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**DEEP WATERS RUN SLOWLY**

**Elements of continuity**

**in European integration**

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**ABSTRACT:** Commentary in Finland on western European integration has focused on change within the European Community and has implied movement towards a federal union. That approach has overlooked elements of continuity at the national level of member states-continuity in the form of domestic structures, traditional economic adjustment/integration strategies, national culture, and security policy. This paper introduces a model for interpreting the political economy of integration. It is based on the assumption that foreign economic policy is the resolution of domestic conflict over resource allocation, that differences over how society should be organized at home influence perceptions of the ideal regional or global regime, and that the distant past is often more helpful than the recent past for understanding the present and the future. Changing circumstances are viewed through the prism of deep-rooted traditional assumptions, and responses to these changes are channelled through existing institutional arrangements. The case of Finland is discussed in the last section. An understanding of Finland's options requires reference to both elements of change at the level of the EC and forces for continuity at the level of member states. Finland does not provide a model for other Soviet neighbors, but its postwar ability to meet the imperatives of national security, economic competitiveness, and national unity are instructive.

**KEY WORDS:** European integration, political economy, culture, Finland



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# Deep Waters Run Slowly

## Elements of Continuity in European Integration

R. Michael Berry

### Introduction

Five years ago reference to western European integration evoked images of Eurosclerosis. Today, five years after the publication of the White Paper, *Completing the Internal Market*, and three years after adoption of the *Single European Act* a very different symbol emerges. The image of *the gains of 1992*, legitimized by the extensive studies of Cecchini and Emerson, has captured the imagination of many commentators.<sup>1</sup> Against the backdrop of this new-found euphoria, the literature on western European integration has assumed inevitable momentum, driven by the assumed logic of economic gains, towards more economic and political integration. Given the expected benefits from increased factor movement and competition, commentators have given little attention to the forces for continuity within the European Community (EC).

Important elements of continuity remain, however, at the national level of member states. An understanding of the implications of recent developments requires at least two frames of reference--change at the EC level and continuity at the national level of member states. When the implicit context is the current dynamic features of EC developments, acceptance by member states of new EC institutions or EC directives gives the impression of support for the continuing process of economic and political integration. If, however, the context is the member state itself, defense of traditional interests (even while integrating) often emerges as the dominant message. Elements of continuity exist in the form of domestic structures, traditional economic adjustment/integration strategies, national culture, and security policy. These forms of "friction" continue to place considerable limits on integration even if non-tariff barriers (NTBs) are eliminated, and, as such, they constitute formidable challenges to scholars who attempt to analyze economic aspects of EC integration.<sup>2</sup>

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<sup>1</sup> Paolo Cecchini, *The European Challenge: 1992: The Benefits of a Single Market* (Andershot, 1988) and Michael Emerson and others, *The Economics of 1992: The EC Commission's Assessment of the Economic Effects of Completing the Commissions' Assessment of the Economic Effects of Completing the Internal Market* (London, 1988). For academic commentary on these predictions of economic gains, see a special issue of *Economic Policy. A European Forum* 10 (April, 1990), especially Damien J. Neven, "EEC integration towards 1992: some distributional aspects," pp. 13-62 and Barry Eichengreen, "One money for Europe Lessons from the US currency union," pp. 118-188, and William C. Brainard and George L. Perry, eds., "Symposium on Europe 1992," in *Brookings Papers on Economic Activity*, 2 (1989), pp. 277-375.

<sup>2</sup>This working paper is an attempt to emphasize aspects of European integration that the debate in Finland

Basic to this paper is the assumption that the distant past often tells us more than the recent past about the present and the future. A related assumption is that the deep waters of continuity at the national level continue to remain important in the management of economic interdependence. Therefore, the examination of the integration process should attempt to understand how domestic structures interact with external exigencies to produce competing foreign economic policies even among the countries that wish to enjoy the fruits of increased economic interdependence.

This exploratory working paper is divided into three parts. Part one introduces theories of integration. Part two discusses different aspects of continuity that the current discussion of European integration tends to ignore when estimating the benefits to be derived from EC integration: Section one of part two presents an interpretive model for analyzing perceptions of national (and sub-national) interests within the context of EC integration. Section two looks at the domestic structures of the leading actors of the EC (France, Britain, and Germany). Section three discusses the relation between national culture and organizational values. Section four presents an overview of elements of continuity in security policy, and section five sums up the implications of continuity at the national level for EC integration. Part three introduces the case of Finland: Section one looks at the geopolitical context and section two at the domestic context. Section three discusses the economic and security imperatives that Finland must meet. Section four asks whether there is a Finnish model for eastern Europe.

## Part I Theories of Integration

*Traditional Neoclassical Assumptions:* In *The Economics of International Integration*, one of the leading textbooks on regional integration, Peter Robson distinguishes between three different levels of economic integration: integration within the boundaries of a nation state, integration of different nations within a regional bloc, and global integration. Robson recognizes that regional integration involves a political element, that free factor movement has a significant impact on national policies, and that the goals of regional economic integration extend beyond considerations of allocative efficiency. Yet Robson, as in the case of most neoclassical literature on regional and global economic integration, is primarily concerned with the economic aspects of integration. The emphasis is on the benefits to be derived from integration and the implicit assumption is that losers can be compensated and become winners in the long run.<sup>3</sup> Little attention is given to what happens in the context of regional integration if a nation state gives up control over its central institutions for integrating and maintaining a balanced society.

There are always losers (or those who consider themselves potential losers) in every dynamic situation. Consequently there are often economic as well as non-economic reasons why some nations and interest groups within countries do not necessarily accept the neoclassical assumption that an increase in the free movement of goods and factors of

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has tended to ignore. I am grateful to Jan. Otto Anderson, George Maude, Paavo Okko, and Veikko Reinikainen for discussions on European integration. The diversity in their approaches to integration and its implications for Finland contributed significantly to the writing of this paper.

<sup>3</sup>Peter Robson, *The Economics of International Integration* (Boston, 1987). See also A. El-Agraa and A. J. Jones, *The Theory of Customs Unions* (Oxford, 1980). B. Balassa, *The Theory of Economic Integration* (London, 1962) is a classic. For a more recent Balassa interpretation, see also Balassa, ed., *European Economic Integration* (New York, 1975).



production promotes the public good. The historical experience of different countries and groups within countries have produced competing definitions of the *Good Society*. Because foreign economic policy is always part of an effort to resolve domestic conflict over resource allocation, differences over how society should be organized at home influence perceptions of the ideal regional or global regime.

*Political Theories of Integration:* Our discussion of theories of political integration is two-fold. Theories are attempts to make sense of (or legitimize) the present with reference to the past or attempts to predict the future by explaining the past. A theory of integration is both a biased and an analytical framework for explaining how and why we got to where we are and where we are or should be going. Seen from this perspective, theories of political and economic integration have their roots in history and have helped to shape history. As Charles Pentland<sup>4</sup> has emphasized, differences in theories mirror more than different emphases: they reflect fundamentally different philosophical views on the nature of man and on how society should be organized at the domestic and international level. For our purposes, the theories introduced below reveal differing views within and among nations over the goals of integration and/or means of achieving those goals. By placing these theories and the development of western European integration within a historical context, we can understand better how postwar western European integration has been an attempt to prevent a repeat of economic and political developments that led to the Second World War. We can also throw light on strategies for promoting national interests within the context of integration.

Lindberg and Scheingold<sup>5</sup> discuss competing national perceptions of the options open to western European countries after the Second World War, and they relate these perceptions to different theories of integration.<sup>6</sup> The matrix used in the figures below presents an ordered approximation of how political groupings and countries viewed political reality in the early postwar period and how those groupings differed over strategies and/or goals of integration. The ideal types in these matrix help to highlight general trends over a long period of time.

After the Second World War an important division over recovery was whether to rebuild the nation state or to build a new European community by transcending the nation state. There were competing strategies for achieving those goals. This produced, as suggested in figure 1, four different theoretical approaches to postwar recovery.

*Rebuilders* focused on immediate solutions, whereas *transcenders* emphasized the long term. Rebuilders advocated rapid recovery within traditional national frameworks. Transcenders preferred recovery based on European economic interdependence and feared that emphasis on national reconstruction would eventually lead to another world war.

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<sup>4</sup>Charles Pentland, *International Theory and European Integration* (London, 1973).

<sup>5</sup> For figures 1-3 see, Leon Lindberg and Stuart A. Scheingold, *Europe's Would-Be Policy* (Englewood Cliffs, N.J., 1970), pp. 5-18. See also Leon Lindberg and Stuart A. Scheingold, *Regional Integration. Theory and Research* (Cambridge, 1971).

<sup>6</sup>The literature on theories of western European integration is extensive. For different theories of western European integration see the relevant contribution by Paul Taylor, R. J. Harrison, and George A. Coddington, Jr. in Paul Taylor and A.J.R. Groom, eds., *International Organization. A Conceptual Approach* (New York, 1978) and R. J. Harrison, *Europe in question. Theories of regional international integration* (London, 1975). For a collection of essays that places the *Single European Act* of 1985 in historical perspective, see Roy Pryce, ed. *The Dynamics of European Union* (London, 1987).

Figure 1

|            |                       | GOALS                      |                          |
|------------|-----------------------|----------------------------|--------------------------|
|            |                       | Transcend the nation-state | Rebuild the nation-state |
| STRATEGIES | Political Determinism |                            |                          |
|            | Economic Determinism  |                            |                          |

Cutting across this division on goals were disagreements on strategies. The strategy of *political determinism* assumed that economic cooperation would flow from political agreement and the strategy of *economic determinism* assumed that political cooperation would flow from economic cooperation. Political determinists believed that only political agreements held out hope for resolving controversial problems but they could not agree on an acceptable political solution for western Europe. Political determinists who wished to transcend the nation state advocated a federalist solution with supranational power at the level of a European community. They are called federalists. Political determinists who did not want to transfer sovereign rights to the community level preferred a confederation of European states. They are called nationalists or pluralists. Economic determinists fall into two functionalist categories. One functional approach appealed to those who advocated rebuilding the nation state and preferred to lay the bias for political cooperation by promoting noncontroversial areas of economic cooperation. Another version of functionalism, known as neofunctionalism, adopted economic determinism as a strategy for transcending the nation state.

Figure 2

|            |                       | GOALS  |                                 |
|------------|-----------------------|--|---------------------------------|
|            |                       | Transcend the nation-state                   | Rebuild the nation-state        |
| STRATEGIES | Political Determinism | Federalists<br>(U.S. of Europe)              | Nationalists<br>(Confederation) |
|            | Economic Determinism  | Neo-functionalists<br>(economic integration) | Functionalists<br>(free trade)  |

Neofunctionalism, as in the case of neoclassical economic theory, assumed that the benefits from economic integration would lead to greater acceptance of political integration. The four theories that grew out of these divergent goals and strategies of integration are illustrated in figure 2 above.

There is an interesting link between the assumptions in the theories of integration and the rather consistent integration strategies of the leading members of the EC. Germany has pursued a policy consistent with the economic determinist assumptions of neofunctionalism. The British and French, in their own ways, have pursued strategies of political determinism and advocated an EC confederation, while attempting to retain their domestic

economic systems and to reestablish their prewar international status. Without trying to force the ideal types in figure 2 into a comprehensive explanation for reality and continuity over time, I would suggest that France and Germany can agree on EC institutional arrangements even when pursuing divergence goals and strategies.

The continuity of a French preference for political determinism derives in part from the French realization that France's political leverage is greater than its economic leverage but also from a desire to protect its national domestic regime. Consequently, France will pursue strategies of political determinism to control economic developments that threaten the French domestic regime and that might lead to a federalist EC. The French goal of a strong united Europe, led by a Franco-German axis, meets the pluralist, Europeanist goals of French policy. In contrast, the economic determinism that has been evident in German policy stemmed from a combination of strong economic leverage and a relatively weak political position. This was especially the case in the early years of western European integration when Germany could increase its political power only by contributing to EC prosperity.

The early institutional arrangements of integration illustrate the relationship between these arrangements and the assumptions underlying different theories of integration. The European Coal and Steel Community reflected agreement in one sector of the economy but that agreement was supported by convergence of interests rather than a agreement of interests. Some supporters were thinking along neofunctionalist lines, others along nationalist lines.

Figure 3

|            |                       | GOALS  |   |
|------------|-----------------------|--|---|
|            |                       | Transcend the nation-state   | Rebuild the nation-state  |
| STRATEGIES | Political Determinism | Federalists<br>Institutional Nexus<br>European Coal and Steel<br>Community | Nationalists<br>Institutional Nexus<br>Council of Europe                                  |
|            | Economic Determinism  | Neofunctionalist   | Functionalist<br>Institutional Nexus<br>Organization for European<br>Economic Cooperation |

For the neofunctionalist types the Coal and Steel Community represented a step towards more economic and political integration of western Europe. For the nationalist/pluralist types, support for the Coal and Steel Community represented an *ad hoc* solution to a national problem. With hindsight we know that the success of the Coal and Steel Community gave impetus to assumptions shared by neofunctionalists and lent itself to the signing of the Treaty of Rome; but the point here is that agreement on any particular institutional arrangement is not necessarily linked to agreement on long-term goals. Two other early institutional arrangements leaned strongly towards a preference to promote cooperation within the framework of a European confederation. There was a difference, however, in the assumptions underlying these two agreements. The Council of Europe assumed the primacy of political agreement, whereas the Organization for European Economic Cooperation assumed the primacy of economics.

If we look at recent institutional developments, the *1992 Project* could be placed in the neofunctionalist category with clear implications for increased institutional integration at the EC level. Support for the *1992 Project* from member states should not be construed, however, to mean support for a movement toward federalism. It might only reveal support for a more closely knit EC confederation. The *European Economic Space Project (EES)* falls into the category of economic determinism; by broadening the EC to include integration beyond the EC membership it is more functional than neofunctional. Any developments within the EC that reflect a move towards functionalist solutions, i.e., include scope for cooperation beyond the core of the EC, and, in effect, weaken forces for a neofunctionalist route to federalism, are in the interest of EFTA countries.

## Part II Continuity in EC Integration

### *I An Approach to Interpreting Elements of Continuity*

The welfare economies of the advanced industrial nations--originally based on postwar economic prosperity--can no longer satisfy through economic growth the rising welfare expectations of their populations.<sup>7</sup> Faced with common external challenges, industrialized countries have, nevertheless, responded in different ways. There are significant elements of continuity within these diverse responses.

To introduce an interpretive framework for discussing continuity and change in a short paper is to run the risk of distortion through simplification. An understanding of continuity and change is difficult, since no change is radical and no continuity complete. Moreover, continuity and discontinuity exist simultaneously when examined at different levels or in different spheres. *The discussion below is an attempt to suggest alternative ways of carving up reality in order to throw light on continuity in that reality.*

Elements of continuity and change in the postwar division between East and West form the larger political context of western European economic integration. Soviet hegemony in eastern Europe and American hegemony in western Europe determined the political parameters for western European integration, and the recent decline of the Soviet Union and the United States will greatly influence developments within the EC as well as the role of the EC in the international arena. These dramatic developments should not blind us, however, to important features of continuity in the division between eastern and western Europe. The roots of that division are deep in the core-periphery relationship of prewar economic development.<sup>8</sup> The rebirth of the prewar concept of central Europe will only bridge part of this gulf in the near future. The larger international economic context is the postwar decline of the United States and the recovery of western Europe and Japan (and the recent rise of NICs).

The economy of the industrialized countries operates within regional and global environments. To be competitive on external markets domestic economic structures must adapt or decline. A defensive, protectionist reaction can be successful in the short run but future welfare eventually requires adjustment. The adjustment process is often painful, and the

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<sup>7</sup> For the concept of political economy at the global and regional level, see Robert Gilpin, *The Political Economy of International Relations* (Princeton, 1987) and Stephen Gill and David Law, *The Global Political Economy* (London, 1988).

<sup>8</sup> See, e.g., Iván T. Berend and György Ranki, *The European Periphery and Industrialization 1780-1914* (Cambridge, 1982).

losers (or those who consider themselves potential losers) within any society will demand protection against or compensation for that pain.

Consequently, *the economics of adjustment is an integral part of the politics of adjustment*. When market forces in a large liberal society like the United States fail to produce the structural changes necessary to maintain competitiveness on international markets, protectionism is almost the only economic option open to policymakers. In countries with more extensive state roles in the economy central authorities tend to introduce a combination of social welfare cushions and incentives for reorganizing the country's economy. Great powers can resort to political influence to maximize economic privilege in the short run. Small industrialized states have no choice but to adjust to external global pressures.

All industrial states, small and large alike, seek to make the adjustment process as smooth as possible. If the settlement of distribution is not stable, political divisions will interfere with the effective functioning of the marketplace and will transform the institutions of the economy, e.g. labor relations, into the focal point of political conflict. The institutional arrangements of the domestic regime set the parameters within which national governments seek a stable settlement while distributing losses and gains. The traditional role of state and market and the extent to which the losers are excluded from policymaking often point towards the policies that different countries will pursue. A stable economy requires an adjustment mechanism for distributing the gains and losses inherent in any structural changes. This paper introduces three different models of adjustment (or relationships between the state and the market): *state-led, negotiated, and market-led*. The government can play an active role in channeling market forces, can mediate between leading interest groups, or can permit market forces to reallocate resources.

Each of these models of domestic adjustment has a counterpart in foreign economic policy and strategies of economic integration. Trade outcomes are the result of political bargaining among countries and among interest groups within national economies. *Foreign economic policy is thus an attempt to resolve domestic conflicts within an external context*. Consequently, countries often seek partial refuge from world market forces within regional economic associations or they join regional blocs in order to avoid discrimination. Once members of a regional economic bloc they promote policies within the bloc that will benefit their own domestic political economy. The more powerful the member state, the more it can promote its own norms as community norms. Regional integration is not necessarily a step towards global integration. It merely opens the doors to market forces from somewhat similar countries while providing a shield for members against global pressures. This shield also provides a stronger negotiating position for member states as a group in GATT negotiations.

Each country discussed in this paper faces three interdependent challenges: the imperative of *national security*, the imperative of *economic competitiveness* on external markets, and the imperative of *national unity*. No state takes its security for granted, and no industrialized country can prosper unless it is competitive on international markets. Failure to maintain national unity at home while meeting the imperatives of national security and economic competitiveness abroad will undermine the ability to meet the other imperatives.

Geopolitical considerations and historical developments determine the relative importance of these imperatives in each country and traditional strategies for meeting them. As the diagram 1 below suggests each of these models reflects a set of ideological assumptions anchored in the history of the respective country. The lessons of the past converge with changes in external environments to produce competing strategies of economic adjustment

or, put another way, to spawn divergent strategies of economic integration at the regional or global level.

The conceptual approach in the diagram is exploratory. It suggests the importance of a multi-disciplinary approach to understanding how different countries perceive and cope with external challenges, and it focuses on the interplay between continuity and change in international economic development. The elements of continuity can be found in the relationship between domestic structures, national strategies of economic adjustment and integration, national cultures, and security policies.

A comprehensive approach to a country's domestic adjustment or foreign economic policy strategy can best be pursued by breaking this interpretive framework down into its basic subcomponents and relating each subdivision to the overall framework. The two primary divisions are between the *domestic ideological/institutional* and the *external political/economic* dimensions, on one hand, and the *traditional setting* and the *adjustment to circumstances* levels, on the other. The starting point should be the ideological/institutional dimension in the traditional setting. An examination of the domestic regime reveals the roots of basic values, ideologies, culture, and institutional arrangements. Convergence of basic values with external political and economic realities produces perceptions and definitions of national interests. Foreign economic policy preferences evolve out of these definitions of national interest and these preferences constitute dominant paradigms or operational codes.

In the case of leading economic powers like the United States that enjoy extensive economic and political influence, the domestic ideological dimension is often considered more important than the external dimension in the formulation of economic policy. In the case of small industrialized countries like Finland, the external dimension is relatively more important because the external competitive environment places clearer short-term limits on the parameters within which ideological preferences can form the basis of economic policy. If the big industrial power has traditionally assumed a policy of maximizing options, the small industrial country has learned to survive through adaptation to the external environment.<sup>9</sup> Medium-size powers like Britain, France, and Germany fall in between and *use regional cooperation as a buffer between national preferences and global pressures*.

At the operational level of the diagram new circumstances create the need for domestic adjustment and integration strategies. Since foreign policy is an extension of domestic policy, the point of departure at the operational level is ideological preferences or the ideological prisms through which policymakers and important opposition groupings view external developments. The convergence of ideological preferences with external realities of economic competition produces perceptions of options open to promote or defend national economic interests. These perceptions produce paradigms or operational codes, which lead to domestic and foreign economic policy decision making and views held by important opposition groupings.

Economists who study economic integration and political scientists who study international relations tend to focus on contemporary developments with reference to the recent past. Consequently, they tend to project the future on the basis of the lessons of the recent past. They focus on the circumstances section of the model in diagram 1 and especially on the external dimension of that section. (Here I would emphasize that the EC

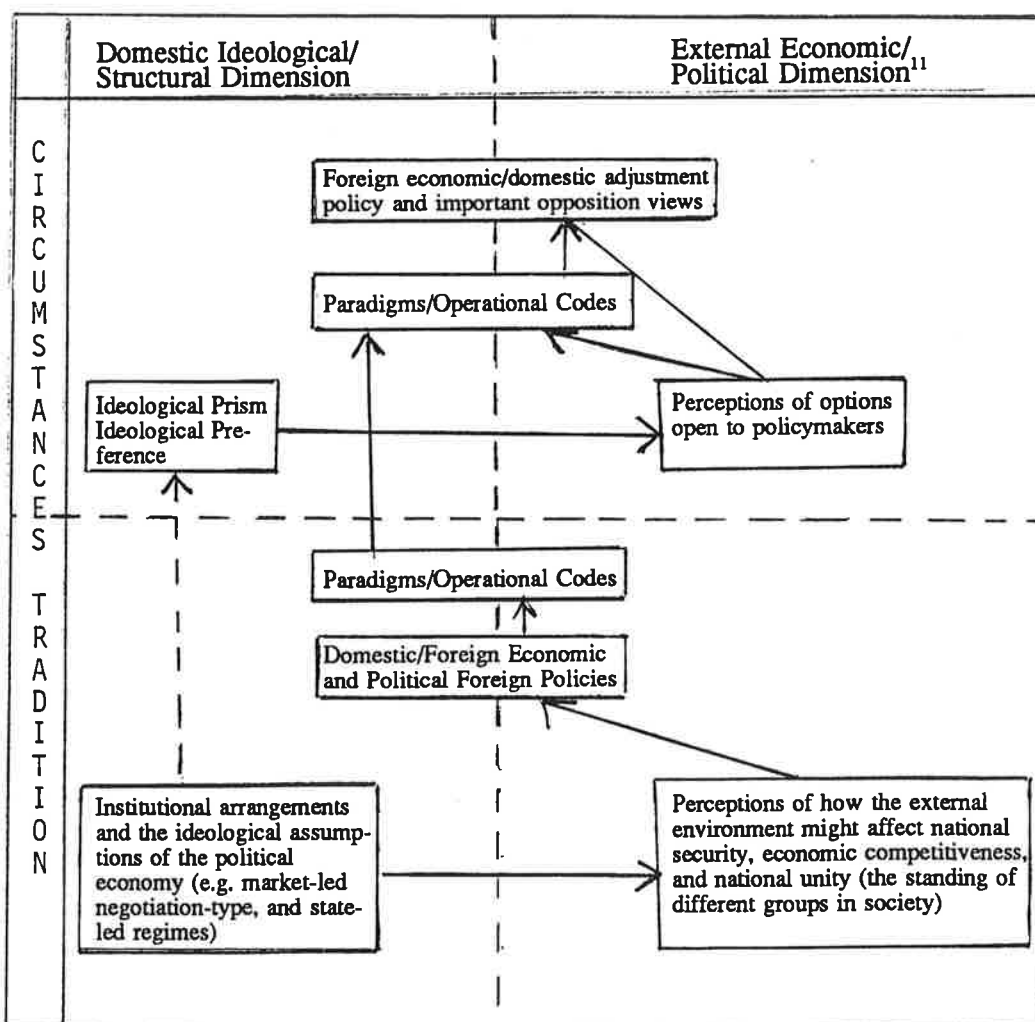
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<sup>9</sup>As we shall see below the more integrated the domestic regime of a small country is, the greater its ability to adjust to external market pressures.

is an external dimension for EC member states.) Perhaps we are more likely to appreciate the interdependence between the domestic dimension anchored in tradition and the external dimension with its emphasis on change if we make these two dimensions more explicit in our study of the integration process.

Diagram 1

A Model for Interpreting the Political Economy of Integration<sup>10</sup>



The study of the political economy of international economic relations and regional integration can best be understood if examined over time from the perspective of the interaction between the ideological/institutional dimension of the domestic regime, subsequent perceptions of external economic realities, and political considerations of security policy. This approach to the political economy should be an integral part of a deeper and broader approach to the history of international relations. Deeper in that it

<sup>10</sup>Adapted from R. Michael Berry, *American Foreign Policy and the Finnish Exception. Ideological Preferences and Wartime Realities* (Jyväskylä, 1987), p. 458.

<sup>11</sup>For EC members, the external dimension includes forces for change at the global level and within the EC itself.

begins with the ideological and structural dimensions of the pertinent domestic cultures and broader in that it recognizes that the regional (e.g., EC) and international (e.g., GATT) regimes impinge upon the domestic regimes within the EC. An understanding of the dynamic forces evolving out of this interaction is fundamental to understanding the options open to any given country within a global or regional environment. We must make explicit, however, not only the changes the external pressures force upon the domestic regimes but also the limits of those changes and the extent to which the domestic regime places limits upon the options open to the regional environment.

### *II Domestic Structures and Strategies of Economic Adjustment*<sup>12</sup>

In an important book on the political economy of foreign economic policies Peter J. Katzenstein et al. explored the relationship between domestic structures and foreign economic policy in six leading industrial states. Katzenstein suggests that ruling coalitions set the objectives of policy and that these goals are implemented through policy networks. This approach to the political economy combines a strong-weak state dichotomy with a centralization-differentiation continuum to determine the role of the state bureaucracy in achieving foreign economic policy goals. Katzenstein's inventory of the objectives and

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<sup>12</sup>Peter J. Katzenstein, ed. *Between Power and Plenty. Foreign Economic Policies of Advanced Industrial States* (Madison, Wisc, 1977), especially, "Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy," pp. 3-22 and "Conclusion: Domestic Structures and Strategies of Foreign Economic Policy," pp. 295-336. For France, see John Zysman, *Governments, Markets, and Growth. Financial Systems and the Politics of Industrial Change* (Ithaca, NY, 1983), especially pp. 99-170 and "The French State in the International Economy," in Peter J. Katzenstein, ed. *Between Power and Plenty. Foreign Economic Policies of Advanced Industrial States* (Madison, Wisc, 1977), pp. 255-294; John Goodman, "Monetary politics in France, Italy and Germany: 1973-1985," in Palo Guerrieri and Pier Carlo Padoan, eds. *The Political Economy of European Integration* (London, 1989), pp. 171-201; Pascall Petit, "Expansionary policies in a restrictive world," in Guerrieri and Padoan, *The Political Economy*, pp. 231-263. For Britain, see Stephen Blank, "Britain: The Politics of Foreign Economic Policy, the Domestic Economy, and the Problem of Pluralistic Stagnation," in Katzenstein, *Between Power and Plenty*, pp. 89-138; Zysman, *Governments*, pp. 171-232. For Germany, see Michael Kreile, "West Germany: Dynamics of Expansion," in Katzenstein, *Between Power and Plenty*, pp. 191-224; Elke Thiel, "Macroeconomic policy preferences and co-ordination: A view from Germany," Guerrieri and Padoan, *The Political Economy*, pp. 202-230; Jacques Pelkmans, "Is convergence prompting fragmentation?. The EMS and national protection in Germany, France and Italy," in Guerrieri and Padoan, *The Political Economy*, pp. 100-144; Marcello De Cecco, "The Monetary System and national interests," in Guerrieri and Padoan, *The Political Economy*, pp. 85-99. For the United States, see Charles Maier, "The Politics of Productivity: Foundations of American International Economic Policy after World War II," in Katzenstein, *Between Power and Plenty*, pp. 23-50; Stephen Krasner, "United States Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness," in Katzenstein, *Between Power and Plenty*, pp. 51-88; See also a series of articles on structural aspects of the American political economy, see *International Organization* (Winter, 1988). For Japan, see T. J. Pempel, "Japanese Foreign Economic Policy: The Domestic Bases for International Behavior," in Katzenstein, *Between Power and Plenty*, pp. 139-190; Zysman, *Governments*, pp. 233-284. For national structures and regional policy see, L. Albrechts, F. Moulart, P. Roberts and E. Swynegedouw, eds. *Regional Policy at the Crossroads. European Perspectives* (London, 1989). For the relations between ideology and structure, see John Armstrong, *The European Administrative Elite* (Princeton, 1973) and John Zysman, *Political Strategies for Industrial Order* (Berkeley, 1977), chapter 6. For the difficulty of harmonizing capital markets and corporate control across national borders within the EC, see Julian Franks and Colin Mayer, "Capital markets and corporate control: a study of France, Germany and the UK," *Economic Policy. A European Forum*, 10 (April, 1990), 189-232.



instruments in different countries produced three groups of states: two Anglo-Saxon countries, continental European countries, and Japan.<sup>13</sup>

Building upon the insights related to the research for this collection of essays, John Zysman and Peter Katzenstein applied the concept of state-led, negotiated, and market-led economies to different national contexts. Katzenstein focused attention on small industrialized European countries (a topic to which we will return below) and Zysman examined financial systems and the politics of industrial change.<sup>14</sup>

In the state-led model the government shapes the market to direct the distribution of gains and losses from economic change. In the negotiated model the government negotiates explicit agreements among competing interests or intervenes to ensure that the negotiation process between competing interests does not break down and hinder the proper functioning of society. In the market-led model the government pursues a limited role in the economy and permits the market to allocate resources. The shared assumption is that every country has a mechanism for excluding losers from policy making or for compensating them by policy. None of these models is necessarily superior to the others. The Japanese have been much more successful than the French in pursuing a policy of sectoral development. In some cases the French *dirigiste* approach has created a paralysis of policy. At the other extreme, the market-led model has permitted individual firms to determine basic strategy and production choices. In the case of the United States, a government role limited to regulating the market leaves central authorities (as Ronald Reagan's Administration discovered) without state structures to impose its preferences. The postwar British industrial paralysis has resulted in part from standing on the two stools of market-led and negotiated systems of response. Consequently, the approach to distribution has remained unresolved and the political stability necessary to economic growth has remained elusive. The negotiated model of Germany and small industrialized countries, e.g., Austria and Switzerland, maximizes flexibility.<sup>15</sup>

Zysman relates distinct adjustment processes to the characteristics of finance and state structure, arguing that *financial systems structure the politics of industrial change*. The state administration, financial system, and economic circumstances combine to set the context for political battles within a country and illustrate how these battles produce particular patterns of industrial adjustment. Here economic circumstances determine the challenges a country faces; state administration and financial institutions, which are the outgrowth of historical development, determine the parameters of the government's capacity to respond. Institutional arrangements determine how political settlements are achieved; and the relative power of competing groups determine the content of the settlement. Consistent systems of response to external threats are produced by the convergence of a country's institutional structure and the nature of the external problem. Each response mechanism has strengths and weaknesses, depending upon the problem at hand. Zysman's contribution is to take financial institutions, which he concluded offer a sound basis for prediction of national adjustment policy, and to determine the extent to

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<sup>13</sup>Peter Katzenstein, ed., *Between Power and Plenty*, pp. 302, 306, 324.

<sup>14</sup>Peter Katzenstein, *Small States in World Markets. Industrial Policy in Europe*, (London, 1985) and John Zysman, *Governments, Markets, and Growth. Financial Systems and the Politics of Industrial Change* (Ithaca, NY, 1983). For a pioneer study of the relationship between the state and markets, see Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (New York, 1975).

<sup>15</sup>Katzenstein, *Small States*, passim, and Zysman, *Governments*, pp. 310-313.

which the role of financial institutions is allocation (as opposed to technical) and therefore political. His findings are summarized in table 1.

*Table 1 Predicted and Actual Patterns of Industrial Adjustment*<sup>16</sup>

| Countries   | Adjustment Model (predicted)                   | Adjustment Model (actual) |
|---|--|---------------------------|
| United States   |  | company-led               |
| capital-market finance  | company-led                                    |                           |
| fragmented, decentralized state structure                       | company-led                                    |                           |
| economic dominance in postwar years                             | company-led                                    |                           |
| Britain   |  | unclear or ambiguous      |
| capital-market finance  | company-led, possibly state-led                |                           |
| insulated state with limited discretion                         | state-formulated policy with no implementation |                           |
| declining economic position                                     | state-led response                             |                           |
| Japan   |  | state-led                 |
| credit-based, price-administered finance                        | state-led                                      |                           |
| insulated state with discretion                                 | state-led                                      |                           |
| rapid industrial catch-up                                       | state-led                                      |                           |
| France  |  | state-led                 |
| credit-based, price-administered finance                        | state-led                                      |                           |
| insulated state with discretion                                 | state-led                                      |                           |
| industrial catch-up   | state-led                                      |                           |
| Germany   |  | negotiated                |
| credit-based, bank-dominated finance                            | negotiated                                     |                           |
| decentralized state with civil service                          | company-led or negotiated                      |                           |
| industrial leader from mid-1950s but middle-rank economic power | negotiated or company-led                      |                           |

Katzenstein and Zysman have produced somewhat similar categories, starting with the weak-state/market-led example of the United States and ending with the strong-state/state-led example of Japan. Great Britain, Germany, and France take a middling position within this global framework. Switzerland and Austria, two small industrialized European states outside the EC, can also be added to our comparison. The open economies of these two countries have left them vulnerable to pressures from a liberal international economy, but they have survived politically and economically by developing corporate strategies that foster both economic flexibility and political stability. The concept of democratic corporatism, as used here, is distinguished by three characteristics: a sense of social partnership at the national level, a relatively centralized system of interest groups, and

<sup>16</sup>Zysman, *Governments*, p. 304.

informal coordination of conflicting interest through bargaining between interests groups, the state bureaucracies, and the political parties.<sup>17</sup>

Switzerland's variation of corporatism is "liberal," i.e., global in scope and organized privately. Austria's is "social," i.e., national and public. These two different approaches to achieving consensus at home have provided political stability and important elements of economic flexibility, and thereby eased the conflict between the requirements of being competitive on international markets and those of domestic politics. Survival in global markets requires a highly integrated domestic regime. From this flows the implication that extensive integration and harmonization according to liberal norms could weaken the traditional capacity of a small industrialized country to promote corporate solutions at home and, in this way, undermine the country's ability to adapt to external pressures in the long run.

Swiss liberal corporatism and Austrian social corporatism correspond more to different aspects of German policy than to the policies of the other industrialized countries discussed above.<sup>18</sup> The examination of the relationship between domestic structures and foreign economic policies (adjustment policies/integration strategies) produces five categories.

There is a slight difference in the way Katzenstein and Zysman clustered the groups in figure 4. Katzenstein places Britain and the United States in one category, Germany and France in another, and Japan in a separate category. Zysman comes close to placing Britain

Figure 4

| <u>Market-led</u> | <u>Market-led/Negotiated</u> | <u>Negotiated</u>                 | <u>State-led</u> | <u>State-led/Mercantilistic</u> |
|-------------------|------------------------------|-----------------------------------|------------------|---------------------------------|
| USA               | Britain                      | Germany<br>Switzerland<br>Austria | France           | Japan                           |

and the United States in the same cluster, puts Germany in a separate category, and places France and Japan in the same group. The discussion below about national culture lends support to both approaches.

### III National Cultures and Organizational Values

Up to this point we have looked at the significance of political and economic institutional arrangements and related them to national policies of economic adjustment and foreign economic policy. Economic integration, whether global or regional, also takes place through the internationalization of individual companies. As economies become more interdependent via the medium of multinational corporations, cultural differences in work-related values and organizational structures become perhaps the last significant obstacle to integration, raising questions about the need to broaden the concept of NTBs. The most extensive research on this topic is by Geert Hofstede whose analysis of 53 IBM subsidiaries has revealed basic differences in national cultures and the implications of these differences for managing multinational corporations.<sup>19</sup>

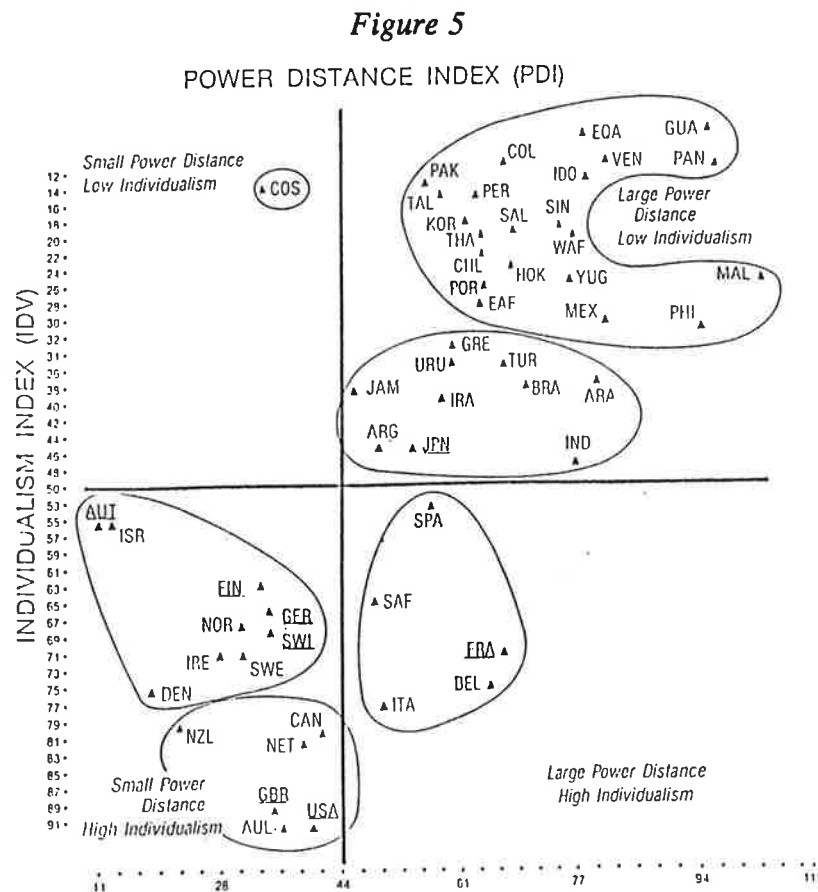
<sup>17</sup>Katzenstein, *Small States*, p. 32.

<sup>18</sup>Katzenstein, *Ibid*, p. 186 on the ability of small industrialized states to avoid the negative impact of great power influence and pp. 80-135 on variants of corporatism in small industrial states.

<sup>19</sup>Geert Hofstede, "Motivation, Leadership, and Organization: Do American Theories Apply Abroad?,"

Hofstede found that managers and employees differ on four primary dimensions: (1) *Power distance*, i.e. behavior towards people higher or lower in rank or the extent to which the less powerful members of organizations accept as natural unequal distribution of power, (2) *Individualism versus collectivism*, i.e. behavior towards the group or the extent to which people define themselves as individuals or as members of a group, (3) *Masculinity versus femininity*, i.e. behavior according to one's sex or the degree to which a society emphasizes assertive and competitive values (masculine) as compared with modest and nurturing values (feminine); (4) *Uncertainty avoidance*, i.e. the extent to which a culture conditions its members to feel comfortable or threatened in ambiguous and unstructured situations.

When individualism/collectivism is combined with power distance, the United States and Britain fall into a cluster combining moderate power distance and high individualism. Switzerland, Germany, Finland, and Austria fall into another cluster combining less individualism but, with the exception of Austria, similar power distance. France and Japan fall into the high power distance category, but France is in the individualist quadrant and Japan in the collectivist.



The position of selected countries on Power Distance (PD) and Individualism (IDV)<sup>20</sup>

*Organizational Dynamics* (summer 1980), pp. 42-63 and *Culture's Consequences* (Beverly Hills, Cal, 1984). See also André Laurent, "The Cultural Diversity of Western Conceptions of Management," *International Studies of Management and Organization*, XIII (1983), 75-96.

<sup>20</sup>Hofstede, "The Cultural Relativity of Organizational Practices and Theories," *Journal of International Studies* (Fall 1983), 82. The clustering in figures 5, 6, and 7 are Hofstede's. Almost without exception (see

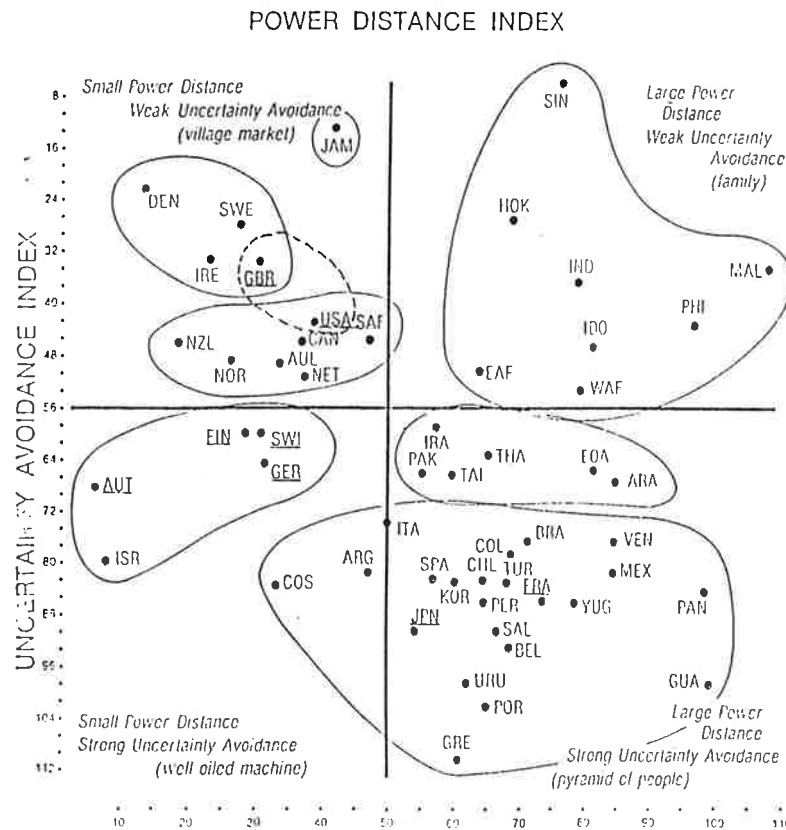
The clustering in figure 5, when compared with figure 4, produced four groups (see figure 5a) with the main dividing line between those countries that fell into the high individualism/low power distance quadrant (the countries that were also market-led or negotiation-type) and the countries that fell on the high power distance side of the figure. France and Japan (the state-led countries) were distinguished, however, from each other by the line dividing high and low individualism.

Figure 5a

| <u>Market-led</u>        | <u>Market-led/Negotiated</u>         | <u>Negotiated</u>   | <u>State-led</u>                       | <u>State-led/Mercantilistic</u> |
|--------------------------|--------------------------------------|---------------------|--|---------------------------------|
| USA                      | Britain                              | Germany             | France                                 | Japan                           |
|                          |                                      | Switzerland Austria |  |                                 |
| USA and GBR              | GER, SWI, FIN (AUT)                  |                     | FRA                                    | JPN                             |
| Moderate PD,<br>High IDV | Moderate PD<br>Less IDV than USA-GRB |                     | High PD<br>IDV similar<br>to SWI & GER | High PD<br>Low IDV              |

When, as illustrated in figure 6 below, power distance is combined with uncertainty avoidance the United States falls into the small power distance/weak uncertainty avoidance quadrant. Britain belongs to another cluster in the same quadrant with somewhat less

Figure 6



The position of selected countries on Power Distance (PD) and Uncertainty Avoidance (UA).<sup>21</sup>

figure 6 where I added one cluster) his clustering corresponds to that suggested by the literature on the political economy of industrialized countries.

<sup>21</sup>Hofstede, p. 84.

power distance and uncertainty avoidance. Germany, Switzerland, and Finland shared the Anglo-American degree of moderate power distance but have stronger uncertainty avoidance. (Austria has somewhat lower power distance but stronger uncertainty avoidance.) France and Japan belong to the same cluster with large power distance and strong uncertainty avoidance.

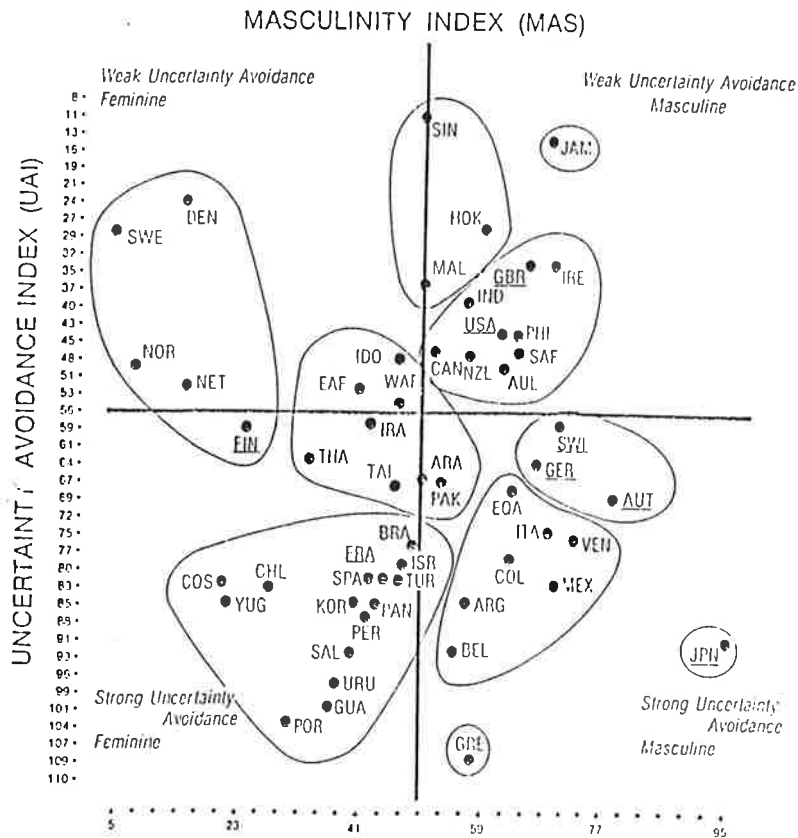
In figure 6 the positioning for UA produces similar groupings to figure 5 but in this case France and Japan are closer to each other. This difference is illustrated in figure 6a.

Figure 6a

| <u>Market-led</u> | <u>Market-led/Negotiated</u> | <u>Negotiated</u>                                   | <u>State-led</u> | <u>State-led/Mercantilistic</u> |
|-------------------|------------------------------|---|------------------|---------------------------------|
| USA               | Britain                      | Germany   | France           | Japan                           |
|                   |                              | Switzerland Austria                                 |                  |                                 |
| USA               | GRB                          | FIN & SWI   | FRA              | JPN                             |
| Weak UA           | Very weak UA                 | Moderate UA   | Strong UA        | Somewhat stronger UA            |
|                   |                              | GER & AUT<br>Somewhat stronger UA<br>than FIN & SWI |                  |                                 |

When masculinity/femininity is combined with uncertainty avoidance in figure 7 the United States and Britain belong to the same cluster in the weak uncertainty avoidance/masculine quadrant. Germany, Switzerland, and Austria shared a similar degree of

Figure 7



The position of selected countries on Uncertainty Avoidance (UA) and Masculinity (MAS).<sup>22</sup>

<sup>22</sup>Hofstede, p. 86.

masculinity with the Anglo-American cluster but fall just over the dividing line into the strong uncertainty quadrant. (Finland is just below the dividing line on the strong uncertainty side but clearly in the feminine quadrant.) France and Japan shared a somewhat similar degree of strong uncertainty avoidance but France falls into the feminine quadrant and Japan is highly masculine.

In figure 7a the clustering produces an Anglo-American group, a Swiss-German-Austrian group (which does not include Finland on the masculine-feminine scale), and France and Japan fall into quadrants separate from the other countries and from each other.

Figure 7a

| <u>Market-led</u>                  | <u>Market-led/Negotiated</u> | <u>Negotiated</u>  | <u>State-led</u>   | <u>State-led/Mercantilistic</u>      |
|------------------------------------|------------------------------|--|--------------------|--------------------------------------|
| <i>USA</i>                         | <i>Britain</i>               | <i>Germany</i><br><i>Switzerland Austria</i>   | <i>France</i>      | <i>Japan</i>                         |
| USA GRB<br>Weak UA<br>Moderate MAS |                              | ← SWI, GER, (AUT) (FIN)<br>Moderate UA (stronger for AUT)<br>Moderate MAS (with Finland FEM) | FRA<br>← Strong UA | JPN<br>Somewhat stronger UA than FRA |

The position of Finland in the Scandinavian cluster, as opposed to the German-Swiss-Austrian cluster, throws suggestive light on the difference between Nordic corporatism and Austrian corporatism. In the Nordic countries there is a greater degree of solidarity in corporate policy than in Austria where the negotiating process is quite similar but wage differences are maintained according to the skill and sex, and more groups are excluded from the process. One of the well-known elements in the deep waters of Nordic nations is a preference for retaining those institutional arrangements that make possible full employment and extensive welfare programs. The argument that integration is necessary to economic development and therefore essential to achieving these goals in the long run does not necessarily lead to immediate action on that insight.

Figure 8 summarizes the findings from figures 4-7. The similarities and differences between the market-led American model and the British hybrid market-led/negotiated

Figure 8

| <u>Market-led</u>                                | <u>Market-led/Negotiated</u> | <u>Negotiated</u>   | <u>State-led</u>                                       | <u>State-led/Mercantilistic</u>           |
|--|------------------------------|---|--|---|
| <i>USA</i>                                       | <i>Britain</i>               | <i>Germany</i><br><i>Switzerland Austria Finland</i>  | <i>France</i>  | <i>Japan</i>                              |
| <i>USA and GBR</i><br>Moderate PD,<br>Strong IDV |                              | <i>GER, SWI, FIN (AUT)</i><br>Moderate PD<br>Less IDV than USA-GBR                                | <i>FRA</i><br>Strong PD<br>IDV similar<br>to SWI & GER | <i>JPN</i><br>Strong PD<br>Low IDV        |
| <i>USA</i><br>Weak UA                            | <i>GRB</i><br>Very weak UA   | <i>FIN &amp; SWI</i><br>Moderate UA<br><i>GER &amp; AUT</i><br>Somewhat stronger UA               | <i>FRA</i><br>Strong UA                                | <i>JPN</i><br>Somewhat stronger UA        |
| <i>USA &amp; GRB</i><br>Weak UA<br>Moderate MAS  |                              | <i>SWI, GER, (AUT) (FIN)</i><br>Moderate UA (stronger for AUT)<br>Moderate MAS (with Finland FEM) | <i>FRA</i><br>Strong UA<br>←<br>FEM                    | <i>JPN</i><br>Somewhat stronger UA<br>MAS |

model received confirmation from Hofstede's findings. The similarity between the Swiss-German-Austrian negotiated model was also confirmed. Hofstede's study raised interesting questions about similarities and differences between the French and Japanese state-led models. Hofstede's results suggest that Finland belongs to the negotiated model. This conclusion finds support from Jan Otto Anderson. Anderson places recent developments in Finland within Katzenstein's frame of reference and suggests that Finland's Blue-Red (Conservative-Social Democratic) coalition government appears to be laying the basis for a two-tier form of corporatism which will combine the more traditional social corporatism on the macro-level with a new liberal corporatism on an intermediate level of production and innovation. This combination envisions continuity at the macro-level of central incomes policies. Traditional corporatist solutions are being challenged by local and international developments. This could lead to decentralization through introduction of more market forces even if the traditional social corporatist forms of conflict resolution remain.<sup>23</sup>

The apparent convergence of Hofstede's findings on work-related values with the categories produced by Katzenstein's and Zysman's examinations of domestic structures and adjustment strategies takes on additional meaning when individuals are placed in institutional contexts. Hofstede explains how *differences in work-related values and attitudes are better explained by national culture than by profession, age, gender, or position within the organization*, and Katzenstein and Zysman demonstrate that *political leadership and coalitions are less reliable than traditional institutional arrangements as predictors of economic adjustment policy*. The analysis of developments in the EC cannot afford to ignore these powerful elements of continuity in the political economy and culture of member states. Katzenstein's and Zysman's findings related to the political economy (figure 4) and Hofstede's findings related to culture (figures 5-7) represent elements of embedded national institutional and cultural norms. The relationship implied deserves further study.

#### *IV Institutional Aspects of Continuity and Change*

*Security Concerns:*<sup>24</sup> Nations cooperate on security questions because of shared values and a shared enemy. In some cases the shared-values aspect predominates, in others the shared-enemy feature determines the parameters of the security agreement. Postwar European integration originated in large part as an attempt to resolve security problems, and security questions still play a role, even if the perception of the security threat is changing. The goal was to prevent future wars between Germany and France and to contain the Soviet Union by building an economically and politically integrated western Europe. The shared

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<sup>23</sup> Jan Otto Andersson, "Controlled Restructuring in Finland," *Scandinavian Political Studies*, 12 (1989), 373-389.

<sup>24</sup>For the larger context, see Alfred Grosser, *The Western Alliance. European-American Relations since 1945* (New York, 1980); David Calleo, *Beyond American Hegemony: The Future of the Western Alliance* (New York, 1987); Loukas Tsoukalis, ed. *Europe, America and the World Economy* (Oxford, 1986); Michael Smith, *Western Europe and the United States: The Uncertain Alliance* (New York, 1987); David Allen and Michael Smith, "Western Europe's presence in the contemporary international arena," *Review of International Studies* 16 (Cambridge, 1990), 19-37. For different countries, see William Wallace, *Britain's Bilateral Links with Western Europe* (London, 1984); Haig Simonian, *The Privileged Partnership: Franco-German Relations in the European Community, 1969-1984* (Oxford, 1985) and, "France, Germany, and Europe," *Journal of Common Market Studies*, XIX (March, 1981), 203-219; Walter Schütz, "The Case of France," pp. 68-89 and Andreas Windel, "The Case of the Federal Republic of Germany," in Sverre Lodgaard and Karl Birnbaum, eds., *Overcoming Threats to Europe: A New Deal for Confidence and Security* (Oxford, 1987).



values were capitalism and political democracy. The shared enemy was the memory of Germany's role in the First and Second World Wars, on one hand, and, on the other hand, the perceived threat of Soviet aggression and of radical socialism within western European countries.

The German security problem was resolved by integrating the western parts of Germany into the North Atlantic Treaty Organization (NATO) and into the European Economic Community which, in turn, became an important economic pillar of NATO. By legitimizing its recovery and prosperity as the engine of western European recovery Germany maneuvered around part of this control. NATO, backed by western European economic recovery, strove to contain the Soviet Union within eastern Europe. Economic prosperity blunted the challenge posed by radical socialism in western Europe. Preoccupation with security concerns about the Soviet Union has gradually given way to a perception of a shared economic threat from Asia and North America. Within the EC, member countries have misgivings about German reunification and a leading German role in eastern Europe.

The British have traditionally remained aloof from continental Europe, reluctant to tie their hands on the continent but intervening to reset the balance of power. Britain opted for EC membership only after the Commonwealth and the *special relationship* with the United States had clearly failed to provide Britain with adequate access to global influence. What followed was a reluctant decision to cast Britain's lot with continental Europe. This reluctance reflected a tradition of being an outsider that had kept its options open on the global and European fronts by maintaining access to the world via the sea and influence in Europe through balance of power politics. Reluctance also reflects concrete ideological differences between Britain and most of the continental members of the EC. The loss of a global role is difficult but to join forces with continental Europe also means subordinating the British common law tradition to EC code law and British institutions of political and economic liberalism to EC institutions.

France has often attempted to pursue a balance of power approach on the continent by seeking alliances with Germany's eastern neighbors. Consequently, France has considered some form of cooperation with the Soviet Union--earlier to control Germany and later to counter American influence in western Europe. France has often objected, however, to German attempts to improve East-West relations, e.g. Willy Brandt's *Ostpolitik*. Whereas France considers good Franco-Soviet relations important to balancing German power and keeping Germany tightly within the EC, good German-Soviet relations hold out, from the French perspective, the danger of a neutral Germany that has less political and economic incentive to remain committed to the EC. The French fear that the decline in Soviet-German conflict and the presence of economic opportunities in eastern Europe might tempt Germany to reevaluate its economic and political options. This explains in part the shift from de Gaulle-inspired *détente* to the hard-line anti-Soviet policy of Francois Mitterand.

French promotion of political cooperation with Germany to strengthen the Franco-German Axis within the EC derived from more than fear of a strong Germany. France's vision of western Europe as a leading world power is another factor. France's uncooperative attitude within the Atlantic Alliance since the 1960s was often part of an effort to break the grip of the United States on western Europe. This goal, in turn, required that Germany, fearful of the Soviet Union and therefore willing to support the declining American dollar, be reoriented away from the United States and towards a strong EC. Consequently, France has promoted EC institutional arrangements that encouraged Germany to promote economic policies that are western European rather than Atlantic Alliance in scope.

The French advocacy of greater monetary, and more recently, political unification can be understood in part against the backdrop of security concerns and the vision of a Franco-German led western European super power--a vision now heightened by the opportunity/necessity of filling the political and security void left by the decline of Soviet and American influence. EC monetary cooperation would weaken the German-American tie and strengthen the global economic position of the EC, and, by reducing currency instability within the EC, it would promote French agricultural and trade interests. The French interest in promoting greater institutional cooperation within the EC should not be understood as acceptance of the logic of neoclassical economics and neofunctionalist strategies of integration. Rather, it is recognition of the need to establish strong institutional arrangements necessary to a closely knit confederation. It derives perhaps more from recent developments in Europe outside the EC than the developments within the EC. In this way France hopes to retain a degree of control over Germany politically, e.g. maintain a German commitment to promoting German interests by advancing EC interests, to ensure that the western European approach to eastern Europe is an EC rather than a German approach, and to prevent market forces within the EC from undermining the French *dirigiste* policy. In short, France pursues a policy of political determinism in order to prevent economic developments within the EC from dictating French politics.

*Harmonization and the domestic regimes:* Aside from the political and security considerations mentioned above, EC institutions are being created to ensure the continuation of the momentum towards a more open internal EC market. This brings us to one of the sources of "friction" in economic interdependence that is often overlooked in economic analysis. Neoliberal economic theory recognizes that the step from *negative* to *positive* integration is considerable. Yet, it fails to recognize adequately how the harmonization of national policies necessary to ensuring the continued momentum of liberalization requires creation of a new set of EC "state" institutions at the regional level to overcome resistance to harmonization at the national level.

Harmonization is one of the revealing euphemisms of neoclassical integration theory. It is the thin end of the wedge leading to more extensive integration; but the relative negotiating position of the member states, not neoclassical assumptions about economic development, determines which national norms become standards for community harmonization policy. Seen from this perspective, *harmonization is a political instrument first and an economic instrument second*. Each member of the EC pursues the strategy that maximizes its leverage within the community and defends its traditional domestic institutions. Consequently, Germany has used its economic power along lines of neofunctionalism/economic determinism and, at the same time, promoted EC policies in line with its domestic neoliberal/negotiation type regime. Britain, with its liberal, market-led tradition and subordinate elements of a negotiation-type regime, falls between market-led and negotiation-type solutions to domestic problems and finds itself in the awkward position of advocating liberalization of relationships within the EC while rejecting the creation of new institutions to harmonize the competitive environment. Britain takes a pluralist/political determinist stance both because its political bargaining position is stronger than its economic position within the EC and because it is unwilling to accept the institutional implications of neofunctionalism. The British argument that Britain does not want to accept EC state arrangements after having eliminated many such arrangements at home points to the dilemma of the liberal/market-led state that wants free trade, does not

want the institutional arrangements that are necessary to harmonizing differences within the EC, but must accept them nevertheless.<sup>25</sup>

France, with its *dirigiste*/state-led tradition, considers agreement on institutional arrangements a step towards a pluralistic confederation, not movement towards supranational federalism. The French tactic of creating institutions aims to prevent market forces from creating an economically imposed federalist "must." This is not to say that French advocacy of monetary integration has no economic dimension consistent with neoclassical economic theory. The agricultural support system and intra-EC trade are very important to France. Stability in exchange rates will become more significant with the increase in factor movements. Moreover, French socialists, as many socialists throughout western Europe, have accepted the necessity of adjusting somewhat to external market forces. Perhaps EC-imposed discipline is considered politically more manageable than self-imposed restraint. Nevertheless, protection of its *dirigiste* tradition from the neoliberal implications of extensive integration remains a consistent French objective. Few Frenchmen want to have the French economy regulated by the policies of the Deutsche Bundesbank, and few Germans would want the EC to control the German banking system.

The question of context is all important in interpreting national support for EC institutions. Implicit reference to recent developments within the EC, especially when coupled with neoclassical/neofunctionalist assumptions, can lead observers to impose an inappropriate interpretive context upon any given national policy towards the EC. This danger can be minimized by examining national policies against both the context of EC developments and the backdrop of traditional national adjustment/foreign economic policies. (Diagram 1 above can provide a useful frame of reference.) In the case of apparent Franco-German agreement on a monetary and political union in the near future, agreement will probably be related more to an ad hoc level of integration on the part of France than to a stage in the evolution of integration towards a federalist solution. Agreement can be reached in some cases merely to enable competing parties within the EC to keep an eye on each other. Consequently, a more tightly knit EC will not necessarily take the form implied by neoclassical or neofunctional theories. It will probably take the form of a political compromise worked out between competing goals and strategies among the leading EC members. These goals and strategies have their roots in national institutional arrangements and national cultures.

Harmonization continues to represent slow momentum toward greater integration, but there are no longer any powerful state forces advocating a neofunctionalist route to federalism within the EC. Germany, the engine for economic and political integration, will tend to resist supranational aspects of EC integration. Up to 1990 Germany was the only EC member that still lived as a divided and occupied nation within the political framework of 1945. A united Germany will be preoccupied with the process of nation-building which the division of Europe had rendered impossible until recently. Active German interest in reviving its prewar economic and political role in eastern Europe will also become increasingly obvious. The time when Germany could promote its interests only by pursuing strategies of economic determinism, which implied federalist aspirations, is over. Now that Germany can use its economic power more freely to pursue strategies of political

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<sup>25</sup>Britain, the European country currently coming the closest to formulating policy from assumptions of neoclassical economic theory, recognizes the "contradictions" in the movement from negative to positive integration. Recent discussion about tax reforms in North America and western Europe offers an interesting analogy. It is easier to plan an ideal system from scratch than to change an existing system. In the case of the EC there are many existing systems.

determinism it will become less interested in promoting EC institutional arrangements whenever those arrangements restrict German options. For most of the postwar period the EC needed Germany economically but Germany needed the EC politically. German postwar recovery was legitimate in the eyes of western Europeans only if that recovery took place within the framework of western European recovery. That stage in German and western European history belongs to the past even if German power continues to need a political cloak.

We can now return to the strategies of economic and political determinism and the goals of federalism and confederation introduced at the beginning of the paper and add a dimension of change over time. During the first years of western European integration a French and British preference for strategies of political determinism and the goal of a pluralist confederation held sway. During the years of rapid and extensive integration and up until recently, the neofunctionalist strategies and goals have appeared to be dominant.

Figure 9

|            |                       | GOALS   |   |
|------------|-----------------------|---|---|
|            |                       | Federalism  | Confederation                                 |
| STRATEGIES | Political Determinism |   | Dominant in early years & perhaps once again* |
|            | Economic Determinism  | Dominant in the formative years & current EC rhetoric |   |

\*In the early years of integration the confederation was weak. It is now a highly integrated confederation.

The conduct of German policy often reflected assumptions associated with neofunctionalism and implied a move towards federalism. The recent developments in eastern Europe, especially German unification, might well mean that rapid change has set the stage for bringing elements of nationalism to the fore. As Germany shifts its priorities from being the engine of EC integration to integrating the German state, the impetus for integration within the EC will not come, as up until now, primarily through a political response to economic developments. Rather, there will probably be a return to a *modus vivendi* among the leading western European powers, now joined by Germany, on strategies of political determinism and the fine-tuning of an EC confederation.

When the forces for greater monetary and political institutional cooperation come at the moment from France, traditionally a pluralist "rebuilder" rather than from Germany, traditionally a neofunctionalist "transcender," a *modus vivendi* on a closely knit confederation is probable. The deep waters of nationalism, intensified by German interest in nation building, provide little momentum towards federalism. I am inclined to agree with the British scholar Sir Harry Hinsley on future developments within the EC. "Just as nothing short of drastic crisis will drive it [the EC] to become a single state, so nothing short of drastic crisis . . . will undermine the progress it has made as an association of states."<sup>26</sup> The neofunctional assumptions associated with a strategy of creating economic musts that lead to increased political integration has probably peaked. In the future, market

26 F. H. Hinsley, "The European Community. Body-Politic or Association of States?," in *Turun Koulu*. Juhani Paasivirran 70-vuotisjuhlakirja 12.3. 1989 (Turku, 1989), p. 321.

forces will function within the framework of political compromises worked out along the lines suggested by strategies of political determinism rather than economic determinism.

The next attempt to move towards deeper integration within the EC will involve efforts to harmonize monetary, fiscal, and tax policy. This attempt to move beyond elimination of barriers to trade and factor movement will confront the traditional political and economic institutional arrangements and cultural assumptions introduced above. When that happens, the EC might well take on a symbolic role in the internal debates of member countries similar to the debate that is currently going on in Finland (in which the agrarian north and the urban-industrialized south are debating the future of Finnish society with reference to Finland's relationship to the EC). This symbolic role of EC in domestic debates will probably intensify in member states as the next *grand project* of the EC threatens the very existence of traditional institutions of the political economy and national culture in the member states. The "negative" stage in integration could ignore these institutions. The "positive" stage must meet them head on.<sup>27</sup>

### Part III The Case of Finland

Commentary on how Finland got to where it is and how Finland can maintain the gains of the postwar years often falls back upon reference to paradox. Yet, to refer to paradox is to apply inappropriate interpretive frameworks to situations in which the logic remains hidden from the observer. The goal is thus to seek, in so far as possible, the elements of logic unknown to the observer. For Finland the challenge has been adaptation to external dynamics in order to defend its domestic institutions and to gain the international status it now enjoys. Most foreign confusion about Finland focuses on Finnish foreign policy, i.e., how Finland can be an independent country. There is, however, a deeper level of questioning which is related to Finland's policy of combining a corporatist domestic policy with advocacy of free trade.

Developments in postwar Europe and their implications for Finland can be approached with reference to two broad conceptual frameworks: the concept of a western and an eastern European geopolitical and economic core and the concept of the primacy of domestic institutional arrangements even when adapting to external economic pressures.

#### *I The Geopolitical Context*

Finland's postwar relations with the Soviet Union can best be understood as a function of a position on the interface periphery of eastern and western Europe rather than as a buffer or a rim state. And Finland's western relations can best be understood as a function of Finland's economic ties with the functional center(s) of the western capitalist system. Diagram 2 offers a point of departure for our discussion.

From 1809 to 1917 and since 1945 Finland has straddled a western economic and cultural core that primarily affected domestic institutional arrangements and an eastern geopolitical core that determined the parameters of Finland's political relations with other countries. The Finnish position on the periphery of the western economic and cultural core has remained stable for over a century, thanks to the integration of the Finnish forest industry (and independent smallholder who owned a substantial share of the forests) into the western capitalist system during the 19th century. Unlike most of western Europe, Finland had forests to exploit; unlike most of eastern Europe, small farmers owned those

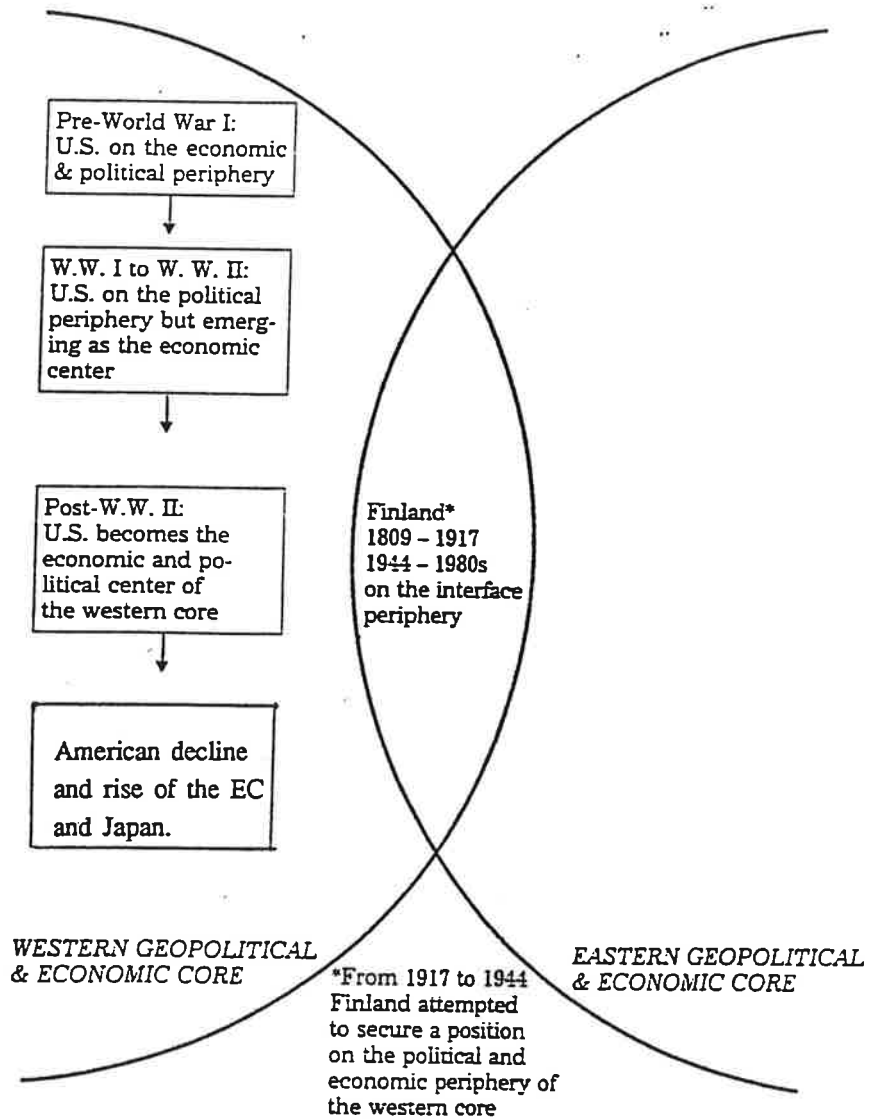
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<sup>27</sup> By positive stage, I mean harmonization of monetary, fiscal, and tax policy.

forests. Moreover, the development of the forest economy enabled Finland to overcome some of the negative socioeconomic and political consequences normally associated with

Diagram 2<sup>28</sup>

*Venn diagram of core-periphery relationships within the western capitalist world and Finland's position on the interface periphery of western and eastern Europe.*



a mono-export, peripheral economy. In Finland's case the domestic modes of ownership and production and related socioeconomic relationships made it possible for a substantial

28R. Michael Berry, *American Foreign Policy and the Finnish Exception. Ideological Preferences and Wartime Realities* (Helsinki, 1988), p. 41.

part of society to benefit from an economic transition that benefitted the European capitalist core.<sup>29</sup>

## *II The Domestic Context*

Finland's position on the periphery of the eastern geopolitical core has also been unusual, since Finland's economy has been more advanced than that of the Russian-dominated eastern political core. The benefits to Finland have been twofold. It has had a large Russian market area, which not only made it possible to develop sectors of the economy that were not yet competitive on western markets, but which also acted as a buffer against cyclical fluctuations in the capitalist West. Concomitantly, it has been in Russian/Soviet interests to permit Finland to remain on the periphery of the western economic core as long as Finland does nothing to endanger the Soviet sense of security.

During the past century Finland's gross domestic product per capita has surpassed that of Great Britain and come closer to that of Sweden and the United States. During periods of international economic crises, the 1930s and the 1970s, Finland fared above average for European countries, but somewhat below average during normal times (see figure 10). This unusual performance might be explained by a combination of a strong corporatist policy, a competitive position on the American market in the 1930s, and a privileged position on the Soviet market in the 1970s.

World market links explain part of Finland's economic development. The breakthrough with wood products came only with technological developments in shipping, the British decision for free trade, and the modification of mercantilistic arrangements in Finland. In 1870 more than half of Finland's exports went to Russia but a shift towards the West took place as a result of growing demand for wood products on western markets and the introduction of protectionism in Russia. The introduction of higher levels of processing in the forestry sector proved important after the loss of the Russian market following the Bolshevik Revolution. In the mid-1930s forty three percent of exports were products of the wood-based industry and forty percent were products of the paper industry. The export sector was highly concentrated but it made possible Finland's favorable balance of trade with the United States during the world depression, which was a rare exception in Europe. As a victor in the Second World War, the Soviet Union forced Finland to build a metal industry by demanding from Finland reparations in the form of ships, machinery, railway wagons, and other metal products. As a consumer of those products after the fulfillment

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29 For an analysis of Finland as a buffer-state and a rimstate, see Efraim Karsh, "Geographical Determinism: Finnish Neutrality Revisited," *Cooperation and Conflict*, XI, (March, 1986), 43-57. For literature on different approaches to the concept of an interface position in Europe, see Erik Allardt, *Finnish Society: Relationship Between the Geo-political Situation and the Development of Society* (Helsinki, 1985) and Risto Alapuro, "Finland: An Interface Periphery" in Stein Rokkan and Derek Urwin, eds, *The Politics of Territorial Identity. Studies in European Nationalism* (London, 1982). For specific references to historical developments on the interface periphery, see Matti Klinge, *Bernadotten ja Leninin välissä. Tutkielma kansallisista aineista* (Porvoo, 1975); Max Engman, "S:t Petersburg och Finland. Migration och influens 1703-1917," with English summary, *Bidrag till Kännedom av Finlands nature och folk, utgivna av Finska vetenskaps-societeten*, 130, (Helsingfors, 1983), pp. 190-337; and Erkki Pihkala, "Suomen Venäjän kauppa vuosina 1880-1917," *Ibid.* 113, (Helsingfors, 1970), 241-244. For economic and technological development, see George F. Ray, "The Diffusion of Technology in Finland," Discussion Paper no.258 published by The Research Institute of the Finnish Economy (Helsinki, 1988) and "The Finnish Economy in the Long Cycles," no. 278 in the same series.

of reparation payments in the 1950s, the Soviet Union enabled Finland to develop an advanced postwar metal industry.<sup>30</sup>

Figure 10<sup>31</sup>

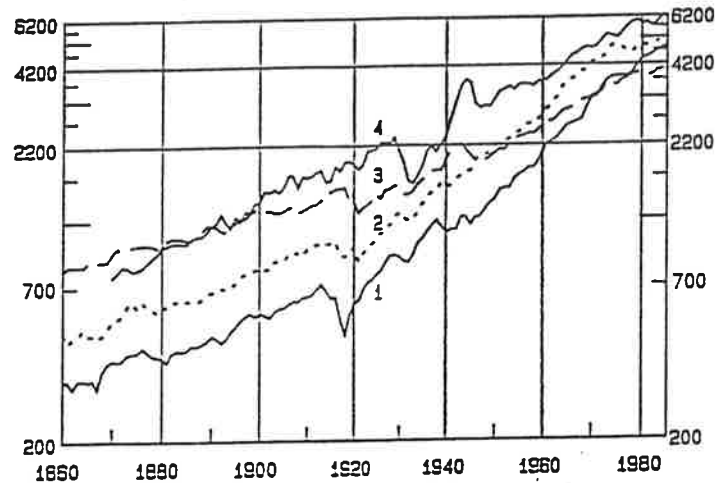


Chart 5. Gross Domestic Product per Capita of Finland, Sweden, the United Kingdom and the United States at 1970 Purchasing Power Parities, 1860–1985 (United States 1870–1984), US dollars

- 1 Finland
- 2 Sweden
- 3 United Kingdom
- 4 United States

World market links, the degree of processing raw materials and the diversification of the postwar economy offer only a partial explanation for Finland's economic growth. The socioeconomic basis of the economic and political system were also important. The distribution of forest ownership, while not egalitarian, was broad-based enough to ensure that the gains from forestry exports were redistributed as rural incomes. Finland fought a Civil War in 1918 but land reforms by the non-socialist victors and the integration of the Social Democratic party into cabinet coalitions in the 1930s enabled Finland to survive the Second World War and the difficult early years of the Cold War as a rather unified nation. Significantly, the divisions within Finland did not correspond to the divisions in Europe. The postwar integration of the radical left into the Social Democratic-dominated Labor

30 For Finland's economic development in a comparative European perspective, see Dieter Senghaas, *The European Experience. A Historical Critique of Development Theory* (Dover, NH, 1985), especially chapter 2. See also Riitta Hjerpe, *The Finnish Economy*; Angus Maddison, *Phases in Capitalist Development*; Erkki Pihkala and Heikki Oksanen, *Suomen ulkomaankauppa 1917-1949* (Helsinki, 1975) and Pihkala, *Teollisuus-Suomi 1945-1980* (Helsinki, 1986). For complementary surveys of Finnish history, see David Kirby, *Finland in the Twentieth Century: The History and an Interpretation* (London, 1979) and William Mead, *Finland* (New York, 1968). For Finland's favorable balance of trade with the United States, see L. Runeberg, *Trade in Forest Products Between Finland and the United States of America* (Helsinki, 1946).

31 Riitta Hjerpe, *The Finnish Economy, 1860-1985: Growth and Structural Change* (Helsinki, 198 ), p. 52. See also Angus Maddison, *Phases of Capitalist Development* (Oxford, 1982), pp. 8 and 212.



Movement and into a subordinate role within the political system has made stable governing coalitions possible since the 1960s and a successful incomes policy has provided the labor market an unusual element of stability. More than two decades of cooperation between the state, capital, and labor has developed a sense of being in the same boat and a belief that economic prosperity is possible only within the context of a corporatist framework of consensus.

As Katzenstein has demonstrated elsewhere, the survival of small industrialized countries in open world markets requires a highly integrated domestic regime. The legitimacy of the strong Finnish state and its integrating role, which was developed mainly as a defense mechanism against external cultural (Sweden) and political (Russia/Soviet Union) threats, might be undermined if Finland "disarms" itself in the name of international integration by giving up traditional institutional arrangements necessary to corporatism. Finland's ability to bring about structural change at home and to remain competitive on foreign markets will decline if capital can "escape" its responsibility by moving abroad and the state relinquishes its role in promoting consensus.

Finland's successful postwar internal integration has been closely linked to security policy. It remains to be seen whether the politics of consensus imposed until recently by the experience of the Second World War and the development of the Paasikivi-Kekkonen Line will fare as well when the economic imperative of competitiveness on foreign markets replaces the security imperative as Finland's primary foreign policy concern.<sup>32</sup>

### *III Meeting the External and Domestic Imperatives*<sup>33</sup>

Since the Second World War Finland has had to meet the requirements of a geopolitical and an economic imperative. The geopolitical imperative required recognition of Russian security interests dictated by *Realpolitik*, but no radical reorganization of Finnish political and economic institutions. The economic imperative entailed retention of economic relations with the western capitalist regime and the ability to organize Finland's domestic economy according to the guidelines of the postwar GATT-OECD arrangements.

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<sup>32</sup>On this point, as it relates to the ongoing Finnish debate, see George Maude, "Problems of Finnish Statecraft: The Aftermath of Legitimation," *Diplomacy & Statecraft*, I (1990), 19-39.

<sup>33</sup>For an introduction to the concept of political and economic imperatives, see Klaus Törnudd, "Finland and Economic Integration in Europe, *Cooperation and Conflict*, IV (1969), 63-71. See also Erkki Mäentakanen, "Western and Eastern Europe in Finnish Trade Policy, 1957-1974: Towards a Comprehensive Solution," *Cooperation and Conflict*, XIII (1978), 22-40 and Esko Antola, "Finland and the Prospects for Western European Integration in the 1980s," *Yearbook of Finnish Foreign Policy* (Helsinki, 1981), pp. 37-48. For the current situation, see K. Möttölä and H. Patomäki, *Facing the Chance in Europe: EFTA Countries' Integration Strategies* (Helsinki, 1989). For Finnish neutrality in comparative context, see Harto Hakovirta, *East-West Conflict and European Neutrality* (Oxford, 1988). For Finnish views on the EC in the 1970s, see Esko Antola and Ossi Tuusvuori, *Länsi-Euroopan Integraatio ja Suomi* (Turku, 1983). For the Finnish postwar preference for protectionism which was hidden behind the smoke screen of the special relationship with the Soviet Union, but which still lingers on after the smoke screen has been blown away by the winds of change in the Soviet Union, see Tapani Paavonen, "Neutrality, Protectionism and the International Community. Finnish Foreign Economic Policy in the Period of Reconstruction of the International Economy," *Scandinavian Economic History Review*, XXXVII (1989), 23-40. We still need a good study of how the concept of *reciprocity* is understood in Finland. Finns have been conditioned to draw up *modus vivendi* agreements to resolve foreign policy problems. There is a considerable gulf, however, between the concept of reciprocity and a *modus vivendi* agreement.

Meeting both imperatives has constituted a formidable task. The economic imperative (to adapt to changes in western Europe in order to remain competitive on western markets) had to be met without endangering the geopolitical imperative (to avoid jeopardizing the credibility of Finland's foreign policy in Soviet eyes). In short, Finland had to convince the Soviet Union that economic ties with the EC did not constitute political ties with NATO. To have remained passive in the face of western European economic integration would have defied the economic imperative and weakened the competitiveness of the Finnish economy. Moreover, to have ignored the economic requirements in order to satisfy the geopolitical requirements could have seriously weakened Finnish confidence in the mutual benefits of Soviet-Finnish cooperation.

Given the dynamics of western European integration since the late 1950s, a solution to the economic challenge became essential to satisfying the political challenge. Fortunately for Finland, the growth of western European integration coincided with a decline in East-West tension in the 1970s, thus making it easier to become associated with the free-trade aspects of integration while remaining aloof from the political and economic process of integration. The signing of the free trade agreement with the EC in 1973 and the promotion of developments that led to the signing of the Helsinki Accords in 1975 formed an integral part of a Finnish effort to meet the geopolitical and economic imperatives inherent in its position on the interface periphery between eastern and western Europe.

If we return to the theoretical models of integration introduced at the beginning of the paper we can note the similarity between Finland's national interests and the strategies and goals of functionalism, especially with regard to a preference for free trade and functional cooperation to solve international as well as regional problems. The *EES Project* stands as an example of functionalism within the EC that would correspond to EFTA interests.

Within the context of East-West conflict that prevailed until recently, the working out of a neofunctionalist route to EC federalism would have isolated Finland on the interface periphery between East and West and severely tested Finland's ability to meet both the economic imperative of being competitive on western markets and the geopolitical imperative of refraining from upsetting the Soviet sense of security. The theoretical possibility of Finland being isolated between the Soviet bloc and a federalist EC has decreased considerably during the past year. Recent developments in eastern Europe suggest that it will be much easier for Finland to meet the geopolitical imperative in the future, and developments in western Europe suggest that further political and economic integration within the EC presents less danger to Finland, because the larger geopolitical context will be pan-European. Moreover, if my interpretation is correct, the deep waters of national differences within the EC will tend to insure that the goal of federalism will remain a symbol of European identity rather than become a symbol of European reality.

#### *IV A Finnish Model for Eastern Europe?*

Up to the 1980s the Finlandization image warned western Europeans and Americans that cooperation with the Soviet Union would undermine the will and the ability of the West to defend its freedom. It reflects a NATO reluctance to gamble on a detente paradigm (because of its association with an appeasement paradigm). A new, so-called positive version of Finlandization has recently gained considerable currency in the West. This new version, which contains hope that countries like Czechoslovakia, Hungary, and Poland will achieve positions vis-à-vis the Soviet Union similar to Finland, appears attractive as a half-way house between the paradigms of East-West conflict and East-West cooperation. For some, this version of Finlandization represents primarily a decline in Soviet power. For

others, it represents mainly advancement of self-determination in Europe. For many, it represents a step towards a multilateral world without the risk of appeasement.

Once again, however, the Finlandization metaphor is being used to misrepresent Finnish reality. The Finnish solution is not for export. Whether used with the older nuance to criticize western cooperation with the Soviet Union or in the more recent mode to encourage the independence of Soviet neighbors, the Finlandization image is inappropriate. This is not to say, however, that the domestic and geopolitical conditions that enabled Finland to survive the divisions of Europe in the Second World War and the Cold War cannot be considered partial prerequisites for positive developments in other countries along the Soviet border. Any move away from the militarily-imposed notion of eastern Europe requires new concepts and new realities. It is not enough to emphasize the decline in Soviet power. The Soviet Union will remain a great power within Europe. Soviet neighbors, including Finland, would do well to heed J.V. Snellman's warning over a century ago: to take advantage of Russian weakness and to remain anti-Russian is to ensure retaliation against future generations.<sup>34</sup> The concept of an interface periphery could provide the parameters within which Soviet neighbors might act in order to move closer to the capitalist democracies of western Europe.

From independence Finland was on the periphery of the British-centered economic core of the West, whereas other Soviet neighbors were on the periphery of a German-centered core.<sup>35</sup> Only during the Second World War did Finland become politically and economically dependent on Germany. Recent developments in eastern Europe suggest that Soviet security concerns in the borderland will decline and that the EC might eventually make it possible for Warsaw Pact neighbors of the Soviet Union to establish economic relationships with the capitalist West without being required to abandon economic benefits of ties with the Soviet Union and their geopolitical position on the periphery of the Soviet-dominated eastern geopolitical core. These developments might lead to conditions in central Europe somewhat analogous to those enjoyed by Finland before and after the Second World War.

To maneuver into some kind of interface periphery position between eastern and western Europe Soviet neighbors must be able to meet a geopolitical and an economic imperative, i.e. pursue a friendly policy towards the Soviet Union while satisfying western demands for political democracy and economic competitiveness. Soviet Warsaw Pact neighbors can improve their position in the borderland only if the domestic and geopolitical conditions that made Finnish success possible are somehow present in central Europe. Reference in the NATO-West to "Marshall Plans" or "Finlandization" for eastern Europe can do little

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34J.V. Snellman, "Sota tai rauha Suomelle," in J.V. Snellmanin *Kootut teokset*, VII Tutkielmia ja kirjoitelmia (Porvoo, 1930), pp. 239-251. While suggesting that Finns can not afford to fall into the trap of thinking that association with the EC will provide an escape from the Soviet Union, a message that Snellman would probably endorse, I recognize that the Snellman legacy also makes open discussion of political and economic issues difficult. Like the institutional arrangements of the political economy and national culture introduced above, the Snellman legacy works well for certain circumstances and much less well for others.

35For a comparison of the Finnish and Hungarian geopolitical situations in the 1930s, see Martti Julkunen, "Saksan vai Englannin vaikutusvalta Suomessa 1930-luvulla. Unkari Suomen kansainvälisen aseman vertailukohtana," in Eero Kuparinen, ed., *Studia Historica in Honorem Vilho Niitemaa* (Tammisaari, 1987), pp. 97-122. For a comparison of Finnish and Hungarian economic development, see Tapani Mauranen, ed., *Economic Development in Hungary and in Finland, 1860-1939* (Helsinki, 1985). For a comparison of Finland and Poland, see Erik Allardt and W. Wesolowski, *Social Structure and Change: Finland and Poland. Comparative Perspective* (Warsaw, 1980). For Finland's economic development in a comparative European perspective, see Dieter Senghaas, *The European Experience*, especially chapter 2.

to free Soviet neighbors from the straight jacket of the east-west division of Europe. These concepts are rooted in a postwar community defined by a shared enemy (the Soviet Union) rather than by shared values (a GATT-OECD world). Only programs that focus on shared values hold out any hope for countries like Czechoslovakia, Hungary, and Poland.

The larger regional text is only part of the story, however. There is also a third imperative, the imperative of national unity. Efforts to meet the first two imperatives places considerable strain on the domestic regime. It must maintain national unity and a political consensus while balancing the requirements for a blend of a strong state, political democracy, and a growing role for market forces in the economy. Perhaps the challenges posed by the second and third imperatives represent the greatest obstacles to favorable development in eastern Europe.

To bring the discussion back to the point of departure in this paper, there are still competing visions of the future of Europe and these divisions are over goals and strategies. Eastern European counties advocate nationalistic routes whereas western European countries, even when nationalistic, have already developed a closely knit confederation. Add to this the division between the poor countries of eastern Europe and the prosperous western European countries. The division between eastern and western Europe that was imposed after the Second World War for security reasons will continue in another form and for somewhat different reasons. Dependence dictated by indebtedness to the capitalist West, especially Germany, might replace the militarily-imposed dependence of the past four decades. If it is difficult to create democracy in eastern Europe in the western sense of the term, it is perhaps even more difficult to create some form of a market economy. The apparent preference of some eastern European economists to jump from centralized socialism to market-led rather than to state-led or negotiated models of economic development is not encouraging.

There are examples of poor capitalist countries, e.g. Spain, that have made economic progress but there is not yet an example of a poor socialist country making economic progress while breaking out of an economic dependency situation and simultaneously developing institutions of capitalism and political democracy. The introduction of political democracy in countries lacking a tradition of a strong and legitimate central authority constitutes a serious problem in eastern Europe. When market forces begin to inflict pain on the losers, they and their allies, the potential losers, will probably resort to the newly acquired right to vote and, in the process, might create an environment of economic and political paralysis or agree to accept a more authoritarian, less democratic regime. With the possible exception of East Germany, which has given up its national sovereignty, and Hungary, and Czechoslovakia, there is little prospect that eastern European countries can meet in the near future the three imperatives that have enabled Finland to prosper as an independent country on the interface periphery between eastern and western Europe.

### **Concluding remarks**

History does not repeat itself but elements of continuity shape the parameters within which nations function. Several observations flow from this paper:

- (1) Context is all important to interpretation. The analysis of integration requires reference to as many contexts as possible, at least the contexts of development within the EC and tradition within the member countries. Neither the rhetoric of a United States of Europe nor the optimism of neoclassical economic theory should be taken at face value. They point to the direction of movement but not to the final

destination. The forces for continuity at the national level will probably rise to the surface with full force when confronted by attempts within the EC to harmonize the monetary, fiscal, and tax policy of the member states.

(2) The discussion in Finland about the need to have more expertise on the EC should recognize the importance of having more expertise on the leading countries within the EC.

(3) Finland and other small industrialized countries can retain their ability to adjust to the world market if the integration process does not undermine traditional institutions of corporatism that have made possible successful adjustment to external pressures.

(4) Research on integration via internationalization of the firm should give more attention to cultural aspects of integration.

(5) The short-term prospects of an economic boom for the EC, especially for Germany, should be examined against the long-run danger to the EC if eastern European countries fail to create a sound institutional basis for the proper functioning of political democracy.

(6) Finland is not a model for eastern Europe but eastern European neighbors of the Soviet Union cannot lay the basis for long-term prosperity and security unless they meet the three imperatives that Finland has met since the Second World War.

(7) It is in Finland's interests that the strategies of Great Britain influence the political nature of the EC. Finland will prosper best in a free trade global environment as long as it can pursue a strategy of corporatism at home.



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