Negotiating the Single European Act: national interests and conventional statecraft in the European Community

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The European Community (EC) is experiencing its most important period of reform since the completion of the Common Market in 1968. This new impulse toward European integration—the "relaunching" of Europe, the French call it—was unexpected. The late 1970s and early 1980s were periods of "Europessimism" and "Eurosclerosis," when politicians and academics alike lost faith in European institutions. The current period is one of optimism and institutional momentum. The source of this transformation was the Single European Act (SEA), a document approved by European heads of government in 1986.[1]

The SEA links liberalization of the European market with procedural reform. The first half of this reform package, incorporating 279 proposals contained in the 1985 EC Commission White Paper, aims to create "an area without internal frontiers in which the free movement of goods, persons,

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1. The best negotiating history of the SEA, written by an intelligent insider who took comprehensive notes, is Jean De Ruyt's *L'acte unique européen: Commentaire* (The Single European Act: Commentary) (Bruxelles: Editions de l'Université de Bruxelles, 1987). For other useful histories and commentaries, see Peter Ludlow, *Beyond 1992: Europe and Its Western Partners* (Brussels: Center for European Policy Studies, 1989); Michael Calingaert, *The 1992 Challenge from Europe: Development of the European Community's Internal Market* (Washington, D.C.: National Planning Association, 1988); and Angelika Volle, *Grossbritannien und der europäische Einigungsprozess* (Great Britain and the process of European integration) (Bonn: Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik, February 1989), pp. 46–76. For a collection of important German articles and documents between 1985 and 1989, see Jochen Thies and Wolfgang Wagner, eds., *Auf dem Wege zum Binnenmarkt: Europäische Integration und deutscher Föderalismus* (On the way to the internal market: European

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services, and capital is ensured."[2] To realize this goal, European leaders committed themselves to addressing issues never successfully tackled in a multinational forum, such as the comprehensive liberalization of trade in services and the removal of domestic regulations that act as nontariff barriers. Previous attempts to set detailed and uniform European standards for domestic regulations ("harmonization") had proven time-consuming and fruitless. With this in mind, the White Paper called for a "new approach" based on "mutual recognition"—a less invasive form of liberalization whereby only minimal standards would be harmonized.

The second half of the SEA reform package consists of procedural reforms designed to streamline decision making in the governing body of the EC, the Council of Ministers. Since January 1966, qualified majority voting had been limited in practice by the "Luxembourg compromise," in which France unilaterally asserted the right to veto a proposal in the Council of Ministers by declaring that a "vital" or "very important" interest was at stake.[3] The SEA expands the use of qualified majority voting in the Council of Ministers, although only on matters pertaining to the internal market.[4]

What accounts for the timing and the content of the reform package that relaunched Europe? Why did this reform succeed when so many previous efforts had failed? As a first step toward answering these questions, this article presents a history of the negotiations that led to the approval of the SEA by the European Council in February 1986, formulates and evaluates two stylized explanations for their unexpected success, and relates the findings to theories of international cooperation.

The findings challenge the prominent view that institutional reform resulted from an elite alliance between EC officials and pan-European business interest groups. The negotiating history is more consistent with the alter-

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integration and German federalism) (Bonn: Verlag für Internationale Politik, 1989). For a path-breaking attempt to account for the SEA, an account offered by two political scientists and incorporating nearly all existing hypotheses, see Wayne Sandholtz and John Zysman, "1992: Recasting the European Bargain," *World Politics* 42 (October 1989), pp. 95–128. For an excellent comparison of the 1992 negotiations and previous negotiations, see Roy Pryce, ed., *The Dynamics of European Union* (London: Croom Helm, 1987). On the provisions of 1992 as a new form of multilateral economic negotiation, see Kalypso Nicolaïdis, "Mutual Recognition: The New Frontier of Multilateralism?" in *Network Politics,* Promethée Perspectives no. 10, Paris, June 1989, pp. 21–34.

2. Article 8A of the 1985 EC Commission White Paper, as amended by the SEA.

3. The Luxembourg compromise, which was announced to the world in a press communiqué, has no legal standing. Quite the opposite, it has been interpreted as an attempt to circumvent legal procedures outlined in Article 236 of the Treaty of Rome.

4. With the exception of a few minor initiatives (such as the inclusion of collaborative research and development programs under the SEA), other potential areas of European integration—including political cooperation, social legislation, monetary policy, further procedural reform, and fundamental constitutional issues such as the enlargement of EC membership—are subject to neither the new approach nor majority voting.

native explanation that EC reform rested on interstate bargains between Britain, France, and Germany. An essential precondition for reform was the convergence of the economic policy prescriptions of ruling party coalitions in these countries following the election of the British Conservative party in 1979 and the reversal of French Socialist party policy in 1983. Also essential was the negotiating leverage that France and Germany gained by exploiting the threat of creating a "two-track" Europe and excluding Britain from it. This "intergovernmental institutionalist" explanation is more consistent with what Robert Keohane calls the "modified structural realist" view of regime change, a view that stresses traditional conceptions of national interests and power,[5] than it is with supranational variants of neofunctionalist integration theory. For the source of state interests, however, scholars must turn away from structural theories and toward domestic politics, where the existence of several competing explanations invite further research.

Explanations for the success of the SEA

Journalistic reportage, academic analysis, and interviews with European officials reveal a bewilderingly wide range of explanations, some contradictory, for the timing, content, and process of adopting the White Paper and the SEA. One French official I interviewed in Brussels quipped, "When the little boy turns out well, everyone claims paternity!" The various accounts cluster around two sylized explanations, the first stressing the independent activism of international or transnational actors and the second emphasizing bargaining between leaders of the most powerful states of Europe.

Supranational institutionalism

Three supranational factors consistently recur in accounts of EC reform: pressure from EC institutions, particularly the Parliament and Court; lobbying by transnational business interest groups; and the political entrepreneurship of the Commission, led by President Jacques Delors and Internal Market Commissioner Lord Arthur Cockfield.[6] Together these supranational

5. See Robert Keohane, *After Hegemony: Collaboration and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984), pp. 61–64; and Robert Keohane, ed., *Neo-Realism and Its Critics* (New York: Columbia University Press, 1986), pp. 192–95. In *After Hegemony*, p. 63, Keohane writes that "the concept of international regime is consistent with both the importance of differential power and with a sophisticated view of self-interest." It is not, however, consistent with a strong view of domestic politics as an independent determinant of interest.

6. These factors are stressed by Calingaert in *The 1992 Challenge from Europe* and by Sandholtz and Zysman in "1992." See also Axel Krause, "What After European Integration?" *European Affairs* 2 (Autumn 1988), pp. 46–55; and Peter Ludlow, "Beyond 1992," *European Affairs* 2 (Autumn 1988), pp. 19–21.

factors offer an account of reform guided by actors and institutions acting "above" the nation-state.

European institutions. Between 1980 and 1985, pressure for reform grew within the EC institutions. In the European Parliament, resolutions and reports supported the programs of two groups, one "maximalist" and the other "minimalist" in approach. The first group, which included many Italians and quite a number of Germans, advocated European federalism and a broad expansion in the scope of EC activities, backed by procedural reforms focusing particularly on increasing the power of the Parliament.[7] Following the Europarliamentary penchant for animal names, these activists called themselves the "Crocodile Group," after the Strasbourg restaurant where they first met. Led by the venerable Altiero Spinelli, a founding father of the EC, their efforts culminated in the European Parliament resolution of February 1984 proposing a "Draft Treaty Establishing the European Union"—a new, more ambitious document to replace the Treaty of Rome.

The second group, founded in 1981 and consisting of Parliament members who were skeptical of federalism and parliamentary reform, focused on working with national leaders to liberalize the internal market. These activists called themselves the "Kangaroo Group," based on the Australian marsupial's ability to "hop over borders." Their efforts were funded by sympathetic business interests (primarily British and Dutch), and they counted Basil de Ferranti, a leading British industrialist and Tory parliamentarian, among their leaders.[8] The Kangaroos encouraged parliamentary studies on economic topics and in 1983 launched a public campaign in favor of a detailed EC timetable for abolishing administrative, technical, and fiscal barriers, a reference to which was included in the draft treaty.

Transnational business interest groups. According to Wisse Dekker, chief executive officer of Philips, European integration in the 1950s was initiated by politicians, while in its current "industrial" phase it is initiated by business leaders.[9] The evidence presented to date by partisans of this view stresses the actions of pan-European business interest groups. The Commission has long sought to encourage the development of a sort of pan-European corporatist network by granting these groups privileged access to the policy process, though this effort has met with little success.[10]

7. For strong claims about the importance of this group in inspiring reform, see Marina Gazzo, "Introduction," in Marina Gazzo, ed., *Towards European Union* (Brussels: Agence Europe, 1985), vol. 1, pp. 7–10. The advent of direct elections to the European Parliament in 1979, which endowed the body with democratic legitimacy, gave the activities of the group new impetus.

8. See Michel Albert and James Ball, *Toward European Economic Recovery in the 1980s: Report to the European Parliament* (New York: Praeger, 1984).

9. Speech by Wisse Dekker, Geneva, 25 October 1988.

10. Philippe Schmitter and Wolfgang Streeck, "Organized Interests and the Europe of 1992," paper presented to the American Enterprise Institute, Washington, D.C., 6–8 March 1990.

In the mid-1980s, business interest groups, at times working together with EC officials, hoped to bolster the competitiveness of European firms by calling for a more liberal EC market. Viscount Etienne Davignon, the internal market commissioner from 1976 through 1984, brought together a group of large European information technology firms in 1981 to form the Thorn-Davignon Commission, which developed proposals for technology programs and European technical norms and reportedly also discussed market liberalization. In 1983, Pehr Gyllenhammer, the chief executive officer of Volvo, and Wisse Dekker helped found the Roundtable of European Industrialists, made up of the heads of a number of Europe's largest multinational corporations, some of whom were selected on Davignon's suggestion.[11] Once the SEA was adopted, the Roundtable formed a "watchdog" committee to press for its implementation. In February 1984, the Union des Confédérations de l'Industrie et des Employeurs d'Europe (UNICE), the leading EC industrial interest group, called for majority voting, and it has been active since then in promoting market liberalization.[12]

In a series of speeches delivered in the autumn of 1984 and early 1985, Dekker proposed what became the best-known business plan for market liberalization, the "Europa 1990" plan.[13] Its focus on internal market liberalization, its division of the task into categories (reform of fiscal, commercial, technical, and government procurement policies), its ideology of economies of scale, its recognition of the link between commercial liberalization and tax harmonization, its identification of the ultimate goal with a certain date, and many of its other details were echoed in Delors' proposal to the European Parliament a few months later and in the White Paper of June 1985. Transnational business pressure, some have argued, was "indispensable" to the passage of the SEA.[14]

International political leaders. The Commission has traditionally been viewed as the agenda-setting arm of the EC. When Delors was nominated for the presidency of the Commission, he immediately sought a major initiative to rejuvenate the EC. When he assumed the office in January 1985,

11. Sandholtz and Zysman, "1992," p. 117.

12. For a discussion of the role of business, see Lawrence G. Franko, "Europe 1992: The Impact on Global Corporate Strategy and Multinational Corporate Strategy," mimeograph, University of Massachusetts, Boston, September 1989; Sandholtz and Zysman, "1992," pp. 108 and 116–20; *Financial Times,* 14 February 1984; Axel Krause, "Many Groups Lobby on Implementation of Market Plan," *Europe Magazine,* July–August 1988, pp. 24–25; Ludlow, *Beyond 1992,* pp. 27–30; Calingaert, *The 1992 Challenge from Europe,* p. 8; and Helen Wallace, "Making Multilateralism Work: Negotiations in the European Community," mimeograph, Chatham House, London, August 1988, p. 7.

13. For Dekker's proposals, see *Europe 1990: An Agenda for Action* (Eindhoven: N.V. Philips, 1984). The four aspects of the Dekker plan were administrative simplification of border formalities, harmonization of the value-added tax (VAT), standardization of technical norms, and liberalization of government procurement. Dekker outlined the new role of business in "Europe's Economic Power: Potential and Perspectives," a speech delivered to the Swiss Institute for International Studies, Geneva, 25 October 1988.

14. See Sandholtz and Zysman, "1992," p. 128.

he visited government, business, and labor leaders in each of the European capitals to discuss possible reforms. According to his account, he considered reform in three areas—the EC decision-making institutions, European monetary policy, and political and defense collaboration—before deciding to "return to the origins" of the EC, the construction of a single internal market.[15] Like Jean Monnet two decades before, Delors identified the goal with a date. He aimed to render the achievement of the program irreversible by 1988 and to complete it by 1992, coeval with the duration of two four-year terms of commissioners. It is commonly argued that Delors used the institutional power of the presidency as a platform from which to forge the link between the procedural improvements proposed by Parliament and the internal market liberalization advocated by Brussels-based business groups. According to this view, he encouraged Cockfield to elaborate the internal market agenda in the White Paper and then exaggerated the sense of economic decline to secure the approval of European heads of government.[16]

Supranational institutionalism and neofunctionalism

An elite alliance between transnationally organized big business groups and EC officials, led by Delors, constitutes the core of the supranational institutionalist explanation for the 1992 initiative. The explanation is theoretically coherent in that each of its elements emphasizes the autonomy and influence enjoyed by international institutions and transnational groups acting "above the state." Two leading scholars have recently argued that the key role played by supranational actors decisively distinguishes the politics of the SEA from those of the Treaty of Rome three decades earlier: "Leadership for 1992 came from outside the national settings. . . . It came from the Commission."[17]

This explanation is consistent with a certain variant of neofunctionalist theory. In *The Uniting of Europe,* Ernst Haas distinguishes between processes of integration that take place at what he called the "supranational" and "national" levels. Three key elements of the supranational process are the ability of a central institution (the EC) "to assert itself in such a way as to cause strong positive or negative expectations," the tendency of "business

15. Jacques Delors et al., *La France par l'Europe* (France through Europe) (Paris: Bernard Grasset, 1988), pp. 47 and 50–51. The tone is heroic, as the opening words of the chapter on Delors' initiative (p. 47) illustrate: "January 1985: the winter was harsh. In Brussels, as in Paris, people were shivering. On the top floor of the Berlaymont, in a vast office that didn't yet seem quite lived in, Jacques Delors gathered his closest associates around him."

16. Sandholtz and Zysman, "1992," p. 98.

17. Ibid., pp. 96–97; see also pp. 100, 108–9, and 128 for a discussion of the key role of supranational actors. Sandholtz and Zysman criticize neofunctionalism, but their description of the integration process is in fact compatible with neofunctionalism in all but a few particulars. For other supranational interpretations, see Ludlow, *Beyond 1992,* pp. 27–30; Calingaert, *The 1992 Challenge from Europe;* and Helen Wallace, "Europäische Integration" (European integration), in Thies and Wagner, *Auf dem Wege zum Binnenmarkt,* pp. 127–28.

and labor . . . to unite beyond their former national confines in an effort to make common policy," and the "demonstration by a resourceful supranational executive that ends already agreed to cannot be attained without further united steps."[18] An examination of the role of supranational actors in initiating the SEA tests this particular variant of neofunctionalism, though not, of course, the entire model.

Intergovernmental institutionalism

An alternative approach to explaining the success of the 1992 initiative focuses on interstate bargains between heads of government in the three largest member states of the EC. This approach, which can be called "intergovernmental institutionalism,"[19] stresses the central importance of power and interests, with the latter not simply dictated by position in the international system (see Table 1). Intergovernmental institutionalism is based on three principles: intergovernmentalism, lowest-common-denominator bargaining, and strict limits on future transfers of sovereignty.

Intergovernmentalism. From its inception, the EC has been based on interstate bargains between its leading member states. Heads of government, backed by a small group of ministers and advisers, initiate and negotiate major initiatives in the Council of Ministers or the European Council. Each government views the EC through the lens of its own policy preferences; EC politics is the continuation of domestic policies by other means.[20] Even when societal interests are transnational, the principal form of their political expression remains national.

Lowest-common-denominator bargaining. Without a "European hegemon" capable of providing universal incentives or threats to promote regime formation and without the widespread use of linkages and logrolling, the bargains struck in the EC reflect the relative power positions of the member states. Small states can be bought off with side-payments, but larger states exercise a de facto veto over fundamental changes in the scope or rules of the core element of the EC, which remains economic liberalization. Thus,

18. Ernst B. Haas, *The Uniting of Europe: Political, Social and Economic Forces, 1950–1957* (London: Stevens & Sons, 1958), pp. xiii–xiv; see also pp. 389 and 483–84 and chaps. 8–12, in which Haas stressed the federating influence of an active supranational executive and of transnational groups. Haas and Schmitter subsequently stressed "creative personal action" using organizational resources and skills, as seen, for example, when a central integrationist leader is able to promote trade-offs and package deals. See Ernst B. Haas and Philippe Schmitter, "Economics and Differential Patterns of Political Integration," *International Organization* 18 (Autumn 1964), pp. 736–37. This idea was picked up by later theorists. See Joseph S. Nye, Jr., *Peace in Parts: Integration and Conflict in International Organization* (Boston: Little, Brown, 1971), pp. 69 and 71–72.

19. I am grateful to Anne-Marie Burley for suggesting this rubric.

20. For summaries of the literature on intergovernmentalism, see Paul Taylor, *The Limits of European Integration* (Beckenham, U.K.: Croom Helm, 1983); and Helen Wallace, William Wallace, and Carole Webb, eds., *Policy-Making in the European Communities* (London: Wiley, 1977).

TABLE 1. *Comparison of two approaches to explaining the success of the 1992 initiative*

Parameter	*Supranational institutionalism*	*Intergovernmental institutionalism*
Key actors initiating the negotiations and compromises	Transnational interest groups and supranational officials	Heads of government and top officials of the largest member states, with specific policy goals determined by their domestic political system and by the preferences of policymakers, technocrats, political parties, and interest groups
Nature of the bargaining	Logrolling and linkages that upgrade the common interest of member states	Lowest-common-denominator (veto group) decisions among the largest member states, with smaller states receiving side-payments and larger states subject to threats of exclusion
Nature of the agreement	Fluid issue-areas and spillover	Rigid issue-areas that are subject to change only by further interstate agreement under the unanimity rule

bargaining tends to converge toward the lowest common denominator of large state interests. The bargains initially consisted of bilateral agreements between France and Germany; now they consist of trilateral agreements including Britain.[21]

The only tool that can impel a state to accept an outcome on a major issue that it does not prefer to the status quo is the threat of exclusion. Once an international institution has been created, exclusion can be expensive both because the nonmember forfeits input into further decision making and because it forgoes whatever benefits result. If two major states can isolate the third and credibly threaten it with exclusion and if such exclusion undermines the substantive interests of the excluded state, the coercive threat may bring about an agreement at a level of integration above the lowest common denominator.

Protection of sovereignty. The decision to join a regime involves some sacrifice of national sovereignty in exchange for certain advantages. Poli-

21. Helen Wallace, "Bilateral, Trilateral and Multilateral Negotiations in the European Community," in Roger Morgan and Caroline Bray, eds., *Partners and Rivals in Western Europe: Britain, France and Germany* (Aldershot, U.K.: Gower, 1986), pp. 156–74.

cymakers safeguard their countries against the future erosion of sovereignty by demanding the unanimous consent of regime members to sovereignty-related reforms. They also avoid granting open-ended authority to central institutions that might infringe on their sovereignty, preferring instead to work through intergovernmental institutions such as the Council of Ministers, rather than through supranational bodies such as the Commission and Parliament.

Intergovernmental institutionalism and modified structural realism

Convergent national interests, interstate bargains, and constraints on further reform constitute the intergovernmental institutionalist explanation for the SEA. This explanation is theoretically coherent in that it stresses the autonomy and influence of national leaders vis-à-vis international institutions as well as the importance of power resources in determining the outcomes of intergovernmental bargains.

Intergovernmental institutionalism affirms the realist foundations of what Keohane calls the "modified structural realist" explanation of regime formation and maintenance.[22] States are the principal actors in the international system. Interstate bargains reflect national interests and relative power. International regimes shape interstate politics by providing a common framework that reduces the uncertainty and transaction costs of interstate interactions. In the postwar system, Keohane argues, regimes have preserved established patterns of cooperation after the relative decline of the United States. Similarly, the EC regime, though neither created nor maintained by a hegemon, fixes interstate bargains until the major European powers choose to negotiate changes.

The emphasis of intergovernmental institutionalism differs decisively from that of modified structural realism, however, in that it locates the sources of regime reform not only in the changing power distribution but also in the changing interests of states. States are not "black boxes"; they are entities entrusted to governments, which themselves are responsible to domestic constituencies. State interests change over time, often in ways which are decisive for the integration process but which cannot be traced to shifts in the relative power of states.

National interests and 1992

The intergovernmental approach suggests that an analysis of the 1992 initiative must begin by examining the underlying preferences of Germany, France, and Britain. As indicated above, Delors identified four issue-areas

22. See Keohane, *After Hegemony*, pp. 61–64; and Keohane, *Neo-Realism and Its Critics*, pp. 192–95.

TABLE 2. *Preferences of the three largest EC member states, 1980–86*

Reform	*Germany*	*France*	*Britain*
Strengthening monetary coordination	Opposed, at least until capital flows are liberalized	In favor; advocates moving toward a European central bank	Opposed; is not a participant in the EMS
Strengthening political and defense cooperation	Opposed; advocates codifying current cooperation	In favor of creating the position of Secretariat-General; opposed to extending defense cooperation	Opposed; advocates codifying current cooperation
Instituting procedural reform in EC decision-making institutions	In favor of revising the treaty to strengthen Parliament's role; opposed to the Luxembourg compromise; in favor of more majority voting	In favor of revising the treaty or drafting a new treaty to allow for "variable geometry" programs; after 1984, opposed to strengthening Parliament's role, opposed to the Luxembourg compromise, and in favor of more majority voting	Opposed to revising the treaty; in favor of the Luxembourg compromise but advocates informal efforts to facilitate more majority voting
Liberalizing the internal market	In favor in principle	Opposed at first; after 1983, increasingly in favor	In favor in principle, but only if budgetary issues are resolved prior to liberalization

that might have served as the vehicle for major EC reform: monetary coordination, political and defense cooperation, institutional reform, and internal market liberalization. A glance at the national preferences for monetary coordination and for political and defense cooperation suggests that there was little possibility of a formal agreement, since in both cases France was opposed by Britain and Germany (see Table 2). Procedural reform in the EC decision-making institutions and liberalization of the internal market offered more promise and later became the two components of the 1992 initiative.

Germany: consistent support

Among the three largest member states of the EC, Germany has enjoyed since the late 1950s the least partisan opposition to further European inte-

gration. As Europe's leading exporter, dependent on the EC for nearly half its exports, Germany profits directly from economic integration. German Foreign Minister Hans-Dietrich Genscher, leader of the Free Democrats, has also been a strong supporter of European political cooperation, which he views as a vital complement to *Ostpolitik*.[23] Moreover, a greater role for the European Parliament is widely viewed as a desirable step toward political union.[24] On the other hand, in the mid-1980s, Germany was suspicious of proposals for a European defense organization, was ambivalent about altering the agricultural policy so it would pay more or receive less, and was opposed to further monetary integration, at least until capital flows were liberalized.[25]

France: the road to Damascus

Although traditionally pro-European, the French Socialist party all but ignored the EC during the first few years of the Mitterrand presidency.[26] France did call for more qualified majority voting and, to the surprise of many, supported a majority vote to override the threatened British veto of the cereal price package in May 1982. But substantive disagreements undermined Franco–German cooperation for EC reform. The most important French initiatives of this period, one in October 1981 on *un espace social européen* and another in the autumn of 1983 on *un espace industriel européen,* did not amount to much. The first initiative, which was an antiunemployment program of fiscal stimulation billed as the initial step toward a "socialist Europe," found few friends in either Bonn or London and was never discussed at the Council. The second offered support for technology policies already in the process of adoption by the EC.

France's role as a European outsider during this period reflected its unorthodox domestic economic policies, which ran counter to the more conservative policies of Germany and Britain. Until 1983, French economic policy was conceived by the more radical wing of the Socialist party, led by politicians such as Jean-Pierre Chevènement and Pierre Bérégovoy. Nationalization, direct intervention to increase employment, and increases in

23. For a summary of Genscher's comments at the opening session of the intergovernmental conference, see Gazzo, *Towards European Unity,* vol. 2, pp. 28–29.

24. For a summary of Germany's draft proposal on new powers for the Parliament, see Gazzo, *Towards European Unity,* vol. 1, pp. 39–40.

25. For a discussion of German views about the agricultural policy, see Gisela Hendriks, "Germany and the CAP: National Interests and the European Community," *International Affairs* 65 (Winter 1988–89), pp. 75–87. The German stand against more intensive monetary cooperation softened in 1988–89, once the initial condition of increased capital mobility was being met.

26. This account of French foreign policy during the first Mitterrand presidency draws heavily on Gabriel Robin's *La diplomatie de Mitterrand ou le triomphe des apparences, 1981–1985* (Mitterrand's diplomacy or the triumph of appearances, 1981–1985) (Paris: Editions de la Bièvre, 1985).

social welfare spending undermined international business and financial confidence in the French economy. By March 1983, the French government had already negotiated two devaluations of the franc within the European Monetary System (EMS) and was rapidly heading for a third. The governments of other European states, particularly Germany, made it clear that a continuation of expansive policies was incompatible with continued membership in the EMS.

Many Socialists urged Mitterrand to move toward autarky—import protection, capital controls, and repudiation of the EMS—to protect expansionist domestic policies. Others in the moderate wing of the Socialist party, represented by politicians Michel Rocard and Jacques Delors and backed nearly unanimously by the French economic technocracy, advocated continued EMS membership, external free trade, and an austerity policy consisting of wage restraint and cuts in public expenditures. Some moderates also realized that the economic fundamentals underlying traditional French support for the Common Agricultural Policy (CAP) were shifting. Although domestic politics dictated that the government not move too quickly against agricultural interests, France was no longer a large net beneficiary from the EC budget, and its prospects after the entry of Spain and Portugal were even bleaker.[27]

Mitterrand's decision to remain in the EMS, announced on 21 March 1983, marked a turning point not only in French domestic politics but also in French policy toward the EC. While the EMS decision may have been influenced in part by an independent desire to remain "European," other factors included the failure of the autarkic policies, which would ultimately have compelled the French government to impose as much austerity as the policy they chose, and the decline of the Communist party, which allowed Mitterrand to align himself with moderate Socialists.[28] French economic decision

27. Mitterrand and his ministers may have been looking for a way to limit agricultural spending without appearing to be responsible for limiting it. This would account for the attempts to cast Thatcher as a scapegoat and for the fact that although the French government became more accommodating of agricultural reform and the French ministers spoke out occasionally about overgenerous support, France remained one of the staunchest supporters of generous agricultural subsidies as late as the Brussels summit of February 1988. See Paul Taylor, "The New Dynamics of EC Integration in the 1980s," in Juliet Lodge, ed., *The European Community and the Challenge of the Future* (London: Pinter, 1989), p. 6.

28. The reasoning behind Mitterrand's decision is disputed. The decisive economic argument appears to have been made by the French treasury via Laurent Fabius, who told Mitterrand that leaving the EMS would undermine confidence in the economy and ultimately compel the French government to impose as much austerity as would continued membership. The decisive political condition appears to have been the decline of the French Communist party, which allowed Mitterrand to align himself with the moderate wing of the Socialist party. See David Cameron, *The Colors of a Rose: On the Ambiguous Record of French Socialism* (Cambridge, Mass.: Harvard University Center for European Studies, 1987); Peter Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), pp. 193 and 201 ff.; Organization for Economic Cooperation and Development (OECD), *Why Economic Policies Change Course* (Paris: OECD, 1988), pp. 56–64; and Philippe Bauchard, *La guerre des deux roses: Du rêve à la realité, 1981–1985* (The war of two roses: From dream to reality, 1981–1985) (Paris: Bernard Grasset, 1986).

making was thus vested in the hands of Rocard, Delors, and other politicians convinced of the virtues of conservative economic policies and firm in their belief that France must work within Europe to achieve its economic goals.

With the advent in January 1984 of the French presidency in the Council of Ministers and with elections to the European Parliament just two months away, Mitterrand—true to the European idealism he had espoused since the 1940s but undoubtedly also conscious of the political advantage to be gained by making a virtue out of necessity—announced a major diplomatic initiative for a relaunching of Europe. From that point on, Mitterrand played a decisive role in settling European disputes. French leadership and concessions helped resolve British agricultural and budget complaints. French negotiators began to support internal market liberalization and collaborative research and development. Mitterrand began to adopt the rhetoric of European federalism. He spoke of reconsidering the Luxembourg compromise and supporting procedural reform, as long as it was limited to the Council and the Commission and did not imply a radical democratization of EC politics.[29] Although committed to using the EC to combat economic decline, the French government remained uncertain whether monetary policy, internal market liberalization, or cooperative research and development should be the heart of the new initiative. Thus, Mitterrand, without being entirely sure where the initiative was leading, became the primary spokesman for relaunching Europe. One senior French diplomat observed dryly, "Monsieur Mitterrand's term as president of the European Council has become his road to Damascus."[30]

Britain: the road to Milan

With France converted to the European cause, Britain remained the major obstacle to an initiative linking internal market liberalization and procedural reform. Britain's entry into the EC in 1973 had expanded the Community without strengthening it. Insofar as Thatcher was pro-European, it was largely because she saw the EC almost exclusively as an organization for promoting economic liberalism in the industrial and service sectors. By British standards, however, this represented a considerable commitment, since the opposition Labour party was against market liberalization and against European integration. Having abolished exchange controls in 1979, having begun liberalization of telecommunications services in 1981, having publicly prom-

29. Mitterrand, speech delivered to the European Parliament, Brussels, 24 May 1984; reprinted in Gazzo, *Towards European Union,* vol. 1, pp. 82–85.

30. Robin, *La diplomatie de Mitterrand,* p. 145; see also p. 219. For another, equally ironic but more positive assessment, see Philippe Moreau-Defarges, " 'J'ai fait un rêve . . .' Le président François Mitterrand, artisan de l'union européenne" ("I had a dream . . ." President François Mitterrand, craftsman of European union), *Politique Etrangère* 50 (Fall 1985), pp. 359–75.

ised to lower European air fares, and, last but not least, being fully aware that the city of London contained highly competitive banking and insurance sectors, Thatcher began to call for pan-European deregulation of services.[31] The British government also favored strengthening European political cooperation, although without creating an independent bureaucracy.

In the early 1980s, the most important British objection to EC policy stemmed from the heavy British deficit under the CAP. With its small, efficient agricultural sector concentrated in areas not generously subsidized by the CAP (for example, in sheep husbandry), Britain gained little from the agricultural programs that comprise 70 percent of the EC budget. At the same time, Britain was by far the largest per capita *net* contributor to the budget. Thatcher campaigned to get "her money back" from the EC, and her frugality bolstered British opposition to the budgetary policy. When she was elected to office, she insisted that two-thirds of the British deficit over the past few years be rebated and that permanent adjustments be made to limit agricultural spending and to prevent future budgetary disequilibria.

More was at stake in the British objections than temporary budgetary imbalances. In 1973, Britain had been forced to accept the agricultural and budgetary policies as part of the *acquis communautaire,* the corpus of existing EC institutions. For those who had worked for decades in the Community and who saw the CAP as part of the initial Franco–German bargain at the heart of the EC, the British demand called into question the very foundation of European cooperation. French Foreign Minister Claude Cheysson declared in 1982 that "the United Kingdom [seeks] *juste retour,* which is not a Community idea. We and the British are not speaking of the same community."[32]

The Thatcher government, even more than previous British governments, was wary of attempts to strengthen the Commission and Parliament and to expand EC competence into areas not directly connected with trade, such as indirect taxation and social legislation. Thatcher also firmly opposed formal changes in Council procedures, in part because of a suspicion of written constitutions, a suspicion shared by most British conservatives. Although she was opposed to any treaty changes that undermined the sovereign prerogatives recognized by the Luxembourg compromise, she recognized the need for some movement away from unanimous decision making and thus favored informal means of encouraging majority voting.

31. The Conservative government began pushing deregulation of services during the British presidency of the Council in 1981. See Simon Bulmer and William Paterson, *The Federal Republic of Germany and the European Community* (London: Allen & Unwin, 1987), p. 48.

32. Cheysson, cited in *Financial Times,* 26 January 1982. Howe echoed Cheysson's point of view: "The negotiation launched at Stuttgart and continued at Athens in December 1983 is not just about the budget and the CAP. It is about the whole future shape and direction of Europe." See Geoffrey Howe, "The Future of the European Community: Britain's Approach to the Negotiations," *International Affairs* 60 (Spring 1984), p. 190.

Setting an agenda for Europe: a policy history of the 1992 initiative

From the height of "Europessimism" to the French presidency

The early 1980s marked the apogee of Europessimism. Disputes over agricultural policy, the accession of Spain and Portugal, and budgetary reform festered. Ideas of splitting the EC into Subgroups proliferated: *Europe à deux vitesses,* a two-tier Community, *abgestufte Integration.* The divergent economic policies of France and Germany undermined their traditional axis of collaboration within the EC. With the exception of the launching of the European Strategic Programme for Research and Development in Information Technology (ESPRIT) in 1983, appeals for a renewed commitment to Europe came to naught. The most significant of these appeals, the Genscher-Columbo initiative and the Stuttgart Declaration, are sometimes interpreted as precursors of the SEA.[33] In fact, however, they demonstrate the utter absence of a European consensus for reform before 1984.

The Genscher-Columbo initiative of 1981 was a Council declaration calling for greater movement toward European unity. It was proposed by the German foreign minister, who was later joined by his Italian counterpart, and backed by the Commission. The two foreign ministers justified the initiative with reference to economic recession and institutional malaise in the EC, but disagreements between member states prevented the development of specific proposals, outside of political cooperation. To address the completion of the internal market, which had been discussed in the Council since its inception in 1974, a report was commissioned.

Despite its vagueness and ambiguous legal status, the Genscher-Columbo initiative was immediately criticized by France, whose interest in Europe was still limited to sporadic proposals for steps toward a socialist Europe, and by Britain, for whom resolution of the budget wrangle remained the sine qua non for negotiations over anything else. André Chandernagor, French Minister for European Affairs, observed sarcastically before the Assemblée Nationale that some Europeans were trying to build Europe from the roof down.[34]

33. See David Cameron, "Sovereign States in a Single Market: Integration and Intergovernmentalism in the European Community," paper presented at the Brookings Institution, Washington, D.C., 29–30 March 1990. Cameron argues that the roots of the SEA can be traced to the 1970s. But no internal market and decision-making initiative prior to 1981 was considered seriously by any of the three major parties.

34. Chandernagor, cited in Robin, *La diplomatie de Mitterrand,* p. 219. See also Gianni Bonvicini, "The Genscher-Columbo Plan and the 'Solemn Declaration on European Union,' 1981–1983," in Pryce, *The Dynamics of European Union,* pp. 174–87; and Joseph Weiler, "The Genscher-Columbo Draft European Act: The Politics of Indecision," *Revue d'Intégration Européenne* 6 (Spring 1983), pp. 129–54.

The Council did set up an ad hoc working group to look into the initiative, but when it reported back to the Stuttgart summit of June 1983, its recommendations did little more than codify the status quo. The Council issued the "Solemn Declaration on European Union," which was based on the ad hoc group's report and reaffirmed in general terms the member states' desire to reinforce and develop both economic and security cooperation. It called for the completion of the internal market alongside numerous other proposals of widely varying promise, including coordinated reflation, social programs, reinforcement of the monetary system, and a European industrial policy. The document again reflected the lack of consensus on procedural reform, suggesting only that member states voluntarily abstain rather than invoke the veto. Nonetheless, it elicited immediate *procès-verbaux* reaffirming the Luxembourg compromise from Britain, Denmark, France, Greece, and Ireland. Shortly thereafter, French Prime Minister Pierre Mauroy launched a public attack on the Stuttgart Declaration, reasserting the veto right.[35] In the end, the only solid achievement of the meeting was acceptance of Genscher's proposal to link together four outstanding issues in the Community—an increase in EC funds, agricultural reform, internal market liberalization, and the entry of Spain and Portugal—in the hope that they would be resolved as a package at the Athens summit later that year.

The turning point: the French presidency

All this changed unexpectedly with France's accession to the revolving presidency of the EC in January 1984, less than a year after the moderate wing of the Socialist party assumed power in France. Mitterrand's extraordinary personal involvement in the six-month presidency prompted one French observer to call him a "one-man orchestra."[36] He began the year with a personal tour of all the European capitals to seek a consensus for relaunching the EC. Throughout 1984, he and French Foreign Minister Roland Dumas practiced "shuttle diplomacy" between Paris, Bonn, and London. Mitterrand's speeches, most notably in May before the European Parliament, underscored the economic nature of the current crisis and elaborated a vision of the future EC as an instrument to combat the economic decline of Europe. "Europe," he warned, "is beginning to look like an abandoned building site."[37] He proposed political cooperation, technological programs, and reform of the CAP. In addition, two constant refrains were decision-making and internal market reform.

The outlines of an interstate bargain were becoming clear. Germany and Britain were agreed on the need for liberalization, with weak support from

35. See Robin, *La diplomatie de Mitterrand,* p. 219; and De Ruyt, *L'acte unique européen,* pp. 35 and 315–24.

36. Moreau-Defarges, " 'J'ai fait un rêve . . . ,' " p. 368.

37. "Speech of François Mitterrand Before the Netherlands Government, 7 February 1984," released by the Ambassade de France à Londres (CTL/DISCOM/29/84).

France, while Germany and France were agreed on the need for procedural reform, with weak support from Britain.[38] But Mitterrand's plan to resolve these issues by calling a conference to "preserve Europe" was blocked by the long-standing disputes over CAP reform, Britain's demand for compensation, the accession of Spain and Portugal, and the need for greater EC financial resources. Within a year, these issues had been resolved, in each case largely owing to an unexpected French willingness to compromise.[39]

The first steps were taken in early 1984, when the French government put its farmers on notice that France would no longer unquestioningly support their interests in Brussels. "The revitalization of agricultural policy," declared Michel Rocard, then Minister of Agriculture, "can no longer serve as the instrument of European unification."[40] Under Rocard's direction, a compromise was reached in March 1984, marking the first of several initiatives to bring agricultural spending under control.

Agricultural disputes were also at the heart of the enlargement issue. French farmers, fearing the import of cheap vegetables and wine from Spain and Portugal, had long encouraged the French government to stall on this issue. In the EC, the related conflicts manifested themselves through threats and counterthreats about the budget. EC finances were overextended, so much so that the Council had decided in October 1983 to delay payments under the CAP for lack of funds. Germany had insisted at Stuttgart that Spain and Portugal enter by the end of 1985 and had threatened to block increases in EC funding until the enlargement issue was settled. Thatcher had also promised to block any funding increases until the budget issue was resolved. With the EC fiscal situation growing more perilous, Mitterrand, whose government had reversed its opposition to budgetary increases after the pro-European turn in 1983, announced that he would complete the negotiations by September 1984.[41]

Mitterrand wasted no time. In Brussels in March 1984, French negotiators offered a series of concessions, agreeing for the first time that the British net contribution should be cut permanently and should reflect Britain's lower per capita income. But France also kept up the pressure by joining Italy in blocking the British rebate for 1983, which totalled £457 million. Thatcher

38. See Heinz Stadlmann, "Die europäische Gemeinschaft nach der französischen Ratspräsidentschaft" (The European Community after the French presidency of the Council), *Europa-Archiv* 39 (October 1984), pp. 447–54. The Franco–German agreement on procedure was only partial, since France did not support German efforts to strengthen the Parliament. France preferred to replace Article 235 of the treaty with one that would have sanctioned the creation of a "differentiated Europe," with different sets of members involved in different programs. The French have traditionally supported diplomatic flexibility to facilitate projects which, like EUREKA, involve only some EC countries and also involve non-EC countries. See De Ruyt, *L'acte unique européen,* p. 99.

39. See Stadlmann, "Die europäische Gemeinschaft"; De Ruyt, *L'acte unique européen,* pp. 47–49; *The Guardian,* 25 January 1984; and press conference with Mitterrand, 2 April 1984. For a contemporary critique of Mitterrand's policy changes, see Robin, *La diplomatie de Mitterrand,* pp. 69–81, 133–45, and 211–29.

40. Interview with Michel Rocard, *Intervention,* February–April 1984, p. 102.

41. See Robin, *La diplomatie de Mitterrand,* p. 215.

considered retaliating by withholding the British budget contribution for 1984, but she reportedly was dissuaded by Cabinet opposition and by the fear of losing a challenge before the British or European courts.[42]

The heads of government agreed to a system for limiting agricultural spending that would keep any growth in Britain's contribution roughly in line with its percentage of the EC gross domestic product. But the budget rebate for 1984 and following years remained unsettled, with the others offering ECU 1 billion and Thatcher demanding ECU 1.5 billion. After days of face-to-face haggling, the heads of government seemed to have reached a deal at ECU 1.2 billion. British officials were drafting a communiqué announcing the success when agreement was blocked by Kohl's sudden refusal to pay Germany's share of any sum larger than ECU 1 billion. His unexpected stubbornness grounded the negotiations, leaving an angry Thatcher the scapegoat.

After the Brussels meeting, Mitterrand called for a conference to discuss relaunching the EC among those member states which would "stand up and be counted."[43] In his May 1984 speech to the Parliament, he picked up the thread again, speaking frankly about the possible need for a Europe *à géométrie variable*. Dumas announced that if a budget agreement was not reached, his government would call a meeting without the British to discuss various proposals for reform, and he boldly raised the possibility of a two-track Europe during Thatcher's visit to the Elysée. For his part, Kohl announced shortly thereafter that the "decisive conditions had been created" to move toward completion of the European market and majority voting in the Council. He called for movement toward greater European unity within a year, whether or not all countries agreed.

Britain became increasingly isolated as Mitterrand and Kohl repeated the threat of a two-tier Europe (*Europe à deux vitesses*) that would leave Britain without a say in the details of the new agreements. The lesson of the 1950s, when Britain had refused to join the EC, was that exclusion could be costly in the long run. Decades later, the British were still trying to reverse priorities set in their absence.

Mitterrand exploited the threat of exclusion with great finesse, a stratagem facilitated by the fact that the threat was more credible than it may seem in retrospect. France had long promoted two-track initiatives, especially in the area of high technology. During this period, moreover, a two-track EC had found a number of prominent exponents among European academics and

42. See Ludlow, *Beyond 1992*, pp. x–xi; and Howe, "The Future of the European Community," pp. 188–89. Britain did delay payments of an emergency levy requested by the EC.

43. This account of the threat of excluding Britain draws heavily on Taylor's insights in "The New Dynamics of EC Integration in the 1980s." For earlier versions of the same thesis, see Richard Corbett, "The 1985 Intergovernmental Conference and the Single European Act," in Pryce, *The Dynamics of European Union*, pp. 268–69; and Françoise de la Serre, *La Grande-Bretagne et la Communauté Européenne* (Great Britain and the European Community) (Paris: Presses Universitaires de France, 1987), pp. 193–94 and 207–9.

commentators.[44] It is thus no surprise that the threat was understood as such across the Channel. The British press picked up the theme, and a Tory think tank issued a report calling for a more conciliatory negotiating position to head off the exclusion of Britain from future European initiatives.[45]

The breakthrough: the Fontainebleau summit meeting

In the weeks leading to the Fontainebleau summit of June 1984, Thatcher seemed sobered by her experience at Brussels. She exhibited a new positive spirit, quietly circulating a paper entitled "Europe: The Future," which outlined her government's vision for relaunching Europe. At the head of the list of priorities was liberalization of the internal market, particularly in services. British Foreign Minister Geoffrey Howe called for the removal of "all—and I mean all, economic barriers," suggesting 1990 as a deadline.[46] These proposals were quietly supported by France. "Europe: The Future" also addressed the decision-making issue, calling for qualified majority voting to be respected in cases in which the treaty provided for it: nations should be able to veto "where a very important national interest is at stake" but "should be required . . . to set out their reasons fully" before the other Council members.[47]

Mitterrand seemed to choreograph the Fontainebleau summit in a manner designed to remind Thatcher once again of the possibility of a two-track Europe. Heads of government cooled their heels for two hours when the opening meeting was delayed to allow Mitterrand to present an extemporaneous exposition of his "dreams of Europe" before the television cameras.[48] Whatever the cause, Thatcher was more conciliatory at Fontainebleau than she had been at Brussels. The decisive issue, which took more than thirty-six hours to resolve, was again the size of the British rebate. A compromise was finally reached at a figure roughly equivalent to what the British had been offered (and had rejected) in Brussels, with the French assuming

44. For a summary of the debate about a two-track EC, see Helen Wallace and Adam Ridley, *Europe: The Challenge of Diversity* (London: Routledge & Kegan Paul, 1985), especially chap. 5; and Eberhard Grabitz, ed., *Abgestufte Integration: Eine Alternative zum herkömmlichen Integrationskonzept?* (Multi-tiered integration: An alternative to the existing concept of integration?) (Kehl am Rhein: Engel Verlag, 1984).

45. See *The Guardian,* 30 May 1984; and Center for Policy Studies, *Making It Work: The Future of the European Community* (London: Center for Policy Studies, 1984). See also *Le Monde,* 18 March 1984 and 5 May 1984; and Kohl, speech delivered to the Bundestag, Bonn, 28 June 1984, and excerpted in Gazzo, *Towards European Union,* vol. 1, p. 98.

46. Howe, quoted in *Financial Times,* 22 March 1984.

47. See "Europe: The Future—United Kingdom Memorandum, June 1984"; reprinted in Gazzo, *Towards European Union,* vol. 1, pp. 86–95.

48. In "The New Dynamics of EC Integration in the 1980s," p. 7, Taylor argues that the mood of conciliation was due to the fact that during the British and French failure in March at Brussels, they had "looked into the abyss, and were shocked into an awareness of the need to hold themselves back." According to Taylor, by taking time to confess his personal ideals, Mitterrand was letting Thatcher "see the future."

a sizable portion of the burden. Moreover, the Council agreed to generalize the principle of *juste retour* to payments into the budget: no member state should be required to sustain a "budgetary burden which is excessive in relation to its relative prosperity."[49]

Fontainebleau marked the moment when momentum toward a package deal containing internal market liberalization and decision-making reform became unmistakable. The heads of government called for a package of internal liberalization, coordinated stimulation, and collaborative research and development designed to give the EC "an economic impulse comparable to that given by the Common Market in the 1960s."[50] They further agreed that customs controls would eventually be abolished. At their summit meeting in Saarbrücken shortly after Fontainebleau, Mitterrand and Kohl demonstrated the seriousness of their commitment to internal market reform (while renewing the threat of a two-tier Europe) by entering into negotiations over the abolition of all controls on normal goods traffic, the harmonization of domestic veterinary and sanitary legislation, the free movement of people, the adoption of common streamlined administrative procedures, and the eventual accession to the Benelux customs union. This would create a "super EEC" among the five states.[51]

Mitterrand also sought agreement on expanding majority voting at Fontainebleau but was forced to settle for the creation of two committees. The first, the Ad Hoc Committee on a People's Europe (later called the Adonnino Committee), received a mandate to investigate aspects of the EC that were directly visible to the common citizen: customs formalities for individuals, equivalence of university diplomas, the creation of European symbols, and European volunteer programs. The second and far more significant committee, the Ad Hoc Committee for Institutional Affairs (later called the Dooge Committee, after its Irish chairman), had a mandate to consider institutional, political, and economic reform.

The symbolic significance of the Dooge Committee was enormous. According to the Fontainebleau communiqué, it was to be set up on the lines of the Spaak Committee, the group formed in 1955 by the Council of the European Coal and Steel Community (ECSC) to develop proposals for the *relance européenne* of that decade. Those proposals led in 1957 to the signing of the Treaty of Rome and the founding of the EC.[52] Mitterrand immediately

49. See De Ruyt, *L'acte unique européen*, p. 261. The Commission later adopted a standard to measure the burden.

50. See Gazzo, *Towards European Union*, vol. 1, pp. 96–97.

51. The Benelux countries assented in late October 1984, and a memorandum setting out objectives was approved on 12 December 1984. See Geoffrey Howe, "Grossbritannien und die Bundesrepublik Deutschland als europäische Partner" (Great Britain and the Federal Republic of Germany as European partners), *Europa-Archiv* 39 (November 1984), p. 637. France reportedly insisted that Italy be excluded, for fear that Italian participation would slow the negotiations. The negotiations were concluded in early 1990.

52. See "Conclusions of the European Council at Its Meeting in Fontainebleau, 26 June 1984"; reprinted in Gazzo, *Towards European Union*, vol. 1, pp. 96–97. For a discussion of the Spaak Committee, see Hanns Jürgen Küsters, "The Treaties of Rome, 1955–1957," in Pryce, *The Dynamics of European Union*, pp. 84 ff.

signaled grand ambitions for the Dooge Committee by appointing Maurice Faure, a strong pan-European and a signatory to the Treaty of Rome, as his representative. Faure had Mitterrand's personal support, and he arrived at the second meeting with a draft report that had reportedly been approved by Mitterrand himself over the objections of the Quai d'Orsay.

It soon became clear that while the member states differed over political cooperation, monetary policy, defense, and procedural reform, all (with the possible exception of Greece) were in substantial agreement about the need for internal market liberalization, as had been reflected in the Fontainebleau communiqué. On detailed points, the report contained many proposals that were originally British, such as common EC standards, liberalization of transport and insurance services, and open public procurement.

Although the Committee devoted most of its time to procedural reform, which it viewed as its "real task," it was unable to agree on the decisive issues: qualified majority voting and veto rights. On these questions, the British delegation expected to find itself comfortably located in the center of the spectrum, alongside the French and perhaps the German delegations. But the French joined the Germans in calling for majority voting on internal market issues and for amendments to the treaty. Seven of the ten member states were willing to renounce the Luxembourg compromise and expand qualified majority voting through treaty changes, while Britain, Greece, and Denmark stuck to the British program, reasserting the right to veto when "very important national interests" were at stake and accepting only the voluntary, informal steps to encourage majority voting already acknowledged in the Stuttgart Declaration. The seven also called for an intergovernmental conference to negotiate a draft treaty of European union.[53]

As the Dooge Committee deliberated, it came time to name a new European Commission and, more important, a new president of the Commission. France and Germany, seeking to expedite the *relance européenne* by giving the position political status, pressed for a president from a large country. Domestic coalitional politics appear to have prevented Germany, whose informal turn it was, from nominating a suitable candidate. Davignon, a Belgian and the self-nominated front-runner, lacked national political experience, was considered by some to be an insufficiently inspiring leader, and was associated with interventionist economic policies. Delors, freed from the post of Minister of Finance just in time by a reshuffle in France, was nominated at the last minute by Mitterrand. His stature as a politician with senior ministerial experience, his years as a member of the EC Economic and Social Committee, and his reputation for sensible economic policymaking led Germany and Britain to signal immediate approval. Thatcher

53. See *Financial Times,* 30 November 1984, 3 December 1984, 22 March 1985, and 10 May 1985; and *Le Monde,* 30 March 1985. France, too, accepted that the first priority of the EC must be the creation of an *espace économique intérieur homogène.* For a discussion of the objections of the Quai d'Orsay, presumably to the renunciation of the Luxembourg compromise, see Corbett, "1985 Intergovernmental Conference," p. 269.

nonetheless took the precaution of naming Cockfield (a strong candidate with Cabinet level experience, despite press commentary to the contrary) as a liberal counterweight.

Delors immediately embarked on his trip through the member states, exploring possibilities for reform. Upon returning, he quietly went to work, distributing portfolios to his fellow commissioners—usually the occasion for extended haggling—with unprecedented swiftness. He proposed his reform strategy to the new Commission in December 1984 and announced the goal of competing the internal market by 1992 in his maiden speech before the European Parliament on 14 January 1985.

At the Luxembourg summit of March 1985, France and Germany supported an initiative, largely based on the Dooge Report, to relaunch the EC by limiting the Luxembourg compromise, extending EC competence in foreign affairs, and completing the internal market. At Brussels a few weeks later, the Council endorsed the goal of a single market by 1992 and called upon the Commission to draw up a detailed program with a specific timetable. Lord Cockfield, now Internal Market Commissioner, interpreted his mandate broadly. Quickly assembling material that had long been languishing in the drawers of the Directorate-General III (responsible for internal market policy), he drafted the celebrated White Paper. In lieu of a firm definition of a "completed internal market," Cockfield set forth nearly three hundred specific proposals, including value-added tax (VAT) harmonization and mutual recognition, accompanied by a brief philosophical defense of free market liberalism.

In the run-up to the summit in Milan during the last days of June 1985, proposals began to multiply. In addition to the Dooge Report and the White Paper, Delors suggested an extension of the EC substantive responsibilities, including the doubling of research and development funding and reform of the monetary system. Delors' public speeches began linking internal liberalization to qualified majority voting, stressing that the first was unattainable without the second and that neither was possible without an intergovernmental conference to amend the Treaty of Rome. The British government, feeling marginalized but nonetheless hoping to channel momentum away from treaty amendments, launched a counteroffensive. The British initiative tied its previous proposal for internal market reform, a proposal announced prior to the Fontainebleau summit and now codified in the White Paper, to "gentleman's agreements" to abstain rather than invoke the veto. This procedural proposal now included two new elements: voluntary restraint in invoking the Luxembourg compromise at lower levels of the Council once the chiefs of state had set an objective and a separate treaty codifying principles of informal political cooperation.[54]

As the Milan summit opened, the heads of government unanimously ap-

54. See De Ruyt, *L'acte unique européen,* pp. 57–59. The proposals of Britain, as well as those of the Benelux countries, France, Germany, and Italy, are reprinted in Gazzo, *Towards European Union,* supplement. For commentary, see *The Times* (London), 21 June 1985.

proved the White Paper. They also immediately accepted the British proposal on informal improvements to decision making, but for most countries this was only a starting point. Genscher proposed a more ambitious agreement consisting of a "return to the decision-making procedure which existed before the so-called Luxembourg disagreement," majority voting on internal market issues, and informal agreement to abstain from invoking the veto.[55] But some, presumably including Thatcher, found renunciation of the Luxembourg compromise unacceptable. The text was rejected, even after being watered down with British amendments.

At this moment, Italian Foreign Minister Andreotti, skeptical of mere declarations of intention and anxious to avoid a failure under the Italian presidency, called for a majority vote on whether to convene an intergovernmental conference under Article 236. Germany and the Benelux countries immediately supported the Italian measure, and France and Ireland hesitatingly joined them, leaving only Britain, Denmark, and Greece opposed. On procedural grounds, Britain protested the invocation of a majority vote, but its protests were rejected and the conference was called.[56]

Thatcher returned from Milan in a fury but within a few days allowed herself to be persuaded that Britain should attend the conference. The reasons were varied. First, Britain had little to lose from qualified majority voting on the internal market program, which it favored in general and which jeopardized British interests, as Thatcher assessed them, in only a few areas. In areas outside the internal market, Thatcher appears to have assumed that reform proposals were simply rhetorical. The British were also sensitive to Delors' constant reminders that some procedural changes were needed to ensure implementation of the internal market plan. Second, the procedure for amending the treaty under Article 236 (as opposed to negotiating a new treaty) offered two advantages to the recalcitrant: it excluded the Parliament, and it required unanimity. There would be no two-track decisions. Third, Mitterrand continued to feed speculation about a two-tiered Europe, calling the decisions at Milan "a test of truth."[57] In the end, Britain attended the conference, where it played a skeptical but ultimately constructive role.

Victory for the minimalists: the intergovernmental conference

A draft of the SEA was written during the first month of the intergovernmental conference; the remaining details were worked out between the foreign ministers and heads of state at five meetings between 21 October and

55. See Gazzo, *Towards European Union,* supplement, pp. 27–32.

56. See De Ruyt, *L'acte unique européen,* pp. 60–61. In a memorandum written by the Italians prior to the Milan summit, the option of invoking Article 236 (which allows amendment by unanimous consent of the Council) was presented as a possible compromise between a new treaty and the more ad hoc British approach. Nonetheless, the vote taken at the summit does not seem to have been planned in advance by the governments that voted affirmatively. See Gazzo, *Towards European Union,* supplement, pp. 3–8.

57. Taylor, "The New Dynamics of EC Integration in the 1980s," p. 10.

1 December 1985; and the document was signed in February 1986.[58] Most of the central issues were resolved within the first two months.

The SEA negotiations can be interpreted as a process of limiting the scope and intensity of reform—a process necessary to gain the acceptance not only of Britain but also of other member states who, when it came to drafting a document, suddenly proved quite jealous of their sovereignty. The maximalist program of broad reform was progressively sacrificed in favor of the minimalist program limited to those procedural and substantive changes needed to liberalize the internal market. Minimalist limitations were negotiated in three stages. First, the negotiators continued the trend, evident since the appointment of the Dooge Committee, toward blocking significant reform in areas of cooperation not directly connected with the internal market. Second, they obstructed the extension of majority voting to a number of contentious internal market issues, such as fiscal and social regulation. And, third, they offset the implicit suppression of the veto with generous exemptions and safeguard provisions regarding the harmonization of internal legislation.

In all cases other than internal market policy, the lack of a consensus among the major states reduced commitments to a minor or symbolic level. The fate of monetary reform is an important and typical example. Monetary coordination had long been a personal interest of Delors, and the Commission's proposals to the intergovernmental conference made progress toward a common monetary fund subject to the unanimous approval only of the group of member states that would choose to participate. The two-track proposal would have therefore granted EC legitimacy to any effort by a smaller group to proceed on its own. But shortly after the opening of the conference, this activism was curbed during an informal meeting of the ministers of economics and finance, who insisted that they be consulted before any further monetary proposals were made to the conference.

France, Italy, and some others felt that the Delors proposal was too weak, while Germany, Britain, and the Netherlands were opposed to the discussion of monetary policy at the conference.[59] Germany believed that freedom of capital markets and coordinated economic policy must precede the consideration of further monetary coordination. Thatcher felt that Britain, which does not participate in the existing exchange rate mechanism of the EMS, should not surrender any sovereignty at that time. When Germany and Britain lost patience and threatened to tie any monetary agreement to the complete liberalization of capital markets by the end of 1986, the others quickly agreed to a compromise that included no concrete steps beyond existing policies.

58. De Ruyt, *L'acte unique européen*, pp. 67–91.

59. This account of the conference negotiations follows Corbett's "1985 Intergovernmental Conference," pp. 247–48. See also Ludlow, *Beyond 1992*, p. vi; and Gazzo, *Towards European Union*, vol. 1, p. 38. Delors' speech and his press conference of 27 November 1985, which offer his characterization of the role of Germany and Britain, are reprinted in Gazzo, *Towards European Union*, vol. 2, p. 86.

Reference to eventual monetary union was included in the preamble to the revised treaty, but so was language limiting the EMS to its present functions. Commission proposals permitting a two-track monetary system were rejected outright. Moreover, the SEA placed the EMS under the unanimity rule of Article 236, thereby granting Britain, a nonparticipant in the exchange rate mechanism, veto power over its future evolution. This has led some to argue that further progress toward monetary union "seems likely to be checked rather than encouraged." Even Delors could say only that the revised treaty makes "allowance for [its] evolution when this becomes necessary."[60]

One provision essential to the passage of the internal market program was the expansion of structural funds aimed at poorer regions of the EC. This provision, referred to as the "convergence policy," was not a vital element of economic liberalization, as the Commission at times claimed, but was instead a side-payment to Ireland the Southern nations in exchange for their political support. The richer countries hesitated to pay more to the poorer countries but in the end agreed that structural and development funds would be "significantly increased in real terms within the limits of financial possibilities"—a phrase that laid the foundation for a sizable increase in transfers approved in 1988.[61] In contrast, proposals on political cooperation, technology policy, social and cultural policy, human rights, and energy policy did not go beyond a codification of current practice, while environmental policy, a new area, remains under unanimity rule.[62]

All states agreed on the need for significant exemptions and escape clauses with regard to internal market liberalization. Although the negotiators deliberately avoided discussing the Luxembourg compromise or the procedures for calling a majority vote (procedures later determined by the Council itself), the veto right was retained in a weaker form in Article 100(4) of the revised treaty, which permits nations outvoted in the Council or wishing to invoke a safeguard clause to retain their domestic regulations for reasons of *exigences importantes* under Article 36. To invoke this clause, however, governments must inform the Commission, which then determines whether a particular measure constitutes an arbitrary form of discrimination or a disguised restriction on commerce, rather than a legitimate form of derogation. The Commission or any government that believes a nation has abused the safeguard clause may seek relief before the European Court, using a special accelerated procedure. This clause shifts the locus of conflict over the veto from ratification by the Council to implementation by each nation. And the final arbiters have changed: the Court and, to a lesser extent, the Commission—not the member states, as under the Luxembourg compromise—now ultimately determine what constitutes proper justification for exempting a

60. Delors, cited in Gazzo, *Towards European Union,* vol. 1, p. 8; see also pp. 25–26.
61. See Corbett, "1985 Intergovernmental Conference," p. 249.
62. Ibid., pp. 249–50 and 259.

state from an EC decision.[63] It is important to note, however, that these procedures are strictly limited to matters pertaining to the internal market.

At the Luxembourg summit of December 1985, the heads of government resolved the remaining details. The ratification of the amendments was unproblematic, although it was delayed by Denmark, which had to fulfill its constitutional obligation to hold a referendum. In the wake of the Luxembourg summit, Kohl and Mitterrand stated (though perhaps only for posterity) that they would have been prepared to go further on the powers of the Parliament and on monetary policy, respectively, as well as on majority voting. Italian Prime Minister Craxi, who had voiced doubts that the SEA included enough of the maximalist agenda, promised support for the act only if the European Parliament approved it.

Thatcher, by contrast, hailed the results as "clear and decisive."[64] In many ways, the final agreement on substantive issues satisfied the British the most, as could be expected in cases of lowest-common-denominator bargaining. The outcome of the agricultural budget negotiations, for example, reflected the other member states' acknowledgment of the legitimacy of the British claim to reshape the *acquis communautaire* in fundamental ways, although it also reflected the changed perceptions of France with regard to agricultural spending. Time and time again during the negotiations, the British got their way on substantive and procedural issues—in part because the commitment of other countries turned out to be weaker than their rhetoric—until the final draft looked very much like the plan for eliminating all barriers to trade that Geoffrey Howe had called for in early 1984.

In the areas where the British government favored reform, such as liberalization of services trade, qualified majority voting triumphed. Elsewhere it failed. Although Britain did not succeed in blocking treaty revisions altogether, its negotiators did succeed in preventing an explicit revocation of the Luxembourg compromise. We cannot know for sure how far the French and Germans would actually have been prepared to go to carry out the threat of a two-tier Europe, but certainly they are now hampered from doing so, particularly in the monetary area, by the SEA.[65]

Interpreting the negotiations

Assessing supranational institutionalism

The historical record does not confirm the importance of international and transnational factors. Let us consider each element in turn.

63. De Ruyt, *L'acte unique européen,* pp. 172 ff.

64. See Taylor, "The New Dynamics of EC Integration in the 1980s."

65. For speculation on Franco–German intentions, see De Ruyt, *L'acte unique européen,* p. 272; and Corbett, "1985 Intergovernmental Conference," p. 268. The view that the outcome reflected a triumph for British negotiators has been most cogently argued by Taylor in "The New Dynamics of EC Integration in the 1980s."

European institutions. The supranational model stresses the role of EC institutions, particularly the Parliament. Yet after Fontainebleau, government representatives, abetted by the Commission, deliberately excluded representatives of the Parliament from decisive forums. One of the Dooge Committee's first actions was to reject the Parliament's "Draft Treaty Establishing European Union" and begin negotiations with a French government draft instead.[66] From that moment on, key decision makers ignored the maximalist agenda. National governments viewed the Parliament's proposals as too open-ended ("real reform . . . requires a treaty encompassing all Community policies and the institutions needed to implement them"), too democratic (the powers of the Parliament should be "extended to new spheres of activity"), and too automatic (the draft treaty would have gone into effect without unanimous Council approval).[67] The Parliament members' continuous protests against the emasculation of the draft treaty and their exclusion from the "real participation" in the discussions were ignored.[68] The fact that the member states parried parliamentary pressure with ease certainly casts doubt on the argument that the SEA was necessary to co-opt rising demands for even more thoroughgoing institutional reform. In the end, the Parliament overwhelmingly passed a resolution protesting that the SEA "in no way represent[s] the real reform of the Community that our peoples need," but it had little alternative but to accept the fait accompli.[69]

Transnational business interest groups. The internal market program, like the EC itself thirty years before, appears to have been launched independently of pressure from transnationally organized business interest groups.[70] The Kangaroo Group in Parliament, which had close contacts with business interests, remained relatively small until after the 1992 initiative was launched and established no formal links with the Council until 1986. The activities of the Roundtable of European Industrialists focused primarily on the concerns of its non-EC European membership. Before 1985, its chief involvement was in European infrastructure projects such as the Channel tunnel.[71] The Roundtable was based in Geneva and did not move to Brussels until 1988, when Dekker assumed its presidency.

Most transnational business lobbies got involved late. By the time Dekker delivered his oft-quoted speeches, nearly a year had passed since the be-

66. De Ruyt, *L'acte unique européen*, p. 56.

67. See the European Parliament's opinion of 9 July 1985 regarding the proposal for an intergovernmental conference; reprinted in Gazzo, *Towards European Union*, vol. 2, pp. 13–14.

68. For an account of the debate, see Gazzo, *Towards European Union*, vol. 2, pp. 17–20, 27, 30, and 41.

69. Parliament resolution; cited in Gazzo, *Towards European Union*, vol. 2, p. 104. See also the programmatic statement of Spinelli and two associates made in the inaugural issue of the "Crocodile" newsletter and reprinted in Gazzo, *Towards European Union*, vol. 1, pp. 11–17; and De Ruyt, *L'acte unique européen*, p. 85.

70. For a discussion of the lack of active elite business support for the early European initiatives, see Haas, *The Uniting of Europe*, chap. 5. Transnationally active business interests may have had an effect at the domestic level, as outlined in a later section of my article.

71. Krause, "Many Groups Lobby on Implementation of Market Plan," p. 24.

ginning of the path-breaking French presidency and the discussions of the Dooge Committee were well under way. But a few business groups, such as UNICE, had been pushing vainly for liberalization for a long time. Given their persistence, what needs to be explained is why governments finally listened.

International political leaders. Cockfield's boldness and Delors' extraordinary political skill are not in question. Cockfield and Delors acted on the margins to broaden the White Paper and the SEA, and they may have contributed to the remarkable speed of decision making at the intergovernmental conference. Nevertheless, the broader outlines of both documents were proposed, negotiated, and approved, often in advance of Commission initiatives, by the heads of government themselves. Indeed, the breakthrough in the relaunching of the EC had already occurred before Delors became president of the Commission. The causality of the supranational explanation is thus reversed: the selection of a prestigious politician for the presidency was merely a symptom of mounting trilateral pressure for reform. In this regard, ironically enough, Delors' actions as Finance Minister of France may have contributed more to the SEA than those as president of the Commission.

It is worth dwelling for a moment longer on the intergovernmental conference, for this is the point at which the supranational institutionalist hypotheses about Commission influence might appear most plausible. Four specific arguments can be advanced, but none suggests that supranational actors influenced the substance of the SEA. First, the remarkable speed of the conference might be attributed, at least in part, to the role of Delors and the Commission in proposing and revising the specific wording of treaty amendments. While logistical support from the Commission may indeed have hastened a final agreement, there is little evidence that it altered its substance. Second, the Commission might be credited with having quietly slipped some new EC functions, such as environmental and research and development programs, into the revised treaty. But these were functions that the EC had been handling under indirect authorization for a number of years, and there was little opposition from member states to extending a concrete mandate to cover them. Third, in late September and early October 1985, Delors dropped strong advocacy of monetary and social reform and chose to stress instead the links between internal market reform, majority voting, and the increases in structural funds needed to gain support from Ireland and the Southern countries.[72] Delors' conciliatory move, particularly the proposal for structural funding, may have facilitated a political compromise, but his position on these issues was nonetheless closely circumscribed by the views of the major states. This is particularly true in regard to monetary

72. *Financial Times,* 9 October 1989. I am indebted to Peter Ludlow for suggestions that helped sharpen this hypothesis.

policy, where Delors' elimination of monetary reform from the package, as we have seen, resulted from the direct pressure of domestic officials. Fourth and finally, Cockfield's White Paper might be seen as a key act of agenda setting. But the White Paper was a response to a mandate from the member states expressed both in the Council, which commissioned the paper, and in the interim report of the Dooge Committee. In previous years, the Commission had proposed many of the nearly three hundred items as part of various reform proposals, but governments had simply rejected them.

Delors' most important contributions to the process resulted not from his role as an initiator of unforeseen policies but instead from his keen awareness of the extreme constraints under which he was acting. A reexamination of his memoirs reveals that his arguments (as distinct from his tone) stress intergovernmental constraints rather than personal influence.[73] Procedural reform without a substantive program, he reasoned, would get bogged down in ideological battles over sovereignty; a plan for European monetary union would encounter the opposition of the governors of the central banks, who, led by the Germans, had just rejected an expansion of the EMS; and European defense cooperation was neither within the current competence of the EC nor widely supported among member states.[74] The sole remaining option was internal market reform. In this regard, Delors' most statesmanlike judgments concerned the proper moment to compromise—as he did in September and October 1985.[75]

Supranational institutionalism and neofunctionalism

None of the three supranational variables—European institutional momentum, transnational business interest group activity, and international political leadership—seems to account for the timing, content, and process of negotiating the SEA. Moreover, governments did not bargain by "upgrading" the common interest or by linking issues but, rather, by accepting the lowest common denominator, backed by the threat of exclusion. The resulting bargain places major obstacles in the path of attempts to extend the reform to new issues, such as monetary policy.

In this regard, one striking aspect of the negotiations for the SEA is their parallel to the negotiations for the ECSC and EC in the 1950s. Even regional integration theorists are inclined to accept that the founding of the ECSC was an extraordinary act of political statecraft, but they contend that once it occurred it sparked a qualitatively different and potentially self-sustaining

73. See Delors et al., *La France par l'Europe*, pp. 49–50.

74. Interview with Jacques Delors, Cambridge, Massachusetts, 22 September 1989. See also Calingaert, *The 1992 Challenge from Europe*, p. 9.

75. The initial draft amendments submitted by the Commission to the intergovernmental conference went far beyond the final settlement (except on the powers of the Parliament), a fact which hardly lends credence to Delors' claim that he foresaw all in January 1985. But this may underestimate Delors' skill in setting the agenda, where aggressiveness did pay dividends.

process of spillover. The negotiating history of the SEA, however, suggests that three decades later the factors encouraging a greater commitment to European unity are essentially the same: the convergence of national interests, the pro-European idealism of heads of government, and the decisive role of the large member states.

The importance of interstate bargains in the SEA negotiations is consistent with the broader experience of the EC since the mid-1960s. European integration did not proceed steadily and incrementally; it proceeded in fits and starts. Moreover, since the Luxembourg compromise in 1966, the EC has moved toward intergovernmental ("state-to-state") decision making centered in the Council and summit meetings, rather than toward increasing authority for international bodies such as the Commission and Parliament.[76] One detailed study concluded that the systems change in the EC has in fact proved to be more political and less technical than Haas predicted.[77] While spillover and forward linkages may in some cases suffice to prompt the intensification of international decision making under a specific mandate within a given sector, they play a minimal role in the processes of opening new issues, reforming decision-making procedures, and ratifying the accession of new members. Movement in these areas requires active intervention by heads of state and a considerable amount of nontechnocratic interstate bargaining.

The SEA negotiations suggest, furthermore, that in the 1980s, just as in the 1950s, pan-European business groups were relatively ineffective at influencing policy.[78] Business, at least on the supranational level, was mobilized by the emerging interstate consensus for reform, rather than the reverse. This casts doubt on at least one mechanism underlying the long-term historical prediction of neofunctionalism—namely, that over time, growth in the autonomy and responsibility of supranational actors and organizations will facilitate further integration.

Assessing intergovernmental institutionalism

The historical record confirms the importance of the three elements of intergovernmental institutionalism. Again, these elements can be considered in turn.

Intergovernmentalism. Heads of government and their direct representatives carried out the negotiations. The result represents the convergence

76. See Juliet Lodge, "EC Policymaking: Institutional Considerations," in Lodge, *The European Community and the Challenge of the Future,* p. 28; and Taylor, *The Limits of European Integration,* chaps. 3 and 10.

77. Leon Lindberg and Stuart Scheingold, *Europe's Would-Be Polity: Patterns of Change in the European Community* (Englewood Cliffs, N.J.: Prentice-Hall, 1970).

78. For a discussion of the role of business groups in the 1950s, see Haas, *The Uniting of Europe,* p. 353.

of domestic policy preferences in the largest member states. The dominance of the three largest states is revealed most clearly by the lack of cases (with the possible exception of the Danish stand on workers' rights) in which a smaller nation either initiated or vetoed a central initiative. The Southern nations and Ireland were appeased en masse with the promise of a side-payment in the form of increased structural funds; the Benelux countries had been prepared in any case to go further than the others. The election of a Conservative government in Britain and, more important, the shift in French economic policy preferences in 1983 were the key turning points on the road to 1992.

Lowest-common-denominator bargaining. The only major exception to lowest-common-denominator bargaining concerned whether to amend the Treaty of Rome to promote majority voting on internal market matters. On this point, the British yielded to Franco–German pressure to convene an intergovernmental conference, at least in part because the Franco–German position was backed by the threat of exclusion. As Paul Taylor has observed, "British diplomacy . . . had to balance two objectives: that of satisfying specific interests, and that of staying in the game. A measure of compromise in the former [became] necessary to achieve the latter."[79] Nonetheless, given the lowest-common-denominator bargaining characteristic of systems change in the EC, it is not surprising that the British were most satisfied with the final outcome. Thatcher's success in negotiating a fundamental revision of the rules for calculating the net obligations to the EC budget can be viewed as the end of extended negotiations over the terms of British accession. While the agricultural *acquis communautaire* represented a Franco–German deal, the new agreement reflected more closely the new trilateral balance of power within the EC. The British also succeeded in limiting institutional reform to internal market issues.[80]

Protection of sovereignty. The steady narrowing of the institutional reform to a "minimalist" position in which majority voting is restricted to internal market policy, the power of the Parliament is limited, and the future spillover to areas such as monetary policy is blocked confirms the enduring preoccupation of all three major states with maintaining sovereignty and control over future changes in the scope of EC activities.

International institutionalism and domestic politics

While the intergovernmental approach, based on the relative power of member states and the convergence of their national policy preferences,

79. Taylor, "The New Dynamics of EC Integration in the 1980s," p. 3.

80. See Wallace, "Bilateral, Trilateral and Multilateral Negotiations in the European Community," pp. 158–59. I am indebted to Helen Wallace for discussions on the British negotiating position.

offers a satisfactory account of the SEA negotiations, it raises a second, equally important question: Why did underlying national policy preferences converge at this point in time? As indicated earlier, part of the answer can be found in the domestic politics of France, Germany, and Britain. Four paradigmatic explanations can also be identified: autonomous action by political leaders, pressure from state bureaucracies, support from centrist coalitions, and pressure to replace failed economic policies. Each offers a promising starting point for analyzing the domestic roots of European integration, but none is entirely satisfactory.

Statism: the autonomy of political leaders. The convergence of policy preferences in the mid-1980s may have reflected the views, either pro-European or neoliberal, of the three major European leaders of the time—Mitterrand, Kohl, and Thatcher—and their close associates. The history of the SEA suggests that heads of government in the three largest member states possessed considerable autonomy from domestic bureaucracies, political parties, and interest groups, at least in the short run.

In 1984, Mitterrand's personal advocacy, against the opposition of the Quai d'Orsay and the left wing of his own party, gave a decisive impetus to reform efforts. Delors himself stressed the importance of Mitterrand's shuttle diplomacy, recalling that Mitterrand met six times each with Kohl and Thatcher during his 1984 Council presidency alone. The key decisions in France were made in meetings *à quatre* with Mitterrand, Dumas, Delors, and the French Minister of European Affairs.[81]

Like Adenauer and de Gaulle before them, Kohl and Mitterrand viewed economic integration as part of a geopolitical grand strategy. In this sense, French support for the EC could not be separated from French initiatives in areas such as armaments coproduction, coordinated conventional defense, and nuclear strategy. Similarly, Kohl followed Genscher in viewing German support for the EC as an indispensable precondition for German unification within a pan-European framework.[82]

Thatcher's role in the reform effort was as important as Mitterrand's role, though somewhat more ambivalent. Obstacles to reform stemmed from Thatcher's personal crusade to constrain European bureaucracy, particularly in the social and monetary areas, despite the more pro-European sentiments of her closest civil service advisers and a majority of her own party. On the other hand, her extreme neoliberalism lent the SEA much of its substance.

81. Interview with Delors, 22 September 1989.

82. See Anne-Marie Burley, "The Once and Future German Question," *Foreign Affairs* 68 (Winter 1989–90), pp. 65–83. Some have suggested that the 1992 initiative is a response to the threat of a U.S.–Soviet condominium. See, for example, Enrique Baron, *Europe 92: Le rapt du future* (Europe 92: The rape of the future) (Paris: Editions Bernard Coutas, 1989). Sandholtz and Zysman speculate, though with little evidence, that renewed European integration was a response to the decline of the United States, on which the Europeans were dependent for technology. See Sandholtz and Zysman, "1992," p. 96.

In the case of Mitterrand and Thatcher, current views toward European unification reflect positions held for decades. In the case of Cockfield, Rocard, Delors, and others, support may also reflect positive experiences working with and within EC institutions.

Bureaucratic politics: the role of technocracy. The importance of bureaucracies is suggested by the long-term evolution of European policymaking. Since 1966, when the Luxembourg compromise was accepted, the EC has institutionalized an intergovernmental style of internal decision making, centered in the Council. Committees consisting of national bureaucrats, members of permanent delegations (COREPER), or ministers (the Council of Ministers) have met regularly in Brussels and interacted through an increasingly cooperative and specialized mode of decision making. By the early 1980s, a clear trend had emerged away from the traditional practice of consulting foreign ministries in each European state and toward specialization of functions in the Council. While the foreign ministries tended to be suspicious of transferring or pooling sovereignty through mechanisms such as majority voting, the bureaucratic specialists have often been strong supporters of European economic integration. Thus, increased specialization may have encouraged a steady increase in majority voting, with ten decisions based on qualified majority voting between 1966 and 1974, thirty-five between 1974 and 1979, and more than ninety between 1979 and 1984. In this sense, as Helen Wallace points out, the SEA represents "a return on investments made over many previous years" in developing a set of common norms for Council negotiating.[83]

According to the bureaucratic politics view, this evolution in EC negotiating may also have had an effect at home. That is, as technocrats have internalized norms of cooperation, the national leaders have increasingly supported European integration. At a number of points in the negotiating history of the SEA, for example, domestic bureaucracies appear to have intervened to change the views of heads of government, most notably when British officials helped convince Thatcher to join the intergovernmental conference.

Like the statist explanation, the bureaucratic politics explanation has several weaknesses. First, both overlook the evidence that changes in domestic political support facilitated or frustrated the efforts of national leaders to implement policies favoring further European integration. Neither national leaders nor bureaucracies enjoy complete autonomy. Second, both of the explanations fail to offer a plausible account of the stop-and-go process of European integration over the past twenty years. Technocratic explanations overlook evidence of the splits between bureaucracies and the strong opposition among top officials to the dilution of national sovereignty through

83. Wallace, "Making Multilateralism Work," p. 6.

majority voting. But despite the weaknesses of these explanations, autonomous decision making by heads of state or bureaucrats should be retained as a null hypothesis in future research on the domestic roots of policy initiation in the EC.

Partisan support: the role of centrist coalitions. A more promising explanation for the convergence of national policies stresses the role of political parties. While heads of government have some autonomy in European affairs, they are constrained, in this view, by the party coalitions that support their rule. Since Europe is a low-priority issue for the voters of the three largest member states, it is implausible to posit a mechanism by which politicians launch policy initiatives to seek direct electoral advantage, except perhaps immediately before European elections. European integration thus remains an elite affair. Nonetheless, the evolution of conceptions of national interest over time and the key role of partisan splits over European policy, as demonstrated by the decisive French turnaround in 1983 and the importance of British Tory support for neoliberal policies, suggest that the autonomy of heads of government in pursuing a European policy may be constrained by elites within their domestic partisan base.

Over the years, centrist parties, particularly those of the center-right, have tended to support EC reforms, while the strongest opposition to further integration has been located on the extremes of the ideological spectrum. At the founding of the EC, Christian Democratic parties provided the core of partisan support for European integration. Over the years, Germany's center-weighted party system, which pivots on alliances with the pro-European Free Democrats, generated constant support for European integration. Since the completion of the Common Market in 1968 and Britain's accession in 1973, however, a reform package of internal market liberalization and majority voting was blocked by the presence of an anti-EC party in at least one ruling coalition. In the 1970s and early 1980s, the far left (the British Labour party, the West German Greens, the French Communist party, and the more radical French Socialists) remained suspicious of economic liberalization, while the far right (the Thatcherite wing of the British Conservative party, the Gaullists and the party of Jean-Marie Le Pen in France, and the German Republicans) opposed the dilution of national sovereignty. The SEA thus had to navigate a narrow passage between the Scylla of far left opposition to economic liberalization and the Charybdis of conservative opposition to institutional reform.

In the mid-1980s, the dominance of centrists in ruling coalitions created a rare opening for reform. The election of Thatcher and the shift to the moderate wing of the French Socialist party in early 1983 dramatically altered the political landscape. For the first time in over a decade, ruling coalitions in each of the three major states of Europe were ideologically committed to relatively liberal domestic economic policies and were also committed, in

varying degrees and for diverse reasons, to liberalization of the European market. If the Labour party had held power in Britain or if either the Gaullists or the Communists had held power in France, reform would have encountered bitter opposition. The SEA still had to satisfy British complaints about agricultural policy and surmount Thatcherite opposition to institutional reform. The first obstacle was overcome by the carrot of budget reform and the second by the stick of threatened exclusion. The partisan support explanation thus accounts for the high level of international conflict over budget and institutional reform, as compared with the low level of conflict over the central substantive agenda of market liberalization. Yet this explanation nonetheless shares several weaknesses with the following explanation, as discussed below.

Economic functionalism: the role of policy failure. The convergence of policy preferences in the major European states may also have resulted from the failure of purely national strategies of economic policy, which created or legitimated pressure for coordinated liberalization at the European level.[84] According to the statements of European leaders, the plan for market liberalization by 1992 was in part a response to the declining industrial competitiveness of Europe. In the late 1970s and early 1980s, "Eurosclerosis"—the combination of persistent high unemployment, low growth rates relative to those of other countries in the Organization for Economic Cooperation and Development (OECD), and long-term decline in international competitiveness vis-à-vis the United States and Japan in high-technology industries such as electronics and telecommunications—was widely interpreted as an indication of policy failure.

In the 1970s and early 1980s, the economic difficulties of Britain, France, and Germany could ostensibly be attributed to problems common to all OECD countries, such as disruption from the two oil shocks and the need for tight monetary policies to combat inflation. By 1982, however, French and German economic performance lagged significantly behind that of the United States and Japan.[85] This relative failure in economic performance undermined the last excuse for slow growth. After the British experience in the mid-1970s, the German experience with internationally coordinated reflation in 1977, and the French experience with "Keynesianism in one country," reflation was no longer credible. The business-labor bargains on which corporatism and incomes policy are based were disintegrating.[86]

Poor economic performance may have been translated into pressure for internal market liberalization through at least three distinct, though not mu-

84. Sandholtz and Zysman, "1992," p. 109.

85. I am indebted to conversations with Geoffrey Garrett, who encouraged me to develop this argument more precisely.

86. Manfred Wegner, "Preparing the 1990s: A Three-Pronged Strategy," in Wolfgang Wessels and Elfriede Regelsberger, eds., *The Federal Republic of Germany and the European Community* (Bonn: Europa Union Verlag, 1988), pp. 115–24.

tually exclusive, mechanisms. The first mechanism is electoral. Although European integration itself is rarely an issue of electoral importance, leading politicians in advanced industrial democracies face a structural imperative to provide steady economic growth, on which electoral success often depends. Growth requires constant investment, which in turn is stimulated by business confidence. Internal market reform can thus be seen as a way to generate business confidence and stimulate investment by removing market barriers.[87]

The second mechanism is ideological. With other economic policies discredited, European governments turned to new ideas, particularly the American and Japanese models of development. The idea of creating an internal market the size of the United States was one of the few untried policies. It seemed particularly attractive when tied to firm-led high-technology cooperation programs patterned on the Japanese model, such as ESPRIT, the European Programme for High Technology Research and Development (EUREKA), and Research and Development in Advanced Communications (RACE). Moreover, the idea of economic renewal through economies of scale and industrial flexibility underlies the 1992 initiative and reflects the new supply-side and privatization orthodoxy that was sweeping Europe during this period.[88]

The third mechanism involves sectoral or firm-level business pressure at the domestic level.[89] In general, as trade and investment interdependence increase, these interests grow stronger. Specifically, the more competitive a given firm or sector and hence the greater the level of net exports or foreign investment, particularly within the EC, the greater is the likelihood that the firm or sector will support internal market liberalization.[90] Moreover, as sectors become globalized and sensitive to competition from outside the EC, particularly from the United States and Japan, liberalization may appear necessary to create the economies of scale required to compete effectively.[91] The greater the potential for common gains vis-à-vis non-EC countries, the greater is the incentive to bear the costs of adjustments to liberalization within Europe.

This sort of sectoral logic might also be used to explain the initial bargain upon which the EC was founded. In the early years of the EC, Germany

87. See Charles Lindblom, *Politics and Markets* (New York: Basic Books, 1977); and Andrea Boltho, ed., *The European Economy: Growth and Crisis* (Oxford: Oxford University Press, 1982).

88. EC Commission, Directorate-General for Economic and Financial Affairs, *The Economics of 1992: An Assessment of the Potential Economic Effects of Completing the Internal Market of the European Community* (Luxembourg: EC, March 1988).

89. This hypothesis should be clearly distinguished from the supranational institutionalist hypothesis that pressure from *transnationally organized* business interest groups was an essential precondition for the SEA.

90. Helen Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton, N.J.: Princeton University Press, 1988).

91. Keniche Ohmae, *Triad Power: The Coming Shape of Global Competition* (Singapore: McKinsey, 1985).

agreed to finance a disproportionate share of the budget, much of which went to France in the form of subsidies to its relatively efficient agricultural sector, in exchange for market liberalization for industrial goods, in which Germany enjoyed a comparative advantage. Today, British support would be expected from the financial and business service sectors, while German support would draw on industrial and capital-goods exporters.

The economic functionalist explanation and the partisan support explanation are both more plausible than the first two explanations set forth above.[92] Yet anomalies plague these accounts as well. Neither a functionalist nor a partisan sectoral approach seems to explain French support for internal market liberalization. France appears to lack a natural constituency analogous to German industry or British financial services. And if the 1992 initiative was a capitalist conspiracy, Mitterrand was a most unlikely instrument. The economic functionalist approach also faces difficulties in explaining the pressure in some member states for institutional change in areas other than internal market policy. Despite these anomalies, however, the activities of interest groups and political parties should serve as a springboard for further inquiry.

Domestic analysis is a precondition for systemic analysis, not a supplement to it. The existence of significant cross-national variance in state policy preferences and diplomatic strategies invites further research into the domestic roots of European integration. Yet most theories of international cooperation, including regime theory, have neglected the problem of domestic interest formation, often electing instead to specify interests by assumption.[93] None of this is meant to exclude theories of state interests based on international processes, such as economic and social interdependence. But at the very least, domestic politics offers a mechanism—a "transmission belt"—by which international impulses are translated into policy.[94] Testing domestic theories of integration invariably raises many questions traditionally treated by students of comparative politics: Which domestic actors take the lead in promoting and opposing economic liberalization? Are they state

92. Sandholtz and Zysman attribute the SEA to a wide variety of factors, including economic policy failure and the decline of the European left (which seem the most promising elements of their explanation) as well as the transition from American to Japanese leadership in high-technology development, the changing global security environment, Commission activism, and pan-European interest group pressure. See Sandholtz and Zysman, "1992."

93. See Keohane, *After Hegemony*, p. 6. For a discussion of the relationship between domestic interests and the broader category of "liberal" theories of international relations, see Andrew Moravcsik, "Liberalism in International Life," chap. 8 in "The Roots of European Economic Cooperation," Ph.D. diss., Harvard University, forthcoming; and Robert Keohane, "International Liberalism Reconsidered," in John Dunn, ed., *The Economic Limits to Modern Politics* (Cambridge: Cambridge University Press, 1990). For a discussion of the problems involved in specifying interests by assumption, see Andrew Moravcsik, "Disciplining Trade Finance: The OECD Export Credit Arrangement," *International Organization* 43 (Summer 1989), pp. 441–45.

94. For this phrase, I am indebted to a seminar presentation by Robert Keohane. For a typology of theoretical approaches that combine international and domestic factors, see Andrew Moravcsik, "International and Domestic Theories of International Relations: A Theoretical Introduction," in Peter Evans, Harold Jacobson, and Robert Putnam, eds., *Diplomacy and Domestic Politics: Two-Level Games in World Affairs*, forthcoming.

or societal actors? How do they perceive their interests? How do they influence one another? What is their relation to the world economy? Future research on these questions will necessarily connect the literatures on international cooperation and state-society relations in an interdependent world economy.[95]

Conclusion: the SEA in perspective

Neofunctionalism remains the sole attempt to fashion a coherent and comprehensive theory of European integration. The standing of neofunctionalist theory among political scientists is a lagged function of the standing of the EC in the eyes of Europeans. When the EC stagnates, as in the 1970s, scholars speak of the obsolescence of regional integration theory; when it rebounds, as in 1985, they speak of the obsolescence of the nation-state. Regional integration theory, we read today, has been "unjustly consigned to the dustbin."[96]

This article challenges the notion, implicit in these statements, that progress in the EC necessarily supports all the claims of neofunctionalists.[97] It does so by testing and rejecting a particular variant of neofunctionalism, supranational institutionalism, which rests on the argument that international institutions and transnational interest groups play a vital and increasing role as integration progresses. The approach proposed here, intergovernmental institutionalism, accords an important role to supranational institutions in cementing existing interstate bargains as the foundation for renewed integration. But it also affirms that the primary source of integration lies in the interests of the states themselves and the relative power each brings to Brussels. Perhaps most important, the intergovernmental approach demonstrates that even this explanation is incomplete, thus clearing the ground for further research into the international implications of European domestic politics.

95. For previous work focusing on state-society relations in the world economy, see Hall, *Governing the Economy;* Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, N.Y.: Cornell University Press, 1986); Peter Katzenstein, *Small States in World Markets* (Ithaca, N.Y.: Cornell University Press, 1985); and Peter Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1977).

96. Robert Keohane and Stanley Hoffmann, "European Integration," unpublished manuscript, Harvard University, November 1989. See also Roy Pryce and Wolfgang Wessels, "The Search for an Ever Closer Union: A Framework for Analysis," in Pryce, *The Dynamics of European Union*, pp. 1–34.

97. Analysts who stress power and interests have traditionally been pessimistic. For a contrast of pessimistic and optimistic views in the 1960s and 1980s, respectively, see the following articles by Stanley Hoffmann: "Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe," *Daedalus* 95 (Summer 1966), pp. 892–908; and "Reflections on the Nation-State in Western Europe Today," *Journal of Common Market Studies* 21 (September–December 1982), pp. 33–35.