Constructing Economic Sovereignty:

Embedded Liberalism and Neoliberalism in Europe

Scott Siegel
Cornell University
Paper Presented for the 8th Annual Biennial Conference of the European Union Studies Association
March 28, 2003

Work in Progress: Please do not cite without permission.

Constructing Economic Sovereignty: Embedded Liberalism and Neoliberalism in Europe

This paper provides an alternative explanatory framework based on the power of ideas in determining the forms of governance at different institutional levels within the European Union. I argue that the institutional level at which authority over the economy is constructed will be a function of the interaction between ideas and the different political opportunity structures that are relatively open or closed to the incorporation of ideas. The constitutive norms that make up a state's authority over the economy account for the variation we see in the different levels of governance employed in contemporary Western Europe over the economy. Rather than assuming that the EU acts as a uniform site of supranational governance or whether it remains merely an international institution providing collective goods to its member states in an intergovernmentalist framework, this paper argues that we should accept the multi-faceted nature of European governance today and explain how and why national state sovereignty is becoming increasingly disembedded from its national territorial base and transferred to the supranational levels of governance.

Many Western European economies faced a series of economic crises throughout the 1970s and 1980s and again in the 1990s. However, EU member states did not choose to send all of the governance capacity straight to Brussels. Rather, some components of the national economy were embedded within supranational institutions of the EU, while some areas remained under the authority and control of national governments. In the case of monetary policy, the growth of offshore Eurodollar markets and the removal of capital controls by member states of the EU led to the establishment of a single European currency and all state control and authority to become embedded within a supranational European institution. In contrast, while Western European states faced similar challenges in adjusting their welfare states to both an increasingly integrated European Community as well as changes in the international economy, the scope of EU governance over social policy and the national welfare is quite limited. Thus, although EU member state governments faced increasingly less control over their national economies and similar policy crises, they developed different policy solutions and retained their sovereignty over the national welfare state.

The transference of governing authority can be explained by a historical institutionalist framework and the different norms embedded in path dependent structures. As member states have constructed this multi-layered polity, short-term consequences, oscillating preferences, and the ubiquity of unintended consequences have shaped the degree and extent to which EU supranational institutions have sovereign control over the west European economy (Pierson 1996). Despite the path dependent character of European integration, some policy areas have been able to move beyond these national institutional constraints through the transformation of the normative structures that support state regulation at the domestic level and bring them up to the European level. For example, the establishment of the single European currency demonstrates the ability of certain regulatory functions to escape path dependency and become re-embedded into a European institutional structure, while social policy and the regulatory structure of the European welfare states remains attached to national systems of regulation.

Sovereignty and the Economy

When constructing an embedded or disembedded liberal order and the necessary institutions to support that structure, actors are constructing the rules and procedures by which governance should take place and operate. Based on the work of Karl Polanyi, we can see that the meaning behind the practices of social control vis-à-vis the market are divided roughly into two areas: those practices and actions in which the market or private actors can legitimately exercise, and the policies employed by states to redress the inequalities and asymmetric results of market forces. The social purpose of state regulatory authority rests on this division between specifying the scope of market behavior as well as delimiting its effects. Second I argue that the classic embedded liberal order rested upon modern nation-state conception of territoriality. Only as a result of crisis in that system were institutions redesigned and sovereignty reassigned to a supranational level. Yet, the reassignment of sovereignty has taken place only to a limited extent, in which some regulatory capacities of the state remain the purview of national control within the EU.

The research in state sovereignty has certainly moved forward in the last ten years. Within the last ten years, the debate between neorealists and social constructivists has focused on important questions regarding state sovereignty: its origins (Bull 1977; Ruggie 1983; Reus-Smit 1999), the social practices that sustain it (Weber 1995; Biersteker and Weber 2000), and ultimately whether the norms and rules that maintain sovereignty are trumped by power and the material interest of state actors (Krasner 1999). A key step towards understanding the complex nature and multiple aspects of state sovereignty resulted from Janice Thomson's (1995) work.

Thomson acknowledges the multiple "dimensions" of sovereignty all revolve around the central issues of which set of institutions, usually the state, possess and are legitimately exercising authority. Mutual recognition by other state leaders, the monopolization of legitimate violence over society, and territoriality are all elements that contribute to the authoritative aspects of state sovereignty (Thomson 1995). The function of authority is different from the concept of state control, which is also a component of state sovereignty. Control refers to the extent or capacity of the state to monitor, enforce, and adequately manage claims of state authority in the areas mentioned above.

The construction and determination of legitimate authority of the market precedes that of determining the extent of control over the market. Thomson refers to this process as constructing the "meta-political authority" of the state. In the case of the economy, the precise boundary between the economic sphere and the state was a product of political contention, both at the domestic level and at the international. States not only had to determine the set of legitimate practices and scope of authority for domestic actors, but also the boundaries between these spheres of authority had to be internationally recognized, and, therefore, a product of international contestation as well (Thomson 1995).

These debates over the precise authority the state has over the market leads Thomson to further divide the concept of state authority into two areas: the functional area, in which "the precise range of activities over which states can *legitimately* exercise authority (extensiveness)," and a second area, "the depth of state authority—or, put differently, the degree to which state authority penetrates society (intensiveness)—may vary (Thomson 1995, 222)." Thomson emphasizes the preconceived social purpose(s) of state institutions vis-à-vis the economy that construct the boundaries between the public and private spheres and then the ultimately policies, legislative agendas, and regulatory practices that enforce the borders between these two spheres.

Thus, Thomson is highlighting the discursive practices that must be employed to define the private and the public, the market and the state. Once those boundaries are defined, the range of activities that states use to sustain those boundaries as well as where the borders lie must constantly rearticulated and institutionalized. Moreover, the "intensiveness" of state practices imply that state practices can not only determine the boundaries between private and public, but also the extent to which market factors are allowed to determine social outcomes. The collection of these practices in which the legitimate exercise of state power is constructed vis-à-vis societal forces and actors within the market constitutes economic sovereignty.

By emphasizing the "meta-political authority" of the state, Thomson's vision of sovereignty is congruent with a broader sociological or "new" institutionalist approach in the study of International Relations (March and Olsen 1984; March and Olsen 1989). Institutions are the collective practices and rules that actors engage in that embedded in wider structures of meaning that legitimize particular identities and the behaviors associated with them (March and Olsen 1999). The routinization and rationalization of institutional practices develop particular codes of meaning that together serves as the organizational purpose of institutions, particularly of the state. March and Olsen (1999) argue further that as institutions develop competencies and authority in some areas, it will the capacity to expand it competencies to new areas and thereby expand its range of objectives and the solutions it can provide to address new problems.

Explaining European Institutional Change

Previous attempts at theorizing European integration and the development of EU institutions are insufficient to explain the variation we see in the level of supranational governance within the European Union. The intergovernmentalist approach is less than fulfilling due both to ignoring the substantial control that European institutions hold over its member states as well as the changing preferences that these states have over time within different policy spaces (Moravcsik 1991; Garrett 1992; Moravcsik 1998). In contrast, neofunctionalist accounts perceive the process of European integration as one of unilinearity, in which the growth of supranational institutions is a constant increasing function of demands from transnational interest groups with the strong support of institutions (Sandholtz 1993; Stone Sweet and Sandholtz 1998). Without rehearsing the debate between these approaches for the moment, this paper suggests an alternative theoretical mechanism by which institutional shift will occur.

The most difficult set of reasons to reform or transform institutions are their path dependent characteristics and practices. The initial choices that agents make in designing these fundamental institutions leads to the development of a vast network of economic and social interest groups to support these institutions, creating huge barriers to fundamental reform. Path dependency also implies that the decisions made in the past greatly affect the types of choices actors face in the future when attempting to make institutional change. The sunk costs of institutions are quite large, in that the costs of altering the institutions after its establishment deter more efficient institutional paths from being taken. Institutions also generate high levels of learning effects, coordination effects, and adaptive expectations, which each contributing to the path dependent nature of institutions (Arthur 1994; Pierson 2000). These effects generate a high degree of policy stability and "increasing returns" from the decisions made in the past (North 1990).

Most of the neoliberal IR literature, illustrated by (Keohane 1984; Moravcsik 1993; Moravcsik 1997) will focus on the level of transaction costs that either encourages the development of new institutions or not. Like most economists (Coase 1937; Becker and Stigler 1977), neoliberal approaches to institutional creation focus on the change in relative prices in order to explain institutional shift. Changes in the relative factors of production, the costs of information, or the role of technology may motivate actors to recast the formal rules that govern their institutions by exercising voice or choosing to exit for other, more efficient, property rights systems (Rogowski 1989). However, empirically, we see that changes in relative prices are rarely sufficient to generate institutional change. Formal and informal constraints make the costs of altering contracts and changing institutions highly prohibitive. Excluding moments of radical change, such as revolution and war, institutional change is highly incremental, in which informal constraints, feedback mechanisms, and path dependency often put organizations and actors on inefficient paths.

Both Pierson (2000) and North (1990) speak towards the relative inefficiency of institutions and the variable ability of actors to exit and reconstruct more efficient ones. While the transaction costs may be extremely low or the institutions highly inefficient in providing property rights, actors may still fail to establish more efficient ones. Once institutions are created, adapting new behavior and problems within these institutions is not only constrained by the sunk costs within the system, but also the informal norms and rules that govern actors' behavior within institutions also constrain their motives, and hence, actions. These informal norms and rules allow actors to engage in the transactions of everyday life with little cost and little need to stop and calculate the relative efficiency of one action over another. They develop routines and customs that sustain repeated action, often irrespective of their relative economic cost. If these informal and formal constraints are so powerful, then how is institutional change possible?

According to Douglass North, policy entrepreneurs will still seek the production of more efficient institutions by providing information and attempting to develop different institutional frameworks. Yet, the role of policy entrepreneurs is limited by the mental constructs and informal constraints, such as norms and procedures, which are intimately connected to the present institutional structure. High levels of uncertainty and other informational constraints limit the ability of policy entrepreneurs to affect change.

North's (1990) primary engine for chance is the dynamic nexus between the institutions' set of incentives and learning by organizations that take places as a result. Through constant experimentation and adaptation through trial-and-error as a result of changes in relative prices, new institutional rules and procedures are developed that are more socially efficient. What North and Pierson ignore, however, is that these informal constraints, such as norms, can change as well, allowing institutions to undergo transformation. Instead of incremental, more radical changes in the norms, rules, and social purposes behind institutions can overcome the path dependency and feedback loops that would make institutions relatively impervious to drastic change.

North's conception of uncertainty emerges from a notion of complexity, in which actors know their interests, but are unaware as to how best to realize them. Informal rules and procedures are developed to solve these cognitive difficulties. However, uncertainty can also be characterized as moments in which actors are also unaware of what their true interests are. Developed by Frank Knight, this conception of uncertainty suggests that certain situations are so unique such that the possible causes of the newfound situation cannot be compared, the number of possible outcomes are numerous, and, thus, the interests cannot be readily formed based on either the preferences of the actors nor the from the structure in which they are situated. Rather, Knightian uncertainty opens the possibility for interests to be constructed by the ideas that inform and guide agents' behavior. These ideas, or norms, allow agents to construct their interests and sets of strategies by "aligning their beliefs, desires, and goals (Blyth 2002)."

Not only do ideas help shape the interests of the actors during moments of uncertainty, but they also help shape collective action, generate coalitions, and serve as new institutional "blueprints" (Blyth 2002). Although Blyth (2002) and other contributions to the "ideas" literature (Hall 1989; Berman 1998; McNamara 1998) (Parsons 2002) have opened new research paths in understanding institutional change, we know relatively little about the general conditions under which ideas may or may not be successful in constructing new institutional frameworks. Policymakers face moments of uncertainty quite frequently in international and domestic politics. While the dynamic forces they face may not always be threatening the institutional structure of a state's political economy, policymakers are often faced with difficult and complex decisions to make that can alter the structure of their institutions, and they often resist change or only make slight adjustments given the costs of institutional shift. Moreover, policymakers will not necessarily accept all the ideas that float in the political atmosphere. The path dependent characteristics and ideologies that support particular property rights systems are resistant to change, if they do not shape adjustment as well. Thus, we must understand the conditions under which ideas and their entrepreneurs overcome institutional constraints, both formal and informal, such that institutional transformation becomes possible through the acceptance of new formal and informal procedures.

While Pierson's (2000) and North's (1990) analysis of path dependency and institutional constraints would lead us to suggest that institutional transformation is quite difficult and numerous informal and formal boundaries must be overcome in order to enable change, institutions are also composed of structures with multiple layers and access points that enable some ideas to become salient over others. In other words, ideas do not just "float freely" in the policy atmosphere, but can be taken down and implemented by policymakers based on the structure and characteristics of policymaking within institutions. Thomas Risse makes this argument for the relative acceptance of collective security norms during the end of the Cold War (Risse-Kappen 1994). Relatively open, pluralist political institutions will enable the norm to easily enter the state, but coordinate coalitions must emerge to support it through the diffuse state authority structure in order for norms to actually change policy. In contrast, closed societies imply greater difficulty for norms to enter political institutions. However, once they do, it is much easier to generate alliances and coalitions that support a particular set of norms given far fewer veto points that could possibly block acceptance.

Although Risse's (1994) approach applied to institutional structures when comparing the relative acceptance of norms across different states, it can also be applied to the study of norms across policy realms within the state. Within some areas of state policymaking, control and authority is concentrated among a small set of policy experts. In addition, these policy experts can act with a greater degree of independence given fewer constituencies to which they are responsible. For example, if coordination and cooperation over monetary policy is being considered by state officials, usually a small coterie of policymakers will be involved, including central bank officials, finance, and, at times, foreign ministers. These officials have little need to answer to constituencies within their states. Rather, they are more often in search of the "correct" policies and their strategic interaction and interests are determined the partners sitting across the table from them, rather than from interest groups hovering behind them. Fewer constituencies see themselves directly affected by the decisions made by these officials. Given this greater independence of societal group influence, norms and ideas, once they enter the apparatuses of these close policy communities, will more likely become salient and shape the behavior of state actors.

The use of ideas and institutional or political opportunity is combined effectively in Vivien Schmidt's work surveying convergence and divergence among European capitalisms. In order to generate reform of national political economic institutions, Schmidt argues that national leaders must engage in two forms of discourse, a communicative as well as a coordinative one. A coordinative discourse involves the framing of policy ideas and values such that they will generate cooperation among all the actors responsible for its formulation and implementation. A communicative discourse, in contrast, is aimed at the general public and citizenry in order re-construct legitimacy around the policies of institutional reform (Schmidt 2002).

When considering institutional change in the European Union, the coordinative discourse is the most important. While the communicative discourse is quite thin, the effectiveness of the coordinative discourse is quite high, depending on the number of policy actors that must be engaged to institute reform. The EU consists of a series of highly dense, institutionalized interactions at multiple levels of governance, from supranational to national, and even sub-national in the case of regional policy (Kohler-Koch 1996; Marks, Scharpf et al. 1996). Consequently, the effectiveness of a coordinative discourse can be limited in a multi-actor institutional framework. Moreover, given the insulated nature of policymaking within the European Union and the complex network of groups and institutions through which policy change must travel, the establishment of a communicative discourse that legitimizes reform within the EU vis-à-vis the EU citizenry is highly unlikely.

Thus, we now have a general series of hypotheses for the transformation of institutions based on the relative of effectiveness of norms and ideas. In order to explain institutional transformation, we need to understand not only the particular norms and ideas that shape the conception of institutional crisis, but also how the political opportunity structure allows some ideas and norms to succeed while other fall by the wayside. In policy areas in which the number of actors engaged in policymaking is relatively small, the development of coordinative discourse that favors reform will be much easier. Those policy areas in which numerous actors must engaged and negotiated with to enact reform, the development of shared consensus will be much more difficult. Therefore, those areas in which the opportunity structure favors the implementation of new ideas, institutional transformation will begin take place. Those areas in which the incorporation of new ideas is most difficult, in which numerous groups and interests are represented, the likelihood that ideas will lead to institutional transformation is much lower.

This ideas based approach to institutional change will help us understand how sovereignty over the European economy is re-constructed in some areas and not others. Given that Thomson and others argue that meta-political authority over the market, we should expect changes in nature how that authority is expressed as the norms that sustain that system change. However, the state is involved in many practices and policies that seek to control market outcomes and practices. In those political opportunity structures in which a coordinated discourse can gain consensus, we should expect the transference and transformation of economic sovereignty. While those areas in which the political opportunity structure is more resistant to the development of policy consensus, we should expect greater difficulty to relocate and transform economic sovereignty, leaving these areas at the national level.

In order to understand the changes in the construction of economic sovereignty, I first look at the classical embedded liberal order and the norms and values that sustained it. The meta-political authority of the institutions that governed the national and international economy during the Bretton Woods era rested upon a foundation of Keynesian macroeconomic policy and the management of capitalism to satisfy preferences for economic stability and relative equality, or "embedded liberalism". The emergence of Eurodollar markets and the oil crises of the 1970s exposed some vulnerabilities in that institutional order. New ideas became salient that sought to address the high levels of uncertainty generated by these changes in the international economy. However, only some ideas for reconstructing the international institutions that govern European economies, both national and international, were successful in moving beyond path dependency and develop new institutions. In order to demonstrate this claim, two cases are compared, monetary policy and social policy, which shows the relative success of ideas in particular political opportunity structures. In some areas, embedded liberalism was sustained, while disembedded liberalism characterizes current EU monetary policy.

Sovereignty and the Classical Embedded Liberal Order

Karl Polanyi's *The Great Transformation* (1944) stands as the key text from which we glean the concept of embedded liberalism. Polanyi illustrated how markets did not just emerge from a neutral political environment of individuals engaging in self-interested exchange, but were creatures of particular social environments as well as state practices. However, as industrialization began to take off, the economy gradually became disembedded from social norms and practices and the worker along with all other parts of society became commodified and embedded within a market structure rather than a social one. Paradoxically, however, the growing instability and ultimately destructive forces of the market produced a backlash among workers and other groups that found itself calling for the re-institutionalization of the market inside political institutions by demanding forms of market protection and limits on the extent to which market mechanisms can act (Polanyi 1957). In other words, embedded liberalism implied not only cushioning the effects of liberalism by instituting social protections and adjusting market outcomes to fit social norms and values, but also limiting the social spheres under which market forces could act and placing controls on capitalism in those areas under which it was allowed to dominate the means of social interaction.

These two components, the legitimate sphere for private economic action and the adjustment to the effects of aggregate market behavior, constitute the social purpose of the state and its institutional practices or the purposes behind the institutions that states would create. These two components do not refer to just the balance of power between the state and market or the extent of state power over the market. They also reference the nature or qualitative characteristics of how markets are intended to function and what their social outcome should be. In more concrete terms, these two spheres of state action reflect the relative institutionalization of capitalism and the structuring of class relationships and the social welfare state. Together they constitute the elements of economic sovereignty, or the "meta-political authority" of the state vis-à-vis the economy.

What was the social purpose of the state and international regimes in particular within the classic embedded liberal order? Across the western industrialized world, the fundamental institution of embedded liberalism sought the maintenance of class stability and the prevention of class conflict by re-embedding market forces and practices within social institutions. This process implied a "New Deal synthesis" (Van der Pijl 1984), in which Keynesian demand-management strategies were employed to fund an extensive welfare state and other policies of income redistribution. Based on mass-based consumption and Fordist forms of production, the embedded liberal order also implied the concentration of labor and capital interests into corporatist bargaining institutions (Schmitter 1979). Finally, and most importantly, global finance was controlled and subservient to the macroeconomic policy goals of national governments. The Bretton Woods monetary system of fixed exchange rates and capital controls allowed governments to maintain international financial stability and still serve the interests of an expansive welfare, such that the class compromise could be sustained (Ruggie 1982; Helleiner 1994).

From 1947 to 1971 the Bretton Woods system of monetary cooperation represented the "embedded liberal order" of the international monetary and trading politics. As an international regime, the Bretton Woods system consisted of a specific set of rules, norms, and procedures by which the international economy would be governed (Krasner 1983). This postwar international economic regime maintained embedded liberal order by encapsulating a liberal trading regime within a postwar consensus of managed fixed exchange rates and capital controls. As long as free international trade continued, states would always face temporary balance of payments problems, especially if either trade surpluses or deficits would reach unmanageable levels such that a state's commitment to a fixed exchange rate become less credible and unsustainable. During the height of the Bretton Woods era, the IMF, with major assistance from the United States, would provide funds to those who faced temporary balance of payments difficulties. In addition, as the European and Japanese economies began to take off in the 1950s, the United States provided sufficient liquidity such that international trade could take place and grow commensurately with the economic growth of Western Europe and Japan.

However, the commitment to fixed exchange rates and the US dollar as the international reserve currency are not policies of a US hegemon interested in expanding foreign trade or establishing benign forms of dependence between the US and its European and Asian allies. Rather, the Bretton Woods system of fixed exchange rates and managed currencies reflected a shared social purpose among the advanced industrial states to embed the international trading regime inside a social order. As John Ruggie brilliantly poses the argument, Bretton Woods existed as an embedded liberal order in terms of its social purpose, consisting of the "consummatory values" shared among the actors, and not just the instrumental values states hold. The social purpose behind a regime serves as the social consensus that delimits the choices and alternative that states are allowed to purpose as well as the prescribing the actions that states should take in order to realize the goals of the international regime.

The social purpose behind the Bretton Woods system involved the codifying of an international regime that sought the maintenance and pursuit of domestic social economic stability along with a liberal trading order. The congruence of consummatory values among the political elites of Western Europe, the United States, and Japan consisted of establishing the necessary economic instruments and policies that would allow states to maintain authority and control over their economy, primarily in order to pursue fiscal and monetary policy strategies seeking full employment as well as producing a generous welfare state. The Bretton Woods system of embedded liberalism sought to balance, therefore, the liberal internationalist orthodoxy of New York financial circles, and the preference for significant state intervention in the economy. As Ruggie argues:

> The task of postwar institutional reconstruction...was to maneuver between these two extremes and to devise a framework which would safeguard and even aid the quest for domestic stability without, at the same time, triggering the mutually destructive external consequences that had plagued the interwar period. This was the essence of the embedded liberalism compromise: unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism (Ruggie 1982).

The tools employed by the IMF reflected this shared social purpose. Not only was a generous overdraft facility created to manage temporary fluctuations in currency markets, measuring close to $10 billion, but also the credit facilities established by the United States and Western European powers permitted adjustment to take place automatically and with little intervention in the domestic policies of the member states. In addition, the burden of exchange rate adjustment would be place on creditor countries rather than debtor ones, which gave further flexibility to some states, namely Western Europe, to construct relatively generous welfare states without facing balance of payments crises given the commitment to fixed exchange rates vis-à-vis the US dollar (Ruggie 1982).

The international trading system that grew up around the Bretton Woods monetary regime further enforced this commitment to domestic policy autonomy by allowing gains from international trade to take place through the international division of labor, but allowing the losers of international trade to be compensated as well as the disruptions of international trade to be managed by limiting trade to within industries rather than across them. In contrast to the first era of globalization dating to before 1914, intersectoral trade dominated rather than intercontinental. The embedded liberal international order of managed currencies, domestic policy autonomy, and trade flexibility represents a shared social purpose that this international regime, both Bretton Woods and the GATT, embodied.

All of these state practices together constitute the institution of embedded liberalism. The maintenance of an extensive welfare state, Keynesian demand management strategies that sought high, if not full, employment, and controls of the movements of high finance all served the fundamental moral purpose of class compromise. Each was based on an "ideology of social partnership, shared by both business and unions expressed in national politics (Katzenstein 1985). The "culture of compromise" and managing the gains and losses from economic transactions, compensating the losers by redistributing the gains of the winners, constitutes one the key components of this ideology of class compromise. This "culture of compromise" assisted in the delineation of the state's social purpose, or the "generative grammar" of both international and national authority (Ruggie 1982). Although, of course, states embodied expressed this class compromise in highly different institutional ways, as a social institution, embedded liberalism led to the convergence of expectations and interests in favor of class compromise and market stability.

As a result of embedded liberalism, the sphere of activities in which actors in the national and international economy was delimited. Fixed exchange rates and capital controls limited market practices to the national sphere. While international trade was allowed to take place, it could only take place through these social and political institutions that preferred macroeconomic stability, government intervention, and an extensive welfare state, rather than efficiency, mobility, and the development of comparative advantage. Thus, embedded liberalism defined state authority vis-à-vis the market such that the market practices and outcomes would be contained within a sphere of more highly ranked preferences of social stability and compromise. As such, the social purpose of economic sovereignty within embedded liberalism asserted the dominance of national political authority over the movement and flow of market practices.

The embedded liberal order explicitly called for the subordination of market flows to national state authority and control. Building on Polanyi's notions of liberal and social orders, Ruggie illustrates how instead of the international existing constituting a disembedded economic order, in which social relations would be determined by market forces, the embedded international economic order allows social relations as well as the political settlements that represent them to determine market behavior, or the extent to which social relations are determined by the forces of the marketplace. This embedded economic order constituted the social purpose of Bretton Woods system. This form of economic sovereignty called for high levels of control on the flow of capital and the subordination of market outcomes to social principles and values. Political authority, as expressed through an international regime, was exercised such that states could maintain their national autonomy and control. As Ruggie writes, "In sum, this shift [from laissez-faire to embedded liberalism] in what we may call the balance between "authority" and "market" fundamentally transformed state-society relations, by redefining the legitimate social purpose of which state power was expected to be employed in the domestic economy. The role of the state became to institute and safeguard the self-regulating market. (Ruggie 1982)"

The embedded economic order represent by Bretton Woods, until its collapse in 1971, demonstrates that sovereignty of the international economy does not consist solely as a measure of control, as Krasner (1999) would suggest. States construct international regimes with particular set of norms and rules such that they exercise authority over the economy as well. As the instruments employed the Bretton Woods system make clear, the international economy existed within embedded social structure of particular norms of sovereignty.

Thus, returning to Thomson's conception of sovereignty, the expression of "meta-political authority" in the form of embedded liberalism specified that private market activity, especially the movement of finance capital, could only take place within the social institutions governed by the state and through international multilateral action. As Thomson writes, "The contemporary differentiation between the state's realm—politics—and the economy is itself a product of the interstate system and the meta-political authority imparted to it by the institution of sovereignty (Thomson 1995)." In order for embedded liberalism to be maintained under the conditions of a rapidly changing international economy, these norms and values had to be constantly rearticulated and expressed through the actions and will of national governments. As we will see, this was carried out in some areas of national policy, while other policies were transformed and delegated to the EU.

Yet, arguing that states constructed this regime with a particular social purpose does not mean the international economy will remain static, remaining inside a tight sealed box of stated social purpose. Private market actors will still respond to changing incentives in the world economy and new markets will emerge as those newly discovered incentives are realized. In order to maintain authority of market forces, states must constantly devise new economic instruments and devices such that the common social purpose of embedding market relations within a social order is sustained. In other words, states must engage in iterative forms of social dialogue such that the "generative grammar" that makes up the rules and norms of the international regime can exercise authority, and hence, control, over the market.

Dis-embedding and Re-embedding the European Economy

The primary shocks that the Bretton Woods system faced were the development of Eurodollar markets, large overseas markets of European currencies outside the territorial control of European governments, the inadequacy of the instruments used to maintain the system, but, most importantly, the declining salience of embedded liberalism as an organizing principle and ideational framework within both European and American governments. First, the internationalization of production and rapid increases in the number of multinational corporations vastly increased the amount of foreign exchange being traded in financial markets. Along with the growth of multinationals, the reemergence of European and Japanese economies led to increased financial integration as US dollars flowed from the American treasury to the firms and industries of Western Europe and Japan. Finally, the growth of Eurodollar markets further increased the liquidity, and thus, threatening the mechanisms of control used by the IMF.

Interestingly, European governments throughout the 1970s reacted much like North (1990) and Pierson (2000) would anticipate. Believing in the stability of fixed exchange rate systems and adapting their expectations based on that success of the past, as well as continued general commitment to the strategies and tools that worked in the past, European governments sought to re-establish a fixed exchange rate system throughout the 1970s. From the 1972 Smithsonian Agreement, in which the United States made a feeble effort to restore monetary stability, to numerous devices and models of flexibly fixed exchange rates, from the snake, to the snake in the tunnel, until finally the EMS (European Monetary System) was established in 1979 among members of the EC, European governments made constant efforts to maintain the institutional design and structure of a fixed exchange rate system that Bretton Woods epitomized.

It was only through a shift in ideological consensus, from the Keynesian model that sustained Bretton Woods, to the neoliberal one of the EMS and EMU, was institutional transformation possible. Through the convergence of economic beliefs, at least about money, new institutions were established that awarded new sets of property rights and redefined what constituted sovereignty vis-à-vis the international economy. Yet, as we will see, the convergence of beliefs was limited to the monetary policy realm, with the welfare state and social policy remaining under the strict authority and control of the member states' governments, with some important exceptions.

After the collapse of the Bretton Woods system, a new set of ideologies and programmatic beliefs soon became a dominant part of policy discourse in Western Europe. The perceived failure of Keynesian economic strategies opened new "policy windows" (Checkel 1999) for a new set of ideas to become implemented and dominate the policy making process. However, while these "policy windows" may have been wide open and accessible for the entrance of neoliberal policy strategies, not all of the policy prescriptions were accepted by national governments. Thus, in order to understand the relative effectiveness and power of ideas, one must examine the political opportunity structure that existed in order to understand why some ideas become institutionalized and why others continue to "float freely."

First, as an ideology, neoliberalism as espoused in the late 1970s and early 1980s, constitute a coherent set of programmatic beliefs, which constitute a policy paradigm (Hall 1989). For our purposes here, policy paradigms stipulate the "overarching policy goals that guide policy in a particular field, the techniques or policy instruments used to attain those goals, and the precise settings of these instruments (Hall 1993: 278)." The policy goals of the neoliberals are far-reaching and wide scope. As Wylie (2001) outlines neoliberalism, it consisted of the complete liberalization of capital flows, monetary policy committed to the maintenance of low inflation, austerity and marketization of the welfare state, and the restructuring of the Fordist and corporatist production regime (Wylie 2001). Neoliberalism does not just imply the commitment to specific level of inflation and central bank independence, but a complete restructuring of state institutions such that authority and control over the national economy would be highly limited, of which central bank independence is demonstrative of only a wider set of policy goals.

As a broad ideology, encompassing a role for monetary and fiscal policy, as well as prescribing a specific, limited role for the state, neoliberalism succeeded only in being implemented in the realm of monetary politics, through the transference of monetary control and authority to a supranational European bank. Once particular ideas were able to enter the relatively closed network of finance ministers and central bankers, the economic ideas of monetarism and central bank independence became quite salient within this political opportunity structure. In contrast, we will see that the political opportunity structure for social policy was sufficiently open that different ideas and concepts had to be employed such that welfare states remained under the purview of a nationally-based embedded liberal order.

Monetary Policy and EMU

With the collapse of the Snake and other methods of maintaining a fixed exchange rate system in world of high capital mobility, new methods and policy tools had to be developed such that exchange-rate mobility could return to Western Europe. Only through the growing ideological convergence towards monetarism were EU member states agree to surrender national monetary policy to a supranational agent and redefine the property rights of states and other actors inside the EU.

While there were strong state traditions of government intervention in market outcomes and processes in Europe (Dyson 1980; Hall 1986), the periods of high unemployment and inflation in the advanced industrial states of Western Europe generated a great degree of uncertainty over not only what policy tools governments should employ, but also what the policy goals of governments should be at all, such as whether governments could continue to pursue full employment with moderate levels of inflation, or whether the policy role of government was no longer viable.

Throughout the period bounded by two oil shocks and recession from 1973 to 1981, European governments increasingly found their previous policy programs insufficient and irrelevant in adjusting to the macroeconomic conditions in which they found themselves. The most fundamental problem faced by Keynesian policymakers was the accelerating wage spiral which led to increasingly high levels of inflation without leading to any shift downwards in the unemployment rate, especially in the United Kingdom and France. Monetarism was able to address the fundamental uncertainty faced by policymakers by suggesting that a natural rate of unemployment existed such that no matter what amount of fiscal stimulus was used to stimulate aggregate demand only higher levels of inflation would result, without leading to any changes in the level of unemployment. Monetarism employed the fundamental assumption that markets always cleared and, thus, labor markets always stood at full employment. The Keynesian approach that markets could exist in partial equilibria at some point of involuntary unemployment, below full employment, was dismissed outright. The consequences for government policy, therefore, were clear. The tools government had to reduce employment were using supply-side economic policies, such as deregulating labor markets and making wages and prices more flexible in order to generate higher levels of employment and greater competitiveness and avoid using incomes policy or other policies that distorted markets from clearing at their natural levels and did not effect levels of output in any case (Friedman 1968).

Monetarism, however, had the most salience and impact in prescribing the role and conduct of monetary policy in the post-Bretton Woods era. Since monetarism suggested that there existed a particularly "natural rate" of unemployment, the primary responsibility of the state was to contain inflation. Excessive levels of inflation could not be used to justify higher levels of employment and only had a deleterious effect in the ability of consumers and producers to translate price signals and make reasonable microeconomic choices as a result. Thus, central banks should be most committed to price stability and low levels of inflation, and, thereby, removing monetary policy from political realm and placing it the hands of independent central bank. It was the wide acceptance of central bank independence and price stability that led to institutional transformation within the EU and the delegation of monetary sovereignty to a supranational institution.

The central goal of maintaining low inflation and maintaining price stability implied credibility had to be generated such that financial markets would be persuaded to leave their capital deposits within the country. Much of the work on political business cycles showed that politicians, because of both ideological and the motivations for shirt-term electoral gains, would not stay committed to price stability and use monetary policy for political purposes (Alesina 1989). Thus, monetarist economists strongly urged the removal of authority and control from the purview of national governments and placed in the hands of independent governmental authority that would be constitutionally committed to price stability. As Kenneth Dyson precisely concludes, "Ideally, monetary policy should be a simple technical matter of controlling inflation; policy should be taken out of the political process (Dyson 1994)." But why did central bankers and national governments agree to a supranational institution, rather than change monetary policy to their own independent central banks? In addition, monetarism said little or even opposed the creation of supranational system of fixed exchange rates for national currencies that would eventually lead to single a European currency. Why was there a commitment to the establishment of single central bank for the entire EU?

The desire to create an independent central bank for the EU rose from the influence ideas had within a small, closed opportunity structure. Although much of the economic evidence and rationale for independent central banks remained relative incomplete and highly questionable (see Kirshner 1999), central bankers across the EU became committed to the establishment of not only a single European currency, but to the ideas of "sound money" that monetarism represented. The development of an "epistemic community" in favor of monetarist ideas greatly enhanced the salience of monetarist ideas. Through the pan-European research network, Centre for Economic Policy Research (CEPR), monetary policy debates were centered on the need to create an independent central bank for Europe such that commitments to low inflation would be viewed as credible. These economists, including Francesco Giavazzi (University of Bologna), Paul De Grauwe (University of Leuven), and Jacques Melitz (Paris) traveled within the circle of European central bankers and finance ministry officials and persuaded monetary officials that an independent central bank was necessary to pursue price stability within Europe. Niels Thygesen, another card-caring member of the monetarist economic policy, served both as a member of the Delors Committee that first recommended a single currency in 1989 and then moved to DG2 as economic advisor to the commissioner responsible for pushing EMU forward. In addition, Daniel Gros, another prominent Dutch economist committed to monetarism, served on the staff of DG2.

Although the ideas of monetarists were necessary for institutional shift, it was the closed, tight network that linked European finance ministries, central bankers, and, at times, heads of government as well. As mentioned above, monetarists held that the problems faced by national governments, focusing on stability and maintaining low levels of inflation, were technical problems, not political problems. As result, closed and highly dense policy networks were established around solving these technical policy problems. At the center of the negotiation process over EMU were the EC Monetary Committee and the Committee of Central Bank Governors. The Monetary Committee became the precursor to ECOFIN (Economics and Finance Ministers), which would shape the conditions for joining the single currency and determining the nature of the three stages towards economic and monetary union. While each of these committees were responsible for sustaining exchange rate stability and manage the operation of the EMS (European Monetary System), these officials were also slowly developing a policy consensus that favored the adaptation of neoliberal monetarist principles. As one member of the committee commented, "The atmosphere in the Committee of Central Bank Governors, and not in the European Monetary Institute [precursor to the ECB], was very professional—people do not come to meetings with distinctive national positions, but instead we all share a very common agreement on the correctness of a monetary policy model very close to that of Germany (McNamara 1998)." The Committee of Central Bankers became recognized as the official representative of the monetary sector of the economy and spoke with "authority" in regard to effective monetary policy given the power of financial markets (Dyson 1994).

Besides indicating who participated in these committees and the ideas they held, it is important to emphasize the closed, corporatist nature of the policy network in which these officials and bureaucrats participated. Since monetary policy was considered a technical issue, for which only experts could devise solutions, groups representing labor, manufacturers, or even financial groups were excluded form discussions. The bargaining sessions with the EC Monetary Committee and the Committee of Central Bankers worked within a multilateral context such that cooperation was privileged over division and pursuit of pure self-interest. As Dyson thoroughly describes, these committees increasingly developed social norms and practices that became institutionalized through higher levels cooperation. The EMS and EMU were based on set a deeply held "beliefs, values and attitudes about how policy actors should behave," represented by the commitment to an independent central bank modeled after the German Bundesbank (Dyson 1994).

In addition to the commitment to monetarism, therefore, was also a commitment to the development of a supranational institution in which these norms of reciprocity and cooperation would become embedded. Through successive meetings of heads of government in the European Council, general convergence began to take place among the national leaders' preferences for an institution that could maintain price stability, but yet also reflect the growing interdependence that had developed in the last twenty years of European integration. "Ideological conviction about the importance of European union has been linked to each of the main initiatives for economic and monetary cooperation and integration; at work is a spirit of altruism in bargaining relations (Dyson 1994)." In short, as tight and closed "policy community," and their dual commitment to both a new multilateral institutional as well as common adherence to monetarist principles, especially the aversion to high or moderate levels of inflation, institutional transformation took place such that sovereignty over monetary policy was transferred from the domestic arena to an international institution.

Thus, through the institutionalization of one aspect of neoliberal ideology and multilateral agreement, economic sovereignty within the areas of monetary policy changed in favor of neoliberalism. While it is correct to point out that the incentives for actors engaged in the international economy, primarily global finance and European investment banks, had changed and made the opportunity costs of relying on prior institutions for exchange rate stability higher, the maximization of interest groups' utilities is not sufficient to explain institutional transformation. This narrative of monetary cooperation in Europe demonstrates that the ideological structure and informal norms that sustained past institutions, namely Keynesianism, had to be superceded by a new ideational convergence, monetarism, and together with the social norms of reciprocity and cooperation that developed within the closed network of central bankers and finance ministers, institutional transformation took place.

Neoliberalism has been transferred to other areas of EU policy because of equally closed and tight political opportunity structure for ideas. In the areas of European employment strategy, policy discourse has focused upon increased flexibility such that business can more easily move from one member state to another. State interference in market through industrial policy and subsidies to protect failing industries are ruled illegal under EU law. Finally, "the constitutionalization of competition policy" (Scharpf 1999) within the European Union led to the privatization and introduction of market competitive practices within the sectors of transport, utilities, and telecommunications, sectors in which the embedded liberal order specifically called for the nationalization of and placed under governmental price controls in order to benefit the national society as a whole (Van Appeldoorn 2002). These areas of EU policy are primarily the purview of the ECJ and European Commission. As a result, there has been a successful implementation of neoliberal policy programs and ideas. Moreover, the meta-political authority of the European Union, as a state, privileges the free movement of market forces and the use of governance institutions to tear down barriers to that free movement, without market forces embedded neither within national institutions nor EU institutions.

Sustaining the Sovereign Welfare State

As illustrated above, the construction of a welfare state by the state implies exercising authority and control over market outcomes. In the language of Gosta Esping-Andersen, fiscal policies by states seek to "decommodify" the citizen or worker such that social outcomes are not always determined by market forces. Rather, they are re-embedded within an institutional context in order to maintain social stability and an individual can maintain an existence outside the market (Esping-Andersen 1990). Welfare states provide social rights and obligations that can both temper market conflicts and re-establish points of social cleavage and generate patterns of social stratification. In so doing, the state, as well as the interest groups that manage and uphold the welfare state, must construct a set of social rights that delimit the authority and control of private market forces. In effect, states assert sovereignty over the national economy by determining some market practices as legitimate or not, as well as market outcomes.

As we saw in the case of monetary stability, exogenous shocks to the international economy put severe pressure on previous institutions, both international and national, to preserve the status quo. Many of the welfare states of Western Europe faced similar challenges to the national institutions that put severe constraints on fiscal spending. These challenges included the rise of capital mobility, putting pressure on domestic interest rates, the ineffectiveness of Keynesian demand strategies in an era of supply shocks, and the subsequent rise of stagflation throughout the 1970s and early 1980s. In addition to these monetary or fiscal shocks, generating full employment was also increasingly difficult to achieve given both increased international competitiveness in the manufacturing sector that resulted from successful trade negotiations represented by the completion of the GATT and the creation of the Single Market in 1985, as well as secular decline of manufacturing in the post-industrial economies of Western Europe in general and its replacement by a growing service sector (Scharpf 2000).

Therefore, different welfare states faced a series of similar challenges. We have already seen that governments chose to respond to the shocks of the international economy to monetary policy and exchange rate stability by constructing the European Central Bank and a new international monetary regime that embedded monetarist as well as multilateralist principles. National governments faced similar ideological shocks. As a result of these new macroeconomic constraints and production transformations, new ideological prescriptions or ideas began to infiltrate the policy discourses of national governments. Some scholars believed that welfare spending at then-current levels was unsustainable; unless budget deficits were significantly decreased or interest rates raised appropriately, mobile capital would move to states in which investment returns would be higher (Rodrik 1997).

Although a great deal evidence exists to dispute these hypotheses of doom (Berger and Dore 1996; Garrett 1998; Scharpf 2000), the high levels of uncertainty of the future of the welfare state characterized the state of policymaking in Western Europe throughout the 1980s and especially in the 1990s. Uncertainty over the set of policy possibilities as well as the goals of the state emerged after both the recessions of the late 1970s and early 1990s. As a consequence, policy entrepreneurs with neoliberal ideas attempted to effect the debate over the future of the welfare state. Most importantly, neoliberalism did not just call for the limitation on fiscal spending by member, but also work through the European Union institutional structure to dismantle some of the basic foundations under which the national welfare state stood.

Many of the legal decisions made by the European Court of Justice (ECJ) as well as the directives and regulations passed by European Commission sought to limit the sovereignty of the Member States in their application and provision of social services. As a result, the sovereignty of the nation-state over national markets has declined both in terms of legal authority as well as the capacity to control.

Sovereignty over the national welfare state is expressed in several different ways. Benefits can be limited to national citizens; force consumption of social services to take place within the territorial boundaries of the state; choose any means by which to award these benefits and thereby determine the conditions of receipt of social rights and benefits; and call on national administrative agencies to adjudicate disputes over the provision of social benefits (Leibfried and Pierson 1995). Each of these elements show how economic sovereignty has been effected by the development of European case law against the monopolization of state control and authority in these areas. EU institutions have been particularly keen in seeing that labor mobility is enhanced and the sources of social services multiply such that barriers to the free movement of labor, capital, goods and services do not have a substantial effect within the European Union.

While these have been significant legal steps taken to limit the sovereignty of the national state vis-à-vis the national market, dismantling the barriers that preclude the free movement of workers and establishing a supranational welfare state for member states of the EU has been much less successful when compared to the establishment of a single monetary regime for the EU. This is not necessarily the result of an absence of a neoliberal doctrine. Rather, to the contrary, as the EU's supranational institutions have expanded their power and authority over the European polity, they have carried within them a neoliberal policy agenda such that the program of the Single Europe Act and the establishment of a free market for the EU could be fulfilled. Specific national policies were devised such that labor market deregulation, decentralization and dismantlement of corporatist social bargaining, and redistributive economic policies would be significantly curtailed (Streeck and Schmitter 1991). However, the success of these policies and the much-ballyhooed decline of the welfare state have not proceeded as rapidly and decisively as either supporters or critics of the program of European integration have predicted.

The failure to establish a European social welfare regime results from the more divisive and pluralistic nature of constructing and implementing social policy. First, the political opportunity structure for the establishment of a social policy for the EU is much more fragmented and diverse than that which favored the imposition of single monetary policy. While policymaking was delegated to small number of experts and bureaucrats in the case of monetary policy, social policy formation in the EU involves a multitude of levels, from the subnational, the national, to the supranational. The more open political structure affords interest groups, such as unions and political networks of European employers, to either organize in opposition to the directives and purposes of EU institutions or force governmental negotiators to accommodate a greater diversity of interests in the formulation of policy. Diverse class interests and division within these national systems place further impediments to the development of a social consensus in favor of a neoliberal European social policy regime (Streeck 1995).

Not only did a more open political structure allow the participation of greater number of actors in the process, but also the diverse actors and institutional legacies at the national level put further strain on developing a single social policy for the EU and limited the success of neoliberal policy paradigms. As Streeck argues, "The wide differences in national industrial relations practices and in the political traditions of national union movements in Europe have been seized upon by employers and conservative governments to argue against harmonization projects and in favor of decentralized governance of labor markets and employment relations, in the name of protection of cultural diversity (Streeck 1995: 419)." In addition to national diversity expressed in terms of national political traditions, the labor movements of the fifteen members state also represent diverse institutional legacies, leading to national unions seeking protection from harmonization and market deregulation led by the Commission and the ECJ. The ability to develop transnational alliances of labor movements across the EU has been fraught with frustration and limited moments of cooperation as a result. The absence of a solid and tight network of policymakers, as existed in the case of monetary cooperation, prevents the development of consensus over the either the goals or instruments necessary for the development of policy program. In contrast to the monetary realm, national tripartite coalitions have developed to protection these unique national institutions of social policy formulation from the harmonizing effects of European institutions.

However, this is not to say that there are not attempts being made to construct a European social order. Just as there attempts by the ECJ and Commission officials to harmonize welfare regimes to grease the wheels of a liberal trading regime inside of the EU, there are also attempt by these institutions and other to establish a European social order that further embed the new European economy within a set of supranational state institutions at the EU level. Such areas include greater gender equality in the provision of pension insurance and the development of high health and safety standards in the workplace (Streeck 1995: 400). In addition, the development of a "corporatist policy community" in the area of social policy has demonstrated the effectiveness in ideas in generating a proto-institutional framework that favored organizational interests engaged in social dialogue and bargaining, reflecting the norms and values held in many member states at the national level. The idea of social partnership as well as respect for national autonomy over the diverse welfare regimes within the EU helped shape EU directives over working time and parental leave directives (Falkner 1998). As a consequence of these new forms of social dialogue at the European level develop new political opportunity structures such that ideas and their political entrepreneur carriers will find either relatively easier or more difficult institutional environments to implement their policy programs.

As a result of this mixed set of programs for the national welfare state, the embedded liberal order exists within a shared space of supranational and national governing institutions. While neoliberalism was not successful in generating a European social model, builing a night-watchman state, the patchwork of control and authority in regards to social policy and the national welfare demonstrates that the embedded liberal order now relies increasingly on national forms of governance, without much support from the institutions that govern the international economy.

In addition, sovereignty over the economy, either in terms of trade and finance or social policy, is increasingly disembedded from national territory. As Ruggie (1993) illustrates, a post-modern form of state sovereignty is being formed within the European Union. The state's practices of sovereignty are no longer tied to a fixed, delimited set of mutually exclusive space (Ruggie 1993). Rather, within the European Union, practices of control and authority, especially in the case of social policy, is not based on territory, but on process. The state is not located within a particular set of fixed institutions and structures, but is dependent on a set of multi-governance activities that transcend territory.

In specific regards to economic sovereignty, the meta-political authority of the state over the market, the multi-level nature of the EU polity illustrates that flux and unevenness in the development of an coherent institutional order that governs European economies, compared that which existed under embedded liberalism. Economy sovereignty is divided. While political authority over currencies and monetary policy is non-territorial and supranational, the welfare state is territorial and national. While the sphere of activities that markets can engage in has increased, adjusting to the social outcome produced by capitalist forces remains the dominant purview of national governments, with the important exception of the Common Agricultural Policy (CAP) and structural funds for the regions.

The multi-level nature of the European polity has opened up room for the authority over the economy to be shared by national and supranational actors alike. In contrast to the fundamental unity of the nation-state, the EU represents a new political order in which the state is "abstract, disjointed, increasingly fragmented, not based on stable and coherent coalitions of issues or constituencies, and lacks any clear public space (Caporaso 1996)." This postmodern form of state territoriality has sparked a vision of the EU as a neo-medieval order, "in which the state today in Europe is neither national nor supranational, and this ambiguity does not slacken but grows deeper over time (Balibar 1991)." This comparison with medieval Europe is supported by the "patchwork of overlapping and limited rights of governments across multiple levels (Strayer and Munro 1959)", in which "different juridical instances were geographically interwoven and stratified, and plural allegiances, asymmetrical suzerainties and anomalous enclaves abounded (Anderson 1974)."

Conclusion

This paper presents an alternative theory for the institutional development of the European Union. New ideas help actors escape path dependency and form new institutional orders. However, those new ideas only become salient based upon relatively accessible political opportunity structures. Thus, this alternative, ideas-based theory of European integration has some key advantages over both the intergovernmentalist and neofunctionalist approaches to the EU. The intergovernmentalist approach can explain the variation we see in degrees of institutionalization and what policies are transferred to EU institutions versus others based on national preferences. But, it does not seek to explain either the origin of those preferences or how those preferences can change over time. In addition, it conceives international institutions as providers of collective goods, engaging in mere monitoring and informational activities, rather than how international institution possess authority and control over its principles. In contrast, the neofunctionalist approach does incorporate the growing pooling of sovereignty with international institutions as a result of spillover from once policy areas to another, but it overestimates the costs of partial integration and underestimates the ability of institutions to remain within inefficient pathways. As a result, it has highly linear theory of European integration, without taking into account the numerous obstacles that emerge to prevent its progress.

This new medievalism in European order also suggests that the embedded liberal order that continues to exist at the national level is under threat. The embedded liberal order rested on the political foundations of class compromise and negotiation among multiple national actors. With this form of multi-level governance in the EU, the ability to generate shared discourses of social reform and protection is severely curtailed. Yet, the political opportunity structures for neoliberal ideas, epitomized by the independent European Central Bank and the European Court of Justice, continues to be highly accessible. As a result, there has been a greater degree of success in redefining the state's authority in favor of changing the limits of sphere of action that markets can undertake, as well as limits on the practices states can use to adjust to the outcomes of those actions. The tensions between these two orders, embedded liberalism at the national level and neoliberalism at the supranational, will have to eventually be solved or they will continue to generate conflict between the policy programs of national corporatist groups and the integration prerogatives of EU elites.

Bibliography

Alesina, A. (1989). "Politics and Business Cycles in Industrial Democracies." Economic Policy **8**: 55-98.

Anderson, P. (1974). Lineages of the Absolutist State. London, New Left Books.

Arthur, W. B. (1994). Increasing Returns and Path Dependency in the Economy. Ann Arbor, University of Michigan Press.

Balibar, E. (1991). "Es Gibt Keinen Staat in Europa: Racism and politics in Europe Today." New Left Review **186**: 16-24.

Becker, G. and G. Stigler (1977). "De Gustibus Non Est Disputandum." American Economic Review **67**: 76-90.

Berger, S. and R. Dore, Eds. (1996). National Diversity and Global Capitalism. Ithaca, Cornell University Press.

Berman, S. (1998). The Social Democratic Moment: Ideas and Politics in the Making of Interwar Europe. Cambridge, Harvard University Press.

Biersteker, T. and C. Weber (2000). The Social Construction of State Sovereignty. State Sovereignty as Social Construct. T. J. W. Biersteker. Cambridge, Cambridge University Press.

Blyth, M. (2002). Great Transformations. Cambridge, Cambridge University Press.

Bull, H. (1977). The Anarchical Society. New York, Columbia University Press.

Caporaso, J. (1996). "The European Union and Forms of State." Journal of Common Market Studies **34**(1): 29-51.

Coase, R. (1937). "The Nature of the Firm." Economica **4**: 386-405.

Dyson, K. (1980). The State Tradition in Western Europe. Oxford, Basil Blackwell.

Dyson, K. (1994). Elusive Union. New York, Longman.

Esping-Andersen, G. (1990). The Three Worlds of Welfare Capitalism. Princeton, Princeton University Press.

Falkner, G. (1998). EU Social Policy in the 1990s. New York, Routledge.

Friedman, M. (1968). "The Role of Monetary Policy." American Economic Review **58**: 1-17.

Garrett, G. (1992). "International Cooperation and Institutional Choice." International Organization **46**: 533-558.

Garrett, G. (1998). Partisan Politics in the Global Economy. Cambridge, Cambridge University Press.

Hall, P. A. (1986). Governing the Economy. Cambridge, Polity Press.

Hall, P. A. (1989). The Political Power of Economic Ideas. Princeton, Princeton University Press.

Helleiner, E. (1994). States and Reemergence of Global Finance. Ithaca, Cornell University Press.

Katzenstein, P. J. (1985). Small States in World Markets. Ithaca, Cornell University Press.

Keohane, R. (1984). After Hegemony: Cooperation and Discord in the World Political Economy. Princeton, Princeton University Press.

Kirshner, J. (1999). "Inflation: Paper Dragon or Trojan Horse?" Review of International Political Economy **6**(4): 609-618.

Kohler-Koch, B. (1996). "Catching up with Change: The Transformation of Governance in the European Union." Journal of European Public Policy **3**: 359-80.

Krasner, S. D., Ed. (1983). International Regimes. Ithaca, NY, Cornell University Press.

Krasner, S. D. (1999). Globalization and Sovereignty. States and Sovereignty in the Global Economy. D. A. Smith, D. J. Solinger and S. C. Topik. London, Routledge.

Krasner, S. D. (1999). Sovereignty: Organized Hypocrisy. Princeton, Princeton University Press.

Legro, J. W. (1997). "Which Norms Matter? Revisiting the "Failure of Internationalism"." International Organization **51**(1): 31-63.

Leibfried, S. and P. Pierson (1995). Semisovereign Welfare States. European Social Policy. S. Leibfried and P. Pierson. Washington, DC, Brookings Institution.

March, J. G. and J. P. Olsen (1984). "The New Institutionalism: Organizational Factors in Political Life." American Political Science Review **78**: 734-49.

March, J. G. and J. P. Olsen (1989). Rediscovering Institutions: The Organizational Basis of Politics. New York, Free Press.

March, J. G. and J. P. Olsen (1999). The Institutional Dynamics of International Political Orders. Exploration and Contestation in the Study of World Politics. P. J. Katzenstein, R. Keohane and S. D. Krasner. Cambridge, MA, The MIT Press.

Marks, G., F. Scharpf, et al., Eds. (1996). Governance in the European Union. London, Sage.

McNamara, K. (1998). The Currency of Ideas. Ithaca, Cornell University Press.

Moravcsik, A. (1991). "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community." International Organization **45**: 19-56.

Moravcsik, A. (1993). "Preferences and Power in the European Community." Journal of Common Market Studies **31**: 473-524.

Moravcsik, A. (1997). "Taking Preferences Seriously: A Liberal Theory of International Politics." International Organization 51(4): 513-53.

Moravcsik, A. (1998). The Choice for Europe. Ithaca, Cornell University Press.

North, D. C. (1990). Institutions, Institutional Change and Economic Performance. Cambridge, Cambridge University Press.

Parsons, C. (2002). "Showing Ideas as Causes: the Origins of the European Union." International Organization **56**(1): 47-84.

Pierson, P. (1996). "The Path to European Integration." Comparative Political Studies **29**(2): 123-163.

Pierson, P. (2000). "Increasing Returns, Path Dependence, and the Study of Politics." American Political Science Review 94(2): 251-267.

Reus-Smit, C. (1999). The Moral Purpose of the State. Ithaca, Cornell University Press.

Risse-Kappen, T. (1994). "Ideas Do Not Float Freely: Transnational Coalitions, Domestic Structures, and the End of the Cold War." International Organization **48**(2): 185-214.

Rodrik, D. (1997). Has Globalization Gone Too Far? Washington, DC, Institute for International Economics.

Rogowski, R. (1989). Commerce and Coalitions: How Trade Affects Domestic Political Alignments. Princeton, Princeton University Press.

Ruggie, J. G. (1982). "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order." International Organization **36**(2): 195-231.

Ruggie, J. G. (1983). "Continuity and Transformation in the World Polity." World Politics **35**: 261-285.

Ruggie, J. G. (1992). "Multilateralism: The Anatomy of an Institution." International Organization **46**(3): 561-598.
Ruggie, J. G. (1993). "Territoriality and Beyond: Problematizing Modernity in International Relations." International Organization **46**(1): 139-174.
Ruggie, J. G. (1998). Constructing the World Polity. London, Routledge.
Sandholtz, W. (1993). "Choosing Union: Monetary Politics and Maastricht." International Organization **47**(1): 1-39.
Scharpf, F. (1999). Governing in Europe: Effective and Democratic. Oxford, Oxford University Press.
Scharpf, F. W. (2000). Economic Changes, Vulnerabilities, and Institutional Capabilities. Welfare and Work in the Open Economy. F. Scharpf and V. A. Schmidt. Oxford, Oxford University Press. **1**.
Schmidt, V. A. (2000). Values and Discourse in the Politics of Adjustment. Welfare and Work in the Open Economy. F. Scharpf and V. A. Schmidt. Oxford, Oxford University Press. **1**.
Schmidt, V. A. (2002). The Futures of European Capitalism. Oxford, Oxford University Press.
Schmitter, P. (1979). Still the Century of Corporatism. Trends toward Corporatist Intermediation. P. Schmitter and G. Lehmbruch. Beverly Hills, Sage.
Stone Sweet, A. and W. Sandholtz (1998). Integration, Supranational Governance, and the Institutionalization of the European Polity. European Integration and Supranational Governance. A. Stone Sweet and W. Sandholtz. London, Oxford University Press: 1-26.
Strayer, J. R. and D. C. Munro (1959). The Middle Ages. New York, Appleton Century-Crofts.
Streeck, W. (1995). From Market Making to State Building? Reflections on the Political Economy of European Social Policy. European Social Policy. S. Leibfried and P. Pierson. Washington, DC, Brookings Institution.
Streeck, W. and P. Schmitter (1991). "From National Corporatism to Transnational Pluralism." Politics and Society **19**
Thomson, J. (1995). "State Sovereignty in International Relations: Bridging the Gap between Theory and Empirical Research." International Studies Quarterly **39**(2): 213-233.
Van Appeldoorn, B. (2002). Transnational Capitalism and the Struggle over European Integration. London, Routledge.
Van der Pijl, K. (1984). The Making of an Atlantic Ruling Class. London, Verso.
Weber, C. (1995). Simulating Sovereignty: Intervention, the State and Symbolic Exchange. Cambridge, Cambridge University Press
Wylie, L. (2001). EMU: A Neoliberal Construction. The Euro: European Integration Theory and Economic and Monetary Union. A. Verdun. New York, Rowman and Littlefield Publishers, Inc.