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**“The New World Order,  
Incorporated: The Rise of Business  
and the Decline of the Nation-State”**

**Vivien A. Schmidt**

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**THE NEW WORLD ORDER, INCORPORATED:  
THE RISE OF BUSINESS AND THE DECLINE OF THE NATION-STATE**

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**The New World Order, Incorporated:  
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**Vivien A. Schmidt**

When George Bush announced the beginning of a new world order, he had in mind a world in which democratic governments would together keep peace in the world and make it possible for everyone to be free to prosper in a liberalizing international economy. Peace, as we quickly came to see, was a pipedream, as has been global prosperity, at least for the time being. The only part of the agenda that has been continuing on schedule is the liberalizing. Capital has become increasingly mobile and business increasingly international as borders that act as barriers to trade fall and as regulations that constrain commerce are lifted.

This has largely been the product of the concerted efforts of nation-states that, through international trade organizations such as the GATT, international financial entities such as the IMF and the World Bank, and regional bodies such as the European Union and NAFTA, have sacrificed their own independence as they have increased that of business. It has also resulted from the political and economic reforms internal to nation-states such as privatization, deregulation, and decentralization, which have diminished central governments' powers at the same time that they have freed business even more.

What are the consequences of this liberalized new world order for the nation-state? In this article I argue that however beneficial it may be for global prosperity and business, the jury is still out regarding its effects on global democracy and government generally. Because the international and regional organizations in no way constitute supranational governments, and because they quite narrowly focus on trade, they are freeing business from the traditional constraints imposed by national governments and societal interests without substituting some equivalent at the supranational level. The result is a strengthening of business, with transnational corporations less tied to nations and national interests, and a weakening of the nation-state overall, in particular of the voice of the people through legislatures and non-business, societal interests.

There are those who would counter that the rise of regional and international trade organizations will have strengthened the nation-state, by reinforcing executive power and reinvigorating the rule of law;<sup>1</sup> and that business will always be subject to national regulation, whatever the origin of that regulation. This is no doubt true, but it suggests a partial view of what constitutes strength for the executive, and implies a limited definition of the nation-state, since it ignores the role of legislatures and societal interests. Moreover, it entirely overlooks the potential impact of all of this on the state-society relationship, and it denies the effect on nations of multinational corporations that put global profits before community interests.

To begin with, while the power of the executive may be enhanced, its autonomy will be diminished, as governments must negotiate with others on the formulation of policies that in the past had been their purview alone. Moreover, the strengthening of the executive and the judiciary refers primarily to powers to impose on legislative and societal interests, and not to state capacity, which will in many cases be weakened. By liberalizing their trade policies, by deregulating their economies, and by privatizing their enterprises, national governments have much less control over what goes on in their own territory or what their own multinationals do elsewhere, and they no longer have the resources they had in the past to solve social problems. At the same time, multinational corporations are less bound economically, politically, and morally to nation-states, while supranational bodies such as GATT, NAFTA, and the EU, by concentrating on trade, have given scant attention to the social spillovers.

Most importantly for issues of democracy in the nation-state is the fact that at the same time that the executive may very well have been strengthened, the legislature is likely to be weakened, to say nothing of the societal interests that will have increasing difficulty gaining a voice in decisions made at the supranational level that cannot be modified at the nation-state or local levels. In other words, deliberative democracy may also suffer as a result of this new economic world order. But it will suffer differently, depending upon the nation's particular state-society relationship; on other factors related to country size, institutions, culture, and history; and on the degree of opening to the outside as well as the extent to which the nation had to change in order to meet the competitive challenges created by the new international economic environment.

Within Europe, the smaller European countries have probably suffered the greatest amount of disruption, with the unbalancing of the corporatist relationships between business, labor, and government that had served them so well throughout much of the postwar period, a result of their increasing vulnerability to external pressures. France has also undergone significant change, with its statist pattern of policymaking undermined not only because of the deregulatory reforms that loosened the ties that traditionally bound business to government, but also because of the EU model of policymaking that leaves French societal interests in particular with less voice. Germany, Great Britain, and Italy, for very different reasons, have so far experienced the least amount of change: Germany, because it did not have to change much to meet European and international competition or to respond to the requirements of European integration, although its corporatist relationship is now under siege as a result of unification; Great Britain, because its policies and its institutions largely anticipated the economic reforms required by the EU while its governments resisted other reforms that would have brought about major change; and Italy, because its governments have lacked the capacity to carry out the reforms demanded by integration, although it is now in crisis as a result.

The lessons are significant for two of the most powerful economies in the world which have yet to feel fully the pressures of internationalization: Japan, having resisted any internationalization for itself while having some of the most international of businesses; and the United States, having led the internationalization without having been internally much affected so far. Both countries are likely to feel the effects increasingly over the next few years.

Thus, nation-states are experiencing the disruptive effects of the new economic world order at different rates, and although many will undergo a weakening of the nation-state and of the voice of the people, a few may find one or the other strengthened—Italy and Japan being cases in point. Overall, however, democracy is at risk.

None of this is to suggest that we should therefore turn back the clock, and abandon the international and regional attempts at coordinating economic policy. It is rather to point to the dangers inherent in these attempts, and to recommend that governments begin to think today of ways of overcoming the greatest threats to national democracy and, by extension, to global stability. The real challenge is not so much that of establishing supranational bodies capable of ruling on the whole

panoply of social and economic problems involved in the internationalization of trade as it is of ensuring that nation-states provide new vehicles for democratic expression at the national level that also provide national democratic access to supranational decision-making.

### **The International Pressures on the Nation-State: The Changes in Supranational Politics and Economics**

In recent years, the editorial pages have been covered with often impassioned accounts of the problems confronting nation-states. Some have raised concerns over the internationalization of the financial markets, where the currency markets alone trade about \$1 trillion a day, leaving governments with minimal influence, and with little they can do other than to stabilize prices and government spending in order to avoid pressures on their currency and to attract investment.<sup>2</sup> Others have expressed alarm over the growing power and concentration of multinational business, the top five hundred of which control two-thirds of world trade, in which "shareholders' meetings are a travesty of democracy, workers have diminishing rights and public accountability is minimal," and on which governments are reluctant to impose demands, unwilling to "risk alienating the international bankers and capitalists who want lower costs and, therefore, minimal employment and environmental regulations as well as lower taxes."<sup>3</sup> Yet others have warned of the potential labor adjustment difficulties and the threat to national labor and environmental standards resulting from the efforts of international and regional trade organizations, in particular with regard to NAFTA.<sup>4</sup> And some have even linked the internationalization of trade to the break-up of the nation-state, not only by reference to the relatively benign cases of separatist movements in places such as Quebec, Catalonia, and the Basque region, where the world market has made the dreams of regional autonomy more realistic,<sup>5</sup> but also in terms of fundamentalist religious and communitarian movements, because the battle "will not be between nations or even trading blocs but between the forces of globalization and the territorially based forces of local survival seeking to preserve and redefine community."<sup>6</sup>

In response to many of these problems have come increasing calls for the creation of supranational political institutions to deal with the social spillovers resulting from the decisions of



supranational economic institutions.<sup>7</sup> So far, such calls have fallen on deaf ears. No one wants to meddle with the markets.

### **The Pressures from the Rise of Business**

There is little new in the argument that the increasing internationalization of business has freed it from the constraints of national governments. In the sixties and the seventies, a vast literature developed on multinationals that saw the increasing economic interdependence and technological advances in communications and transportation as contributing to the escape of large corporations from nation-state control, and even to the rise of a new transnational corporation that would lose all national identification.<sup>8</sup> Very quickly, however, scholars themselves found that the view of the overarching power of the multinational corporation and the concomitant decline of the nation-state, whether seen in a positive or negative light,<sup>9</sup> was overstated. Much of it overestimated the power of the multinational corporation and underestimated that of the nation-state. Multinationals were in fact constrained in their actions by both home and host governments in a great number of ways, as national governments continued to exercise control over their own territory by determining the conditions for access of outsiders and exerting influence over the international actions of insiders.<sup>10</sup>

The predictions of the 1970s appear more relevant today, as home and host countries have been giving up their traditional controls over business in a wide range of areas in the context of international and regional trade agreements. As a result, multinationals have been coming closer to the "stateless" ideal that in recent years has come to symbolize the escape of business from nation-state control, where companies aspiring to "stateless" status as global corporations seek to lose their country of origin identity, with their operations scattered around the world and their subsidiaries lobbying as members of whatever country in which they are located.<sup>11</sup> However, even if statelessness is increasing in terms of multinationals' economic freedom and political clout, the culture and control of the multinational continues to be single-country focused, leaving an opening, however, small, for nation-state influence.

The statelessness of the multinational manifests itself in a variety of ways, including the dispersion of operations; the loss of loyalty to home or host country when it comes to jobs and operations; the ability to avoid burdensome taxes; and the increasing direct access to supranational trade negotiations. To begin with, the dispersion of operations through the growing numbers of joint

ventures, the increasing importance of capital markets for financing, the multinational character of production, and so forth, make corporations part of a "global web," as Secretary of Labor Robert Reich has argued, that increasingly defies their categorization by country origin.<sup>12</sup> His example of a Pontiac LeMans, purchased for \$10,000 from GM in the United States—where \$6000 goes to other countries for assembly (\$3000 to South Korea), advanced components (\$1,850 to Japan), style and design engineering (\$700 to Germany), small components (\$400 to Taiwan, Singapore, and Japan), advertising and marketing (\$250 to Britain), and data processing (\$50 to Ireland and Barbados), and the remaining \$4000 to strategists in Detroit, lawyers and bankers in New York, lobbyists in Washington, insurance and health care workers countrywide, and shareholders worldwide—certainly supports the case.<sup>13</sup> Moreover, it fuels his argument that national policies that discriminate between home-grown and foreign companies no longer make sense, especially when the latter may very well be the ones that invest in America, providing jobs for American workers.<sup>14</sup>

Along with the dispersion of operations has come the increasing loss of any sense of loyalty to home or host country, as multinationals relocate with an eye to lower taxes and lower wages. This has long been characteristic of Great Britain, which has invested more abroad than at home; and of certain sectors of American industry, such as textiles, that moved from the northeast to the south and then offshore. But now this is occurring even in countries where corporations have traditionally felt a social obligation to the community in which they operate, as in the case of BMW, which is locating its first new plant outside of Germany in Spartansburg, South Carolina, where there are no unions and wages are half those of German workers. More and more corporations, in fact, feel less and less obligation to stay in communities in which they have invested. And if they do stay, they use it as a bargaining chip to pressure workers to give back many of the benefits they only recently acquired, as was the case with Maytag, which closed its French operations to move to Scotland because of its 37% lower labor and social security costs, all the while threatening the unions in Scotland with a move to France in order to gain wage concessions.<sup>15</sup>

Multinationals have also been quite adept at avoiding burdensome taxes in particular countries, whether home country or host. One of the most popular ways in which multinationals have minimized their tax liabilities is through transfer pricing, where they set profits or losses in countries where tax

laws are beneficial to the company. Many countries have been concerned about the resulting loss of tax revenue, but they have had varying degrees of success in limiting the practice. Japan has most recently ordered 60 multinationals, including Coca-Cola and Hoechst, to pay back taxes on the grounds that, in their efforts to avoid Japan's high (50%) tax on profits, they had depressed their Japanese units' earnings by charging them artificially high prices for company goods and services. Although the IRS has pursued some vigorously in the past for this same offense, such as Toyota, it has lately made the rules more flexible in order to encourage compliance. Moreover, California's unitary tax, which contains a complicated formula to calculate the percentage of in-state profit based on worldwide profits, even though recently upheld by the Supreme Court, will have little effect because the state legislature altered its most onerous provisions in response to extensive lobbying and threats from foreign multinationals, in particular the Japanese and the British. In other countries, companies have had other ways of getting around national tax laws, payoffs having been a popular means, as recent scandals in Italy attest.

Multinational business' independence from the nation-state is growing not only as a result of its increasing economic freedom but also because of its growing political clout. Business influence in supranational negotiations is also increasing, although exactly how strong it is is a matter of debate.

Business certainly has access. It is organized and represented in supranational negotiations not only indirectly through national governments, but also directly at the supranational level. Moreover, it tends to be the major interest represented at the supranational level, by contrast with labor, consumer, and environmental groups that tend to be much less well organized, if they are present at all. How much influence business has, however, is more difficult to assess. In the case of the NAFTA negotiations, for example, the insider multinational enterprises generally got what they wanted, as in the case of the auto manufacturers which lobbied and got rules that ensured that they benefited from reduced tariffs and non-tariff barriers while raising the entry costs to outsiders.<sup>16</sup> In the EU, however, the situation is generally more complicated, as it is likely to be within NAFTA as further agreements are made.

In the EU, the influence of business lobbies varies from sector to sector, with Euro groups generally having little importance,<sup>17</sup> with some firms preferring to lobby directly on an individual

basis, as is generally the case for the automotive industry,<sup>18</sup> and others through their European or even international associations, as in the case of the long-established pharmaceuticals industry association which has managed to turn most threats of transnational regulation to its own advantage.<sup>19</sup> One thing is clear, however: Regardless of the access, agency capture of the kind found in the United States is infrequent, given the range of interests seeking influence in each policy area;<sup>20</sup> while clientelism of the Italian variety is also rare, given the bureaucratic culture that places more value on technical arguments than on political influence.<sup>21</sup> And yet, business interests are sometimes invited in by the bureaucracy itself, as in the case of the ad hoc consultative group on chlorofluorocarbons--which, significantly, excludes environmental and consumer interests.<sup>22</sup> Often, moreover, the lack of technical knowledge by Eurocrats leads them to rely on industry experts. All of this, combined with the need to make decisions quickly, means that they risk falling into quasi-clientelistic relationships.<sup>23</sup> But even if not, it ensures that business has privileged access to supranational decision-making that complements its longstanding access at the national level. Moreover, it suggests that policy interactions have shifted from an almost exclusive reliance on national government bargaining to one that includes, if it is not dominated by, business actors in the transnational private sector.<sup>24</sup>

For the moment, few have been questioning this new-found freedom and influence of the multinationals. Those who have been most concerned with detailing the characteristics of the new stateless corporation have tended to be most charitable, arguing that multinationals are no longer of serious concern because they are bound for reduction to their smaller parts as a conglomeration of companies rather than one big bureaucratic behemoth<sup>25</sup> or as part of a "global web" that denies significance to their bigness as well as their country origin.<sup>26</sup>

Operations are one thing, however, control another. There is no doubt that global corporations have operations scattered everywhere. But going from there to suggest that the country origin of large corporations no longer matters, or that their size does not count because of their decentralized organization, is a big leap of faith. Even if the conventional wisdom is correct in assuming that national governments today can do little more than invest in infrastructure, training, and education in order to make their countries more attractive to investors,<sup>27</sup> there continue to be other ways in which governments make a difference to large corporations. For example, nation-states' incorporation laws

and tax laws continue to affect how they operate, e.g., Japan's high tax on profits that leads Japanese firms to concentrate on gaining market share, not profits, or America's tax laws that favor debt over equity, and also encourage exporting operations overseas. Moreover, generally the corporation has a special relationship with the home country, being able to count on the government to come to its aid to protect existing markets and to help it penetrate new ones. In addition, the culture of the multinational company, as much as its control, tends to remain identified with nationals of the company's country of origin, who occupy the topmost managerial posts, even if some diversifying has been occurring, with the Americans and British better on this score than the French and the Germans, let alone the Japanese.<sup>28</sup>

Control of the multinational, in short, remains in the hands of relatively few individuals who, by virtue of their nationality and position, have special access to power in nation-states, at the same time that, by virtue of the global nature of their responsibilities, they have the ability to avoid national control. Concern with this aspect of the increasing power of the multinational has so far generated only sporadic articles in the popular press. However, the honeymoon of the eighties, when CEOs were depicted as heroes in the popular press, is over. In the United States, top management greed is now the focus of attention, as news magazines detail the astronomical compensation packages that, in 1993, provided CEOs with salaries that topped \$200 million, and with average salary and bonus approximately 149 times the factory worker's salary of \$25,317.<sup>29</sup> In other advanced industrialized nations, the press has focused more on the corruption of CEOs, whether the insider trading scandals or illegal political campaign contributions in France, banking improprieties in Spain, or bribes and illegal campaign contributions in exchange for favors and contracts in Italy and Japan.

For the moment, the focus of criticism remains on the persons of the CEOs, in particular on their ability to exploit their positions for personal or professional gain. Soon, however, especially if unemployment remains a problem in Europe and underemployment or low wages in the United States, that focus may shift to their power as the heads of enormous economic organizations that increasingly seem to escape political and, therefore, popular control. This in turn may very well serve to generate a new set of radical critiques that revivify the older theories, and that concentrate on the inherent political

dangers of stateless MNCs controlled by a small elite of professional, capitalist managers with seemingly unchecked economic power.<sup>30</sup>

In any event, multinationals remain big, however decentralized their operations may be in location or organization; are still tied to home countries at least culturally, if not operationally, with control uni-national rather than multinational; and are stateless mainly to the extent that they avoid national taxes or make investment decisions absent national considerations. Moreover, at the same time that they reap the benefits of home country support when it comes to international or regional trade negotiations and the like, they pay fewer and fewer of the traditional costs, as home countries have lowered taxes and deregulated. What is more, because of the internationalization of trade and the mobility of capital, they find themselves in a situation in which regions in home and host countries compete to attract their investment, enabling them to pick and choose the best deal, which means higher profits for companies and lower direct tax revenues—and therefore decreased ability to provide services—for the communities in which they locate.

The concern with business power and those who wield it is likely only to grow as trade liberalization progresses. This constitutes a major challenge to the independent powers of the nation-state. But this is not the only such challenge.

### **The Pressures from the Rise of Supranational Organizations**

The pressures on the nation-state resulting from the rise of supranational organizations are many, but cluster around two interrelated issues: 1) the political problems resulting from the loss of national sovereignty and diminution in governmental autonomy; and 2) the economic and social problems resulting from the impact of trade internationalization.

There is no doubt that the rise of supranational organizations is undermining national sovereignty and governmental autonomy. The potential threat to national sovereignty was a major concern of those opposed to NAFTA, although labor and environmental issues held center stage. The much more immediate threat to national sovereignty represented by the Maastricht Treaty, which proposed monetary union and greater political union, was the main focus of the debates in European Community member countries, with the referendum in France passing only by a slim margin; with the one in Denmark not passing at all; and with none even held in Great Britain, for fear of the results.

That self-same threat was also a major issue during debates on GATT ratification in Congress, as the new World Trade Organization is seen to usurp U.S. trade prerogatives, such as its ability to impose sanctions unilaterally with Super 301.

Underlying many of the concerns about giving up national sovereignty is fear of the loss of governmental autonomy, and the possibility that national standards and mores will be compromised. This fear has been less pronounced with regard to the EU, which already has an elaborate institutional structure to allow nations a say on the common standards to be developed, than it has been with NAFTA.

With NAFTA, opponents complained about the lack of linkage between the economic issues and the social, and especially about the labor adjustment problems and the environmental hazards that were likely to fester without adequate oversight.<sup>31</sup> Many of the main criticisms leveled in the NAFTA debates were anticipated in the Canadian debate on the Canada-U.S. FTA, where opponents saw free trade as bringing lower wages and greater regional disparities, diminishing government's ability to provide health care and unemployment insurance, and debasing standards for consumer safety, for the environment, and for workers, especially given the lack of a social charter.<sup>32</sup> On NAFTA, to these fears were added the concern that poorer areas would loosen standards and cut social programs in a "race to the bottom" to attract capital and jobs,<sup>33</sup> that little would be done to improve labor conditions for Mexicans;<sup>34</sup> that investment would shift to Mexico, wages would be depressed in the U.S., and Mexico would provide Japanese and other multinationals with "export platforms" to the U.S.;<sup>35</sup> and that there was no social charter.<sup>36</sup> Finally, on environmental issues, too, opponents found NAFTA to be "mild in terms of obligations on Mexico, and vague in terms of substance."<sup>37</sup>

The experience of the European Union suggests that although many of the specific trade and environmental problems that have worried NAFTA opponents will find solution over time through mutually elaborated and agreed upon rules and standards, labor's demands for guaranteed rights and protections are unlikely to be met. The EU has in fact been no more successful than NAFTA in linking trade to labor, generally because of tremendous resistance by certain member governments to any such coordination. The social charter, which first came up in 1972, did not get back on the agenda until after passage of the Single European Act; and only once Jacques Delors became the EC Commission

President did it become a reality.<sup>38</sup> Even so, the Community Charter of Fundamental Social Rights for Workers of 1989, which was adopted by all member states except Great Britain, was only a "solemn proclamation" rather than a legally binding document, and entirely voluntary in terms of its implementation by member states. Moreover, it was not included in the Maastricht Treaty, primarily because of Great Britain's threat to pull out of the treaty altogether if it was included.<sup>39</sup> The best hope for labor with regard to the internationalization of standards, ironically enough, is in the multinational corporations themselves, many of which have already been in the process of standardizing working conditions across their many subsidiaries in Europe.

The GATT has generated another series of concerns. Some fear that higher standards enacted by national legislatures to protect consumers, workers, culture, and so forth will be deemed unfair restraints on the free movement of people, goods, services, and money. Such fears are not entirely unfounded. For example, U.S. negotiators in the GATT talks considered harmonizing global standards by treating higher safety standards on food as illegal nontariff barriers, which would have permitted the distribution throughout the United States of fruits and vegetables with many times their current allowable pesticide level under F.D.A. standards.<sup>40</sup> In 1991, a GATT panel found in favor of Mexico's complaint that the U.S. Marine Mammal Protection Act discriminated against Mexican tuna because Mexican fishermen were unable to travel to waters where dolphins were less likely to get caught in their nets, and recommended that the U.S. suspend the Act (although the decision was deferred).<sup>41</sup>

Most of these threats remain potential ones, however. In the internationalization of standards and the removal of non-tariff barriers, the tension between reducing food product and other environmental standards to the lowest common denominator, which would aggrieve advanced industrialized countries, or keeping them high, which developing nations see as maintaining barriers to entry, is most likely to resolve itself in favor of the higher standards. This is likely to occur not only because of the greater political clout of the advanced industrialized countries and of their organized interest groups, but also because of the ethical considerations that naturally support higher standards of protection for all human beings. The experience of the European Community here suggests that the winners are likely to be those in favor of maintaining high standards, and that such standards will be



ensured gradually in a process related to the development of the trade agreements themselves. In the EC, the social field was for the most part originally placed outside the supranational competence of Community institutions, and Commission activity in this area was modest (with the exception of environmental policy) until the Single European Act of the mid eighties, which officially brought health, safety, and environmental and consumer protection into Community competence, and insisted that the Commission start from a high level of protection in these areas.<sup>42</sup>

Higher standards, however, also means standardization, which means that governmental autonomy is necessarily threatened. This has been especially the case since the institution of qualified majority voting EC, which has the potential of imposing on individual member-states. As it turns out, however, majority voting remains largely an exception to the consensual rule, although the possibility of a vote has encouraged compromises in areas of product regulation that had been blocked for years.<sup>43</sup> Compromise does mean, however, that age-old traditions are sometimes placed in jeopardy, such as the British custom of hanging turkeys for close to four weeks, and square gin bottles.<sup>44</sup>

The European Community has sought to minimize the threat to governmental autonomy as much as possible through the principle of subsidiarity, which seeks to ensure that regulation occurs at the lowest administrative level possible. As a result, it has had a marked preference for standardization through directives, which leaves national governments with the responsibility for transposing the standard into the national legal system and implementing it; or through mutual recognition, which provides for the acceptance throughout the EU of products that meet the standards of one member nation (as long as national provisions do not violate primary Community law). Both approaches provide for greater flexibility than any set of across-the-board regulations, which in the early years risked being so rigid that EC regulators were sometimes said to be intent on regulating even the distance between the tines of forks. But they both have their problems: the implementation of directives is not always carried through or, if it is, it ends up being very different from one country to the next, given different regulatory cultures and practices,<sup>45</sup> and the practice of mutual recognition can in theory at least lead to firms allocating their resources in such a way as to avoid heavy regulatory burdens, thereby triggering, here too, a "race to bottom"<sup>46</sup>--although this has yet to materialize.

It is in the economic regulation area, however, that governmental autonomy has been most undermined, as member-states have altered their economic policies in response to EU-recommended changes in the state's role in the economy and the regulatory environment for business. These consist more specifically of changes that began slowly with the removal of customs barriers in the sixties, followed by membership in the European Monetary System, established in 1979, in which member states peg their national currency to the German mark, and then speeded up in the eighties with the relinquishing of control over exchange rates, the opening of the financial markets, the ending of price controls, and so forth. In addition, they encompass changes in competition policy, product standards, sectoral rules governing different businesses, and all that the opening of the borders entails in terms of the free movement of goods, services, capital, and people.

The loss of autonomy involves not simply the fact that each member state in the Council of Ministers is only one of twelve—here one could argue that nation-states give up a bit of national sovereignty to gain supranational sovereignty—but also the fact that much power has been given over to the EU Commission and to the European Court of Justice. In the case of the EU Commission, not only does the Commission draft the directives that governments must then put into practice, once passed by the Council of Ministers, but it also rules on, and overrules, actions that governments used to decide unilaterally in such areas as industrial policy and regional policy. The Directorate-General on Competition, to take only one example, has in several instances not allowed the French government to provide grants to nationalized enterprises on the grounds that they were disguised subsidies, and it rejected the proposed acquisition of de Havilland by Aerospatiale, much to French dismay.<sup>47</sup>

The ECJ has been a less noticed, but every bit as important, force in the subversion of national autonomy. It has been acting as if it were the supreme court of a federal system in which it is the guardian of an entrenched written constitution by which it had been empowered, rather than the court of a loose economic federation which, although its decisions are binding on national governments, has no formal power over national legal systems and no enforcement powers.<sup>48</sup> The most dramatic instance of this judicial activism is a 1991 case in which the ECJ ruled in favor of Spanish fishermen against the British on the grounds that a proposed directive intended to liberalize the European fishing industry, which had been torpedoed in the Council of Ministers by Great Britain, should have been passed and

therefore had become EC law.<sup>49</sup> Another, less dramatic instance involves the ECJ's 1987 decision that overturned the German regulations limiting beer sold in Germany to that brewed in accordance with requirements established by the Bavarian Duke Wilhelm IV in 1516 and reconfirmed in 1952.<sup>50</sup>

Although business groups have had the most success in appealing to the ECJ, social interest groups have increasingly turned to the ECJ as well, generally to force recalcitrant national governments to implement EC legislation. This has been very much the case in the United Kingdom in such areas as the quality of drinking water and equality between working women and men.<sup>51</sup>

Thus, the European Union, whether through economic policy recommendations, standardization procedures, or court decisions, has in many different ways undermined the autonomy of national governments. No one is complaining much, however, because in exchange for the loss of autonomy has come a larger market, higher standards, better protections for all citizens of the EU, and greater economic stability. This is likely to be the pattern of the future for NAFTA and even GATT countries. In fact, there are already signs that even without any one world organization, international and regional bodies are seeking to make order out of the chaos that has come from the freeing of the market. For example, international banking and securities regulators recently issued joint guidelines for the first time for the supervision of the booming derivatives market. Moreover, there appears to be increasing pressure to reach worldwide standards even in certain areas of social regulation. The various treaties on the environment reflect movement in this direction. And on this score, even business that has up until now resisted worldwide environmental standards may very well change its mind, given the kaleidoscope of regulations that heads of global businesses have been finding an increasing nuisance.<sup>52</sup>

In short, the lack of any supranational political institutions may not be quite as dire as some commentators suggest. The problems for the nation-state, in fact, come less from what has been happening outside, at the supranational level, than from what has been going on inside, given the internal changes that are the results of national responses to supranational pressures.

## **National Responses to International Pressures: The Changes in Governmental Policies and Policymaking Processes**

The unwritten story behind the internationalization of trade lies not so much in how international and regional trade associations are diminishing the autonomy of the nation-state or in how multinationals are escaping the control of the nation-state, but in how nation-states have been altering their own policies to function in the new international arena and how these in turn have affected their policymaking processes. These changes in policies and policymaking processes have in most instances undermined the nation-state's particular kind of democracy by strengthening executive power vis-a-vis societal interests and freeing business from its traditional constraints. Whether the policymaking process of a nation-state is corporatist, statist, or pluralist in form, its particular formula for democracy is currently in jeopardy.

As the most advanced of the international and regional trade bodies, the European Union's impact on member states deserves special attention because it offers lessons on what may happen to other countries as the World Trade Organization, NAFTA, and other regional trade bodies grow in significance. It also shows that national responses to the self-same pressures of internationalization differ widely, depending not only on the particular state-society relationship embodied in the policymaking process (corporatist, statist, or pluralist), but also on such factors as country size (small or large), culture, and history; governmental structure (federal or unitary) and capacity (to reform or not); labor history (conflictual or consensual) and organization (cohesive or fragmented); and business size (large or small), organization (cohesive or fragmented) and orientation (domestic or international).

The pressures on EU member states have been both political and economic. Among the exclusively political pressures, the most significant is the threat to parliamentary democracy posed by the structure of decision-making in the EU. The European Union itself suffers from a "democratic deficit," given a Council of Ministers that relies more on the European Commission and its bureaucracy for recommendations than on the European Parliament, which performs only a consultative role.<sup>53</sup> And this only compounds the problems at the nation-state level, given that the EU enhances the powers of the executive to the detriment of the legislature and societal interests through a "two-level strategy" to overcome domestic opposition: first, through its mantle of legitimacy and, second, through the

creation of policies by way of an insulated process that offers national legislatures and societal interests few opportunities for comment or change.<sup>54</sup> The Maastricht reforms that gave the European Parliament a legislative function and strengthened its control over the executive reduced but did not eliminate this democratic deficit.<sup>55</sup> Nor did the various reforms in member states that followed upon treaty ratification.

The economic pressures of integration have had a tremendous impact not only on EU member states, but also on the EU's closest trading partners. Most member states that tried to put off instituting the prescribed macro- and micro-economic reforms found themselves in increasing difficulty as the decade progressed, France not so much since it switched in 1983, Italy very much so because it has yet to bite the bullet. For trading partners such as Sweden and Austria, the day of reckoning was delayed, but only delayed, until the late eighties. Because European countries are increasingly interdependent economically, none can escape the pressures that the others experience. This has been equally true of the social policy arena with regard to the welfare state, which has suffered cutbacks just about everywhere, with pension payments, unemployment compensation, and medical reimbursements reduced all over Europe;<sup>56</sup> and with the high rate of unemployment: 18.1 million in Europe in 1993, up from 14.3 million in 1991, and expected to reach 19 million in 1994. In the welfare area, as in labor standards, governments remain basically on their own, since there has not been any interest in establishing a European welfare state.<sup>57</sup>

Most seriously for democracy in European countries, the policy changes governments have instituted in response to outside economic pressures have combined to bring about major alterations in the balance of relations among major players in the policymaking process. Business generally has become stronger, more independent and mobile, and less in need of the close relationships with government or of the compromises with labor that it had developed throughout the postwar years. Labor, by contrast, has become weaker with respect to business at the same time that it has increasingly been shut out of policymaking processes by liberalizing governments. Finally, government has become more dependent, with Brussels having usurped much of its autonomy in policy formulation and much of its flexibility in policy implementation. The result is that societal interests, with the

exception of business interests, have less access to decision-making at the national level, let alone at the supranational level .

This lack of access is not necessarily a problem in cases where societal interests remain convinced that governments are representing their interests at the national as well as supranational level. But as national governments continued to deregulate and privatize, to reduce taxes, and to diminish their own control over economic policies generally, they had have less and less capacity to meet societal needs in the face of economic downturn, especially in such areas as employment and social welfare. The result is that those societal interests whose needs have not been met have become increasingly disenchanted both with national governments and the supranational agreements into which they have entered, and have become a potentially disruptive force.

Different European countries, of course, have experienced these changes to differing degrees, with the smaller European countries and France the most affected, Germany, Great Britain, and Italy the least. The two most powerful economies in the world, the United States and Japan have so far felt very little of all this, since the U.S. has only now joined a regional trade body, and Japan has yet to. But they are likely to in the future, as regional trade bodies such as NAFTA or the Asia-Pacific Economic Cooperation gather momentum, and as the World Trade Organization that replaces the GATT develops.

### **The Smaller European Countries: Unbalancing the Corporatist Relationship**

During the postwar period and in some cases even before, a number of smaller European countries developed systems of social concertation that have often been characterized as corporatist. This means that they have had tripartite relationships in which business and labor, represented by peak associations, together with government, represented by state agencies, formulate and implement policy, often absent any independent role for parliament. This corporatist relationship has in recent years become unbalanced in most smaller European countries, although for some this came much sooner than for others.<sup>58</sup>

The pressures of internationalization that include membership in the European Community have been major contributing factors to the problems of corporatism, and this despite the fact that small European states with corporatist policy processes had been thought more capable of responding to

outside challenges because of their tripartite relationships than larger states.<sup>59</sup> The problem is that the traditional "class compromise" that has helped explain the stability of corporatist polities<sup>60</sup> no longer works in a world of capital mobility and financial integration, where labor rightly sees business less bound to it, morally or economically, and where business can obtain concessions from both labor and government without the traditional compromise. Governments, moreover, no longer able to use public spending programs to reconcile the conflicting demands of labor and business as they had in the past without running into macroeconomic trouble (given a financial world that sees any such action as contributing to inflationary pressures, a signal for capital outflow and foreign currency speculation), have had less interest in maintaining the old tripartite arrangements, promoting change instead by embracing market-oriented policies.<sup>61</sup>

This has been occurring at different rates in different small European states primarily in relation to their degree of openness to international financial and business pressures. While such EU members as the Netherlands, an ideal-typical corporatist state, and Belgium, much lower on the corporatist scale, found their particular brands of social concertation in jeopardy by the early eighties, non-EC members Austria, the other ideal-typical corporatist state, and Sweden were able to delay the impact of international economic constraints until the late eighties.

EC membership, of course, has been only one of a number of factors that help explain the vulnerability of the social concertation systems of small European countries. In addition to this, one of the major differences between Belgium and the Netherlands, on the one hand, and Austria and Sweden on the other, has been that the former countries have had strong, internationally oriented financial institutions that acted as major advocates of financial integration and trade liberalization, while the latter have not. On top of this have been institutional differences involving the size, organization, and orientation of business concerns: Swedish and Austrian business associations have been large and cohesive, with Swedish business, although large and international, as domestically rooted as smaller and non-international Austrian business (with the exception of state-owned enterprises). By contrast, Belgian business and its associations have been divided culturally along linguistic lines as well as in terms of size, while Dutch business and its associations have been divided along domestic/international orientation lines. There have also been differences in labor history and organization, with Swedish and

Austrian unions large and cohesive, with a history of consensual relations with business, while Belgian and Dutch union have been more fragmented and conflictual.

Finally, there have been political differences, in particular social democratic governments that continued their commitment to the social welfare state in Austria and Sweden long after Belgium and the Netherlands had elected center-right governments that sought to cut back social spending and government intervention in the market economy.<sup>62</sup> But this only meant that Austria and Sweden were able put off the inevitable a bit longer, although the signs of strain in the corporatist relationship were increasingly apparent.<sup>63</sup> By the nineties, Austria and Sweden have also begun embracing the changes, membership in the EU among them: Sweden, pushed by the collapse of its currency and the election of a center-right coalition; Austria, concerned by fears of its increasing marginalization and lack of internationalization.

#### **Germany: Corporatism under Siege**

Germany, although also generally characterized as a corporatist nation, has not had the same problems as the smaller European nation-states.<sup>64</sup> Given its position as the lead economy in the European Union and one of the most advanced of advanced industrialized nations, it has not been vulnerable to the same external pressures as the smaller European nation-states. With the mark the lead currency in the European Monetary System, Germany, or more specifically its independent central bank, the Bundesbank, has set monetary policy for all the EMS members, and has led all the other EU countries in imposing restrictive monetary policies and austerity budgets to guard against inflation. But whereas for Germany, the past few years of austerity and relatively high interest rates has proven salutary, given the pressures resulting from unification with East Germany, for many other European countries this has often entailed deeper recession, given that the even higher interest rates that they had to impose in order to keep their currencies well within the "snake," or the band of fluctuation, of the EMS, have slowed growth and dampened their economies unnecessarily (and in the cases of Great Britain and Italy, even led them to leave the EMS for a time).

The level of internationalization of German business, which has made it one of the major export nations in the world second only to Japan, together with its particular business structure, with the close business-banking partnership that provides long-term, low-cost financing at the same time that it



protects it from takeovers, has also made German business less vulnerable to outside pressures and more resilient. Moreover, Germany's social concertation system had made possible innovations in production systems, and in particular the move from Fordism to flexible specialization,<sup>65</sup> that spared it the radical restructurings that businesses of other nations went through from the late seventies on. It is only very recently that German firms have begun the rationalizing of operations and the shedding of workers that have been endemic to most other advanced industrialized nations with the exception of Japan (which is also only now experiencing such pressures). As a result, Germany has managed to maintain its corporatist set of relationships intact much longer than the smaller, corporatist European countries.

In other ways that have more direct impact on the corporatist form of democracy, Germany has also not suffered from the ill-effects of integration. Because Germany has been committed to the "three 'Cs': consensus, corporatism and cooperative federalism," and because that consensus is institutionalized, both the 'social partners' in the tripartite relationship and the 'governmental partners' in the federal system have had access to supranational decision-making. Business and labor associations have been largely included in deliberations involving major moves forward on European integration (e.g., with conferences held in 1988 on the implications of the Single Act), while the Länder, which play a major role in policy implementation in a great number of areas affected by EU regulation, have been largely brought into the policy formulation process by the federal government.<sup>66</sup>

Most importantly, perhaps, German institutions did not have to change much to respond to the requirements of European economic integration. To begin with, the German federal system, with its emphasis on the importance of law as a regulatory instrument and its respect for local government parallels EU practice in the first instance and is supported by the EU principle of subsidiarity in the second.<sup>67</sup> Moreover, the central bank was already independent, unlike in France and Italy (until 1993). In addition, Germany had no need to alter its business-government relationship, especially as compared to France. Not only was the government already less present in the economy in terms of nationalized enterprise (at least compared to France subsequent to the 1981 nationalizations), but the government also played no formal interventionist role in the economy, although it provided subsidies and the like for key industries on an ad hoc basis.

This is not to suggest, however, that Germany is the ideal, market-oriented economy. Much the contrary, as other European nations increasingly discovered, once their businesses were successfully blocked from acquiring German companies by the German BundesKartellamt on alleged anti-trust grounds, and once they saw the level of subsidies provided business by the Länder. In fact, despite the formal governmental commitment to market-orientation since the end of World War II, German business relations have generally been characterized more by cooperation than competition, aided by the banks that sit on the boards of competing firms and, as both a source of credit for and an owner of equity in major German firms, often play the kind of leadership role for industry that the government plays in France.<sup>68</sup>

European integration, in short, has not jeopardized Germany's corporatist democracy because it has been protected by the power of its economy and the nature and organization of its institutions. Germany nevertheless today finds its corporatist relationship under siege, the result of unification with East Germany. The signs of strain are at the margins of society, reflected in the rise of anti-foreigner sentiment and in the rise of right-wing extremism. They are brought about by the high unemployment rates and adjustment problems experienced in the former East Germany, as well as by the malaise in the former West Germany related among other things to growing ambivalence with regard to unification and resentment of its costs.

#### **France: The Statist End to Old-Style Statism**

While Germany is one of the EU countries that has so far felt the least change, France is one that has felt the most. France's statist pattern of policymaking, where governments have typically formulated policy unilaterally but allowed societal interests in at the implementation stage with the politics of accommodation, cooptation, or confrontation, has been disrupted by European integration.<sup>69</sup> This is not only because of the major deregulatory reforms that have transformed the economy from a state-led into a more market-oriented one,<sup>70</sup> thereby loosening the ties that have traditionally bound business and government, or because of the decentralizing reforms that have transferred national powers and resources to local authorities.<sup>71</sup> It is also because governments have lost autonomy at the formulation stage, given the primacy of Brussels, and they have lost flexibility at the implementation stage, given the EU regulatory model that brooks no exceptions to the rule,

ensuring that societal interests will find less accommodation, and may therefore have to resort to more confrontation.

The French business-government relationship, to begin with, has changed dramatically as a result of European integration.<sup>72</sup> For France, membership in the European Community, with its "liberal" bias, has from the very beginning acted as a major spur for French governments to move away from their traditional dirigiste, or state-directed, economy to one with a greater emphasis on the market.<sup>73</sup> The conflict between the two competing strands of economic management policy, that is, of dirigisme and liberalism, came to a head in 1983, when the socialist government, faced with a choice between abandoning major elements of its dirigiste policies or the European Community (and in particular the EMS that it had joined in 1979), decided to remain in the EC and, therefore, in favor of liberalism. French exceptionalism could not last long in an increasingly interdependent, global economy and in an integrating Europe. Thereafter, the strict monetary policies and economic austerity program that diminished government resources almost guaranteed the further liberalization of the economy since, no longer able to stimulate industry through demand, the socialists had to turn to more supply-side measures in order to improve the competitiveness of French industry, with deregulation a top priority.<sup>74</sup> The return of the center-right in 1986 only brought further state disengagement with extensive privatization and deregulation, and this essentially continued when the socialists returned to power in 1988, with deregulation and privatization, either officially or unofficially, remaining the order of the day, pushed by the imperatives of European integration as well as the capital needs of firms. State ownership was progressively diminished and state control weakened in favor of the creation of a truly mixed economy in which public and private, nationalized and privatized financial and industrial concerns own and control one another through cross shareholdings following the German model of banking-industry partnership. By the nineties, the traditional dirigisme in which French governments set macroeconomic policy relatively independently of the international economic climate and engaged in "micromanagement" of the microeconomic sphere had ended.

The result is that the ties that traditionally bound French business to government have been loosened. Business has become increasingly independent of the state, and not only in consequence of the deregulatory policies that divested the state of its traditional dirigiste instruments. As business has

been increasingly subject to the imperatives of world competition, the constraints of the market, and the demands of technological advancement, it has looked less to government for guidance. And as alternative sources of financing have grown as a result of the opening of the markets along with the internationalization of capital, business has turned less to government for support. Moreover, as French big businesses have gotten bigger, consolidating, concentrating, and expanding worldwide in response to the challenge of European competition, other supranational firms have become their allies and the EU their interlocutor. French business now has the kind of access to policy formulation at the EU level that it never had at the national level, where lobbying has traditionally been regarded as illegitimate, and it has been encouraged in this by the national government itself.<sup>75</sup>

While French business has become freer from the traditional constraints, French government has become less free. European integration has generally diminished governmental autonomy in policy formulation, as we have already seen, at the same time that it has done little to enhance the powers of national parliaments, which in the case of France are already exceedingly meager. Most dangerous for France's statist model of democracy, however, is that it has diminished governmental flexibility at the implementation stage. In the statist model, societal interests that traditionally have had little input into policy formulation have generally been accommodated at the implementation stage, where civil servants as often as not adjusted the rules to respond to interest group needs in order to avoid potential confrontation. This approach to implementation, summed up in de Tocqueville's famous phrase: "The rule is rigid but the application flexible," is in jeopardy. Because the EU regulatory model regards any exceptions to the rule as illegitimate, its increasing presence has called into question the administrative nature of the French state, where making exceptions is the rule. Societal interests that have little access to EU policymaking, by contrast with business, will therefore find themselves increasingly shut out of any direct access to the decision-making process at both the front and the back ends. And, finding less accommodation, they may engage in more confrontation, albeit with less success. This has been most apparent in the agricultural sector in the context of the GATT talks. "Vegetables on the highways and pigs in the street," however, have not been as effective as they have in the past, because the government is no longer as free to bend, or not, to the pressures of confrontation.<sup>76</sup>

In short, although European integration has encouraged modernization of France's economic institutions, it has generated a crisis for France's political institutions, as citizens and their elected representatives find themselves increasingly frozen out of the policymaking process. Policymaking is left to only a few top elected officials—speaking generally through their civil service representatives; to large business interests—speaking either directly or through their lobbies; and to bureaucrats, whether those at the EC level responsible for formulating policy or those at the national level responsible for implementing them. The crisis manifests itself in the increasing disillusionment with government officials and the attacks on their probity; in the disaffection of the electorate and the rising extremism of the right; and in the general malaise that comes from the increasing banality of political discourse and the lack of new ideas that have followed the disintegration of leftwing and rightwing ideological divisions. Until the French find a way to adapt their statist model of democracy to the new realities, the crisis is likely only to deepen.

#### **Great Britain: Liberal Statism with a Difference**

Great Britain has felt the impact of integration much less than has France, despite the fact that it, too, has a statist pattern of policymaking, where governments can formulate policy absent significant interest group input. This is because Great Britain in some ways anticipated the changes demanded by European integration, in particular with regard to the business-government relationship, and in others successfully resisted them, especially with regard to social regulation.

Great Britain has historically had a more *laissez-faire* ideology, more open financial markets, and a less close business-government relationship than either France or Germany. To begin with, throughout the postwar era, it has had a more "liberal" and international approach to economy policy than most of its European neighbors, often sacrificing the domestic economy on the altar of its ambition to remain a world power. Whether the policy involved deflating the economy in order to maintain a strong pound sterling or restraining domestic investment in an effort to strengthen the balance of payments—which was, as Andrew Shonfield noted, "like a blind man with a single automatic gesture at his command"—the government put international economic considerations above those of domestic economic health.<sup>77</sup> And they seem to have continued this under Thatcher and Major, with *laissez-faire*

ideology substituting for world ambitions, and openness to the Japanese a Trojan horse in the EU, at least as other member-states see it.

Moreover, although Great Britain, like France, has traditionally had a powerful executive and strong bureaucracy, it has also had "an abiding prejudice which sees it as the natural business of government to react--not to act," in particular with regard to business.<sup>78</sup> This cultural aversion to government intervention in the economy, combined with the size of its markets, has always ensured the government a smaller role with regard to economic matters, and problems whenever it tried either statist experiments similar to those of France in the planning sphere or corporatist ones in the social concertation sphere.<sup>79</sup> Thus, although the executive is strong, as in the ideal-typical statist model, it is so in a limited sphere. It was this strength, however, that enabled Prime Minister Thatcher, once elected in the late seventies, to begin her radical program of privatization and deregulation, even before the pressures of European integration seemed to demand it.<sup>80</sup>

Great Britain, in short, has been if anything ahead of the European Community in the economic arena, in macroeconomic and microeconomic policies as well as in its openness to the international economy, and therefore less vulnerable because already responsive to the pressures which hit both France and the smaller European countries hard. Moreover, although it has in some sense been behind European member-states in the social arena, it has managed to avoid some of the potentially most onerous (in its view) aspects, in particular with regard to the social charter (as discussed above).

What is more, Great Britain's particular form of liberal statist democracy has up until now been little affected by integration, especially by comparison with France. Because of the traditional role of Parliament as a forum for the vigorous debate of ideas, society through its parliamentary representatives at the very least has the appearance (although not necessarily to reality) of having had more voice on the whole set of issues related to integration than did France, where there was little discussion until the debate on the Maastricht referendum. Because the rule of law is more respected in Great Britain (and Germany) than in France (given not only the politics of accommodation but also the dependent position of judges up until very recently), the European model of regulation has not been as disruptive as it has been in France at the implementation stage--much the contrary, as Great Britain has one of the best records on implementation of EU directives. And because British common law is similar in its

precedent-setting approach to that of the EU, the validity of European Court of Justice decisions has not been questioned as much as in France.

In one area, however, Great Britain is likely to have increasing problems. Because Great Britain alone among European member-states has recentralized, taking power back from local governments, it is likely to find the subsidiarity principle as it applies to subnational authorities increasingly difficult to reconcile not only with its own policies toward local governments, but also with its own use of the subsidiarity principle to defend against the further shift of powers to EU institutions.<sup>81</sup>

### **Statism, Italian-Style: Paralysis followed by Crisis**

Like Great Britain, Italy has changed less in response to the pressures of European integration than has France, but not from a lack of need. Italy has been unable to carry out the reforms required by integration, given a statist polity characterized by a weak executive and parliamentary paralysis. Its current on-going economic and political crises result from this as well as from the internal collapse of its institutions stemming from the corruption scandals.

Unlike France or many of the smaller EU member-states, Italy has yet to shift to strict monetary policies and to submit to the discipline of the market. During the eighties, in fact, at a time when other EC members were deregulating, privatizing, and instituting austerity budgets to reduce inflation and deficits, Italy was not. Despite Italy's enthusiasm for going forward with European integration, seeing this as a way of reinforcing the executive from the outside, much of its actions remain in violation of Maastricht guiding principles. For example, although Maastricht recommends an open market economy with free competition favoring an efficient allocation of resources, Italy only recently recognized the market economy; it had no competition law until 1990; it continued direct interventions on prices and quantities, thus distorting resource allocation; and persisted in providing state subsidies and other aid to public sector companies. It also fell short on the Maastricht recommendations for public finance, the monetary regime, and the financial regime, having failed to monitor sufficiently government deficits (now 1.7 times the EC average) and public debt (now at 1.7 times larger than that of the G-7 nations). The principle of full independence of the central bank was ensured only in 1993 (before it only had limited operational independence); and price stability has yet to become the monetary

regime's primary objective. Moreover, in the financial regime, credit controls remained between 1973 and 1983 (and occasionally later), while restrictions on capital outflows continued from 1973 to 1990.<sup>82</sup>

Much of the problem for Italy has been its particular model of statist policymaking, which is ideal-typically weak by comparison with France's ideal-typically strong one. Rather than the state appearing an entity apart from governing parties, in their service but independent of them, administered and embodied by a bureaucratic elite that is impermeable to outside interests, Italy has been characterized by "partitocrazia," or party government. In Italy, parties predominate, controlling the state, with parties deciding what to send to parliament and dominating the interest articulation process, such that where groups exercise influence, they do so as clients and/or patrons of political parties. But despite the fact that one party dominated Italian politics for forty-five years, this is not a one party system in which all the rewards are solely for party members. Rather, it is the system of consociativismo, or consociationalism, in which opponents are coopted by bringing them into the governmental machinery, ensuring compromise and coexistence such that even disagreements over substantive policy issues do not jeopardize governing coalitions (although they may lead to the creation of new governments and cabinet reshuffling). The result is the system of sottogoverno in which Italian state and society have virtually been colonized by political parties, with the spoils that include jobs in the bureaucracy and in state-owned firms apportioned according to the electoral weight of the parties, including the Communists.<sup>83</sup>

Just recently, this system has collapsed under the weight of the pressures of European integration, the fall of the Berlin wall and the end of the communist threat that had served to justify the consociative balance, and, most importantly, the corruption that by the early nineties had careened out of control, as dramatized by the mani pulite, or clean hands, and tangentopoli, or bribe city, scandals. With this collapse, many changes are likely to occur, although when remains questionable since the reform of the electoral system has not as yet led to any other major institutional reforms.

The executive has yet to produce the promised deregulatory and privatization laws, in large measure because parliamentary paralysis remains, a result of the fact that the parliament is a transformative rather than arena legislature, with government lacking the parliamentary mechanisms that ensure passage of its programs, as in France or Great Britain. And there has been no change so far in



the structure or culture of the bureaucracy. Most importantly, however, even if the reforms are passed, there is some question as to whether they will hold since Italy continues to be characterized by a process of policymaking that goes way beyond France in following the principle that ensures that rigid rules are bent in the implementation. In other words, the future may very well mimic the past, when "the formal dirigisme of these state-sponsored reforms was belied in practice," with the threatened interests managing to resist changes "through evasions or to get changes in policy or its implementation that frustrate the global intentions of the reforms,"<sup>84</sup> and where confrontation was an accepted course of action when accommodation or cooptation were not available.<sup>85</sup>

This, of course, was "democracy, Italian style."<sup>86</sup> But it is a style that, much as in France, will be increasingly at odds with the demands of the European regulatory model. Unlike France, however, where it is the bureaucracy that has been leading the changeover to this model, in Italy, it is most likely to be the judiciary, which has proven itself in the recent scandals, and which is the only self-governing judiciary in the world without political oversight (other than Portugal now).

#### **Japan: Statist Resistance to the Pressures of Internationalization**

Compared to the European nations generally, Japan has changed little, despite the pressures of the GATT and its main trading partners, in particular the United States. In fact, while France, with a similarly close business-government relationship, has embraced change, deregulating, privatizing, and decentralizing, with its strong bureaucracy leading the way, Japan has resisted most efforts at internal reform and dragged its feet with regard to opening its markets, with its bureaucracy in particular remaining a powerful force for the status quo. For Japan, in fact, reforms resulting from the opening to the outside may also force an opening on the inside, with the loosening of the ties that bind business and government leading to a strengthening of the voice of non-business societal interests.

Japan has up until very recently remained largely immune from outside pressures, able to control its international economic policies and achieve its economic objectives because of a "confluence of domestic political structures." Its success has been based on the fact that "a conservative network of technologically advanced industry, finance, and the state bureaucracy has been able to exploit the political exclusion of the left and organized labor to generate a foreign economic policy combining resistance to unwanted international stimuli and creative domestic resource extraction."<sup>87</sup> This

network is characterized by close business-government interaction which, much like in France before the reforms of the eighties, involves leadership by elite civil servants<sup>88</sup> in a relationship which, whether one wishes to place the emphasis on state control by characterizing the Japanese business-government relationship as one of "administrative guidance,"<sup>89</sup> or on business, by characterizing it as one of "reciprocal consent" in which "firms give the state jurisdiction over markets in return for their continuing control of those markets,"<sup>90</sup> ensures orderly cooperation in a competitive market economy. Moreover, despite inroads into the bureaucracy's leadership role by the politicians, evident in the growing control since the mid-seventies of shifting alliances between the bureaucracy and Diet politicians representing organized interests,<sup>91</sup> and a diminution in its authority over business, as rising industries escape from regulation while declining ones go to MITI for restructuring,<sup>92</sup> the bureaucracy continues to have tremendous power, even if it is no longer what it once was.

The very structure of business, moreover, helps explain the greater success of the Japanese business-government relationship by comparison with the French, since Japanese business has been much more organized and cohesive, not only through trade and peak associations, but also through the keiretsus and the semi-permanent linkages between large firms and their smaller subcontractors.<sup>93</sup> What is more, this structure also helps explain the greater success of the Japanese economy, since the Japanese keiretsu performs a function similar to that of the German banking-industry partnership, providing industry with long-term financing at low cost and stable relationships that have traditionally allowed it to focus on penetrating markets without worrying about short-term profits.

For Japan, then, much of the resistance to change has to do with the fact that it has had a winning combination in its business-government relationship and business structure. The current political crisis has had less to do with economic issues and the related pressures, intense as they are given the three-year economic slump, and much to do with the decay within. The Japanese statist model, in fact, also has some similarities with the Italian, having had a party government that also encouraged corruption and bribe-taking, but in this case without the need to share the spoils with opponents in a consociative system, given the weakness of the opposition. Unlike in Italy, however, the bureaucracy remains for the moment at least relatively untouched by the scandals, and thus retains a prestige and leadership capacity that only increases as that of politicians diminishes. This bureaucracy

continues to constitute a major obstacle to change, given that it is largely unwilling to jettison a system that has served it and the country so well for so long.

Change is nevertheless occurring, albeit slowly. Pressures are coming from the outside as well as the inside. To begin with, the Japanese economy is already more open than it was, given the results of bilateral talks with the United States as well as multilateral ones involving the GATT.<sup>94</sup> Outside pressures, however, have been most successful in the case of individual companies or sectors, as in the 1994 deregulation of cellular phones in response to U.S. intervention to ensure Motorola entry into the market, or where such gaiatsu, or outside pressure, is manipulated by internal groups for their own purposes, e.g., when MITI used U.S. pressure in 1985 against the plans of the Ministry of Posts and Telecommunications to regulate value-added telecommunications networks.<sup>95</sup> Overall deregulatory reforms of the kind seen in France or other European countries have as yet not been forthcoming. Japan remains a highly regulated economy, with only a small dent made in its some 10,000 regulations limiting competition on the basis of price and quality.

However, as Japan's economy moves from a manufacturing base toward services and information-based industries and from dependence for growth on exports to domestic consumption (currently consumer spending accounts for 55.7% of Japan's economic output, compared with 68.4% in the U.S. and 64% in the EU),<sup>96</sup> internal pressure for change is also likely to build. Manufacturers are already pressing for deregulation of the services industry while consumers are increasingly looking for bargains, supplied by new discount retailers that have been offering lower prices by bypassing traditional supply routes. Such internal pressures, together with the greater opening to the outside, are likely to force a move from what is very much a producer oriented-society to a more consumer-oriented one, with a concomitant end to the archaic distribution system that raises consumer prices and shuts out foreign firms, but also employs lots of people. The increased competition resulting from foreign goods penetrating the market and from domestic producers scrambling to retain market share could also cause cracks in the keiretsu system, given the demands for more competitively-priced goods and supplies. It could even jeopardize the system of life-time employment (which has in any case already been showing signs of strain).

Economic changes, moreover, are only the beginning. Political changes that have already been apparent with citizen dissatisfaction with the Liberal Democratic Party and increased impatience with their successors are also likely to generate demands for greater access to the political process, especially by groups traditionally left out, such as women, environmentalists, and even workers not protected by life-time employment. Ultimately, regionalism is also likely to grow, with concomitant demands for decentralizing reforms. No wonder there is so much resistance to change!

### **The United States: Recreating a Quasi-Statist Pattern in a Pluralist Polity**

The United States, with its pluralist pattern of policymaking in which interest groups are involved in policy formulation, but not in implementation (where the regulatory model holds sway), has probably been the least subject to change as a result of international pressures. This is primarily because the United States, as the hegemonic power of the postwar period, has been the country doing the pressuring. But it is also because it has had less far to go than many other countries, having had larger, more open financial markets ensuring greater capital mobility than most other countries for a long time; a large, already highly deregulated economy that was deregulated even more in the decade of the eighties; and a traditional separation of business and government with an even more pronounced cultural aversion to state intervention in the economy than that of Great Britain. In consequence, the foreign trade policy which originated in the post World War II conviction that the internationalization of trade was the best way to avert future wars and which has been used to open up other economies to American business has not much affected the American economy, other than to represent a competitive challenge for American business. Moreover, the fact that the foreign trade policymaking process has for a long time taken a quasi-statist form, as Congress through a variety of institutional mechanisms allowed trade officials to make major decisions in its place, has not mattered so far. But over time, as NAFTA widens and deepens, and as the GATT becomes the World Trade Organization, it is likely increasingly to threaten America's pluralist pattern of policymaking.

In the foreign trade arena, the quasi-statist pattern of policymaking characterizes forty years' worth of history in which the preference of the White House and the State Department for liberal trade policies overrode the protectionist impulses of Congress. The executive capacity in this arena had a lot to do with two factors: first, it was able to appeal to ideology to gain public support for its positions;<sup>97</sup>

and secondly, it was able to shift the institutional arena for policy-making from the legislative to the executive branch, thereby partially insulating policymakers from the pressures of societal interests.<sup>98</sup>

This quasi-statist system began as early as 1934 with the Reciprocal Trade Agreement that shifted the issue from a domestic policy issue under the jurisdiction of Congress to a foreign policy issue under the jurisdiction of the executive.<sup>99</sup> This change remained within a pluralist model overall, but one where certain "statist" elements were introduced, in particular bureaucratic responsibility for policy formulation. Policymakers, however, were never interventionist in the domestic economy in the way that the French or Japanese were, and they were much more permeable to outside interests, managing to maintain their independence only by offsetting one set of special interests with other, countervailing interests that they encouraged to participate. Nonetheless, they, too, were to a large extent insulated from external pressures, although the institutional mechanisms changed over time as the focus shifted from tariff to non-tariff barriers, and as Congress itself democratized.<sup>100</sup> Most recently, the "fast-track procedures" that began with the Trade Act of 1974, were reiterated in 1988, and extended in 1991 to cover the Uruguay Round of the GATT and NAFTA, together with Super 301 that enables the United States to retaliate unilaterally against what it deems unfair practices, only ensured that the executive would continue to dominate in the trade process.<sup>101</sup> When it came time for the NAFTA vote in the fall of 1993, the fast-track procedures ensured passage despite major opposition, as discussed above. (Future trade negotiators, however, may not be so lucky, as the Senate Finance Committee in charge of the GATT ratification bill appeared as of August 1994 unwilling to extend fast-track procedures for any future trade talks.)

Nonetheless, even with the variety of institutional mechanisms to shield Congress from special interest pressure, there is always the danger that special interests can prevail, as in the 1982 "voluntary" European Community steel export restraints and the 1983 toughening of restrictions on textile imports. The danger itself, however, is a double-edged sword. At the same time that it threatens to unravel international trade agreements, it also serves as an extremely effective bargaining tool for trade negotiators, who can use the threat of Congressional action to gain further concessions. Through the eighties, even as protectionist sentiment mounted in the face of growing deficits, Congress tended to propose statutory bills primarily as a means of pressuring the executive branch to stand tough, and to

negotiate more firmly with trade partners, rather than in an effort to take back the initiative themselves.<sup>102</sup> Tied hands make for powerful negotiators, even as they make for headaches.

Trade negotiators from more statist polities such as France or Great Britain do not have the same advantages, given that their parliaments are generally mere rubber stamps, and cannot by definition pose a threat to the ratification of the negotiations. Only the affected interests themselves can be used as a threat, and this is not nearly as easy to manage. In France, for example, where the state prides itself on being above interest group politics, only where outright confrontation—and not even the threat of confrontation—occurs can the government have as much if not more leverage. But this is much riskier business, and France cannot often play the spoiler. Despite having the GATT reconsidered on the agricultural issue, France still had to capitulate in major ways.

The European Union shares some of the problems of statist polities such as France and Great Britain when it comes to bargaining on trade policy with a pluralist polity such as the United States. Although the EU is clearly not as "unitary" as these two statist polities, it nevertheless shares their reliance in policymaking on the bureaucracy rather than on the legislature, and expects the member-states as represented in the Council of Ministers to act as a single body on such a matter—else risk blowing apart the organization as a whole. The EU's vulnerability in the trade policy area, interestingly enough, has grown as it has unified. Weak integration had made the strength of the European Community in negotiating the Kennedy Round of the GATT, when the United States was all too aware that any member could, and perhaps would, threaten a veto, while unity made the weakness of the European Union in the Uruguay Round, where member-states in the view of the United States would clearly not bolt, and thereby risk the entire EU.<sup>103</sup>

Whatever the advantages for the U.S. of the pluralist backdrop to the quasi-statist pattern of policymaking in the foreign trade area, the quasi-statist nature of the process of negotiation itself means that societal interests will have little say in the formulation of policies that are likely increasingly to affect the American economy. Moreover, given the regulatory model operative in the United States, there is no recourse after the fact—societal interests will find little accommodation at the implementation stage of the kind typical of France or Italy. The response to NAFTA discussed above is a good indication of how concerned about this American interest groups have already become. Just wait until

NAFTA widens and deepens, and regulatory policies that certain groups hold dear are threatened with change. The challenge for the US is to find some way of allowing these groups access without undermining the international negotiation process entirely. It has been the US, after all, that has been ideologically committed to trade internationalization. And yet, it is the US that is likely in the future to be the greatest threat to that very internationalization, given its decentralized institutions and weak executive, and a Congress that is more and more vulnerable to the pressures of special interests.

### **The Decline of the Nation-State?**

The New World Order is becoming incorporated, and business is rising. For the moment, the nation-state as we knew it is in decline. This is a serious problem, since the nation-state will continue to be the prime interlocutor in an increasingly complex world, and the only one that talks with authority to both supranational and subnational authorities. The challenge for the nation-state is two-fold: First, it must ensure that, as the world becomes increasingly interdependent economically as a result of the internationalization of trade, the social spillovers are not neglected. This is not so difficult, as long as advanced industrialized nations exercise leadership. Second, it must seek to find new ways of ensuring democratic access to the national decisions that are part of the supranational decision-making process. This is much more complicated. But unless nation-states make their citizens feel that they are participating in the supranational decisions that increasingly affect their lives, the legitimacy of both the supranational organizations and the nation-state will be increasingly open to question. Each country, however, has to find its own way of revitalizing its democracy. The future of international trade depends upon it.

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- 98 Katzenstein, "Conclusion," p. 303. See also: Theodore Lowi, "American Business, Public Policy, Case-Studies, and Political Theory," World Politics vol. 16 no. 4 (July 1964); Elmer E. Schattschneider, Politics, Pressures and the Tariff (New York: Prentice-Hall, 1935).
- 99 Destler, American Trade Politics, p. 16. For the history, see: David A. Lake, Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887-1939 (Ithaca, N.Y.: Cornell University Press, 1989).
- 100 For the classic work on foreign trade policy and business influence, see: Raymond A. Bauer, Ithiel de Sola Pool, Lewis Anthony Dexter, American Business and Public Policy: The Politics of Foreign Trade (Chicago: Aldine/Atherton, Inc., 1963)
- 101 Destler, American Trade Politics.
- 102 Ibid.

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103 See: Sophie Meunier, "From Chicken to Oilseeds: European Integration and US-EC Agricultural Trade Negotiations in the Kennedy and Uruguay Rounds." Paper prepared for presentation at the Midwest Political Science Association Annual Meeting (Chicago, April 14-16, 1994).