CHAPTER 6

Key Policies

Alberta Sbragia and Francesco Stolfi

Chapter Overview

European Union policies affect the lives of millions of people in Europe and beyond. Because of the variety of actors involved, the wide range of policy types, and their constant evolution, policy-making in the EU is a challenging but fascinating area of study. This chapter describes some of the most important areas of policy-making in the European Union, focusing primarily on economic and related policies. We begin by explaining how EU policy-making differs from national policy-making, and then describe the most important policies for building the internal market and limiting its potentially negative impact on individuals, society, and the environment. We show how these policies are made and also how they matter.

Introduction

The European Union sets policies in so many areas that it is difficult to think about national policy-making in Europe in isolation from Brussels. While the euro—the common currency used by fifteen of the EU's twenty-seven member states—is perhaps the most visible manifestation of European integration, a diverse set of public policies (see Box 6.1) affecting the everyday lives of Europeans are shaped by decisions taken at the EU level. Agriculture, environmental protection, international trade, and the movement of goods, services, labour, and capital across borders are all affected in important ways by policies made in Brussels.

Yet the role of the EU should not be over-estimated. It is not a 'superstate' exercising control over all areas of policy. The Union should be thought of as a selective policy-maker whose power varies significantly across policy areas. Most of the policies for which it is responsible are related to markets (see Box 6.1): some policies build markets, some protect producers from market forces, some try to cushion the impact of market forces.

The differentiated role of the EU across policy areas is not unusual if we compare it to federal systems where power is shared between the national and subnational level (see Box 6.1). In such systems the national level may not be allowed to legislate in certain areas and policy discretion is left to the constituent units. Canadians, Australians, and Americans, for example, take for granted that many decisions affecting their lives will be taken at the state or provincial level rather than at the national level. In the European Union, citizens are becoming accustomed to such a system of differentiated policy responsibilities. Just as Washington lets each state decide whether to allow the death penalty within its borders, the EU does not legislate on Ireland's abortion policy, Spain's policy on bullfighting, or Sweden's alcohol control policy (although the European Court of Justice (ECJ) repeatedly has ruled on the latter's compatibility with the single market). Citizens of a federal polity accept that at least some unequal treatment comes with living in a federation. In a similar vein, it matters a great deal—and will continue to matter—where one lives within the European Union.

However, the impact of the European Union is such that its member states are, in many ways, much more alike now than they were fifty years ago. In certain policy areas, especially those related to economic activity, member state governments as well as private firms either have had to engage in new activities (such as environmental protection) or alternatively change their traditional practices. The introduction of the euro has not only changed the landscape of monetary affairs but also made the average citizen aware of that changed landscape literally on a daily, even hourly, basis.

The world of money and business has been changed by EU policies in fundamental ways, but so have many related areas. Environmental protection, gender equality in the workplace, and occupational health and safety have all moved the EU towards a system in which many of the negative consequences of market activity are addressed in

BOX 6.1 Key concepts and terms

Benchmarking is the use of comparisons with other states or organizations (for instance on issues such as pension reform and employment practices) with the aim of improving performance by learning from the experience of others.

A **directive** is the most common form of EU legislation. It stipulates the ends to be achieved (say, limiting the emissions of a harmful pollutant) but allows each member state to choose the form and method for achieving that end. It can be contrasted with a regulation, which is binding in its entirety on all member states.

The **Eurozone** refers to the countries that are part of the Economic and Monetary Union (EMU). EMU was launched in 1999 (with notes and coins entering into circulation in 2002) with eleven members (Austria, Belgium, France, Germany, Finland, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain); Greece joined in 2001, Slovenia in 2007, and Cyprus and Malta in 2008. All remaining new EU member states are expected to join once their economies are ready. The UK, Sweden, and Denmark have thus far chosen not to join.

Federalism is a constitutional arrangement in which the power to make decisions and execute policy is divided between national and subnational levels of government. In a federal system both national and subnational units wield a measure of final authority in their own spheres and neither level can alter or abolish the other.

A **market** is a system of exchange bringing together buyers and sellers of goods and services. In most markets, money is used as means of exchange. Markets are regulated by price fluctuations that reflect the balance of supply and demand. To function properly, markets require the existence of law, regulation, and property rights. Virtually all markets are subject to some sort of regulation.

Non-tariff barriers refer to regulations, such as national standards or requirements (for instance health requirements) that increase the cost of imports and thus have the equivalent effect of tariffs. Often these regulations do not only serve bona fide social purposes (such as the protection of the environment or of consumer health), but also protect national producers from foreign competition.

Public policy is a course of action (decisions, actions, rules, laws, and so on) or inaction taken by government in regard to some public problem or issue.

Brussels rather than in national capitals. This expansion in the EU's remit is the result not of some well-orchestrated plan but rather the product of constant problem-solving, bargaining, and experimentation (see Chapter 1).

This chapter introduces some of the key policies of the European Union. Since economic integration is at the core of what the EU does, we focus primarily on economic and related policies. The inclusiveness of these policies—how open they are to a large number of actors—varies, but a constant across policies is the preference for consensus-building rather than conflict. Furthermore, the chapter shows how the

EU's remit has dramatically increased over time, but also how in many policy areas its capacity has remained limited when compared to that of a 'traditional' nation-state.

Key Features of EU Policies

Differences between National and EU Policies

Policies in the European Union differ in important ways from policies decided at the national level by member state governments. At their most basic level, policies are different because the European Union and its member states are structured and financed very differently. These varying financial structures lead to three wider differences between national and EU policies:

- with a few exceptions, EU policies typically involve the spending of very little money, whereas many national policies involve spending a good deal of it;
- the distance between those who formulate policy and those who actually execute it in practice is far greater in the EU than in most of its member states;
- the EU is active in a narrower range of policies than are national governments.

Thus, knowing about national policies is not a particularly good template for understanding EU policies. Let us examine each of these differences in more detail.

Money

One way to understand the European Union's relative poverty in terms of public finance is to compare its budget with those of central governments in its member states. As Table 6.1 illustrates, even though the central governments of France, Germany, and the UK are each responsible for only a fraction of the EU's total population, each of those central governments spends a great deal more than does Brussels. Another useful comparison is with the federal government's budget in the US. The EU has a considerably larger population than does the US, but the budget of the US federal government is roughly thirty times as large as the Union's budget.

The Union relies on the power of law (as embodied in legislation and court decisions) rather than money to carry out most of its policies. That dynamic shapes what the content of its policies can be. The Union has only a small number of policy areas which cost a great deal, whereas national systems typically have a large number of expensive policy areas, including those that fall under the rubric of the welfare state. Given its current fiscal structure, the EU could not, for example, finance health care or provide pensions or finance systems of public education. Overwhelmingly, the EU regulates economic activity; that is, it subjects it to rules and standards. However, in spite of the relatively small size of the EU budget, the process of agreeing the revenues and expenditures of the European Union can become highly contentious (see Box 6.2).

TABLE 6.1 Compared to what? EU and national budgets compared

EU Budget (2006)	Germany Federal Budget (2004)	France Central Budget (2004)	UK Central Budget (2004)	US Federal Budget (2004)
€122 billion	€1038 billion	€881 billion	€509 billion	€3398 billion*

*US dollars converted to euros at average exchange rate for 2004.
For the EU, Commission 2006d. For the national budgets, OECD 2005.

BOX 6.2 How it really works

Budget bargaining

Unlike national governments, the EU cannot run a deficit; its revenues limit the amounts it can spend. Various economic formulae are used to help determine the EU's overall budget *revenue* (derived primarily from custom duties, value added tax, and national contributions) and budget *allocation* (who gets what?). On the expenditure side, two documents are important: the yearly budget, which sets the overall expenditure level and how it is to be divided between the various policy areas, and the multiyear 'financial perspective' which sets broad spending patterns for seven-year periods.

Formulae aside, the EU's budget is a result of politics as much as mathematics. Reaching a decision over the financial perspective can be a highly contentious and decidedly intergovernmental affair. Although the absolute amounts involved are not large—the overall EU budget equals only around 1 per cent of the member states' GDP—no government wants to appear weak in the eyes of its voters during the negotiations with other member states. Moreover, and especially in the case of the CAP, the amounts involved can mean a great deal to strong domestic constituencies.

It is thus not surprising that the intergovernmental negotiations for the last financial perspective in December 2005 almost collapsed. UK Prime Minister Tony Blair tried to hold on to the rebate that Margaret Thatcher had negotiated for Britain's contributions in the 1980s, while French President Jacques Chirac defended the CAP, some of whose main beneficiaries were French farmers. A late-night agreement was finally reached only when Blair agreed to give up part of the rebate, and Chirac accepted a (postponed) review of the CAP, starting in 2008.

Legislation versus Execution

In most national systems, the national government makes policy decisions and then has numerous ways of ensuring that those policies are actually executed 'on the ground'. Although that link is far from perfect in practice, it is far tighter in most national systems than it is when EU policy is involved. Policy decided in Brussels faces several unique hurdles before it can be successfully executed on the ground.

The first step is known as transposition. That is, laws (known as directives, see Box 6.1) adopted by the Council of Ministers need to be 'transposed' into national legal codes before they can be executed by the member state's public administration or formally shape the behaviour of private actors in significant ways. Although transposition has become increasingly timely (as of 2006 the average rate of directive implementation across the then twenty-five EU members was 99.16 per cent; see Commission 2006e), differences still exist among the member states. Interestingly, the new member states do better at implementation than the older ones. Of the countries that have performed below the EU average, only one—Malta—is a new member state, while all the others—Spain, France, Italy, Portugal, Greece, and Luxembourg—are longtime members (Commission 2006e).

Moreover, when transposition occurs, the Commission may still feel (and argue to the ECJ) that the transposition does not adequately reflect the intent of the EU's legislation. National transposition may be overzealous (see Box 6.5) or it may be too lax. If the ECJ upholds the Commission's position, the national government will need to transpose the EU's legislation in a different way. Thus, Union policies do not become 'policy' at the national level uniformly across the EU's member states. For example, a directive transposed in Finland shortly after its adoption in Brussels may not be transposed in France or Greece until several years after the Finnish action.

These differences suggest that Brussels formulates and adopts policy but, as discussed in Chapter 4, actual policy impact will be shaped by national systems of governance. National governments play a central role in the EU's policy process because they hold a monopoly of power in the actual execution of most policies adopted in Brussels. The EU has no administrative presence within the member states. The Commission, for example, has few field offices (and only in national capitals) from which it can monitor the execution of EU law. It must instead rely on complaints from citizens, firms, and non-governmental organizations. Even then, it can only try to persuade national governments to improve execution.

The difficulties surrounding execution and monitoring mean that policies affecting a dispersed set of actors are less likely to be executed uniformly than are those policies which affect a few. For example, environmental policy, which attempts to shape the behaviour of huge numbers of both public and private actors, is executed with a tremendous degree of variability within the Union. By contrast, the Commission's decisions about mergers and acquisitions are implemented uniformly. The number of firms affected by any single Commission decision is very small and a non-complying firm would be very visible.

Jurisdiction

A third difference between EU and national policies concerns policy competencies (see Box 6.3). While certainly broader than other international organizations, the EU's policy remit is narrower than that of national governments. Consider how many areas are not subject to EU legislation because it has not been given competence

BOX 6.3 The policy competencies of the EU

Policy competence refers to the primary legal authority to act in particular policy areas. EU competencies, which are based on the Treaties, are traditionally divided into three categories: *exclusive* competencies, *shared* competencies between the EU and its member states, and competencies belonging mostly to the *member states*.

1. The EU has *exclusive* competence in few, but important, policy areas: external trade in goods and some services, monetary policy (for the Eurozone), customs, and fisheries.
2. The majority of policy competencies are *shared* between the EU and its member states. Shared competencies include, for example, environmental policy, consumer protection, mergers and acquisitions, development aid, transport policy, visas, asylum, and immigration.
3. Finally, there are policy areas where the *member states* are the main players, even if the EU is involved in some general coordination or is engaged in a few specific projects. Education, culture, employment, public health, research, social and urban policy, and most foreign and security policies fall into this domain.

In some policy areas it is difficult to place policies in one of these categories because the line between shared competencies and member-state competencies is blurred. In foreign and security policies, for instance, it is often unclear how much weight the EU has because the member states in the final analysis must allocate the resources necessary to execute the EU's foreign and security policy (see Chapter 10).

by its member states: health care, urban regeneration, family assistance, pensions, public health, industrial relations, child care, poverty alleviation, abortion, prison administration, and education, for example. Other areas remain under national control because of the decision-making rules which apply to that area. In taxation and energy, for example, the decision-making rule is one of unanimity (although pressures for a common EU energy policy are increasingly powerful). Since the member states have been unable to agree on any single policy, those policy areas effectively remain under national control.

Recently, various 'soft' measures (involving no EU enforcement powers) such as benchmarking (see Box 6.1) or the 'open method of coordination' (OMC) of national policies have been used to encourage national governments to address issues such as their pension burden (see Box 6.4). But in general the welfare state and the direct provision of social services are primarily under national control. The notable exception, of course, is welfare related to agriculture (see below).

Policies that have a moral or cultural dimension also remain under national control. Abortion, for example, is not permitted in Ireland, and the EU does not have the power to tell the Irish either to change their abortion law or to keep it. The Swedish and Finnish alcohol control system has been under strain due to the ability of individual

BOX 6.4 The policy process: three modes

Policy varies enormously in the EU, and so too does the policy-making process. But broadly speaking, we can identify three main policy-making modes in the EU: the Community method, the **intergovernmental** method, and the newer 'open method of coordination' (OMC). Member states' and institutions' power vary across these three modes.

1. The *Community method* is the most **supranational** mode and is used in the oldest areas of European integration, such as the internal market, the CAP, and competition policy. Its key features are:
   - the central roles played by the EU's main institutions including the Commission, the Council of Ministers, the European Court of Justice, and the European Parliament (the latter, however, traditionally has been excluded from the CAP);
   - the Commission's clear right of initiative and important role as agenda setter and overseer of policy implementation;
   - the ECJ's strong power to intervene to set the boundaries between the authority of the EU and the authority of the member states.

   This traditional method of policy-making in the EU seems to have lost some of its attractiveness in recent years, and has not been adopted in new areas where the EU has extended its competence (such as monetary policy).
2. The *intergovernmental method* is used in the areas, such as fiscal policy, where member states have an interest in cooperation but are still jealous of their sovereignty. Some of the main features of this method are:
   - the central role of the European Council in defining policy direction;
   - a strong role for the Council of Ministers in managing the policy;
   - the marginal role of the Commission;
   - the exclusion of the European Parliament and the ECJ.

   An example of the intergovernmental method is the revision of the Stability and Growth Pact mentioned in the text. The risk of this method, as that episode exemplified, is that the interests of the largest states may trump those of the smaller states or of the European Union as a whole.
3. The *Open Method of Coordination* (OMC) refers to the development and diffusion of best practices among the members of the EU. It is used for policy areas where the EU has few or no formal powers, such as employment policies or welfare state reform. Some of the features of the OMC are:
   - the EU institutions serve primarily as fora where new approaches can be discussed and compared among the member states;
   - the Commission's brokerage role—it focuses attention on specific problems and ways to solve them, and encourages coalitions of state and non-state actors to achieve its favoured solution;
   - the central role of transnational networks of policy experts.

OMC relies not on directives or 'hard law' but rather on 'soft' policy instruments such as **benchmarking**, 'naming and shaming', and policy learning. Because the OMC does not include any instrument to enforce compliance, the results are often patchy. For instance, one of the most high-profile uses of this method has been the Lisbon Strategy decided at the 2000 European Council in Lisbon. By stimulating employment-creating policies in the member states, the strategy aimed to make the EU 'the most competitive and dynamic knowledge-based economy in the world' by 2010. Despite improvements in the European economy, the EU remained far from achieving this goal with only a few years to go before the deadline.

revellers to bring liquor home from other EU countries, but alcohol control policy in both Sweden and Finland is under national control (Kurzer 2001).

However, and in spite of the circumscribed jurisdiction of the EU, it is important to note that the EU can and often does have important indirect effects beyond the immediate scope of its competencies. For instance, the EU's commitment to the Kyoto Protocol on climate change stimulated the creation of a European market where industrial producers can trade carbon emissions permits, with the purpose of limiting overall emissions. To take another example, education at both pre-university and university levels is under national control, but the EU has been a prime mover in encouraging university students to study in another member state. These Commission programmes for student mobility within the Union have led to major changes in universities' administrative structures and have encouraged university officials to work towards much greater cross-national standardization in degree programmes (such as the length of time required to receive a first degree). The lack of formal competence at the EU level does not mean that Brussels lacks influence in shaping the terms of debate within a policy area. The programmes that Brussels adopts, while not legally binding in the way that legislation is, are very important in providing incentives to national and subnational governments to carry out certain activities.

The Primacy of Economic Integration

The EU's unique history and development has privileged some areas as important for the Union while leaving others aside. As Chapter 2 explained, in the 1950s European states chose to defend each other within a transatlantic rather than a European organization (NATO includes Canada and the US). Policy areas concerning defence as well as foreign policy and security, therefore, were not central to the integration process and have become salient only recently.

By contrast, policies related to economic integration came to form the core of what the EU does. Economic cooperation was viewed as a politically acceptable way of increasing integration while laying the groundwork for political cooperation at a future date. Consequently, policy areas related to economics have been privileged from the very beginning. The 1957 Treaty of Rome, by calling for a customs union and a common market (now referred to as a single or internal market), steered the process of European integration towards the liberalization of cross-border trade, a unitary trade policy vis-à-vis non-members, and the free movement of capital, goods, services, and labour. The centrality of that effort to European integration symbolizes the importance that economic integration has within the European Union.

Market-building Policies

The focus on liberalization and creation of a single market highlights the EU's concern with 'market building' and what is sometimes termed negative integration. Building markets involves both removing barriers to trade and carrying out regulatory reform. So negative integration includes the elimination of various tariff and non-tariff barriers (see Box 6.1) to trade, reform of economic regulation, and the encouragement of competition between firms. The goal is to facilitate cross-border economic transactions with the expectation that the resulting greater efficiency will lead to higher levels of prosperity for the citizens of Europe. This same aim is pursued globally within the World Trade Organization (WTO).

The political economy of the member states has been profoundly affected by the privileging of economic policies at the EU level (Sbragia 2001). In this arena, policies adopted in Brussels usually pre-empt national policies and the EU is said to have 'exclusive competence'. Monetary policy falls under this category, although it only applies to the members of the Eurozone (see Box 6.1).

In general, the kind of negative integration that characterizes the EU is far more penetrating than that found at the global (WTO) level or in other regional arrangements such as the North American Free Trade Agreement (NAFTA). The EU's market-building ambitions are very serious and their scope very wide. The very foundation of the single market involves the four freedoms—free movement of capital, goods, services, and labour. However, a single market such as that envisaged by the founders of the Community does not occur simply by removing obstacles to trade. A whole host of interventions must be put into place to ensure that the hoped-for market will operate smoothly and efficiently. The construction of the European market has led to such widespread regulation from Brussels that Giandomenico Majone (1999) has termed the EU a 'regulatory state'. Whereas a welfare state engages in redistribution and spends a great deal of money in providing social welfare (such as social security), a regulatory state exercises its influence primarily by passing legislation that regulates the behaviour of actors in the economy. The development of a far-reaching regulatory regime in Brussels has also led to frequent complaints from those affected by such regulation—who typically blame 'Eurocrats' even when the blame should be placed elsewhere (see Booker 1996).

BOX 6.5 How it really works

'Goldplating' and EU Policy

Sometimes the member states implement EU legislation in a far more stringent manner than was ever intended. In the UK the sometimes overzealous interpretation of EU legislation on the part of the bureaucracy has attracted much popular attention, even receiving its own moniker: 'goldplating'. The extent to which seemingly anodyne EU directives can be transformed into nightmare regulations is illustrated below with some examples from the UK.

Mountaineers: look out for heights!

In 2001 the EU adopted a work safety directive (2001/45/EC) designed to protect people who work at heights, such as window cleaners and construction workers. But as interpreted by the UK's Health and Safety Commission the bill became the bane of British mountaineers. The British regulation went well beyond the original directive, extending to climbers and other outdoor enthusiasts' safety requirements such as the use of double ropes, limitations of operations in adverse weather conditions, and signs to climbers when they are approaching snowy and icy surfaces (House of Lords 2004).

Civil servants working overtime

Another illustration of British civil servants 'over-defining' EU directives is found in amendments to the Working Time Directive (2003/88/EC). Transposition of that directive into Swedish law took just two sheets of paper; for England and Wales, the same piece of legislation was published in a booklet with more than 60 pages of often rigidly defined rules and regulations (see *Financial Times*, 3/4 January 2004: 3).

Competition Policy

One of the most important market-building powers given to the EU—the Commission specifically—is that of competition policy. The Commission operates as an independent institution in this policy area, and the Council of Ministers is not usually involved in these policy decisions. In essence, competition policy—known as anti-trust policy in the United States—is about encouraging competition among firms and battling monopolistic or oligopolistic practices or those which privilege national producers over those in other EU member states. The requirements can be tough for any member state, but competition policy poses particular challenges for the new member states from Central and Eastern Europe. Moving from an economy that was largely under public control to one in which the market is dominant is difficult. The rigour of the EU's competition policy makes that transition, in some respects, even more onerous.

The Commission has the authority to rule on many mergers and acquisitions, fight cartels, and judge the appropriateness of many forms of state aid given by national or regional authorities to firms. In this policy area, the Commission is an international actor as well as an EU actor. Given the level of foreign direct investment in Europe by American firms, the Commission has the power to sanction the strategies of American firms with extensive operations in Europe even if they have been approved by American anti-trust authorities. Just to mention a few high-profile cases: the Commission vetoed the proposed merger between General Electric and Honeywell in 2001, and fined Microsoft a total of €780 million for anti-competitive behaviour between 2004 and 2006 (*Financial Times*, 13 July 2006).

Trade associations and firms as well as member-state authorities and ministers (and at times prime ministers and presidents) lobby, especially informally, on specific competition cases. However, the Commission needs to engage in far less negotiation than is required in other policy domains, and sometimes turns a deaf ear to lobbying even by leading national politicians. In this area, the Directorate-General for Competition and the Commissioner for Competition are the central actors.

Commercial (Trade) Policy

The key goal of the Treaty of Rome was to create a common market across national borders. The objective required liberalizing many national markets (that is, allowing imports to compete with domestically-produced goods) that had been heavily protected for many decades. Over time, the national economies of the member states have become far more interdependent. In 2005 trade within the EU-25 accounted for 66 per cent of the overall exports of the member states and 62 per cent of their imports (IMF 2006). However, trade with countries outside the EU is still very important for many member states.

The application of a single external tariff (which is applied to non-EU producers) in the late 1960s led to the decision that the European Economic Community (as the EU was then known) would speak with one voice in negotiations involving international trade policy. The Treaty of Rome gave the EEC competence in international trade negotiations involving trade in goods. The Commission was granted the power to act as sole negotiator for the Community in, for example, world trade talks. That power was strengthened in the Treaty of Nice, which gave the Commission the right to negotiate (with certain exceptions) trade in services. However, the competence to decide the EU's position in international trade negotiations was given to 'the member states operating through the European institutions', not to the Commission acting on its own. Therefore, although the Commission is the negotiator, the member states play a key role in shaping the negotiating mandate that the Commission pursues.

Economic and Monetary Union (EMU)

At Maastricht the members of the EU decided to create an Economic and Monetary Union (EMU), with a common currency and centralized responsibility for monetary policy. For the first time since the Roman Empire, Western Europe was to have a common currency. It was thought that a common currency would help keep a unified Germany tied to the project of European integration, would help increase economic efficiency in the EU and thereby raise the standard of living, and would help develop a sense of 'European' identity. A common currency requires a single central bank in

charge of monetary policy, and the European Central Bank (ECB) (see Box 3.9) was created to run monetary policy with the goal of price stability (anti-inflation) as its top priority.

Part of the bargain that underpinned the decision to move to a single currency by 1999 was an agreement that states wishing to adopt the euro had to meet certain requirements (informally known as the Maastricht criteria) with regard to the level of inflation and of interest rates, and the size of the government deficit and debt. The decision was taken by the heads of state and government, but the preparation of the decision was carried out by finance ministers and a relatively small group of national civil servants and central bank staff. Private businesses such as banks were not intimately involved, and the policy process was relatively closed.

The decision to move towards a single currency had profound implications for the member states, as the budget deficit requirements forced the restructuring of public finances in several states adopting the Euro (the so-called Eurozone countries). In the Italian case, the restructuring was so profound that the country's ministerial organization and budgetary process had to be radically transformed. In some cases, the desire to join the EMU was so strong that countries—Greece for instance—resorted to questionable budgetary tricks in order to qualify.

Even after the creation of the EMU, the stringent fiscal requirements remained, as the EMU members agreed to respect a Stability and Growth Pact (SGP), which included provisions for financial penalties for the countries that violate it. Following the adoption of the euro in 1999 (notes and coins became available on 1 January 2002), several member states found their macro-economic policies under scrutiny as they struggled to meet the budget deficit requirements of EMU membership. By 2003, four countries, including the three largest economies of the Eurozone (Germany, France, and Italy), were in breach of the fiscal requirements set by the SGP. When the Commission recommended the application of the penalties mandated by the SGP, the Ecofin Council (of finance ministers) elected to disregard the recommendation. In 2005 the SGP was modified to make it less stringent.

More generally, membership of the euro means these countries no longer have an independent monetary policy. The European Central Bank, headquartered in Frankfurt, makes decisions about monetary policy that apply to all member states using the euro. National governments therefore can no longer control the level of interest rates, a control that previously gave national governments some leverage over the direction of the economy. The European Central Bank is mandated to privilege price stability and thereby avoid inflation but it has been criticized by some (including some Eurozone governments, such as France's) who would prefer it to adopt lower interest rates so as to stimulate the Eurozone economy and hopefully create more employment. The Bank, however, has argued that job creation requires the adoption of a more flexible labour market and greater liberalization of markets in general. It has not tailored its interest rate policy to the wishes of the member states, nor to societal actors. The ECB has become an important, and very independent, actor in the field of economic policy-making.

Market-correcting and -cushioning Policies

Although market-building policies have been a central feature of EU policy activity, the Union has also been very active in developing policies that might be viewed as 'market correcting' and 'market cushioning'. Market-correcting policies, such as the Common Agricultural Policy (CAP) and **cohesion policy**, attempt to limit inequalities or compensate for the cost to particular groups imposed by the building of markets. Market-cushioning policies, such as environmental and social regulation, attempt to limit the potentially harmful effects of the market on human beings and the environment.

Common Agricultural Policy (CAP)

Perhaps the best-known policy designed to offset market forces is the CAP—for which the European Union has almost exclusive competence. Although welfare state policies have been peripheral to the EU's policy agenda, the CAP, with its system of agricultural support and subsidies, is an exception to that rule. As Rieger (2005: 182) argues: 'The key to understanding this policy domain is to see the CAP as an integral part of the west European welfare state'. The CAP is also unique in the amount of money it receives from the EU budget (see Figure 6.1), and the amount of contestation it causes. Although the CAP created a market for agricultural goods within the EU, its market-correcting properties have been the most controversial outside the EU because third parties have found their agricultural goods subject to high tariffs when exported to the EU. In July 2006 the Doha Round of WTO negotiations stalled mostly over a dispute on agricultural tariffs between the US and the EU.

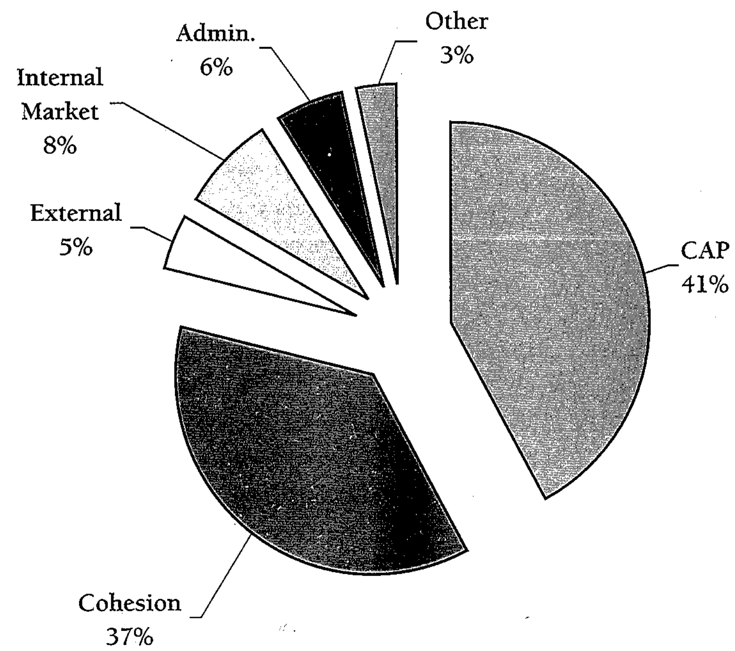
The CAP stirs up plenty of internal debate as well. The benefits of the CAP are distributed very unequally across member states. Although new member states depend much more on agriculture than do older members, the largest recipients are still all older members (see Table 6.2). However, some redistribution of agricultural funds from the older to the new member states has already occurred: from 2007 the funds for farmers in the old member states began to decline in order to make room for greater allocations for the farmers in the new member states.

More generally, pressure from enlargement has spurred some CAP reform including a shift from supporting production, which in the past had often led to overproduction and waste, to supporting rural development and environmental protection. However, the radical, fundamental reforms arguably needed to address CAP's failures have not yet been agreed, not least because any important decision on reform would require unanimity amongst all member states.

Cohesion Policy

Cohesion policy was introduced to reduce inequality between regions and to compensate governments of poor countries for the costs of economic integration. To

FIGURE 6.1 Breakdown of EU spending, 2006 (percentages and absolute values in euros)



CAP (Common Agricultural Policy): €51 billion
Cohesion: €44.5 billion
External (including aid): €5.5 billion
Internal Market: €9.4 billion
Administration: €6.7 billion
Other: €4 billion

Commission 2006d

help offset some of the costs faced by member states in adjusting their economies to EU standards, cohesion policy was introduced after the first enlargement (UK, Denmark, and Ireland). Cohesion policy has increased in importance over time, and now represents one of the most important areas for public expenditure (see Figure 6.1).

The budget for cohesion policy represents approximately 37 per cent of the EU's budget (the CAP accounts for roughly 41 per cent). Every member state receives some cohesion policy monies which makes this policy politically acceptable to all. However, most of the funding is spent in the neediest regions, where per capita GDP is below 75 per cent of the EU average (see Table 6.3). Regions with specific problems (such

TABLE 6.2 CAP spending breakdown

This table shows France is the big winner from CAP spending, while Poland, the largest of the new member states, only comes in eighth place.

Member State	Percentage of agricultural expenditure (rounded, 2005)	Member State	Percentage of agricultural expenditure (rounded, 2005)
France	20	UK	9
Germany	13	Greece	6
Spain	13	Ireland	4
Italy	9	Poland	3

Commission 2006c; 2006a

as a declining industrial base) also receive funding even if they are part of a wealthy member state.

The distribution of structural funding across many member states has rendered it one of the most visible of the EU's policies, with road signs often signifying that a road or other public work is being financed with EU funds. It also features actors across levels of governance: local, national, and EU policy-makers are all centrally involved in decisions surrounding the allocation of regional funds and their implementation. The interaction of actors from several levels of governance, and the sharing of power between them gives rise to the notion of the EU as a system of multilevel governance (see Chapter 1). Because regions in all member states have benefited from some form of regional spending, cohesion policy has escaped some of the intense controversy surrounding CAP. However, enlargement has made it more controversial, pitting net contributors against new recipients, or 'old' versus 'new' member states. Because the new member states are significantly poorer than the old ones, the poorest regions of Europe are now all concentrated in the new member states (see Table 6.3), and further changes are anticipated. In the 2007–13 period, for instance, Poland is expected to overtake Spain as the largest recipient of cohesion funds (*Financial Times*, 14 July 2006).

TABLE 6.3 Poor regions

The tables on the next page show how the concentration of the EU poorest regions has changed with the inclusion of the new member states. Table 6.3a shows the ten poorest regions of the EU-15 in 1999. Table 6.3b shows the ten poorest regions of the EU-25 in 2003 (before accession).

TABLE 6.3a Regional per capita GDP in the ten poorest regions of the EU in 1999

(in purchasing power parities, EU-15 = 100)

Rank	Region and country	PPP
1	Réunion (France)	51
2	Ipeiros (Greece)	51
3	Guyane (France)	51
4	Extremadura (Spain)	52
5	Azores (Portugal)	53
6	Dytiki Ellada (Greece)	53
7	Peloponnisos (Greece)	55
8	Anatoliki Makedonia, Thraki (Greece)	56
9	Guadeloupe (France)	56
10	Centro (Portugal)	57

Eurostat 2002

TABLE 6.3b Regional per capita GDP in the ten poorest regions of the EU in 2003

(in purchasing power parities, EU-25 = 100)

Rank	Region and country	PPP
1	Lubelskie (Poland)	33
2	Podkarpackie (Poland)	33
3	Podlaskie (Poland)	36
4	Świętokrzyskie (Poland)	37
5	Warmińsko-Mazurskie (Poland)	37
6	Opolskie (Poland)	37
7	Észak Magyaroszág (Hungary)	38
8	Východné Slovensko (Slovakia)	39
9	Eszag-Alföld (Hungary)	39
10	Dél-Alföld (Hungary)	40

Eurostat 2006

Environmental and Social Regulation

Although the CAP and cohesion policy are probably the best-known of the EU's policies outside of the single market, other policies began life as relatively marginal and then became far more important over time. Such policies may be grouped together under the rubric of 'social regulation' since they are designed to cushion the impact of the market on society. Occupational health and safety legislation is one area where the EU acted quite early on. Another important type of social regulation is concerned with the protection of the environment. In environmental policy (especially in the area of pollution control) the EU became active after a customs union had been created, but before many of its member states had become environmentally conscious. Environmental policy was initially put on the agenda both because of its international salience and because it would affect trade in goods such as automobiles. Over time, the focus has widened to include areas that are not market-related, such as the protection of environmentally sensitive habitats.

In many areas of environmental policy (primarily those outside of pollution control), national governments are free to supplement EU legislation. Some do. In general, the Scandinavian member states, Austria, the Netherlands, and Germany are the most active in supplementing EU legislation with their own. But most member states choose not to act unilaterally, thereby making the EU the de facto primary actor in this area. One of the EU's most recent initiatives in this policy area is the so-called REACH directive for the 'Registration, Evaluation, and Authorization of Chemicals' which covers about 30,000 chemical products (see Box 5.4).

Another area of 'social regulation' is consumer protection. A series of food scares and concern over genetically modified organisms (GMOs) have propelled this issue up the EU's agenda and resulted in the establishment of a European Food Safety Authority. It has also caused conflict with the US, which is the largest producer of GMOs, and accuses the EU of using unscientific concerns as a way to shield European agriculture from foreign competition. Social regulatory policies that are related directly to the single market (such as regulations on product safety) pre-empt national policies, whereas in other areas (such as hygiene standards) the EU stipulates minimum standards which national governments can exceed if they so wish.

The EU has also been active in the area of gender equality. National pension systems have had to be restructured to treat men and women equally. More generally, the EU has been a significant actor in the move toward equal pay (both in terms of income and benefits) in the workplace (Caporaso 2001). Most recently, the EU passed laws against sexual harassment. While some member states already had tough laws, Spain, Portugal, Greece, and Italy had no laws that held employers responsible for harassment within the workplace, and Germany defined sexual harassment more narrowly than did the EU legislation. Member states can adopt stricter definitions of harassment, but now EU legislation provides a 'floor' for any national legislative activity in that area.

Comparing EU Policy Types

How can we make sense of all these policies? To start, note that each category of policy has certain characteristics that distinguish it from others. While the categories are not watertight, policies that fit within them do differ in significant ways along a number of dimensions (see Table 6.4). First, *market-building* policies stimulate market forces and encourage regulatory reform. Because of their emphasis on competition, such policies tend in practice to favour (although not require) privatization and the withdrawal of the state from those areas in which it has protected national producers. Many of the policies in this category are regulatory. In general, they also tend to be made by the **Community method** (see Box 6.4) in which the EU's supranational institutions are normally most active, the Union's competence tends to be most comprehensive, and national policy activity is largely pre-empted.

The creation of markets is also marked by a variety of political dynamics and a range of political actors. The different theoretical approaches introduced in Chapter 1 shed light on these different dynamics. A few policy areas, such as energy and pharmaceuticals, feature what Peterson and Bomberg (1999: 81) describe as 'a relatively stable and cohesive policy network'. That is, policies are shaped by a tight and insular group of actors. Similarly, monetary policy is quite insulated from actors outside the central banking community. But most other areas related to trade do not exhibit such single-mindedness among the key actors who interact in what are often fragmented and internally divided networks.

Market-correcting policies differ from market-building ones in that they tend to protect producers from market forces. Most are redistributive—from consumers to farmers, and from rich regions to poor regions. Because they are so overtly redistributive rather than regulatory, they tend to be very difficult to change as the impact of any change is quite transparent. For this reason, market-correcting policies tend to be dominated by intergovernmental bargaining rather than by the EU institutions. Liberal intergovernmentalists show how major decisions in these areas are dominated by national governments. These governments are responding to strong societal actors (such as agricultural lobbies), but national ministers ultimately decide when other considerations will trump the demands of those lobbies.

Market-cushioning policies try to minimize the harm economic activities impose on nature and humans. These policies tend to be regulatory in nature, impose demands on private actors, and fall under the shared competence of the EU because both Brussels and national capitals typically 'co-govern' in these areas. The active role of EU institutions in developing these areas at the Union level, often with strong support from a variety of representatives of civil society (see Chapter 5), provides fertile ground for the new institutionalist claim that 'institutions matter'.

TABLE 6.4 Policy types in the EU

Type	Level of EU competence	Key features	Primary actors	Examples
Market-building	Nearly exclusive; covering an extensive range of economic policies	Emphasis on liberalization and increasing economic efficiency; strong role for supranational institutions	Business actors; EU institutions; national finance officials; central bankers	Internal market policies (such as telecommunications or air transport); EMU
Market-correcting	Often exclusive but only in limited areas	Controversial; with redistributive implications; effective exclusion of EP	Farm lobbies, national officials; Commission	CAP; cohesion policy; fisheries
Market-cushioning	Shared with member states	Significant implementation problems	Supranational institutions; sectoral ministers; public interest groups	Environmental protection; occupational health and safety; gender equality in the workplace

Conclusion

If institutions and member states are the skeleton of the EU, policies are its flesh. It is through its policies that the EU affects people's lives, within and beyond its own borders. The Italian retailer who can sell non-durum wheat pasta in face of the opposition of the Italian authorities, or the British holidaymaker who may pay less for his mobile phone calls when holidaying in Spain, both feel the influence of the European Union in their daily lives. So does the American shareholder who sees the price of her Microsoft stocks affected by the competition policy decisions of the European Commission, or the Indian farmer adversely affected by the high tariffs the EU imposes on agricultural products.

What makes studying EU policies enormously challenging—as well as fascinating—is that each policy has its own features and trajectory, as this chapter has illustrated. But amidst all that variation, common themes also emerge. In particular, policies and policy-making in the EU reflect the three major themes of this volume:

experimentation as a driving force of European integration; the astonishing array of actors and power-sharing and consensus-building amongst them; and the gap between the scope and the capacity of the EU.

The creation of EMU was in part the result of dramatic experimentation. One of the main reasons for moving to a common currency was that the old status quo, with exchange rate agreements that were prone to collapse, was no longer tenable. Yet monetary union as the way forward was an untested course. As the former chief economist of the ECB has argued, European governments met the challenge by consciously choosing to take a risk and take 'the big leap into monetary union' (quoted in the *Financial Times*, 27 October 2006).

Different policy areas also show different levels of inclusiveness and power-sharing. In some areas, such as competition policy and monetary policy, power is highly concentrated. In many others, however, a larger set of actors is involved. Both environmental and cohesion policy involve a large number of actors at different levels of governance—including EU institutions, national governments, and private stakeholders—and reveal a strong preference for consensus-building. But consensus-building in Brussels comes at a price: decisions made by the EU, even if well thought-out, seem to many Europeans to be made in a system that they cannot control. Citizen input is still largely exercised through the democratic process in each member state rather than through citizen participation in European decision-making (see Chapter 8).

Finally, we have seen how the pressure of economic integration has led to the continuing expansion of the scope of the EU's policy remit, from policies directly related to market-building, to market-correcting and then market-cushioning policies. At the same time, however, the policy capacity of the EU falls well short of any nation-state, relying as it does on a very limited budget and on the national implementation of EU legislation. As the EU's policy remit expands further, into areas not just of economic growth but of internal and external security, this scope–capacity gap becomes ever wider.

DISCUSSION QUESTIONS

1. Why has the EU privileged economic policies over social welfare policies?
2. Why is the EU budget so much smaller than that of its major member states?
3. What obstacles to the execution of EU policies exist that do not exist at the national level?
4. How is enlargement expected to affect the EU's economic policies?

FURTHER READING

For an in-depth analysis of the EU's major policy areas, including those discussed in this chapter, see Wallace *et al.* (2005). Another excellent review of EU policy-making is Nugent (2006). Egan (2001) analyses the construction of the European internal market in a particularly comprehensive and insightful fashion. Zito (2000) presents a sophisticated explanation of the evolution of EU environmental policy. Comprehensive overviews of environmental policy include Jordan (2005) and Lenschow (2002). A detailed account of how individual member states contributed to the creation of the EMU is Dyson and Featherstone (1999). Multi-country studies of the impact of the EMU are provided by Martin and Ross (2004) and Dyson (2002). A very clear explanation of the economics of the EMU is De Grauwe (2002).

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WEB LINKS

To locate EU publications covering policy, try the EU portal EUR-Lex at www.europa.eu.int/eur-lex/. It is bibliographical in nature, but contains links to many full-text documents. For a record of EU legislation, search this site from the European Parliament: www.europarl.eu.int/guide/search/docsearch_en.htm.

For full-text, non-EU documents see the websites 'European Integration Online Papers' at www.eiop.or.at/eiop/ and 'European Research Papers Archive' at http://eiop.or.at/erpa/

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