Why the Changed Relation Between Security and Economy will Alter the Character of the Europe Union

Steven Weber and John Zysman

BRIE Working Paper 99

April 1997

John Zysman is Co-Director of the Berkeley Roundtable on the International Economy (BRIE) and Professor of Political Science at the University of California, Berkeley. Steven Weber is Associate Professor of Political Science at the University of California, Berkeley.

Generous support for this work was provided by the Alfred P. Sloan Foundation.

For two generations a complementary and symbiotic relationship between strategies for growth and security underpinned political bargains on which the European Community was built. Those bargains often were entangled with, framed, and shaped the terms of national politics of the member countries. With the end of the Cold War, we argue in Part I, Europe's economic and security policies no longer reinforce and support each other. At a minimum they are out of synch. At worst they come into political conflict. The effective price of security goes up, particularly when these choices and tradeoffs complicate the political problem of sustaining economic growth. Part II considers why Europe's new security problem extracts an economic price. Enlarging the community and expanding NATO are two aspects of the proposed solution. But both exact substantial costs that complicate and force the re-casting of long-standing and fundamental bargains internal to the EU, and between the EU and the U.S. Our discussion leads U.S. in Part III to consider the emerging character of the European Community and, importantly, the interconnections and inter-penetrations of European Community and national politics. This is not a matter of encapsulated but simultaneously resolved "games" at different levels that act to constrain each other. Rather politics at the National and European level shape each other in interactive and dynamic ways that the two-level game metaphor does not capture. We suggest the need for a concept of a <u>regional</u> architecture with which to understand <u>national</u> development, across time and across regions. Most important, we see a previously elite driven, quasi-state led institution focused on and supporting domestic national development, at risk of becoming a regional development instrument weakened by national politics.

Part I
From Complementarity to Conflict: Economy and Security in Europe

The political-economic architecture of Europe changed with the dissolution of the Soviet Union and the end of the cold war. Complementarity of security and economy objectives gave way to new tensions between them.

<u>The Epoch of Complementarity</u>

The Post-war Architecture of Western Europe rested on a political bargain that is well understood and often vividly depicted. At the end of World War II a set of once great powers and recent enemies found themselves between two new superpowers, and with an unnaturally weakened Germany still in their midst. In response to this change in the structure of power, the Europeans created a regional institution with primarily economic instruments, the European Community and its Common Market, and used it as a device to accomplish a security purpose. The security purpose is flippantly but accurately summarized in the phrase "keep the Germans down (that is inside but controlled within the Western community), the Russians out, and the Americans in".[1] Together with the North Atlantic Treaty Organization (NATO), the European Economic Community (EEC) formed the basis of a Regional Institutional Structure (RIS) for Europe. That Regional Institutional Structure (RIS) defined the architecture of power, possibility, and constraint within which regional actors--both states and firms--would move over the next 3 decades.

The economic and political objectives within this Regional Institutional Structure (RIS) were generally complementary. In most instances they reinforced each other. The U.S. addressed the external threat from the Soviet Union, with some assistance from Europe. The West Europeans had to address the central question of Germany, containing or integrating Germany in a way that was consistent with the requirements of the U.S.-led coalition for defense against the Soviet Union. German resources, Germany's growth potential, and a German commitment to the West were necessary to fight the Cold War. Economic growth in the context of European Integration was the primary tool to do this. In the most obvious sense the EEC--a culmination and extension of the basic ECSC bargains crafted around initiatives by Jean Monnet and Robert Schuman in the early 1950s--provided an institutional home for Germany, anchoring it in the West. Inside the European Community Germany could be managed (rather than balanced, as in more traditional diplomatic perspectives) and integrated by promoting the joint project of European-wide growth. And just as an economic instrument served a security objective, the security purpose, the necessity of anchoring Germany in Europe, served to help build and cement Christian Democratic led coalitions in the critical countries--Germany, France, Italy, and Belgium--of the European Community. The fact of the Common Market and the coalitions in support of it were part of the politics of growth, the creation of national growth oriented political coalitions throughout Europe.[2]

[1] Wolfram F. Han reider, *Germany, America, Europe: Forty Years of German Policy* (New Haven: Yale University Press, 1989).
[2] For example, see: McKesson, John A. 1952. "The Schuman Plan." *Political Science Quarterly* 67, no. 1 (March): 18-35. Milward, Alan S. 1984. *The Reconstruction of Western Europe, 1945-51.* London: Methuen & Co, Ltd.

The European Economic Community (EEC) can thus be seen as a bargain for growth amongst like-minded advanced countries with complementary economic and social systems. The European bargain was, moreover, the conception and construction of a relatively narrow, cross-European political and intellectual elite. Their conception of the Regional Institutional Structure (RIS) was then validated by governments, or more precisely by national legislatures, mostly without frequent and deep scrutiny by mass political forces at the national level. The Community naturally evolved as an inter-governmental bargain expressed primarily through the Council of Ministers, along with an entrepreneurial executive core, the Commission, which acted as an instrument of the elite to manipulate and reframe the agenda for Europe. This same elite class were also important players at the core of domestic coalitions, often Christian Democratic parties, that were committed to expansion and growth as mechanisms of creating political-economic stability and a sound anticommunist foundation.[3] Jean Monet was the archetype of this class. He was a powerful figure in the creation of the French planning commission and in the growth-oriented, modernizing political coalition in France as well as a key intellectual architect of the European politics in the creation of the Community.

Within this context, "spillovers" and functionally driven integration were political strategies given legitimacy in their explicit formulation by academics. It was possible to think of further integration as a progressive and almost inevitable trend because the EEC did not have to pay an enduring economic price to achieve its security goals--particularly as it rested relatively comfortably under an American nuclear umbrella and within a stable dollar-based, American-guaranteed monetary order. Integration was overall a positive sum game because pursuing one

Nugent, Neill. 1991. *The Government and Politics of the European Community.* 2nd ed. Durham: Duke University Press. Reynolds, P.A. 1952. "The European Coal and Steel Community." *Political Quarterly* 23, no. 3 (July-Sept.): 282-92.

[3] For general reading on the first decades of the EC's history, see Harrison, David M. 1995. *The Organisation of Europe: The Development of a Continental Market Order.* London: Routledge. Pinder, John. 1995. *European Community: The Building of a Union.* 2nd ed. Oxford: Oxford University Press. Urwin, Derek. 1995. *The Community of Europe: A History of European Integration since 1945.* Second edition. Longman: New York. Von der Groeben, Hans. 1987. *The European Community: The Formative Years.* Brussels: Commission of the European Communities. Von der Groeben is a founding member of the Commission and high ranking civil servant in Bonn. He shows in a few short pages that the major pro-Europe players in France and Germany were also the major players in Brussels. Wallace, Helen. 1996. "The Institutions of the EU: Experience and Experiments." In *Policy Making in the European Union*, edited by Helen Wallace and William Wallace, pp. 37-68. 3rd ed. Oxford: Oxford University Press. Willis, F. Roy. 1968. *France, Germany, and the New Europe, 1945-1967.* Revised edition. Stanford: Stanford University Press. Willis offers a well-documented account, which includes discussion of industry's initial opposition to the Schuman Plan in both Germany and France. In fact, as he tells it, only after the ECSC experienced such good rates of growth did business get on the bandwagon. Willis does show, however, that the elite architects of Europe were also the major players in national politics. Monnet, Jean. 1976. *Mémoires*. Paris: Fayard.

goal, security, helped achieve the other, economic growth, and conversely the new objectives and institutions of the economy were instruments for security policy.

Thus the politics of domestic growth coalitions under Christian Democratic rule were intimately linked to the old security problem of managing German power. What European integration did, was to put this in the context of the new logic of an integrated European marketplace in which corporate actors play a game whose rules are written by an elite coalition, often influenced by French notions of political economy, with headquarters in Brussels.

The post-war project of creating the Common Market symbolized the linking of national markets through trade in goods, an essential part of that organizing logic. The first decades of building Europe mostly left intact distinct national institutional structures. Thirty years later, the Single Market project in the late 1980s took an additional step by facilitating an expansion of intra-European investment as well as intra-European trade and setting the basis for trade and investment in some services. The Single European Act (SEA) thus symbolized a commitment to a sufficient convergence of domestic rules and to an arrangement in which national structures did not in themselves constitute obstacles to trade and investment. The SEA, in beginning to define a legitimate niche for common social and environmental policies, as well as rules of competition and state aid, aimed fundamentally at muting the range of national institutional or policy elements that might prove significant in industrial competition. This was not a covert attempt to harmonize regulations--the European Court of Justice (ECJ) in the case of the Cassis de Dijon had recognized implicitly that harmonization was too difficult an objective to achieve if Europe were to make progress on its internal market.[4] But in legitimizing the use of mutual recognition for similar purposes, the court first, later the Brussels institutions, and finally the member states, agreed "de facto" to recognize the homogenizing nature of their project. Mutual recognition works only if all parties feel confident that they share basic values, and that their differences are marginal and likely to diminish over time. It was a recognition that the European construction served to create an increasingly homogeneous economic space, one that sought to compress the range of national differences along a range of dimensions.

The logic of the *acquis communitaire,* (a broad and vague notion implying the full set of rights, responsibilities, expectations, and obligations connected to community membership and

---

[4] For text of the case, see Case 120/78, *Rewe-Zentral AG v. Bundesmonopolverwaltung für Branntwein* [Preliminary ruling requested by the Hessisches Finanzgericht], ECR 649 [European Court of Justice 1979]; see also Garrett and Weingast, 1993, and Nugent, 1991, p. 179-80.

the obligations of community membership that any new member would necessarily accept),[5] follows directly from this. That logic of the *acquis communitaire* reflects the underlying drive toward relative homogenization. Jean Pisani Ferry puts it well:

> "The underlying philosophy is that over the medium term all EU countries will eventually converge towards the same degree of integration and the same development level, and that they will implement the same policies.The standard Community solution to the problems raised by the existence of disparities among member states is to accommodate them through temporary derogations and to aim at reducing them through budgetary transfers."[6]

Europe is, in this formulation, a single package. Member states unable or unwilling to accept elements of it at any given moment are given time and assistance if necessary to "catch up", but the underlying assumption of a drive toward convergence is not questioned--at least it was not until Maastricht.

The Emerging Conflicts Between Security and Economy

Maastricht looks in retrospect like an interregnum in the development of Europe. It began by addressing, indeed completing, one agenda and revealed another. That second agenda will define a new epoch for Europe. The older agenda--reformulated as the Berlin Wall came down--was to continue to anchor in the West a now unified and even larger German state. This part of the Maastricht undertaking conceptually was more like an addendum to the 2+4 talks on German Unification than a treaty on European Union per se. The new agenda was forced as the Soviet Empire broke apart and then made all the more urgent a few years later by the dissolution of the Soviet Union itself. The new problem was stabilizing the East and reintegrating the once and future Central Europe.

But Maastricht barely touched on the new agenda, focusing instead on the dynamics of European Monetary Union (EMU). A cynical view would be that it was necessary to do something with the European Union at the same time that German reunification was completed. EMU was the thing to do, because it had been prepared. EMU (whatever its relationship to economic policy making) became the primary institutional and political means for expressing a

---

[5] For a good definition of the term *aacquis communitaire* see Michalski, Anna and Helen Wallace. 1992. *The European Community: The Challenge of Enlargement.* 2nd ed. London: Royal Institute of International Affairs, which provides a succinct overview of the different ways the term has been used, particularly re: enlargement debates.

[6] Jean Pisani Ferry, "Variable Geometry in Europe," Paper presented at the Conference "Reshaping the Transatlantic Partnership: An Agenda for the Next Ten Years" at the College of Europe, Bruges, March 20-22, 1996.

commitment to create the core of an enlarging community, that is to continue and perhaps complete that first agenda of anchoring Germany. Discussions of foreign policy questions and political union at Maastricht produced little of substance. The authors of Maastricht recognized how little was accomplished: it was the only time the EU had ever ended an IGC by scheduling another IGC--a blunt recognition that the real work lay ahead and was being postponed. But on its own the monetary project did not address, indeed could not address, the second agenda forced by the transformations to the East.

Maastricht did allow for the 1995 enlargement to Austria Sweden and Finland, by fitting these state within an outdated European decision making structure that was clearly now stretched to its limit. This matter of decision making structures is fundamentally about the meaning of the *acquis communitaire* in the future. It is a question of whether the whole package of European policies would have to be accepted by each nation--of whether Europe would move forward at a single speed toward a single objective--or whether the several nations would move at individually negotiated paces toward customized architectures. It is not simply a matter of how to arrive at decisions, of who might lead the process and block the process, and of how national coalitions within the community would have to be built (though it is certainly all of those things).

Larger visions of what Europe will look like as a region imply, and in practice demand, very different decision making rules and structures. Traditionally, a single speed Europe spoke of derogations as exceptional delays in moving toward a common objective. But if the future is one of Europe *á la carte* or a variable geometry of policies, then the decision making structures of Europe will need to reflect a different logic. This will be driven by the question of who is in and who is out of various issue-areas, and what the linkages between them are.[7] It is a huge agenda, intimately linked to the question of new members in the East.

Of course it was Germany that pressed hardest at Maastricht for both enlargement and progress on political union at the same time. But without a clear argument about the terms and meaning of enlargement for political union this bundling of issues was destined to fall flat. For some it still seemed as if the question remained open of whether Europe was moving toward a political union with a single political community including a single foreign policy, or, alternately, would remain a community of nations linked up by free trade and investment.

---

[7] Wallace, Helen, "Coming to Terms with a Larger Europe: Options for Economic Integration" Paper prepared for the BRIE/Kreisky collaborative project investigating Foreign Direct Investment and Trade in Eastern Europe: The Creation of a Unified European Economy, June 5-6, 1997.

The reality, though, was that whatever the pretense of the Maastricht treaty to have provided a blueprint for a new security-economy bargain, the terms of a new bargain were yet to imagined, let alone struck. Europe remained a community of the economy intertangled with its traditional post-war security bargain, and there was little movement even conceptually toward a single political community with a common foreign policy.[8] Of course, the security problem had changed fundamentally, which meant that a new political bargain had to be struck and a new regional architecture constructed. The political union debate in its larger frame is the question of enlargement to the East and how that will work to stabilize all of Europe. There are a number of problems hidden within this political debate about the European Union's move East. The post-war era of rapid growth ended some twenty years ago and the domestic political "infrastructure" in the form of policy instruments for a new era and political coalitions to support a new growth path is not in place, neither within the principle countries nor within Europe as a whole. Now the EU is no longer to be a rich country's club. It will soon include a bloc of poor countries, probably with voting power strong enough to block action unless their interests are accommodated. It isn't simply that the Maastricht interregnum postponed the hard choices, but rather that the difficult issues were then still being formulated and had not yet been posed directly.

PART II:

Why the New Security Problem in Europe Extracts an Economic Price

The Economic Costs of the New Security System for Europe

The new strategic problem, we suggest, has two critical elements: first, recasting the position of a new Germany in a new Europe and, second, stabilizing Europe's Eastern borders. Both tasks were created as the cold war unwound. Each produces new tensions between security and economic purposes. America's contribution won't ease these tensions very much, because the primary route through which American contributes--NATO--is not sufficient for and often not relevant to the strategic tasks. The available set of economic instruments are principally European. How they are deployed will represent choices by and about the European Union, specifically who is a member and on what terms, and how Europe is to be governed.

[8] Mazzucelli, Colette. 1997. *France and Germany at Maastricht*. New York: Garland. Dyson, Kenneth. 1994. *Elusive Union*. London: Longman. Corbett, Richard. 1993. *Treaty of Maastricht*. Harlow: Longman.

The Enduring Problem of Germany, The Costs of EMU and Maastricht

European Monetary Union (EMU) is an economic project driven first and foremost by political goals, not by strict cost calculations of economic benefit. Indeed, EMU was accelerated and sustained in recent years by political changes coming with the end of the Cold War, not by the economics of growth or a clear logic requiring new monetary arrangements. EMU is not being driven by strict cost calculations of economic benefit, but rather it is being driven first and foremost by political goals.

Certainly there are economic arguments that favor EMU. A single money may give a more solid foundation for long term non-inflationary growth to a unified European market and investment space. It may do so by reducing transaction costs and other uncertainties connected to currency fluctuations. More importantly, the institutional binding of Central Banking in member countries to Bundesbank-like discipline may also reinforce the political basis for long term growth with price stability in countries like France and even more so Italy. Adjustment costs then are simply to be borne as part of the short to medium term price for a more stable and expansive future. There are also a bevy of economic arguments against EMU.[9] But to some extent this debate--while helpful in clarifying the costs and benefits of EMU--misses the point.

EMU is--and is commonly now regarded in Europe to be--first and foremost a political project. The end of the cold war submerged the spirit of "Europe 92" with its European-oriented business coalition committing to a market driven strategy of growth as a means to revive competitiveness and create jobs. Maastricht intervened with EMU, the linchpin of an economic strategy with the primary political purpose of anchoring Germany in Europe, through both a technical bond and a compelling expression of common and linked fates. European States are

[9] *The Economist.* 1992. "Europe's Monetary Union." 323, no. 7763 (June 13): 19-22.
Martin Feldstein argues that the single market makes economic sense and does not require a single currency to function effectively. A single currency on the other hand may diminish trade within Europe, raise unemployment, increase cyclical volatility, and raise inflation. He argues that the political advantages (small) do not outweigh the economic costs of EMU. Bean, Charles R. 1992. "Economic and Monetary Union in Europe." *Journal of Economic Perspectives* 6, no. 4 (Fall): 31-52. Bean reviews the arguments for and against monetary union. He concludes that the case is not as drastic as either proponents or opponents make it out to be. The real problem remains the convergence criteria's contractionary effects, which may undermine the economic boost of the single market. The following cite provides a review of the arguments pro and con; the author, however, comes down in favor of the EMU and even the Maastricht criteria. Winkler, Bernhard. 1996. "Towards a Strategic View on EMU: A Critical Survey." *Journal of Public Policy* 16, no. 1: 1-28. Winkler (at the EUI, Florence) reviews the economics literature on the merits of a single currency (optimum currency area) and the conditions for a stable currency (credibility). He then argues that when taken together, one can better appreciate the design of the convergence criteria.

ready to pay a price, in some cases a substantial price (at least in the time frame within which politicians can calculate) to go forward with EMU for exactly these political purposes.

Using currency union to create a more integrated Europe as a means of binding Germany, itself induces domestic political challenges in each state. One kind of challenge comes from a nostalgic center-right political element that expresses its concerns in the language of sovereignty and national integrity. This element of the Right was a critical part of the Tory government in England. In France and elsewhere it is on the margins of and perilously (for Europe, that is) close to power. A second set of challenges comes from the belief, widely held among both left and right, that EMU as an urgent objective and, most importantly, that the terms of adhesion laid down principally by the Bundesbank, impose restrictive macro-economic requirements that are contributing to excessive unemployment and economic dislocation in Europe (and most recently and severely, in Germany). For some the short term price (even if it were to insure long term gains, which is of course uncertain) is intolerable. At a minimum, the economic costs associated with gaining German (and particularly Bundesbank) agreement to monetary union threaten the ability of governments (ironically, even in Germany) to hold together the domestic political coalitions and strategies they need to promote growth.

The New Strategic Problem of the Eastern Flank

Clearly the anchoring of Germany in Europe is only part of the new security story. The dissolution of the Soviet Union left a set of countries on the eastern flank of West Europe that present a new set of problems. They are not yet stable democracies or entrenched market economies, and they do not have clearly defined security relationships with their former imperial "master". The future trajectory of Russia's political relationship with the West is still unclear and probably will remain that way for some time. Optimists argue that the dissolution of the Soviet Union is the first step in constructing a secure and stable European space that sweeps at least to the Urals and perhaps beyond. Pessimists argue that the events of 1989 and 1991 have simply moved the tank defense line several hundred miles to the East, probably to the Eastern border of Poland. What was Eastern Europe could become a bridge between East and West, a buffer zone, or a fortified barrier depending on the outcome, which is certainly out of their control and may not even be subject to much influence from the EU states or the U.S.[10]

[10] Our thanks to Manuel Castells, whose insightful comments have influenced our thinking.

Deterring any conceivable aggression by Russia is a straightforward task, easier now than ever during the Cold War. The Europeans can probably continue to rely on American power to maintain a barrier to Russian ambitions or miscalculations. The continuing American presence in the form of NATO extension, ironically, hinges on European fragmentation to a greater extent than in the past, reflecting as it does the European difficulty in agreeing even in principle a common security policy. That American presence complicates the creation of common European positions even in areas where the U.S. is not going to act decisively. This is particularly true for a range of smaller scale threats with Bosnia presenting the case of civil war amongst rivals mobilized politically along ethnic lines, Albania an instance of political disintegration, and both creating the problem of migration more than outright military threat.

In these types of cases, the United States will have a much harder time defining compelling national interests that would bring it into an active role within internal European conflicts. There is no easy way to square this circle. Consider, for example the present ambivalence toward the combined joint task force concept. The United States Government agreed in principle that NATO's European members could join together without the United States in missions that served their particular interests, and use NATO resources for that purpose. Then the United States Government declared that it could not imagine circumstances in which the concept would actually have to be invoked. This ambivalence will likely continue whatever the administration. A sufficient explicit political commitment to dissuade military aggression or civil war is going to be required to sustain stability in some of the newest parts of Europe, but we doubt that the U.S. will provide it in the form of unequivocal military guarantees. Clearly an important part of that unequivocal commitment could come in the form of an institutional declaration of a shared political and economic future that expanding the European Community implies.

Governing an Economic Community for Security Purposes - Enlargement, Extension, Participation

The present vocabulary of European enlargement tends to obscure the tie between enlargement and security issues by blurring together several types of expansion of community membership. That blur obscures the choices that must be made. There are really two versions of this process: enlargement to include the formerly 'neutral' countries such as Sweden and Austria (for whom the decision to join essentially was made--on both sides--with the end of the cold war)[11] and enlargement or extension to the East. For the rich neutrals, it was a package deal, relatively easy to negotiate and implement within the current structure of the EU. Not so for the Eastern countries, where membership necessarily involves several different issues. We need to distinguish at least three sets of possibilities on this score:

- Umbrella Extension: extension of the *security umbrella*, which is primarily a NATO issue but will be reinforced and sustained by the depth of the European commitment.
- Economic Participation: participation in the *economic community*. For the East that means first and foremost improved access to European markets and market rules, but also involves credibility for investment and the entrenchment of a capitalist system as it emerges in the East.
- Political Admission: participation in the *governance of Europe*. As the European political community is as much about democracy (at least in domestic institutions) as it is about trade and capitalism, for the East this implies entrenching democratic institutions, as they emerge, and moving on from there toward full and equal participation in EU level decision making institutions.

When Europe took on in 1995 three rich capitalist economies with democratic politics--Austria, Sweden, and Finland--as it did after Maastricht, its primary concern was about organizing the rules of community governance to accommodate a larger number of member states. Still Maastricht dealt only minimally with this problem of governance and as a result older arrangements were stretched to nearly a breaking point.

EU officials now openly acknowledge that further enlargement (even if it were to involve rich capitalist states) requires a revision of basic rules of governance, simply because the community's decision making procedures have become so unwieldy. But the next phase of enlargement brings up questions of governance more fundamental than the efficiency of current decision making with larger numbers. As “poor” countries, the new CEECs can be expected to use their voting power to extend the range and magnitude of economic transfer payments that the EU provides to their populations, just as poor countries have done after previous enlargements.[12]

---

[11] For a good overview written before the 1995 enlargement was decided upon, see Wallace, Helen, ed. 1991. *The Wider Western Europe: Reshaping the EC/EFTA Relationship.* London: Pinter Publishers; and Pedersen, Thomas. 1994. *European Union and the EFTA Countries: Enlargement and Integration.* London: Pinter. For a discussion of European Community Memberstates' preferences on the EFTA enlargement, see Pedersen, Thomas. 1991. "Community Attitudes and Interests." In *The Wider Western Europe: Reshaping the EC/EFTA Relationship,* edited by Helen Wallace, pp. 109-23. London: Pinter. For an overview of the terms of the actual negotiations, including sticking points, see Granell, Francisco. 1995. "The European Union's Enlargement Negotiations with Austria, Finland, Norway and Sweden." *Journal of Common Market Studies* 33, no. 1 (March): pp. 117-41.

[12] For discussions of the behavior of poorer states after enlargement see: Allen, David. 1996. "Cohesion and Structural Adjustment." In *Policy-making in the European Union*, edited by Helen Wallace and William Wallace, pp. 209-33. 3rd ed. Oxford: Oxford University Press. Anderson, Jeffrey J. 1995. "Structural Funds and EU Policy."

But the new members are not just poor countries and transition economies. They are also transition polities, struggling to establish market institutions and democratic political structures while undertaking dramatic reorganization of their production units and restructuring of what is produced all at the same time. These countries extend the range of national economic and security positions occupied by member states, possibly in unpredictable ways. What is certain is that these new members will have a different set of national interests, that must be accommodated if they are to be full EU members. Little surprise there are various proposals floating around to establish an elite core management of the system. While these proposals are mostly unofficial and do not reflect any kind of broad European consensus, their presence indicates that many of the questions Maastricht avoided dealing with are bubbling up to force their consideration:

- who should participate in the economic community and on what terms?
- who should be a member of the political community and with what kinds of decision making power and prerogatives?
- what security issues are addressed by extending membership eastward and what kinds of guarantees are implied?
- how will the system as a whole be governed with a more diverse membership?

These questions point to two major considerations for Europe in this new phase of enlargement. The first is the future of the *acquis communitaire*. Even as they support reform in the East, the Western states will have to consider that convergence (if it does indeed happen) is a long way off. The notion that, except for temporary delays, the European countries would move forward in the integration process together and at one speed was breached (quietly) at Maastricht and will now have to be explicitly recognized as obsolete. Variable Geometry, the notion that countries will move forward with distinct but different packages of integration, will become a necessity.[13] But Variable Geometry risks degenerating into an almost endless series of ad hoc arrangements that ultimately could fragment the overall European bargains. That fragmentation, in turn, would undermine the objective of anchoring Germany in Europe. There are no easy

---

In *European Social Policy: Between Fragmentation and Integration*, edited by Stephan Leibfried and Paul Pierson, pp. 123-58. Washington, D.C.: Brookings. Nicholson, Frances and Roger East. 1987. *From the Six to the Twelve: The Enlargement of the European Communities.* Harlow: Longman. Tömmel, Ingeborg. 1996. "The Effects of EU Structural Policies on Policy-Making and Power Relations in the Member States." Paper presented at APSA Conference, Aug. 29 - Sept. 2, 1996, San Francisco. Richard E Baldwin, joseph Francois, and Richard Portes, "The Costs and Benefits of Eastern Enlargement" *Economic Policy: A European Forum* Twenty-fourth Panel Meeting, 11/12 October 1996, London.

[13] For "intellectual history" and overview of variable geometry, etc., see Brunner, Petra and Wolfgang Ochel. 1995. "Die Europäische Union zwischen Vertiefung und Erweiterung." *IFO-Schnelldienst* no. 32: pp. 9-20.

answers to this dilemma. The second question is simply the cost associated with underwriting the transition economies' move toward democracy and market institutions.

Does the New Security Problem Require Europe To Become a Large Scale Development Bank? The Economic Consequences of Enlarging Europe

The difficult question of governing an enlarged community comes on top of the very fundamental matter of how much political stability and growth in the East will cost. Consider as an imperfect but revealing analogy the German case, where unification has proven enormously expensive. Perhaps a trillion dollars will have been spent in the Eastern Länder during a decade after the fall of the Berlin Wall, but even that will not have solved the task of assuring self-sustaining competitive companies rooted in the East or anything approaching real integration of the two German communities.[14] The analogy is imperfect. Certainly the European Union 's collective objectives toward the East will be more modest than Germany's toward its integration. Even an enlarged Europe will not have a single wage structure. Institutional arrangements and rules can and will remain distinct, while some flexibility on exchange rates can maintain cost differentials between the developing East and the richer West.

Nonetheless the price of securing Central Europe will be very substantial, and the image of the German costs is politically significant. Income disparities are symptomatic not only of a lesser level of development, but in the case of the Central and East European Countries (CEECs) they are also symptoms of the nature of the development that did take place under central planning. Comparative Gross Domestic Product (GDP) numbers capture only part of the broad and deep social structures and business infrastructure that needs to be in place for modern economies to function efficiently. This is part of the reason why estimates of what it would cost to "rebuild" East Germany proved to be so unrealistic. It was not just bad data (although that was part of the problem). It was also an overly narrow conceptualization of what was actually missing there.

Jean Pisani Ferry clearly presents the disparities between the present EU membership and those to the East who would now join, arguing that although there is an analogy in the experience

[14] For discussion of costs of public transfers from West to East Germany, see Dornbusch, Rudiger, and Holger Wolf. 1992. "Economic Transition in Eastern Germany." *Brookings Papers on Economic Activity* 1: 235-72. Eisel, Stephan. 1994. "The Politics of a United Germany." *Daedalus* 123:1 (Winter): 149-72. Stern, Fritz. 1993. "Freedom and Its Discontents." *Foreign Affairs* 72:4 (Sept. - Oct.): 108-25.

of Portugal and Spain, the present disparity of real incomes between the richer members and those being considered for membership is a magnitude larger than that of the rich and the poorer members when Greece and Portugal joined. The Pisani Ferry evidence suggests that while participation in the Community has seemingly created some convergence among the participants, the broadening membership now facing Europe will lead to radical divergence of economic circumstance.[15] Sachs and Warner offer the following poignant calculations. If they were to maintain their current policies, the Czech Republic and Poland would take 23 and 194 years respectively to achieve GDP per capita 70% of EU average. To reduce these numbers significantly, even the most well-off CEE states would need to sustain growth rates upwards of 6 percent, an accomplishment rarely achieved in Europe.[16] Without taking away credit due these countries for their massive and generally quite successful reform programs, public spending in these economies is still among the highest in the world at over 50% of GDP and investment remains very low. With policies like these it is hard to see how growth can continue for long at current rates, much less increase to levels achieved consistently only by the very fast growing economies in Asia.[17]

The disparities of income and social/business infrastructure across what used to be the Iron Curtain will be felt directly in the budget of the EU through even a reformed version of the structural funds, and indirectly from pressures of migration through wage based competition. There will surely be significant disparities of interest on matters such as environment and social policy as well. Accelerated development in the East could relieve some of these pressures. If one believes that: a) growth is essential to the institutionalization of democracy and the enduring commitment of the former Central Europe to the West, and seemingly, most European policy makers do, or, b) that rapid growth and convergence of interests is essential to the broader European program, then the European community becomes of necessity a nascent developmental institution. The question becomes at what price can a sufficient degree of convergence be achieved. Apart from the direct financial transfers to the East, costs will be felt in the form of

[15] Pisani-Ferry, "Variable Geometry" *supra.*
[16] Jeffrey D. Sachs and Andrew M. Warner, "How to Catch Up with the Industrial World," *Transition* 7. September-October 1996, p. 1.
[17] Note that the poorer economies in the EU have not achieved good growth rates for long periods of time. While Ireland, Portugal, and Spain each grew rapidly in the last five years of the 80s, only Ireland has sustained that growth in the 90s. Greece has never achieved sustained rapid growth in the past two decades. For the period of 1980-95, note one of these countries achieved 5% per capita GDP growth on an annual basis. Economic convergence and economic policies / Jeffrey D. Sachs, Andrew M. Warner. Cambridge, MA. : National Bureau of Economic Research, [1995]. Series title: Working paper series (National Bureau of Economic Research); no.5039

economic dislocations in the West. European adjustments to imports from the East are inevitable; adjustments presently muted by specifically negotiated restrictions on agriculture, steel, textiles and the like. These amount to concessionary trade.

There is a more optimistic case that can be made using similar numbers and slightly different political assumptions. Portes, Baldwin, and Francois argue for example that enlargement could exact a net cost of as little as 5 to 7 billion ECU net, an enormous bargain in that this is about one-hundredth of one percent of current EU GDP.[18] As long-run calculations these are reasonable numbers, and it is clear that a coherently functioning polity with decently strong and inspired leadership ought to be able to invest these kinds of resources for a compelling purpose. Germany was able to do much more than that for Eastern Germany. But this depends on political will and leadership, the articulation of the compelling purpose in a way that can convince those who pay much more substantial gross sums in the short and medium term, and probably fiscal mechanisms to compensate long term losers and (just as importantly) smooth out the time inconsistency of costs (which accrue early) and benefits (which show up later) for existing member states. The EU is weak in these areas. And overall EuropeÕs concrete capacity to respond by supporting these efforts viewed as investments has almost certainly diminished over the years. Increased domestic pressures in the form of unemployment enormously complicate the problem and make it much less likely that Western publics will accept the short term costs, whatever the value of the long term may be. Moreover, economic dislocation and disruption are often translated disproportionately into political resistance, and indeed the sense that the "outsider" is disrupting national community finds expression in the opposition of many of the hard right movements to the European community. Radical right leaders, Le Pen, leader of the National Front in France and Haider, leader of the Freedom Party in Austria(Freiheitliche Partei Österreichs, FPÖ), have captured significant working class support by attributing unemployment and dislocation to political choices about the European Union in particular and the national relation to international markets more generally. It becomes harder and harder to

[18] See especially, Baldwin, Francois, and Portes, *supra*. For additional estimates of the costs of admitting the CEECs into the EU, see Baldwin, Richard E. 1992. *An Eastern enlargement of EFTA: Why the East Europeans Should Join and the EFTA Should Want Them*. Geneva: Graduate Institute of International Studies. Brenton, Paul and Daniel Gros. 1993. *The Budgetary Implications of EC Enlargement.* CEPS Working Document no. 78. Brussels: Centre for European Policy Studies. Tangermann, S. and Timothy E. Josling. 1994. *Pre-Accession Agricultural Policies for Central Europe and the European Union.* Göttingen, Stanford. Anderson, Kym and Rodney Tyers. 1993. *Implications of EC Expansion for European Agricultural Polices, Trade and Welfare.* CEPR Discussion Paper no. 829. London: CEPR. CEPR. 1992. *Is Bigger Better? The Economics of EC Enlargement*. London: CEPR.. Richard E Baldwin, Joseph F. Francois, and Richard Portes " The Costs and Benefits of Eastern Enlargement"

conceive the story as two separate stable and simultaneously resolved games, rather than as a story of the interconnected recreation of domestic politics even as a European Regional bargain is struck.

Europe is confronting its own version of the post WW-II American difficulty: what economic price to pay for security purposes? The dilemmas here are familiar ones, but for Europe it is a new game. European security hinges on the economic and political development of its neighbors, and that development must be supported with financial and trade contributions. Supporting the development of allies through open markets and assistance may produce development gains over the years as markets expand, although CEEC markets are small and will remain so for the foreseeable future. In the immediate present expansion creates budget pressures and adds to domestic adjustment. America made its choices in an expanding market when its growth, wealth, and dominant competitive position muted or hid the real economic prices. Europe must make similar choices--what economic price in the form of market access and subsidy to pay for security--but it must make the choices with high unemployment, Maastricht pressures to contain budget expenditures, and intense international competition. More important than the cost, though, the present coalition for security does not permit the constitution of a parallel coalition or policy for growth. It is not simply the ambiguous character of the current threats or the difficulty of defining a security doctrine in the absence of a single clear threat, but rather that there is no clear policy solution to the economic problems on offer and no clear coalition to support it. Hence the question of costs, both direct budget costs and the indirect costs of accelerated adjustment, become central. Significantly, if the East Countries represent a source of migrants or product that accelerates the pressures of structural adjustment in the West, then the economic/security trade off is accentuated.

The development game is not necessarily a trap for Europe anymore than it was for the U.S. But the ways out of the trap are not presently central in the debate. The underlying parameter is that the new European architectures will be built on what is now a heterogeneous region, a region which will remain heterogeneous for a long time to come. The economic and political consequences of that heterogeneity are intertwined. In economic theory it is straightforward to see how economic heterogeneity represents a solution not a problem. For example, if a new division of labor possible with the heterogeneity provided by the former CEE states helps maintain production in Europe that might otherwise have left for Asia in particular, brings back production from Asia, or permits new production to expand in Europe. The possibilities for mutual gain through such reorganization of production are not lost on either side. (Interestingly despite the struggle over employment and wages in Germany, the unions there have not systematically opposed segmenting some low wage operations for location in the East. The muted opposition is of course in part because the unions do not wish to draw attention to the wage differential between Germany and the East.[19]) The central question is the political framework within which this division of labor becomes situated. That is the European Union conceived of broadly. We need to develop a framework to address this in analytic terms.

Part III

Establishing a New Stable Regional Institutional Structure: Toward a Resolution of the Tension Between Security and Economy

Can Europe resolve the emerging tension between economy and security? To do so, the European community must create a new political bargain and the institutions to implement that bargain, a Regional Institutional Structure. This will be a difficult task. The bargains and institutions of a new RIS that channels and structures politics amongst governments in Europe must, at a minimum:

- define an approach to the new diffuse security threats that characterize the present era;
- provide a decision about the mix of military and political arrangements that will represent a security umbrella over the East, and at the same time clarify the place of the United States in Europe's security affairs;
- evolve a growth strategy that is an employment engine for the West while permitting Europe a policy role as a development bank for the East.

The obstacles are clear, and the solutions are not. Consider:

- NATO extension, now imminent to at least the Czech Republic, Hungary, and probably Poland, may relieve some of the pressure on the EU to act quickly but it is not, and is now clearly recognized not to be, any kind of a broader solution.
- Europe’s difficulties to act even in a foreign policy--security problem setting of direct interest is evident in the Albanian and Bosnian crisis.
- Brussels has no consensus about a development strategy for the East, and relatively little discussion of the links between that set of problems and on-going economic dislocation in the West. EMU takes first priority, which results in the bracketing off of other major issues until this (admittedly critical) piece of the puzzle is anchored.

The obstacles to a resolution of each matter are substantial. And the European choices must at the same time generate or at least be supported by national coalitions in the major states. Without

[19] Our thanks to Susan Sienna whose dissertation work is producing these findings.

a resolution of issues such as these and supportive arrangements within national politics, there will be a continuing and fluctuating struggle to define the new Europe. The terms of a bargain are not yet evident, and there is no guarantee of a stable and institutionalized resolution. In sum there is no longer an integrating vision let alone strategy which leaves an effective decision to proceed on an incremental basis with the reconstruction of the European bargain.

Examining the Institutional Transition

Delineating the issues to be resolved is a simple matter compared to the task of understanding what a final bargain will look like or how it will emerge. One conventional approach would be to conceive the transition as the resolution of a two level game--one game conducted as state-craft amongst governments and one game conducted by governments seeking support from their polities.[20] Beginning with this metaphor reveals the real difficulties ahead. In the conventional analysis States, the principal actors, have divergent interests. They bargain among themselves toward "solutions" and cooperative arrangements. This inter-state bargaining game is constrained primarily by a second level game that each state must play out among its domestic political interest groups. Successful outcomes rest in the intersection between the domestic "win-sets" of each major state actor and the international "win-set" of overlaps between them. European institutions may play a role in the working out of the game (although in some arguments they are almost absent). In some interpretations, EU institutions set agendas and/or influence the process of bargaining. In others, they act occasionally as entrepreneurs or the carriers of spillovers; they are independent driving forces which pull states along to a limited degree. There are also some differences among analysts as to what the main structural features of the domestic game are likely to be--interest groups, national courts and parliaments, political or business elites. But the central metaphor remains two-level games, compartmentalized stories, but with inter-governmental bargaining as the main determinant of international outcomes.

The notion of separated games each with its own isolated politics is heuristically useful, as long as the games do remain stable and compartmentalized. But this rests on the assumption that the parameters in each game, the institutions and actors, remain the same as well the

[20] For more on two-level games, see Putnam, Robert D. 1988. "Diplomacy and Domestic Politics: The Logic of Two-Level Games." *International Organization* 42 (Summer): 427-60. See also contributions in the following edited volume: Evans, Peter B., Harold K. Jacobson, and Robert D. Putnam, eds. 1993. *Double-Edged Diplomacy: International Bargaining and Domestic Politics.* Berkeley: University of California Press.

assumption the two games remain separate, that is developments in one game do not affect the structure of the other game by altering the political institutions, actors, or interests.[21] Interests may change as a result of larger trends in the domestic political economy or in response to shocks. But what follows is normal bargaining on the foundation of these revised interests, and on a state-to-state basis. Indeed, Moravscik used the phrase "conventional statecraft" to capture this notion and conceived of bargaining in the European context as an "elite affair.... since Europe is a low-priority issue for the voters of the three largest member states."[22]

When the EC was focused on the economic liberalization and incremental institutional reform package of the mid and late 80s, these assumptions were certainly reasonable. European integration was, after all, primarily an economic project aimed at building an economic community and not a political project to generate a supra-nation of citizens sharing a common political heritage or destiny. It was largely a bargain among internally well structured states, which gave life to the intergovernmental focus in explaining their cooperation. The Council of Ministers was front and center in most of this bargaining and even most significant spill-over dynamics had to travel through that intergovernmental body at some point. It is probably defensible to assume that national elites were not deeply constrained or even strongly influenced by mass politics in their approach to European integration. They managed the domestic game in large part by pushing to the side core debates on security that would have necessarily involved publics. And they kept economic growth debates primarily in the realm of the technocrats. The Commission acted sometimes as an important entrepreneur. The targets of entrepreneurship were almost entirely states and major business actors. "Domestic politics", then, was relatively easy to manage, and relatively easy to understand in a way that could be incorporated into two level game framework. In practice a narrow, well organized, and easily defined segments of domestic politics was involved.

The New Politics of European Integration

The politics of European integration in the 1980s moved away from an era of an entrenched regional institutional structure, stable national political competitions, and largely elite

[21] See Putnam, 1988, reproduced as appendix in *Double-edged diplomacy : international bargaining and domestic politics*, edited by Peter B. Evans, Harold K. Jacobson, Robert D. Putnam. Berkeley: University of California Press, c1993, pp. 454-6.
[22] Andrew Moravcsik, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organization* 46. Winter 1991, pp. 19-57. (quote is from p. 52)

bargains about Europe to one of party political debate and--increasingly--political mobilization around European issues. The public reaction to the Maastricht treaty shocked and surprised elites, who thought they had already played out the two level game, an intergovernmental bargain at the EU and elite deals at home, and would thus be able to walk the treaty through domestic procedures just as they had similar agreements in the past. The intergovernmental bargains are themselves fueling significant domestic mobilizations and generating political challenges to European institutional development. For example, the politics of monetary union are forcing budget deficits downward toward Maastricht-compatible criteria, and in so doing limits the possibilities of expansionary policies during a period of extended high unemployment thus creating the fears of economic dislocations easily ascribed to the politics of integration. Integrating the East likewise creates fears of economic dislocations and perceived threats to national values and culture.

The firewall between European intergovernmental politics and national politics has been ruptured giving way to significant domestic political debates about European choices and consequences. Consider, for example the recent Renault decision to close a Belgian factory that provoked both a firestorm in Belgian and French politics and drew the Belgian European Commissioner into an effort to use subsidy rules to penalize the French corporate decision. Radical right leaders, Le Pen in France and Haider in Austria, have captured significant working class support by attributing unemployment and dislocation to political choices about the European Union in particular and the national relation to international markets more generally. It becomes harder and harder to conceive the story as two separate stable and simultaneously resolved games, rather than as a story of the interconnected recreation of domestic politics even as a European Regional bargain is struck. The politics of Europe's regional development becomes enormously uncertain and complex.

The democratic deficit in EU institutions used to be a concern for a few scholars and die-hard Euro-enthusiasts. Most of the discussion of the democratic deficit was a funny nostalgia of a remembrance of democratic practice that never existed and an opposition to particular choices couched in the form of opposition to the process. It is no longer only a vague matter of political legitimacy, but a very practical matter of where to root essential political enterprises.

European debate increasingly is shaping domestic politics. Consider how actors' interests maybe reshaped by new European issues. A standard approach would by assumption define the actors, their positions, and infer their interests. For example, this is often done by taking the production profile of a country, the economic groups as the units of social analysis, and deriving from their market position their interests.[23] Then the Single Market Act, for example, represents changes in market position with consequences for the position of the several players that can be analyzed in this light.[24] When radical market or political change require basic recalculation of market strategies, the responses of the particular actors become much less predictable. The actors themselves may be reformed, that is, parties or interest groups may change orientation and strategy, or new actors may emerge. In fact, socio-economic "groups" such as agriculture or steel always consist of sub-sectors (be they agricultural segments by product or production style, integrated steel plants or specialty steel plants, semiconductor producers or developers of final electronic systems). The questions arise in drawing the political map drawn on top of the production profile. How industries are politically composed and decomposed depends on which sub-sector dominates politically. Put differently, which sub-sector organizes an industry around the issues it prefers will depend on the political tactics and organizational methods it adopts, and rarely only on a logic of relative economic weight or interests. There is simply no way of deducing the political map from the production profile, particularly during periods of rapid political and economic change. The political meaning of the costs of the new Europe depends on who specifies them, on perception and definition. Neither political actors and political interests are inherent and logically discoverable. Both actors and interests are political creations.

Because there will be a sequence of such debates and a series of crisis, political analysis becomes even more complicated. Political actors understand that in complex negotiations such as the multi-faceted discussions that are moving Europe away from one RIS and toward another, initial moves always set the direction and bind later choices. The risk is of anchoring some issues in ways that constrain and reshape possible solutions to others. As important as the management of the interplay of issues on a complex agenda, is the matter of which European issues may mobilize national political responses. This is no longer a matter of simply isolating the "winning" intersection of possible outcomes of two games. Rather it is a matter of how the politics at each level are redefined and recreated, which is in turn a function of how the sequence

---

[23] Keohane, Robert O. and Helen V. Milner, eds. 1996. *Internationalization and Domestic Politics.* (Cambridge: Cambridge University Press). See especially their introduction and conclusion.
[24] For an extreme example see Rogowski, Ronald. *Commerce and coalitions : how trade affects domestic political alignments* Ronald Rogowski. Princeton, N.J. : Princeton University Press, c1989.,...; also see Gourevitch, Peter, *Politics in Hard Times* (Cornell University Press, 1986)

of issues affects who the political actors are and how they conceive their interests. Several steps into the game, the actors and their interests become unknowable, because who the domestic players are and what their interests will be depend also on the sequence in which the issues are addressed and how they mobilize domestic actors.

The Economic Costs of Security in the Politics of the New Europe

To understand the consequences of the sequential development and of actors and interests, let U.S. consider very briefly some economic aspects of the new Regional Institutional Structure. As a device to anchor Germany, EMU imposes costs today and captures many of its gains either tomorrow or in the non-economic realm of amorphous security. The political interpretation of the EMU is therefore an open issue. The political meaning of the Eastern transition and move to join the West is even more open. As many analyses have shown, the economic impact of Eastern Europe is too small, at least on aggregate, to drive substantial economic change in the West. Costs and benefits, as well as the distribution of both, are ambiguous and difficult to calculate--for participants just as for analysts. And if such industrial dislocation is blamed on extension to the east and slow growth on rigid adherence to the EMU Maastricht criteria, if it becomes the visible and visceral manifestation of domestic changes forced by international competition, then although the actual economic impact of the East may be limited it can become the focus or instrument of political mobilization.

The metaphors and image used to depict the integration of Eastern Europe into the Western economies will, therefore, matter greatly to the politics of mobilization. Kohl and Haider certainly hold different conceptions of Europe's future and each would align his following behind those notions. With this in mind, consider just two possibilities of how East Europe's development may relate to the West. Does East European growth mean a series of new rivals, East European Dragons whose analogies would be Taiwan and Korea, whose growing industries will displace Western producers? In this version of the story of Eastern growth, the Western investment in Eastern development simply creates a larger industrial dislocation over time. Or, alternately, will new Eastern producers permit a substantial reorganization of European production that makes companies rooted in the “European region” as a whole more competitive internationally. In that case the analogy would be third tier Asian producers such as Malaysia and Thailand who have entered global markets as component and subsystem producers or low cost assemblers in an era of American and Japanese production reorganization in Asia. In this version of the story, the economic heterogeneity provided by the East allows Europe to reposition itself in global markets to the benefit of all.[25]

Part IV

Conclusion

Political-economic visions of how Europe would be re-organized after the Cold War ended have changed substantially since 1990. There was an early, hopeful vision in 1990 and 91 that the EC, newly revived by the spirit of the SEA and the dramatic (and peaceful) end of the post World War II division, would now move forward to extend its achievements in a straightforward way to the East. The U.S. made clear that Europe would take primary responsibility for this task.[26] The Commission in turn organized aid and technical assistance programs under the acronym PHARE, negotiated the terms of a European Bank for Reconstruction and Development (EBRD), and began a new phase of planning for the next great expansion of the community to take on new members. Clearly this process would be neither easy nor cheap, but it seemed achievable, and achievable in a delimited time frame of perhaps ten years. There would be dislocations in the short run, but rather quickly the transition would become a rising tide to lift all boats.

What lay beneath this vision was a confidence that the EC could engineer a discrete, planned, well organized set of political/economic and security solutions to the new problems raised by the eastern neighbors. The vision of "concentric circles" promulgated mainly by the French in 1990 and 1991 captures this mood. There would be neat packages of arrangements organizing the EC, the European Economic Area, and the "associated" states of the East. Negotiations to bring the circles together would proceed according to a discrete timetable and clear set of requirements. In the interim, an equally tidy division of labor on security issues would be worked out between NATO, the CSCE (Conference on Security and Cooperation in Europe, now called OSCE), and a newly revived Western European Union (WEU) that would rather quickly be integrated into the EC to take charge of the defense component of a nascent EC

---

[25] For a discussion of these issues please see John Zysman, Eileen Doherty, and Andy Schwartz, "Tales from the 'Global' Economy: Cross-national Production Networks and the Reorganization of the European Economy *BRIE Working Paper #83, 1996..*

[26] Steven Weber, "Origins of the European Bank for Reconstruction and Development", *International Organization* 48. Winter 1994.

foreign policy. When political leaders during this period used the term “adjustment”, the image was of an interregnum between one equilibrium and another. Although the precise terms of that future equilibrium could not be seen, the belief was that it would indeed be reached, in not too long a time frame, and by rather a neat and well-controlled process in which one step followed logically after the next.

That vision is gone. It may have been buried prematurely by events in the Balkans, but ultimately it was doomed by more fundamental issues that would have emerged in any case. One aspect was that the problem, discussed earlier, was on a larger scale than seemed evident to start. Comparative GDP and other quantifiable measures simply did not capture the difficulties of creating social, political, and business infrastructures that would be compatible with Europe. A second aspect was that the questions now at issue reached much more deeply into the domestic political foundations of Europe than anything the EC had attempted perhaps since the Treaty of Rome and the (failed) European Defense Community. The end of the Cold War put back on the table a set of questions that Jacques Delors had bypassed (intentionally) in his design for revitalizing Europe through the SEA. The question of Europe’s status as an evolving polity had been kept mostly on the margins by Delors, while energy was concentrated on “completing” the single market. The end of the Cold War decimated that strategy, and its death was confirmed by the near-collapse of Maastricht in public referenda. The political mobilization game around European issues was no longer an elite affair of economic interests. Since the “master plans” have collapsed and have not been replaced, the game is highly uncertain and stay open in this way for some substantial time to come. Consequently, the story of Europe’s transition will be one of crisis and political mobilization creating a new politics, not intersecting win sets among two level games that are stable and separable. A consequence is that politics in the West will not be settled quickly enough to define clearly and discretely the ways in which markets evolve in the East. The West Europeans might, for example, make two sets of decisions that shape the nature of Eastern market development. Failing to resolve a new RIS affects each set. One set of decisions are about market access and subsidies. Here it is very unlikely that in the absence of a clear vision about the final institutional arrangement any substantial assistance would emerge. A second set of Western choices are about the rules of business in Eastern Europe. That is if the Eastern states join the community, it would provide certainty for business: a) Certainty about the rules of the market, since there would have to be an extension of Western Rules, and b) certainty about security of investment behind the European guarantees. For those who would build the East into their production structures, and into production reorganizations, political uncertainty risks disruption of their production. This must inevitably slow the production reorganization of Europe as a whole.

One consequence is that the emerging market relations are likely to develop interests and political programs that define the politics of the final arrangements. As the market relations evolve they will create some real interests, both material interests and mobilized political interests. But as noted before, neither the actors and nor their interests can be read off a production profile but are rather political creations born of conflict and competition. Therefore, rather, the sequence of business decisions and political or security crises will be key to the process of reformulation of interests. “Implicit development strategies” of Eastern states along with unplanned (and probably unpredictable) market developments will set the context within which new actors formulate plans, strategies, and ultimately interests and identities. The politics of any “final” arrangement, or at least the possibility of a new “equilibrium” of sorts, will be subject to and constrained by the creation and recreations of actors and interests as political crisis and market realities unfold. Indeed the terms in which the emerging market relations are defined may be critical, and the Asian optic of cross national production networks may prove critical not merely to identify business opportunities but to give political meaning to the emerging market relationships.

At a minimum, a new Regional Institutional Structure for Europe that embeds bargains about Europe's future, predictably channels disputes that may arise, and recreates the two levels games separating domestic and European "political games" into walled off compartments is a long way off. Take the extreme case first. It is unlikely, but not unthinkable, that the current institutional arrangements of the EU could collapse of their own weight for failure to reform. The political and economic consequences would be significant, although not necessarily all for the bad. The organizing logic of EU institutions is one important factor (among several) that now differentiates the European region from Asia. Might Europe 10 years hence more closely resemble certain aspects of Asian political economy--with cross-national production networks flourishing despite the weakness or absence of political organization? Alternatively, and probably more likely, Europe will remain saddled with vestiges of an older RIS. In many ways these act as constraints on necessary tasks of development, and they do so at this point without providing a reasonable payoff in security or broader political confidence for relations between West and East. Investors will find ways around these roadblocks, but slowly. Meanwhile political mobilization will emerge around new crises, and possibly in surprising ways. Europe's inability to act collectively, as a polity, at this point opens the game widely for new visions of what that polity ought to be, or whether it ought to exist at all.