

Chinese elites. Studies of the social background and career patterns of elites must always be viewed with caution. It is hard to know what these characteristics explain about concrete political behavior. Situational variables, be they international, bureaucratic, and/or resource constraints, may effectively strip elites of choice. Social background and career patterns in the aggregate also do not tell us much about creative acts of political leadership that aim to reshape patterns of political preferences within a polity, or about the individual psychological dimensions of key leaders that may significantly influence policy making.

Nonetheless, it would be a mistake to ignore the linkage between the characteristics of elites in China today and the broader patterns of societal change. There is no doubt that the political elites have changed dramatically. Broader social trends are emerging that are closely related to the leadership transformation. We have focused on the implications of elite transformation for the issues of economic localism, elitism, and political immobilism as they signal emerging trends, some more definitely established than others. Many Chinese and foreign observers are clearly aware and worried by some of them—particularly localism—and the central leadership may take action to mitigate or reverse any of these tendencies.<sup>11</sup> We argue that, without policies to control these trends, the continuing process of elite transformation will contribute significantly to, and sometimes cause, problems of localism, elitism, and immobilism.

<sup>11</sup> Chinese leaders are becoming increasingly concerned with localism. Hainan province recently promulgated regulations barring leading city and county officials from governing their native places. See *Renmin Ribao* (overseas ed.), May 10, 1984, p. 1.

## 1992: RECASTING THE EUROPEAN BARGAIN

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UNDER the banner of "1992," the European Communities are putting in place a series of political and business bargains that will recast, if not unify, the European market. This initiative is a disjunction, a dramatic new start, rather than the fulfillment of the original effort to construct Europe. It is not merely the culmination of the integration begun in the 1950s, the "completion" of the internal market. The removal of all barriers to the movement of persons, capital, and goods among the twelve member states (the formal goal of the 1992 process) is expected to increase economies of scale and decrease transaction costs. But these one-time economic benefits do not capture the full range of purposes and consequences of 1992.<sup>1</sup> Dynamic effects will emerge in the form of restructured competition and changed expectations. Nineteen ninety-two is a vision as much as a program—a vision of Europe's place in the world. The vision is already producing a new awareness of European strengths and a seemingly sudden assertion of the will to exploit these strengths in competition with the United States and Japan. It is affecting companies as well as governments. A senior executive of Fiat recently declared, "The final goal of the European 'dream' is to transform Europe into an integrated economic continent with its specific role, weight and responsibility on the international scenario vis-à-vis the U.S. and Japan."<sup>2</sup>

But why has this process begun, or begun again, now? In this article, we propose that changes in the international structure triggered the 1992 process. More precisely, the trigger has been a real shift in the distribution of economic power resources (crudely put, relative American decline and Japanese ascent). What is just as important is that European elite perceive that the changes in the international setting require that they rethink their roles and interests in the world. The United States is no

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<sup>1</sup> See Centre for Business Strategy, *1992 Myths and Realities* (London: London Business School, 1984).

<sup>2</sup> Clemente Signorini, "The ECU, a Success Factor for the 1993 Community Market address in Madrid, January 12, 1984, p. 6.

longer the unique source of forefront technologies; in crucial electronics sectors, for example, Japanese firms lead the world. Moreover, Japanese innovations in organizing production and in manufacturing technologies mean that the United States is no longer the most attractive model of industrial development. In monetary affairs, some Europeans argue that Frankfurt and Tokyo, not Washington, are now in control. In short, shifts in relative technological, industrial, and economic capabilities are forcing Europeans to rethink their economic goals and interests as well as the means appropriate for achieving them. American coattails, they seem to have concluded, are not a safe place when the giant falters and threatens to sit down.

While economic changes have triggered the 1992 process, security issues may shape its outcomes. Europe's economic relationship with the United States has been embedded in a security bargain that is being re-evaluated. This is not the first reassessment of the alliance, but it is the first time that it takes place against the backdrop of Soviet internal reform and external overtures to dismantle the symbols of the cold war. The point is that the security ties that underpinned U.S.-European economic relations are being reconsidered in Europe. But we need not look deeply into the security issues to understand the origins of the 1992 movement, though some believe that the nuclear horsetrading at Reykjavik accelerated the 1992 process.<sup>1</sup> Eventually, the economic and security discussions will shape each other.

We hypothesize that structural change was a necessary, though not a sufficient, condition for the renewal of the European project. It was a trigger. Other factors were equally necessary and, in combination, sufficient. First, 1992 emerged because the institutions of the European Communities, especially the Commission, were able to exercise effective policy leadership. International structural shifts and a favorable domestic setting provided a motive and an opportunity for restarting the Communities. The Commission played the role of policy entrepreneur. The renewed drive for market unification can be explained only if theory takes into account the policy leadership of the Commission. To be sure, the Commission did not act alone; a transnational industry coalition also perceived the need for European-level action and supported the Commission's efforts. The Commission, aided by business, was able to mobilize a coalition of governmental elites that favored the overall objective of market unification. Member governments were receptive to the 1992 initiatives because of the domestic political context in the member states.

<sup>1</sup> Enrique Baron, *Europe 92: Le Rapt du Futur* [Europe 92: Kidnapping the future] (Paris: Editions Bernard Crotas, 1989), 88.

which had altered in ways that made European level, market-oriented initiatives viable. The most important elements of the domestic political setting were the failure of existing, purely national economic strategies, the decline (or transformation) of the left, and the presence of vigorously market-oriented governments on the right. Without these shifts, an ecobased response to the changing international structure would have been politically impossible.

We therefore propose to analyze 1992 in terms of elite bargains formulated in response to international structural change and the Commission's policy entrepreneurship. In the sections immediately following, we lay out an analytical framework and examine the origins of the 1992 movement and its constituent bargains. In a later section, we discuss the crucial bargains that are not formally part of 1992, but that will help to shape its outcomes.

The 1992 process has so far been limited to the Community institutions, the governments, and leaders of major companies. National parliaments, political parties, and trade unions have not yet become centrally involved. That will change. How and when the 1992 process will draw in other political actors (like labor) is one of the many uncertainties. Indeed, the beginnings of the broader political debate are evident in the summer of 1989. What does appear certain is that the bargains being struck in advance of 1992 will change the terms of business competition and probably those of politics as well. Moreover, as we show in the final section, events in Europe will have powerful repercussions on the international trading and financial systems.

#### EXPLAINING 1992: ALTERNATIVE APPROACHES

Analysis of the 1992 project in Western Europe could follow any one of three broad approaches, each with a different focus. One approach would look to the internal dynamics of the integration process itself, as in integration theory. A second would concentrate on the domestic politics behind the regional agreements. The third approach, for which we argue, focuses on elite bargains in response to the challenges and opportunities posed by international and domestic changes. The analysis of elite bargains incorporates the strengths of the other two approaches while avoiding their major weaknesses. Although we have no intention of elaborating three different theoretical frameworks, we will briefly describe what appear to be the chief shortcomings of the integration theory and domestic politics approaches.

Consider integration theory. Instead of a single theory, there were nu-

merous permutations, each employing different concepts and definitions.<sup>4</sup> But what distinguished integration theory from other, traditional analyses of international politics was that it assigned causal significance to the process of integration itself. Indeed, a genuine integration theory would have to posit some specific political effects stemming from the internal logic of integration. This was the contribution of neofunctionalist integration theories, which were in turn partly inspired by the functionalist theory of David Mitrany.<sup>5</sup>

Integration begins when governments perceive that certain economic policy problems cannot be solved by national means alone and agree to joint policy making in supranational institutions. Initially, therefore, experts in the supranational organization apply technical solutions to (primarily) economic problems. Integration proceeds through the "expansive logic" of spillovers. Spillovers occur when experience gained by one integrative step reveals the need for integration in functionally related areas. That is, in order to accomplish the original objectives, participants realize that they must take further integrative steps. Creating a common market, for example, might reveal the need for a regional fund to manage short-term current accounts imbalances among the members. That would constitute a spillover. In the long term, according to the formulations of Ernst Haas, as more technical functions shift to the integrated institutions, the loyalties and expectations of the populations transfer from the historical nation-states to the larger supranational entity.<sup>6</sup>

Haas and other scholars later modified these initial neofunctionalist conceptions. Nye noted that integration could progress by means of deliberate linkages that created "package deals." He also argued that functional links among tasks did not always lead to spillovers, but could have a negative impact on integration.<sup>7</sup> Others further refined the kinds of internal dynamics of integration to include "spill-back," "spill-around," and "forward linkage."<sup>8</sup> Haas recognized that spillovers could be limited

by the "autonomy of functional contexts" and that integration turned out not to be the steady, incremental process originally envisioned.<sup>9</sup>

For a number of reasons, we do not believe that integration theories are well suited for analyzing the 1992 movement. The major weaknesses were recognized by the integration theorists themselves; two of their criticisms are most relevant to the concerns of this paper. (1) The internal logic of integration cannot account for the stop-go nature of the European project. One possibility, suggested by Lindberg and Scheingold, is that the Community attained many of its objectives, which led to "the disappearance of many of the original incentives to integrate."<sup>10</sup> The question then becomes, why did the renewed drive for the single internal market emerge in the mid-1980s and why did it rapidly acquire broad support among governments and business elites? (2) Even where the Community did not meet expectations or where integration in one area pointed out problems in functionally related areas, national leaders could frequently opt for national means rather than more integration. That is, even in issue areas where the pressure for spillovers should have been strong, national means appeared sufficient and were preferred. In the 1960s, efforts to establish a common transport policy fell flat because national policies appeared adequate to interested parties.<sup>11</sup> During the 1970s, the Commission's efforts on behalf of broad Community science and technology planning (the Spinelli and Dahrendorf plans) got nowhere because governments perceived science and technology as areas in which national policies could and should be pursued. The national option always stands against the ec option and frequently wins.

An explanation rooted in the domestic politics of the various European countries is a second possible approach to explaining 1992. Certainly the shift of the socialist governments in France and Spain toward market-oriented economic policies (including privatization and deregulation) was essential for acceptance of the 1992 movement. The Thatcher government in the U.K. could also support measures that dealt primarily with reducing regulations and freeing markets. Thus, the favorable domestic political context was one of the necessary conditions that produced 1992.

<sup>9</sup> On the first point, see Ernst B. Haas, "International Integration: The European and the Universal Process," *International Organization* 15 (Autumn 1961). To explain the failure of the incremental model of integration, Haas identified the policy "turbulence" brought on by adding "post-industrial" issues to the agenda and the effects of "externalization" (significant economic interdependencies outside the region). See Haas, *The Obsolescence of Regional Integration Theory*, Institute of International Studies Research Series No. 25 (Berkeley, CA: Institute of International Studies, 1975).

<sup>10</sup> Lindberg and Scheingold (fn. 8), 21.

<sup>11</sup> *Ibid.*, 179.

<sup>4</sup> This is the problem aptly identified by Donald Puchala in "Of Blind Men, Elephants and International Integration," *Journal of Common Market Studies* 10 (March 1972), 267-84.

<sup>5</sup> David Mitrany, *A Working Peace System* (London: Royal Institute of International Affairs, 1946).

<sup>6</sup> Ernest B. Haas, *The Uniting of Europe*, 2nd ed. (Stanford, CA: Stanford University Press, 1968). It would be impossible to do justice, in this short article, to all the contributors to the development of integration theory and to the variety of integration theories. Our intent is simply to capture the central notions. We begin with the formulations of Haas because his seminal works launched neofunctionalism.

<sup>7</sup> Joseph S. Nye, Jr., *Peace in Parts: Integration and Conflict in Regional Organization* (Boston: Little, Brown, 1971).

<sup>8</sup> See Philippe C. Schmitter, "A Revised Theory of Regional Integration," *International Organization* 24 (Autumn 1970); and Leon Lindberg and Stuart A. Scheingold, *Europe's Would-be Policy* (Englewood Cliffs, NJ: Prentice-Hall, 1970).

But domestic politics cannot carry the full analytical burden, for three main reasons. (1) An argument based on domestic politics cannot answer the question, why now? Such an argument would have to account for the simultaneity of domestic developments that would induce states to act jointly. Attention to changes in the international context solves that problem. International changes posed challenges and choices to all the EC countries at the same time. (2) The political actors that figure in analyses of European domestic politics have not yet been mobilized in the 1992 project, though perhaps that is now beginning. Although the political parties and the trade unions now talk about 1992 (and will act in the future as the social dimension moves to the top of the agenda), they were not involved in the discussions and bargains that started the process. Governments (specifically, the national executives) and business elites initiated and defined 1992 and have moved it along. (3) An argument based on domestic politics cannot explain why domestic political changes produced the 1992 movement. The project did not bubble up spontaneously from the various national political contexts. On the contrary: leadership for 1992 came from outside the national settings; it came from the Commission.

The third approach to analyzing 1992 is the one we advance in this paper. It focuses on elite bargains formed in response to changes in the international structure and in the domestic political context. The postwar order of security and economic systems founded upon American leadership is beginning to evolve after a period of relative U.S. decline and Japanese ascent. These developments have led Europeans to reconsider their relations with the United States and within the European Communities.<sup>11</sup> The international and domestic situations provided a setting in which the Commission could exercise policy entrepreneurship, mobilizing a transnational coalition in favor of the unified internal market.

The 1992 movement (as well as the integration of the 1950s) can be fruitfully analyzed as a hierarchy of bargains. Political elites reach agreement on fundamental bargains embodying basic objectives; subsidiary bargains are required to implement these objectives. The fundamental bargains agreed upon for 1992 are embodied in the Single European Act and in the Commission's White Paper which outlined specific steps toward the unified internal market. The Single European Act extended majority voting in the Council and cleared the way politically for progress toward unifying the internal market. Endorsement of the Commis-

<sup>11</sup> In succeeding sections, we will look more closely at the changing international structure and the domestic European political context.

sion's proposals in the White Paper represents agreement on the fundamental objective of eliminating barriers to the movement of persons, goods, and capital. The specific measures proposed by the Commission (some 300 of them) can be thought of as implementing bargains. Further implementing bargains have yet to be considered in areas like the monetary system, taxation, and social policy.

The original European movement can be seen in terms of this framework.<sup>12</sup> The integration movement was triggered by the wrenching structural changes brought about by World War II; after the war, Europe was no longer the center of the international system, but rather a frontier and cushion between the two new superpowers.<sup>13</sup> Political entrepreneurship came initially from the group surrounding Robert Schuman and Jean Monnet. The early advocates of integration succeeded in mobilizing a transnational coalition supportive of integration; the core of that coalition eventually included the Christian Democratic parties of the original Six, plus many of the Socialist parties.<sup>14</sup>

The fundamental objectives of the bargains underlying the European Coal and Steel Community (ECSC) and the expanded European Communities were primarily two: (1) the binding of German industry to the rest of Europe so as to make another war impossible, and (2) the restarting of economic growth in the region. These objectives may have been largely implicit, but they were carried out by means of a number of implementing bargains that were agreed upon over the years. The chief implementing bargains after the ECSC included the Common Market, the Common Agricultural Program, the regional development funds,<sup>15</sup> and, most recently, the European Monetary System (EMS).

The fundamental external bargain made in establishing the Community was with the United States; it called for (certainly as remembered now in the U.S.) national treatment for the subsidiaries of foreign firms in the Common Market. That is, foreign (principally American) firms that set up in the Community could operate as if they were European. American policy makers saw themselves as willing to tolerate the dis-

<sup>12</sup> We have no intention of providing a detailed history of the EC; that story has been well told many times. We seek only to show that the major elements of that history fit the analytical framework we are proposing here.

<sup>13</sup> Many of the early students of European integration recognized that structural changes caused by the war were crucial in triggering the process. See, for example, Lindberg and Scheingold (fn. 8), especially chap. 1.

<sup>14</sup> See Walter Yondorf, "Monnet and the Action Committee: The Formative Period of the European Communities," *International Organization* 19 (Autumn 1965), 885-972.

<sup>15</sup> The regional development funds had a precursor in development programs created at Italy's insistence in 1956. They acquired more importance after the accession of Britain and Ireland, and have become vital elements of the EC bargain since the addition of Greece, Spain, and Portugal.

crimination and potential trade diversion of a united Europe because the internal bargain of the EEC would contribute to foreign policy objectives. Not only was part of Germany tied to the West, but sustained economic growth promised political stability. All of this was framed by the security ties seen as necessary on both sides of the Atlantic to counter the Soviet Union.

The European bargains—internal and external—were made at the moment of American political and economic domination. A bipolar security world and an American-directed Western economy set the context in which the European bargain appeared necessary. Many expected the original Community to generate ever more extensive integration. But the pressures for spillover were not that great. Economics could not drive political integration. The building of nation-states remains a matter of political projects. Padoa-Schioppa has put it simply and well: "The cement of a political community is provided by indivisible public goods such as 'defence and security'. The cement of an economic community inevitably lies in the economic benefits it confers upon its members."<sup>7</sup> The basic political objectives sought by the original internal bargain had been achieved: the threat of Germany was diminished and growth had been ignited. When problems arose from the initial integrative steps, the instruments of national policy sufficed to deal with them. Indeed, the Community could accommodate quite distinct national social, regulatory, and tax policies. National strategies for growth, development, and employment sufficed.

Several fundamental attributes of the economic community that emerged merit emphasis, as they prove important in the reignition of the European project in the mid-1980s. First, the initial effort was the product of governmental action, of intergovernmental bargains. Second, there was the partial creation of an internal market; that is a reduction, but not an elimination, of the barriers to internal exchange. The success of this initiative was suggested by the substantial increase in intra-European trade. Third, and equally important, there was toleration of national intervention; in fact, in the case of France such intervention was an element of the construction. There was an acceptance of national strategies for development and political management. Fourth, the European projects were in fact quite limited, restricted for the most part to managing retrenchment in declining industries and easing dislocations in the rural sector (and consequently managing the politics of agriculture) through

the Common Agricultural Policy. There were several significant exceptions, including the European Monetary System that emerged as a Franco-German deal to cope with exchange-rate fluctuations that might threaten trade relations; however, the basic principle of national initiative persisted. Fifth, trade remained the crucial link between countries. Joint ventures and other forms of foreign direct investment to penetrate markets continued to be limited. Sixth, American multinationals were accepted, if not welcomed, in each country.

When the global context changed, the European bargains had to be adjusted for new realities. Wallace and Wessels have argued that "even if neither the EC or EFTA had been invented long before, by the mid-eighties some form of intra-European management would have had to be found to oversee the necessary economic and industrial adjustments."<sup>8</sup>

#### THE POLITICAL MEANING OF CHANGING ECONOMIC STRUCTURES

Changing international economic structures altered the choices and constraints facing European elites. Europe's options shifted with the changes in relative economic power resources. The relative position of the United States declined, prior to 1970, as its trade partners reconstructed themselves and developed. Gaps closed in technology, wealth, and productivity. The U.S. now has difficulty controlling its own economic environment, let alone structuring the system for others. The changed international setting is equally a story of the emergence of Japan, which has grown into the second-largest economy of the world, overtaking all of the individual European nations and even the Soviet Union. The significance of Japan's rise is frequently hidden rather than revealed by data about its growing share of world gross domestic product and its booming exports. The substantial consequences of the international changes are qualitative as well as quantitative. They alter the political as well as the economic choices for Europe. It is not a matter of trade quantities or economic well-being, though it may eventually be viewed in that way. For now, the problem is one of control and influence. To capture the essence of the phenomenon, we note shifts in technology, money, and trade.

In this essay we cannot trace out in detail the strategic consequences for governments and corporations of the multiple manifestations of this

<sup>7</sup> Tommaso Padoa-Schioppa, *Efficiency, Stability and Equity* (Oxford: Oxford University Press, 1987).

<sup>8</sup> Helen Wallace and Wolfgang Wessels, *Towards a New Partnership: The EC and EFTA in the Wider Western Europe*, Occasional Paper No. 28, European Free Trade Association, Economic Affairs Department (March 1984), 4.

structural change. Let us take technology, for example. European elites (both in government and in business) face new choices regarding the acquisition of advanced technologies not developed at home. Japan has assumed a leading position in a number of key high-technology sectors, especially in electronics. By 1988, total Japanese electronics production virtually equaled that of the United States, and in 1989 should surpass it. Competition in semiconductors (one market segment in electronics) suggests both the changes and the shifting European choices. In 1985, a Japanese company, NEC, became the world's largest producer of semiconductors.<sup>14</sup> A year later, Japan's total world market share for integrated circuits surpassed that of the United States for the first time, at just over 45 percent.<sup>15</sup> Japanese producers emerged suddenly and now dominate the market for memory chips, a product sold in enormous volume and one that serves to drive the advances in production technology. In the early 1970s, Japanese makers were absent from the world market for one-kilobit memory chips, but by 1984 they held 90 percent of the world market for 256-kilobit chips. By 1985, all but two American merchant producers of dynamic random access memories (DRAMs), the basic memory chips, had been driven from the market. (Texas Instruments and tiny Micron Technology remained.) Japanese firms were the first to produce 1-megabit memory chips (with four times as much memory capacity as a 256K chip) and 4-megabit circuits. Even when sharp restrictions on Japanese exports to the United States were instituted, American producers did not reenter the market for advanced DRAM chips. Furthermore, by 1986, Japanese companies were beginning to challenge U.S. dominance in the microprocessor realm.<sup>16</sup>

Microprocessors, and logic circuits more broadly, are the brain cells of computers. Japanese dominance here would alter the balance of industrial power in both the computer and telecommunication sectors. In part as a defense against Japanese entry and in part to capture the full profit from their innovations, the dominant American producers of microprocessors—Intel and Motorola—have recently protected technology information about their advanced products more tightly than in the past. As a result, the most advanced circuit technologies needed by European companies are frequently to be found in Japan and are more difficult to obtain from the United States. Japanese makers of semiconductors and semiconductor technology are not just suppliers of components. They are also competitors in final products—from television sets through comput-

<sup>14</sup> *San Jose Mercury News*, January 4, 1988, p. 2C.

<sup>15</sup> *International Herald Tribune*, April 1, 1987.

<sup>16</sup> Michael Burrus, *Competing for Control* (Cambridge, MA: Ballinger, 1988), 176-77.

ers and telecommunications. The risk that a competitor in a final product will use his leverage in component technologies is a serious one. Recent experience with global DRAM shortages suggests that leverage is beginning to be used. In short, global events have upset the traditional technology relationships tying Europe to the United States. This is important, not only for commercial production, but also for military equipment. It is a strategic matter for companies as well as for governments.

The Europeans have responded aggressively to break their dependence on the U.S. and Japan, as key microelectronics technologies acquire ever greater commercial significance. At the core of the effort are joint development programs for DRAMs and for microprocessors. The Mega project launched jointly by Philips and Siemens to develop state-of-the-art DRAM production processes and the Joint European Semiconductor Silicon (JESSI) project for microprocessors that includes SGS-Thomson as well as Siemens and Philips are straightforward responses to the changed structure of global markets in this critical sector.

In the second arena—monetary matters—after decades of a dollar-based fixed exchange-rate system and a managed system that still revolves around the dollar, a system is beginning to emerge in which U.S. policy is increasingly dictated by Tokyo if not Frankfurt. The dollar remains the financial core of the world system, but because of America's huge and growing debt, the dollar remains the basis of the system by the choice of others, not so much by American decisions. Japan's export boom has put immense financial resources under Japanese control. Japan has already assumed a more powerful position in the International Monetary Fund (IMF), with American agreement, and unsuccessfully sought a greater role in the World Bank. Japanese funds are now a key part of plans to ease the debt crisis of the third world. For Europeans, decisions in Tokyo will have as much or more impact on monetary conditions as decisions taken in Washington or New York. Perhaps the European Monetary System (EMS) will soon need to be conceived as a mark zone moving in relation to the yen. The dollar is no longer the obvious sole choice for the world's reserve currency. At any rate, the structure of monetary and current relations has changed, and therefore the choices and constraints for European elites have changed also.

A third arena is trade. For most of the postwar period, the United States has been the leader in a system of free trade and multilateralism. Now, although the executive branch maintains the rhetoric of free trade, the new U.S. trade bill has adopted a different logic and carries veiled protectionist threats. Furthermore, the percentage of American trade

covered by bilateral agreements has risen in the last years. At the same time, Japan has emerged as a major exporter to Europe while its markets remain difficult to penetrate; it is not as open as the American market was. Consequently, a unified *ec* market has become vitally important for European development. The structure of Europe's trade environment has changed in recent years, and so have the choices and challenges for European government and business elites.

In sum, the choices for European elites in technology, money, and trade have changed. Previously, the options had centered on the United States. If Europe could not lead in technology, at least it could acquire it relatively easily from the U.S. If Europe could not structure financial rules to its liking, at least it could accommodate to American positions. If Europe was not first, it was second, and a series of individual bargains by governments and companies could suffice. However, it would be quite another matter to be third. To be dependent on Japan in monetary and technology matters, without the integrated defense and trade ties that link the Atlantic partners, was a different problem. The new international structure required new bargains.<sup>11</sup>

The structural changes we have been depicting do not "cause" responses. Structural changes pose challenges and opportunities. They present choices to decision makers. Three broad options, individually or in combination, were open to the countries of the *ec*. First, each nation could seek its own accommodation through purely national strategies; but, for reasons we explore below, going it alone appeared increasingly unpalatable. Second, Europe could adjust to Japanese power and shift ties from the U.S. to Japan. But the Japanese option had significant counts against it: (1) there were no common security interests with Japan to undergird the sorts of relations Europe has had with the United States; and (2) Japan has so far been unwilling to exercise a vigorous leadership role in the international system. The third option was that Europe could attempt to restructure its own position to act more coherently in a changing world. The international changes did not produce 1992; they provoked a rethinking. The 1992 project emerged because the domestic context was propitious and policy entrepreneurs fashioned an elite coalition in favor of it.

<sup>11</sup> Again, we are not the first to suggest that external, international forces trigger changes in regional integration politics. Joseph S. Nye, Jr. proposed that "outside actors or events" could act as "catalysts" in regional integration efforts, and that drastic changes in the international environment had been crucial in bringing about European integration. See Nye, "Patterns and Catalysts in Regional Integration," *International Organization* 19 (Autumn 1965), 870-84, at 882-83.

## POLITICAL ENTREPRENEURSHIP: UNDERSTANDING THE CHANGING BARGAINS

The surprisingly sudden movement by governments and companies toward a joint response does not have a clear and simple explanation. Uncertainty abounds. In a situation so open, so undefined, political science must rediscover the art of politics. The 1992 movement cannot be understood as the logical response to the situation in which actors and groups found themselves, and cannot therefore be understood through such formal tools as theories of games or collective action. Neither the payoff from nor preferences for any strategy were or are yet clear.<sup>12</sup> European choices have been contingent on leadership, perception, and timing; they ought to be examined as an instance of elites constructing coalitions and institutions in support of new objectives.<sup>13</sup>

This is not a story of mass movements, of pressure groups, or of legislatures. In the 1950s, the European project became a matter of party and group politics. In the 1980s, the *ec* institutions were not the object of debate; they were a political actor. Indeed, the Commission exercised leadership in proposing technical measures for the internal market that grabbed the attention of business and government elites, but were (in the

<sup>12</sup> Strategic games are useful heuristic devices that can help us reason about structured situations by clarifying the logic of interaction. In this instance, whatever the general methodological case, substantial investment in specifying and manipulating a multiplayer, multi-issue game will have limited payoffs in our understanding of 1992. Indeed, the crucial analytic issues must be resolved long before a set of games can even be devised. Games of strategic interaction require preference functions for each player. With 1992, decision makers do not possess the intellectual means to foresee alternative outcomes, much less rank them. Game theory, as even its most enthusiastic proponents recognize, cannot yet deal with changing preferences. Given all of these lacunae and uncertainties, game models of the international interactions involved in 1992 cannot possibly capture the political dynamics that matter. Behind the games are the crucial factors: political strategies, constraints, and leadership.

Nor is this really a problem for theories of collective action as traditionally conceived in political science. The problem is not one of inducing actors to contribute to the production of a collective good (i.e., avoiding free riders). The institutional structure of the community compels participation and shared leadership. At issue are the areas that should be opened to joint policy making and the institutional arrangements that might prove acceptable to the parties. Not only are there substantial risks and costs for all, but imposing European decisions on domestic politics requires domestic political action by the national executive, not just acquiescence in the European Commission and Council of Ministers. There are, in other words, multiple layers of politics.

<sup>13</sup> This is not a matter of elite learning that can be explained by theories of learning. Our proposition would clearly be that what has altered behavior is changed circumstances, not increased knowledge. By knowledge we mean formally specified relationships (information and theories about it) that suggest what outcomes will result from what causes. It is not a better understanding of an existing situation, but the discovery of a new situation that is at issue. The necessary ingredient for adaptation is therefore vision and leadership, an image of arrangements or relationships that will respond to new tasks, and the skill to mobilize diverse groups to construct that future. Rather than greater technically minded knowledge, it is politically founded insight that is called into play.

initial stages at least) of little interest to the organs of mass politics. The governments and business elites had already been challenged by the international changes in ways that the parties and unions had not been. Some business and government leaders involved in 1992 are, in fact, trying to sidestep normal coalition politics in order to bring about domestic changes.

Consequently, any explanation of the choice of Europe and its evolution must focus on the actors—the leadership in the institutions of the European Community, in segments of the executive branch of the national governments, and in the business community (principally the heads of the largest companies)—and what they have achieved.<sup>25</sup> These are the people who confronted the changes in the international environment and initiated the 1992 process. Each of these actors was indispensable, and each was involved with the actions of the others. The Community remains a bargain among governments. National governments—particularly the French—have begun to approach old problems in new ways and to make choices that are often unexpected. The Commission itself is an entrenched, self-interested advocate of further integration, so its position is no surprise. The multinationals are faced with sharply changed market conditions, and their concerns and reactions are not unexpected. The initiatives came from the EC, but they caught hold because the nature of the domestic political context had shifted. The interconnections and interactions among them will almost certainly defy an effort to assign primacy, weight, or relative influence.

In this section, we first address the domestic political context that prepared the ground for the Commission's plans. We then look at the Commission's initiatives, and finally at the role of the business elite in supporting the 1992 project.

The question is why national government policies and perspectives have altered. Why, in the decade between the mid-1970s and the mid-1980s, did European governments become open to European-level, market-oriented solutions? The answer has two parts: the failure of national strategies for economic growth and the transformation of the left in European politics. First, the traditional models of growth and economic management broke down. The old political strategies for the economy

<sup>25</sup> We have attempted (without fully succeeding) to distinguish between the politics of coalitions and the role of institutions in shaping the present response. In the first European movement that established the Coal and Steel Community and then the EC, there were no European institutions shaping and activating the players. Now there are, and the game is consequently quite different. The most important "spillover" probably lies in the creation of a permanent advocate of more extensive integration as well as a permanent location for it.

seemed to have run out. After the growth of the 1960s, the world economy entered a period of stagflation in the 1970s. As extensive industrialization reached its limits, the existing formulas for national economic development and the political bargains underpinning them had to be revised. Social critics and analysts in fact defined the crisis as the failure of established formulas to provide even plausible guides for action.<sup>26</sup> It was not simply that the price of commodities rose, but that the dynamics of growth and trade changed.<sup>27</sup>

Growth had been based on the shift of resources out of agriculture into industry; industrial development had been based on borrowing from abroad the most advanced technologies that could be obtained and absorbed. Suddenly, many old industrial sectors had to be closed, as in the case of shipbuilding. Others had to be transformed and reorganized, factories continuously upgraded, new machines designed and introduced, and work reorganized. The arguments that eventually emerged held that the old corporate strategies based on mass production were being forced to give way to strategies of flexibility and adaptability.<sup>28</sup> Despite rising unemployment, the steady pace of improvement in productivity, coupled with the maintenance and sometimes reestablishment of a strong position in production equipment in vital sectors, suggested that Europe's often distinctive and innovative approaches to production were working. However, that was only to come toward the end of the decade. In short, during the 1970s, national executive and administrative elites found themselves facing new economic problems without adequate models for addressing them.

The 1970s were therefore the era of Europessimism. Europe seemed unable to adjust to the changed circumstances of international growth and competition after the oil shock. At first, the advanced countries stumbled, but then the United States and Japan seemed to pick themselves back up and to proceed. Japan's growth, which had originally been sustained by expansion within domestic markets, was bolstered by the

<sup>26</sup> Stephen S. Cohen, "Informed Bewilderment," in Stephen S. Cohen and Peter Gourevitch, eds., *France in a Troubled World Economy* (London: Butterworth, 1983). Cohen makes this point here in a particularly clear and jargon-free fashion.

<sup>27</sup> See John Zysman, *Governments, Markets, and Growth* (Ithaca, NY: Cornell University Press, 1983), chap. 1.

<sup>28</sup> There is both a European and an American school of discussion. In the United States, the debate is led by Charles Sahel and Michael Parenti. Their book, *The Second Industrial Divide* (New York: Basic Books, 1984), brought many of the issues into the public arena, though the scholarly work underlying it is much more important. In Europe, the group is diverse, including Robert Hoyer, Benjamin Coriat, Giovanni Dosi, and Jacques Mistral. A particularly interesting version of the debate is found in Peter Hall, ed., *International Journal of Political Economy. European Labor in the 1980s* 17 (Fall 1987).



competitive export orientation of major firms in consumer durables. New approaches to manufacturing created substantial advantages.<sup>24</sup> In the United States, flexibility of the labor market—meaning the ability to fire workers and reduce real wages—seemed to assure jobs, albeit in services and often at lower wages, despite a deteriorating industrial position in global markets. Japan experienced productivity growth; the United States created jobs. Europe seemed to be doing neither and feared being left behind by the U.S.-Japanese competition in high technology.

For Europe, the critical domestic political issue was jobs, and the problem was said to be labor market rigidity. In some sense that was true, but the rigidities did not lie exclusively or even primarily with the workers' attitudes. They were embedded in government policy and industrial practice. In most of Western Europe, the basic postwar political bargain involved governmental responsibility for full employment and a welfare net. Consequently, many European companies had neither the flexibility of their American counterparts to fire workers or reduce wages, nor, broadly across Europe, the flexibility Japan displayed in redeploying its labor force.<sup>25</sup> As unemployment rose, the old growth model built on a political settlement in each country was challenged—initially from the left by strategies of nationalization with state investment, and then from the right by strategies of deregulation with privatization. The political basis, in attitude and party coalition, for a more market-oriented approach was being put in place.

For a decade beginning with the oil shocks, the external environment for Europe was unstable, or turbulent, but its basic structure remained unchanged. While the United States was unwilling or unable to assure a system of fixed exchange rates, it remained the center of the financial system even as it changed the rules. The European Monetary System was an effort to create a zone of currency stability so that the expansion of trade inside Europe could continue. In the 1960s and 1970s, a long debate on technology gaps and the radical extension of American multinational power had not provoked joint European responses. During the 1970s, the mandate for the European Community was not altered; it was stretched to preserve its original objectives in the original context. The international economic turbulence and fears of a relative decline in com-

<sup>24</sup> Robert Boyer makes this point particularly well. One interesting collection of these arguments is Boyer, ed., *La flexibilité du travail en Europe* [The flexibility of labor in Europe] (Paris: Editions La Découverte, 1986).

<sup>25</sup> There was a another twist as well: David Flannagan at Stanford has argued that companies hesitated to invest in training new workers, and that when they had to expand, they tended to hire back those that had been laid off, thus creating a substantial pool of young unemployed.

petitive position did not provoke a full-blown European response. The extent of the shifts in relative economic power was not yet apparent. National strategies in many arenas had not yet failed, or at least were not yet perceived as having failed. In other arenas, the challenges could be dealt with by accommodations within the realm of domestic politics.

The question remains: Why did national policy change, why did the perceptions of choice evolve, the range of options shift? Policy failure must be interpreted; it can be assigned many meanings. National perceptions of position are filtered through parties and bureaucracies, shaped and flavored by factions, interests, and lobbies. In 1983, the French Socialist party was divided between those led by Laurent Fabius, who concluded that pressure on the franc was a reason to reverse policy direction and to stay within the European Community, and those like Chevenement, who felt the proper choice was to withdraw from the EMS, even if that resulted in an effective weakening of the Community. The choice, to stay in the EMS, was by no means a forgone matter.<sup>26</sup> The French response to the currency crisis was a political choice made in the end by the president.

Thus, the second aspect of the changed domestic political context was the shift in government coalitions in a number of member-states. Certainly the weakening of the left in some countries and a shift from the communist to the market-socialist left in others helped to make possible a debate about market solutions (including unified European markets) to Europe's dilemma. In Latin Europe, the communist parties weakened as the era of Eurocommunism waned. Spain saw the triumph of Gonzalez's socialists, and their unexpected emergence as advocates of market-led development and entry into the Common Market. Italy experienced a weakening of the position of the communists in the complex mosaic of party positioning. In France, Mitterrand's victory displaced the communists from their primacy on the left. The first two years of the French socialist government proved crucial in turning France away from the quest for economic autonomy. After 1983, Mitterrand embraced a more market-oriented approach and became a vigorous advocate of increased European cooperation. This had the unexpected consequence of

<sup>26</sup> There is a parallel story in Britain some fifteen years earlier. In the early 1960s, the British Labour party had refused to devalue the pound sterling, even though it meant in effect abandoning a growth strategy. The debate on sterling was suppressed within the party; it was settled only when there was truly no choice left. See Stephen Blank, "Britain: The Politics of Foreign Economic Policy," in Peter Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978); Anthony Howard, ed., *The Crossman Diaries, Selection from the Diaries of a Cabinet Minister 1964-1970* (London: Methuen Paperbacks, 1979).

engendering independence for the state-named managers of nationalized companies. When the conservative government of Jacques Chirac adopted deregulation as a central policy approach, a second blow was dealt to the authority of the French state in industry. In Britain and Germany, the Labour and Social Democratic parties lost power as well as influence on the national debate.

Throughout Europe the corporatist temptation waned; that is, management of the macroeconomy by direct negotiations among social groups and the government no longer seemed to work. In many union and left circles an understanding grew that adaptation to market processes would be required. (As the 1992 movement progressed, unions in most countries became wary that the European "competitive imperative" might be used to justify policies that would restrict their influence and unwind their positions and gains.<sup>10</sup> As a counterpoint on the right, Thatcher began to fear a bureaucratized and socialized Europe.)

In an era when deregulation—the freeing of the market—became the fad, it made intuitive sense to extend the European internal market as a response to all ailments. Moreover, some governments, or some elites within nations, can achieve purely domestic goals by using European agreements to limit or constrain national policy choices. The EMS is not only a means of stabilizing exchange rates to facilitate trade, but also a constraint on domestic politics that pushes toward more restrictive macroeconomic policies than would otherwise have been adopted. There is little doubt that the course of the social experiment in 1981 would have been different if France had not been a member of the EMS, which required formal withdrawal from commitments if a country wanted to pursue independent expansionary policies. In a different vein, some Italians use the threat of competitive pressures as a reason to reform the administration. As one Italian commentator put it, "Europe for us will be providential. . . . The French and Germans love 1992 because each thinks it can be the key country in Europe. The most we can hope for is that 1992 straightens us out."<sup>11</sup>

In any case, in Europe we are watching the creation of like-minded elites and alliances that at first blush appear improbable—such as Mitterrand and Thatcher committed to some sort of European strategy. These elites are similar in political function (though not in political basis) to the cross-national Christian Democratic alliance that emerged in sup-

<sup>10</sup> Hall (fn. 28).

<sup>11</sup> Philip Revzin, "Italians Must Change Their Business Style in Integrated Europe," *Wall Street Journal*, November 21, 1988, p. 1. Italian businessmen quoted in the article expressed the same sentiment.

port of the original Community after World War II in Germany, France, and elsewhere. European-level, market-oriented solutions have become acceptable.

This was the domestic political soil into which the Commission's initiatives fell. Traditional models of economic growth appeared to have played themselves out, and the left had been transformed in such a way that socialist parties began to seek market-oriented solutions to economic ills. In this setting, the European Community provided more than the mechanisms of intergovernmental negotiation. The Eurocracy was a standing constituency and a permanent advocate of European solutions and greater unity. Proposals from the European Commission transformed this new orientation into policy, and, more importantly, into a policy perspective and direction. The Commission perceived the international structural changes and the failure of existing national strategies, and seized the initiative.

To understand how the Commission's initiatives led governments to step beyond failed national policy, let us examine the case of telematics, the economically crucial sector combining microelectronics, computers, and telecommunications. By 1980, European policy makers were beginning to realize that the national champion strategies of the past decade or so had failed to reverse the steady international decline of European telematics industries. Throughout the 1970s, each national government in Europe had sought to build up domestic firms capable of competing with the American giants. The state encouraged or engineered mergers and provided research-and-development subsidies; state procurement heavily favored the domestic firms. By 1980, none of these approaches had paid off. Europe's champions were losing market shares both in Europe and worldwide, and most of them were operating in the red. Even Europe's traditional electronics stronghold, telecommunications equipment, was showing signs of weakness: the telecommunications trade surplus was declining annually while U.S. and Japanese imports were accounting for ever larger shares of the most technologically advanced market segments.<sup>12</sup>

In telematics, European collaboration emerged when the Commission, under the leadership of Etienne Davignon, struck an alliance with the twelve major electronics companies in the EC. Because of the mounting costs and complexity of R&D, rapid technological and market changes, and the convergence of hitherto separate technologies (e.g., computing

<sup>12</sup> Michael Bottus et al., *Telecommunications Development in Comparative Perspective*, MIT Working Paper No. 14 (Berkeley, CA: MIT, 1985), 48.

and telecommunications), these twelve companies were motivated to seek interfirm partnerships. Although such partnerships were common with American firms, the possibilities within Europe had not been explored. The twelve firms designed the European Strategic Programme for Research and Development in Information Technology (ESPRIT) and then sold it to their governments. The RACE program (Research for Advanced Communications-technologies in Europe) emerged via a similar process.<sup>15</sup> In short, the Community's high-technology programs of the early 1980s took shape in a setting in which previous national policies had been discredited, the Commission advanced concrete proposals, and industry lent essential support. In a sense, the telematics cases prefigure the 1992 movement and display the same configuration of political actors: the Commission, certain political leaders and specific agencies within the national governments, and senior business leaders.

The Commission again took the initiative with the publication of its "White Paper" in June 1985. The initiative should be seen as a response to the stagnation of the Community enterprise as a result of, among other things, the budget stalemates. When Jacques Delors took office as president of the European Commission in 1985, he consciously sought an undertaking, a vision, that would reignite the European idea. The notion of a single market by 1992 caught the imagination because the need for a broader Europe was perceived outside the Commission. Helen Wallace and Wolfgang Wessels suggest that if the EEC and the European Free Trade Association (EFTA) had not existed by the late 1980s, they would have had to be invented.<sup>16</sup> Or, as was the case, reinvented.

The White Paper set out a program and a timetable for the completion of the fully unified internal market.<sup>17</sup> The now famous set of three

<sup>15</sup> This is a radical simplification, but it captures the essence of events. For more detail, see Wayne Sandholtz, "Crisis and Collaboration in European Telematics" (Ph.D. diss., Department of Political Science, University of California, Berkeley, 1989), chaps. 7-8.

<sup>16</sup> Wallace and Wessels (fn. 18).

<sup>17</sup> Michael Emerson, "1992 and After" (EEC, Brussels, Summer 1988). The White Paper proposals can be grouped into sets, as follows:

1. Liberalization of government procurement; essentially opening national procurement to outside bidders.
2. Technical norms, by which the largest number of proposals set technical standards that otherwise preclude movement of goods through Europe.
3. Transport services.
4. Agricultural border taxes and subsidies.
5. National restrictions in the community's external trade relations; these matters are not strictly an element of the "internal bargain," but are included here for the sake of completeness.
6. Abolition of fiscal frontiers, there being no longer a need to assess taxes at the border.
7. Financial services, including banking, stock markets, and related services and insurance, with the bold aim of creating a European capital market.

hundred legislative proposals to eliminate obstacles to the free functioning of the market, as well as the analyses that led up to and followed it, expressed a clear perception of Europe's position.<sup>18</sup> European decline or the necessities of international competitiveness (choose your own phrasing) require—in this view—the creation of a continental market.

The White Paper's program had the political advantage of setting forth concrete steps and a deadline. The difficult political questions could be obscured by focusing on the mission and by reducing the issues to a series of apparently technical steps. Advocates of market unification could emphasize highly specific, concrete, seemingly innocuous, and long overdue objectives rather than their consequences.<sup>19</sup> In a sense, the tactic is to move above and below the level of controversy. The broad mission is agreed to; the technical steps are unobjectionable. Of course, there is a middle ground where the questions of the precise form of Europe, the allocation of gain and pain in the process, become evident. A small change in, say, health and safety rules may appear unimportant, but may prove to be the shelter behind which a national firm is hiding from European and global competitors. Here we find the disputes about outcomes, both in terms of market results and of social values. Obscuring the issues and interests was crucial in developing Europe the first time, one might note, and has been instrumental once again.

Implementation of the White Paper required a separate initiative: the limitation, expressed in the Single European Act, of national vetoes over Community decisions. At its core, the Community has always been a mechanism for governments to bargain. It has certainly not been a nation-state, and only a peculiar kind of federalism. Real decisions have been made in the Council by representatives of national governments. The Commissioners, the department heads, are drawn from a pool nominated by the governments. Broader representative institutions have played only a fictive (or, more generously, a secondary) role. Moreover, decisions taken by the Council on major issues had to be unanimous, providing each government with a veto. For this reason, it has been painfully difficult to extend the Community's authority, to change the rules of finance, or to proceed with the creation of a unified market and change the rules of business in Europe. The most reluctant state prevailed. Furthermore, domestic groups could block Community action by persuading their government to exercise the veto.

Many see the Single European Act as the most important amendment

<sup>18</sup> Paolo Schoppa (fn. 17); Emerson (fn. 17); Paolo Cecchini, *The European Challenge, 1992: The Benefits of a Single Market* (Hounslow, U.K.: Woburn House, 1988).

<sup>19</sup> "Europe's Internal Market," *The Economist*, July 9, 1988, pp. 6, 8.

to the Treaty of Rome since the latter was adopted in 1957.<sup>40</sup> This act has replaced the Luxembourg Compromise (which required decisions to be taken by unanimity) with a qualified majority requirement in the case of certain measures that have as their object the establishment and functioning of the internal market. The national veto still exists in other domains, but most of the three hundred directives for 1992 can be adopted by qualified majority. As a result, disgruntled domestic interest groups have lost a source of leverage on their governments; the national veto no longer carries the clout it once did. Perhaps equally important, the Single European Act embodies a new strategy toward national standards that were an obstacle to trade within the Community. Previously, the EEC pinned its hopes on "harmonization," a process by which national governments would adopt "Euronorms" prepared by the Commission. The Single European Act instead adopts the principle affirmed in the famous Cassis de Dijon case. That principle holds that standards (for foodstuffs, safety, health, and so on) that prevail in one country must be recognized by the others as sufficient.

The third actor in the story, besides the governments and the Commission, is the leadership of the European multinational corporations. In a number of ways, they have experienced most directly some of the consequences of the international economic changes. They have acted both politically and in the market. The White Paper and the Single European Act gave the appearance that changes in the EC market were irreversible and politically unstoppable. Businesses have been acting on that belief. Politically, they have taken up the banner of 1992, collaborating with the Commission and exerting substantial influence on their governments. The significance of the role of business, and of its collaboration with the Commission, must not be underestimated. European business and the Commission may be said to have together bypassed national governmental processes and shaped an agenda that compelled attention and action.

Substantial support for the Commission's initiatives has come from the Roundtable of European Industrialists, an association of some of Europe's largest and most influential corporations, including Philips, Siemens, Olivetti, GEC, Daimler Benz, Volvo, Fiat, Bosch, ASEA and Ciba-Geigy. Indeed, when Jacques Delors, prior to assuming the presidency of the Commission in 1985, began campaigning for the unified internal market, European industrialists were ahead of him. Wisse Dek-

<sup>40</sup> This view is sometimes expressed in EEC materials lauding 1992. Not everyone would agree; they would cite budget initiatives in 1970 and 1975 and the direct election of the European parliament. We cite the single European Act because it rejects the national veto.

ker of Philips and Jacques Solvay of Belgium's Solvay chemical company in particular were vigorously arguing for unification of the EC's fragmented markets.<sup>41</sup> In the early 1980s, a booklet published by Philips proposed urgent action on the internal market. "There is really no choice," it argued, "and the only option left for the Community is to achieve the goals laid down in the Treaty of Rome. Only in this way can industry compete globally, by exploiting economies of scale, for what will then be the biggest home market in the world today: *the European Community home market*."<sup>42</sup>

It is hard, though, to judge whether the business community influenced Europe to pursue an internal market strategy or was itself constituted as a political interest group by Community action. Business began to organize in 1983, when the Roundtable of European Industrialists was formed under the chairmanship of Pehr Gyllenhammer, of Volvo. Many of the original business discussions included senior Community bureaucrats; in fact, Etienne Davignon reportedly recruited most of the members of the original group. The executives constituting the Roundtable (numbering 29 by mid-1987) were among the most powerful industrialists in Europe, including the non-EEC countries. The group initially published three reports: one on the need for development of a Europe-wide traffic infrastructure, one containing proposals for Europe's unemployment crisis, and one, *Changing Scales*, describing the economies of scale that would benefit European businesses in a truly unified market.<sup>43</sup>

The European Roundtable became a powerful lobby vis-à-vis the national governments.<sup>44</sup> One member of the Delors cabinet in Brussels has declared, "These men are very powerful and dynamic . . . when necessary they can ring up their own prime ministers and make their case."<sup>45</sup> Delors himself has said, "We count on business leaders for support."<sup>46</sup> Local and regional chambers of commerce have helped to establish about fifty European Information Centers to handle queries and publicize 1992.<sup>47</sup> In short, the 1992 process is repeating the pattern established by

<sup>41</sup> "Europe's Internal Market" (fn. 39), Survey, p. 6.

<sup>42</sup> *Europe 1990* (Brussels: Chez Philips S.A., no date), 5; emphasis in original.

<sup>43</sup> Rob van Tulder and Gerd Junne, *European Multinationals in Core Technologies* (New York: John Wiley & Sons, 1988), 214-15.

<sup>44</sup> Based on interviews and discussions.

<sup>45</sup> Quoted in van Tulder and Junne (fn. 43), 215, n. 8.

<sup>46</sup> Axel Krause, "Many Groups Lobby on Implementation of Market Plan," *Europe* (July/August 1988), 24.

<sup>47</sup> Another business group collaborating with the Commission and actively promoting the 1992 process is the Union of Industrial and Employers' Confederations in Europe (UNICE), which includes over thirty industrial associations from throughout Europe. The secretary general of UNICE, Zygmunt Tyszkiewicz, described the union's working groups and lobbying as follows: "Nine tenths of our work comprises the regular, invisible interchange of ideas between our experts and the E.C. Commission's civil servants" (fn. 46), 24.

**ESPRIT:** major businesses have allied with the Commission to persuade governments, which were already seeking to adapt to the changed international structure.

At the same time that the business community has supported the political initiatives behind the 1992 movement, it has been acting in the market place. A series of business deals, ventures, and mergers form a critical part of the 1992 movement. Even if nothing more happens in the 1992 process, the face of business competition in Europe is being changed. The structure of competition is being altered.

There has been a huge surge in joint ventures, share-swapping, and mergers in Europe. Many are justified on the grounds of preparing for a unified market, some for reasons of production and marketing strategies, and some as a means of defense against takeovers.<sup>48</sup> But much of the movement is a response to business problems that would exist in any case. Still, the process has taken on a life of its own. The mergers provoke responses in the form of other business alliances; the responding alliances appear more urgent because of the political rhetoric. As the Europeans join together, American and Japanese firms scurry to put their own alliances in place and to rearrange their activities.

The meaning of the process is far from evident. Are we watching the creation of European competition, or the cartelization of industry at a European level? In some sectors, such as textiles and apparel, there already is an effective European market. In others, such as telecommunications, the terms of competition—whatever the corporate reshufflings—will turn on government regulation and choice. Since U.S. firms are already entrenched, the real newcomers are the Japanese. A surge of Japanese investment is taking place in Europe.

Many of the business deals are quite instructive about the broader policy process. An Italian entrepreneur, de Benedetti, tries to take over the Société Générale de Belgique. The Société Générale, though, is not simply another bank; it is an institution that played a vital role in the nineteenth-century development of Belgium. Apart from its symbolic importance, the bank has its fingers in a substantial chunk of Belgian industry. The attempted foreign takeover had immediate political ramifications in Belgium; it was blocked by an alliance led by the French Bank of Suez with encouragement from the French government. Eventually, British interests were brought in as well. The Société Générale became a European development bank, controlled at once by Belgian, French, Italian, and British interests.

<sup>48</sup> See Craig Forman, "European Firms Hope Swapping Stakes Gives Them 1992 Poison Pill Protection," *Wall Street Journal*, October 18, 1988, p. A26.

A second instance is the recent and apparently successful takeover of Plessey, a British telecommunications and electronics firm, by GEC of Britain and Siemens of Germany. The cross-national nature of the move is itself significant. The acquisition of Plessey by GEC alone had been blocked by the British monopolies commission in an earlier bid; but in the European context, the takeover proved acceptable. Equally important, the question of who controls Plessey at once shapes the market structure in telecommunications and defense. It should be noted that the British Ministry of Defence originally opposed GEC's takeover of Plessey because it feared facing a single British seller in critical defense products.

A third case is the merging of the semiconductor interests of the French firm Thomson with the Italian firm SGS, apparently under SGS control. What was surprising is that it happened at the same time that Matra was backing out of the semiconductor business. Although the French retained research and development capacity as well as influence within the SGS operation, the development is a startling one. French electronics now seems to be entirely dependent on foreign sources for the final development and production of microelectronics, though the French industry's ties within Europe have been strengthened. As a business deal it makes eminent sense, and was a virtual necessity. That, however, has not always been decisive in French electronics policy. Computers and semiconductors have been viewed as instruments and elements of national power and policy. Whether the government simply acquiesced in management's choice or actively promoted the deal, the merger represents a real change in its attitude and policy: a European partnership is now acceptable in France. Finally, ASEA of Sweden and Brown Boveri of Switzerland, two giants in the electrical generation business, have merged. Swedes, and a Swedish chairman, are now managing the business from Zurich and implanting themselves in the United States through the purchase of elements of Westinghouse. In a direct response, Britain's GEC and Alstom of the French CGE group have merged their power generation businesses.

Of course, one must not exaggerate. Deals linking European firms are roughly equal in number and value to those joining European to American enterprises. And the volume of mergers and acquisitions within the U.S. has far outstripped that involving European firms. Still, the boom in intra-European mergers and alliances is a new development.

These deals clearly represent decisions by major companies to join together on a European scale in order to position themselves for global competition. In many sectors, as Stephen Cohen points out, 1992 may

consist fundamentally of these business alliances and mergers; that is, even if the process is limited to these alliances, big business in Europe will have been transformed. The moves by major business will affect smaller businesses, including transport, and the political form and position of Europe. The business deals also represent a change in governmental attitudes to accept and encourage that process. The pace of European mergers was accelerating in the mid-1980s; in 1987, it became a rush. Perhaps not by accident, that is the year in which the political initiatives for a unified market became fully believable.

#### THE BARGAINS ON WHICH THE NEW EUROPE WILL REST

It is not yet possible to characterize the overall shape of the deal that is emerging in Europe. The movement rests on the White Paper, the Single European Act, and the mergers and acquisitions already discussed. These dimensions of 1992 represent a sharp change from the first integration project. Recall our specification of the original construction and note that each of its elements is changing. The internal market is being extended. National interventions are being limited and openly constrained by European institutions. The Commission is taking the political initiative in diverse areas, from tax and regulatory policy through technology development. Direct foreign investment and joint ventures, not just trade, are forming the links among countries.

The real issue is whether the European Communities will pursue their objectives of growth and a greater role in the world through projects and policies that go beyond the unified market. The vision of 1992 implies the need for future bargains—both internal and external—that are outside the formal 1992 process and its three hundred technical measures. They consist of a diverse set of issues whose resolution will determine not only how complete the market unification will be, but, more broadly, its character: Will Europe move toward a unified and coherent position in the global economy? For example, it is improbable that the surge of momentum in 1988 that seemed to make the drive for market unification inevitable could have occurred without a resolution, or at least a temporary truce, on budget and agricultural issues. We first address the unresolved internal issues; in the section that follows, we shall discuss the outlines of the key external bargains.

Let us mention the four issues we consider most critical. They were excluded from the 1992 project at first; confronting them will necessarily broaden participation in the 1992 process to include political actors beyond the narrow elites involved in its inception. First, and recently most

visible and controversial, is the link between a European capital market, exchange-rate policy, and the European Monetary System. Will there be a financial and monetary entity called Europe? Free capital movements imply stricter joint controls to maintain exchange-rate stability, which in turn will be difficult to manage without a central financial institution. Without one, can there be a unified or even a partially unified capital market? This question quickly broadens to the problem of coordinated management of macroeconomic policy.

Second is the issue of redistributive and social bargains. The structural adjustment funds are the payoff from the richer north to the poorer south for its sustained participation in the project. An essential part of the bargain appears to be a massive increase in funds for the poorer regions, mostly in the south. The estimates are that these funds will amount to as much as 5 percent of Greece's GNP and 1.5 percent of Spain's GNP.<sup>26</sup> Then there is the related problem of social Europe. Some fear that the very system of social protection and welfare that has become the cornerstone of political bargains in many of the European nations will be at risk. Even the business community is aware and concerned. As one conservative European business leader remarked, "One of the risks is in the social arena. If, in effect, we give in to the temptation to harmonize work conditions throughout Europe, all that we have succeeded in developing and modernizing will be put into question."<sup>27</sup> The EEC, as we have noted, has generally set rules about business behavior. Except in agriculture, it has rarely directly affected outcomes or directly altered the welfare of specific groups in the society. A genuine internal market without restriction or subsidy will make social policy and tax rules appear—whether they actually do or not—to affect industry outcomes. Domestic social policy will become an issue of internal market negotiation.

Third, defense policy may prove to be the most vital matter. A range of questions in the White Paper in fact turns on European defense strategies and the character of force and procurement integration. In particular, public procurement and high technology development will be shaped by defense questions. Although these matters are not formally under discussion, and were brusquely shoved off the table by Mitterrand in the fall of 1988, they are likely to reemerge continually. Will Europe form a more coherent defense position which might include some countries that are currently outside the NATO structure, such as France and Sweden? The answers are likely to turn on developments in the Soviet

<sup>26</sup> Michael Emerson, "1992 as Economic News," (11), Brussels, 1988), 5.

<sup>27</sup> François Perigot, "L'Europe ardente obligation," (*Europe's burning obligation*), *Politique industrielle* 10 (Winter 1988).

Union and Eastern Europe and the character of the defense postures that France, Germany, and Britain select for themselves.

Fourth, there is the question of the balance between Community and national decision making. If Brussels begins to make substantial numbers of decisions with visible implications for people's lives, what mechanisms of political control will be established?

Given these thorny issues on the edge of the EC agenda, the move toward 1992 is likely to be accompanied by social and political mobilization at the European level. This might lead to a broader European political identity. It could lead to, as neofunctionalist theorists once argued, a reconfiguration of politics from the national to the supranational level—either a shift of decisions from political to Eurocrat hands or a restructuring of mass politics. On the other hand, the European internal market and the processes to which it is expected to lead could sink in the mire of mass politics. The mix that emerges is, of course, the object of speculation.

#### THE EXTERNAL BARGAIN: OPEN TRADE AND A REGIONAL ECONOMY

The 1992 process may have been sparked by a change in global structure; its outcome is certain to shape both the organization and the regimes of the international system in the coming decades. The advanced countries are likely to become three trading regions organized around the United States, Japan, and the European Community. Indeed, Western Europe and the United States each represent about one-quarter of the global GDP, and Japan about one-eighth.<sup>31</sup> Whether the regions remain open or become closed to each other, and whether they encourage direct foreign investment rather than trade, remains to be seen. In any case, the reality of three regional trading groups must be recognized if we are to understand the dynamics of trade in the years that lie ahead.

Europe as a relatively self-contained economic unit already exists. For nearly twenty years, Western Europe as a whole has represented roughly one-quarter of global gross national product, and the European Community over 20 percent.<sup>32</sup> Our understanding of the global trading system is radically different if we consider Europe as a single unit rather

<sup>31</sup> This information is taken both from Bureau d'Information et Prévision Economique, *Europe in 1992* [Europe in 1992] (Paris: BIPE, October 1987) and from Gerard Lafay and Colette Herzog with Loukas Stenitsiotis and Deniz Unal, *Commerce international. la fin des avantages acquis* [International trade: The end of acquired advantages] (Paris: Economica, 1989); figures are taken from diverse charts and tables in Section 1.

<sup>32</sup> These conclusions are drawn from a map of global GDP developed by the UNCTAD, and labeled with their permission by UNCTAD, the Bureau d'Information et Prévision Economique, calculated these numbers from OECD figures. The map is in "La France dans l'Europe de 1993," [France in the Europe of 1993] (Paris: BIPE, n.d.), Vol. 1, pp. 8 and 9.

than the sum of its constituent elements. If we take Europe as a whole, it is already a fairly insulated regional bloc. The data that show high levels of imports and exports, suggesting the openness of Europe to trade, actually reveal increasing levels of trade within the region. This was no small political achievement, which should be acknowledged.

Yet Europe's imports per inhabitant from outside the region are, according to some sources, even lower than Japan's.<sup>33</sup> More than is recognized, a self-contained economic region has already emerged. If taken nation by nation (with trade within the region included) Western Europe in 1986 had 44.6 percent of global exports (up from 42.4 percent in 1967) and roughly 42.6 percent of global imports (down from 44.1 percent in 1967). Thus, foreign trade (imports and exports) constitutes a large percentage of domestic product for each of the European countries. France (26.8 percent) and Germany (32.1 percent) define one end, while Belgium (87 percent) and the Netherlands (58.9 percent) represent the other, with Britain (41.2 percent) falling in between.<sup>34</sup> However, if we exclude intra-European trade (as we would trade between California and Michigan from American trade statistics), the picture changes. In that case, Europe (the EEC and EFTA) represents 13.8 percent of global exports in 1986 (down from 15.3 percent in 1967) and 11 percent of global imports (down from 17.0 percent in 1967).<sup>35</sup>

There are two competing images of Europe. One image is Europe as a set of small- and medium-sized countries that have opened themselves to the global economy and must adjust to it. The other image is of the European nations moving over the last thirty years from interlinked national economies to a regional economy. In the second view, the countries of Europe are, together, no longer passive takers in the system; they are able to shape their international environment. The new Europe, as Lafay and Herzog emphasize, really lies between these two images. It consists of one tight bloc, the Community, and a looser confederation, the European Free Trade Association. Increasingly, the EFTA appears to be adjusting to the recent EEC initiatives.<sup>36</sup> What the mechanism may be—from status quo through full membership—does not much matter for the central argument here. Europe will be concerned with itself. The political boundaries are beginning to correspond to the existing pattern of economic and trade policies.

This shift does not mean that Europe will become a fortress, but in

<sup>33</sup> Colette Herzog, "L'ouverture du marché européen: une autre vision," [The opening of the European market: Another view], *Economie Prospective Internationale. Revue du C.E.P.I.*, Premier Trimestre 1988, pp. 81-89.

<sup>34</sup> *Ibid.*

<sup>35</sup> Lafay and Herzog (fn. 31), from diverse charts and tables in Section I.

<sup>36</sup> Wallace and Wessels (fn. 18).

itself the creation of a politically unified trade region, capable of coherent action, is significant. It does mean that Europe will now consciously develop joint policies to benefit the Community, policies in which internal considerations are primary. The direction that Europe's external policy takes will depend as much on choices made by its trading and financial partners as on its own predilections and internal politics. The structural shifts that compel European adjustments are also changing American and Japanese trade policies; these changes will alter Europe's choices in their turn.

The most recent American trade bill represents a fundamental challenge to the intellectual premises on which policy has rested even while its implementation preserves, for the moment, the substance of U.S. policy. Since World War II, the United States has sought a world of increasingly open flows of goods and finance, but not of labor.<sup>17</sup> The principles of multilateral negotiation, extending to all countries concessions that are made to one, encouraged a focus on rules that would promote the general welfare. "Reciprocal" concessions were required from all parties; reciprocity implied rules for the game, not specifications of the score. Put differently, the U.S. sought to promote market processes and to avoid bargains about outcomes; the reciprocity was "generalized" reciprocity.<sup>18</sup> The new intellectual frame includes the notion of specific reciprocity; trade is fair when the outcomes are balanced, and outcomes—not process—are the core of discussion.

Specific reciprocity emerges in two contexts. In the broadest context, it tries to place the burden for the American trade deficit on the countries with trade surpluses, on the premise that limits to American exports and subsidy of foreign products are the core of the problem. Of course, the same national policies to which the U.S. now objects have been in place

<sup>17</sup> It has often been said that, at the moment of its economic and political dominance, the U.S. structured the global trading system around these principles and embedded them in its own legal practice. The reality, of course, has been more complicated: it involved a series of exceptions to these principles. One set of these exceptions, made from a position of economic strength, was made for reasons of foreign policy objectives. The United States—at least in its conception—opened its market to Japan, the developing economies, and Europe, and tolerated trade discrimination. The second set of exceptions, made from a position of sectoral weakness, has involved bilateral bargains to contain imports in specific sectors: autos, textiles, steel. Such sectoral bargains were often made to accommodate those who would challenge the general principles of trade policy. Significantly, the level of imports that triggers substantial protectionism has been quite high. The delicate hypocrisy has been more difficult to maintain as the coalition in support of open trade has narrowed. The balance between principles of multilateralism and a reality of bilateralism has slowly tilted toward bilateralism as a growing number of sectors has achieved protection; with the growth of the deficit, that tilt has become more pronounced.

<sup>18</sup> For the differences between general and specific reciprocity, see Jagdish Bhagwati, *Protectionism* (Cambridge: MIT Press, 1988).

during the thirty-plus years in which this country dominated trade. A somewhat narrower context is in telecommunications, the notion being that closed markets in Japan alter the dynamics of competition in advanced technology. The American policy debate thus pushes a new kind of reciprocity (and a debate about outcomes) onto the negotiating table.

Japanese policy, by contrast, has moved from a language of restriction in a developmental strategy toward a language of liberalism. The reality has been a loosening of the developmental system, but apparently not its abandonment.<sup>19</sup> Markets have been formally opened, primarily where Japan has an established advantage in global markets. However, in sectors where advantage is yet to be established or where Japanese firms have lost the advantage, a band of protectionism still remains. Barriers remain both in policy and business practice. Their significance lies in several domains. First, in emerging or transforming sectors, if one powerful national player maintains a closed domestic market, its firms gain substantial competitive leverage. Second, if the United States is not able or willing to absorb the world's exports, will Japan do so? Third, if barriers of access to financial markets are maintained, Japan gains leverage in global financial and product markets. Japanese financial institutions can then use their role in intermediating the massive Japanese savings to entrench themselves in the financial markets of the United States and Europe.

These American and Japanese developments press on Europe questions that it must resolve in any case—those of reciprocity and outcomes on the one hand, and the choice between free-market and developmental policies on the other. The notion of general reciprocity in trade bargains, which focuses on maintaining market processes, gives way to specific reciprocity, which focuses on specific outcomes. Most concretely, there are manufacturing sectors where national restrictions must either be abandoned or generalized to Europe. The real challenge to national producers is not, for the most part, other European or American producers, but Japanese producers. Consequently, in a range of products from automobiles to dot-matrix printers, the question becomes on which terms the European market will be available to Japan. For instance, at present, anti-dumping rules are applied to restrict imports of printers and photocopiers. In automobiles, should Europe exact a price for opening the French and Italian automobile market to Japanese competition? At this writing, the French have agreed to treat Japanese car production within

<sup>19</sup> Laura Tyson and John Zysman, "Developmental Strategy and Production Innovation in Japan," in Chalmers Johnson, Laura Tyson, and John Zysman, eds., *Politics and Productivity* (Cambridge, MA: Ballinger, 1986).



Britain as European, but the argument hardly seems over. Policies are pressing toward requiring direct foreign investment in components and assembly; the largest surge in new investment will come from Japanese manufacturers. Indeed, 1992 is accelerating Japanese entry into the European automobile market.

In a different area, public procurement, decisions involving foreign suppliers are always political and never entirely technical; some suggest, therefore, that any opening of public procurement—particularly in telecommunications—should require direct reciprocity from trading partners. It would be difficult to measure reciprocity in this sense in any way other than by outcome. Just as difficult is the issue of reciprocity in financial services. For one thing, the rules of the General Agreement on Tariffs and Trade (GATT) do not cover trade in services. Here it is not a matter of changing, but rather of making the trade system. There is a diverse range of matters, from transports through telecommunications and information services. As these issues have become more important to the European debate, Europe has become more supportive of a multilateral debate over trade in services.<sup>60</sup> The Commission itself is led by determined free-traders who are seeking to commit the EC irrevocably to a free-trade strategy. It is not clear whether they will succeed. Indeed, this issue may be one that broadens Europe-level politics.

Much also depends on whether a more unified Europe adopts a developmental strategy, manipulating access to its new internal market in the interest of the competitive development of European firms and crucial sectors. Will Europe, whatever the rhetoric, in practice preserve its own market, in a consistent series of cases, as an instrument of development? In discussions of telecommunications, automobiles, consumer electronics (next-generation high-definition television in particular), and information technology products, this is not simply a matter of whether foreigners will be allowed in; they will. The question is on what terms. In any case, Europe's choices will undoubtedly affect not only the rules of the global trading system, but also the language and terms of the debate.

#### CONCLUSION

Europe is throwing the dice. It is confronted with a change in the structure of the international economy, with emerging Japanese and dwindling American power and position. It feels the shift in Asian com-

<sup>60</sup> David Buchan, "Brussels Not to Seek Backdated Banking Pacts," *Financial Times*, October 20, 1988, p. 1.

petitive pressure in industry and finance. The problems are no longer those of American production in Europe, but of Japanese imports and production displacing European production. More importantly perhaps, Europe also feels the shift in rising Japanese influence in the monetary and technology domains. The industrial and governmental presumptions and deals with which Europe has operated are changing or will change. Indeed, Europeans may have to construct a coherent political presence on the global stage in order to achieve the most attractive accommodation to the new order.

We hypothesize that change in the international economic structure was necessary for the revival of the European project. A full fledged test of this proposition will require detailed analysis of the perceptions and beliefs of those who participated in launching the 1992 movement. We have mentioned other analytical approaches—based on integration theory and domestic politics—that appear logically unsuited to explaining 1992. Of course, these approaches are not really alternatives. There are functional links among some of the bargains being struck, and domestic factors clearly shaped governmental responses to the international changes. But tests of alternative explanations often create a false sense of scientism by setting individually weak explanations against each other and finding "confirmation" by denying the worst of them. Competing explanations often represent different types of explanation, different levels of analysis. In the end, it is not a matter of which one is better, but of whether the right questions are being asked. This article is an effort to frame the proper questions and propose analytical links among them.

We argue that structural situations create the context of choice and cast up problems to be resolved, but they do not dictate the decisions and strategies. In other words, the global setting can be understood in neo-realist terms, but the political processes triggered by changes in the system must be analyzed in other than structural terms. The choices result from political processes and have political explanations. In this case, the process is one of bargains among nations and elites within the region. The political process for implementing these bargains is labeled "Europe 1992," a complex web of intergovernmental bargains and accommodations among the various national business elites.

In the first half of this essay, we showed why 1992 has so far been a project of elites; in the second half, we suggested that the elites are unlikely to maintain that monopoly. The commitment of the governments to the process, the fundamental bargain, is expressed by the end of the single-nation veto system, which changed the logic of Community decision making. Europe's states have thrown themselves into the drive for

a unified market, unleashing business processes that in themselves are recasting the terms of competition within Europe. The terms of the final bargains are open.

The effort to reshape the European Communities has so far been guided by three groups: Community institutions, industrial elites, and governments. The Commission proposes and persuades. Important business coalitions exercise indispensable influence on governments. Governments are receptive because of changes in the world economy and shifts in the domestic political context. The domestic context has changed in two key ways: (1) with the failure of traditional models of growth and purely national strategies for economic management; and (2) with the defeat of the left in some countries, and with its transformation because of the weakening of communist parties in others. These changes opened the way for an unlikely set of elite alliances. In this context, EC initiatives began to demonstrate that there were joint European alternatives to failed national strategies. The telematics programs were one precursor. Delors built on the budding sense of optimism and gave energy and leadership to the notion of a genuine single market. Whether a broader range of political groups will become involved is an open issue, one that may determine both whether the process continues and what form it takes.

The outcomes are quite unknowable, dependent on the timing and dynamics of a long series of contingent decisions. But the story, and consequently the analysis, concerns political leadership in creating a common European interest and then constructing a set of bargains that embody that understanding. Many of the choices are simply calculated risks, or perhaps explorations that will be entrenched if they work and refashioned if they don't. Even if we could predict the outcomes of any single choice with a high degree of confidence, the sequencing of diverse decisions and their cumulative effects would be impossible to foresee. It would be ironic if 1992 succeeded formally but economic rejuvenation did not follow. In any case, Europe's choices—particularly the possibility of a coherent Western Europe emerging as an actor on the global stage—will powerfully influence the world economic system, and perhaps the security system as well.

## Review Article

# THE USSR AS A "WEAK STATE": Agrarian Origins of Resistance to Perestroika

By ION VAN ATTA\*

- Marshall I. Goldman, *Gorbachev's Challenge: Economic Reform in the Age of High Technology*. New York: W. W. Norton, 1987. 280 pp.  
Ed A. Hewett, *Reforming the Soviet Economy: Equality versus Efficiency*. Washington, DC: The Brookings Institution, 1988. 391 pp.  
Cynthia S. Kaplan, *The Party and Agricultural Crisis Management in the USSR*. Ithaca, NY: Cornell University Press, 1987. 183 pp.  
Lynne Viola, *The Best Sons of the Fatherland: Workers in the Vanguard of Soviet Collectivization*. New York: Oxford University Press, 1987. 256 pp.

GENERAL Secretary Mikhail Gorbachev has now been in office slightly longer than a one-term U.S. president. His ultimate goal remains modernizing the Soviet system so it can retain its viability and competitiveness as a superpower. But the general secretary's policies have evolved from minor tinkering by demanding the acceleration of economic growth and better social discipline to a fundamental reconstruction he calls "revolutionary *perestroika*."

The reform process has made great strides in some areas. Public discussion of political and historical issues has broadened immeasurably. Political reforms, including the prospect of a multiparty democracy, are seriously debated.<sup>1</sup> Relatively free elections have been conducted for the first time since the fall of 1917. Some ideas of even such apostles of free market economics as Milton Friedman are seriously presented.<sup>2</sup>

\* Research during a five month stay in the Soviet Union supported by the International Research and Exchanges Board (IREX) in 1988 materially influenced the ideas expressed in this essay. Robert L. Paquette commented on an earlier draft. The manuscript was revised during a period as a Title VIII Visiting Scholar at the Hoover Institution, Stanford.

<sup>1</sup> B. Lazarev, "Razdelenie vlasti" i opyt Sovetskogo gosudarstva" ["Separation of powers" and the experience of the Soviet state], *Kommunist*, No. 16 (November 1988), 42-51.

<sup>2</sup> V. Bogachev, "Eshche ne pozdno: deneghno finansovoe ozdorovlenie v sisteme antikerznykh mer" [It's still not too late: monetary financial stabilization in a system of anti crisis measures], *Kommunist*, No. 3 (February 1989), 31-41, at 33.