

## Europeanization of Economic Policy in the New Member States

Petia Kostadinova  
Center for European Studies  
University of Florida  
[petiak@ces.ufl.edu](mailto:petiak@ces.ufl.edu)

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Paper prepared for presentation at the European Union Studies Association Tenth Biennial International Conference, Montreal, Canada \* May 17-May 19, 2007

## **Europeanization of Economic Policy in the New Member States**

To say that Europeanization is an overused and controversial concept would be an understatement, yet a recent substantial increase in scholarly publications on the subject has done little to clarify this term. Scholars differ on the definition of Europeanization, the mechanisms through which it affects member states (and EU candidate countries), their politics, policies or institutions, as well as whether or not Europeanization leads to a conversion of policy outcomes. Especially lacking, in this plethora of research, are cross-national studies which capture Europeanization in a quantifiable way and estimate its impact while taking into account the alternative ways in which Europeanization works. This paper, building on a wide range of theoretical and case-studies research, represents one such attempt to measure the impact of Europeanization on the economic policy of the now new EU member states from Central and Eastern Europe (CEE). The first section overviews the many definitions of Europeanization and justifies the use of the term to denote change in institutions, policy or preferences as a result of the influence of the European Union. This section also elaborates on why scholars should expect Europeanization to be present in Central and Eastern Europe (CEE) even before these countries acceded to the EU. The second section develops a model of Europeanization to be applied to the CEE countries and summarizes seven propositions for how various factors affect the process of Europeanization of public policy in the CEE. The third section examines, by examples and statistical analysis, the extent to which the EU – through various channels of the Europeanization process – affects economic policy in the CEE. The final section concludes.

### **Defining the Concept of Europeanization**

The concept of “Europeanization” is defined in a variety of ways, denoting both a process of policy change and an outcome (convergence of policies), both at the national and

supranational levels. Some scholars view Europeanization as similar to European integration, i.e. the “development of European level of distinct structures of governance” (Risse, Cowles and Caporaso 2001, 3; Olsen 2002). Olsen (2002, 923-4) further distinguishes between Europeanization as (1) a change in the external boundaries of Europe, (2) a political unification project or (3) as a process exporting forms of political organization. Most recent scholarship, however, agrees on a different and rather specific conceptualization of Europeanization, as the impact of the European Union on the national politics and policies of the member states (Schmidt 2002, 896), as a direct consequence of the process of European integration (Olsen 2002, 932).

Within such a definition scholars further distinguish between the *process* of changing national policies as a result of integration, i.e. of adopting EU rules (Schimmelfennig and Sedelmeier 2005; Radaelli 2003) and the actual *change* in policies (Buller and Gamble 2002). Radaelli’s definition of Europeanization as the “processes of (a) construction (b) diffusion and (c) institutionalisation of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’ and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic (national and subnational) discourse, identities, political structures and public policies.” (30) is adopted by many recent scholars of Europeanization of Central and Eastern Europe (e.g. Grabbe 2002; Brusis 2005). Such a definition is perhaps the most encompassing one while remaining precise, while Buller and Gamble’s definition of Europeanization as a “situation where distinct modes of European governance have transformed aspects of domestic politics” (17) is perhaps the most parsimonious one. In this paper I focus on the second aspect of Radaelli’s definition Europeanization, the diffusion of policies, ideas, practices, etc, while adopting Buller and

Gamble's concept of capturing Europeanization as a policy outcome, observed at the national level, as a result of influence stemming from the EU.

There are two characteristics of Buller and Gamble's definition which make it useful and appropriate for the study of EU's impact on national-level policies. Firstly, this definition focuses on the outcome of Europeanization rather than on the process of change itself, thus making it possible to observe and capture Europeanization in a more objective way. Secondly, and perhaps more importantly, Buller and Gamble's definition focuses on change, on becoming like 'Europe' thus rejecting definitions which involve lack of change or resistance to change. Using a definition of Europeanization as a change in national policies is especially relevant to the CEE countries, where the lack of (or resistance to) change as a result of pressure from the EU simply indicates lack of (or delayed) Europeanization. This situation is different from Europeanization in the pre-2004 member states, where lack of policy change as a result of EU directives, for example, could simply indicate that the country's policies are already in synchrony with the EU ones, i.e. potentially a consequence of the down-top process of transposing domestic rules to the EU level.

Europeanization, as defined by Radaelli and adopted by many others, and as applied to the EU member states could lead to a variety of outcomes. Different authors' classifications vary slightly, and generally range from complete and swift adaptation to EU rules to outright resistance to change. Depending on the magnitude of the required change of national policies, Schmidt (2002) distinguishes among three possible outcomes of Europeanization, inertia or resistance to change, absorption and transformation. No change occurs in situations of inertia, absorption requires countries to make policy accommodations to address the new rule, while transformation leads to a reversal of national policies (901). Building on works by Boerzel

(1999), Cowles et al (2001), Heritier (2001) and Heritier and Knill (2001), Radaelli (2003) adds a fourth possible outcome, retrenchment, where “national policy becomes less ‘European’ than it was” (38) before new EU rules were introduced.

### *Relevance of Europeanization to Central and Eastern Europe*

Europeanization is typically associated with EU member states, yet the process of becoming like ‘Europe’ had relevance to the EU applicant countries of Central and Eastern Europe, even prior to their EU accession. Even with a cursory knowledge of the current history of Central and European Europe, one could not escape the significance of the European Union for the politics of the region. The desire to ‘return to Europe’ shaped the foreign policy priorities of the CEE countries and the EU accession process fundamentally transformed their policy landscapes. Moreover, the nature of the accession process and the conditionality of EU membership are the main reason why scholars believe that Europeanization was present in the CEE even before these countries became members. As Grabbe (2002) points out, because of the conditionality of the *acquis*, even before accession, the CEE countries were exposed to the same type of pressures as EU member states. This situation is different from previous waves of applicants, which did not have to meet the full *acquis* and when the internal market *acquis* were much less inclusive. In this sense, the pressure on the applicant CEE countries to comply, prior to accession, with the membership criteria is very comparable to the meeting of the convergence criteria for monetary union by EU member states.

Grabbe (2002) further points out three reasons why the impact of the EU on the CEE applicant countries was at least as strong if not stronger than the EU impact on member states. The speed of adjustment necessitated by the short timeframe for accession is one of those reasons, a factor which contributed to the lack of discussion, both within each applicant country

and between the EU and the applicant countries, about the nature of the changes which the applicant countries had to undertake. Thus few if any policy alternatives were articulated on the road to EU membership, leaving only two possible outcomes, policy changes to accommodate accession requirements or delayed adoption of EU membership criteria. A second reason for the strong EU impact on the applicant countries is that the latter did not have pre-existing institutional arrangements which to conflict with the EU rules. Because accession coincided with the withdrawal of the communist state, there was much less resistance to changes coming from Europe, since the EU rules were not replacing well established and popular national policies.<sup>1</sup>

A third reason for the strong EU influence is the lack of opt-out possibilities; for example, unlike pre-2004 member states, the applicant countries had to unconditionally comply with all the accession requirements, again leaving less room for policy alternatives. These factors combined with the highly specific required rules which the (future) member states had to adopt without negotiations limited the range of possible outcomes of Europeanization. While the CEE countries differed in the speed with which their policies were transformed, inertia is ruled out as a policy outcome, since eventually all applicant countries complied with the EU rules. Retrenchment also did not occur. Of the two remaining possible outcomes, absorption and transformation, the latter is more likely given the level of misfit between national and EU policies at the beginning of accession negotiations.

### **Towards a Model of Europeanization**

The literature on Europeanization is still lacking agreement on what are the mechanisms through which developments at the EU level affect the member states, and what are the factors which determine the strength of the EU's impact on domestic politics and policy. The lack of

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<sup>1</sup> It is possible, however, that the EU rules, as part of the accession acquis, were in conflict with pre-communist legacies and that this conflict affected the timing and the speed of adopting EU rules.

agreement is exacerbated by the wide reach of Europeanization and the numerous aspects of the politics and policies of member states which could be affected. For example Radaelli (2003) sees Europeanization as potentially affecting at least 17 domains, ranging from public discourse and norms to legal structures and political institutions to policy styles and outcomes.

Below I develop a very simple model capturing the channels of the EU's influence on the domestic policies of the CEE countries. The model presented here is essentially a streamlined summary of numerous scholars' accounts of the process of Europeanization, with a specific focus on policy change. This model is based on the assumption that policy is the outcome of the beliefs and preferences of political actors, whose decisions are constrained by the (1) nature of the domestic political institutions (allowing for pressures from different social groups), (2) the domestic and (3) external economic constraints, limiting policy options. Thus this model does not directly focus on Europeanization as a result of change in discourse, norms and beliefs as those are still subject to political and economic institutional constraints. Within this very general framework, the EU's impact of CEE policy depends on the following factors.

A pre-condition for policy change is the existence of pressure (to change) coming from the European Union. Such pressure, in the form of either EU directives or conditionality *acquis*, is instrumental for setting the framework for change (Grabbe 2002). Knill and Lehmkuhl (1999) distinguish between two types of changes stemming from EU pressure, corresponding to positive and negative Europeanization, respectively. The positive Europeanization is the most direct one and stems from the EU "prescribing concrete institutional requirements with which member states must comply" (2). In other words, the EU provides very specific and exact rules which everyone has to adopt. Such policies are aimed at replacing national policies and institutions. A second logic, negative Europeanization, is applicable to the adoption of policies aimed at

removing national ones but without being replaced by new European ones; for example regulations abolishing preferences for national products. Knill and Lehmkuhl's Europeanization typology closely resembles Schmidt's (2002) distinction among different types of EU pressure depending on its intensity: highly specified rules, less specified rules, suggested only rules, no decision rules (897).

The pressure from the EU to change policy direction, or adopt a specific set of policies should be the first step in determining whether Europeanization of domestic policy is occurring at the level of the (future) member states. Thus, the existence of EU rules which must be adopted at the national level is necessary but not sufficient condition for change (H1).<sup>2</sup> Moreover, the more specific the EU rules are, the greater the likelihood they will be adopted (H2). By itself, this proposition might seem to indicate the pre-eminence of EU-level developments over domestic politics. In the case of the member states, which have contractual obligations to adopt and adhere to EU legislation, it would be hard to show that EU rules are not taken into consideration. Stating the obvious role of the EU in determining policy direction at the national level, however, does not ignore the role of domestic political, as well as other non-EU factors, in policy-making. It is of course possible that a member state changes its policies in a given area *before* the adoption of EU rules is required. In such a situation, however, the trailblazer country would not be subject to Europeanization as defined for the purpose of this paper, i.e. a change in domestic politics and policy as a result of EU-level developments.

In the instance of the applicant countries from the CEE, it is also possible for policy change to occur without EU pressure, a situation which Schimmelfennig and Sedelmeier (2005) call 'lesson drawing' model of Europeanization, where "states adopt EU rules because they judge

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<sup>2</sup> In the analysis below, the author's first task would be to determine the existence of such rules with respect to the economic policy of CEE.



them as effective remedies to inherently *domestic* needs and policy challenges” (10). In such situations Europeanization is more likely when (1) there is a clear perception among policy-makers that the existing domestic rules no longer produce the desired outcome, (2) the political institutions and the beliefs of policy-makers are permeable to outside ideas and (3) the EU policies have shown successful resolution of similar domestic problems elsewhere. This situation would hardly apply in the case of economic policy in the CEE, where pre-existing EU rules do not have a strong track-record of success and are controversial to say the least. Another possibility is that the CEE applicant countries adopt EU rules prior to EU pressure, a situation which is tested for in the empirical section. Whether or not, however, applicant countries preemptively adopt policies inline with EU regulations leads to the following non-exclusive possibilities; (1) policy-makers in the CEE countries share the same beliefs for policy change as EU officials and adopt similar policies because of correspondence of policy preferences and beliefs; and (2) policy-makers in the CEE countries preemptively adopt EU rules and regulations because they believe that such rules will be immediately imposed on them and would like to control their domestic agendas. Both possibilities relate to the Europeanization of beliefs, which I briefly discuss below.

Provided that CEE countries are subject to pressure from the EU to adopt a specific set of rules whether or not policy change is likely to occur depends on a variety of domestic and external factors, i.e. there is generally an agreement in the literature that domestic political factors in particular play a significant role in shaping the outcome of policy change, in the presence of EU pressure (e.g. Schmidt 2002; Mastebroek and Kaeding 2006). One of the most obvious and popular explanation for domestic change following EU pressure is the ‘goodness of fit’ hypothesis (e.g. Boerzel and Risse 2000). When new EU rules are introduced, the degree to

which a country's policies already comply with the new rules would determine the need for and the ease of adjustment and as Knill and Lehmkuhl (1999) hypothesize, the "domestic adaptation appears to be more likely in cases where European policies imply incremental rather than fundamental departures from existing arrangements at the domestic level" (5) (H3). A good 'fit' between national and EU policy and preferences leads to policy absorption (Schmidt 2002), with few costs imposed on domestic political players and with few other (external or economic) considerations playing a role. A bad 'fit' leads either to inertia or transformation (Schmidt 2002), both situations in which factors other than the goodness of fit are expected to determine which policy direction would be followed.

The post-1945 history of Central and Eastern Europe, the legacy of communism and the non-democratic pre-communist history facilitate the assumption that at the time when CEE countries expressed interest in becoming EU members, there was a very bad 'fit' between their policies and the EU rules, laws and regulations.<sup>3</sup> Thus, following Schmidt's typology, we would expect one of two outcomes. CEE countries would either transform their policies to comply with the EU or they will show reluctance, or inertia, in introducing and implementing change. The rest of this section turns to the factors which might determine why a country would follow either path. Assuming the existence of clearly defined EU rules and a mis-fit between EU and national level policies, there is an array of domestic or external, political or economic factors which determine whether a country would transform its policies or show inertia. On the domestic level, Schimmelfennig and Sedelmeier (2005) identify the 'social learning' model which follows the logic of appropriateness and "emphasizes the identification of the CEECs with the EU and persuasion of the CEECs by the EU of the legitimacy of its rules as key conditions for rule adoption, rather than the provision of material incentives by the EU". (9-10). This model is

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<sup>3</sup> Evidence suggestive of the mis-fit in terms of economic policy is discussed in the analysis section.

similar to Knill and Lehmkuhl (1999) idea of ‘framing’ integration where Europeanization works by changing the beliefs and preferences of the policy actors. Following these logics, CEE policy-makers adopt EU rules because they believe, or are persuaded to believe, that the EU rules they are required to adopt are legitimate, i.e. EU and CEE policy-makers share the same beliefs about the appropriateness of the specific EU rules (H4). The higher the legitimacy of the rules and the closer the match between CEE and EU beliefs, the greater the likelihood CEE policy-makers would adopt the EU rules.

The propositions of the ‘social learning’ model, however, should not be discussed independently of other factors and institutions. Beliefs and perceptions of legitimacy in themselves are not sufficient to induce policy change, as policy-makers face numerous other political and economic constraints when adopting policy. One could even further argue that beliefs and perceptions of the legitimacy of EU rules are not even necessary for policy-change to occur. Policy-makers could and do implement policies sometimes contrary to their own beliefs and pre-election statements (ex. Fujimori in Peru). Beliefs and norms aside, domestic political constraints are expected to play a dominant role in determining the course of policy action. Scholars such as Schmidt (2002) and Grabbe (2002) define domestic political factors rather broadly, as the institutional capacity for policy change. Other scholars are more specific and focus on the number of policy decision-makers, and especially those who incur a cost as a result of the change in policy. Also utilizing political actors as explanation for policy change, Knill and Lehmkuhl (1999) associate the challenges to the existing preferences of political actors and the creation of new powerful actors with ‘negative’ Europeanization aimed at replacing pre-existing national policies with EU ones, where one political equilibrium is replaced with another one.

Following Schimmelfennig and Sedelmeier (2005), the likelihood for policy change increases as the number of actors who would lose from it decrease (H5), a standard veto player proposition.

The final set of propositions which could affect the adoption of EU rules by candidate countries relates to the external constraints imposed on the CEE countries. Schimmelfennig and Sedelmeier (2005), in their “external incentives” model, as well as Grabbe (2002), focus on the EU conditionality as a tool to induce policy change. Since the EU could threaten exclusion from the negotiation process or delayed accession, and as the credibility of such threats grow, so does the adoption of EU rules and regulations (H6). The EU conditionality is also closely related to the financial assistance and rewards the CEE countries receive as a result of their compliance with EU rules (e.g. Schimmelfennig and Sedelmeier 2005 and Grabbe 2002). Thus, the higher the assistance level, the greater the likelihood of EU rule adoption (H7).

### **Capturing Europeanization of Economic Policy**

Europeanization defined as the impact of the European Union on the economic policies of the Central and Eastern European countries could be captured in numerous ways. Since my focus however is on the change of policy outcome, rather than change in beliefs or processes, in this paper I utilize two ways of measuring Europeanization of economic policy in the CEE countries. The first measure is developed by Cernat (2006) and captures the *acquis* approximation in all 31 chapters.<sup>4</sup> The Commission’s opinions, annual progress reports and other relevant documents are coded to reflect CEE applicant countries progress with adopting the *acquis communautaire*; no progress from previous years is coded as zero, little or unsatisfactory progress – one, satisfactory progress – two and significant progress – three (116). For the purpose of this analysis, I use the average of the scores for the internal market and economic and

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<sup>4</sup> I would like to thank Lucian Cernat for generously providing me with his dataset.

monetary union chapters. Table 1 provides the summary statistics of this Europeanization Index for years 1998-2002.<sup>5</sup>

#### TABLE ONE ABOUT HERE

The Europeanization Index based on Cernat provides a measure of legislative approximation of the *acquis*, indicating the extent to which the CEE countries made progress in meeting the formal requirements of the internal market and the monetary union yet the index does not directly capture the policy outcomes of this legislative approximation. For this purpose I use measures developed by the European Bank for Reconstruction and Development (EBRD). The Transition Indicators are developed for a wide range of economic reforms, such as price liberalization, financial and trade liberalization, competition policy, banking reform, and reform in other financial institutions, starting in the early 1990s. The measurement scale, which ranges from one to 4.33 (4+ in some accounts), compares the transition economy to the standards of the advanced industrialized countries. A score of one indicates little or no change from a planned economy, while a score of four plus (4.33) means that the country's economic legal environment is no different from that of an industrialized nation. In this paper, I use a composite measure of the transition indicators in the areas of enterprise reform, competition policy, banking sector reforms, reform of non-banking financial institutions, and the extensiveness and effectiveness of company law. The measure is constructed by averaging the reform score in each of the above areas to produce an index which reflects actual economic transformation in each country. Table 2 shows the summary statistics for the composite EBRD measure.

#### TABLE TWO ABOUT HERE

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<sup>5</sup> Prior to 1998, Cernat interpolates the data points, assuming that in 1990 all scores were equal to zero (personal communication). As this is a rather controversial procedure and I use the Europeanization Index as a dependent variable (in Cernat's book, this index is an independent variable explaining economic growth), having a dependent variable with majority of its values constructed somewhat artificially would not lead to meaningful interpretations.

## **Analyzing the Europeanization of Economic Policy in CEE**

The theoretical discussion presented seven propositions hypothesizing the factors which affect the Europeanization of economic policies in the candidate and then EU member state countries from Central and Eastern Europe. These factors are (1) the existence of EU rules to be adopted; (2) the specificity of such rules; (3) the degree of (mis)fit between EU rules and national policies; (4) the extent to which policy-makers believe such rules are appropriate and legitimate; (5) the number of policy-makers who support the policy change; (6) external constraints imposed by the credibility of conditionality; and (7) economic and other assistance. Hypotheses five and seven could be tested (against each other) statistically, while the evaluation of the other propositions requires a qualitative analysis, supported where appropriate by numerical data. Below I first briefly discuss hypotheses 1-3, the existence of specific EU rules regarding economic policy and the level of misfit between EU rules and pre-accession economic policies. I then proceed to show levels of public and political support for adopting the EU rules (H4), and proceed with the analysis of hypotheses five, six and seven. Where appropriate I elaborate on numerical ways to capture the variables used in the statistical analysis.

The existence of EU rules regarding the economic policies of both candidate countries as well as all member states is without dispute. Having a functioning market economy and the ability to withstand the competitive pressures of the single market are among the main pre-requisites for EU membership and the new member states from the CEE are required to also comply with Maastricht convergence criteria for adopting the single currency, confirming hypothesis one. Moreover, compared to other policy areas, the EU rules regarding the creation of a market economy, complying with the requirements of the single market and the monetary union are highly specified (Schmidt 2002), which according the hypothesis two, would increase

the likelihood of their adoption. The existence of highly specific and unconditional EU rules, however, still leaves a lot of room for variation especially in the timing of rule adoption. The goodness of fit between pre-existing national policies and the EU rules and directives is one explanation for such variations.

While all 10 CEE countries had to build market economies, the extent of the necessary changes varied significantly. For example in 1991 when EBRD data was first collected, most CEE countries had a long way to go before being considered market economies similar to those in Western Europe. Regarding price liberalization, only the Baltic countries and Romania were lagging behind, while the other six countries had a price liberalization score of three, indicating that there has been substantial progress in price liberalization and state control of prices is largely eliminated (EBRD 1999). Yet, with respect to privatization and structural reform, all countries showed a great degree of misfit and even the most advanced reformer (Poland – privatization) had a score of only 2.5, i.e. privatization schemes are set up and ready to be implemented. Even Czechoslovakia which in 1991 had made the most progress towards creating the legal environment for a market economy had an average structural reform score of 1.75, indicating a great level of misfit.

The next step in addressing the puzzle of EU influence over CEE economic policies is to determine the extent to which proposed EU rule are perceived as legitimate and match the beliefs of policy-makers from the CEE (H4). Indirectly, the level of EU legitimacy could be captured in public's perceptions of the EU, assuming that a positive EU image could be interpreted as high levels of the legitimacy of EU rules (Table 3). Overall, the percentage of CEE citizens who view the EU positively is relatively high, with the exception of Estonia – at least at 30% and reaching close to 60% in Romania. While I am not able yet to provide a full account of the perceived

legitimacy of the EU rules, below I show that for the most part policy-makers in Bulgaria, the Czech Republic, Hungary, Poland and Slovakia did share the notion that economic policies, in line with the EU's expectations to have a functioning market economy, which they pursued were appropriate and desirable. These conclusions are based on the analysis undertaken for a different project, where I studied the preferences, and corresponding policies, regarding economic liberalization of 31 governments in these five CEE countries for the period 1990-2005.<sup>6</sup> Of these 31 governments, possibly only six were supported by parties which campaigned against the market economy, or at least against its radical and swift version, the cabinets of Loukanov and Videnov in Bulgaria, Zeman's in the Czech Republic, Antall's government in Hungary and the two Meciar governments in Slovakia. The majority of the remaining governments in the sample promoted and practiced a transition towards a capitalist market economy, with varying degrees of social protection, indicating that EU expectations (requirements) for economic policy largely match the beliefs and preferences of CEE policy-makers. This brief analysis shows that the European Union, and thus its policies, are largely perceived as legitimate by the CEE publics and while the publics do not always share the support for the EU's vision of state-market relations, the political leaders of the then applicant countries largely did support this vision.<sup>7</sup>

#### TABLE THREE ABOUT HERE

The remainder of this section consists of empirical evaluation of hypotheses five, six and seven, utilizing the two measures of Europeanization described above.<sup>8</sup> The expectation from hypothesis five is that high number of political actors who are against (EU-induced) policy

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<sup>6</sup> Given the diversity of these 31 governments and their electorates, I would argue that the summary conclusions presented below are representative for the other five CEE countries which are now EU member states.

<sup>7</sup> Unfortunately, this is a very tentative and preliminary conclusion which at the moment I cannot support with statistical evidence. Due to the lack of complete account of the match between the policy preferences of the EU and CEE leaders, H4 could not be directly tested against other hypotheses.

<sup>8</sup> Due to the limited data points available for the Europeanization Index, a full-fledged statistical analysis is undertaken only for the EBRD structural reform measures.



change would be associated with lack of change (or lower likelihood of such). As there is a dearth of numerical data on the political preferences of CEE policy-makers, and as shown above that majority of them favor the market economy model of the EU, I extend this hypothesis to cover the likelihood of any policy-change based on the number of decision-makers. In the context of the debates over economic reform and policy in the CEE countries, two theories offer opposing predictions regarding what role the number of decision makers plays in determining the policy direction. In a nutshell, the restrictive participation model, based on the assumption that the economic outcomes of market economic policies take the form of the letter J, a J-curve shape, argues that limited participation in the political process would facilitate the adoption of such policies.<sup>9</sup> Thus restricting the number of policy-makers would make it more likely that those political actors - supported by the majority of the population - who are against policy change, would be excluded from the decision-making process and would thus not be able to block changes in policy direction.

The alternative model, of inclusive participation, makes the opposite argument, that greater number of policy-makers facilitates policy change because it prevents those groups which benefit from the lack to change from controlling the policy process and preventing change.<sup>10</sup> To put it differently, under this model, the majority of the population would benefit from policy reform and would thus support change. Allowing for greater participation in the policy-making process would make it more likely that groups desiring change would be represented. In order to account for the number of policy makers, I use a measure for legislative fractionalization, represented by the effective number of parties in parliament and computed using the formula  $n =$

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<sup>9</sup> For more details on the J-curve of economic outcomes, see Balcerowicz (1994).

<sup>10</sup> For more details on the Partial Reform Model, see Hellman (1998).

$1/\sum s_i^2$ , where  $n$  is the number of parties and  $s_i$  is the seat share for each party.<sup>11</sup> Regarding hypothesis six, the credibility of exclusion is rather hard to capture and evaluate numerically. One possible way to do so would be to consider the number of years until accession negotiations start, based on Haughton (2007), who argues that the conditionality powers of the EU are strongest in the decision-making phase right before invitations for accession negotiations are extended. Thus one would expect that as the time to make these decisions approached, countries were subject to greater pressure from the EU to adopt its rules. Finally, hypothesis seven supports the proposition that economic support from the European Union would give greater incentives for the CEE countries to adopt policies promoted by the EU. As a proxy to capture the level of EU support, I use per capita PHARE data. Figures 1 through 10 graph the values for the Europeanization Index (EI), the effective number of parties (ENP) and PHARE per capita spending for each of the to CEE EU member states.

Each of the two independent variables, ENP and PHARE is graphed separately with EI for ease of comparison. For the period 1998-2002, when the EI data is available, none of the countries show significant variation in the values of the ENP variable making any conclusions rather ambiguous. Latvia shows no variation in ENP, while for Lithuania and Slovakia no relationship between ENP and EI is visible. Two countries, Bulgaria and the Czech Republic, show – at least for part of the period – an inverse relationship between levels of Europeanization and effective number of parties. In Bulgaria, after 2002, greater number of decision-makers, measured by the ENP, is associated – at least visibly- with a decrease in Europeanization, conclusion which is in line with the restrictive participation model. During 1998, the inverse relationship between ENP and EI in the Czech Republic also confirms the expectations of the

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<sup>11</sup> Most of the data come from Beck et al (2001) which provide the sum of the squared seat shares in a country's legislature, i.e.  $\sum s_i^2$ . Where data are missing the author uses own calculations.

restrictive participation model; then a reduction in the number of decision-makers was associated with an increase in Europeanization. The remaining five countries, Estonia, Hungary, Poland, Romania and Slovenia show trends consistent with the inclusive participation model, where increase in number of policy-makers is associated with a increase in the Europeanization index and vice versa, a decrease in one variable is associated with a decrease in another.

Figures 11-20 graph the relationship between the Europeanization Index and the per capita inflows of PHARE funds for each of the 10 countries. The conclusions are somewhat more mixed. Hypothesis seven that increase in PHARE spending would be associated with an increase in Europeanization is confirmed for a number of countries and time periods; Czech Republic, Estonia until 2002, Latvia, Lithuania until 2001, Romania after 2000, Slovenia. For the remaining countries and time periods, hypothesis seven is rejected. Bulgaria, Hungary and Poland clearly show inverse relationship between PHARE per capita inflows and the Europeanization Index, while Estonia, Lithuania and Romania exhibit the reverse trend for only certain years. All of these conclusions of course are based only on a visual examination of the graphs and due to the limited data are not confirmed by statistical analysis. If any overall conclusion could be made it would be that the EU does not have an uniform effect on the candidate countries.

Data for the alternative way to capture Europeanization, through the EBRD structural reform scores measuring how close a country is to a market economy, is available for a longer period of time which allows for statistical analysis to be performed. Table 4 shows the results of time series cross sectional analysis of the impact of EU pressure, legislative fragmentation and EU economic assistance on Europeanization of economic policy in 10 CEE countries for the period 1991-2001. Other than the lagged dependent variable, only the measure for legislative

fragmentation is statistically significant, indicating that controlling for other factors, an increase in the number of policy-makers is associated with an increase in the level of Europeanization as measured by the policy outcome of approximating EU internal market legislation. This conclusion, along with the visual analysis of the EI, confirms the inclusive participation model. The two other variables included in the analysis, years until/since negotiation and per capita PHARE inflows do not reach statistical significance disconfirming hypotheses six and seven respectively.

#### TABLE FOUR ABOUT HERE

### **Conclusions**

While scholarly agreement on the definition of Europeanization is beginning to emerge, and so is the understanding that this phenomenon is has greater applicability to only certain policy areas, there is still very little research utilizing numerical measures applied to cross-national analysis. In this paper I present a preliminary analysis of the role Europeanization played in shaping the direction of economic policy in 10 Central and Eastern European countries during the 1990s. I use two indicators of the extent to which economic policy was Europeanized in these countries before accession, one of the indicators capturing the level of single market and monetary union *acquis* transposition and another – the existence of a market economy in the (then) CEE applicant countries.

The analysis confirms the presence of the pre-conditions for EU influence over the economic policies of CEE – the existence of highly specified EU rules, conditionality, and a misfit between EU rules and national policies. I also show a relatively high degree of correspondence between the beliefs and economic model preferences of the CEE policy-makers and the nature of the economic model promoted by the EU, as well as a relatively high

percentage of CEE citizens who hold a positive image of the EU. The statistical analysis, however, shows that despite the existence of these rather general forces promoting Europeanization, domestic factors – such as the number of policy-makers – play a more significant role in economic policy than EU economic assistance or threat of delayed EU membership.

The lack of sufficient statistical data, unfortunately, prevents more rigorous testing of these propositions and the results presented here are rather preliminary. Potential improvements of this analysis would include finding alternative ways to capture Europeanization for a longer time period and developing measures to better capture policy-makers beliefs and preferences (so that those could be included in a statistical analysis). It would also be interesting to extend the analysis to include the time period after the 2004 accession, and especially regarding monetary policies and CEE countries adoption of the convergence criteria.

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Figure 1. Europeanization Index and Effective Number of Parties, Bulgaria, 1998-2002

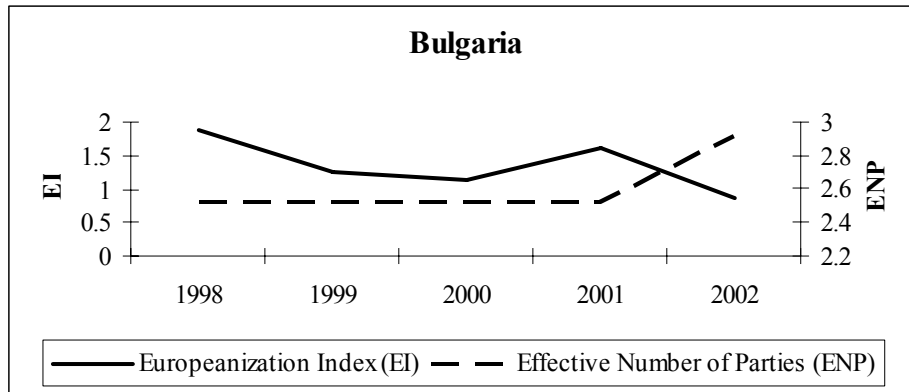


Figure 2. Europeanization Index and Effective Number of Parties, Czech Republic, 1998-2002

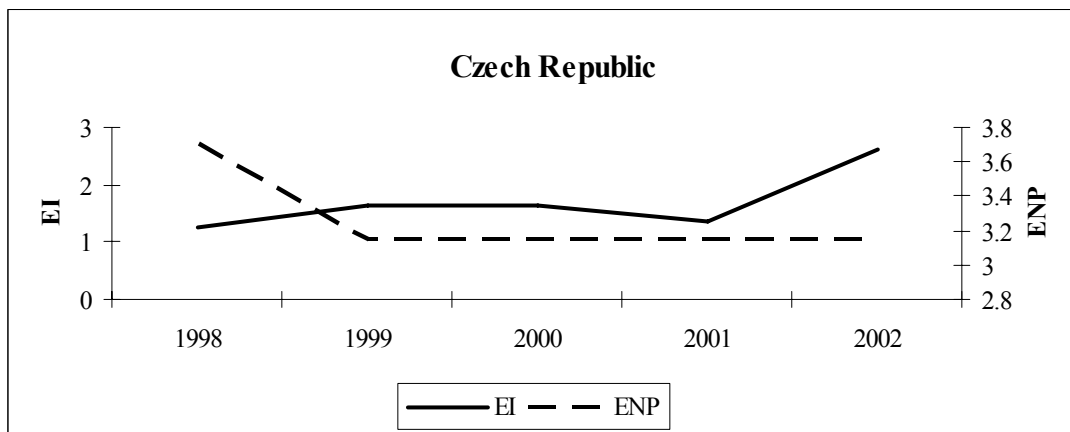


Figure 3. Europeanization Index and Effective Number of Parties, Estonia, 1998-2002

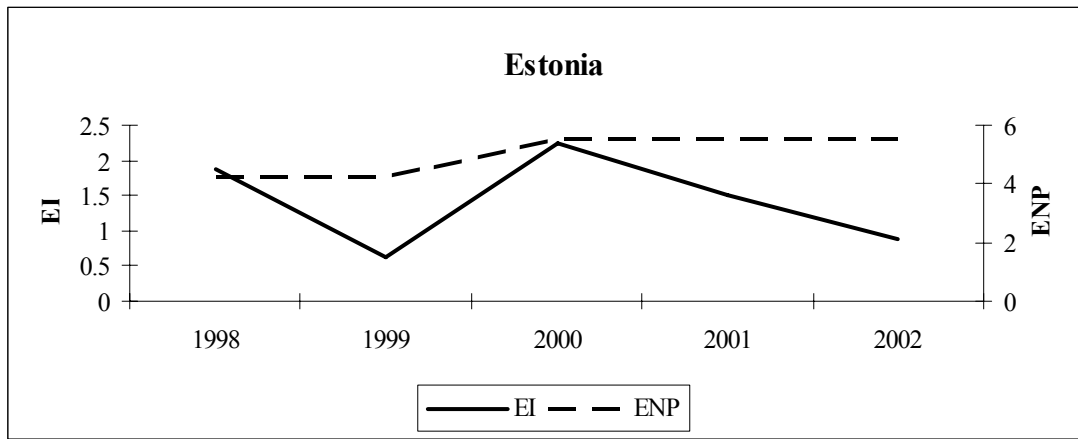


Figure 4. Europeanization Index and Effective Number of Parties, Hungary, 1998-2002

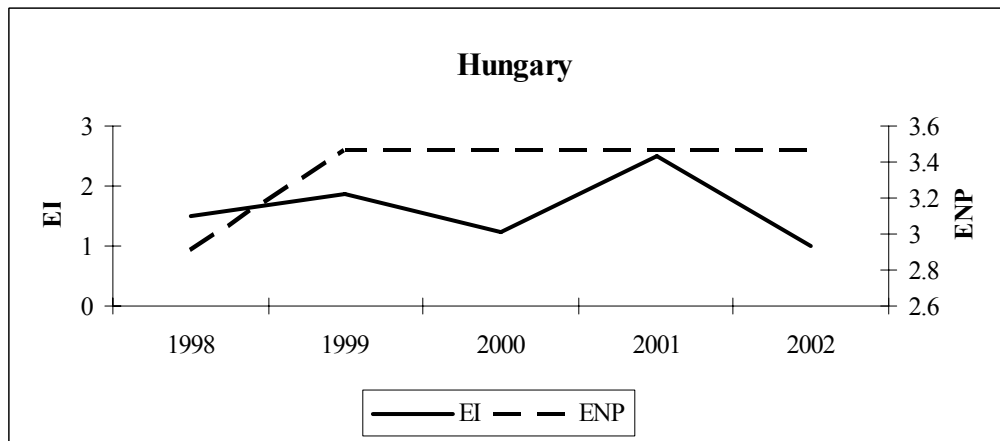


Figure 5. Europeanization Index and Effective Number of Parties, Latvia, 1998-2002

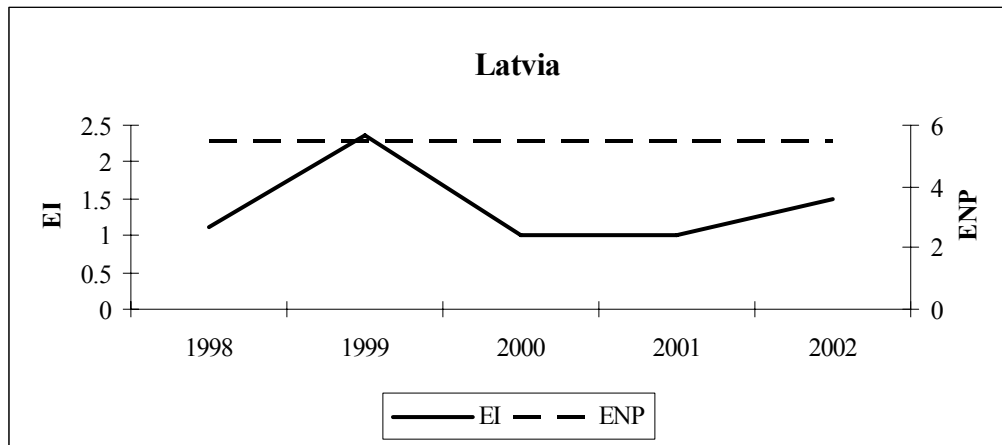


Figure 6. Europeanization Index and Effective Number of Parties, Lithuania, 1998-2002

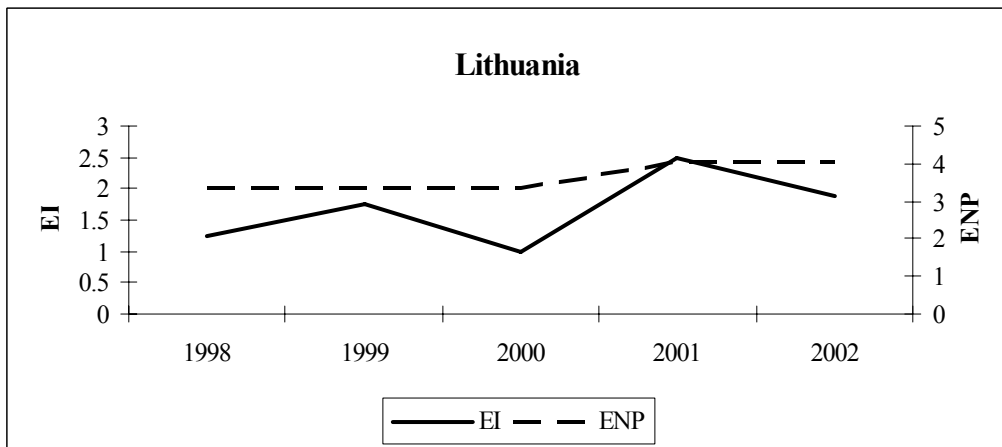


Figure 7. Europeanization Index and Effective Number of Parties, Poland, 1998-2002

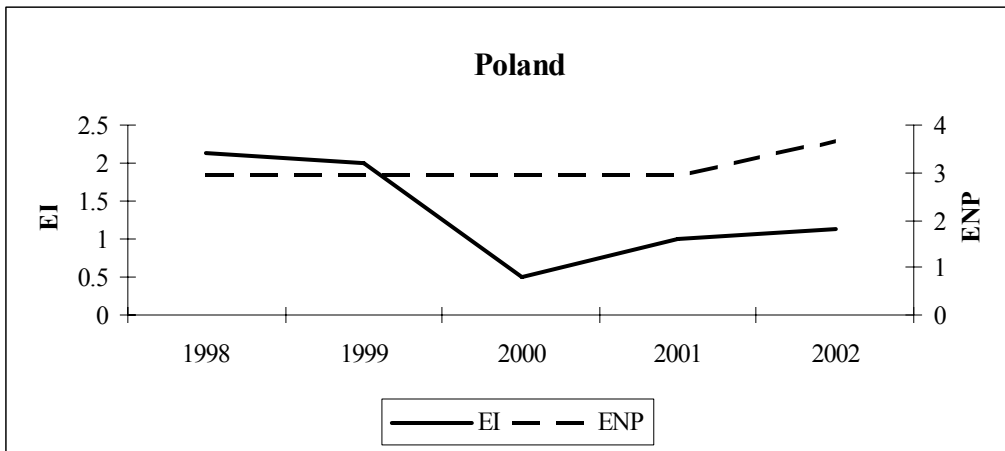


Figure 8. Europeanization Index and Effective Number of Parties, Romania, 1998-2002

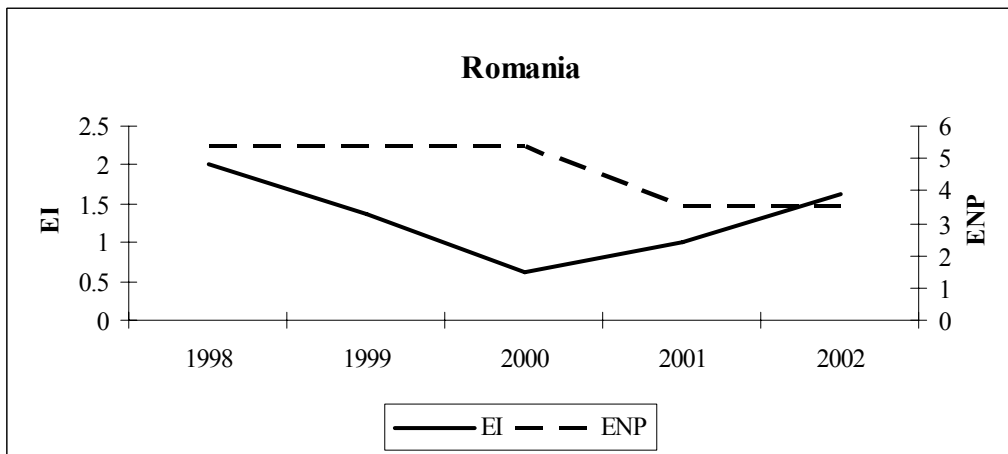


Figure 9. Europeanization Index and Effective Number of Parties, Slovakia, 1998-2002

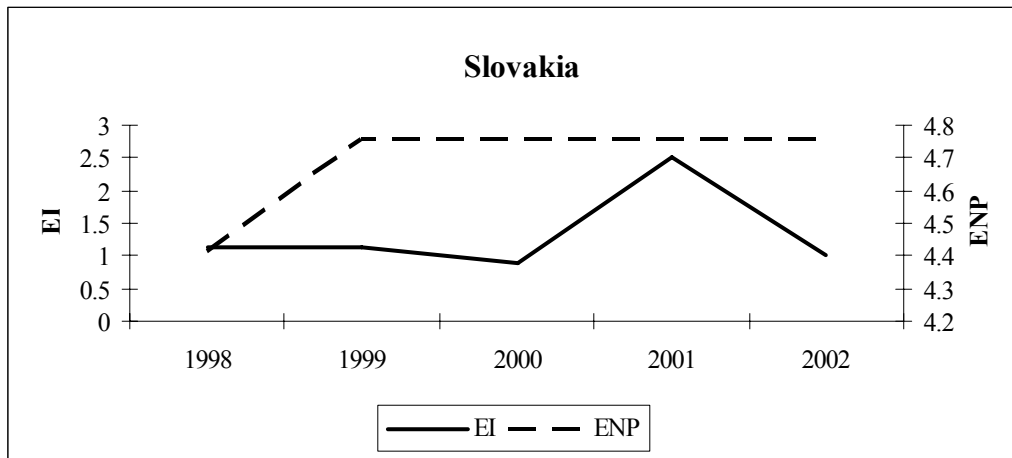


Figure 10 Europeanization Index and Effective Number of Parties, Slovenia, 1998-2002

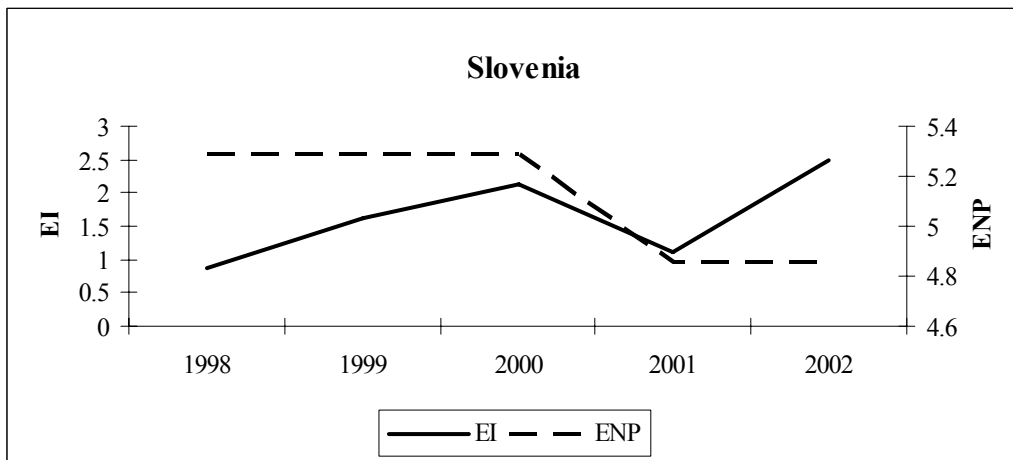


Figure 11. Europeanization Index and PHARE per capita inflows, Bulgaria, 1998-2002

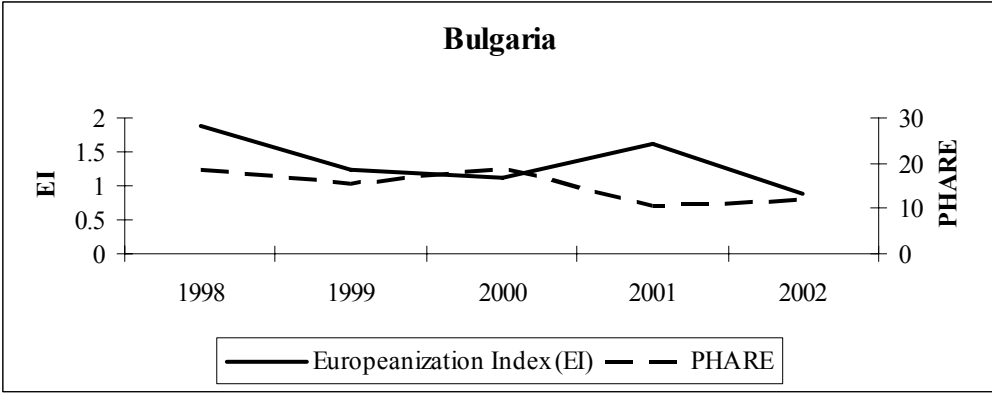


Figure 12. Europeanization Index and PHARE per capita inflows, Czech Republic, 1998-2002

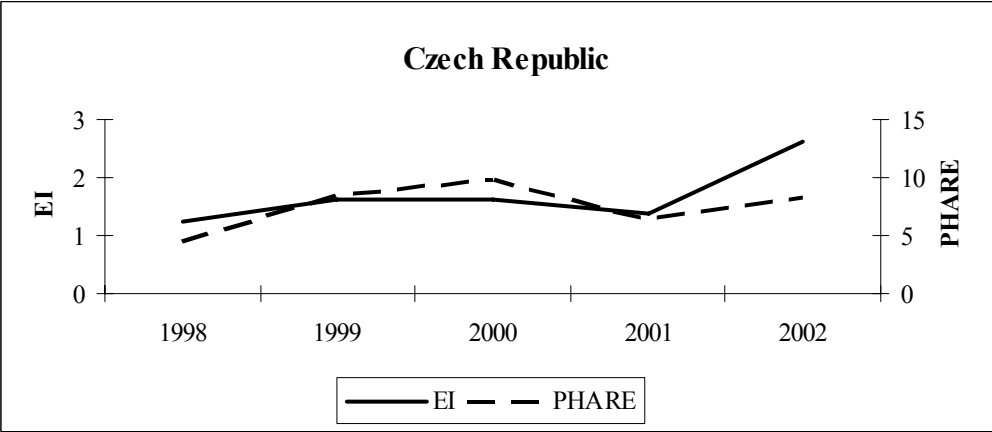




Figure 13. Europeanization Index and PHARE per capita inflows, Estonia, 1998-2002

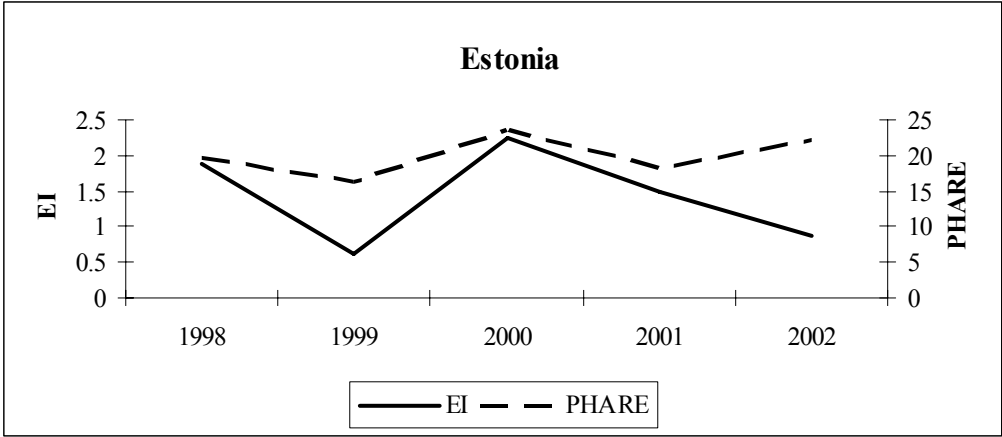


Figure 14. Europeanization Index and PHARE per capita inflows, Hungary, 1998-2002

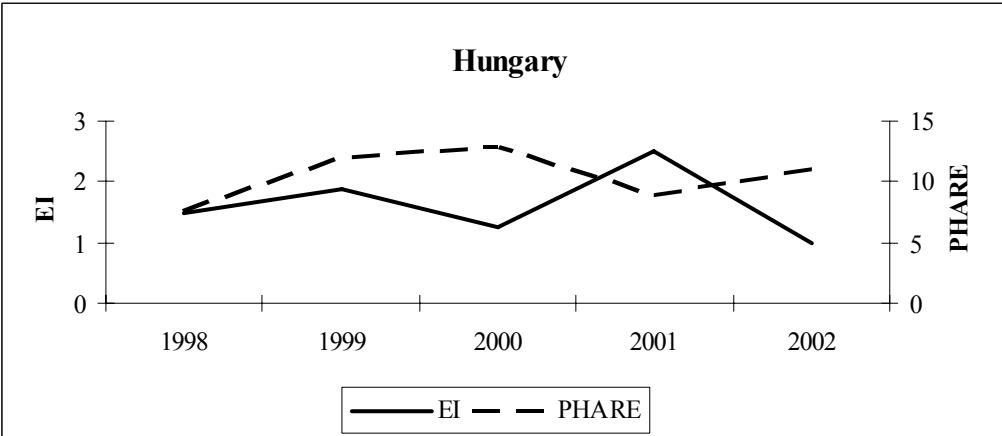


Figure 15. Europeanization Index and PHARE per capita inflows, Latvia, 1998-2002

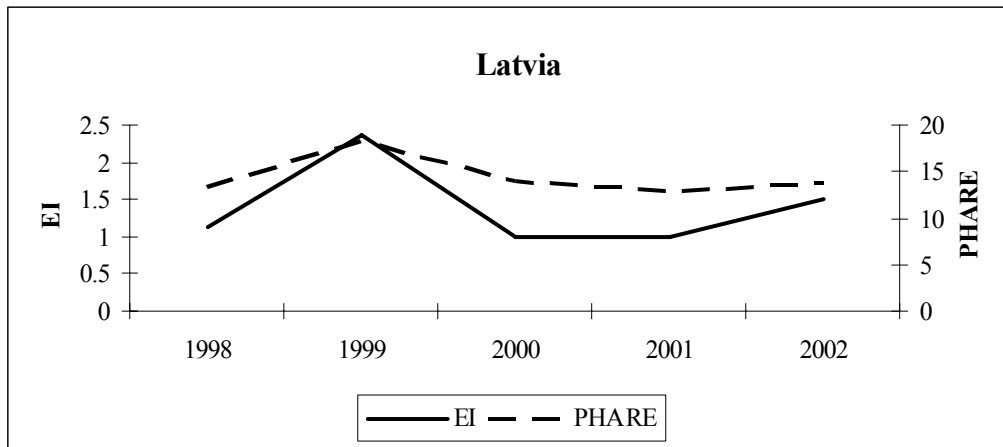


Figure 16. Europeanization Index and PHARE per capita inflows, Lithuania, 1998-2002

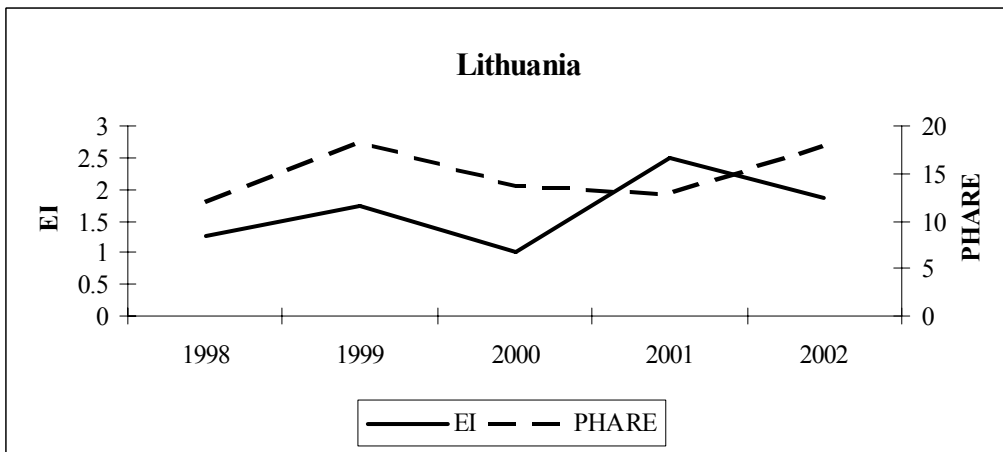


Figure 17. Europeanization Index and PHARE per capita inflows, Poland, 1998-2002

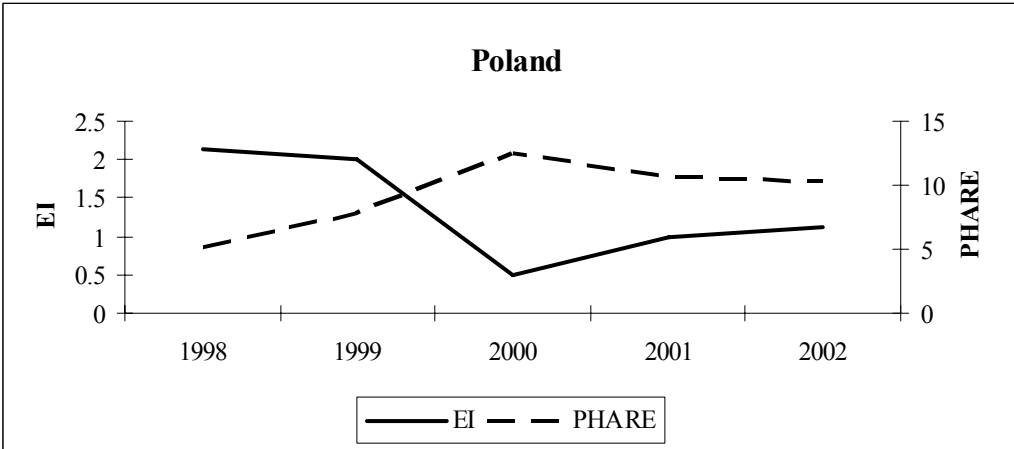


Figure 18. Europeanization Index and PHARE per capita inflows, Romania, 1998-2002

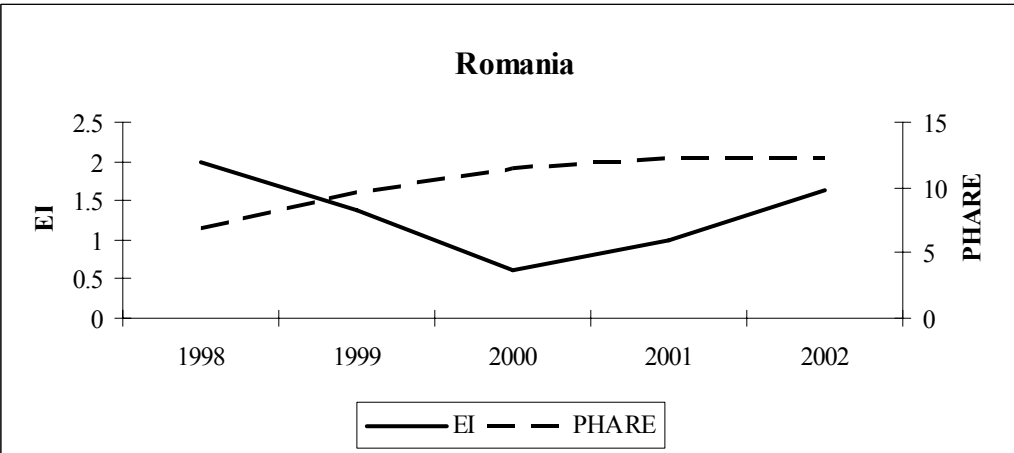


Figure 19. Europeanization Index and PHARE per capita inflows, Slovakia, 1998-2002

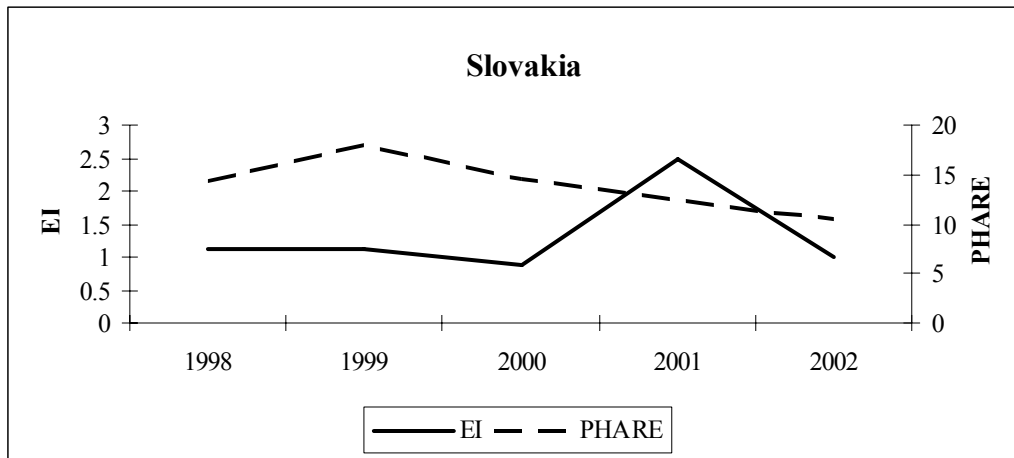


Figure 20. Europeanization Index and PHARE per capita inflows, Slovenia, 1998-2002

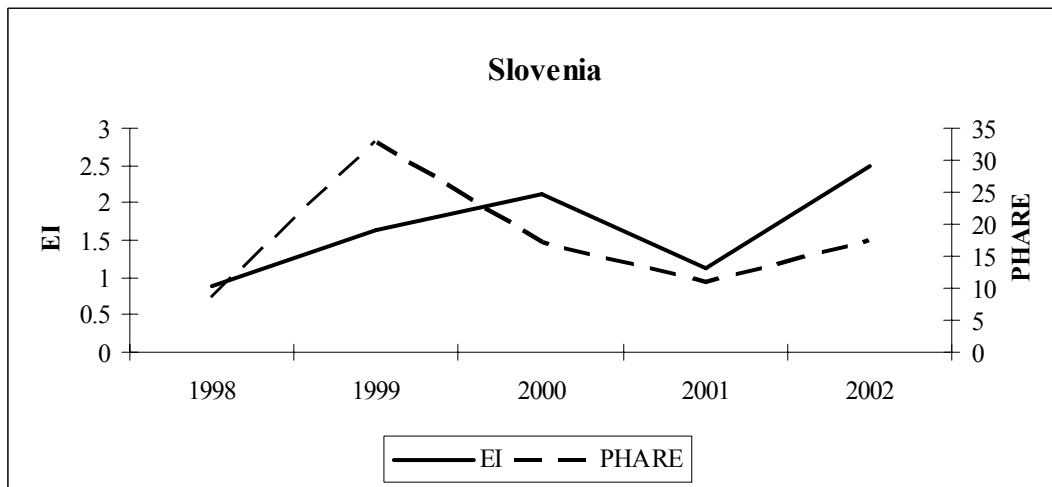


Table 1. Summary Statistics. Europeanization Index, 1998-2002.

	<b>Mean</b>	<b>Standard Deviation</b>	<b>Minimum Value</b>	<b>Maximum Value</b>
<b>Bulgaria</b>	1.35	0.399218	0.875	1.875
<b>Czech Republic</b>	1.7	0.541987	1.25	2.625
<b>Estonia</b>	1.425	0.676618	0.625	2.25
<b>Hungary</b>	1.625	0.586302	1	2.5
<b>Latvia</b>	1.4	0.582291	1	2.375
<b>Lithuania</b>	1.675	0.583631	1	2.5
<b>Poland</b>	1.35	0.692595	0.5	2.125
<b>Romania</b>	1.325	0.534731	0.625	2
<b>Slovakia</b>	1.325	0.664972	0.875	2.5
<b>Slovenia</b>	1.65	0.675463	0.875	2.5

Table 2. Summary Statistics. Structural Reforms Measure, 1991-2001.

	<b>Mean</b>	<b>Standard Deviation</b>	<b>Minimum Value</b>	<b>Maximum Value</b>
<b>Bulgaria</b>	2.17803	0.6476697	1.25	2.883333
<b>Czech Republic</b>	2.821212	0.5110089	1.75	3.333333
<b>Estonia</b>	2.576515	0.7608276	1	3.333333
<b>Hungary</b>	3.042424	0.5833982	2	3.616667
<b>Latvia</b>	2.336364	0.6279074	1	3.05
<b>Lithuania</b>	2.335606	0.786731	1	3.183333
<b>Poland</b>	2.94697	0.5342606	2	3.45
<b>Romania</b>	2.039394	0.7091573	1	2.833333
<b>Slovakia</b>	2.633333	0.4298417	1.75	3.05
<b>Slovenia</b>	2.54697	0.6518699	1.25	3.183333

Table 3. Image of the EU, 1991-2001

<b>Country</b>	<b>% Positive Image of the EU</b>
<b>Bulgaria</b>	47.6
<b>Czech Republic</b>	42.2
<b>Estonia</b>	29.44
<b>Hungary</b>	38.87
<b>Latvia</b>	36
<b>Lithuania</b>	38.67
<b>Poland</b>	47.2
<b>Romania</b>	57.33
<b>Slovakia</b>	40.2
<b>Slovenia</b>	37.88

Table 4. Ordinary least squares regression results for levels of structural reforms for 10 CEE countries, 1991-2001

<b>Variable</b>	<b>Structural Reform</b>
	<b><math>\beta</math> (pcse)</b>
Structural Reform <sub>t-1</sub>	.80 <sup>***</sup> (.063)
Negotiations	.006 (.014)
Effective number of parties	.033 <sup>**</sup> (.014)
PHARE per cap <sub>t-1</sub>	.003 (.004)
Constant	.5 (.21)
N	96
R <sup>2</sup>	.87

Note: The panel corrected standard errors (PCSEs) are obtained by xtpcse procedure in Stata 7.0  
 \* p < .1, \*\* p < .05, \*\*\* p < .01