THE EUROPEAN UNION AND AMERICAN POWER

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In last year’s issue of this Register Leo Panitch and Sam Gindin argued that deep economic integration of the most advanced economies had led to an unprecedented concentration of geopolitical power under US hegemony.1 The present contribution examines the possibility of a European counterweight to this power. Current discussions suggest two ways in which the European Union might represent a challenge to the concentration of power on the US: on the one hand, some member countries could be seen as exemplifying more efficient, more stable or more socially developed economic systems; on the other, the relations among member countries could constitute a superior model of international economic and political organization to that which is today promoted under US leadership.

The first of these issues relate to debates on ‘varieties of capitalism’: can economic systems which diverge from the ‘liberal market economy’ of the US and the UK survive in an increasingly interdependent world economy? The claim that this is so is associated with the work of Hall and Soskice, who characterize alternatives as ‘coordinated market economies’.2 The most studied case in question is that of Germany, central to the EU. Other commentators suggest a general convergence on the US model, or put forward various notions of ‘hybridization’.3 The second issue concerns international relations rather than socio-economic systems. It is sometimes argued that the evolution of the European Union has led to law-governed relations among member states, and that this could be an important precedent in the construction of a world international order protecting states against the simple rule of the strong, whether in the economic or the military sphere.

It will be suggested that the European Union could realize both these possibilities: that it could offer a path both towards more social control over economic life and towards a more pluralist and constructive international system. The present direction of change in the EU, however, is away from
these possibilities, towards the ‘Canadianization’ which Panitch and Gindin suggest could be the fate of most countries with advanced economic systems.

THE US AND THE ORIGINS OF THE EU

It is certainly the case that the process of European construction has been sponsored, from the very beginning, by the US. In the autumn of 1949, Secretary of State Dean Acheson wrote to Robert Schuman, the French Minister of Foreign Affairs, to encourage a French initiative towards integration: ‘the development of a German Government which can take its place in Western Europe, depends on the assumption by your country of leadership in Europe on these questions’. This can be seen as the green light for the Schuman Plan of the following year, which launched what has become today’s European Union. The US saw European integration as helping to promote political and economic stability in Western Europe, and thus as a basis both for a more effective response to the Soviet challenge and for moves towards the liberal international economic order required by American interests.

Of course, the US could not simply impose its desired solution on the Europeans. The very choice of France as leader of the integration drive demonstrates this. The Americans would much have preferred Britain to have played this role because it was a stronger power, one closer to the US on trade and other issues and one with a longer history of Atlantic cooperation. It was only Britain’s repeated rejection of a merely European status which made the turn to France necessary. One danger of this switch was that European economic institutions would be less compatible with US designs for the international economy. The perception of this danger has recurred from time to time. But in practice economic conflicts between the US and the EU have been minimal, confined to a few sectoral issues. One reason for this is that although France has always had great political influence on the evolution of the EU, the growth and expansion of the EU itself has limited France’s ability to determine the nature of EU institutions. A key example relates to the ambitious market completion programme undertaken by the Europeans in the eighties and which can be seen as giving their present shape to European structures. The US feared the emergence of a ‘Fortress Europe’ which would have compromised American investment interests by giving inside players key advantages in the big market which was emerging. The French themselves might have gone in this direction: they argued that internal negotiations (on market completion) and external ones (on the Uruguay Round and the WTO) should be synchronized in order not to confer advantages on US corporations active in Western Europe without compensating concessions for European companies from the US. This
strategy was not adopted because Britain and West Germany refused it: one aspect of US control over European developments has always been the ability to use other countries (in particular, Germany from the start and, after its accession in 1973, Britain) to dilute French influence, when this was seen as desirable.

Another aspect of US control over developments in Europe turned out to be the separation of economic issues (handled by the EU and its predecessors) from military and related questions (dealt with by NATO). This separation of functions itself seems to have been contingent in its origins – had the French National Assembly not rejected the Pleven Plan in 1954, a much closer relationship between economic and military policies would have been established in Europe. It is unlikely, however, that this would have taken the form of a challenge to US leadership in military matters: the point of the Pleven Plan was to contain a rearmed Germany, not to call US command into question. In any case, the failure of the Pleven Plan, making NATO the exclusive forum for security questions, dissociated economic and military policies in a way which increased US influence over the latter. Here too, concessions were sometimes necessary: the US wanted maximum control over European military policies but at the same time maximum ‘burden-sharing’ over their costs – some trade-off between these goals was inevitable. But, given the particular position of Germany, whose governments saw NATO as the indispensable guarantor of national survival, it proved possible to extract big European contributions to a military posture essentially defined by the US.

Thus, although US support for the Schuman Plan represented a certain gamble, it was one which paid off – achieving a strong European economy without creating major problems for the US either in economic or in geopolitical terms.

**THE GAULLIST INTERLUDE**

Between 1958 and 1969, there were continuous frictions between the US and the French-led European order because of the political priorities of one man – Charles de Gaulle. The issues were legion: the organization of NATO, French nuclear armament, French policy in Algeria, the conduct of negotiations with the Soviet Union, the role of the dollar in the international monetary system, the Vietnam war, Britain’s application for membership of the EEC. What unified all these disputes was that French policy was aimed at European leadership in ways which directly challenged American power – it was US hegemony itself, rather than the way it was exercised in any particular case, which de Gaulle wanted to reject. It is significant, however, that the French move which provoked the most anguish in Washington was
the challenge to the role of the dollar, the key to US economic supremacy and thus to the very basis of its whole geopolitical stance.

The episode closed with French defeat. The événements of 1968 led to a huge inflation of the franc which was quite incompatible with de Gaulle’s dream of a return to the gold standard. After de Gaulle himself left the scene the following year, his successors were disinclined to maintain his intransigence on such issues as British entry; the ‘Trojan horse’ was soon admitted into the European citadel. But there were also structural limitations to the Gaullist drive for independence. One of these was obviously the reluctance of West Germany to push its support for European construction past the point at which it might offend the Americans. More fundamentally, the decade of de Gaulle’s reign coincided with a huge flow of US investment into the European economy; in many ways it was the US corporations which pioneered the process of European integration. The European commission always sought the emergence of ‘European enterprises’, rather than French, Dutch or German enterprises, to consolidate the integrated economy; in practice the US multinationals came closest to this idea of Europeanization since they operated freely throughout the old continent. In the early eighties the ill-fated Mitterrand experiment involved a brief attempt to reduce the US economic presence in France; these buy-outs proved as unsustainable as the other aspects of this exercise in economic voluntarism.

After this interlude, US-European relations, at least at an official level, were never again subject to such a fundamental challenge. One can mention the Ostpolitik of Willy Brandt in the 1970s, which constituted a certain challenge to the US approach to the Soviet bloc, but Brandt’s departure, like that of de Gaulle, was followed by a normalization. Subsequent West German governments continued to develop relations with the East Germans but not in ways which challenged US leadership in East-West relations as a whole. There have since been major movements directed against US policies; massive popular opposition to the Vietnamese war was followed by opposition to the deployment of short-range nuclear weapons in the 1980s. Some European states, notably Sweden, have maintained foreign policy positions in marked opposition to those of the US. Indeed, the most impressive popular rejection of US policies is perhaps the most recent – the massive rejection by peoples and by some governments of the second war against Iraq – but such movements have never called into question the consistent Atlanticism of the EU and its political leaderships. Successive expansions of the EU have probably reduced the possibility of any fundamental rupture – especially the latest admission of a whole string of Trojan horses in the shape of the ex-communist states.
THE NADIR OF AMERICAN POWER – AND ITS FINANCE-BASED RESURGENCE

The end of the seventies perhaps marks the lowest point of US prestige and influence. The defeat in Vietnam seemed to set limits to the direct exercise of military power. In the economic sphere, the US had great difficulties in responding to the industrial renaissance of Germany and Japan, while continuous inflation of the dollar threatened the centrality of its financial system to adjustment and restructuring processes in the world economy as a whole. Symbolic of this decline was the failed attempt by the Federal reserve to enlist German support for the dollar in the autumn of 1979. Bundesbank leader Emminger boasted of having convinced Paul Volcker that foreign exchange intervention was pointless: ‘the real decisive factor was the money supply’. The Americans themselves were readier than at any other time since World War II to consider a more collective approach to the economic problems of the West; this was the era of ‘trilateralism’, a proposed reshaping of Western hegemony which traded significant increases in Japanese and European political influence against the assumption of heavier international burdens.

As Panitch and Gindin show, the actual outcome of this crisis, hardly anticipated by any of the agents involved, was a decisive restoration of US economic dominance, based on a dramatic assertion of financial power through a complete reversal of economic strategies. The restrictive monetary policies which restored the key place of the dollar and of dollar-based financial markets in world economic relations were immensely damaging in their social consequences, both in the US and around the world, but the ‘Volcker shock’ represents a key turning point. Since 1980, the relative position of the US economy has continuously strengthened while the German and Japanese challenges, at the time so ominous, have faded virtually into insignificance. The excellence of their industrial systems was no match for the range and scale of the dollar-based financial system.

European Keynesianism, and to a large extent European social democracy as well, were early victims of the turn to neoliberal policies: the kind of Keynesian intervention attempted by most European countries in the late seventies and early eighties simply could not be financed in a world of depreciating European currencies and sky-high American interest rates. One can speculate on whether a common European macroeconomic strategy might have produced a different outcome; the cohesion required for such a strategy did not exist. In particular, German and French macroeconomic policies in the early 1980s were diametrically opposed.

The actual response of the Europeans to the new, extremely adverse, environment arising from the change in US policies was heavily influenced by
the neoliberal zeitgeist. National interventionism largely gave way to a drive for more complete integration, focused entirely on market processes. While projects for more developed political integration were abandoned or reduced to token status, an extremely ambitious programme of economic reforms brought down a multitude of non-tariff barriers and in practice extended the integration process for the first time beyond the field of manufactures to cover markets for service outputs and labour and capital inputs. Since this programme, embodied in the Single European Act of 1986, gave rise to the EU in its present form it is worth looking at in a little more detail.

**THE FOUR FREEDOMS**

The Single Act led, in the first place, to an extensive legislative programme removing specific ‘non-tariff barriers’ to exchange across member state boundaries. For example, public procurement was opened up to EU-wide competition. But, more fundamentally, basic legal principles were enforced which made any future use of such barriers by member states illegitimate. The principles are usually summed up as the four freedoms: the freedom to move goods, services, labour and capital without hindrance anywhere in the EU. These freedoms are justiciable rights – if national authorities impair them, there are effective legal remedies which can be obtained not only in the European Court of Justice but usually in national courts themselves, since these accept the supremacy of European law on economic questions.\(^{12}\)

The EU thus involves a system of supranational law limiting, indeed in many ways eliminating, member state sovereignty over economic issues. The EU, and its predecessors, had always been centred on a supranational and law-based structure – this was the case since the Schuman Plan itself. But, until the eighties and the Single Act, the actual functioning of this legal structure had been limited by formal and informal arrangements which left enormous scope for national economic intervention. For example, the requirement to permit the free movement of capital was subject to a host of ‘safeguard’ clauses which in fact allowed for effective exchange controls. Similarly, although, in principle, legal competence on certain issues might have been transferred from member states to EU institutions, the ‘Luxembourg compromise’\(^ {13}\) allowed an individual member state to invoke its own vital interests to refuse a majority decision of the other members. The lack of political legitimacy often inhibited the Commission from litigation against member states which broke the rules by, for instance, subsidising a domestic industry.

In the eighties, most of these exceptions and derogations were swept away. The economic laws of the EU became increasingly hard to ignore or transgress as the Luxembourg compromise was abandoned, exchange rate
controls were abolished and the Commission, supported by a general consensus among member states, became much readier to challenge breaches of the rules in the courts. The result was that economic and political practice came into much closer accord with the formal supranational legal system – the EU became a unique example of law-governed international interactions.

From the point of view of European populations, there is no basis for this effective legalization of EU relations. The commitment of European citizens to the institutions of the EU varies from country to country but nowhere does it compare to the deep political allegiance which sustains the institutions of individual member states. Yet such allegiance is not necessary: the EU as an economic structure is strong in spite of a chronic lack of popular support, in spite of the famous ‘democratic deficit’ and so on. The paradox is explained by the nature of the four freedoms; these are freedoms used above all by the corporations, especially the larger ones which are most likely to operate on a Europe-wide basis (and including, of course, US multinationals and other ‘outsiders’ who enjoy the same rights as indigenous corporations). The actual structure of the EU, according solid guarantees of market access – embracing output, labour and capital markets – and enforceable against the authorities of all states concerned, represents a uniquely advantageous regime for capital. While such a regime continues, European citizens do not have to love the EU – their employers will do so on their behalf.\textsuperscript{14}

For three decades or more commentators have lamented the unbalanced nature of European construction: negative integration outpaces positive integration; social Europe lags behind economic Europe; ‘market creation’ runs ahead of ‘market correction’; and so on.\textsuperscript{15} These imbalances are very real, and they help to explain the indifference or hostility of most EU citizens towards European structures which fail to defend them against tightening external constraints. But they also help to account for the political solidity of the structure. The very underdevelopment of a market-correcting social Europe makes for a deep commitment of the dominant economic interests – US as well as European interests – to the institutions which have emerged.

**THE REIGN OF FINANCE**

Incorrect assessments of financial developments constitute the most important weakness of critical political economy today. The growing role of financial markets is certainly recognized, but the interpretation of this role is usually in terms of dysfunction, speculation, parasitism, even decadence. Industry and production are being sacrificed to rentier interests; the tribute exacted by a hypertrophied financial sector distorts and impedes the restructuring of economic relations.
One reason for this kind of perspective is a very justified concern with the impact of financial liberalization on developing countries. The outcome of the deregulations, privatizations and liberalizations promoted by the Washington consensus in the South has been both socially and economically disastrous; one can see that certain Western interests have been served but not that any developmental process has been advanced. North-South relations, however, represent only a small part, and not a representative part, of the vast global financial system which has emerged over the past three decades and within which the issuance of securities, capitalization and transactions are overwhelmingly concentrated on the OECD countries. This system is far from being the speculative ‘casino’ as which it is often portrayed. It represents, in fact, a profound innovation in the productive system. It is by no means necessary to accept idealized theories of efficient markets and rational security pricing to arrive at this conclusion. In an economy where markets typically fail to clear, finance is not simply a mechanism for reallocating monetary resources; it becomes a condition of existence of the market economy itself. The power of today’s global financial markets derives not from the accuracy of their asset evaluations but from the scale and density of the financial interactions which they establish, from the range over which they deploy monetary resources and from the standards of practice and procedure which they enforce on all the economic agents involved.

The centrality of the dollar today, and the various advantages which the US derives from this centrality, are largely a function of the scale of dollar-based financial markets. In the period immediately following World War II, the primacy of the dollar was to a large extent an industrial phenomenon: the ‘dollar shortage’ represented a universal hunger for US exports. (Similarly with the key position of the D-mark within the European Monetary System.) Today, the primacy of the dollar rests on the scale and liquidity of North American financial markets and, measured by this yardstick, the preponderance of the US economy, far from giving way to competitive challenge, is greater than ever before. The capitalization of the two largest stock markets, NYSE and NASDAQ, for example, is some $11 trillion – half the world total. Similarly, dollar-denominated securities constitute nearly half of the outstanding issues on world debt markets. Some 90 per cent of recorded foreign exchange transactions involve the dollar. From the point of view of macroeconomic policy, this kind of scale does not so much limit as practically eliminate external financial constraints on the US – there is no external financial domain to which investors or issuers could transfer even a small fraction of this financial activity. (This is the basis for the US practice of ‘benign neglect’ of the dollar exchange rate.) But the impact of dollar predominance increasingly goes beyond macroeconomic policy formulation – as private
sector finance is globalized, the dollar-denominated markets increasingly determine the terms and conditions for corporate finance, and the resulting pressures tend to create a corporate world in the image of the US itself.

In comparison to this worldwide system, the historically established financial systems of Europe are merely a cluster of particularisms. Each depended heavily on longstanding relationships between the users of finance and a small number of inside investors; in each, financial relations were deeply embedded in other social ties – of language, nationality, religious/political affiliation and so on. This embeddedness, as has often been pointed out, can result in a very efficient transfer of information from issuer to investor and a very precise adjustment of the interests of both parties. But it limits financial relations to a specific social and geographical context, and in consequence such systems cannot match the dynamic expansion of the disembedded dollar-based system. With the emergence of the latter the ‘inside investor’ systems of Western Europe, notably that of Germany, came under immense pressure, as did their socio-economic systems in general.18

THE EUROPEAN RESPONSE

The current, very determined, efforts of the European Union to integrate member state financial systems, and to build huge, liquid markets in euro-denominated securities, should be seen in the context of this growing challenge. Certainly, many aspects of the financial integration programme are influenced by the neoliberal thinking which still grips European leaderships. But the essence of the undertaking arises from a material necessity: if the Europeans do not develop their financial markets they will drive every borrower and lender on the planet into the North American ones. This would only tighten external constraints and handicap European enterprises.

Several factors hinder and distort this policy drive. Most important is the inefficient, backward-looking and restrictive macroeconomic regime. The two main elements of this regime are the monetary policy of the European Central Bank and the Stability and Growth Pact which constrains member state budgetary policies. Both are heavily influenced by German models; both put a high premium on ‘stability’ as against employment and growth. And both can be regarded as a futile attempt to perpetuate the methods of the Bundesbank in the context of a continent-wide monetary union which simply cannot be managed as if it were the highly coordinated German economy of the past. The consequent tendency to lower levels of activity and higher levels of unemployment aggravates the malaise of the German and other key European economies in the difficult adjustment of their socio-economic systems to changing external conditions.

The actual way in which EU elites conceived the financial integration
project represented a slavish acceptance of American models: Europe was to become ‘the cheapest and easiest place to do business in the world’. Not only financial reforms, but also labour market and social protection policies, liberalization and privatization of public services, the promotion of venture capital and other such measures were all put forward in a completely uncritical attempt to mimic the growth process of the US in the late '90s. Only with the stock market crash and the corporate scandals which followed did signs of a certain reflection on the weaknesses of the US model appear.

**THE ABSENCE OF SOCIAL EUROPE**

Of course, social Europe does have a certain reality: there are policy communities, declarations and many other documents, a host of comparative and statistical studies and so on. But social policy remains essentially within the competence of the member states. Two reasons can be found for this. On the one hand, the dominant economic interests of the EU prefer things this way – social regime competition allows the corporations to ‘regime shop’, and in so doing put continuous downward pressure on the redistributive and market-correcting capacities of individual member states. On the other hand, it may be that the member state governments themselves tend to guard their autonomy in social policies all the more fiercely for having abandoned all the key instruments of economic intervention: only social policy initiatives – in the fields of social protection, education and so on – allow them to respond effectively to the political pressures which are still, almost exclusively, determined by national developments.

Labour market policy (where a significant EU competence has emerged) is the exception which proves the rule. Employment strategy is the paradigmatic example of the ‘open coordination’ used by European institutions outside the key sphere of market integration. It can be regarded as the intersection of the Europeanized domain of economic policy and that of social policy where member states retain autonomy. To leave all employment issues to the member states would be to risk the unravelling of the economic integration which has been achieved, since labour–market or employment measures could then be used as surrogate forms of economic intervention. On the other hand, a full integration and harmonization of labour market regimes would itself be a big step towards an active social Europe which could undermine the clarity of the four freedoms in the economic sphere. What can be observed is a battleground: legislation, in the form of labour market directives or the ‘soft’ integration of labour market policies, are functional necessities for the big market, but each such initiative becomes a focus for trade union and popular pressure contesting the economic priorities of the EU system.
THE IMPORTANCE OF LAW

It might seem that the account given here of the origin and nature of the EU only confirms its subordination to US interests. Fostered, if not actually initiated, by the US, the process of European construction from the start fitted the geopolitical and economic priorities of the Americans; the sharp separation of military and economic issues, of EU and NATO, although not designed to do so, worked to limit the political ambitions of the project. Struggles for independence and against US hegemony were weakened both by divisions among European countries and by the increasing penetration of their economic space by US investors. The central European response to the Volcker shock, focused on supply-side, market-creating, reforms and without a coherent macroeconomic strategy, weakened control over the European economies while creating a unified space open to further penetration.

However, it is sometimes suggested that the legal form of intra-European integration, governed by a supranational judiciary, makes for a different approach to global interactions to that which tends to prevail in the US. This legal form, present from the origins of the European project, was, as has been seen, powerfully reinforced by the reforms of the 1980s. Member states, and the strongest economic interests within them, recognize that the functioning of EU institutions depends on the primacy of EU law and on corresponding constraints on national policies. The very weakness of the EU in the military and political fields may also dictate a rather different approach to the globalization process. The big European corporations share with US ones the objective of full access to developing economies around the world. Unable, however, to deploy direct political or economic pressure in the same way as the US, the Europeans may be readier to rely on the construction of general legal frameworks and less inclined to resort to unilateral tactics. Peter Gowan argues that, after the Soviet collapse reduced European military dependence on the US, this legalistic internationalism took three forms: the promotion of global human rights and democracy; substantial contributions to development in the South; and ‘the theme of the capacity of the EU to promote the peaceful solution of international problems and conflicts’.20 The refusal of the key EU states, France and Germany, to accept US intervention in Iraq could then be seen as evidence of this kind of transatlantic divergence.

Alongside the structures of economic law – above all competition law – of the EU, there is an important body of law on human and civil rights. This derives not from the EU but from a different structure, the Council of Europe, whose main achievement has been the establishment of a European Court of Human Rights. This gives European citizens a remedy if their basic rights are violated by their own governments. The EU recognizes the
European Charter of Human Rights and thus both supranational judiciaries in Europe will uphold its provisions. But the rights in question are analogous to those promulgated in the US Bill of Rights – they concern individual, civil, freedoms, not social rights. This is a most important development in relations between states but not one which is in contradiction to the rule of markets in economic life.

In spite of the inadequacies of the EU structure from the social point of view – the hard enforcement of the four freedoms against the soft law and open coordination which govern employment and social policies – this commitment to legality must be considered an important aspect of the EU’s position in the global system. Clearly it should not be idealized – time was when US intervention was needed to pull Britain and France back from their illegal invasion of an Arab country. But to the extent that the EU and its members are highly committed to a law-bound, institutionalized approach to international affairs, including for instance respect for United Nations decisions, this is in itself a challenge to certain aspects of American power. On the Iraq question, the US successfully divided member states, but it might not always be able to do this.

THE SOCIO-ECONOMIC MODELS OF EUROPE

A more ambitious hope for European influence derives from a variety of socio-economic systems which have introduced more comprehensive constraints on market forces than are found in the US, in short from the European social models. These cannot be discussed in any detail here but some of the problems confronting their present development can be brought out. A first difficulty has already been referred to – the fact that, unlike market transactions and processes, the social protection systems, social services and employment regimes have not been Europeanized. They remain national structures, embedded in very different social contexts.

Compounding this problem is the fact that the economic performance of EU countries with developed social models – most significantly the performance of Germany – has been very weak for over a decade. At the time when Germany’s industrial competitiveness seemed to be undermining US economic dominance, the associated social institutions – such as employees’ codetermination within the enterprise, the German vocational training system, the highly developed social protection system and so on – enjoyed very great prestige. Today, that relationship is reversed and persistently high unemployment calls into question the continuation of the social model. However much it may be true that rapid growth, at least in a material sense, is hardly desirable for a country like Germany, the current German government seems persuaded that the old social model is obsolete, accepting the
view that it gets in the way of rapid growth. It has launched a whole series of reforms designed to limit welfare entitlements and social expenditures, and to reduce employment regulation.22

The issue involves recent debates on the ‘varieties of capitalism’, where the future of the German socio-economic model is the key question in dispute. An influential position, at least until very recently, has been that the German economy derived significant productive advantages from forms of non-market coordination (for example, in the process of wage bargaining). In general, the ‘coordinated market economies’ of Western Europe were seen as at least holding their own in competition with the ‘liberal market economies’ of Britain and the US.23 It was further argued that historical factors – characterized in terms of ‘path dependency’ and ‘institutional complementarity’, that is in terms of the way in which specific national institutions reinforced each other – would prevent a convergence of the coordinated systems onto the liberal model, in spite of more intense interactions within the global economy.

Although the institutional forms of the European economies are indeed remarkably stable, these views underestimate the deep changes in the priorities and objectives which determine the functioning of institutions. Not only are global market forces promoting deep changes in German economic structures (for example, in corporate finance and in corporate strategies)24 but elites, both economic and political, are thoroughly committed to such change and seek to accelerate it. The previously vaunted advantages of Germany’s strong institutions are often now seen, in neoliberal terms, as the source of damaging ‘rigidities’. US practices and institutions are themselves frequently seen, in Germany and elsewhere, as providing a model for European reform. The key forces behind these pressures, as we have seen, are financial.

**CONCLUSION**

It has been suggested here that in two ways the EU offers a different perspective on international relations and the emergence of a global economy. On the one hand, its internal relations have evolved in a way which constrains national governments to respect supranational law, and this state of affairs is seen as central to the economic performance of both member states and the EU as a whole. This has already promoted a somewhat different attitude to rules and power in the international sphere. Secondly, many European states – although not the EU – have developed social models which in the past have combined very impressive rates of economic development with significantly higher levels of social provision and substantially less inequality than is found in the US.
The two achievements are to a great extent in contradiction with each other since what has worked to cement the legal institutions of the EU has been the limited scope of EU law – which is centred on bourgeois right, on market freedoms and on property rights, with an obvious functionality for the large corporations – while it leaves employment and social rights to the member states. Thus advance in the legal sphere rests on the absence of social Europe, on the failure to include ambitious social policies in the integration project. One result of this is that the achievement of greater equality than in the US still only applies to each European country in turn. Inequalities across EU member states are enormous and dwarf those among regions of the US.

The key policy of European leaderships today, the drive for financial integration, is marked by the same contradiction. The EU’s financial integration strategy, although essential to any prospect of European autonomy in economic and social development, threatens, in its existing form, to widen the existing gulf between the market-creating and market-correcting capacities of the EU. The rejection, by the European Parliament, of the Commission’s proposed Takeover Directive indicates the degree to which the present strategy for financial integration calls into question social policy objectives in the member states. A unified market in corporate control was seen as central to the integration of corporate financial systems; but Commission proposals completely failed to acknowledge the social issues of such a market. Only a completely diluted directive was accepted by the Parliament. The absence of any European ambition in the social sphere leaves employment regulation, social protection and social service provision to the individual member states where, at best, only defensive measures are to be expected. But so long as continuing economic integration is (correctly) perceived by European populations as working to dissolve existing structures of social control, the integration project will not only lack legitimacy in itself; it will tend to undermine the legitimacy of political institutions in the member states.

Present developments in the world economy also threaten to destabilize the entire structure of the EU. The European systems have to adapt to deep changes, above all in the financial sphere, which call into question the functionality of their institutional structures and the validity of corporate strategies. The European response to this challenge, a drive to integrate its financial markets, is rational as far as it goes; but the efforts being made are weakened by an anachronistic macroeconomic regime and by a continuing neglect of the social dimension in the integration process. The power of attraction of the US model itself helps to explain these weaknesses. European leaderships have increasingly seen Americanization as the only solution to the problems of the old continent; they have not, in recent years, envisaged divergent paths of development.
To overcome these contradictions would require two conditions which are not easily compatible: on the one hand, a rejection of the purely market-creating focus of the present EU and the insertion of a substantive social policy into European strategies; on the other, a determination to preserve and develop the deep integration achieved over the last half century. There is a great deal of opposition to the EU today, but it usually takes the form of protecting the national space from it – with ‘disintegrating’ effects on the ‘common European home’. Only if the progressive forces of opposition find enough common ground to redirect rather than dismantle the European Union could a significant challenge to US hegemony emerge on the old continent.

NOTES

My thanks to Peter Gowan for critical comments on a first draft.

7 This was the development famously lamented by J.-J. Servan-Schreiber, Le Défi Américain, Paris: Denoël, 1967.


13 The compromise originated in a dispute between de Gaulle’s France, on the one hand, and other members and European institutions on the other.


16 Widespread views of the foreign exchange market, for example, which portray it as essentially speculative, are based on quite erroneous interpretations. See Grahl and Lysandrou, ‘Sand in the Wheels or Spanner in the Works? The Tobin Tax and Global Finance’, *Cambridge Journal of Economics*, 27(4), 2003, pp. 597-621.

17 Mainstream economic theory, with its emphasis on market equilibration, may even understated the importance of financial systems, and in fact the efficient markets position has been effectively challenged within mainstream economics by the ‘behavioural finance’ school. This is because the strong assumptions which are made about market equilibrium suggest that agents can typically cover their purchases from the proceeds of their sales (this is the implication of ‘Walras’ Law’ – every agent in an equilibrated market economy observes the necessary budget constraint). From this point of view, financial relations may certainly increase the efficiency of the market economy but one can conceive the latter without the former. If one rejects this idealized account of markets, and sees that realized sales volumes and realized prices rarely correspond to the plans of the agents concerned, then it follows that over any time period, no matter how short, every agent will incur either a monetary surplus or a deficit. Only effective and comprehensive recycling from surplus to deficit agents, that is to say, only finance, permits the market economy to endure. Likewise, the adjustments necessary to the market economy are essentially financial: they are brought about not in response to ‘market signals’ but in function of the pressures arising from the need to cover deficit positions. (Clearly, as economic relations become increasingly internationalized so also must financial processes.) The classic account of this reasoning is an article by Jean Cartelier, ‘Théorie de la valeur ou hétérodoxie monétaire: les termes d’un choix’, *Économie appliquée*, XXXVIII(1), 1985, pp. 63-82.


19 This objective was proposed by the European Commission in its report to the European Council, Stockholm, March, 2001 (see Corporate European Observer, issue 9, June, 2001, www.corporateeurope.org). To be fair to the Council, the expression was not used in its declaration, although its
deregulatory substance was endorsed.


21 Apropos of Suez, John Foster Dulles said to the British Prime Minister, ‘Anthony, you must be out of your mind’.


23 See Hall and Soskice, *Varieties*.

24 For a thorough account of changing strategies, see Wolfgang Streeck and Martin Höpner, *Alle Macht dem Markt?*, Frankfurt am Main: Campus Verlag, 2003.