whatever that might have been.

Of course we can in no way say that the above counterfactual scenario would have averted a no-vote in the referendum on the constitution 13 years later, as the case of France (that did hold a referendum on Maastricht) underlines. It might, however, especially if this first referendum would have been the basis for a left-right politicisation developing throughout the 1990s, have brought us to a situation in which long before the Constitution, the question of ‘what kind of Europe’ would have been part of public discourse. This then might also have encouraged both proponents and opponents of the Constitution (if that would then still have been the next major step taken) to make their case for the Constitution on this basis. Whether that would have led to a different outcome (i.e., a ‘yes’ vote) is impossible to tell, but is also beside the point. The point is that it is likely that the interpretation of the ‘no-vote’ would then have gone beyond the presently dominant one, that is, that the Dutch people want ‘less Europe’ instead of more, or at least want a slowing-down of the process, or a more ‘modest’ Europe.<sup>29</sup> In other words, it might not have reinforced the Euro-scepticism as

currently seems to be the case. Instead, we might have created a basis on which to engage the question of how to proceed with the integration project, debating its substance. It would have opened up a space for opposition to the Constitution, or at least to the current European project, beyond a general, and sometimes nationalistic, mistrust of the European project altogether. This more constructive opposition might then also have provided the basis for a more constructive debate on how to move forward beyond the stalemate that in the wake of the no-vote in the Netherlands and France seems to have paralysed not only Dutch EU-policy-making, but also the EU as a whole.

With regard to the second point that legitimacy can only be enhanced if the outcome of a more open and multi-dimensional debate on Europe is effectively translated into policy-making, the case of France might be instructive. France is clearly ahead of the Netherlands in terms of a politicisation of EU-policy making along the left-right dimension. The French referendum debate, in which, as was noted in section 2.3.2, the socio-economic dimension was well developed, is a case in point. Yet, if anything, the legitimacy of national EU policies seems, in the wake of the referendum, weaker in France than in the Netherlands. Arguably this is to a large extent a reflection of the weaker position the current French government finds itself in, and possibly tells us as much about the (lack of) legitimacy of French national political institutions as it does about the legitimacy of EU institutions. It probably is also a reflection of the still weaker economic situation France is finding itself in (and has been for years), a point that underlines the positive correlation that appears to exist (not unsurprisingly) between economic performance and output legitimacy (of both European and national governance). However, the seemingly persistent crisis of French politics, including France's position within the EU (cf. Grunberg 2005) may also be related to more deep-seated structural problems of the French model of state-society relations. This model is characterised by a relatively high degree of statism in which the state often finds itself opposing the discontented masses demonstrating in the streets, with the state's institutions traditionally often unable to effectively channel the mass protests into the political system, and translate popular demands into effective and legitimate policy-making (Hall 1986; Boyer 1997). One reason for this inability of the state (at least in times of rapid socio-economic and socio-cultural change) to bridge this gulf with 'the street' is hence the absence of a strongly developed, and 'organised' civil society 'in-between' the state and the population. In other words, it is the absence of any form of corporatism, of organised interests sitting around the table with the government – whereas at the same time the state is weighing heavily on society and the economy (also leading to high expectations with regard to policy output) – that arguably might be seen as contributing to the political paralysis that in many respects seems to characterise the contemporary French model (cf. Clift 2003).

In this respect, the potential advantages of the Dutch polder model, should not be underestimated, at least not from the perspective of producing legitimate, societally 'embedded', policies. This conclusion seems somewhat at odds with the dangers of 'encapsulation' that were pointed to in section 3.4.2. Corporatism, however, is a double-edged sword. On the one hand, it can very much facilitate the creation of a societal consensus necessary for any legitimacy of state policy in democratic societies. On the other hand, there is the danger that the representatives of civil society, viz. the so-called social partners, become so much part of the national policy-making elite that they lose touch with their own base, and become less representative of respective societal interests. The analysis presented here suggest that the latter tended to be the case with the role of Dutch corporatism with respect to EU policies, at least since the end of the 1990s, when the social partners remained strongly supportive of a European project that in wider layers of society was perhaps already being perceived with much more scepticism. Some (liberal) critics of corporatism argue that it its main problem is rather that it always excludes certain (broader) interests as it only represents those who wish to be thus represented (e.g., trade union members) whilst at the same time claiming (and being granted by the government) some kind of monopoly of representation (e.g., the national trade union federation is seen as the only 'voice' of labour). But, as has been indicated in section 3.4.2, in the case of the Netherlands, the problem seems to have been more that of a disconnection between in particular trade union leadership and the mass of ordinary members.

What we might need, then, is a polder model that is less closed and less elitist than it sometimes may have been in practice, that is, open to debate both within and outside its official 'pillars'. Such a corporatism might still generate consensus, and thus legitimacy, also for EU policy-making. But it would also be a somewhat more conflictual model in which reaching consensus would not be the overriding objective, to be achieved at the expense of suppressing real conflicts of interests (or ideological cleavages). It would thus allow for more politicisation, also from below, at least before then possibly a new consensus at the top might be reached. Although in some cases this may lead to a situation where we would have no agreement at all (which is of course not necessarily a bad thing in a democracy!), in other situations the consensus reached might be stronger and more durable (because representative of a wider base) than now is sometimes the case, especially with regard to European issues which for too long have been kept out of the broader political realm altogether. Such a changing role for Dutch corporatism of course cannot be legislated top-down, but would require leadership on the part of the main players themselves. In particular for the Dutch trade unions this might mean that they need to reflect on what role they themselves want to (continue) to play with respect to Dutch EU policy-making. A first

requirement for this would be that they themselves, also internally, start the debate on what kind of (socio-economic) Europe.

### **4.3 Conclusion**

The Dutch polder model on the one hand, and a strengthened multi-dimensional politicisation of Europe within the Netherlands on the other, then in end do not have to be incompatible. Indeed, under the right circumstances, the former might help to ensure that the latter is also channelled into effective policies. Of course, this might also imply that these policies actually change in terms of their content, that is, with respect to the substantive choices that are made. In this process of more deeply embedding Dutch EU policy-making into Dutch society and politics, a crucial role, next to civil society actors, is of course to be played by political parties, both on the right and on the left. Ultimately it above all requires political leadership to achieve the kind of debate on the (socio-economic) content of European integration that will be conducive to a sustainable legitimacy of EU governance.

Whatever Europe one seeks to advance, the only way forward would be, I contend, on the road of a more durable and open public deliberation, a more inclusive process in which different voices are heard, and different discourses can be articulated. This would then indeed, as Hix suggest, force politicians favouring certain policies to provide more genuine arguments in support of those political choices. Indeed, it cannot be excluded, that this may convince more people than is currently the case. It may also force opposing forces to take a more genuine stance as well: why do they for example oppose (aspects of) market liberalisation, or of monetary union, what are their arguments in favour of a different Europe, premised on a different social purpose? From the perspective of those who do not deem such changes desirable, their enlightened self-interest should make them aware that to continue to close of the debate, to depoliticise many fundamental political choices (with respect to socio-economic policies, but of course, also generally), to exclude certain interests, and to keep certain ideas consistently off the political agenda, will run the risk of endangering the European project altogether.

As indicated, the fact that now more than a year after the referendum Europe seems to be much less on citizens and (the media's) radar screens, should not delude us. Dissatisfaction with Europe in its current form and with how political elites, including Dutch elites, construct this Europe still runs deep. All kinds of contingent events could likely provoke an even deeper legitimacy crisis than what we have seen with the last referendum, and even turn many people against the idea of European integration as such – an idea, which, as we have, seen, still enjoys considerable popular support in this country. To squander that political capital

would seem unwise for anyone committed to the idea that indeed there is no sensible alternative to an integrated Europe, and for the Netherlands to be part of that.

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## NOTES

- <sup>1</sup> Some of these have later been revived within the framework of the European Social Dialogue, another initiative of Delors, within which the European 'social partners' can now negotiate agreements – that can then be transposed into directives – within the framework of the so called 'social chapter' of the 1991 Maastricht treaty. Having been dubbed the dialogue of the unwilling (UNICE) and the unable (ETUC), the social dialogue, being a highly voluntarist arrangement (Streeck 1995b) has thus far not produced many substantive results.
- <sup>2</sup> It has to be noted that this distinction is somewhat stylistic and to an extent contrasts authors whose analysis as well as conclusions in some other respects quite overlap. Thus for instance Scharpf (1999) may not disagree with, e.g., Hemerijck (2002) that there are several examples of 'successful' welfare state reform in spite of the constraints emanating from the European integration, whereas the latter would not deny the existence of these constraints. The difference here, then, is partly more one of emphasis, the one emphasising the problems created by European economic integration in the first place, the other emphasising the possible solutions. Yet others (here for simplicity's sake also grouped in the 'pessimistic' camp) would stress that these 'solutions' in fact do undermine the essence of the 'European Social Model' and that thus the source of the problem itself needs to be tackled (rather than choosing to merely adjust to it).
- <sup>3</sup> In other words the constitutional asymmetry that Scharpf and others have pointed has been the intended outcome on the part of neo-liberal social forces (mainly transnational capital, see on this Van Apeldoorn 2002; also Holman 2004).
- <sup>4</sup> The concept of embeddedness here is taken from Polanyi (1957) and is meant to denote the idea that to some extent the market economy is (and has to be) embedded in non-market social institutions and forms of regulation that limit the free market and protect society against its potentially destructive effects. Although 'embedded neo-liberalism' represents such embeddedness symbolically, substantively in the end, as I will argue below it cannot sustain any real embeddedness in the Polanyian sense, because of the disembedding force of neo-liberalism itself. As such, then, 'embedded neo-liberalism' must be viewed as a contradiction in terms, offered as a 'hegemonic formula' that may work in the short run but in the longer run cannot be sustained. On the concept of 'embedded neo-liberalism' see further Van Apeldoorn 2000: ch. 5. Finally note that I use the concept 'embedding' here in a somewhat different way than the WRR project – for which this paper has been written – does when it refers to the notion (also referred to in this paper) of 'the societal embedding of EU policy-making'. Although there is some overlap in meaning, I use it here in a specific political economy sense as explained above.
- <sup>5</sup> Thus in 2004 some 70 directives have been adopted under the Lisbon process, mainly in the area of the internal market. Although transposition of these directives has been lagging, most progress has been made in the area of financial market integration under the heading of the 'Financial Service Action Plan', see European Commission 2004.
- <sup>6</sup> See Tobias Buck, 'Brussels seeks to streamline EU's Lisbon agenda for economic reform', *Financial Times*, 18 January 2005, p. 1.
- <sup>7</sup> ETUC Executive Committee, ETUC and the Lisbon Mid-Term Review: A Discussion and Background Document (Brussels, 13-14 October 2004), p. 5; see also ETUC, "Revitalise the Lisbon Strategy" by keeping the balance between the economic, social and environmental pillar and by reforming the reform of the macro-economic policy framework', Resolution adopted by the ETUC Executive Committee in their meeting held in Brussels on 15-16 March 2005, online at: [http://www.etuc.org/a/1006?var\\_recherche=Lisbon+strategy+](http://www.etuc.org/a/1006?var_recherche=Lisbon+strategy+) (accessed 30 January 2006).
- <sup>8</sup> See the series of papers of a recent conference on Euro-scepticism organised by Liesbet Hooghe and Gary Marks, papers downloadable at: <http://www.unc.edu/depts/europe/conferences/euroskepticism/papers.html> (accessed 6 February 2006). Eurobarometer records that support for EU membership hovers around 50 % (that is the average of EU 25, with approval rates below that in major EU countries like France, Italy and the UK), while trust in EU institutions like the European Commission and the European Parliament has been declining recently, see European Commission 2005.
- <sup>9</sup> As such the Dutch model has been praised inter alia by third way luminaries such as US President Clinton, German Chancellor Schröder, and UK prime minister Tony Blair (Spithoven 2002:334).
- <sup>10</sup> An additional explanation according to Becker lies in some accidental circumstances such as the house price bubble and subsequent 'consumption' of mortgages in the second half of the 1990s (ibid.: 1089).
- <sup>11</sup> Indeed, it may also be argued that, contrary to the conventional explanation, Dutch productivity may have directly suffered as a consequence of the policy of wage moderation (cf. Becker 2005: 1096; cf. Spithoven 2002).
- <sup>12</sup> According to a poll held almost a year after the referendum, 68 %, rather than the 62% of June 2005, would now vote no against the EU constitution, see M. de Hond 'Nederland blijft t.a.v. de EU aan handrem hangen; EU-uitbreiding is slijtzwam', *Persbericht*, May 27, 2006, online at: <https://n38.noties.nl/peil.nl/> (accessed 15 August, 2006).

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- <sup>13</sup> That the socio-economic dimension might even be more important than the socio-cultural one (in as far as they can in effect be separated) probably goes against the intuition of most observers, who may have been misled here above all by the one-dimensional debate in the media, where, as I will argue below, hardly any left-right politicisation took place. Yet we may for instance compare, for what it is worth, the 39 % of the respondents who thought that because of further European integration 'national identity and culture' will (probably) disappear with the figure (mentioned below) of 47% who thought that 'social services / security' (sociale voorzieningen) will (probably) disappear due to further integration (Aarts and Van der Kolk 2005b: 177). Of course, others might produce different figures and / or interpretations. The main point I want to make here is that the socio-economic dimension was also as important with respect to determining the voting behaviour during the referendum, not necessarily that it was more important than fears of loss of identity, etc..
- <sup>14</sup> Party cuing here refers to parties (intentionally or not) eliciting certain responses on the part of the public by providing them with certain stimuli in the form of (discursive) cues or 'cognitive short-cuts and emotive anchors (...) that help a person decide what is in his or her interest (Marks and Hooghe 2003: 4), they thus for instance help people to decide what to vote in elections or referenda. The reasons they may thus give for why they voted in a certain way may be to a considerable extent influenced by these so-called party cues, even if these cues at the same time may also appeal to pre-existing 'authentic' sentiments and opinions – but on the basis of which opinions people are actually motivated to vote one way or another thus also depends on which 'cues' parties decide to use.
- <sup>15</sup> Indeed, most would not classify the Christenunie as an extreme right-wing party (which they certainly also aren't on the socio-economic dimension). However, traditionally, it would be fair to say that both Christenunie and SGP, in Dutch discourse being called 'small right', are outside the Dutch political mainstream, and on the right of it. For the position of the Christenunie with respect to the Constitution, as revealing the EU's 'statist pretensions', see the contributions by Andre Rouvoet in a debate with Wim Voermans, Andre Rouvoet and Wim Voermans, 'Europa, Europa', Trouw (section 'Letter & Geest'), April 23, 2005.
- <sup>16</sup> Harry van Bommel, 'Keurslijf', Algemeen Dagblad, May 25, 2005, p. 18.
- <sup>17</sup> As it was inter alia phrased in an SP radio commercial, downloadable at: <http://www.sp.nl/nieuws/actie/grondwet/weblog/2005/05/22/sp-start-ook-radiocampagne/> (accessed July 18, 2006). See also, e.g., the following op-ed articles by party leader Jan Marijnissen: 'Europese Grondwet is een gedrocht', NRC Handelsblad, 18 April, 2005, p. 7; and 'De ene Eurostaat komt er in een snel tempo aan', Trouw, May 21, 2005, p. 16. See also Robert Giebels, 'Ja-campagne werd dubbele nee-campagne', NRC Handelsblad, May 31, 2005, p. 1; Jaap Jansen, 'Beter dan niets of niet genoeg', Algemeen Dagblad, May 31, 2005, p. 3.
- <sup>18</sup> In fact, the fear that further European integration, as through the Constitution, would render the Netherlands into a 'powerless province' of a European super state was already expressed in the SP's 2004 European election manifesto (SP 2004: 5).
- <sup>19</sup> The Dutch debate on its position as largest net payer reached new heights in the run up to the June 2005 EU summit in which a new budget deal was on the agenda (see, e.g., J.M. Bik, 'Boze Netto Betalers', NRC Handelsblad, June 7, 2005, p. 6).
- <sup>20</sup> Of course, the question is justified to what extent such groups actually exist. Since they were not well represented in the public discourse either during or after the referendum debate, it is hard to tell. It could hypothetically be that most citizens sceptical of current European integration in fact merely want less Europe rather than a different Europe. However, the socio-economic concerns underlying in part the Dutch opposition to the Constitution that were identified in the section 3.4.1, combined with the continuing high support for EU membership, would seem to indicate that such alternative dissenting voices at least potentially exist. Furthermore, during the referendum campaign there were some organisations that in their opposition emphasised more their desire for a 'different Europe' rather than just 'less Europe'. One such grouping was the Comité Grondwet Nee (Committee Constitution No). This left-wing civil society organisation had close ties to (more internationalist elements of) the Socialist Party but unlike the SP much more explicitly chose to campaign against the Constitution on the grounds that it would consolidate the neo-liberal project, at the same time advocating a European project with a different socio-economic content (see the Committee's website, <http://www.grondwetnee.org>). Although the Committee played some prominent role in the referendum campaign (Lucardie 2005: 118), they and other civil society organisations, were still overshadowed by the political parties opposing the constitution, again, in particular the SP, and their substantive objections did not get attention it might otherwise have received.
- <sup>21</sup> See, e.g., 'Arbeid en kapitaal eensgezind vóór', NRC Handelsblad, May 14, 2005, p. 2.
- <sup>22</sup> I am grateful to Monika Sie Dhian Ho for here suggestion to present the different alternatives in this way.
- <sup>23</sup> Article III-166 stipulates that the 'rules of competition' also apply to these 'services of general economic interest (SGEIs) unless that hampers them to carry out the public tasks that have been assigned to them. Although this may sound reasonable, it in fact brings those (governments) who want to uphold certain public services very much in a defensive position: they have justify what remains an exception to the rule. The primacy of the market is furthermore underlined by the next statement in the article, that '[t]he development of trade must not be affected to such an extent as would be contrary to the Union's interest'. Furthermore, Article III-167 forbids any form of state aid that 'distorts or threatens to distort competition', and SGEIs are not exempt from this. Finally, part II

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(article 96) gives everybody a right of access to these services, but of course there is no guarantee that these services will in fact exist (at a sufficient level of quality).

- <sup>24</sup> De Grauwe notes that the SGP imposes even stricter fiscal discipline on the member states than did the convergence criteria. It so in particular through its medium-run balanced budget requirement, which in effect implies that states will be forced upon a path towards a debt ratio of zero. According to De Grauwe there is no economic rationale for such a policy, as the aim should be to keep debt at sustainable levels, not eliminating it altogether as in fact debt performs the important function of governments investing in future economic growth and sharing the burden between present and future generations (ibid. 5-6). If agreement could be reached on what sustainable debt ratios would be (with a nominal growth rate of up to 5% this could be up to 60% of GDP) then the levels of sustainable structural budget deficits (rather than a balanced budget over the business cycle) could be set accordingly (with a debt ratio of 60% this could be a budget deficit of up to 3% , which then could be exceeded by a few percentage points in times of recession, ibid: 11-12). Clearly, such a reform would go beyond the rather ad hoc reforms of the SGP that were concluded in 2005 in the wake of the persistent breach by France and Germany of the Pact's rules.
- <sup>25</sup> Note that such fiscal federalism does not necessarily imply the creation of e.g. a European welfare state. Although it might imply a Europeanisation (at least in terms of its financing) of some welfare functions, social and welfare policies (just as it is in some other federal systems) could still remain partly the responsibility of national states, who therefore would also be able to keep their own preferred systems. It would mean, however, a significant increase in the current European budget (see below).
- <sup>26</sup> For some concrete proposals for a stronger EU budget, see Euromemorandum Group 2005: 38-9.
- <sup>27</sup> It is important to emphasise here that I am not claiming that the debate on 'what kind of Europe?' (as referring to the substance of its policies) can be reduced to the left-right dimension. As Pelikaan et al (2007) in their contribution to this project convincingly argue, there are in fact many more dimensions in Europe's multi-dimensional political space that can be usefully distinguished. Nor do I want to claim that with regard to the Constitutional debate the left-right dimension was necessarily the only important dimension (cf. Crum 2007), nor that a politicisation on left-right issues would necessarily have taken away genuine worries on the part of many Dutch citizens with regard to both widening and deepening of the EU – worries that relate to perceived threats to national identity and national sovereignty. What I do claim is that left-right dimension, which is the most important dimension from a political economy perspective, has been relatively ignored, or has not really been articulated, in public discourse, and that this has unnecessarily narrowed the discourse, and that this narrowing now also leads to a narrowing of the policy options with regard to the Dutch future engagement with the European project (see below).
- <sup>28</sup> In addition, it is likely that under these circumstances, of already having had a debate on monetary union, the issue of the Euro would not have played the same negative role in the referendum campaign as was currently the case (see Engelen 2007).
- <sup>29</sup> See for instance the op-ed articles of the Dutch junior minister for European affairs, Atzo Nicolai, 'Een beter Europa is een bescheidener Europa', NRC Handelsblad, July 11, 2005, p. 7, and of the Dutch foreign minister, Ben Bot, 'Niet eurosceptisch, maar eurokritisch: Nederlandse regering doelt niet zonder kompas rond in het laagland', NRC Handelsblad, May 31, 2006, p. 7.