Europeanisation and domestic policy-making in small open economies: A comparison of five policy cases in Belgium and Switzerland

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_First draft, comments are welcome._

Abstract:
European integration challenges domestic societies and affects their politics. However, how and through which causal mechanisms domestic policy-making is affected has hitherto not been the object of much scholarly interest. Several, often contradictory, theoretical assumptions contrast with little empirical research. In this paper, we analyse these contradicting hypotheses of how European integration is expected to affect domestic policy-making in small open economies, particularly exposed to external pressure. The results from ten case studies show that European integration does not foster concertation, as internationalisation did in the past. On the contrary, it tends to weaken concertation by empowering the executives. However, this effect should not be overestimated. In addition, European integration has no effect on the parliament and the executive-legislative relationship. An interesting and somewhat surprising result is that indirect Europeanisation has not a weaker impact on domestic policy-making than direct Europeanisation - policy-making in Switzerland is equally affected than policy-making in Belgium. Overall, the impact of European integration remains limited, and its interaction with other, mainly domestic factors must be accounted for in order to understand the extend of this impact.
Introduction

Already in the 1970s, the “second image reversed” literature argued that developments in the international realm might affect domestic politics, in particular regime types and coalition patterns (Gourevitch 1978). And Katzenstein (1985) showed in his seminal work on Small states in world markets that economic openness and exposure to international competition strengthened corporatist policy-making arrangements in small European states such as the Scandinavian countries, Netherlands, Belgium, Austria, and Switzerland. Because of the vulnerable stand of these countries in the international realm, domestic conflicts had to be avoided and a need for consensus emerged.

Over the last thirty years, economic globalisation and political internationalisation have increased and have become even more important for domestic societies. The most important development for European states has been the process of European integration, which led to the emergence of an impressive body of literature on Europeanisation (e.g. Börzel and Risse 2006; Cowles et al. 2001; Featherstone and Radaelli 2003; Graziano and Vink 2007; Héritier et al. 2001; Radaelli 2003). While the largest part of this literature studies the impact of European regulation2 on domestic policies, fewer studies analyse the impact on policy-making (Falkner et al. 2005; Héritier et al. 2001; Moravcsik 1994; Schmidt 2006; Thatcher 2004). Moreover, the effects of European regulation on domestic policy-making remain disputed. Therefore, in this paper, we analyse how and through what kind of mechanisms European integration affects domestic policy-making patterns, and how this interacts with more global and with domestic factors.

We focus on small European states with open economies, which are less influential in the international realm and which are at the same time more exposed to external pressure than big states (Katzenstein 1985). These states have a tradition of corporatist policy-making, and its interaction with external European impact is object of contradicting expectations and so far little studied. Some argue that European integration strengthens concertation and agreements among domestic actors, while others argue that it leads to a redistribution of resources and thus to unequal or differential empowerment. A further aspect of

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1 This paper draws upon research conducted in the framework of the research project "The impact of internationalization on Swiss policy processes in comparative perspective", (dir: Prof. Ioannis Papadopoulos) funded by the Swiss National Fund for Scientific Research (National Centre of Competence in Research "Democracy in the 21st Century"). We gratefully acknowledge financial and organisational support. We also thank Alexandre Afonso, Stéphanie Andrey and Florian Roby for their case study analyses and Ioannis Papadopoulos for his useful comments.

2 Regulation understood in a large sense as European policies, not in the narrow sense of a European regulation (a specific instrument of the EU which, unlike directives, is directly valid in the member states, without transposition).
domestic policy-making analysed in this paper is the executive-legislative relationship. Here too, contradicting expectations as to how it is affected by European regulation can be found in the literature: Parliaments are generally considered as “losers” in the Europeanisation process, but perhaps they are just “latecomers” and have reacted to their loss of influence by developing counter-strategies (Maurer and Wessels 2001). In short, in this paper, we scrutinise which one among the circuit of policy-making, concertation among social partners, the government, or the parliament is able to take a leadership role in policy-making, and what allows it to be domestically successful under conditions of external impact.

More precisely, we compare policy cases in Belgium and Switzerland. While both countries have a long tradition of corporatist policy-making or concertation (Katzenstein 1985; Lijphart 1999), they differ in their EU membership. Within the two countries, we compare cases with a European regulation with cases without a European impact. These "control cases" (Haverland 2006) allow to better assess whether European integration affects domestic policy-making. A difficulty in analysing the impact of European regulation on domestic policy-making is its interaction with more global developments. While this is probably less the case for positive integration such as environmental or social policy, the major part of European regulation (and the policy cases analysed in this paper) concerns negative integration or market-making measures (Scharpf 1999), which are part of a more global trend of marketisation (Djelic 2006). Hence, European regulation is often influenced by global policies - it is then an intervening factor between global trends and domestic reforms. While the question whether policy reforms are more due to globalisation or to European integration (Levi-Faur 2004; Verdier and Breen 2001) is beyond the scope of this paper, and a separation of the two factors will empirically often be difficult, in this study, we will take into account whether and how European impacts interact with more global factors.

Drawing upon detailed case studies, our paper shows that European integration affects domestic concertation, but has no effect on the executive-legislative relationship. However, this effect is limited and interacts with more global and domestic factors. In addition, we observe more general transformation of domestic policy-making in the small European states Belgium and Switzerland, questioning their categorisation as states with corporatist policy-making

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3 (for Switzerland Kriesi 1998; Neidhart 1970; Papadopoulos 1997), (for Belgium Deschouwer 2002; Fitzmaurice 1996; Jones 2002)

4 Often object of Europeanisation studies, notably environmental policy.
patterns.
The rest of the paper is structured as follows: first, we discuss the theoretical expectations regarding the impact of European integration on domestic policy-making, and we present rival hypotheses discussed in the literature. Second, we present the logic of comparison and our methodological approach. In the empirical part, we first briefly present the policy-making processes and the causal mechanisms involved in the ten cases. We then test the hypotheses on this basis. We conclude with a synthesis of our findings and some general remarks on policy-making in the two countries under scrutiny.

Europeansation & domestic policy-making: contradicting hypotheses

Europeanisation is generally understood as the impact of European integration on domestic policies, politics and polities - "the domestic impact of Europe" (Börzel and Risse 2006). In this paper, we further differentiate between direct and indirect Europeanisation (Sciarini et al. 2004), which is related to the comparison of the EU member state Belgium with the non-member Switzerland. European policies not only affect member states, which are obliged to adopt them, but also non-members such as Switzerland, which often adapt to European policies. This is particularly true for negative integration or market-making, because here, adaptation is necessary in order to participate in the European market. Indirect Europeanisation therefore refers to the possibility of voluntary adaptation, in Switzerland also called 'autonomous adaptation'. Direct Europeanisation occurs when a European regulation must be adopted by a (member) state, e.g. in the case of a European directive. However, direct Europeanisation also exists in Switzerland, because of bilateral agreements with the EU, for example the free movement of workers.⁵

Hence, we analyse how European integration affects domestic policy-making within and across the borders of the EU. In small European states with an open economy, two elements of policy-making are supposed to be particularly affected: concertation among social partners and the government on the one hand, and the executive-legislative relationship on the other hand. Regarding both elements, contradicting expectations of European impact are presented in the literature.

⁵ Also within the European Union, indirect Europeanisation is possible, for example with the Open Method of Coordination. See also the differentiation between vertical and horizontal integration, e.g. Radaelli (2003: 40f.), Vink and Graziano (2007: 12f.), and the terms of ‘hard’ vs. ‘soft’ Europeanisation.
**European integration and concertation in domestic policy-making**

Concertation, or corporatist policy-making, means that major interest groups such as the social partners and the state negotiate a common solution in policy-making: it is a "joint process of decision-making, with privileged position of social partners compared with other interest groups (ex: tripartite committees)." (Falkner et al. 2005: 236). According to Katzenstein (1985), this type of policy-making was reinforced through the exposure of small European states to the international economy in the 1970s and 1980. Some years ago, he argued that European integration still has the same effect on concertation than internationalisation had thirty years ago, i.e., that European integration reinforces internal cooperation and compromise-seeking (Katzenstein 2003). Also the existence of a “semi-pluralist” system of interest intermediation at the EU level could foster concertation at the domestic level through mimetism (Schmidt 2006). Consequently, we will expect that concertation is stronger in cases with a European regulation than in domestic policy cases without external impact. The first hypothesis then is:

**H1a: Concertation is stronger in cases with a European regulation than in non-europeanised cases.**

This impact on domestic policy-making is questioned by the argument that European integration empowers domestic actors unequally, leading to "winners and losers" (Thatcher 2004). The consequence is that the “winners” will be less willing to cooperate with the “losers” in concertation, and to make concessions which are necessary in order to find a compromise. This leads us to a second, contradictory hypothesis:

**H1b: Concertation is weaker in cases with a European regulation than in non-europeanised cases.**

However, there is disagreement in the literature about which actor(s) will be the winners of Europeanisation. Moravcsik (1994) has argued that executives will be reinforced because they can play a two-level game: thanks to their participation in European policy-making, they can introduce new domestic policies arguing that the EU forces them to do so. While this hypothesis is based on an intergovernmentalist approach, an international economy perspective expects capital and business interests to be reinforced. Globalisation, and thereby also the economic dimension of European integration, empowers capital and their interest representatives in domestic policy-making, arguing that reforms are necessary in order to guarantee or strengthen the economic competitiveness of the country. They may even threat moving away if their demands are not
respected (exit option) (Milner and Keohane 1996). The losers are trade unions, but also the government. Still a different approach has been developed by scholars with a comparative politics approach. They understand European integration (or a European policy) as a new opportunity structure that redistributes resources and power among domestic actors such as the government, the parliament, and interest groups, in particular the social partners (Héritier et al. 2001; Knill and Lehmkuhl 2002; Thatcher 2004). Which actors will be empowered by this opportunity structure depends on domestic actors coalitions and on other domestic characteristics. However, by offering justification for a domestic reform, this opportunity structure will mainly strengthen actors in favour of the corresponding European policy (which is often about market-making). Even more, these actors can “use” the European policy as an impulse in order to set the topic on the domestic agenda. Although this is a resource particularly useful for executives, the main domestic agenda-setters, it is not limited to them - social partners such as business associations can push toward a reform by lobbying (Moravcsik 1994; Thatcher 2004).

**European integration and the domestic executive-legislative relationship**

As regards the executive-legislative relationship, it is often assumed that the executive will be reinforced to the detriment of the parliament because the former is more involved in multi-level governance (Andersen and Burns 1996; Moravcsik 1994). Consequently, executives will propose a bill as the only way to adopt to a European policy. The parliament, usually less informed about European policies (less participation in multi-level governance), will accept this proposal without many modifications. Indeed, the loss of parliaments’ influence is one of the only constant findings in the Europeanisation literature regarding the impact of the EU on domestic policy-making: "there is at least one finding that seems to be uncontested - Europeanization has strengthened the central executive at the expense of parliaments despite their increased involvement in EU policy-making." (Börzel and Risse 2006: 487). The hypothesis then is:

**H2a: The parliament is weaker in Europeised cases than in cases without a European regulation.**

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6 Bulmer (2007) and Börzel and Risse (2006) distinguish different phases within the Europeanisation literature. Moravcsik is part of an early phase, dominated by IR scholars who inversed their arguments about European integration on the impact at the domestic level (intergovernmentalism, supranationalism). Later, in the mid 1990s, a second phase emerged. Scholars with a comparative politics background developed more fine-grained analysis of how European integration affects nation states, often influenced by new institutionalism approaches (Milner and Keohane are not part of the Europeanisation literature. However, given the important economic dimension of European integration, their argument about internationalisation may also explain the effect of the former).
This common finding is questioned by a recent study on national parliaments and European integration, arguing that parliaments are ‘adaptative institutions’ (Auel 2005: 307). This study found that some parliaments have learned from their weakening in early years of European integration and that they developed counter-measures, such as institutional reforms, duty of the executive to inform, standing committees, and right to draft resolutions. While the reaction differed according to the overall institutional context (Auel and Benz 2005), it leads to the formulation of a counter-hypothesis:

\[ H2b: \text{The parliament is not weaker in Europeanised cases than in cases without a European regulation because it developed counter-strategies.} \]

**Direct and indirect Europeanisation**

Regarding the differentiation between direct and indirect Europeanisation, we expect that the effects of European policies are stronger in cases of direct Europeanisation. Here, the necessity to adapt is less contestable, while adaptation without direct Europeanisation remains a voluntary domestic decision. More precisely, we expect that executives are less strengthened in cases of indirect Europeanisation, because they do not participate in EU-level negotiations. Therefore, concertation and parliaments should not be weakened in cases of indirect Europeanisation (no two-level-game):

\[ H3a: \text{The impact of European policies on domestic policy-making is weaker in cases of indirect Europeanisation than in cases of direct Europeanisation. Notably the executive will be less empowered.} \]

Nevertheless, European policies are an opportunity structure for reforms also in non-member states, albeit with a less constraining character. And capital and business interests, which are mainly strengthened by economic competition among European states, should also be reinforced in cases of indirect Europeanisation. This leads to a rival hypothesis:

\[ H3b: \text{The impact of European policies on domestic policy-making does not differ between direct and indirect Europeanisation. Notably business interests, but also reformers are empowered in both cases.} \]

**Methodology**

The impact of European integration on domestic policy-making patterns will be scrutinised with a case study design in order to uncover the causal mechanisms linking the existence of a European policy to the specific process of policy-making. The outcome (or dependent variable) is a domestic policy-making process of a specific legal reform at the national level. This includes the process
from first debates about the reform (or from the adoption of a European regulation) until the final vote in parliament or in a referendum, without further concretisation through decrees and the implementation processes.

Using a most similar systems design we compare policy cases in Belgium and Switzerland, two small open economies with a tradition of consociational and corporatist policy-making (Katzenstein 1985; Lehbruch 1979; Lijphart 1999). In both countries, concertation—mainly with social partners, but also with other peak associations and cantons or regions—is an important part of policy-making, aiming at consensus-building. The concertation phase or arena precedes the debate in parliament, and its aim is to find a proposal that is supported by as many actors as possible. The difference of interest between Belgium and Switzerland is EU membership, so we examine the impact of Europeanisation on policy processes within and outside the EU.

In the two countries, we analyse five salient reforms (overview in table A in the appendix). Three of them directly result from European integration (flanking measures to the extension of free movement of workers to new EU-member states, electricity market liberalisation, competition policy), and two “control cases” (Haverland 2006) deal with policy-making processes in policy fields where the external impact is low (unemployment policy, occupational pension policy). Comparing cases with and without a European dimension helps to assess whether European regulation indeed affects domestic policy-making.

To conduct the case study analyses, we used the method of process tracing that allows to highlight causal mechanisms such as the effect of a European regulation on domestic policy-making arrangements, as well as the - intervening or contradicting - effects of globalisation and of domestic factors (Checkel 2005; George and Bennett 2005; Gerring 2007). This technique comprises data collection from a comprehensive body of documents (official reports, documents of interest groups, media) and interviews with actors involved in the decision-making process (approx. ten interviews per policy case) in order to retrace and understand the sequences of the processes. By combining deductive and inductive procedures, process tracing allows to test theoretical assumptions and, at the same time, to find unexpected (or omitted) variables and unpredicted interactions, for example with more global or domestic factors (Checkel 2005).

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7 While Katzenstein argued that this is a consequence of the exposure of small countries in the world economy, Lijphart argued that this compromise is necessary to guarantee the stability of the political system in culturally divided societies such as Belgium and Switzerland.

8 It was argued that the Europeanisation literature overestimates the impact of the EU neglecting effects of globalisation (see for example Levi-Faur 2004; Verdier and Breen 2001). By presenting in-depth case studies of policy-making processes across country and sector, this paper accounts for this and aims at assessing the impact of European policies within a complex decision-making process.
Empirical Results

In order to provide a general overview of the ten policy-making processes, their main characteristics are summarised and presented in *table 1*. The table shows the role and influence of concertation, of the government and of the parliament, but also the role of business associations/employers and trade unions. It allows to see which actor was empowered or marginalised in which case, and whether and how concertation took place.

*Table 1: Europeanisation and patterns of policy-making*

<table>
<thead>
<tr>
<th>Role concertation</th>
<th>Direct Europeanisation</th>
<th>Indirect Europ.</th>
<th>No Europeanisation (control cases)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMW CH</td>
<td>FMW B</td>
<td>EL B</td>
<td>CP B</td>
</tr>
<tr>
<td>Role government</td>
<td>strong (A)</td>
<td>weak (P)</td>
<td>failed</td>
</tr>
<tr>
<td>Role parliament</td>
<td>medium (C)</td>
<td>strong</td>
<td>strong</td>
</tr>
<tr>
<td>Business assoc.</td>
<td>weak (RD)</td>
<td>weak</td>
<td>medium</td>
</tr>
<tr>
<td>Trade unions</td>
<td>medium</td>
<td>medium Lib.?</td>
<td>weak</td>
</tr>
</tbody>
</table>
| FMW: free movement of workers (enlargement to new EU member states); EL: electricity liberalisation, CP: competition policy; UI: unemployment insurance; OP: occupational pensions; B: Belgium; CH: Switzerland.
A: Agreement among social partners and government; P: polarisation; RD: Royal decree; C: compromise; init.: initiative; Lib: Liberals; Soc.: Socialists; ref: popular referendum.
Strong: dominant actor or one of the dominant actors in process; medium: some influence; weak: participation but little influence; none: no participation and influence at all. Failed: concertation, but no agreement between actors.

At first sight, it is difficult to recognise common patterns as the consequence of Europeanisation on policy-making in the ten cases in table 1. Considering that the policy-making process is the result of several intervening factors, with differences between sectors and countries, this is not surprising. We first briefly present the policy-making process in each case (or group of cases) and the causal mechanisms involved in order to see whether and how European regulation affected these outcomes. Then, on this basis, we analyse the hypotheses.
Policy-making process in different types of Europeanisation

Direct Europeanisation

The first case was the extension of free movement of workers to the new EU member states in Switzerland. In this policy case, social partners and the government agreed on a common proposal in tripartite negotiations, which corresponded largely with the demands of the trade unions and which was adopted without major amendments in parliament. Trade unions argued in favour of strong flanking measures in order to prevent wage dumping. They threatened to support the referendum announced by the eurosceptic Swiss People's Party (SVP), and media coverage on wage dumping helped them to put the topic on the political agenda. Consequently, hitherto opposed employers and government agreed to strengthen flanking measures in order to prevent the rejection of the extension of free movement (and thereby the entire construction of bilateral agreements with the EU) in a popular referendum.

Unlike the Swiss case, the Belgian policy-making process was characterised by weak concertation, a dominant government, and the absence of the parliament. Despite some concertation, the proposed measures were largely a result of the negotiations within the coalition government, composed of Socialists and Liberals. The transitory and three flanking measures were nevertheless accepted as a compromise by the social partners. A fourth flanking measure however, proposed by the government and strongly advocated by the trade unions, was never adopted because of opposition coming from the employers. The weak role of concertation can be explained by the lower level of salience for the social partners (compared to the Swiss case), and by the coalition government, whereby positions of Socialists and trade unions as well as of Liberals and employers largely overlapped.

Failed concertation in the case of Belgian electricity liberalisation was due to the polarisation between societal actors in the traditional contractual regime, impeding a common proposal. This enabled the dominant role of the government, who elaborated the bill, marginalising other actors and their concerns (with the exception of the electricity industry). The bill was adopted by the parliament without modifications. The government used the European directive in order to re-initiate the legislative process (blocked after failure of concertation) and to justify the need of this reform. Interventions of the European commission supporting the governmental proposal strengthened the position of the government. Finally, forthcoming elections – a domestic factor – further reinforced the executive, allowing it to set other actors under time pressure and
to impose its proposal of how to transpose the European directive (which offered a large leeway to member states).

In the *Belgian competition policy reform*, the European regulation of 2003 constituted a "window of opportunity" for the government and even more for a self-established group of lawyers, academics, civil servants, and a business association representative who (independently from each other) initiated a reform for modernising Belgian competition law. While the large business association participated in this policy-making process through the self-established group, further concertation by the government was limited and trade unions were largely marginalised. This was less due to European regulation, but to difficult negotiations within the coalition government of Liberals and Socialists and the fact that trade unions, unlike business associations, were rather passive actors in competition policy. Once a compromise among the governmental parties was found, the parliament adopted the bill with only minor modifications.

*Indirect Europeanisation*

The cases of indirect Europeanisation share the absence of concertation and a medium role of the parliament, however, they differ regarding the role of business associations and the government. In *Swiss electricity liberalisation*, although there was no obligation to transpose the European directive, the government used it as an impetus to set the topic on the domestic agenda. It benefited from its informational advantage in order to initiate an exclusive policy-making process, marginalising sceptical actors such as the trade unions. Arguments about adaptation to the EU, and in particular to the developments in neighbouring countries, were a further resource offered by the European directive. Business associations were empowered because they were in favour of liberalisation, arguing that it results in lower electricity prices necessary for their international competitiveness. However, after that the parliament amended several prescriptions of the bill, the trade unions launched the referendum, and a majority of citizens rejected the reform.

In the *Swiss competition law reform*, the starting point was the discovery of the vitamin cartel in the US in 1999 and the severe sanctions the US decided on the Swiss firm Roche. This stood in sharp contradiction to the possibilities the Swiss competition law offered and opened a "window of opportunity" for domestic reforms. Although the reform was strongly inspired by the regulation in the EU

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9 The lawyers who initiated the self-established group were sensitised to questions of competition law and its regulation in other countries because they worked in international lawyers’ offices. They favoured a more modern and stringent competition law. Besides conviction, this was also due to their observation that in countries with a more strict competition law, there is more work for lawyers.
and the US, the particular process was due to domestic factors such as the media coverage of the "vitamin scandal", which led to parliamentary activism initiating the reform process. The government then took over the lead and a first proposal was elaborated within the administration, without any participation of societal actors. After strong criticism from the social partners, both employers and trade unions, some concessions to their demands were made. While social partners were largely marginalised during the process, the parliament amended the bill and thereby continued to participate in the reform, without changing it substantially.

**Control cases without Europeanisation**

Despite some OECD reports, general trends towards activation of unemployed and occupational pensions, and European Open Method of Coordination, the impetus in the control cases, i.e., the decision-making processes in social policy without European regulation, was mainly domestic. An overall characteristic was the absence of a common agreement between social partners, due to polarisation between their interests. However, the way the government and the parliament reacted differed in correspondence with topic-related and country-specific elements. Country-specific elements were the coalition government between Socialists and Liberals in Belgium, and the compromise found among them satisfied the social partners. The second aspect typical for Belgian policy-making is that once a bill is accepted in the government, it is difficult to change it in parliament. This explains the early and massive mobilisation of trade unions in the reform of unemployment insurance. In Switzerland, concertation is more formalised and more difficult to circumvent, which led to failed concertation due to polarisation. In addition, thanks to the right-wing majority of the government, the proposed reforms were about retrenchment and employer-friendly. Institutional independence (together with low party discipline) permitted to the parliament to modify substantially the two proposals (in different ways).

We also observe topic-specific elements: in both countries, the reform of occupational pensions resulted in a compromise that satisfied all actors,\(^\text{10}\) while unemployment reform was much more controversial (although with a compromise in Belgium).

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\(^{10}\) This can be explained by two characteristics of occupational pensions: First, social partners are involved in implementing occupational pensions, therefore their agreement is important. Second, occupational pension reforms play an ambiguous role in retrenchment of the welfare state: on the one hand, the debate was about extending the coverage of the second pillar (may be perceived as extension of the welfare state), on the other hand, the second pillar can be perceived as part of retrenchment, weakening the first pillar.
European integration and concertation in domestic policy-making

In this section, we analyse whether European integration strengthens (H1a) or weakens (H1b) domestic concertation. We also analyse which causal mechanisms are involved in order to better understand the impact of European integration on the domestic level.

**H1a: Concertation is stronger in cases with a European regulation than in domestic policy cases.**

European integration does not strengthen the role of concertation, as table 1 shows. Hypothesis H1a can therefore not be supported. Only in one Europeanised case, we find a strong role of concertation as expected by Katzenstein – extension of free movements of workers to the new EU member states in Switzerland and the flanking measures accompanying it to prevent wage dumping. However, this strengthening of concertation and of the Left was due to a combination of European pressure (bilateral agreement on enlargement) with domestic factors (opposition of SVP which divided the right, institution of referendum, media coverage), and not only to the existence of external pressure as assumed by Katzenstein. This becomes even more evident if we consider that the same policy case had a different outcome in Belgium (weak concertation).

**H1b: Concertation is weaker in cases with a European regulation than in domestic policy cases.**

Although there is no unequivocal pattern, there is a trend toward weaker concertation in Europeanised cases, supporting the hypothesis. In three Europeanised cases, no concertation took place, in one case it was weak, and in the last one, it failed (no agreement among actors). However, also in the control cases, concertation was weak or even failed, which raises the question as to whether the results in the Europeanised cases are indeed due to European integration.

A closer look at the cases and the causal mechanisms involved (see above) shows that there are indeed some doubts whether the type of concertation in the Europeanised cases was due to European integration. As postulated, a European directive affected policy-making in the case in electricity liberalisation in Switzerland (a case of indirect Europeanisation), and to some extent in electricity liberalisation in Belgium (however, only after the failure in the traditional concertation regime). The remaining three cases, however, offer little support to the hypothesis: while the European regulation was a window of opportunity in Belgian competition reform, the absence of concertation was due to the difficult negotiations within the coalition government, facilitated by the
little interest on the side of the trade unions. Also regarding free movement of workers, the impetus was European, but the process due to the strategy of the coalition government. And in the Swiss competition reform, the impetus was more international than European (discovery of vitamin cartel in the US) and the process due to media coverage and parliamentary activism. Despite this rather weak effect of European integration, the case studies reveal the causal mechanisms as to how European integration affects domestic concertation: European integration empowers executives by providing political impetus for agenda-setting. This may result in less concertation, but it is not necessarily the case. In addition, justification of reforms by referring to the EU and developments in other countries was frequent, strengthening both the executive and business associations. However, domestic factors (notably the coalition governments in Belgium) were more important for the observed policy-making process than European integration.

**European integration and the domestic executive-legislative relationship**

Does European integration affect domestic executive-legislative relationships, as often assumed? And if so, does it weaken the parliaments (H2a), or did they react by developing counter-measures (H2b)?

Table 1 indicates that the parliament tends to be weaker in Europeanised cases than in cases without Europeanisation. Notably in cases of direct Europeanisation, the parliament is weaker than in cases of both indirect or no Europeanisation. However, a closer look shows that the role of the parliament mainly differs between the two countries: while in Belgium, it is always weak (or does not even participate in policy-making), in Switzerland, its role varies with the type of Europeanisation.

In Belgium, there is no effect of Europeanisation to be observed – the government is the dominant actor, and the parliament the rubber-stamper in cases with and without European regulation, as in standard policy-making processes (Fitzmaurice 1996). Hence, European integration did neither weaken the Belgian parliament, nor did the latter react, and therefore both hypotheses have to be rejected for this country.

In Switzerland, the parliament was weak in the case of direct Europeanisation, it played a medium role in cases of indirect Europeanisation, and it was strong in the control cases. This seems to support H2a. However, the case studies reveal that these differences are not due to the type of European integration. In the two cases without a European regulation, despite a rather active government, the parliament

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11 Formally, the Belgian parliament reacted to increasing European integration. With the Special Act on Institutional Reform, the government has a duty to inform the parliament (and the federated entities). And a Federal Advisory Committee on European Questions was established in order to stimulate and foster parliamentary control. Despite these reforms, the parliament shows little interest in scrutinising the European activities of its government and hence, its control remained weak (Vandevivere 2001).
strongly modified the proposal and hence played a crucial role (however in two
different ways: compromise in occupational pension reforms vs. strengthening of
retrenchment in unemployment insurance). This was facilitated by the Swiss political
system, in which the parliament is independent from the government, and in which
party discipline is traditionally rather low. These findings confirm recent research that
found that the Swiss parliament became particularly active in social policy-making
since the mid 1990s (Bonoli 1999; Häusermann et al. 2004).

In the case of direct Europeanisation (extension of free movement of workers), the
parliament was 'degraded' to accepting the agreement elaborated in tripartite
negotiations. The weak role of the parliament was therefore less due to the existence
of external European pressure, but rather to the fact that a compromise among
social partners was found, and that with the announced referendum, it would have
been too risky to modify it. In indirect Europeanisation (electricity, competition), the
parliament modified the proposals of the government without challenging the main
prescriptions. In competition reform, the parliament was also the agenda-setter,
commissioning the government to prepare a reform. But although references to the
EU or the US (in competition reform), to competition with other European states, and
to the general trend of these reforms were frequent in both cases, these arguments
did not affect coalitions and majorities, established according to domestic factors.

So although the role of the parliament corresponds to the type of Europeanisation in
the Swiss cases, European integration has no impact on that role. The weak role in
the case of direct Europeanisation is due to the compromise found in concertation,
and the strong role in the control cases shows a particular interest of the parliament
in social policies. Hence in the Swiss case too, both hypotheses have to be rejected.

Direct and indirect Europeanisation

The results of the case studies show that there is no weaker effect of European
integration in indirect than in direct Europeanisation (table 1), contradicting the
expectations of H3a. The government was strong in all Europeanised cases, with one
exception: flanking measures for the extension of free movement of workers to new
EU member states (direct Europeanisation). Strong concertation slightly reduced the
role of the government in this case. One explanation why there is no difference
between the role of the government in direct and indirect Europeanisation is that the
effect of European integration on domestic policy-making remained modest (see
above). A second explanation is that European regulation also offers an opportunity
structure in cases of indirect Europeanisation, as postulated in H3b. This was the
case in Swiss electricity liberalisation: Not only justification, also agenda-setting and
informational asymmetry prevailed in this case and empowered the executive.

The role of business associations varies across the cases, and they tended to be
stronger in control cases of social policy than in Europeanised cases (mainly in
unemployment policy). And while business associations were influential actors in Swiss electricity liberalisation, arguing together with the government in favour of lower prices in order to be competitive on a European level, they were weak in the second case of indirect Europeanisation, Swiss competition policy, and in Belgian electricity liberalisation. In both cases, this was due to a combination of internal divide among the members of the peak associations, and the will of the government not to integrate their concerns (however less pronounced in the Swiss case, where some concessions towards the social partners were made).

In short, and unlike earlier research on direct and indirect Europeanisation in Switzerland (Sciarini et al. 2004), no systematic differences between the two types of Europeanisation were found. European integration constitutes a new opportunity structure in both types, and it depends on domestic factors whether domestic actors use this or not.

Conclusions

The aim of this paper was to analyse whether and how European integration affects domestic policy-making in small European states with open economies, in particular the domestic mechanisms of social concertation and of executive-legislative relationships. Although different kinds of effects are assumed in the literature, empirical insights were hitherto rather scarce.

We conducted ten case studies in two countries in five different policy fields. We introduced variation by comparing cases with and without a European regulation (control cases) and a EU member state with a state outside of the EU (direct and indirect Europeanisation). Using the method of process tracing, we identified the causal paths leading to the respective policy-making processes.

We tested contradictory hypotheses regarding the impact of European integration on domestic policy-making presented in the literature. Our focus was on concertation, the executive-legislative relationship, and the difference between direct and indirect Europeanisation. The results of the case studies show that there is little concertation in Europeanised cases (but also in the control cases), and that European integration does not affect the domestic executive-legislative relationship in the two countries we studied. Interestingly, there was no difference of the impact of the EU between direct and indirect Europeanisation, i.e., the impact was not stronger in cases of direct Europeanisation. This means that European integration even affects domestic policy-making across the borders of the EU, at least regarding negative integration. However, this result is relativised by the main finding that the effect of European integration on domestic policy-making was modest, and that other factors (country- and topic-specific elements, mediatisation, polarisation) better explain the outcome. Consequently, no common patterns of how Europeanisation affects domestic policy-making were found.
This modest effect does not mean that there are no interesting mechanisms through which Europeanisation affects policy-making processes. One aim of this paper was to scrutinise the causal mechanisms involved, and the case studies revealed the following: European integration is first of all a political impetus for domestic reform: it opens a “window of opportunity” (Belgian competition reform) and allows to set a topic on the political agenda (electricity liberalisation). Thereby, it strengthened mainly the executives, but also other actors in favour of a reform, such as the lawyers in Belgian competition reform or business associations in Swiss electricity liberalisation.

Secondly, European integration offers justification of a reform (beyond agenda-setting). The use of this resource was widespread among reformers - and even actors opposed to the bill proposals justified their objections with references to the European directive (e.g., in electricity liberalisation). Despite its frequent use, the effect of this resource is less evident and varies between cases and actors; using the EU to justify a reform seems to be an accompanying rather than an empowering resource. More effective was direct support by the European commission, as in the case of Belgian electricity liberalisation.

Finally, it was argued in the literature that European integration strengthens the government (or other actors participating at the European level) by offering them informational advantages. This mechanism was found in only one case, Swiss electricity liberalisation. Here, it was however a powerful factor reinforcing the executive (and, to a lesser extent, business associations).

To sum up the mechanisms ensuring the impact of European integration on domestic policy-making, we conclude that it offers first of all an impetus for domestic policy-making. Informational asymmetry is an influential, but rare mechanism, while justification is widespread, while its influence is doubtful and depending on the actors and the moment in policy-making when it is used.

Despite the limited “net” effect of the EU on policy-making, we observe a large variety of policy-making processes, notably regarding concertation. The causal factors are diverse, but among them, we find polarisation between social partners (control cases, Belgian electricity liberalisation, see also Bonoli 1999; Häusermann et al. 2004)\(^\text{12}\) and mediatisation (Swiss competition reform, see also Grande 2000; Manin 1997; Marcinkowski 2005). These results confirm recent research that policy-making patterns vary across policy sectors within the same country (Falkner et al. 2005; Schmidt 2006), and that it becomes more difficult to define a more general “standard” policy-making process. Nevertheless, there are some common trends in contemporary policy-making in these two small European states: there is a trend

\(^{12}\) Concertation is weakened through polarisation among social actors, which confirms earlier findings from Switzerland (Häusermann et al. 2004), but also shows country-specific particularities (weak vs. failed concertation).
toward a strengthening of the executive, and towards less concertation. This raises the question whether we still can describe the two countries as being corporatist (Katzenstein 1985) or consensual (Lijphart 1999). At least, concertation can no longer be considered the norm, it only succeeds under certain conditions. Concertation may be impeded if there is polarisation between social partners (notably business/employers not willing to make compromises), if a coalition government has difficulties to find a compromise, or if the government either fears that concertation would fail, or if it feels itself reinforced and only consults the most influential actors. European integration may affect these aspects, but it is one explanatory factor among others.

References


Appendix

Table A: Overview policy cases

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<thead>
<tr>
<th>Direct Europeanisation</th>
<th>Belgium</th>
<th>Switzerland</th>
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<tr>
<td>Electricity market liberalisation (1996-1999)</td>
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<td>Competition policy reform (2003-2006)</td>
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<tr>
<th>Indirect Europeanisation</th>
<th>Switzerland</th>
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<tr>
<td>Electricity market liberalisation (1994-2002)</td>
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<tr>
<th>No European regulation</th>
<th>Switzerland</th>
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Description of the ten policy cases

Free movement of workers:

In 2004, free movement of workers was extended to the ten new member states joining the EU. As most member states, Belgium adopted transitory measures allowed by the EU to protect its labour market because of the important economic gap, notably regarding wages, between old and new member states. A first phase of such measures was adopted in 2004 for a period of two years, and they were prolonged in 2006 for a second phase of three years (with exceptions for sectors with labour shortage). In 2006, the government and the social partners further agreed to adopt measures to prevent wage dumping in the long term (flanking measures). Three measures were adopted with the support of the social partners: a register for trans-border occupations, a strengthening of inspections to combat abuse, and a right to act for workers and their organisations before Belgian courts. However, a fourth measure strongly advocated by the trade unions has to date not been adopted because of employers’ opposition: a responsibility of solidarity among employers. The chance that this measure will be adopted before May 2009 (the end of the transitory period) is small (Andrey 2009; Robyr 2009).

In 2000, the Swiss government concluded a bilateral agreement on the free movement of workers with the EU-15 as part of a first package of bilateral agreements, which led to the adoption of flanking measures at the domestic level (Fischer et al. 2002). EU enlargement imposed a renegotiation of this issue between the EU and Switzerland in order to extend free movement to the new member states.
The trade unions asked for more far-reaching flanking measures, because of the significantly lower wage level in the accessing countries and because hitherto implementation was considered insufficient. Two measures were proposed by a tripartite working group and adopted by the parliament: the quorum of employers required to make collective agreements compulsory was abolished, thereby facilitating the extension of collective labour agreements to entire economic sectors, and the hiring of work inspectors by the cantons, partly subsidised by the federal state, was decided in order to provide means for tripartite commissions to control the labour market more effectively (Afonso et al. 2009: 8ff.).

Electricity liberalisation:

Electricity liberalisation aims at introducing competition in a market hitherto monopolised. Since the 1980s, such reforms have spread globally, and in 1996, the European Union adopted its directive prescribing stepwise liberalisation in the member states. Before liberalisation, the Belgian electricity sector was dominated by a single private firm, which traditionally regulated the sector together with the social partners in a contractual regime. This regulation was challenged by the need to transpose the directive into a national law (the last law dated back to 1955). Since the participants in this regulatory arrangement could not agree on a common proposal, in 1998 the government became active and drafted a bill which was adopted by the Parliament in 1999. This rather general framework law comprised a step-wise opening of the sector, first for large industrial clients and only later for distribution firms. It also stipulated that the transportation network remained a natural monopoly (with regulated third party access) and that the current owners propose an operator for the network. Production and distribution, on the other hand, were opened to competition, controlled by a newly established regulatory authority. The law aimed at guaranteeing the interests of the electricity industry to enhance its competitiveness in a European-wide electricity market (Fontana forthcoming).

Although Switzerland was not obliged to adapt to the European directive, the government decided to liberalise the electricity sector. Already in 1994, before the European directive was adopted, the government initiated the reform process. And although all actors, including the trade unions, were consulted, the bill proposed by the government corresponded largely to the preferences of business associations and large consumers. Despite some amendments, this was not changed by the parliament. The adopted bill was a framework law with competition in production and supply and third party access to the transmission network, accompanied by the establishment of a Swiss society for the exploitation of the network and a dispute settlement commission. The opening-up was planned in three steps over six years. Regulation of competition and of social and environmental aspects remained limited. The trade unions, largely marginalised during the policy-making process, launched a
referendum against the law, and, to the surprise of many, the reform was rejected by the Swiss people in 2002 (Afonso et al. 2009: 11ff.).

**Competition policy reform:**

The aim of competition policy is to prohibit practices that impede competition and harm the overall economy, notably horizontal agreements, abuse of a dominant position, and mergers leading to dominant firms. Although competition policy is one of the oldest competencies of the EU, in several member states with a small open economy, the prohibition of cartels is a rather new phenomenon. Only since the mid 1980s a trend toward convergence of national legislation can be observed (McGowan 2005; van Waarden and Drahos 2002). In May 2004, an important reform of the EU competition law came into force (regulation 1/2003), including a decentralisation in the application of competition law to the member states.

In *Switzerland*, the starting point of the competition reform adopted in 2003 was the discovery of the vitamin cartel in the US in 1999, and the high sanctions Roche was condemned to. This case demonstrated the weakness of the Swiss competition law (despite a reform in 1995), which did not allow to sanction Roche because sanctions were reduced to cases of recurrence. The reform proposed therefore to introduce 'direct sanctions' (i.e. after a first violation of the law), together with a leniency programme and a professionalisation of the competition authority (hitherto militia system). Due to strong opposition to all three elements by social partners, both employers and trade unions, the government withdrew from the third point, while the first two elements were adopted by the parliament in 2003.

In *Belgium*, two actors perceived the adoption of the European regulation in 2003 as an occasion to propose a reform of the Belgian competition law (reformed in 1999). On the one hand, a group of lawyers from international law offices, academics, civil servants and a representative of the employers' association elaborated a proposal how to modernise Belgian competition law. On the other hand, the government started a reform aiming mainly at adapting the law to the new requirements of the EU, but going beyond by also reforming the competition authority. The government integrated the proposal of the lawyers' group into its own reform project. While social partners raised little opposition, negotiations among governmental parties (Liberals and Socialists) proved to be difficult. Finally, the bill adopted by the parliament in 2003 reformed the competition authority and modified procedures, but did not affect the content of the law.\(^{(13)}\)

**Unemployment policy reform:**

\(^{(13)}\) It integrated a higher threshold for merger notifications and a leniency programme. However, both elements were adopted before by a royal decree and a communication of the competition authority respectively.
Unemployment policy is a highly delicate and salient issue in Belgium, closely related to the economic gap and the conflict between the French and the Flemish communities: While unemployment was relatively low in Flanders (8%), it was very high in Wallonia and the Brussels region, reaching 18% and 22% respectively in 2003. In July 2003, the new government (coalition of Socialists and Liberals) initiated a reform of the unemployment insurance, which dated back to 1991. The bill elaborated by a Socialist Minister proposed to introduce an obligation for unemployed persons to search actively for a new job, and to intensify control over their efforts. This corresponded to the demands of the employers, and also to a general trend of 'activation', present in the EU (European Employment Strategy, Lisbon 2000). It was however heavily criticised by the trade unions. Consequently, tripartite negotiations with the government and the social partners resulted in a modified proposal, which provided more support to unemployed persons (Andrey 2009).

In 1998, the provisional emergency measures adopted by the Swiss government in 1995 in order to deal with the hitherto unknown level of unemployment came to an end. The Parliament drafted a motion that commissioned the government to revise the law on unemployment insurance as part of a larger package designed to reduce state deficits. After the failure of negotiations in a multipartite workgroup, the government presented its own proposal with four major modifications that were believed to balance the project: Compulsory contributions were reduced from 3 to 2% of wages, the solidarity contribution on high wages was maintained (with a lower contribution ratio), the period of contribution required to claim for unemployment benefits was extended from 6 to 12 months (making it more difficult to claim benefits), and the maximal duration of benefits was reduced from 520 to 400 days. These were essentially retrenchment measures, and in addition, the right-wing majority in the parliament, corresponding to a demand of the employers, decided to abolish the solidarity contribution. The trade unions launched a referendum against the bill, but a majority of voters accepted it (Afonso et al. 2009: 13ff.).

**Occupational pension reform:**

The development and extension of occupational pensions, or of the so-called second pillar, is a general trend in Europe, encouraged by international organisations such as the OECD, the World Bank, and also the EU. In Belgium, occupational pensions were long-time considered as part of remuneration. Over the last twenty to thirty years, they developed however into a part of the pension system. After a first comprehensive reform of occupational pensions in 1995, in 1999 the new government of Liberals, Socialists and Greens (“rainbow coalition”) decided to reform again occupational pension legislation. The aim was to extend its coverage (going beyond male white-collar employees) and to encourage the capitalisation system. The law, adopted in 2003, provides a unified framework for supplementary pensions,
including individual, company level, and sector level pensions. Extension of coverage should be achieved mainly by the introduction of sector-level pensions based on collective concertation. In addition, the law improved the situation of part-time employees by prohibiting discrimination and it broadened the participation of employees. The rules of transparency were strengthened, transferability in case of change of job was facilitated, and a guaranteed return rate introduced (Fontana 2008).

The occupational pension scheme, based on contributions collected on wages and managed by capitalisation, has a long tradition in Switzerland and was introduced in the constitution in 1972 as part of the "three pillar system". It was concretised by a law in 1982 establishing a mandatory occupational pension for employees with a minimal income. After some partial revisions and reform discussions, a new reform process was initiated by the government in 1997. Multipartite negotiations failed because of strong left-right polarisation. Subsequently, the government presented a proposal which mainly represented the preferences of employers (notably a decrease of the minimal conversion rate for "financial consolidation"). It was strongly criticised by the trade unions and left-wing parties, who demanded an expansion of coverage to lower incomes and part-time workers. In parliament, the debate started again within a specific committee, which presented a compromise: On the one hand, it planned an extension to lower incomes and part-time work, and on the other hand a decrease of the minimal conversion rate (Afonso et al. 2009: 15ff.).