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European economic policymaking: explaining contradictory policies to make European businesses more competitive

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Please note that this is work in progress. Comments are very welcome.

Abstract

The European Union is ambivalent on the role of states and markets. It is often described as neoliberal, forcing the member states to deregulate. These effects are mainly attributed to competition policy, employment policy or macroeconomic policies. At the same time, the EU gives subsidies for the development of firms and industries, through its cohesion policy and innovation policy (R&D, research and development). Taken together, these policies indicate more or less contradictory positions taken over time and across specific policy areas.

The paper outlines the positions taken by the EU and begins a discussion of how to explain the development of the European policy mix. The focus is on positions stated in key documents on industrial policy. These key documents are position papers rather than formal regulations, which means that they are primarily the result of high level political bargaining.

The paper discusses six kinds of explanations in the literature on policymaking in the EU and nationally. With some simplification, the basic explanatory mechanisms are either bargaining, situational factors or norms. All of these come in an inductive and a deductive form.

The empirical part of the paper is a survey of literature on economic policymaking to see which kinds of explanations have been put forward and which kinds of explanation seem reasonable. The outcome of this paper is a set of likely explanations from a pragmatic or eclectic perspective of openness, as an alternative to the individual and more focused explanations, which are often based on the researchers' assumptions.

Innehåll

1. The contradictory policies of the EU

There is a puzzling contradiction in the policies pursued by the European Union. On the one hand, the EU is seen by many as a driver of neoliberal ideas, forcing its member states to change their policies through deregulation and reregulation (Scharpf 2010, McCann 2010). On the other hand, the EU spends money on support for the development of the economy, building up its capacity to act on the European level to support firms, regions and individuals (Bornschier 2000, Morel, Palier & Palme 2012).

Apparently, the EU wants to limit the role of the state in the economy at the same time as it makes the state stronger in other respects. This is the fundamental contradiction which has inspired this study. The policies are based on partly opposite values and clash with each other, so how can an organization like the European Union drive an agenda of deregulation and more of markets, while at the same time building up itself to be a state-like entity, interfering with the operation of the very same markets? Can these ambitions be reconciled? Is it rational to combine the two strategies?

The contradictions in the EU have been observed by many others. Bastian van Apeldoorn (2009), following David Levi-Faur (1998), describes the EU as a rivalry of three kinds of economic ideologies, neoliberal, neo-mercantilist and social democratic, where the last group focuses on non-economic goals and is of minor interest in this analysis. Social democrats tend to side with mercantilists on economic issues, but there are also strong proponents of free trade.

The set of three groups of players creates a political spectrum for bargaining. The mercantilists share the general goal of neoliberalism, i.e. a strong economy and competitive firms, but aims to achieve it through an interventionist state rather than a retreat of the state (Levi-Faur 1998). The mercantilists simultaneously share a positive view of the state with those who want the EU to expand into the social policy area. Hence, the mercantilists are in a bargaining situation where they can make deals with either side, to build a market in Europe as well as to build a state in Europe.

Neoliberalism and mercantilism are related to different models of existing market economies, different from the general textbook models of perfect markets. The neoliberal perspective is close to the ideal of a liberal market economy (LME), often with the US and UK as prime examples. The mercantilist ideal is near the ideal of a coordinated market economy (CME), whether in its statist (French) or corporatist (German) incarnation (Schmidt 2002). Fritz Scharpf uses the same models when he asks if the EU is forcing the CME's to become LME's (Scharpf 2010).

These labels are used in the literature on the varieties of capitalism, which is about ways to coordinate the use of resources in firms and economies. In the first type of capitalism, firms have market-like relationships with customers, suppliers (including labour) and owners. In the other type, these relationships are organized through long-term relationships with unions, banks and business associations. Key hypotheses in this literature are that both models are optimal (whereas mixes are not), that they are beneficial for different types of industry (roughly high tech versus low tech) and that they are self-supporting, meaning that individual policies will reinforce the effect of the other policies. Minor changes will not disrupt the operation of a model, at least not in the short run (Hall & Soskice 2001), whereas large-scale change by the EU might change the models, unless the EU finds a way to accommodate a variety of models (Monti xxxx).

This paper will primarily discuss explanations of the mercantilist policies, by looking at the development of these policies in the history of the EU. It will add to existing works on the history of the EU in two ways; by discussing the tensions between the general path of integration and the particular paths of the mercantilist ("developmental") policies, such as industrial policy and technology/Research and Technological Development (RTD)/Innovation policy, and by discussing alternative explanations. Instead of arguing for a particular kind of explanation, I will go over what is already known about key decisions and discuss alternative ways of explaining them. This can be seen as a pragmatic or eclectic position, whereas most literature takes a more limited and focused perspective, but at the same time stay within the assumptions made by the researcher.

I will begin by separating three levels of decision-making and by introducing several types of explanation, separated by their causal mechanisms. Then I will look at the history of the EU, divided into four periods leading up to key events; the Single European Act (1986), the Maastricht Treaty (1992), the Lisbon Strategy (2000) and the Europe 2020-strategy (2010). I will look for elements of the various types of explanation and come back at the end to how powerful these explanations are.

2. Decision-making in the EU

A first step is to identify the key decisions to study and to separate the decisions according to their dignity in the EU hierarchy. If we want to understand the politics within the EU, we have to look for conflicts and potential lines of conflict. This is in contrast to some overviews of the EU which are presented as a continuum of decisions, which overlooks potential conflict between initiatives made by the Commission and the authoritative positions taken by the Council and the member states individually. My ambition is not to cover all of these conflicts but rather to take a first step to more clearly separate the roles and the different kinds of decisions.

The focus is on positions stated in key documents on industrial policy. These documents are position papers rather than formal regulations, which means that they are primarily the result of high level political bargaining among the member states and with the Commission. It is necessary to separate the various levels at which decisions are taken to identify the formal participants. There is a hierarchy of levels as well as an informal method of coordination:

Level	**Formal participants**
Treaty revisions	Member states
European Council Opionons	Heads of member states
Council decisions	Member states (Commission, Parliament)
- Open method of coordination	Individual member states, group pressure
Commission decisions	DGs, College of Commissioners

Figure 1: Three levels of decisions and the OMC

Treaty revision

The most important decisions are made jointly by the member states. At the highest level, these decisions are about revising the treaties which the EU is built on. This is roughly equivalent to changing the constitution of a member state, something which is seldom done and always with great care. In the EU, this has been fairly frequent, primarily due to the need to redesign decision-making procedures for enlargement, expanding the EU from the original six members to now 27 members and more countries wanting to join. It is also due to the desire of the member states, at certain times, to delegate a larger mandate (more policies) to the EU.

These decisions require unanimity, which leads to a particular kind of bargaining. The deals will most likely be large packages of issues which everyone can see as a “win-win solution”. All elements may not be very liked by everyone, but it is highly unlikely that there are elements which individual countries can’t live with, especially the larger countries.

Decisions by the European Council

The European Council has gained importance and its role is now compared to the role of a president in a semi-presidential system, as in France or Finland. The European Council is composed of the leaders of the member states. It has no formal agenda and operates independently of the Council of Ministers (below). Like a president, it works only with the most difficult issues and can take an overall view, whereas the Council of Ministers has to deal with formal issues in the legislative machinery of the EU.

The Conclusions of the meetings of the European Council are the highest ranking documents (except for the treaty revisions). A common opinion is that the centre of power has shifted from the Commission, under dynamic presidents as Jaques Delors, to the European Council (ref).

Decisions by the Council of Ministers

The Council of Ministers is the organization where representatives of the member states meet to make formal decisions. The Council has always been the most powerful body, having the final word on formal matters. However, the European Parliament has gradually gained influence and it is now more appropriate to describe the Council and Parliament as the two chambers of a bicameral lagislature (Hix & Hoyland 2011), with the important exception that the majority is much less permanent and visible than in the member states. There are splits across countries as well as parties and issue areas. France and Germany dominates and there is a center-right majority (Hix 200x), but other majorities can be formed on particular issues.

This is different from the member states, which all have parliamentarian systems, where a ruling coalition is formed by a majority in the legislature. (Some have bicameral legislatures and/or presidents with some powers.) The EU is more similar to the US, where the President often has to build bi-partisan support in the Senate and House of Representatives. The Commission of the EU likewise has to build support for its proposals in the Parliament and the Council. Like national governments in relation to their legislatures, the Commission tries to influence the decisions by such things as how and when proposals are made.

The key decisions, such as the binding legal acts and the budget are made by the member states in the Council. Compared to treaty revisions, these decisions are important but of a lower dignity and sometimes made with qualified majority voting (QMV) rather than unanimity. This creates a slightly different type of bargaining situation.

The Parliament is often a co-decider and can have an indirect impact on the bargaining within the Council, but I largely exclude the Parliament from the analysis since it has had only a very limited role in making the decisions I'm studying, as most of them are not legislative acts.

It should be noted that there are some exceptions to the general model of supranational decision-making, referred to as the Community method. Some issues, such as Foreign and Security Policy, are only dealt with in an intergovernmental mode, in the Council and with only very limited involvement by the supranational institutions (the Commission, the Parliament and the Court). In other words, very sensitive issues are still determined by the Council alone.

There is also an informal mode of decision-making, known as the Open Method of Coordination (OMC), which has become very important in the EU. The idea is to collaborate in the Council (with much of the preparatory work done by the Commission) on issues where there is no mandate for action given to the EU. In sensitive areas like Employment Policy, the EU has organized an exchange of information which may have an influence on the member states on issues that the member states decide individually on, but are important for the common policies (like the Economic and Monetary Union, EMU) to work. I will come back to this method, since it is crucial to the recent economic strategies of the EU.

With the problems in the EMU, the EU has taken further steps to influence the member states, such as requiring them to submit their national budgets for scrutiny under "the European semester".

Decisions by the Commission

The lowest level in this hierarchy is the decisions made by the Commission. Similar to national governments, it is the executive power of the EU with a mandate to make day-to-day decisions within the framework given by the member states through the treaties and Council decisions. A large part of this mandate is to work out policy proposals to present to the Council and the Parliament. As in the member states, this means that most of the background thinking and justification for policies are stated by the Commission, making the internal politics of the Commission important to study.

The Commission needs to have informal negotiations with the Parliament and the Council to find out which proposals stand a chance of winning a large enough majority. It also needs to talk to affected parties such as interest groups and member state agencies to get specific information on perceived problems and possible solutions. This work is carried out by the specialized DGs (Directorate General) and integrated into a coherent whole through various internal mechanisms of coordination, where the most important is the decisions made by the Collegium of Commissioners, "the government of the EU".

The documents in this study

The material used in this study is primarily Communications from the Commission, which have no legal status but are statements of important political principles and indicate on-going work. They are informally sanctioned beforehand by the Council and Parliament, to be endorsed by a statement (Opinion) by the Council.

Green Papers, White Papers and Action Plans are slightly more formal documents and follow a common model, where ideas are introduced in the Green Papers, for others to comment, and then a position is taken in the White Papers, for the Council and Parliament to decide on, leading to an agreed set of actions.

The most formal decisions, on the binding legal acts, have their own documents, but are generally based on the political principles expressed in the documents covered here. Hence, the informal documents studied here have not only a symbolic value but lay down the course of action of the EU.

Other kinds of decision-making in the EU

There are "lower" levels of decision-making and implementation which are of little interest here. They are mentioned to give a comprehensive view of the relationship between the EU-level and the member states. A few examples of legally binding decisions will be mentioned and it is also relevant to take into account the "threat" of making formal rather than informal decisions.

One kind of lower level decision/implementation is through "Comitology", i.e. the committees where the member states and the Commission work out specific details of regulation. These "details" can be very important. Another kind of implementation is through supranational agencies and the European Central Bank.

The final stage of implementation is when member states adopt EU policies. To some extent this can happen after (only) informal influence, but the formal decisions are of great importance and are of different kinds. Regulations are legally binding as they are, whereas Directives have to be tailored (transposed) to fit the national legal context. The EU can also issue opinions on member states. However, there is room for national politics to influence the implementation of the formal decisions, to use them for their own purposes or even to limit their application (McCann 2010).

A situation of "multi-level governance" occurs when decisions on many levels are interrelated or when many levels implement policies relating to the same constituencies. One example is the spending programs by the EU (part of the Cohesion Policy), where some of them are designed nationally in cooperation with the Commission while other programs are operated by the Commission itself, with less influence by the member states (e.g. the Interreg-programs). In each case, national policies and administrative traditions have an impact on the implementation of EU decisions (Knill 2001).

Other lines of conflict

I will mainly follow the lines of conflict between member states and between the various institutions of the EU. This is, again, a very formal perspective on the conflicts within the EU. It is a natural starting point, since this is how the EU is designed and how the formal documents are identified etc. But it may turn out that the most interesting conflicts and loyalties are structured otherwise.

An alternative view on the structure of political conflicts is that they are not specific to each institution, but rather interrelated through informal networks for each issue area (environment, agriculture, R&D etc; Peterson 200x). Whereas the formal perspective highlights the roles of the institutions and the majorities versus minorities within them, the alternative perspective sees cross-cutting alliances by issue area. People involved in an area like agriculture tend to have as much (or more) in common with each other, in different institutions, than with people working on other issues in the same institution. Even if these people don't meet, the effect will be a kind of coordination of policies cutting through the formal levels of decision-making.

The traditional perspective on national politics highlights the role of political parties in making politics coherent, assuming that parties in government are united against parties in opposition. The other perspective sees conflicts within governments, for example between environmental interests and agriculture or industry. Since politicians are often specialized, there can be similar conflicts within the minority, leading to the paradoxical situation that politicians in the environmental segment can have more in common with each other than with their respective colleagues in the agricultural segment.

This line of conflict is further strengthened by the bureaucracy, which is specialized in ministries and agencies per issue area. There are of course fights between ministry and agencies, but there are also fights with other issue areas, where a ministry and its agencies may have common interests, over the distribution of funding etc. Furthermore, ministries and agencies often collaborate with the same interest groups and researchers within the issue area. People often move around on jobs within a particular segment rather than moving to other segments, at least in countries like Sweden where the members of the civil service is expected to be specialists rather than generalists, like in the UK (Knill 2001).

The perspective is very relevant in the EU since not only the Commission and the Parliament, but also the Council is divided into constellations roughly equivalent to ministerial specialization. Whereas national governments are integrated by their prime minister and minister of finance, controlling the purse, there is no equivalent at the Council meetings. The cross-cutting coordination is carried out by diplomats in the Coreper and by the leaders in the European Council. The national government offices play a role in the coordination too (Jordan & Schout 2000x).

The hypothesis is that people working with agricultural issues have many things in common and that they find it easy to work across institutional barriers, especially since they face rival networks, such as ministries of finance or environment, in all the institutions. These networks are united by their thinking. They have interests in common, but often also the theories about how policies work and what should be done, i.e. cognitive and normative ideas. The term epistemic community describes networks united by their ideas.

This literature argues that there is often a dominant paradigm of ideas and some other paradigms which compete for influence behind the scenes. They get their ideas and support from universities, think-tanks and international organizations like the OECD.

With some simplification one could say that in the EU, there is a “neoliberal” paradigm which dominates and there are groups which belong to a “mercantilist” paradigm. It may be the segment working on competition regulation which pushes for further moves in a neoliberal direction while the ministries of industry push for support for business and also, together with the ministries of research, push for more publicly funded R&D. Some of the most interesting political conflicts are about this rivalry and how the groups try to gain influence over each other.

In the short run, solutions depend on who is in power, but in the long run, groups can gain influence if they have ideas which are attractive to others and can form the basis of a new ruling coalition. These perspectives on how policies are made can be found in the main types of explanation of the politics of the EU.

3. Explaining policy developments

Since the key decisions are made by the member states in the Council and in the treaty revisions, it is these decisions that we want to explain. We also want to understand some of how the proposals are made by the Commission.

Obviously the bargaining game among the member states (as well as between the institutions of the EU; the Commission, Parliament and Council) is of great relevance. This is something that all scholars of the EU can agree on, but there is a big disagreement about how important the bargaining itself is. Some think that other factors have an influence on the bargaining and, hence, are more important to explain. Others think that it is unnecessary to study other factors, when the ideal is to explain as much as possible with as little data as possible. To some extent this is a conflict about methodology, where a key question is how abstract or realistic a theory should be.

There are many ways to group explanations into categories. I want to highlight the choice between ultimate causes of human behaviour and the difference between two distinct research methodologies. On the first dimension, the theories either refer to material interests, situational factors or norms. On the second dimension, the theories are either deductive or inductive. With these categories the main types of explanation can be described:

	Deductive	**Inductive**
Material interests	Economics Rational choice Realism Liberal intergovernmentalism	(Rational institutionalism)
Situational factors	Neofunctionalism Game theory	Historical institutionalism
Norms	Sociological institutionalism Policy diffusion	Sociology Social constructivism Discursive institutionalism “Muddling through”

Figure 2: Types of explanation, with examples

The following overview will illustrate various ways of explaining why the EU has adopted neoliberal and mercantilist policies.

Deductive versus inductive theories

The methodological question cuts through the social sciences and is much too complex to settle here. The ideal of building general knowledge at a high level of abstraction can be found in standard Economics and the perspective of Rational Choice in Political Science, whereas historians or sociologists (and other political scientists) generally prefer to study particular events and make generalizations from that.

The first type of deductive explanation is based on the assumption that individuals are "rational utility-maximizers", aiming for material benefit. Explanations and predictions of human behaviour can be made deductively with this assumption and some data. The other methodological position (inductivism) makes no assumption about behaviour and stays away from the highest level of generality. There are alternative assumptions, to make up alternative deductive theories (below).

Material interests

In Political Science and International Relations, the assumption of "rationality" can be found in theories about the behaviour of states in the international arena. "Realism" is the paradigm where the actions of states are explained in terms of material gains. The equivalent in EU-studies is Liberal Intergovernmentalism, which argues that the bargaining game among the member states is the key to explaining all decisions and – in the stronger version – the only factor necessary to study. In the latter perspective, other factors may at best explain particular details but are not necessary and/or potentially negative to the academic project of explaining events (Moravscik 1998, 200x).

This type of explanation is also referred to as structural, since the key factor which explains action is structural, i.e. a contextual factor beyond the control of an individual (in the short run). Here, it is the material interests, given by economic circumstances etc., which determine how states and individuals will act. By assuming "rationality", the scholar reduces the actors to machines, reacting to material circumstances, eager to achieve the best possible outcome within this set-up. The paradoxical point of assuming "rational" behaviour is to shift the focus from the individual and his or her decisions to contextual factors. "Rationality", in other words, assumes away the individual (Parsons 2007).

This model of explanation is true about most states and individuals some of the time, especially when conflicts have to do with power or money. The question is rather if it is general enough to be the only explanation of behaviour. Another question is what the material interests are. Politicians can have many interests, ranging from re-election to a desire to fix societal problems. Such variety is more easily handled in other explanatory frameworks.

Within this explanatory framework, neoliberalism or mercantilism would be the outcomes of a bargaining on individual policies, by key politicians, although restricted by the mandate and role of the EU. The most interesting question is to explain the coalitions behind the main decisions. Interesting is also the influence by business organizations, which are promoting neoliberal as well as mercantilist policies.

Mercantilist policies like support for regions and farmers are often seen as side-payments to the poor member states, to make them support further integration, a necessary evil. CAP, the common agricultural policy, was seen as support for French farmers just as the structural funds were seen as support for Greece, Spain, Portugal and Ireland. This is generally not how support for research and development (R&D) is explained, though it has jokingly been referred to as "cohesion policy for the north" (ref).

An interesting version of explaining actions by reference to material interests is the so-called Rational Institutionalism, which explains outcomes in terms of the formal frameworks, such as the bicameral structure of the EU, where the Council of Ministers (representing the member states' governments) has to agree with the directly elected European Parliament. When the treaties change the balance of power of the institutions, the content of the decisions will change too.

The model is deductive, but can also be inductive if the focus is on finding out how actors deal with rules and conflicting rules.

The Economic and Monetary Union is inspired by this thinking since one of the core ideas is that governments need to be restricted by tight formal rules, partly decided by independent central banks, to avoid over-spending (Brennan & Buchanan 198x, Hix & Hoyland 2011).

Situational factors

In EU-studies, the main rival of Liberal Intergovernmentalism (above) has been the so-called Neofunctionalism, which sees a certain logic working independently of the member states. The term comes from the idea that function will determine behaviour, i.e. that an organization will act according to its function in a specific environment, more or less independently of the will of the people involved, in contrast to the rationalism discussed above.

This was the thinking adopted by the founders of the EU, who wanted to begin with something little and work with integration from there, thinking that integration in small steps will create pressures to take further steps. Their position was in contrast to the federalists, who wanted to design a supranational European state from the beginning, and those who were against integration at all, believing in cross-country cooperation only when necessary (McDonald 1999:4f).

As a theory, Neofunctionalism refers to an almost self-playing machinery, where events at one point in time make it necessary to take further steps at the next point. Problems will create a need to take further action, or bargaining will make it necessary to include new issues. The creation of needs to take action in other areas is called "spill-overs" (ref). This machine is an example of a deductive reasoning.

In a weaker, inductive version, the Commission is seen as a driver of European integration, along with the other supranational institutions (the Parliament and the Court). The member states will make the key decisions, but the bargaining situations change over time due to the actions by the other three. In other words, the machinery was set up by the member states, but they are not in full control, as expected by so-called principal-agent theory; the supranational institutions will develop their own interpretations of their agenda ("bureaucratic drift") and will try to influence the member states, who are the original principals (Hix & Hoyland 2011, ref). Here, the point is that the supranational actors become "situational factors" in relation to the member states.

A very important example is how the principle of mutual recognition was accepted. This is a key foundation for the single market but would have been very difficult for the member states to agree to through regular negotiations. Instead, it was the European Court of Justice which lay down this principle by one of its famous rulings. In 1979 it decided that it was legal to sell French alcohol ("Cassis de Dijon") in Germany. The German rules about minimum levels of alcoholic content were ruled to be a trade barrier and should be repealed. What the court did in this case ruling, was that it interpreted the Rome Treaty and found a principle which was implied from the beginning but not made explicit. From the perspective of the member states, this was an unintended consequence of the design of the Rome Treaty, with a separate Court to interpret the Treaty.

Here, neoliberalism or mercantilism would be the more or less unintended outcome of previous decisions. The principles laid down in the Rome Treaty and the role and mandate for the Commission and the European Court of Justice (ECJ) point the EU in a certain direction, where one event will lead to another. When problems occur, the EU has taken further steps to integrate the European market but also to support European firms. Slow economic integration in the 60s and 70s created a need for a more integrated market in the 80s and also complementary action in regional support and environmental regulation etc.

Historical institutionalism

Neofunctionalism is on a high level of abstraction, like Liberal Intergovernmentalism. It is also deductive in its original form, but has more recently been adapted along the lines of what is called Historical Institutionalism, which is an empirically oriented perspective which focuses on historical processes (Hall & Taylor 1996). This is a perspective developed in comparative politics which has great similarities with Neofunctionalism in the focus on history and unforeseen events.

Like Liberal Intergovernmentalism and Neofunctionalism, Historical Institutionalism is about explaining the behaviour of states and individuals. This perspective highlights restrictions within which action takes place (which can be combined with assuming rationality). The focus in this perspective is on the "institutions", i.e. the rules which develop over time. A common metaphor is path-dependence, that decisions at a certain time change the direction of developments and make it difficult to do differently at a later point in time. For example, after the EU has entered the EMU and set up the ECB it becomes much easier to stay within the monetarist paradigm than to abolish it and build up capacity to act in other ways.

A weak point in Historical Institutionalism is that the causal mechanism is vague. One interpretation is that "it pays" to stay on the path, that the costs of doing something else is bigger. This is called "sunk costs" by Economists and could become an elaboration of the first type of explanation. An equivalent in Political Science is that political decisions bind future decision, making it difficult (costly) to reverse previous choices. Craig Parsons has shown how new governments in France have found it necessary to continue pro-EU policies of previous governments, even though they campaigned against the EU (Parsons 2003).

This type of mechanism is similar to the infamous game of Prisoners' Dilemma in Game Theory, which is about situations where individual rationality leads to sub-optimal outcomes. Being "perfectly rational" can under certain circumstances create problems of coordination (such as "market failure").

An alternative is to say that the institutions are norms (below) which uphold behaviour because the individual thinks it is the right thing to do. Here the reference is not to material interests but rather to values or to the approval of others. The first is called a logic of consequences and the second a logic of appropriateness (March & Olsen 198x).

There was a revival of this kind of thinking in EU-studies in the late 90s through the work by Paul Pierson, Alec Stone Sweet and others. In comparison to Liberal Intergovernmentalism they give a more realistic picture of how the EU operates and is worth taking seriously for anyone who believes in describing events accurately rather than focusing (only) on a logic of clashing material interests. The response by the Liberal Intergovernmentalists is that they can make more powerful explanations; that sunk costs and unintended consequences can at best explain peripheral details (Moravscik 2001?).

Examples of path dependence (Pierson 1998), where past choices restrict present options are the single market and the Euro, committing the EU to certain policies. New policies grow by combining and adjusting old policies, for example the structural funds and the framework programs for R&D (Streeck & Thelen 2005). Path dependence can also be that some options are unavailable in the EU, such as tax-deductions to support the development and use of R&D, since firms don't pay taxes to the EU.

Fritz Scharpf has discussed an in-built bias in the institutional framework, where it is easier for the EU to agree on taking away regulation ("negative integration") than agreeing on new regulation ("positive integration"; Scharpf 1996). This becomes in practice a bias towards LME and against CME, forcing countries like Germany and France to change more than the UK. The politicians may have a variety of interests, but the rules make it easier to form certain coalitions.

The role of individuals

Historical explanations are open to the role of individuals but focus on institutions, which are general factors to be found across cases. Particular individuals can be of great importance in specific cases, such as Margaret Thatcher and Francois Mitterrand making the deal on the Single Market in the mid 80s. The bargaining may have ended very differently with other people playing the roles of Prime Minister of the UK and President of France. However, it would be trivial to explain events by saying that it was "the right person at the right time". The point should rather be that an individual makes a contribution when he or she makes an unexpected move, for example by not doing what short-term "rationality" demands.

The role of the individual raises the questions of why (or when) people do unexpected things and how important it is in relation to other factors, both in terms of explanations and in terms of politics, "good leaders handle bad situations" or "god structures handle bad leaders". Psychological factors can be important as explanations (Parsons 2007), but run the risk of being "ad hoc", only relevant in a particular case. The social sciences aim for general explanations, whereas the discipline of history is more focused on understanding particular events and individuals.

We want to look across cases and make more general statements to find the key factors which form the context where individuals act. At the same time we want to acknowledge particular individuals who have an impact on the bargaining, for example by connecting or separating issues. That would be the role of a political entrepreneur or bricoleur (Campbell 20xx). For example, Desmond Dinan points to the influence of the Secretary-General of the Council, Niels xxböll, to shape decisions (Dinan 1999).

Vivien Schmidt has introduced what she calls discursive institutionalism (below) to capture the process where individuals exchange ideas and eventually change their opinions, which is central in politics. She and others have noted that the three other kinds of "institutionalism" (rational, historical and sociological) are all based on rule-following, which makes it easier to explain stability than to explain change (Schmidt 2008:3xx).

Norms

There is another kind of explanation which digs deeper into the behaviour of states and individuals, arguing that the key to the explanation is in the formation of the individual's perception of interests. In this perspective it can't be assumed that all actors are driven by their material interests or that it is obvious what their interests are. Instead, the focus should be on the social process where interests are constructed.

This perspective focuses on the ideas which constitute the interests of the actors or even their "identities" as actors. They can agree that bargaining and institutional restrictions are important, but think that it is more important to find out how the parties came to adhere to certain positions, especially the role played by ideas and social processes (in contrast to the paths discussed above, for example). This makes social constructivists able to explain irrationality and incoherence in the policies pursued by the EU. Liberal Intergovernmentalists find this not only unnecessary but also very difficult to prove, i.e. to establish the causal effect of ideas independently of interests (Moravcsik 2001).

Vivien Schmidt uses the term Discursive Institutionalism as a name for explanations which focus on discourses (what actors say) and the process of interaction, which is very central in politics. She makes a distinction between coordinating discourses, between politicians and voters, and collaborating discourses, among the elite, where they try to form coalitions (Schmidt 2008). This puts the finger on the use of rhetoric to make positions popular and also to change policies by changing the key concepts or even redefining them. The discourses form patterns of thinking (institutions, paths) which the actors either have to stay within or find ways to reform. Triangulation and development of "third ways" are examples of how politicians make use of discourses in a strategic way at a time when voters don't identify with parties or ideologies to the extent they used to.

Social constructivism has some similarity with elaborated versions of "rationalistic" theories, such as bargaining theory, where one strategy is to find agreement in values which lie underneath the stated positions of the bargaining game (e.g. Fisher & Ury xxxx). The similarity lies in the perception of underlying values which drive individual behaviour. Bargaining theory takes these values for granted but see them as flexible, whereas social constructivists want to explain where they come from.

A good example of social constructivism can be found in explaining the move to Economic and Monetary Union. In this perspective the most important factor is not the particular bargaining among the member states but why most of them switched from Keynesianism to become "monetarists" and thereby could settle on a monetarist framework (McNamarra 1998). This is about two rival paradigms in macroeconomics, where first "everyone" believed in government spending in times of economic slowdown and now, "everyone" believes in placing governments under restrictions in terms of inflation and deficits etc. There is a debate among Economists over these positions, whereas the point for social constructivists is that there has been a shift of "paradigm" (dominant thinking), which made EMU possible.

The explanation can have to do with strategic action by certain actors in situations where old policies are questioned, combined with elements of doing what others do. Alternative versions of social constructivism place less emphasis on strategic individuals (below). A full explanation would probably have to look at some path dependence too, how these ideas – and the dominance of the German Bundesbank - were first institutionalized in the European Monetary System (EMS) with its Exchange Rate Mechanism (ERM) in the 70s and then worked their way into the EMU.

Social constructivists make the point that preferences are formed at the stage where ideas are tossed around and have not yet acquired their meaning. New ideas can be very important (Christiansen, Jorgensen & Wiener 1999). One example is the concept of economic government, introduced to solve the Euro-crisis by France and eventually accepted by Germany, without a clear definition.

Vagueness and contradiction are natural in politics, when leaders want to reach agreement. An example is the contradictory use of the concept "market" across policy areas, where coherence is only on the rhetorical level (Jabko 2006). One explanation of this situation can be that all initiatives have to be phrased in terms of a dominant concept with several meanings, while the logic of each area eventually takes over and gives different meaning to the vague concept of the market. The strategic use of terminology or perspectives is known as framing, i.e. to place an issue in a specific "light" or context, which links ideas to actors and their interests (Sanz-Menéndez & Borrás 2001:31).

Social constructivists look for the sources of influence on EU policies, such as leading Economists or policies which look successful in the US or specific European countries (e.g. Germany). They will also look for attempts to influence the governments, to see how it is done and by whom. In the case of the single market it has been pointed out that the Commission was very active and that it sought the support of business groups like the European Round Table of Industrialists, ERT, which had similar views on the role of the state and subsidies to the development of European firms (Bornschier 2000).

Introducing the concept of the EU as a Developmental Network State may be an attempt by Fred Block (2008) to guide future discussions about policies. It may become influential like the concepts of competitiveness and technological leadership were in the 90s. They were important for the mercantilist position and had the benefit of sounding "rightist" (neoliberal or mercantilist positions) while they simultaneously implied a greater role for the government (social democratic or mercantilist positions).

Making broad alliances based on similar thinking may be particularly helpful in a fragmented organization like the EU. Liberal intergovernmentalists can appreciate how this influences the bargaining game, whereas social constructivist focus on how agreement is reached. Alliances can be formed where interests coincide, producing an "advocacy coalition", with or without similar thinking, which is the basis of an "epistemic community". The latter are groups which are often united by theories from academic disciplines, for example Biology (environmentalists) or Economics (neoliberals as well as mercantilists). Ideas about markets and states in this sense constitute the interests of actors. These ideas are conserved by interest groups, bureaucracies and by universities.

There is a conception of social constructivism where ideas have a more direct impact, without entering the strategic thinking by individuals (i.e. as a deductive type of theory). This is the perspective which gives up the idea of the individual as a calculating utility-maximizer. Instead, individuals and organizations are seen as following norms or just mimicking what others do. Individuals often do things because they think it is the right thing to do, following a logic of appropriateness (above). In other words, they have norms which tell them what to do in particular situations. Sometimes they think it is even inappropriate to seek individual gain.

There can be general theories about human behaviour along these lines. Sociologists like Bourdieu work with grand theories where the desire for dominance and legitimacy are the primary drivers, similar to the assumption of material interests above. A milder version is to say that it is rational for individuals to follow norms rather than to calculate what to do, since there is a big difference in terms of the information needed to find out what one should do (Hayek xxxx). This is part of the "Austrian" conception of the market, which is not based on the idea of "full rationality" or "perfect markets" (above). It is closer to a norm-based historical institutionalism, seeing markets as evolutionary processes which create some order (institutions).

One version of the social constructivist framework looks at the diffusion of ideas on an international scale. Ideas are often introduced in very different contexts and at a rapid pace, both of which indicate that there is a process of copying rather than rational calculation in each country. In other words, there is an element of trends in politics. Simmons, Dobbin & Garrett (2008:34) discuss how ideas become socially acceptable and distinguish four ways which this is done. Three of them (convergence, learning and…) imply a process of adaptation, whereas diffusion does not.

This approach is deductive, like liberal intergovernmentalism and neofunctionalism. The scholar is a spectator who creates explanations based on data about outcomes. It treats the process of decision-making like a black box, not relevant to open and study.

An alternative approach is to study particular processes in an inductive fashion to find out who has influence and why. For example, the OECD and Unesco have been instrumental in the spread of technology policy, operating as "norm entrepreneurs" (Finnemore 1996). Consultants may also play this role. Another factor in this explanation is that politicians and bureaucracies need ideas to signal their commitment (to the public) on important issues and to build coalitions and to take fights with other parts of the bureaucracy, especially with Ministries of Finance.

In Political Science this perspective is found in theories about alternative conceptions of rationality. Charles Lindblom famously argued that politics is the art of "muddling through", where it is rational to solve problems as they come, rather than by grand plans of rational calculation (Lindblom 1957). March and Olsen saw politics as a garbage can, where existing problems and solutions become connected. Politicians copy policies that seem to work, even if the context is different. They are influenced by ideas that circulate and they follow trends. This is an empirical perspective, opening the black box of diffusion studies (above).

Another version is to say that politics is partly rational, but the goals and mode of operation are related to other things than monetary gain, such as risk-reduction. Nils Brunsson (xxxx) gives the example of industrial policy in Sweden, where the Ministry of Industry chose a paradoxical approach to deal with the closing down of a factory. It worked closely with the affected parties and accepted their perspective on the problem, i.e. to build new business and jobs on existing skills, rather than promoting new ideas for economic development, which would probably have been rational from an Economist's point of view. The ministerial reaction was one of "muddling through" and showing sympathy (gaining votes in the short run) rather than really trying to solve the problems, which most likely was beyond the control of the ministry. The story shows the complexity of a situation, where rationality can mean different things and some options are difficult because of the design (internal boundaries) of the public sector.

A question I will come back to is whether the logic of this explanation can be turned around; whether evidence that the application of a concept is to a large extent without attention to detail or risk (in other words, little adaptation to the particular context) is proof of little rationality (i.e. copying) in the decision-making process. Adoption of policies which don't fit the individual member states may help us understand the decision-making in the EU.

An explanatory framework

A common position nowadays is that these perspectives need to be combined. Instead of focusing on one aspect, it is more reasonable to discuss when and where each factor is most important. Interests, institutions and ideas are all important (X, Y & Jupile xxxx). One way to combine them is to look at the strategies used by the main actors to gain influence. The Commission is the key driver of policies and the strategies it uses can be called "framing", choosing how to phrase the issues. It plays on certain ideas in particular contexts (made up of institutions and interests). Such a combination of factors will handle the role of individual actors as well as the structural context where they act.

Combining the levels of decision and the explanatory factors produces a design for the investigation of the politics of the developmental state in the EU.

	Interests	**Situational factors ("Institutions")**	**Norms ("Ideas")**
Treaty revision			
Council decision			
Commission decision			
OMC			

Figure 3: The research design

I will look at four periods of policy development and go through the four levels of decision-making for each, to see what the major issues related to economic policy options (neoliberalism and mercantilism) were. I will make a synthesis of the existing literature to see how explanations can be created in line with the perspectives presented above, summarized in the three main explanatory factors.

This is an eclectic use of explanatory frameworks. Rather than taking any one of them as a starting point, I want to see how they can contribute to an understanding of what has happened. The focus is not on a particular event but on a series of events as they have unfolded, especially since the mid-80s. The purpose is to see how strong the position of the mercantilist policies is ("ups and downs") over time and how it can be explained. This makes use of studies of individual policies like technology policy, but differs from these studies by placing them in the overall context of what the member states have actually agreed to over this period of time.

It is not a test of the perspectives against each other, since that would be a very difficult thing to do and would require a selection of cases to match the theories (best and worst cases). Instead I will look at the events and take help from the perspectives, thereby showing when they are helpful. There are events which match different perspectives.

4. From the beginning to the Single European Act

The European Union is built on three very different foundations. The European Coal and Steel Community, ECSC (1951) was a planning agency, while the European Economic Community, EEC (1957) was a free trade association. The Euratom (1957) was specifically about the joint development of a particular industry (nuclear energy). Elements of pro-market thinking were visible in the second, while elements of state intervention in the economy were evident in the first and in the third (ref).

The ECSC was a supranational agency set up to take control of key resources and put them to peaceful use in the rebuilding of Europe after the Second World War. It was limited in scope but had a strong mandate which included instruments like giving loans to industry and supporting research and development. These industrial policy instruments were used by the EU until 2002, when the treaty expired (McDonald & Potton 1999:162f).

The Rome Treaty, which was the foundation of the EEC, was based on a very different kind of economic thinking, where the opening up of borders was thought to lead to mutual gains from trade. It was primarily about the reduction of barriers, with the exception of support for farmers through the Common Agricultural Policy. The treaty also stated the principles of further economic integration in Europe to the extent that the Single Market and the Economic and Monetary Union can be said to be based on the Rome Treaty.

Yet, the belief from the beginning was that the principles of the Rome Treaty didn't exclude the interventionist policies of most of the original member states. The pragmatic principle was "Keynes at home, (Adam) Smith abroad" (McCann 2010:25). There was, in other words, a widespread belief in the member states that they could and should correct market failures by protecting firms from international competition (Ardy 2011). This position came to be criticized for its lack of success in the late 70s, which was one of the reasons for moving forward with the Single Market.

The third treaty (Euratom) was on the joint development of nuclear energy, which gave a mandate for some industrial policies in this particular area. This intended cooperation is generally considered a failure and not very much talked about in the history of the EU. It is important as an early example of technology policy, which was introduced later in the EU (Sanz-Menéndez & Borrás 2001:34f).

The EEC provided a strategy for economic development through integration. The principles were general but the work had to start with the details of how to go from a free trade area to a customs union and how to implement the support for farmers. To make a long story short, the policies were developed but the organization came under great strain when the French walked out to avoid qualified majority voting (QMV) over the agricultural policy. The work on integration could pick up again only after de Gaulle left office as President of France. This work lead to small but important steps forward in the 70s; enlargement in 1973 and the development of various policies, with an important step towards further integration with the Franco-German cooperation on the European Monetary System (EMS) in 1979, a predecessor of EMU. Greece joined the union in 1981, while Portugal and Spain followed in 1986.

Integration gained momentum in the early 80s and culminated with the Single European Act, signed in 1986 and enacted in 1987. This was the first major revision of the Rome Treaty and a big step forward with integration. It is a remarkable political event, where the member states agreed to remove almost 300 barriers for economic integration by 1992. They also agreed to move on to develop an Economic and Monetary Union. In other words, they showed a strong commitment to placing themselves under pro-market restrictions. With hindsight, this is where the EU started to have a major impact on the policies of the member states (McCann 2010).

The deal

The politics of the SEA is remarkable. It is almost unbelievable that politicians like Margaret Thatcher (UK) and Francois Mitterrand (France) could agree on this project. Explanations usually highlight the U-turn, where Mitterrand after two years gave up his Keynesian policies and moved closer to the monetarist thinking of Margaret Thatcher and Helmut Kohl (Germany). The compromise was to strengthen the supranational powers of the EU while turning towards more of free market-positions. In a nutshell, Thatcher won the policy direction while Mitterrand won a stronger EU. It was to be more of a state as well as more of a market in Europe. The French interest was primarily to increase cooperation to be able to pursue independent policies in relation to the US (Jabko 2006). For them, it was the state-building rather than the market-building which was desired, whereas it was the other way around for the British.

There were important contextual factors. One was the perceived economic threat from the US and Japan, where Europe would fall to second place in the world. Japan was making a remarkable catch-up and the US was increasing its economic (and military) superiority through defence programs such as “star wars”. There was an intense debate in Europe as well as the US on how to respond to Japan. The MITI became a role model and there were unprecedented programs of public-private cooperation, such as Sematech in the US. In other words, it was legitimate to copy Japanese industrial policies in Europe when the US did so too and the OECD was a driver of these ideas. This is a key explanation for those who see politics as a process of muddling through.

Many traditional European industries were in crisis due to strong competition, which created a need to upgrade European business and to shift from “sunset” to “sunrise” industries. This provided the member states with strong motives to proceed with integration, in order to create a larger home-market, a more competitive environment and jointly funded programs to deal with the problems and support the development of new industries. It also gave the EU a project to focus on, to bring order to an organization with many internal fights.

The dominant ideas were about competitiveness (though the concept wasn’t used until later) and monetarism. Commission President Jacques Delors was already committed as former French Minister of Finance to the idea of an economic and monetary union along the ideas of the EMS, which was driven jointly by France and Germany. An important contextual factor was the ruling of the European Court of Justice in the “Cassis de Dijon-case”, which lay down the principle of mutual recognition, which could serve as the foundation of further integration.

A controversial issue is the role of industrial organizations like the European Roundtable of Industrialists (ERT) in the politics behind the SEA. Volker Bornschier (2000) sees the ERT as key in driving the Single Market and in placing greater emphasis on technology policy, which was of great importance to the leading firms. The ERT was set up in the early 80s and one of its first ideas was that there should be a Marshall Plan for business in Europe, i.e. subsidies to catch up with Japan and the US. This was pure mercantilism. Constructivists would ask why business had such a positive view on the government. A clue may be that the ERT was dominated by companies from corporatist countries. The idea of a Marshall Plan was put forward by Pehr Gyllenhammar, the CEO of Volvo, a Swede and a leading member of the centrist liberal party.

Demond Dinan implies that it was the EU which influenced the ERT to play this role in order to have an ally in the struggle to convince the member states of the importance of further integration (Dinan 1999:94, Sanz-Menéndez & Borrás 2001:33f). Commissioner Davignon initiated talks with leading firms in the 70s, which became in essence a mercantilist sub-group within the EU and with strong support from France, thinking that it would be efficient to pursue technology policies on a supranational level. Delors even wanted a European technological community.

Like technology policy, cohesion policy was there before the SEA and was upgraded. It can also be seen as an element of a mercantilist paradigm since it is not just about the redistribution of funds to weaker regions, but rather (and increasingly so over time) for the economic development of these regions. Whereas technology policy focuses on one key item to support business development (regardless of place), cohesion policy focuses on the development of territories and uses many instruments, one of which is support for technological development.

The SEA not only focused on the removal of remaining non-tariff barriers, but also began an upgrading of competition policy, which is now the most important force behind the creation of a competitive environment for business and placing restrictions on the use of state aid. In other words, the EU moved in several directions at once.

The SEA was based on two rival economic ideologies (and epistemic communities), the "neoliberal" idea that firms will become competitive when barriers are torn down, creating larger markets and more competition ("survival of the fittest") and the "mercantilist" idea that they need help of a developmental state to upgrade their competitive edge. There were elements of both from the beginning, as the Rome Treaty stated principles which can be read as support for free and integrated markets, while the Euratom and ECSC included technology policy.

Technology policy

The build-up of technology policy took place over a long period of time, which created a path in this direction. An advisory committee on R&D (PREST) was set up in 1967, together with a Directorate General for Research, Science and Education and another DG for Industrial Affairs, even though there was no explicit treaty base for either kind of policy. One interpretation is that the Commission, especially under its first president (Hallstein), built up an organization for a larger role and more into planning than necessary under the Rome Treaty (Gillingham 2003).

The new Directorate-General for Industrial Affairs promoted trans-European mergers while the DG for Competition was sceptical (Peterson & Sharp 1998, 30). This duality became the twin tracks of policy in the 80s, promoting increased collaboration alongside increased competition (ibid, 50f). John Peterson and Margaret Sharp argue that this was creative rather than destructive, a sort of carrot-and-stick approach (ibid, 87). With the single market came a greater interest in R&D-policies, partly as a replacement for national programs and state aid (ibid, 56f).

A first statement of principles was the "Memorandum on Industrial Policy in the Communities", known as the Colonna Report after its chairman Guido Colonna, in 1970. The involvement in R&D began in the 70s with the intergovernmental COST-program. Luis Sanz-Menéndez and Susana Borrás make the point that the first programs which the Council agreed to in 1974 were indirect actions, where the member states collaborated and gave subsidies to firms, which was very different from the "in house" work on R&D under the Euratom Treaty (2001:37).

Among the first programs were ESPRIT, RACE, BRITE-EURAM and programs for biotech. ESPRIT was motivated by competition from Japan and the USA, which connected the policy frame of RTD policy to that of economic development and competitiveness (Sanz-Menéndez & Borrás 2001:39). The member states had already accepted big programs in R&D, by the EU and one intergovernmental program, EUREKA, which has been involved in developing HDTV, semiconductors and the MP3-format. The framework programs for R&D were introduced in 1981 for 1984-87 and consolidated after 1992.

From the perspective of Liberal Intergovernmentalism, these episodes are of little relevance, insisting that all we need to know is the interests of the member states in 1986. Adding a mandate on technology policy to the EU (EC) was in this perspective a side-payment to France, to make Mitterrand go along with the main policy of removing barriers, which was very different from previous French policies.

There is general agreement that governments responded to business interests in the light of the perceived crisis of European firms. Those who wanted an expansion of the EU, like Mitterrand, used the events to give more powers to the EU. The general move towards the Single Market is more difficult to explain, since it has placed great demands on the member states. This may not have been foreseen. The move towards mercantilism was in line with national policies at the time and a case was made that it was more efficient to have these policies at a European level.

The conflict over technology policy had two dimensions. One was whether the policies were desirable or not, which has to do with economic perspectives like neoliberalism and mercantilism. The other dimension was whether it should be a national or a European responsibility, which has (ideally) to do with spill-overs, for example, if some countries fund R&D which is of benefit to all countries and this cost is larger than the cost of coordination (McDonald 1999:29f). The UK was reluctant to technology policy on both accounts, whereas France wanted to shift some of the policies from the national to the supranational level. Other states may have agreed in principle but were reluctant to provide the funding necessary. Germany is a case in mind. Altogether there were four positions on technology policy and, more generally, industrial policies (where the fourth position may be reasonable for countries with few national policies before membership, like the countries of Central and Eastern Europe):

	National technology policy: Yes	**No**
European technology policy: Yes	France	(CEE-countries?)
No	Germany	UK

Figure 4: Positions on technology policy (industrial policy)

The support of ERT as well as the already existing programs can provide an explanation as to why the compromise was to introduce technology policy as an explicit task for the EU. Regardless of why technology policy was given a firmer base in the treaty, it is relevant to see how these powers were applied at later stages. The SEA gave support to two very different economic ideas, but what did their subsequent co-existence look like?

	Bargaining	**Situational factors**	**Norms**
Treaty revision	Thatcher + Mitterrand	US, Japan ERT	Market-building + state-building
Council decision	Limited RTD-programs	ECSC, Euratom	European vs national responsibility
Commission decision	New DG's	Expansionism by Monnet and Hallstein	Industrial policy by the member states
OMC			

Figure: Summary of explanations from the beginning to the Single European Act (1986)

5. The road to Maastricht

The period from the SEA (1986) to the Maastricht Treaty (1992) was very turbulent. Internally the EU was focused on the creation of the Single Market by the magic deadline of 1992 as well as the design of the EMU and the possible "political union". The list of barriers for the market had to be turned into a set of regulations to abolish these barriers. It is generally seen as a great accomplishment that most of this was completed in time for the deadline. On the other hand, the project of the Single Market is still not completed, with many controversial issues remaining.

Externally the EU was challenged by events in Central and Eastern Europe, including the unification of Germany. The geopolitical changes, with the end of the cold war, were a great change which altered the situation of post-war Europe. At first, the EU was hesitant about admitting the countries of Central and Eastern Europe as new member states, but eventually ended up with twelve new member states in 2004-07 and more on the Balkans to follow.

The prospect of the reunification of Germany had a direct impact on the Single Market and the effort to develop an Economic and Monetary Union. It opened for a Franco-German deal, where France accepted a larger Germany in exchange for placing the Bundesbank under a European Central Bank. This was a key element in the history of the EMU, but only one of many steps to be taken.

The period leading up to the Maastricht Treaty (1992) was a long fight over two interrelated issues. One was the European Monetary Union (EMU) and the other one was the idea of a European Political Union (EPU), where the idea was to go on with integration in political issues like foreign policy. The aim of an economic and monetary union was stated in the SEA. It was something Jacques Delors was personally engaged in, with a background as French minister of finance under the EMS. He chaired the committee to work out the EMU (the Delors Committee).

The EMU was eventually accepted, whereas EPU wasn't. The compromise was to create a new organization (the European Union) on top of the old European Community. The metaphor was "pillars", where the cooperation in new policy areas was called pillars 2 and 3. The metaphor indicates that they were different but not that they were to be a light-version of the EC, operating in an intergovernmental rather than a supranational mode. In other words, the member states only agreed at meeting in Brussels, not in transferring powers to the Commission, the Parliament and the Court. According to Frank McDonald, "the EU experienced a remarkable change in its fortunes in the early 1990s. It moved from being an agency making seemingly unstoppable progress towards some kind of 'federal' system to an agency that was unclear as to which direction it should take" (McDonald 1999:12).

Mercantilist policies

There is a paradox in the development of the mercantilist policies during this period of time, especially in technology policy. On the one hand, it was given further support in the Maastricht Treaty, where the mandate of the EU was increased to not only include technology policy but also industrial policy, which is a wider concept. On the other hand, there was an early statement saying that the best industrial policy was one limited to the setting up of a dynamic environment for European firms, i.e. arguing against the mercantilist position of giving subsidies to firms. There was also a very important limitation on the mandate to pursue industrial policies, since it was only to be carried out under unanimity (Dinan 1999:xxx). The European Parliament and some member states had pushed for more industrial policies. They got the mandate but not the means to carry it out, at least not in the short run.

A Directorate General for Enterprise policy was set up in 1989 to work with SME policies and some other responsibilities.

In 1990 the Commission produced a key position paper, where it took a stand against public support for business: "The main responsibility for industrial competitiveness must lie with firms themselves, but they should be able to expect from public authorities clear and predictable conditions for their activities" (Commission 1990:1). The context was strong economic growth after a long period of stagnation, indicating that the "neoliberal" policy of deregulation and the Single Market was in fact working (ibid, 4).

A key section of the document outlines a causal chain, which starts with "staying abreast of international industrial competition" as the overall goal (the endpoint of the causal chain). This is said to require "staying ahead of technological competition" as an intermediary goal, but instead of drawing conclusions about funding for RTD (which is more common), the document talks about "firms' capacity to invest more and more efficiently in both equipment and technological know-how…". In another section it says that "a positive approach to industrial adjustment also implies the recourse to policies which can help accelerate the process. These include:· - the development of the technological capacity of the Community" (ibid, 16).

The text furthermore points to the ability of the firms to generate adequate volumes of financial resources. Lastly, it says about RTD, that it "will be, more than ever, of great importance" that firms make best use of the results from RTD, "(B)ut of even greater importance will be the capacity of industry to realise innovation…" (ibid, 4). All of these quotes put the emphasis on other things than making public investments in R&D, which is the position taken by the most simplistic advocates of mercantilism.

(Taxes) →Public funding of R&D →Firms use of RTD →Technological lead →Competitiveness

Figure: The causal chain according to simplistic mercantilism

Profits →Private investment in R&D→ Firms use of RTD →Technological lead →Competitiveness
(Competition) →Learning by firms → Other kinds of innovation ↗

Figure: The causal chain according to the Commission (1990)

The text discusses the diffusion and use of RTD, but only mentions in passing the strengthening (funding) of pre-competitive RTD. It says more about supporting the firms' internal RTD efforts and the role of SME's in the diffusion of knowledge to the larger firms (ibid, 17). This is remarkable since the document lists other areas of supporting policies (in addition to the main effort to create a competitive environment); education, cohesion and environmental policy. The funding of RTD is discussed in terms of coordinating national policies (ibid, 18f).

The Commission furthermore opted for horizontal industrial policies rather than sectorial policies, meaning that it chose general policies rather than policies to suit the needs of particular industries. "The experience of the 1970s and 1980s has shown that sectoral policies of an interventionist type are not an effective instrument to promote structural adaptation" (19), but also that "special importance has to be attached in this context to coordinated efforts for research". The vagueness of the paper was partly settled in bitter fights over support to the electronics industry shortly after, where the Commission settled for horizontal policies, avoiding support for firms in this industry (Dinan 1999:371; SEC(91)65, council 91-11-18).

The position of the Commission is unexpected if the SEA is interpreted as (only) support for more interventionist policies. There are two reasons to think otherwise. First of all, the SEA was about the Single Market and the removal of barriers. Sectorial policies could become barriers for structural change, by preserving firms in certain sectors. The Commission put much energy into competition policy. Support for SMEs is a complement or instead of support for MNCs.

There were other events which had a restrictive impact on the mercantilist policies of the EU. One was the Danish referendum on the SEA, which was lost and forced Delors to stress subsidiarity to win a majority in a new Danish referendum. It is easy to think that industrial policy was an area which many member states preferred to deal with nationally rather than handling over to the EU, i.e. in line with “subsidiarity”. Another issue was the increased integration with the members of Efta (the former rival of the EEC) under the construction of a European Economic Area (EEA). This was a move to widen the Single Market across Europe without the close cooperation of the EU. Eventually four Efta-countries applied to join the EU, of which three did so in 1995.

Furthermore, the mercantilist policies would demand time, energy and funding. The member states agreed to the mandate, but it was a later issue to decide on the budget. It turned out that the member states were unwilling to provide more funding. The Delors I package (1988) doubled Cohesion policy, but not technology policy (Dinan1999: 123). FP2, after the SEA, integrated RTD with other policy areas, which may be an example of RTD trying to form coalitions with other subfields (Sanz-Menéndez & Borrás 2001:40).

There was no big expansion of these policies after the SEA or immediately after Maastricht. It was politics within the mandate given in 1986 and 1992. What is interesting about this period is rather how the support for industrial policies broke up, in spite of winning a treaty base for the policies.

	Bargaining	**Situational factors**	**Norms**
Treaty revision	Expanded mandate + unanimity requirement EMU and EPU	Demand for subsidiarity, Geopolitical change	Market + state + EMU
Council decision	Focus on the single market Funding for cohesion policy, not RTD	Strong economy	Neoliberalism
Commission decision	DG Enterprise Competition policy	Delors + Cockburn + Bangemann	Avoid industrial policy
OMC			

Figure: Summary of explanations, at the road to Maastricht

6. Leading up to the Lisbon strategy

The Maastricht Treaty is remembered for the creation of a Union out of the Community, with expansion into new policy areas. It was a big step towards further political integration, even though the proponents of EPU had hoped to gain even more. The other big project was the decision to go forward with the EMU in several steps. It was a major deepening of the Single Market to move towards a common currency, the Euro. There were many difficult steps in the process of building the EMU, which took much of the attention of European politicians in the 90s. One major step was the creation of the Stability and Growth Pact, where the member states agreed on restricting their spending and their deficits in order to live up to the monetarist policies to be enacted in the EMU. This process coincided with a major economic downturn and resulted in breach of the SGP by a number of member states, including France and Germany.

The EMU and SGP created a need to address other policies, such as Employment policy and the regulation of financial markets. The way to do this was to set up “processes” which were later to be called the Open Method of Coordination. The idea was to talk about the policies and exchange opinions even though there was no mandate for the EU. It was an intergovernmental process to handle issues that were affected by the EMU. The first initiative to coordinate member state policies was taken at the Edinburgh meeting of the European Council and was about Employment policy (McDonald 1999:25), followed by initiatives at Cardiff 1998 on Broad Economic Guidelines and at Cologne 1999, which highlighted innovation and the information society.

In 1997 there was a follow-up to the Maastricht Treaty which became the Treaty of Amsterdam. There were a number of changes which have to do with new members and changes of government in some member states. One change was that the UK under Tony Blair agreed to transfer the Social Protocol, which was an annex of the Maastricht Treaty, into a Social Chapter, thereby elevating its status and making it binding for all member states.

New mandates were given in Employment policy and some parts of what was “Pillar 3”, for example turning the Schengen agreement from an intergovernmental cooperation to a supranational issue (with opt-outs for Denmark, Ireland and the UK).

Three years after the Amsterdam Treaty (2000) the Commission proposed further collaboration on economic issues. It developed the OMC into a strategy, later to be referred to as the Lisbon Strategy for growth. The strategy was launched as a minor issue at the Lisbon meeting of the European Council. It was not fully developed but placed the European Council in the key coordinating role. The Commission was given the role of monitoring progress in addition to the rather few instruments it already had a mandate to pursue.

There was a centre-left majority under Prodi, which explains a concern with employment and a wide scope of the original Lisbon strategy for economic growth in 2000, to include social cohesion and environmental concerns etc., but also a greater interest in industrial policies around the same time.

The strategy was bold but toothless, leaving it up to the member states to take action. It gave support to specific interests in the member states but no more. It is interesting both for being a concerted effort to deal with economic growth and for being weak. Whereas the EMU was a supranational project, with the Commission in the driver’s seat, the Lisbon Strategy was intergovernmental, with a much weaker role for the Commission. Obviously, the member states were not willing to bind themselves under supranational leadership.

Mercantilist policies

The Commission presented a White Paper on Growth, Competitiveness and Employment (1993) on the invitation of the Copenhagen meeting of the European Council in June the same year and after the member states had an opportunity to submit their opinions. The White Paper is a major declaration of what the EU should do after the very big project of creating a Single Market by 1992 and after there was agreement in Maastricht to go on with EMU. The White Paper is often attributed to Jacques Delors personally, as one of his last contributions to the EU.

The text is very political and begins by saying that there is no miracle cure, which sets a different tone than the 1990 communication did, when the economy was much brighter. It also says that the new macroeconomic framework (EMU) will at first necessitate reduced deficits but later a restructuring of public spending towards investments. Under the headline “decentralized economy” it states that the single market was not only about economies of scale, but also about competition (13). On research, the White Paper argues that the member states need to encourage companies to collaborate on certain big topics. It doesn’t suggest in the summary that the EU should play a larger role (15), but comes back to that at the end. The term solidarity is used to describe “flanking” policies.

The analysis by themes states that “a competitive environment is basic to efficient allocation of resources and stimulates investment (in) innovation and R&D”, but also that some state aid and cooperation between companies can help companies restructure and adapt to changing circumstances (49). The section on competitiveness concludes by proposing (to the European Council) that "government intervention in industry must be refocused on horizontal measures and on growth markets", which can be read as taking a position against the support of "national champions". It suggests that non-physical investments (in knowledge) must be promoted, i.e. not treated unfavourably (65). This is followed by sections on investments in knowledge (education, training, RTD), trans-European networks (information, transport, energy) and on specific sectors (information, biotechnology, audiovisual).

In 1994 the Commission produced a follow-up paper on competitiveness, which refers back to the White Paper of 1993 and the Communication of 1990. It highlights four types of actions for the EU, in line with the previous documents: promote intangible investment, develop industrial cooperation, ensure fair competition and modernize the role of public authorities.

In 1995 the Commission presented a Green Paper on Innovation which sets the issues in the context of recent research on innovation systems etc. The proposals are, however, limited in their range. The four main themes are to orient research towards innovation, human resources, problems with financing and the legal and regulatory environment. When the Commission presented its follow-up Action Plan on Innovation in 1996, the list of actions was along the same general lines but even shorter.

The Green Paper in 1995 is often seen as the introduction of a new set of ideas, moving RTD Policy into Innovation Policy, without involvement by the member states or corporations (Sanz-Menéndez & Borrás 2001:29, Biegelbauer & Borrás 2003, Borrás 2003). The background was the introduction of a new paradigm, a new way of thinking about change in the economy, which shifted the focus from technologies to a wider understanding of the innovation process. Technological development is explained by placing firms in systems where they learn from research as well as from customers and suppliers. It provides a new map of the terrain, where the development of industry can be better understood. The perspective challenges neoclassical Economics since it is more realistic (at a lower level of abstraction) and highlights processes of interaction.

The new ideas were proposed by academics such as Christopher Freeman, Richard Nelson, Bengt-Åke Lundvall and Charles Edquist. They were introduced in some member states in the early 1990s. Important predecessors were the Advanced Technology Program in the US and the EU Brite program in the 1980s (Biegelbauer & Borrás 2003:287).

The concept of innovation policy moves away from the simple notion of market failure to the more vague idea of a need to correct systemic failure and "bottlenecks". It widens the perspective from a focus on R&D to the importance of other components of the system such as venture capital and regulation of markets. Still, it tends to be most popular within RTD Policy circles. In practice it focuses on the supply of R&D. The wider concept included contextual factors such as the exploitation of knowledge, organizational adaptability, availability of venture capital as well as the role of SME's. This in turn led to an interest in collaboration between RTD policy and other policy areas like education and industry (Biegelbauer & Borrás 2003:286).

A political benefit was that "(I)ntuitively, the 'system approach' is a wider approach that 'naturally' includes, rather than excludes, the previous policy rationale directed towards market dysfunctionalities, technological bottlenecks and (subsequent) strategic choices. By subsuming previous rationales into the new one the transition towards innovation policy has been relatively smooth because it has avoided open confrontation with previous policy approaches at the discursive-cognitive level" (ibid, 288). At the same time the lack of ready-made solutions is an advantage of the new paradigm by making it flexible (ibid, 289).

The rapid adoption of the new perspective makes it reasonable to see it as not only a scientific breakthrough but also as a more favourable discourse, which may help advance the position of the people involved in RTD-policy. A similar discourse has been adopted in several member states. Swedish studies indicate that the new thinking was used when influential groups needed to find a new discourse, either to defend applied R&D generally (Eklund 2007) or to give the government an arena for talks with business (Persson 2010).

A test to see whether the new paradigm is really adopted is to check if there is increased coordination of policies (Biegelbauer & Borrás 2003:294). The framework programs for R&D became wider to cover the new policy fields incorporated in the Maastricht Treaty, such as environmental policy. These programs created a further demand from the member states and the clients of the programs. They also gave more opportunities for cross-cutting alliances (Sanz-Menéndez & Borrás 2001:42).

The move to an innovation policy frame was helped by a greater interest in efficiency by indicators, monitoring and analysis by the OECD, especially when the OECD asked for demand-side instruments to have more diffusion of the results of R&D.

With the Amsterdam Treaty and the 1997 Luxemburg Jobs Summit, the fight against unemployment was given a higher priority. A new Communication aimed to bring together cohesion, competitiveness and RTD and innovation in a single, coherent framework (Commission 1998:3). It was mainly within the mandate set out by previous papers and the novelty was in the strong interconnection of these policies. The continuity was evidenced in a 1999 report on Economic and structural reform, which states that ”structural reforms have an important role to play in fostering economic growth and employment, since they help ensure sustainable long-run growth, reinforce competitiveness and increase the job-content of growth” and that ”reforms in the goods and capital markets have to be accompanied by more reform efforts in service and labour markets to produce welfare and jobs” (Commission 1999:6).

In 1999 the Commission issued a Communication on Competitiveness, which takes globalization as its point of departure, with comparisons to the US and Japan. The analysis points out that investment in R&D is bigger and better coordinated in Japan and the US, while there are no similar comparisons of regulatory environments in the background analysis. Measures to develop knowledge come before measures to develop a competitive environment. Interestingly, it notes in the beginning that the focus on sectors is outdated; “the true yardstick for competitiveness should not be sectors but rather activities and markets” (10). This was a position soon to be reversed.

	Bargaining	Situational factors	Norms
Treaty revision	Employment policy No further mandate to the Commission	Economic downturn	State + Market
Council decision	SGP, limited budget, limited RTD-policies, horizontal policies, reduction of state aid, Cohesion + competitiveness	EMU demanded deficit reduction French reforms Stronger competition policy, WTO New industries have different needs for R&D and SME's	Monetarism Blair, Schröder, Prodi Clinton
Commission decision	Innovation policy Wider RTD-program	OECD on efficiency	Innovation systems
OMC	Employment policy Lisbon strategy	EMU	Monetarism + social policy

Figure: Summary of explanations leading up to the Lisbon Strategy

7. From Lisbon to the Europe 2020-strategy

The first decade of the new century was turbulent. The Nice Treaty in 2001 made the EU ready for enlargement in 2004 and 2007. Much effort went into the development of a constitution for the EU which was eventually rejected by the voters. Some of it was put in the Lisbon Treaty, ratified with great difficulty in 2009. Much focus at the end of the period was on solving the problems within the EMU.

After a mid-term review of the Lisbon Strategy in 2005 (and a change of Commission), the strategy became more focused on jobs and growth while other policies were put in the background. 24 "integrated guidelines" were introduced as a framework of goals for the member states to live up to. They combined the guidelines of the SGP and Employment guidelines. The member states on their part had to submit three-year National Reform Programs, while the Commission developed the Community Lisbon Programme (CLP), which brought together for the first time measures in the regulatory domain, financial instruments and proposals for policy development to be launched at the European level. Within the jobs and growth strategy, the prioritized areas were research and innovation, investing in people, modernizing labour markets, unlocking business potential (SMEs) and energy/climate change (Butkovic & Samardzija 2010: 6).

A further revision was made for the final years, 2008-10, where the focus was on the implementation of the ten objectives identified in the CLP. The economic situation was good in 2008, but changed dramatically by 2010. The strategy was not related to the issues of the financial crisis and it lead to a widening gap between the member states.

The work on a new strategy was initiated in 2008. The Commission published a communication in 2009 where it invited the submission of views from interested parties. Part of the work on the new strategy was about weaknesses of the Lisbon strategy, e.g. that the OMC is a weak instrument of monitoring and coordination, that there is only a weak sense of ownership of the strategy in the member states, that this strategy was not coordinated with other strategies by the EU or with the budget of the EU.

The final version of the Europe 2020-strategy, presented by the Commission in March 2010 focused on three themes and five headline targets (to be broken down nationally). The means at the supranational level to achieve the targets were seven flagship initiatives, which to a large extent are summaries of on-going work by the Commission. The OMC was somewhat strengthened by the introduction of "policy warnings" and there were suggestions that EU funding should be made conditional on member state performance. Ten integrated guidelines were introduced in 2010 and the reporting should be made simultaneously (in April each year) with the reporting on the SGP. There will also be thematic coordination of particular policy areas (ibid, 16).

In other words, there is an integration of the various goals, but the work itself is still very much up to the member states to decide about. The big problem, as before, is implementation, including the tailoring of policies to the specific circumstances and developing national leadership, including seeking a mandate from the voters. The dilemma of such a weak strategy is that it is likely to be too much for the willing countries and not enough to change the unwilling countries.

Mercantilist policies

A new Communication on competitiveness was presented in 2002, this time under the label of industrial policy. It sets a new tone by an introductory reference to the competitiveness of the manufacturing industry (2). It furthermore states that industrial policy is horizontal but also concerned with sectorial application, "reality checks", and that the Communication itself is "intended by the Commission as the start of a process of examination of the appropriateness and balance with which its industrial policy is applied" (3, 30). It furthermore stated the need to create an enterprise culture and more coordinated R&D.

The half-way return to sectorial policy was later called a "matrix approach", meaning that horizontal rules have to be tailored to fit specific sectors. It stretches the concept of horizontal policy and avoids the old conception of sectorial policy (Aiginer & Sieber 2006).

There were differing interpretations at the time. Mitchell Smith saw it as a rhetorical shift rather than a real shift in policy (Smith 2003). His reasoning was that the single market acted as an institutional constraint on the policies. He also pointed out that there was some reluctance towards competition policy. While the Competitiveness report in 1999 focused on imperfections in the single market, the 2002 communication said that European firms are at a disadvantage because of the strict competition policy and less rigorous US competition policy (Smith 2003:13)

In time for the enlargement 2004, the Commission issued a document on "Fostering structural change: an industrial policy for an enlarged Europe". It had three themes; better regulation, synergies between Community policies and development of the sectorial dimension of industrial policy (2f). The background is a description of deindustrialisation, with reference to a letter from the leaders of UK, Germany and France, where they ask for solutions aimed at preventing this. The Commission avoids the question of whether deindustrialisation is an intended consequence of the Single Market, but says that structural change is beneficial and should be encouraged, in particular by policies that facilitate the development and use of knowledge (2ff). One of the key messages is that enlargement creates opportunities for business development.

In 2005, the new Commission restarted the Lisbon Strategy with a focus on jobs and growth (putting other policies in second place) and announced a slightly revised Industrial Policy. It started, as expected, by stating the importance of the framework conditions and made an early point of saying that "business have the responsibility to develop their products and processes" and that "the role of public authorities is to act only where needed, i.e. when some types of market failures justify government intervention or in order to foster structural change (and) …reduce the social costs of structural change" (3), implying that the roles may have been differently conceived under the previous Commission.

More unexpectedly, the Commission pointed out that "the scope of policy instruments should not be seen just as only very broad horizontal measures. For industrial policy to be effective, account needs to be taken of the specific context of individual sectors" (3). It went on to say that "(T)he Commission therefore stands by its previous commitments to encourage and facilitate the process of industrial innovation and change", referring back to the Communications 2002 and 2004, by the previous Commission. "However, a new approach …is required aimed at achieving better designed policies that are more relevant , integrated and consensual" (4,8). The Communication introduced seven cross-sectorial policy initiatives, one of which referred to industrial research and innovation, and a similar number of sector-specific initiatives.

A mid-term review of the renewed Lisbon strategy was undertaken in 2007. It underlined that many issues are the responsibility of the member states. When discussing the initiatives taken in 2005, the Commission emphasised that they helped bring together stakeholders and to build consensus on key issues and the way forward (5). The contribution of Cohesion policy is mentioned in the same context. A separate document describes in more detail what has been done since 2005.

The Communication listed ten horizontal initiatives and two new sectorial initiatives, where the latter makes a reference to EU research policy. After the almost mandatory reference to improving the regulatory environment, the Commission states a number of initiatives which "derive from the fact that innovation, and response to rapidly evolving technologies, cannot be stimulated by the regulatory framework alone" (7). One if the initiatives referred to a mix of action to support new products which create a lead market or what is also known as first-mover advantages, where the company which first introduces a product gets a dominant position (due to patents or reputation). The instruments mentioned range from public procurement to venture capital (8). Other initiatives relate to standards and the support of clusters

The Lisbon strategy was revised a second time for the years 2008-10. Now the work focused on the ten priorities listed in the Community Lisbon Programme (CLP), which were based on the original 24 Integrated Guidelines, and was the agenda for the Commission, whereas the member states produced National Reform Programs, to be focused on the same ten dimensions.

An evaluation of the Lisbon Strategy, by the Commission staff, was published in 2010. It listed benefits and some major omissions, such as problems in the financial market and the increasing gap between the member states in terms of how far they have implemented the jointly decided measures (5).

The Europe 2020-strategy was introduced in late 2009 and decided on, after consultations, in March 2010. The same year the Commission produced a communication on industrial policy which promised a "fresh approach", to cover all policies with an impact on firms and all the effects on competitiveness of other policies (4). Towards the end of the document, the Commission says that "in the context of fiscal consolidation, competitiveness strategies cannot be built on major spending programmes, but are more likely to address structural reforms in areas such as improving the business environment, modernising public administrations, improving companies' ability to innovate or enhancing energy efficiency" (30f).

Under "Framework conditions", reference is made to competitiveness-proofing and smart regulation, which includes impact assessments by the Commission and the member states (5ff). Access to finance is mentioned as another framework condition (7f), while developing the single market encompasses regulatory issues (competition policy, intellectual property rights) and improved infrastructure (8ff).

A new industrial innovation policy, outlined in the "flagship initiative" Innovative Union, will focus on faster development and commercialization of goods and markets, which is almost the opposite to focusing on the funding for RTD. So called key enabling technologies are mentioned with the comment that "Europe has a leading position in scientific research, but the timely development and take-up of these technologies throughout EU industries, including SME's, needs to be ensured" (12f).

Some of the sectorial initiatives launched earlier are discussed primarily in terms of developing a shared vision on R&D and learning from experience, rather than developing tailored policies (13). "For effective innovation policy, we need better insight into sectoral innovation performance and future potential" and also "closer cross-sectoral cooperation" (14). The flagship initiative "An agenda for new skills and jobs" are mentioned in the same context. Other initiatives relate to trade, raw materials, sustainability, unemployment ("structural excess capacities"), corporate social responsibility and five sectorial initiatives which touch upon several general (horizontal) issues.

The final issue is an appeal to more coordination, that "uncoordinated national policy responses must give way to coordinated, European policy responses", and that this should apply to visions as well as to monitoring (31).

Late in 2011, the Commission produced an overview which compares (groupwise) member state performance. It is intended to be a background for the broader discussions during Spring 2012, the "European semester". There are a few comments on what the Commission thinks the member states should do. One is to coordinate support for large scale demonstration projects and pilot test facilities across Europe (6). Another is to upgrade and connect energy distribution networks. A third is to develop social businesses. A block of issues are related to the business environment, the single market and SME's.

	Bargaining	**Situational factors**	**Norms**
Treaty revision	Nice, the Constitution, the Lisbon Treaty	Enlargement Rejection by voters	Mistrust in the EU
Council decision	Two revisions of the Lisbon Strategy Matrix approach The use of RTD Comments on individual countries	Economic downturn The Single Market Competition Policy Deficit reduction Greece, PIIGS	State (Schröder + Prodi) Market (Barroso) Monetarism
Commission decision	Coordination of policies	Limited room for initiatives	Joined-up government
OMC	Europe 2020-strategy	No further mandate to the Commission	

Figure: Summary of explanations from Lisbon to the Europe 2020-strategy

8. Summary

There is surprising change as well as surprising continuity in history of developmental policies in the EU. The EU has advanced through new treaties, widening the scope of policies, deepening the integration with stronger demands on the member states (through the single market and the EM) and by adding new members. The contradiction between neoliberalism and mercantilism has been with the EU since the contradictory approaches of the ESCS (1951)/Euratom (1957) and the EEC (1957), but the pendulum has moved back and forth.

The SEA was a big change for the EU and a combination of more market and more state. The two aspects were necessary parts of an integrated deal by Thatcher and Mitterrand. It was made possible by support from industry (ERT), which was rather more in favour of the mercantilist (state) part of the deal than the market part. Perhaps to some disappointment to ERT, additional funding was given to Cohesion policy rather than to RTD policy. Subsequent increases for RTD have been financed with a reduction of CAP.

Industrial policy was given a stronger treaty base, which wasn't used in the 90s. Already in 1990 the pendulum moved back from mercantilism, when the EU took a strong stand in favour of horizontal policies and spoke more about private investments in RTD than public investments. RTD policy and Cohesion policy were maintained but the main focus was on the creation of the market. An attempt to build an elaborated mercantilist agenda was introduced with the concept of Innovation policy in 1995. It lives on but has not had managed to establish itself as a master-discourse in the EU.

With the Maastricht Treaty in 1992, the EU consolidated industrial policy but moved on with the building of an integrated market by means of the EMU. The interest in economic and monetary cooperation has been there since the 70s, evolving in several steps and placing the countries under restrictions, first the northern countries and most recently the southern countries of the EMU, while the eastern countries went through great changes in the 90s for other reasons.

The policy mix lived on after a change of political majorities in the member states but was reversed in 2002, when the EU opened for a matrix approach, a renewed interest in sectors of the economy, going back to concepts used in the 70s, while not to the extent demanded by Schröder, Blair and Chirac. Equally interesting is that the new Commission under Barroso maintained the matrix approach and adopted some new industrial policy instruments like the lead market initiative (public procurement etc).

This lasted until 2010, when the matrix approach was reinterpreted in a more market-conforming way, with a rhetoric almost as strong as in 1990. The most recent documents can be interpreted as a shift of focus, from helping the sectors to getting more contextual information from the sectors in order to develop the horizontal policies. Whether this is merely a rhetorical shift remains to be seen.

There is a renewed emphasis on the market and on the national industrial policies, to be better coordinated. Compared to the situation 30 years ago, this is the combination that was neither the German, French or British position, but rather what would be the position of new member states (possibly the CEE-countries). This has to do with the development of supranational policies over this period. They were first strengthened by the Single Market and the EMU, shifting the initiative to the EU, but when other policies had to be reformed as a consequence, the member states preferred to maintain control and settle for intergovernmental cooperation, shifting the initiative to the European Council.

It is interesting that the EU didn't take further steps towards integration in the late 90s, when such steps would have shifted the mix and balance of the European project. Steps were taken in employment policy and environmental policy for example, but much control of the national economies remained in the hands of the national governments. The EU settled on intergovernmental coordination of policies in the Lisbon Strategy and the Europe 2020-strategy. The weakness of the Lisbon Strategy and the Europe 2020-strategy are consequences of this situation

	Bargaining **Interests**	**Situational factors** **Institutions**	**Norms** **Ideas**
Treaty revision	SEA, EMU		Market + state
Council decision	Since 1985	SEA, EMU	(Shifting majorities) Return of the market
Commission decision			Innovation etc.
OMC		SEA, EMU	New Public Management

Figure: Summary of the explanatory factors

In terms of explanatory factors, bargaining and material interests played a big role in the Single European Act, but over time there is a strong element of path-dependence, where competition policy and EMU place restrictions on the options available and create demand for further action. There have been attempts to introduce new ideas, in RTD ("Innovation") as well as Cohesion policy ("territorial integration" and other concepts), while the change in thinking about states and markets has mainly to do with shifting majorities. The comeback of a market friendly rhetoric in a time of crisis is perhaps most surprising.

Somewhat paradoxically, the emphasis on framework conditions and, by implication, the self-coordination of markets and "creative destruction" by entrepreneurs, is combined with an increased belief in government control of the overall process of generating economic growth. The two strategies are set in a framework of New Public Management with goals and monitoring. Such a planning arrangement can come into conflict with some conceptions of market coordination of the economy. Many difficult choices remain to be made.

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