1 Introduction: An interdisciplinary approach to convergence

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Policy diversity and international interdependence

Public policies differ between nations, in their goals, instruments, and styles. Some nations give high priority to social security for all, others place a higher value on personal freedom and choice, at the cost of social equality. Some nations have strict air and water pollution standards, while others are less concerned about the environment. In some countries, civil servants have large discretionary authority in policy implementation, in others they have only very limited room for maneuver. Many comparative policy studies have investigated these differences and their causes and effects. To mention just a few: full-employment policies have been compared by Schmidt 1982 and Scharpf 1984; health and health insurance policies by Döhler 1990 and Immergut 1992; and social security arrangements by Alber 1982 and Esping-Andersen 1990. Differences in implementation styles have been studied by Richardson 1982 and Vogel 1986.

Policy outcomes vary as well. Countries have different unemployment and inflation rates, crime rates, average life expectancies, traffic death rates, statutory minimum wages, and literacy and education rates.

There are many reasons for this rich diversity: geographic and demographic differences, culinary traditions, consumer preferences, culture, political ideas, political movements, voting systems, state executive decisionmaking, and authority of the courts. In general, policies and policy outcomes are the result of successive different combinations of ideas, interests, and institutions, whereby each combination prestructures new combinations at a later point of this nation's history in a path dependent way. This is what makes each nation have its specific history. Because much of policy substance, form, and outcome is linked to national cultures and institutions which are strongly rooted in history, they will be rather persistent over time. Some policies will

change easier than others. Those that touch the 'core' of a nation's belief system (Sabatier and Jenkins 1991) will be the most difficult to change, such as the belief that welfare state programmes are indispensable to a civilized solidaristic society.

Will this diversity in policy goals, instruments, and outcomes persist or even increase as history unfolds? Even if countries experience similar problems and contingencies, will not cultural and institutional differences make each country select its own specific policy solutions, resulting in different outcomes? Or will nation-states and their policies become more similar? Will policies converge?

One is tempted to think so, in an age of increasing economic, social, cultural, political, and legal interdependence. Technological innovations allow for much easier communications and travel across the globe, thus facilitating information exchange and joint cultural experiences. Television connects worldwide audiences, and digital traffic on the cybersuperhighway is thousands of times denser than traffic on the Los Angeles Freeways. Shared information and experiences may provide for similar consumer tastes, and multinational companies will try to enhance this through world-wide advertising. Eight hundred million people from all over the world watch the Super Bowl game at one point in time. In between they are confronted with the same commercials, and a large percentage of them will munch Italian pizza during the game and flush it down with American coke.

Modern technology has increased political interdependence with often economic consequences. A political coup in Nigeria broadcasted worldwide may send oil prices on the Rotterdam spot market up and prices on the Tokyo stock exchange down. Improved means of transportation and communication have also increased international trade and the mobility of factors of production, thus intensifying international economic competition. This is further amplified by the reduction of trade barriers through such political agreements as GATT, EU and NAFTA. The increasing importance of multinational companies provides for organizational bridges between nations, across which not only capital flows, but also labour, information, and technological know-how and patents. While worldwide information exchange *allows* for voluntary mutual learning and imitation between nations, people and their organizations and governments, worldwide competition may *force* different nations to adopt similar policies. Regulations and agreements by supranational organizations such as the UN, the IMF, the EU, and specialized agencies such as the international postal congress or the IATA do both. They facilitate voluntary learning but also compel nations to incorporate and adopt uniform international regulations.

Increased interdependence confronts nations with similar developments and problems, whether they are of a technological (e.g. more sophisticated health technology), demographic (aging, migration), economic (rising costs of the

welfare state), political (popularity of neo-liberalism), environmental (acid rain) or value (importance of equity) nature. Policy solutions adopted by one nation will have consequences for other ones. Hence, such increased interdependence is likely to exert pressures for convergence of national policies and their outcomes. How much these pressures will be able to influence national policies depends on how solidly national institutions and cultural preferences are ingrained in the various societies. How much do national systems of law resist incorporation of international agreements or how much do they modify them in the process of adaptation and reception? How strong are non-tariff trade barriers? How well-established are national consumer preferences, political traditions, and bureaucratic routines? Will Frenchmen ever leave their camembert for cheddar and will Japanese ever be taken to eat cheese at all? Will Germans lessen their fear of inflation?

How much convergence is there in national policies and policy outcomes under the pressure of increased international interdependence? That is the question addressed in this book. In order to keep the research problem somewhat manageable, we restrict ourselves to the field of economic policies and economic variables.

The convergence debates

Convergence has been defined in social sciences as 'the tendency of societies to grow more alike, to develop similarities in structures, processes, and performances' (Kerr 1983: 3). The term refers to a long term process, not a state. Convergence means that two variables approach each other as time elapses by either one approaching the other (weak convergence) or by both moving towards each other (strong convergence). There must be movement over time towards more similarity. This is important to stress, because the term is often used erroneously to merely indicate a state of differences and similarities rather than changes towards a common point (see e.g. Brickman, Jasanoff and Ilgen 1985).

The topic of convergence has recently gained in popularity, following the Maastricht agreement among EU Member States that some of their macroeconomic indicators should 'converge', in order for the European Monetary Union to become reality. This has increased the interest in 'convergence' in the economic literature. European integration has also influenced the comparative policy literature. The latter was originally mainly interested in studying differences and similarities between national state policies. However, economic and political integration has produced an interest in changes in these policies over time. At a more general level, the so-called globalization debate on the question whether the world is becoming one single society, has enhanced the interest in convergence as well. Furthermore, the end of the

Cold War has inspired such popular historical works as Fukuyama's (1992) 'End of History', which sees all societies converging upon the democratic-capitalist model.

However, the question of convergence of nations and their structures, policies and performances, is an old one. It keeps reappearing in politics and science, as if following some invisible cycle. The issue has been central to theory formation in most social sciences, in sociology, in economics, in political science, in policy analysis, and in law.

The various convergence debates have basically addressed three questions:

1. *What* converges? What is the substance or topic under investigation? Is there convergence, and how much and how quick do the specified variables move towards a common point or interval?
2. *Why* does or should something converge? What are the causes of convergence?
3. *How* does convergence work, what are the mechanisms or channels of convergence?

As the various disciplines study different subjects, the various disciplinary convergence debates can be distinguished by the answers they give to the first question. The subject of convergence can be:

a. a complete social system (in sociology);
b. only one segment of society, such as the economy, the political structure, or the legal system (in the respective disciplines)
c. policies of social actors, in particular state agencies (the subject of the policy sciences).

In this section we will discuss the various convergence debates. In the following one, the causes of convergence, the answer to the 'why' question, are discussed. The subsequent fourth section has as its topic the third question, the channels or mechanisms of convergence.

System convergence

The term 'convergence' has been used often to refer to 'system convergence', the growing together of whole societies, the developed and developing, the industrialized and industrializing, the democratic and totalitarian, the capitalist

and socialist. It has been the topic of the overarching non-specialized social science, sociology. The classics of sociology, writing at a time when most European societies experienced industrialization, urbanization, secularization, state formation, and imperialism, all had implicit or explicit theories of convergence as part of their theories of modernization. Toennies perceived a change from 'Gemeinschaft' to 'Gesellschaft'. Durkheim saw an increase in the societal division of labour and feared the replacement of organic by mechanical solidarity, resulting in anomia. Marx predicted increasing tensions between the forces and relations of production, a gradual lowering in profit rates and eventually the end of capitalism. Weber observed a general rationalization and bureaucratization of state and society, and Spengler predicted the *Untergang des Abendlandes*. The classic authors also identified causes and mechanisms of convergence. Marx saw these in the innate dialectical logic of capitalist development, which spurred the development of the forces of production (that is, technology). Spencer's theory of social darwinism stressed the importance of the forces of competition and selection, leading to a survival of the fittest, the 'one best way' in institutions, policies, and performance.

Theories of system convergence were not only popular among sociologists but among economists as well. Marx has already been mentioned. The Austrians had a 'right' prediction for any turn of history. Schumpeter forecasted like Marx the 'end to capitalism', while his compatriot Hayek predicted the 'impossibility of socialism'. This thesis is again en vogue as demonstrated by Fukuyama's work.

The Postwar period saw a revival of convergence theories. Fukuyama's thesis is a somewhat modified version of the modernization theories of the 1960s and 1970s. Then, authors such as Tinbergen (1959), Bell (1960), Aron (1962, 1968), Ellul (1964), Kerr, Dunlop, Harbison and Myers (1960, 1973), Kerr (1983), Galbraith (1971), and Inkeles (1981) predicted the 'end of ideology', as Fukuyama prophesies now the 'end of history'. These authors argued that the ideological and structural distinctions between communism and capitalism would gradually disappear. Countries in east and west would develop into more or less similar 'industrial societies'. The global spread of technology, industrialization and economic growth would confront all countries with similar imperatives. Technology and investments would require more and longer term private and public planning by 'technostructures' (Galbraith 1971). Market failures in capitalism would require capitalist states to intervene more and more in society and to develop welfare states. State failures in communism would require such states to allow for more market and more democracy in their systems. There might be differences in timing, some nations being ahead in this development towards 'industrial society', others following later. However, all would go sooner or later through a similar set of 'stages of economic growth' (Rostow 1968). The uniform

imperatives of growth and technology would make ideological distinctions irrelevant and class differences would disappear. The convergence proponents strongly believed in harmony and in technological determinism.

However, such perspectives have been more popular in certain periods than in others. The 1960s, with attention for similarities and convergence, were followed by the 1970s and 1980s with more attention for international differences and divergence. Goldthorpe (1984) attacked the stratification studies of the earlier modernization theories and argued that class differences still matter in capitalism, making convergence with socialism less likely. Fordism was no longer seen as the dominant industrial model for west as well as east. Kern and Schumann (1976) demonstrated empirically that technology did not have the unifying effect it has often been presumed to have. First of all, technological development tended to increase the level of required skills for higher level jobs, but to decrease them for lower level ones, resulting in a divergence in skill requirements, working conditions, and workers' consciousness. Secondly, such effects of technology differed by sector. Implicit here was the further argument that, as different societies have different sectoral portfolios, technology would affect various societies differently, thus leading to divergence, rather than convergence.

Several other studies in the volume edited by Goldthorpe pertain to the political organization of classes and emphasized the differences between corporatist and pluralist systems, thus at least complicating the simple dichotomy of capitalism and socialism in the earlier convergence theories.

In the 1990s, the convergence thesis has again gained in popularity, owing to the perceived globalization, the end of the Cold War, and the political integration in supranational organizations as the EU and GATT. European integration has become a field in itself, in which economic and policy convergence plays an even more important role than system convergence. As this book deals with economic policy, we will outline shortly the economic and policy convergence debates.

Economic convergence

Convergence in economics refers to convergence of economic variables, such as interest rates, inflation or unemployment, indicators which can also be seen as economic policy outcomes. There has been considerable disagreement as to convergence in the various theories. For every convergence theory there is an opposing divergence theory.

Three mechanisms for convergence can be identified in various approaches in economics: technology, competition, and political enforcement (see the section on mechanisms of convergence). Neoclassical growth theory expects convergence of living standards and productivity between poor and rich countries through the diffusion of similar technology. International Trade

Theory stresses the convergence of factor prices (wages, interest rates) and good prices as a result of trade. The latest newcomer in the convergence debate is 'Maastricht convergence'. The Maastricht Treaty sets criteria for inflation rates, nominal interest rates, budget deficits, and public debts, to which Member States are supposed to converge in order for them to be allowed to join the planned European Monetary Union. If convergence should take place, it will be partly the result of this political enforcement.

Neoclassical growth theory expects convergence through the channel of imitation. Poor countries will imitate the technology and know how of rich countries. Modern technology will diffuse worldwide. By taking advantage of Kuznets' 'transnationally available stock of useful knowledge' and by replacing their entire capital stock with the latest high tech capital stock of developed countries, poor countries should eventually 'catch-up'.

Abramovitz (1986) showed that 'falling behind and forging ahead' instead of 'catching up' of income and growth will occur, if poor countries are unable to use the foreign technology due to 'social inabilities'. Poor countries will *not* catch up, if they cannot implement the technology of the rich countries on a one to one basis, e.g. because labour skills differ. Kuznets' 'stock of knowledge' can then simply not be extracted by the poor. Thus the convergence theory of growth rates found its divergence counterpart.

While growth theory sees convergence by means of imitation of technological progress, International Trade Theory expects convergence through market forces, trade, and competition. The neoclassical factor price equalization theorem states that interest rates, profit rates, wages, prices, and income will converge due to the mobility of factors of production and the mobility of goods and services. Instantaneous, perfectly flexible reactions of market participants will guarantee arbitrage in all fields. Financial capital goes to the highest interest rates. Physical capital goes to the highest profits. Thus resulting in a convergence of interest rates and profit rates. Labour goes to the highest wages and entrepreneurs to the lowest wages. Their claims meet at the international market clearing wage rate. If wages are below the equilibrium rate, labour would go abroad, if wages are above the equilibrium rate, capital would abandon the high-wage country. As a consequence, wages will converge due to market forces. If factors of production are somehow prohibited from smoothly flowing across borders, than the mobility of goods will bring about convergence. Consumers buy from the cheapest offer of goods. Goods prices across countries will thus converge. And since labour and technology are incorporated in goods, wages and profit rates will converge as a consequence of trade in goods.

A consequence of this overall mobility of factors and goods is that economic policies are constrained by exogenously internationally given prices, wages and interest rates. Thus policies are either impotent or forced to be the same across countries. They have to converge. The convergence hypothesis

proclaims a smooth, automatic adjustment of economic outcomes and as a consequence also of economic policies.

For every convergence hypothesis there is one of divergence. It usually stresses some imperfections and frictions. International Trade Theory of factor price equalization and income adjustment was criticized most prominently by Krugman (see Dehesa and Krugman 1992). He showed that convergence by means of trade depends on two crucial assumptions: the same efficiency in production among countries, and constant returns to scale. Differences in efficiency may prevent physical capital from flowing from the rich to the poor countries. If capital flows to the rich, this would widen the gap of income differentials. Falling behind and forging ahead instead of catching up and convergence would be the outcome, due to differences in efficiency in production.

Economies of scale tend to promote agglomerations. Firms tend to cluster, to be close to markets. Reduced barriers to trade make it also profitable for firms to concentrate production in a few locations to achieve economies of scale. It has been indicated that seen from an airplane, Europe at night looks like a 'blue banana', with blue lights stretching from Milan to Copenhagen, rather than being evenly spread over Europe as in the shape of a grape (Dehesa and Krugman 1992). Thus regional disparities seem to become greater, rather than smaller, as trade theory would predict.

Financial capital does not behave well either. According to neoclassical theory, capital will go to the highest interest rates, provided that exchange rate risks are subtracted. Arbitrage will lead to a convergence of interest rates. Differences in interest rates only account for the risk. Due to diminishing returns, poor countries have higher returns than rich countries. Capital should thus flow from the rich to the poor. But capital flows systematically from the poor to the rich countries. Financial capital follows expectations and primarily creates speculative waves instead of intertemporal smooth adjustment. Political risk and inefficient production in many poor countries make it unattractive for investors to place their capital there, even though interest rates are exorbitantly high and put poor countries in financial and economic crisis.

Labour mobility neither satisfies the assumption of international trade theory. Convergence of wages is to be expected, if labour mobility is high. But labour mobility is very limited due to linguistic, cultural, and social barriers. Sassen in this volume casts doubt upon economists' assumption of a clear causal relationship between labour mobility and convergence of economic outcomes. If labour mobility is not exogenous but is itself dependent on capital mobility, if higher profits and not higher wages induce higher labour mobility, if migration policies increase migration instead of stopping it, divergence of wages and incomes is to be expected.

Even if factors are immobile, the Stolper-Samuelson theorem would claim that convergence would, nevertheless, be the outcome. Prices would converge as a consequence of trade (all sorts of transportation and other transaction costs would still allow for differences in prices). Wages and incomes would also converge, since (immobile) capital and labour are incorporated in mobile goods. Immobile factors cross borders in their transformed version as commodities. However, critics would stress that trade does not take place by means of free and unlimited competition on markets. As Bellak shows in this volume, only one-third of worldwide trade is really free trade. The rest is managed trade and trade by the hierarchies of multinational firms. That is, non-market institutions determine trade.

Economic convergence theories usually refer to the real outcome of economic policy, to the convergence of real variables (physical measurable variables), like real income distribution or growth of real GDP. Convergence of nominal variables was never an economic issue, since poverty, structural inequalities, or disparities of income were the long term economic concerns. Only recently, since the planned Monetary Union of Maastricht, did the convergence of nominal variables (inflation rates, nominal interest rates) become an issue. We will refer to these as 'Maastricht convergence'. The problem with this is that a theory, explaining why convergence of such variables should take place and through which mechanisms this should occur, is (still) lacking. As indicated, real convergence is mainly an issue in two fields of economics: in growth theory, and in international trade theory. In the latter the openness of the economy, barriers to trade, mobility of goods and factors explain convergence or divergence. In both theories convergence is the outcome of increased interdependence and market forces and not a prerequisite for integration to take place.

Maastricht convergence, which imposes convergence criteria on countries wanting to join the currency club, addresses a third channel of convergence. Here convergence is not the result of imitation of technology or of market forces, but the result of political norms and political enforcement. This form of convergence is of course not new, as throughout history states have invaded other states and imposed their culture, religion, or language on the conquered. In economics, however, this concept is new. For the first time in economics, convergence of economic outcomes should be realized through policy and enforcement, rather than through imitation or market forces.

'Maastricht convergence' has a much shorter time horizon (1997 or 1999) than real convergence. It, furthermore, does not have an explicit theory. The Maastricht criteria are quite arbitrary. The fiscal norms, for example, were set according to the status quo of the year they were decided in, and turned out to be unfeasible in the years of crisis that followed. By 1994 no country fulfilled the Maastricht criteria anymore (see Buiter 1992, who heavily criticizes them).

The idea behind 'Maastricht convergence' is that a monetary union should be a low-inflation union. Therefore, countries should be forced by means of nominal variable convergence to keep inflation low. The price a high inflation country has to pay in order to bring inflation down can be many years of recession, high unemployment and real dispersion. Maastricht convergence can thus lead to divergence of real variables and to increased inequalities in welfare, since the price, which countries have to pay for it, differs. The trade-off between different variables is a concern in the convergence debate. If nominal variables are forced to converge, real variables will have to bear the full burden of adjustment. Is seems as if Delors himself does not believe in economic convergence by means of competition and had to enforce it by means of Maastricht criteria. This shows, that the planned currency union is inherently unstable. Europe is no optimal currency area (Eichengreen 1991). Free riding of countries joining the currency club is obviously feared by those in favour of convergence criteria (Unger in this volume). Thus problems of collective action seem more important than traditional economic causes for the convergence of such economic policies and policy outcomes.

Policy convergence

Whereas sociologists have studied the convergence of nation states, and economists the convergence of macroeconomic indicators, policy analysts have analyzed the policies with which policymakers try to affect society and economy. The macroeconomic indicators with which economists have been concerned, can be considered not only 'outcomes' of economic processes, but also 'outcomes of public policy'.

Comparative policy analysis has originally been much more interested in cross-national comparisons than in cross-temporal ones. Hence, the question of convergence has figured less prominently in this literature. Policy analysts have typically taken a single universal problem, and then analyzed how different nations have reacted to them. Such problems have been the demand for welfare provisions, the fiscal crisis of the state making such provisions more problematic, rising unemployment, the arms race, the new poverty, increase in crime, or in air and water pollution. They have found that nations react differently, in policy goals, instruments, and styles. On the basis of these findings, various policy typologies have been made. Sometimes, such cross-national comparisons at one point in time have been used to make inferences as to convergence. Thus some authors have mistakenly interpreted differences between national policies as an indication of divergence.

There are however also a number of studies which have traced the development of policies of different states over time. Dye has compared policies of the fifty American states over time and has found some convergence. Waltman and Studlar (1987) investigated whether the entry of neo-

conservative governments produced a convergence of policies in the US and Britain. Döhler (1990) did the same for the neo-conservative health policies of Britain and Germany, and Grande (1989) for French and German telecommunication policies. Vogel (1986) studied convergence of US and British environmental policy, O'Connor (1988) studied welfare policies of OECD countries over time, and Bennett (1988) data protection policies. The overall results have been somewhat inconclusive. Convergence here, divergence there. The neo-conservative 'change' in politics of the early 1980s however did not produce the convergence, expected by the authors.

Comparative policy analysis stresses the importance of the distinction between policies and their outcomes. Outcomes and policy goals and instruments may be only loosely related. They do not all have to converge. It is very well conceivable that governments share similar goals, but choose different instruments, and produce different outcomes. Actually, policy goals are often indeed similar, at least at a relative general level. Many governments try to stimulate economic growth, reduce unemployment, keep inflation low, fight pollution and drug abuse, and minimize teenage pregnancies. Of course, the relative importance of such goals may differ, especially since there are trade-offs between some of these goals. Low inflation can increase real wages and produce high unemployment, low unemployment can lead to higher wage claims and consecutively higher inflation, high growth can go at the cost of a clean environment, etc.

Goals such as 'increasing the welfare of the nation' shared by all governments at a general level, can turn out to be quite different when a concrete policy choice has to be made. Especially when it comes to choosing instruments, policies can be quite different. Political and administrative cultures may exclude certain policy options. Some European governments may fight teenage pregnancies by making abortion and/or birth control information readily available, even at school. American culture does not allow for this. Instead, some economic advisors in the US even urge the government to reduce welfare benefits to unwed mothers. Their underlying assumption is that teenage girls make a free rational choice between getting pregnant (and cash in on welfare benefits) and not getting pregnant. If the costs of raising a child exceed welfare benefits, their cost-benefit analysis would restrain teenagers from getting pregnant. This measure of 'birth control' by cutting welfare expenditures in turn would be unacceptable in Europe.

Such different measures produce different outcomes. Teenage pregnancies are much more common in the US than in most European countries. However, it is also imaginable that different instruments produce nevertheless similar results. Conversely, similar instruments may produce different results. Some countries may be more successful with comparable instruments than

others. Thus unemployment rates may still differ substantially, although different governments try to reduce it by the same budget measures.

Policy analyses have shown that convergence can be different regarding policy and their output. Vogel (1986) argued that although British and American governments chose quite different instruments and followed different styles in environmental policy, nevertheless the outcome in terms of reduction of pollution was more or less the same. Waltman and Studlar (1987) found a convergence on policy goals, but differences on policy content for a variety of industrial, social, and health policy areas. Bennett (1988) demonstrated a convergence on content (basic principles) of data protection policy, but a divergence in chosen policy instruments. In our study, Thomasberger shows that monetary policies of European countries converge, but that, nevertheless, policy outcomes in terms of interest and inflation rates differ substantially. Heritier, by contrast, demonstrates that environmental policies of Britain and Germany differ but converge towards higher levels of environmental protection outcome.

The pressures of internationalization

Policies do not change easily, as policy preferences are often rooted in systems of institutions. The more policy substances, procedures or intended outcomes affect the core of such institutions and cultural values, the stronger the resistance to change will be. For the very basic policy preferences, major shocks are often required to induce change, such as war, revolution, or major economic depressions, may be required to induce change (Crozier 1964, Lehmbruch 1987).

Although not a sudden event, such as war or revolution, the ongoing and increasing economic and political internationalization could be just such a force to elicit policy change and possibly policy convergence. That it will have effects seems certain. This begs further questions: On what policies and policy choices will it have effects? How much? Towards convergence or further diversity?

And does internationalization *force* convergence? Is it a deterministic contingency? Or does it leave room for choice regarding change? Will nations that do not adapt their policies loose out in international competition and perform poorer? Is it a matter of survival of the fittest? Of adaptation or dying? These questions have a rich tradition in social science. The dichotomy between determinism and voluntarism or choice has been a major dividing line between theoretical schools, between functionalism and marxism on the one hand and symbolic interactionism and phenomenology on the other. Social darwinism was one of the early approaches in sociology, it is the dominant paradigm in economics, and it has recently reemerged in population

ecology in organizational sociology. In their generality these basic questions cannot really be answered.

The answers depend among others on what is meant by internationalization. The concept is often used as synonymous with several others, notably interdependence, globalization, and integration. These represent however different phenomena, which will affect policy diversity in different ways. It will be useful to disentangle them here.

Internationalization is a *process* that refers to the increase of contact between nations, to the transcending of national borders. If it concerns nations all over the globe, one speaks of globalization. However, this term is also used metaphorically, to indicate a worldwide orientation of individuals - global man - or of cities - global cities. This contact can be economic, political, scientific, technological, social, or cultural. Economic internationalization means more economic contact between countries, that is, greater cross-border flows of information, financial capital, physical capital (production plants), labour, goods and services. Political internationalization implies more political contact between nations, political ideas cross borders, politicians look over the border, etc. Countries link their political and military fate to that of others, and, adjust their policies to those of their neighbors. Internationalization, which is a process, may result from and increase interdependence, which is a *state of being*.

Interdependence does not necessarily require or produce similarity. On the contrary. Man and woman are interdependent, as are employer and employee, precisely because they are dissimilar. Interdependence between nations may even produce greater differences, as nations specialize in a worldwide division of labour. However, interdependence may also enhance competition between nations in similar fields, and this competition may force them to act similarly or become more alike.

Integration is somewhat different from internationalization. Integration refers, given the latin term from which it stems (latin: integrare, produce a unity), to *a process* that aims at producing a unit. If this unit is a supranational one, nation-states partake in it. If it is a nation, regions partake in it. It can be an economic unit, such as a customs union, a common market, or a common currency area. An economic unit which is worldwide is a global unit. The supranational unit can also be political, then we speak of political integration (and most economic units have the form of a political and legal unit). Countries can agree, in formal treaties, to establish supra-national political units, such as the NATO or the EU, in which they partake and to which they may surrender part of their sovereignty. The process of integration usually has a planned beginning, but the outcome may be uncertain, go its own way. As Philippe Schmitter once put it in a talk, 'integration is like a bicycle, once you have started, you cannot stop it anymore. To stop it would be similar to trying to stand still on a bicycle'.

Integration can enhance differences, as Member States of the larger unit could develop a division of labour among themselves. It can however also produce similarities, as the members agree to certain common regulations with which they have to comply and to which they have to adjust their specific policies.

Economic pressures on national policies: internationalization and economic integration

Economic pressures on national policies stem from increased economic internationalization, and from more advanced economic integration.

Economic internationalization is increasing, due to the higher mobility of factors of production and goods. The breakdown of barriers to mobility, such as national regulations, allows financial capital to cross borders at an almost unlimited speed. The mere push of a button on a computer can transfer financial capital all over the globe. Physical capital is less mobile, as it is more tied to sales markets, proximity to raw materials markets, and the availability of qualified labour and transport facilities. Nevertheless, the number of multinational and transnational enterprises and the speed with which firms change their location has also increased over the time. Bellak's contribution shows that Foreign Direct Investment - an indicator of physical capital mobility - has increased dramatically since the 1980s.

Labour mobility - the amount and speed with which workers move across national borders - has also increased, though to a still lesser degree. It certainly is much lower than capital mobility. Furthermore, labour mobility is not a homogenous flow across countries. It is institutionally, historically and culturally embedded. Whatever there is in terms of labour mobility follows specific patterns. Sassen's contribution shows that labour mobility takes place within specific segments of the labour market, is restricted to specific historical phases, and occurs typically between a limited set of countries and thus affects some countries more than others. That is, it creates divergence. Furthermore, migration streams between countries are often created by transnational and multinational corporations (MNCs). They create networks. People in the host country come to know the culture and opportunities of the MNCs country of origin and come to consider it as a potential migration country. Bridges between the two countries are built. Interestingly enough, immigrants originate from countries which receive foreign aid, investment, and exports of consumer goods. Measures commonly thought to deter immigration seem to have had precisely the opposite effect.

Trade of goods and services between countries has also increased very much. As Bellak shows in this volume, international trade currently amounts to 4.5 trillion USD. However, about two-thirds of world trade is managed trade and intrafirm trade by multinational and transnational enterprises.

Beside economic internationalization *economic integration*, that is, the cooperation of nation-states in larger units, may put pressure on national economic policies. Economic integration facilitates internationalization processes and can occur to various degrees. A rather limited form is a free trade area, such as the EFTA, where trade restrictions and tariffs are removed only within the union. A customs union goes further, establishing a common unique tariff for countries outside the union. Step three is a common market with a common competition policy. A still higher level of integration is an economic union which demolishes borders for labour, capital, goods, and services and establishes a common economic policy at a supranational level. The highest stage of integration is the planned monetary union, step three of the Delors-plan. This entails the abandoning of national currencies. It is explicitly made conditional upon the convergence of budget deficits, debt-output ratios, interest rates and inflation rates, the so-called Maastricht criteria. Here convergence becomes a precondition for integration, a reverse of the normal pattern. However, the fixing of these criteria produces political pressure to realize such convergence through policy measures.

Economic pressures and state competition

Will these common pressures of economic internationalization and integration lead to more similar economic policies and policy outcomes? Most countries undergo the pressures of these increases in flows of capital, labour, and goods. Through these flows they come more in contact with each other and have to compete for the same pool of production factors, goods, and markets. They are under pressure to attract or keep capital, labour, and markets for their goods and services. As a large share of international trade takes place within multinational companies, countries are also under pressure to compete for the location of such enterprises. Their competitive position in the world economy will depend in large part on their economic policies and policy outcomes. Do they have a secure currency, low inflation, a good infrastructure of transport and communications, pleasant living conditions, low costs of living, high wages (to attract labour) or low wages (to attract capital), qualified labour, educational institutions, research and development facilities, attractive tax regimes, few regulations that bother industry, and whatever else goes in the making of the competitive position of nations? As international competition increases, so will the pressure to compete with other nation-states. Nations will have to adjust their economic policies and the chance is great that these policies will become more similar, especially in their substance. Countries may try to offer similar infrastructures, tax regimes, inflation rates, wage levels, and regulations. Economics predicts that

increased factor mobility should bring about a levelling of economic indicators, such as prices, inflation, unemployment, and profit rates.

Insofar as convergence could take place, there are contrasting hypotheses as to at what level this will happen. First there is the *thesis* that internationalization will produce a *'race to the bottom'*, i.e. a convergence at a low level of regulation. A competing one is that of convergence at a high level of protective regulation, a *'race to the top'*. It will be discussed in the next section.

The more well-known thesis of the 'race to the bottom' implies that countries will try to surpass each other with lower wage levels, lower costs of social security, and less regulatory restrictions to business. Conservatives saw this as the great attraction of the European Common Market. Former British prime-minister Thatcher called it the 'greatest deregulation operation in history'. The financial speaker of the social democrats in the Austrian parliament, Ewald Nowotny, concurred: 'Obviously, this is a race to the bottom. And obviously the one wins this race who is more mobile, better informed or also more ruthless. Hence it is likely that this will be capital (notably financial capital) rather than labour, the large enterprise rather than the small, and actors with low social and ecological morals rather than responsible businessmen.' (translated from Nowotny in *Der Standard*, November 1994)

There are however a number of qualifications to this theory of social dumping. First a specific one, as to economic integration. Formal integration as in the European Union, does not immediately become economic reality. That what exists de jure, does not immediately also exist de facto. The legal establishment of the 'four freedoms' does not automatically create high factor and product mobility across borders.

Mobility is in many cases still limited. Capital may flow relatively easy, when regulatory restrictions are removed. But mobility of goods has limits. Some products are more mobile than others. For construction products, perishable goods, and human services it is often difficult to separate the location of production from the location of consumption. This seriously restricts the mobility of these goods and services.

A study by the Dutch Social Economic Council (SER-COB 1994) found that physical capital mobility was even low in official European border regions (Euregio's) between Germany and the Netherlands, where the state authorities cooperate across borders and try to stimulate similar cooperation in private business. The survey showed that Dutch businessmen look hardly over the border for business (Van Houtum en Van Kerkhoff 1994, Corvers and Dankbaar 1994). Problems with language, legal regimes, differences in mentality and product preference - coupled with product specialization of firms - seem to limit mobility.

Still more limited is the mobility of labour, except for some very specific, very high and very low skilled jobs. Even in the United States, with a more homogeneous working population, which speaks basically the same language, labour mobility is not unlimited. Wage and unemployment rates still differ significantly and do not automatically trigger 'compensating' flows of labour (Dye 1991). Unemployment rates by state varied in 1991 between 10.5 per cent in West Virginia and 2.7 per cent in Nebraska. In Europe, the barriers to migration are much higher. Labour mobility in Europe is about one-third of the US. Unemployment rates in the European Union differ between 23.8 per cent for Spain and 6.0 per cent for Portugal (OECD 1993). Another indication is the low intercountry mobility of self-employed craftsmen, in principle some of the more mobile workers. Between 1966 and 1987, 807,275 craft businesses were founded in Germany, but only 2,754 of them were by artisans from other Member States, that is less than 0.5 per cent of all new establishments (Grote 1992: 162). Most of these were temporary businesses by artisans from across the border. Of the 495 artisans from other Member States registered with the Handwerk Chambers in 1991, 86 per cent came from the neighboring countries Denmark and the Netherlands, and 91 per cent of the permissions concerned building trades, where mobility is relatively high, but often also temporary (Heck 1993: 14). The number of authorizations has been rather stable over the last twenty-seven years (Heck 1993: 14).

A second qualification to the theory of a race to the bottom is that not all countries are equally affected by the pressures of internationalization. As indicated, labour mobility occurs typically between specific supplying and receiving countries. Furthermore, the dependence of the various nation-states on foreign trade varies. The degree of openness of the economy to world markets varies between ten per cent of exports to GDP for the US, to about sixty percent for some European countries like the Netherlands. Hence countries are not all affected to the same degree. This could also vary the pressure for convergence.

Thirdly, wage levels, regulations and state expenditures are not as malleable as presumed. They serve specific purposes and interests, such as labour and environmental protection, which cannot be neglected for electoral reasons. What is more, they are often also in the interest of business. It is not quite so clear what makes up a good competitive position in world markets. There is often a trade-off between facilities. Lower wages may attract foreign enterprises, however, the resultant lower qualification levels of personnel may keep them away. There is a similar trade-off between lower taxes and less infrastructural facilities, or between less environmental regulation and a worse image with consumers. As the contribution by Mosley empirically shows, if all aspects that are favourable for business are taken into account, it is not so clear anymore, which country is the most attractive for business' locations.

Internationalization goes very often hand in hand with political and legal integration. The breakdown of barriers to trade and factor mobility between countries is mostly the result of political intervention: the conclusion of international treaties, such as the GATT, the NAFTA and the EU. These treaties, and their later elaborations and additions, also contain a number of rules of the game for international economic relations. First of all to steer and facilitate free international trade, such as anti-cartel, anti-trust, and anti-dumping provisions. Secondly, more and more they will also contain compensations - in the form of supranational regulations - for the breakdown of non-tariff trade barriers. This is in particular the case in the European Union. European law has and is striking down national regulations which are considered to function as non-tariff barriers to trade. As more and more national regulations get invalidated, pressure has been mounting in the Member States to replace such national regulations with supranational ones. This has led to a veritable flood of regulations and directives from the European Commission. Political conflict is over the level of protection of this legislation. Should it be high or low? Countries which themselves have high levels of protection press for adoption of their norms by the EU. Such political integration - and political competition between Member States within this supranational unit - could fuel a counterhypothesis, that of a 'race to the top', rather than to the bottom, i.e. to a convergence at a high level of protective regulation.

The effects of political integration may still go further. In the case of the European Union, integration entails the creation or emergence of new supranational state institutions, a legal system, a High Court, a system of government, administrative structures and traditions, and so on. This is likely to induce considerable institutional change at the national level. Member States loose part of their sovereignty. They become subject to EU-law and to Decisions of the Court and the Commission. Countries which never before knew judicial review (the assessment of the constitutionality of legislation by a constitutional court), like Britain and the Netherlands, are being confronted with it now. Vertical policy integration and cooperation becomes a necessity as EU-executive agencies have to work closely together with national agencies. The latter have to implement directives from Brussels. State formation has always been closely linked with institution building. Most national state institutions date back to the orginal phases of state formation. Something similar could happen now with supranational state building. And that may also affect national policies in substance, form, and outcomes.

European integration is in particular legal integration. It has considerable consequences for national legal systems. European law gives nation-states much to do. More than seventy per cent of all laws that passed the Dutch

parliament in 1992 were implementations of EU regulations and directives. Nevertheless, even legal integration does not affect all Member States equally. As Bogdandy (1993: 55) points out, numerous requirements of the Single European Act of 1986 and of the Treaty on European Union (Maastricht Treaty) of 1992 allow for differentiated integration in many subfields. A 'Europe of several speeds' could be the outcome, according to Bogdandy. Thus there may turn out to be political, economic, and social constraints to legal integration. That makes it more uncertain what the effects regarding convergence will be.

Given the competing hypotheses as to the effects of economic internationalization on national policies, these should be subject to investigation. That is what the authors in this volume do. Will there be a 'race to the bottom' or not? Or will there be a 'race to the top'?

Mechanisms of convergence

The third question related to convergence, mentioned in section 2, is the 'how' question. If internationalization does lead to policy convergence, how does this happen? How is the relation between these variables mediated? What are the processes, mechanisms or channels by which convergence takes place?

International competition and supranational law are forces that exert pressure on policies. But these forces do not unambiguously dictate what policy goals and instruments should be chosen. There is no simple determinism here. Perceptions and choices of policymakers are in between. Policymakers have to perceive that they are in competition with other nations, they have to estimate the seriousness of this threat. They have to perceive what the competitive advantages of their competitors are. Less regulations? But which ones specifically? Which are considered by international business to be such a serious hindrance that it would prevent them from investing in this country? Policymakers furthermore have to identify their own competitive advantages, how strong they are, and whether, why, and in which direction they have to be changed. Where supranational regulations are concerned, interpretations of these may vary, a.o. because the wording may mean different things to policymakers socialized in different legal systems and different administrative and political environments. Differences in interpretation may not only concern the substance of the regulation, but also the importance, the pressing nature of it. Furthermore, standards of what effective implementation of such supranational regulations is, may differ. Policymakers also have to appraise the possibilities for such change, whether the institutioanl surroundings allow for that, how much opposition there will be to such change. They will have to acquire knowledge about how the policy goals, e.g. lower inflation or less crime, can best be realized, what the causal relations between goals,

instruments, and outcomes are. There are usually significant uncertainties involved here or there is disagreement in politics and/or in science about what the most effective and efficient means are to realize the policy goals.

All these perceptions, estimations, ambiguities, and limited knowledge produce uncertainties and room for choice. The pressures for convergence do not automatically dictate the policies. The perceptions and choices are guided by a variety of factors: ideological preferences of policymakers, research and information facilities they may have at their disposal, the structure of decisionmaking, e.g. monocratic or collegiate, etc. As far as pressures of internationalization are concerned, the international environment may also influence the choices, such as examples from abroad, the clearness of success of competing nations, or information acquired from foreign policymakers.

Bennett (1991) distinguished four mechanisms by which policymakers from different nations may influence each other: emulation, elite networking or policy communities, harmonization, and penetration. Harmonization is not really a channel through which information and pressures pass. It is more or less the same as the creation of European law, what we consider a 'force' for convergence, rather than a channel. The other three are useful distinctions.

With *emulation* Bennett means imitation.

> The central characteristic of emulation is the utilization of evidence about a programme or programmes from overseas and a drawing of lessons from that experience. ... In the emulation of policy goals, the policy of another country is employed as an exemplar or model which is then adapted and, one would hope, improved upon. (1991: 221).

Such emulation takes place through contact between policymakers of different nations. Political integration will certainly facilitate such contacts, as civil servants from different nations are often involved in the preparation of policy at the supranational level. *Elite networking* involves 'a transnational group of actors sharing motivation, expertise, and information about a common problem', whose members 'then go forth to "spread the word" to their respective societies and governments' (1991: 224-5). While emulation, imitation, learning, and elite networking are voluntary and cooperative processes, Bennett's last category, *penetration*, involves force by external actors. Multinational companies may function - like transnational elites of policymakers - as bridges for information and expertise, but may in addition put pressure upon national governments to adjust their national policies to that of others. They may want similar technical and safety standards for their products, or they may challenge protectionist measures of other or their own states in court. These external actors may even 'participate in the selection of goals, the allocation of costs, and the mobilization of resources and

capabilities in the domestic policy process' (Siegel and Weinberg 1977: 67, quoted in Bennett 1991: 227).

Bennett's (1991) typology seems interesting for further research. We do think however that emulation should be more clearly distinguished from learning (one can learn also from another's mistakes and do the opposite of imitating) and that harmonization is not a proper channel. Since most papers of this volume do not provide sufficient information on Bennett's channels, we distinguish for the sake of comparison not between such channels but between the following mechanisms of convergence: (a) market force, (b) imitation, and (c) enforcement. Countries may be mutually influenced through exchange, trade, mobility of production factors, i.e. market forces. Alternatively, they may imitate each other. Thirdly, policy change may be the result of coercion, a variety on Bennett's concept of penetration, but including also coercion by other nation-states. This not infrequently practiced process is somewhat different from enforcement by third actors such as multinationals.

Differences in convergence by policy fields

The balance of forces pro and contra convergence is likely to differ between policy fields. Just as the degree of policy diversity may differ between fields, so will their susceptibility to change. Some policy fields will be more affected by international competition or by supranational regulation than others. The resistance to change will also vary. Policy fields differ in their degree of institutionalization. And one may hypothesize that the stronger the institutionalization, the more persistent policy styles and networks should be. In 'old' policy fields, e.g. agriculture, with long standing regulations, well fixed in law, with old administrative traditions, and established organized interests, change will be more difficult, than in 'newer' ones, such as environmental policy, where regulations are still more flexible, policy networks more open, and state agencies more open to learning (Naßmacher 1991: 205 ff). Because of such expected differences between policy fields we have selected a variety of policy fields in this study, to investigate the effects of internationalization.

There are many typologies of policy fields, such as Lowi's (1964) famous distinction between distributive, redistributive, and regulatory policies. This is somewhat similar to the older, and for economic policy more useful typology of Musgrave (1959), who distinguishes between policies for allocation/regulation, distribution, and stabilization. These correspond to the three main functions, Musgrave attributed to the public sector: allocation, distribution, and stabilization.

The allocative or regulatory function refers to the correction of market failures. The state attempts to correct the market allocation of factors and goods, either indirectly, by influencing relative prices (e.g. through subsidies)

or directly, through administrative regulations, such as price controls or quality standards. Where public goods and positive externalities would not be supplied by the market at all or not in sufficient amounts, the state reallocates resources into their production. Where markets would produce negative externalities, such as those affecting the environment, the state reallocates resources into the avoidance of their production. Every allocative correction of market results has, as a 'by-product', also distributional effects, but they are not the main concern of regulatory state intervention. Chapters dealing with the allocative function of the state are those by Bellak on industrial policy, Sassen on migration policy, Keller on labour relations, Eichener on workplace safety and health regulations, and Heritier and Kelemen on environmental policy.

The second role of the state is distribution. Even if market allocation produces optimal results, the outcome can be inacceptable from a moral or social point of view. Poverty and great social inequalities may be the result. The state tries to influence income distribution first of all through the budget, i.e. taxes and government expenditures. Wage bargaining policy is not only an allocative but also an important distributional instrument (since it determines the distribution of income between labour and capital), as is social security policy. The latter determines among others the distribution between the younger and the older generation. Kitzmantel and Moser deal with tax policy, Mosley, and Hemerijck and Bakker discuss welfare state policies, and Engbersen anti-poverty regimes.

The allocative function of the state - though highly contested in degree - has been recognized as long as there is economic theory. Adam Smith listed already a long set of allocative state tasks. Distribution became an issue only in the nineteenth century, notably in the work of Karl Marx. Recognition of a role of the state in stabilizing the economy is a more recent phenomenon. Keynes was the first to claim for systematic state intervention to dampen business cycles and to prevent unemployment. (Though mercantilist state spending policy was certainly in line with some of his suggestions.) The primary means of intervention should be fiscal and monetary policy. During boom periods the state should be restrictive, by tightening the budget and increasing interest rates. During recession it should increase budget deficits and lower interest rates to stimulate the economy. Thomasberger on monetary policy and Unger on budget policy analyze the state's role in stabilizing the economy.

One would expect that internationalization affects these three types of economic policy differently. An increase in factor mobility should reduce the options of those policies that are dependent on the most mobile factor - capital - more than the options of other policy fields. Thus, stabilization policy should be more affected by pressures of internationalization and, therefore, should show some convergence among countries. By contrast, distributive and

allocative policies are less directly affected by this most mobile factor and more embedded in national culture, law and public administration. However, regulatory policies are more affected by European regulations, which aim at unifying non-tariff trade barriers such as technical norms and standards. Economic and legal forces should thus affect different policy areas to different degrees.

Main findings of the articles

The book starts with the pressures of capital mobility and the policy fields most sensitive to economic internationalization, stabilization policies. Thomasberger deals with monetary policy, whose options suffer most drastically from the liberalization of financial markets. He shows that increased capital mobility does indeed tie the hands of central banks who are now kept busy with stabilizing the exchange rate in the light of increased speculative flows. There is no room for maneuver left for stabilizing the domestic economy. But surprisingly enough, and unlike what is usually predicted by mainstream economics, this does not lead to a convergence of inflation and interest rates, as is summarized in Table 1.1. The reason for this is that monetary variables are no longer determined by (converging) monetary policies, but by fiscal and incomes policy, which differ substantially between countries. High budget deficits and high wages can push prices up, while the central bank cannot follow an anti-inflationary domestic policy any more.

The liberalization of capital markets in Europe puts pressure not only on monetary policies but also on fiscal policies, the topic of chapter three. In the European Monetary System (EMS) high and increasing budget deficits would be 'punished' by the threat of devaluation of the currency by exchange rate markets. In a Currency Union, where devaluation cannot occur anymore because there is a single currency, these deficits would be 'punished' by higher interest rates charged by capital markets. As a consequence, budget deficits would become more similar across nations. This convergence could be countered by some countries trying to free ride in the Currency Union by expanding their deficit in the hope that the Union will 'bail them out' in spite of the politically declared 'no bail out clause'. Some room for maneuver for fiscal policy will thus be left. There will be definitely more room than for monetary policy. But even if budget deficits and fiscal policies become more similar (converge), institutional differences in wage bargaining will persist. Setting different wages and influencing productivity and competitiveness through institutional settings will partly replace the stabilizing role of fiscal policy for the economy. Given the Maastricht criteria, this can result in a convergence of monetary variables and a divergence of real variables like productivity, employment and output. Thus Unger, who discusses fiscal

policy, argues that both tendencies of convergence and divergence occur at the same time.

It seems that, although internationalization restricts stabilization policy, other policy areas, such as incomes policy, become more important for the outcome. Thus possible trends towards convergence are offset by country specific, divergent reactions.

Bellak and Sassen analyze the threats of physical capital mobility to national policies and discuss the effects on the two types of allocative policies that directly affect the main factors of production. Bellak's topic is industrial policy, which affects the allocation and mobility of physical capital, Sassen discusses migration policy, which affects labour.

Bellak stresses the importance of multinational enterprises for the mobility of financial and physical capital, as well as for trade. Two-thirds of international trade is trade managed by and within multinationals. Furthermore, Foreign Direct Investment carried out by multinational enterprises has increased more than international trade. The increased importance of multinational and transnational firms reduces the room for maneuver of national governments in their industrial policies. National industrial policies cover less of the nation's firms, since a large share of their activities occur abroad. Conversely, national policies also affect foreign firms. Hence they are constrained by other countries' industrial policies influencing these firms' behaviour. Furthermore multinational enterprises could also lobby for the optimum conditions they experience in one of the countries, thus using the relocation threat to force national policies to converge. The competition between national governments for the location of such multinational firms could produce a convergence of industrial policies. However, Bellak sees divergence of national industrial policies as a more likely outcome. Multinational enterprises do not have homogenous interests, governments may compete for the location of enterprises by means of specialization, by creating a unique environment for specific industries, necessitating different industrial policy measures, etc. Hence industrial policy will continue to differ, despite increases in physical capital mobility.

Sassen also analyzes multinational companies but as 'information channels' for migration flows. She shows that their activity produces labour migration and influences its patterns. Her contribution gives further support to the imbalance between capital and labour mobility, also mentioned by Thomasberger and Unger. She argues that there is convergence in removing borders for flows of capital, information and goods, and a convergence in maintaining borders to flows of immigrants (and refugees). On the one hand, labour mobility is socially produced by transnational enterprises and thus not a migration influx suffered by the labour receiving country. On the other hand, labour mobility is also politically steered. The globalization process leads to

converging anti-migration policies across nations and gives labour and capital an uneven chance to 'cross the globe'.

The second part of the book deals with distributive policies. Kitzmantel and Moser argue that tax policy - a major economic instrument of redistribution - is substantially influenced by EU legal harmonization as well as by the high mobility of financial capital, which enhances tax competition between nations. Convergence is hence most apparent regarding this most mobile and most price-sensitive resource, financial capital. Thus in most countries foreign operators are typically exempted from income taxation whilst domestic operators are not. Tax competition has been more important than joint action. Concerted measures have been mainly limited to harmonizing indirect taxes (VAT, excise duties), whereas direct taxation (company taxes, personal income taxes) has remained largely a subject of national initiatives. Notwithstanding some tendencies towards convergence, the authors do not expect a convergence to the bottom, to very low tax rates, since nations have financing needs that will prevent them from lowering taxes so far. Furthermore, considerable discrepancies between national tax systems still exist, both with respect to tax rates and tax exemptions. Since the mobile factors cannot be taxed further due to international tax competition, the tax burden will be shifted more and more towards the immobile factor, in particular labour.

All of the papers, so far, focus on the impact of financial market liberalization and the increasing importance of international business. Economic policies - which depend on the mobile factors financial and physical capital - loose room for maneuver. This development goes at the cost of the most immobile factor - labour. Sassen shows, that labour is prevented to cross borders while capital can move freely, Kitzmantel and Moser argue that labour is taxed higher, while capital can escape taxation to a large extent. Thomasberger and Unger maintain that due to financial market liberalization, monetary and fiscal authorities cannot control the internal economy anymore and that this can lead to increased unemployment. The threat of firms to relocate their business, puts governments under pressure. Nevertheless, these common contingencies are accompanied by quite different developments in different countries. The principle of subsidiarity within the EU gives some room for maneuver back to Member States. In the area of tax policies, company taxes and personal income taxes are delegated to the Member States by the EU. The tax structure is and will thus be quite different in EU member countries. The outcome of these policies will depend highly on institutional settings, differing among countries.

Kitzmantel and Moser draw quite a dark picture of the future of welfare states. Internationalization is likely to produce a 'convergence to the worse', though not a 'race to the bottom'. Hemerijck and Bakker give some theoretical support to the empirical analysis of Kitzmantel and Moser. Internationalization does not only affect economic variables but also the way

in which people think and perceive the future. Thus there has been an international debate on the practice and prospects of the welfare state, which has influenced policymakers in the various countries. The emphasis in the debate has varied over time, including the perception among theoreticians and politicians as to the convergence or divergence of welfare states. For a while, convergence was expected, and such authors have focussed on determining variables such as internationalization and technical determinism. More recently, divergence has been stressed, and causes identified in different historical paths and institutional differences among countries.

Engbersen elaborates on the concept of welfare states in his study of poverty regimes in Europe. He shows that poverty regimes in Britain, France, and the Netherlands differ, and so do their outcomes, the 'life chances' of the European poor. The 'residual welfare state' in Britain produces material deprivation including lack of food and clothing, which would be unthinkable in the Dutch welfare state. In this well-developed welfare state, poverty means not so much financial deprivation as well as social isolation, structural exclusion, alienation of the poor from central societal institutions, and permanent dependence on the welfare state. The author expects and fears convergence towards a 'residual welfare state'. A continuation of the actual trend of lowering welfare benefits could bring about greater social inequality and social problems, such as anomie, in many European nations.

Mosley analyzes national regimes of workers' protection in Europe and argues that economic and political integration is unlikely to result in 'social dumping', but neither in 'upward' convergence through high standards of social protection of a European authority. While some EU countries have the competitive advantage of low labour costs (the periphery), others have the competitive advantage of higher welfare facilities (the core). Welfare state arrangements are not always a burden, but can create competitive advantages due to e.g. better training and health of workers. Regulations and welfare programmes differ among European countries, but 'any hierarchy in the overall "burden" on enterprises is difficult to discern'. Nevertheless, center-core problems related to wage differentials could become important in certain sectors, such as labour intensive industries. Even though social dumping does not occur, social benefits are on the defensive in many EU-countries. Mosley attributes this 'convergence towards the worse' to ideological trends and not to internationalization and European integration. Some convergence could emerge in the core countries, while divergence may appear in the core-periphery relation.

In summary, social policies, in casu welfare policy in general (Hemerijck and Bakker), protection of workers (Mosley), and poverty regimes (Engbersen) do not converge either. Convergence and divergence occur simultaneously in distribution policies as well.

Regulatory or allocative policies are the subject of the third part of the book. Keller analyzes labour regulation policies. He finds some convergence to the bottom, towards minimal standards, but also differentiation at the firm, sectoral and national level. He agrees with Engbersen in that he neither expects a well-developed European welfare state. He argues that a European social policy - especially in the field of labour relations - is unlikely. A Europeanization of labour relations is not to be expected, given the divergent interests and different organizational structures of trade unions. Furthermore, the strengthening of the position of employers makes bargaining above the company level less attractive to them. Interest representation and participation at the company and factory level in transnational enterprises - though rare and difficult - is nevertheless easier to imagine than a centralized European system of collective bargaining.

Eichener studies workplace health and safety standards and neither perceives a convergence to the bottom. He argues that the fear of some countries that their high levels of protection would be undercut by social and ecological dumping is unjustified. Such expectations were based on political integration theories which analyzed European policymaking primarily as intergovernmental bargaining, which would only lead to lowest common denominator agreements. European occupational health and safety regulation, however, provides a surprisingly high level of protection and develops even innovative approaches. This is because it is the outcome of interactions among complex configurations of actors, including not only national governments (as in intergovernmental bargaining theories) but also national interest groups and European actors, particularly the European Commission. The latter's institutional self-interest is an important factor explaining the innovativeness of health and safety regulation.

Héritier analyzes clean air policies in Europe. Air pollution is a policy problem which ideal-typically represents 'international interdependence'. Firstly, as atmospheric pollution transgresses national boundaries, it cannot effectively be dealt with within the territorial boundaries of one state. States which suffer from pollution (and from international treaties, designed to reduce the problem) will exert pressure on other states. Secondly, since emission regulation affects the competitive position of the regulated industries in an integrated market, harmonization is a prime concern especially of the high-level regulation countries. Therefore, environmental policymaking has become increasingly a matter for European authorities, and for mutual influence between national and European agencies. As Mosley and Eichener, Héritier neither finds a race to the bottom. But whereas Eichener stresses the role of the European Commission in maintaining or creating a high level of protection, Héritier finds the cause in policy competition between Member States. Countries try to stay ahead of EU-regulations and regulatory intentions in their national policies. They try to assume a leadership role to save on

costs of harmonizing national legislation with EU-legislation. But once they have installed new regulations they tend to stick to them and become 'laggards' instead of 'leaders'. Upwards convergence takes thus place in a kind of catching up and forging ahead process. Nevertheless, policy differences persist, because of different geographic and geopolitical conditions which influence the concern with air pollution, of different political structures which give environmental groups and issues varying access to the political arena, of different administrative structures and traditions, which influence motives, concerns, and priorities of politicians and civil servants, and of different legal systems which prefer either voluntary self-regulation or detailed, mandatory regulations. These differences produce different perceptions and approaches to the problem of air pollution, which seem to be remarkably persistent.

Kelemen does not find a 'race to the bottom' for environmental policy either, but is more pessimistic about a race to the top, since EU-countries with low environmental standards get delays for adjustments. He takes as his point of departure the potential conflicts between European competition and environmental policy. This gives the European Court of Justice leeway in deciding which should prevail over which. Kelemen shows that Decisions of the Court and the Commission have tended to advance environmental protection but that the Council, where intergovernmental bargaining between high and low standard countries takes place, tends to retard the development of EU environmental policy. The Treaties agreed upon by the Member States can hence be read as steps backward, which should correct for steps forward, made by the Court.

Van Waarden does not write about a specific policy field. While the other authors discuss policy content or substance, he focusses on national policy style, which should be found in different policy fields within one nation. He argues that countries differ in their dominant styles of policy formation and implementation and describes the typical styles of the US, Britain, France, Germany, and the Netherlands. Furthermore he emphasizes that these differences are not incidental nor accidental, but structural, in that they are strongly rooted in national state institutions, such as legal systems and structures and traditions of the public administration. This makes these policy styles rather resistant to change, whether change towards convergence or further divergence. Even the pressures of internationalization will be resisted, which is not to say that change could not take place of course. However, as long as implementation styles are different between Member States, this will also affect the degree of real integration. The differences in national styles imply that European policy may be implemented differently - and unequally - in different countries - as long as EU-policies are implemented by national state agencies.

Conclusion

Most of our chapters find tendencies towards convergence as well as divergence. The majority expect net divergence, perhaps a disappointing conclusion for proponents of convergence theory. In sofar as authors find some convergence, it is not necessarily convergence towards the bottom. Authors such as Eichener and Héritier give hope that convergence in environmental regulation and the regulation of product safety standards might be for the better.

Forces towards convergence and towards divergence work at the same time. Sometimes the ones are stronger, sometimes the others. Phases of convergence are followed by periods of divergence. Peace follows war, the Post-fordist period of specialization and selective tastes follows the Fordist period of mass production and homogenous tastes. Convergence wins over divergence and vice versa like a pendulum swing in history.

Economic policies which depend on the most mobile factors financial and physical capital loose room for maneuver due to internationalization. Nevertheless, we observe even in monetary and fiscal policy different policies and policy outcomes between countries. The more so in policies less dependent on capital mobility. Asymmetries of factor mobilities (by nature, or politically and socially produced) and institutional differences make for persistence of policy differences.

Financial market liberalization, multinational firm's threat of relocation, the spread of political ideologies, and EU-harmonization laws are the main factors of internationalization affecting national economic policies. Of these, state competition for the location of firms seems to be more important for convergence than enforcement of EU-harmonization laws. And imitation of political ideology seems more important than market forces. Market forces are main channels for convergence only in monetary and migration policy. They may after all be less important that often thought. And, as some papers demonstrate, internationalization or globalization does not necessarily imply that market forces become more important. Globalization may also mean that 'hierarchies' (such as multinationals), or niches, or agglomerations gain in importance. And these factors work partly against convergence.

Table 1.1
Internationalization, convergence mechanisms and outcomes by policy fields

Policy field and author	Main pressures of internationalization affecting policy field	Mechanisms of convergence	Mechanisms of divergence	Net outcome
MONETARY POLICY (Stabilization) *Thomasberger*	Financial market liberalization (E)	Market forces, tying central banks' hands	Asymmetries of power between key currency countries and other countries, and between monetary and fiscal policy makers	Convergence to policy impotence but divergence in outomces (interest rates and inflation)
FISCAL POLICY (Stabilization) *Unger*	Political ideology and Maastricht convergence criteria (PL)	Imitation of political ideology, legal enforcement of Maastricht	Problems of collective action-free riding, institutional differences of state spending	Range of options, convergence not likely
INDUSTRIAL POLICY (Allocation) *Bellak*	Multinational firms (E)	State competition of industrial policy for the location of multinational firms	Political choice of actors for selective industrial policy, creation of niches by using comparative advantage over other countries	Divergence of industrial policy strategies more likely
MIGRATION POLICY (Allocation) *Sassen*	Multinational firms (E)	Market forces and trade	Historical paths, culture and networks, politically-induced unequal chances for labour and capital to cross borders	Convergence and divergence
TAX POLICY (Distribution) *Kitzmantel and Moser*	Financial market liberalization and multi-national firms (E)	State competition of tax policies in order to attract capital	Institutional differences of tax systems, disparities in the mobility of capital and labour	Convergence towards the worse, some dididifferences remain
WELFARE POLICY (Distribution) *Hemerijck and Bakker*	Diffusion of technology, global interdependence of risks (E)	Imitation of technology evolutionary enlightenment of actors	Path dependence of institutions, strategic options of actors	Both convergence and divergence

Policy field and author	Main pressures of internationalization affecting policy field	Mechanisms of convergence	Mechanisms of divergence	Net outcome
SOCIAL PROTECTION POLICY (Distribution) *Mosley*	Political ideology (PL)	Imitation of ideas	Institutional differences, center-periphery problems	No social dumping, center-periphery divergence
ANTIPOVERTY POLICY (Distribution) *Engbersen*	Political ideology, financial problems of the welfare state (PL)	Imitation of ideas	Institutional differences in welfare state regimes	Convergence to deprivation and anomia
HEALTH AND SAFETY POLICY (Allocation) *Eichener*	EU harmonization laws (PL)	Legal enforcement	Institutional differences in implementation	No race to the bottom, converg-ence to better standards
LABOUR RELATIONS (Allocation) *Keller*	Organizational structures of capital and labour (PL)	National interests and organizational structures	Divergent national interests and disparities in the organization of capital and labour	At best, persistence of status quo due to different interests and organization
CLEAN AIR POLICY (Allocation) *Héritier*	International law and political pressure (PL)	Political pressures	National interests being more or less receptive to environmental problems	Convergence and divergence, importance of international pressures
ENVIRONMENTAL POLICY (Allocation) *Kelemen*	EU law and Court decisions (PL)	Legal enforcement	Different opinions between Council and Commission, unclear priority of competition and environmental law	Convergence towards the worse or divergence due to different interests of Court, Commission and Council
REGULATORY STYLES (Policy implementation) *Van Waarden*	EU harmonization (PL)	Legal enforcement	Institutional embeddedness of public administration, routinized behaviour	Persistence of differences due to history and institutions

Note:
PL: Political and/or legal pressure. E: Economic pressure

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