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The Political Economy of European Economic Integration and the Economic Sovereignty of the Nations State

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The real issue in the context of the European economic integration revolves around the envisaged losses resulting from this i.e. whether membership of the EU involves giving up national economic sovereignty, or whether such a venture enhances such sovereignty through a process of pooling. This paper attempts to gain an insight into the factors pertinent to answering this fundamental question by identifiying relevant aspects of European economic integration. Losses in national economic sovereignty that ensue from this are also considered.

Key Words: *Political Economy, European Economic Integration, Economic Sovereignity.*

JEL *Classification:* *E50; E52; F02.*

I. INTRODUCTION

Much of the debate over membership of the European Union in recent years has been explicitly or implicitly been concerned with the issue of 'national sovereignty'. This has been the case particularly in the UK, especially during the last Conservative government, but the issue has more recently also been prominent in a number of other established EU member states, for example Italy under the Berlusconi government, and Germany in the aftermath of the introduction of the EURO. It is also of great relevance to the new entrants into the EU from East/Central Europe, and to potential further entrants, most notably Turkey.

Partly because this is a matter which goes to the very heart of the nationalism and national identities we have lived with in Europe over the last couple of hundred years or so, it is a matter which evokes strong feelings and much controversy. It also appears to be an issue that is imperfectly understood by the media, the public at large and indeed some politicians. A complete analysis of this issue would require an interdisciplinary approach, indeed different aspects of it have been examined from different perspectives by political scientists and historians, for example[1]. This paper, however, concentrates on some of the more specifically economic aspects of this relationship, and in particular on the relationship between EMU and the economic sovereignty of European nation states. The approach that is adopted is essentially based on political economy[2].

An essential feature of economic and political integration is of course that it involves the joint determination of, or at least close co-operation and collusion in, the formulation and implementation of policy in agreed areas. It is therefore almost axiomatic that any such process

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of integration will result in some reduction in sovereignty at the local level. If decision making is shared, it seems clear that any single participant in the process cannot always be in a position to do whatever it considers most appropriate to its individual needs. This will be particularly the case for small countries, and of course for the new member states that generally do not have much of a recent tradition of economic self determination as former members of COMECON. The real issue in the context of European economic integration concerns the extent of such losses, and indeed whether in reality they exist at all. Put another way, whether membership of the EU involves the surrender of national economic sovereignty, or whether it in fact enhances such sovereignty through a process of pooling.

This paper considers some of the factors which are pertinent to answering this fundamental question. It identifies the various relevant aspects of European economic integration , and considers the losses in national economic sovereignty which potentially ensue from them. It further discusses the likely real extent of such losses from a variety of perspectives, and arrives at some tentative conclusions.

A very fundamental issue here of course concerns exactly what is meant by 'economic sovereignty'. For the sake of this discussion, 'real' economic sovereignty is very broadly defined as the power in practice of European nation states to determine and successfully implement their first preferences in economic policies in isolation from events and policy preferences elsewhere.

Membership of the EU generally involves acceptance of the *acquis communautaire*, i.e. the entire range of legislation and regulations which are contained in the Treaty of Rome and which the Union has developed since then. It therefore has far-reaching consequences, not all of which are economic. From a purely economic point of view, however, the main consequences of membership can conveniently be divided into four categories. Firstly, the impact of the customs union on trade policy;. Secondly, the impact on the mobility of the factors of production (the common market aspect). Thirdly, the implications of participation in the Union's common policies. Finally, and perhaps most important, the consequences of the process of monetary integration. These will be considered in turn, with an emphasis on the implications of EMU.

II. THE INTERNAL MARKET AND COMMON POLICIES

The EU's internal market involves membership of the customs union, which affects trade issues, as well as adherence to the free movent of labour and capital. Participation in the EU's customs union essentially involves three obligations. First of all removing all tariffs on imports from partner countries - a measure long since implemented by EU members. Secondly, eliminating non-tariff barriers (NTBs), or at least some of them, on these imports. This has, to an extent, been achieved as a result of the single market programme. Finally, adopting a common policy towards trade with the rest of the world. On the most basic level this involves implementing the EU's Common External Policy (or Variable Levy in the case of agricultural products), but it also implies adopting a common stance in international negotiations such as the various rounds of the GATT.

The implications of this for national and local economic sovereignty are clear. In essence, countries lose control over tariffs and NTBs as an instrument of economic policy. These can no longer be employed as a means of altering intra-union trade flows, and their use to control imports from the rest of the world is subject to the limitations imposed by collective decision making.

This apparent sacrifice of sovereignty to the process of integration is probably the most straight forward to deal with, since these tools of intervention have become all but redundant in the modern world. Let us first of all consider tariffs. These were widely used in Europe and elsewhere during the early part of the century, when protectionism became part and parcel of the spiral of decline into nationalism that was to result in the second world war. However, since the late 1940s tariffs on trade between developed countries have been greatly reduced by the various rounds of the GATT as well as by the emergence of regional trade groupings and bilateral arrangements between countries. To this extent the lessons of the 1930s have been heeded. In any case one could argue that the free movement of capital in most of the developed world, and increased concentration of production in the hands of multinational enterprises (MNEs) has rendered tariffs largely redundant: if tariff barriers really are an effective impediment to trade, then MNEs can always avoid them by producing directly where they wish to sell. To this extent direct investment has emerged as an alternative to trade.

Even in the past there were of course severe limits to their effectiveness, given the welfare costs which had to be borne by domestic consumers and the probability of retaliation. Nevertheless, as recently as 1983 one finds the British Labour Party advocating an ‘Alternative Economic Strategy’ which relied heavily on protectionism as a means of facilitating the development of infant industries and thus promoting industrial regeneration. From time to time one also hears calls for selective protectionism, for example in retaliation for the protectionist measures introduced by the Bush administration in the USA.

The demise of explicit tariffs as a means of protection in the post-war world led many countries to revert increasingly to NTBs as a means of attempting to influence the direction of trade in their own favour. NTBs can take various forms: from the obvious quotas to the (slightly) less evident Voluntary Export Restraint Agreements (VERs, which are in reality anything but voluntary), state subsidies, discriminatory public procurement practices and indirect taxation regimes, restrictive frontier practices, health and safety and other standards, and so on. In general NTBs represent a more serious impediment to trade than is the case with tariffs, since many of them prevent trade directly rather than through the price mechanism.

The use of NTBs was never allowed under EC rules, but the single market programme has made it increasingly difficult for these methods to be used as a means of economic policy. Some remain, but many have disappeared, thus in one more way apparently reducing the ability of individual states to control their own economies. The loss of sovereignty argument carries more weight for NTBs than it does in the case of tariffs. For example, the EU rules on competitive tendering for public contracts have in many cases severely restricted the ability of Local Authorities to use their expenditures to promote economic development and local multiplier effects by awarding contracts to suppliers in their own localities. Controls on state subsidies may restrict the power of national and local governments. In addition, restrictions on the use of indirect taxes such as excise duties represents a significant loss of control in the area of fiscal policy.

Nevertheless, one should bear in mind the fact that NTBs carry with them disadvantages similar to those experienced with tariffs: loss of consumer welfare as a result of increased prices, the possibility of retaliation and even trade or subsidy wars, although the latter may be a little less likely if the relevant instruments are sufficiently subtle and thus less transparent. An important dimension here is that it is difficult in practice to differentiate between measures that are explicitly designed to restrict trade and those that represent a bona fide expression of a country or region's legitimate right to determine its own priorities in areas such as social policy. To take a topical example, how does one regard the imposition of VAT on fuel, or on books and newspapers? How does one regard the harmonisation of food standards that have threatened the integrity of the British and Polish sausages? How does one classify regional policy, which may have laudable social and economic intentions but which also results in 'unfair' trade by reducing the costs of some producers? Thus the elimination of NTBs may have the additional side effect of reducing sovereignty in areas that are not purely economic.

It is also important to note that any losses of the sort outlined above are likely to be mitigated by the advantages a country is likely to enjoy as a member of a powerful trading block, exerting increased influence in agreements such as the GATT and benefiting from more favourable terms of trade. Economic theory can demonstrate that, under certain assumptions, joint action under the aegis of a customs union can actually reduce the cost of protectionism vis-à-vis the rest of the world[3]. Finally, there is the obvious point that membership of a customs union can also result in welfare gains from improved resource allocation (as well as distributional losses).

Membership of the EU common market also involves accepting the free movement of the factors of production, labour and capital within the Union.

It is important in this context to consider briefly the impact of these commitments. There is a certain amount of theoretical controversy among economists as to the impact of unhindered factor mobility. From a neo-classical perspective, free movement within an area should increase economic welfare by facilitating a more efficient allocation of resources, while at the same time promoting the equalisation of factor earnings between participating countries and regions and thus leading to convergence in the common market[4].

However, freedom of movement can, from another perspective, be seen as leading to the exacerbation of national and regional differences in real income and welfare, with more prosperous areas benefiting at the expense of less well-off countries and regions. This critique of the neo-classical approach is largely based on the work of Gunnar Myrdal (1957). He held that the free movement of capital results in 'polarisation effects' through a process of 'cumulative causation'. Broadly, the inflow of capital into areas where its marginal productivity is greatest sets in motion a dynamic process that reinforces the attractiveness of the host areas, which become more prosperous, and thus attract more and more capital from the source areas, which gradually become relatively less developed. The free movement of labour may lead to similar effects, since it may drain human capital from the source areas. There may be some flow of capital from the prosperous economic centre to the less well-off periphery as a result of factors such as low labour costs, congestion etc., but this is unlikely to be sufficient to compensate for the polarisation effects referred to above. It is very difficult to test this hypothesis empirically, although it is arguable that Greece and the UK, for example, have suffered from it in the context of the EC. It may also be that some of the new East/Central European countries may currently be facing similar effects. The UK in general, and London in particular are full of young enterprising, energetic and sometimes highly educated young Poles, Czechs, Latvians, Estonians etc. These migrants contribute much to the British economy and have beome quasi indispensable in specific sectors such as construction and personal services, but their absence also represents an important loss of human capital in the source areas. To the extent that the effect does exist it provides a strong case for an active and well resourced regional policy within a common market, as well as a salutary warning to some of the much less prosperous states who may also join the EU in the forseeable future. This particularly the case in the context of falling birth rates, increasing dependency ratios, and consequent forecast labour shortages in the EU's core countries.

In practice, capital is much more mobile than labour within the EU. This is perhaps mainly due to factors which are out of the Union's direct control: the well known developments that have led to the increased 'globalisation' of world capital markets[5]. It is also, however, partly due to the actions of the Union itself, for example the abolition of exchange controls as part of the single market programme.

Labour mobility in the core of the EU remains restricted, for time-honoured reasons which have been exacerbated by a lack of employment opportunities in the contemporary European economy, although this may change as is discussed above. The actions that the Union has taken to promote the free movement of labour have been either symbolic in their importance (for example, the new burgundy European passport and the attempts to minimise frontier controls), or largely aimed at a limited strata of society (for example, the academic mobility programmes and mutual acceptance of qualifications). Arguably, the most energetic efforts of European countries in this field have been directed at excluding people from outside. Hence Schengen and the Trevi group.

The impact of the free movement of labour on national economic sovereignty has thus probably been probably negligible in an historical sense, and has been largely confined to any long term effects that may result from an exodus of human capital or 'brain drain' from low earnings to high earnings areas. The main sovereignty losses here have been the symbolic ones which arise from the removal of frontiers, as well as some loss of control over immigration policy. It may, however, now been a more significant issue in the light of recent and forecst enlargements

In the case of capital the situation is more complex. For a start one has to distinguish between movements of portfolio holdings and direct investment. In the case of portfolio investments, the unhindered mobility of capital can effectively subvert national economic policy, as was made abundantly clear at the time of the UK's ignominious exit from the ERM in 1992. The role of speculation in this process is often highlighted, but it should be noted that other forms of market adjustment can have similar effects. It is a sobering fact, for example, that the investments of the UK financial services industry alone are roughly equivalent to 100% of the UK's GDP, and that a mere precautionary 5% shift of these holdings out of sterling would effectively neutralise the whole of the UK's foreign exchange reserves - the front line means of intervention to support the currency. Even in the absence of speculation, prudent portfolio adjustment alone can thus affect the government's ability to control the economy.

Direct investment can have obvious and equally serious longer term effects on sovereignty: for example, if multinational enterprises (MNEs) dislike a tax regime, controls over borrowing, or labour market regulation, they can subvert these or exact punitive costs by locating elsewhere.

The pertinent questions here concern the extent to which European integration has contributed to the mobility of capital (and thus contributed to the erosion of sovereignty in this area), and whether integration can enhance control over the forces of capital (and thus enhance sovereignty by pooling)? My conclusions are respectively not a lot; and (potentially) yes. The mobility of capital has increased dramatically as a result of forces outside the EU's direct control, while it must surely be the case that a united front on the part of twelve or more of the richest countries in the world must enhance control over capital markets and even MNEs. Unless, that is, it induces MNEs to locate outside Europe and thus accelerates the loss of comparative advantage (to the NICs) in key areas of production which has so conditioned the strategic position of the European economy in recent years.

The most important of the EUs common policies is undoubtedly the common Agricultural Policy (CAP), accounting over the years for between approximately 45% (currently) and 75% (the historical high) of the EU budget, and affecting the price and supply of the most essential of commodities. Participation in the CAP constrains control over food policy, forcing governments to impose restriction on imports from outside the EU and to subsidise internal agriculture through the price mechanism, and in more recent times increasingly through direct payments to farmers. The practical impact of this is probably limited by the fact that the prevailing wisdom in the world today effectively precludes the alternatives, for example the old British system of deficiency payments, which was essentially a cheap food policy based on the subsidy of agriculture by direct transfers and unrestricted imports. The increase in public expenditure at a national or supranational level that this would involve is not remotely on the present political agenda. The case of recent entrants is interesting in this context. They almost universally are characterised by large, relatively inefficient, and overmanned agricultural sectors. In their case the impact of adhering to the CAP will probably consist of a large shake out of labour from agriculture into either migration (see above) or unemployment. The subsidies they might have expected to receive from the existing EU members are unlikely to materialise, given the phasing arrangements that have been adopted by the EU.

There are of course other common policies, but their importance is severely constrained by their limited claim on the EU budget, which is in any case modest in size at around 1.2% of EU GDP. However, the impact of these policies often lies in the legislation which accompanies them, and which nation states are obliged to adopt. Many EU common policies (the regional policy, fiscal harmonisation, the competition policy etc.) are designed to facilitate the working of, or mitigate the adjustment costs that result from, the internal market. Most have the effect of promoting the economic convergence necessary for integration at the macroeconomic level.

As discussed above the latter policies may severely constrain the ability of countries to pursue independent economic policies in certain areas, such as local economic development, taxation, social and environmental affairs. They thus constrain sovereignty in areas where national and regional authorities could claim to have the greatest scope for independent action. One could argue, however, that this process is not always negative in its results. In the case of the UK, acceptance of EU standards in areas such as environmental affairs and employment rights has involved levelling up in recent years. This may also be the case in many of the new member states.

III. MONETARY INTEGRATION

This issue requires some clear thought, as it is of course the most significant recent development in European integration. In many ways it goes to the very heart of the topic of economic, and indeed political, sovereignty. Historically, monetary integration was not covered by the Treaty of Rome and was thus never an explicit objective of the EC. Despite the failed attempt at EMU in the 1970s and the successes of the EMS in the 1980s, monetary union remained a remote prospect until the mid-to late 1980s. That it moved to the top of the agenda, with the Delors Report eventually precipitating the timetables and conditions for full monetary union in the Maastricht Treaty, and that the EURO is now firmly established in the great majority of the mature EU states is testament to the rapid advance in the integration process over the last ten years and more, as well as to the changing international political economy scenario. The essential feature of monetary union in the EU is that it requires substantial macroeconomic (and to an extent microeconomic) convergence in order to be implemented without prohibitive economic (and political) costs, especially for the weaker economies that choose to participate.

Most significantly, monetary union requires a considerable degree of convergence in rates of inflation. In the absence of this, relatively high inflation countries experience losses in competitiveness and thus in relative levels of economic activity. Since there are no exchange rates, devaluation cannot compensate for differential rates of inflation. The alternative to devaluation is to make the ‘burden of adjustment’ fall on more painful areas such as the level of employment, investment, real incomes and growth. Even then, the absence of flexible labour markets may preclude some of these forms of adjustment. In principle a full monetary union should also necessitate a common policy towards other currencies outside the union, requiring agreement on whether to fix or float the joint currency, as well a pooling of reserves (or at least a commitment to make reserves available to partners), and a common policy towards external exchange controls. However, this has been an issue that has so far been ducked by the decision amkers of the Eurozone.

On the face of it, all this would seem to involve the surrender of substantial economic sovereignty, for economic convergence of this kind clearly requires a substantial degree of co-operation and joint policy making at the supranational level. First of all countries lose control over the objectives of economic policy. There is a body of economic theory, pioneered by Fleming and Corden, which examines the welfare costs involved in terms of countries having to accept second best preferences in the Phillips trade-off between inflation and unemployment[6]. For example, a country involved in a monetary union cannot pursue a policy designed to reduce unemployment when its partners are involved in pursuing policies designed primarily to reduce the level of inflation. If the country wants to pursue its preferred policy stance it must first of all win the political battle over the objectives of economic policy. The distribution of these losses will be determined by the nature of joint decision making in the union. If the process is ‘democratic’, or based on some concept of averaging of preferences, then the costs will be more or less equally shared. If there is a ‘leadership’ outcome, then the leader suffers none of the losses, which are then born exclusively by other participants.

Countries furthermore lose individual control over the tools of policy. Policy has to be implemented in close co-operation with other countries, or, more probably, jointly implemented by supranational bodies such as European Central Bank (ECB). Such authorities will need to pursue a common monetary policy for the EU, with central determination of variables such as (assuming this were possible) the money supply and the rate of interest. There is clearly a good deal of scope here for sovereignty costs to be incurred. It is very likely, for example, that in an area as diverse as the EU a macroeconomic stance that is appropriate for the union as a whole is not at all appropriate for individual regions[7]. Or it may be that an individual country or region is unable to adjust to assymetric shocks which have effects that are specific to that region.

The prevailing wisdom among the economics profession is that inflation is predominantly a monetary phenomenon and is thus best controlled by monetary policy. Hence the current emphasis in the EU on a common monetary policy. It should also be noted that the model chosen by the EU for the ECB effectively involves the maximum potential surrender of local sovereignty, since the ECB has in effect the power not only to implement monetary poliy in the Eurozone, but also to determine its objectives by defining what the target rate of interest for the area should be. This is in contrast with the ‘New Zeland model’ adopted by the UK, in which some degree of political accountability is maintaned: the Bank of England has operational independence over the implementation of monetary policy, but the UK government decides what the target rate of inflation should be.

To the extent that other factors also impinge on the rate of inflation, it may be necessary jointly to determine other policies as well, for example in the fiscal, microeconomic and structural areas. So, in the Eurozone national fiscal policies are effectively controlled by means of the Stability and Growth Pact, agreed at the Amsterdam summit in 1996. This limits the public sector borowing requirement of participating states to 3% of GDP. We have recently seen how how such limits have put strains on the system, with many states including Germany, France and Italy effectively breaking the rules in the context of high unemployment in a recession. Additionally it should be noted that the current emphasis on inflation as the main item on the convergence agenda represents a particular ideological stance. In future it may be necessary and desirable to extend the convergence criteria to include more real variables such as perhaps the rate of unemployment, the rate of growth, indicators of regional disparity and personal income distribution and poverty.

The real question here, and the issue at the very centre of the monetary union debate, concerns the extent to which these apparent losses of national economic sovereignty are in fact real. Put another way, to what extent could individual European nation states hope to exercise their own individual macroeconomic policies outside the EU? The specific answer to this will depend on a number of factors that are discussed in the conclusion. Nevertheless, there are general observations that one can make in this context. Recent history is not too encouraging for what one may call the ‘isolationist’ stance. The experiences of the last Labour government in the UK and of the Mitterrand administration in France from 1891-83 suggest that ‘alternative’ policies that go against the grain may be precluded by interdependence. At the same time the futile attempts by the UK government to control the money supply in the mid-1980s and the recent ERM crisis provide examples which would suggest that there are limits to the power of ‘mainstream’ governments to exercise control over their own economies in an interdependent and deregulated world with large amounts of internationally mobile capital. An additional and related issue here concerns speculative capital movements which, as we have seen not only in

Europe but also in Asia and Latin america, can have serious destabilising effects. One of the advantages of the EURO is that it eliminates the possibility of for such movements occur in participating states. This leads the author to believe that, in macroeconomic policy at least, real national sovereignty is to an extent an illusion. The alternative approach is that nations retain considerable freedom to diverge from what everybody else is doing. Proponents of this point to the UK's positive economic performance outside of the EURO. Only time will tell who is right and who is wrong, and presumably even then history will be interpreted in different ways.

It may be premature to say that we have reached an historical phase in which the medium-sized European nation state has become obsolescent as a sovereign economic entity, but few would question that there are limits to its powers. If only large states can influence their own economic destinies, then this is surely a powerful case for monetary and other forms of European integration. In such a scenario integration does not imply loss of sovereignty, but rather enhancement of real sovereignty by a process of pooling. A further point here is that one of the possible benefits of a monetary union lies in the fact that it allows countries to adopt what accountants refer to as 'best practice', i.e. the policy stances of the most successful. However, the participating countries must believe that the benefits of a monetary union outweigh its costs - otherwise the union would presumably not take place. Needless to say, these kinds of arguments have a resonance outside of the purely economic. As the President of the EU Commission Jose Manuel Baroso has recently put it, " no nation can meet the challenges of climate change, mass migration, global competition and terrorism on its own"[8]

IV. CONCLUDING REMARKS

As was pointed out from the outset, membership of the EU inevitably involves some surrender of economic sovereignty for those who participate. The important questions concern the extent of such losses for European state at this point in history. The answers will inevitably be subjective, since the issues involved are abstract enough virtually to exclude empirical verification. Conclusions will be determined by one's estimation of the extent of the power over the economy that such states could realistically exert in the absence EU membership, as well as by an individual's view of the extent of sovereignty gains that may result from pooling.

In general, we may conclude that the extent of any real losses in economic sovereignty which may result from European integration will be determined by the following factors:

The size and economic significance of the country. It seems clear that the smaller a country is and the less economic weight it carries, the less control it is likely to have over the external parameters that constrain local decision-making, EU or no EU. Consequently membership in these cases should not be excessively costly. Some small countries such as Belgium, the Netherlands, Ireland and of course Luxembourg have never had illusions about the extent of their individual sovereignty, and have tended to accept the influence of more powerful neighbours. Others, such as the Nordic states of Norway, Denmark and Sweden have in the past exercised their own economic preferences with some success, for example by pursuing active Keynesian demand management and providing generous welfare systems for their citizens. The time may have come, however, when they no longer have the ability to so do. Hence their accession to the EU in 1995. Some of this argument may also be of relevance to the new entrants from East/central Europe. These are also small states, without, of course a social market tradition. Medium sized countries such as he UK and France come from a different tradition, encompassing for example colonialism, and they have been used to a certain degree of economic autonomy, which may now have come to an end. Economic power naturally increases the propensity for economic self-determination. It also may confer leadership, as in the case of Germany's position in the EU, and with it the power to impose national policy preferences on others, and thus gain exemption from some of the sovereignty losses involved in, for example, monetary integration. The case of Germany is, hoever, complex: one might argue that its loss of sovereignty within the Eurozone was also significant, given the dominance it previously exerted within the EMS, which was often referred to as the D-Mark zone. In the broadest possible sense, one could think in terms of a relationship between country size and economic power and sovereignty losses along the lines of that illustrated in Fig.1 (see Appendix).

The nature of the policy area involved. Policies which can be loosely referred to as macroeconomic in nature (attempts to control inflation, unemployment, growth and the balance of payments by monetary policy and fiscal policy) do not usually involve significant sovereignty losses since, as argued above, it is doubtful whether such sovereignty is a reality for most states in a world of deregulated capital and foreign exchange markets. However, other policies that we might regard as predominantly microeconomic in nature and which have a more limited or local impact, such as regional policies, industrial policy and local economic development policies, may involve a greater loss of sovereignty since these are areas where the scope for action at the national or local level is greatest. Those involved in these areas complain with some justification that, as part of the single market programme, they surrendered local autonomy for what may or may not be the common good. One could to an extent postulate an inverse relationship between the size of the geographical area on which a policy impacts and and the ability of national and regional authorities to maintain their autonomy.

The timescale involved. It is likely that in the short run the ability to conduct an independent macroeconomic policy may be greater than it is in the long run. For example, the UK devaluation in October 1992 gave an instant fix to the UK economy, but arguably the UK was then still stuck in the age-old negative cycle of devaluation, increased inflation, loss of competitiveness and further devaluation, which membership of the Eurozone might have broken, and which the independence of the Bank of England independence has been designed to tackle.

The compatibility of policies with those being pursued elsewhere. It is, for example, difficult to envisage an individual EU member successfully implementing a policy of Keynesian reflation in isolation when the prevailing ideological climate dictates policies of a quite different nature. Put another way, the economic sovereignty losses involved in integration are likely to be greatest for dissident nations, and indeed for dissenting ideas within nations. An example from the EU context is the case of left of centre parties and ideas. The only prospect of these being implemented is now at the EU rather than the national level. Many if not most left of centre politicians seem to have realised this, and work has appeared on alternative economic strategies at the EU level.[9] At the same time there are embryonic signs of movement here within EU itself, the Delors White Paper being an example. Nevertheless, it is probably fair to conclude that the process of integration has probably reinforced conservative economic orthodoxy, and it may be a difficult task to argue effective alternatives.

A tentative conclusion is broadly that the globalisation of world economic relations in general, and in particular the vast increase in the international mobility of capital have probably ushered in an era in which the ability of citizens to exercise control over the economic aspects of their lives through the democratic process now requires certain economic policies to be pursued at a level above that of the nation state. This in many ways provides the essential rationale for economic integration in the EU[10].

The unanswered questions which are likely to dominate the political and research agenda in this area in the future concern which policies should be pursued at the supranational level, which at the national level, and which at sub-national level. A body of technical literature on fiscal federalism does exists here, pioneered by Wallace Oates (1972), but this needs to be extended, refined and applied to the current situation in the EU. The principle of subsidiarity, ironically championed by the UK government as a means of slowing down the deepening process in the EU, offers a good starting point here. It is also arguably a Trojan horse, for it raises the question of the precise role of existing European nation states in the making and implementing in the future. It is not at all clear that there will be an objective case in terms of efficiency and democracy for action at this level in, say, fifty years time. It may be akin to science fiction to suggest that European integration under the banner of subsidiarity represent the beginning of the end of the nation state in Europe, but this may indeed prove to be the case. In addition one must consider whether the EU is the appropriate level for supranational policy making. This in turn begs the question of how large the EU should be, and of what should be its relationship with other major international actors such as the USA, Japan and the NICs. Finally, and by no means least important, assuming that the EU can replace the nation state as an agent for important aspects of economic policy-making and implementation, how can democratic control over its actions be established[11]?

Notes

1. see for example Newman (1996), Milward *et al.* (1993).
2. Some of the content of this paper is an elaboration of ideas previously presented in Bouwer *et al*. (1994).
3. see Cooper & Massell (1965).
4. see, amongst others, Lintner & Mazey (1991).
5. see Edye & Lintner (1996).
6. The so-called ‘one size fits all problem.
7. The Guardian 18th October 2006.
8. See for example the work of Ken Coates, Stuart Holland and, more recently, the EPOC group of economists.
9. Others take a somewhat more positive view of the future of the nation state in the context of European integration, see Newman (1996) and Milward (1992).
10. For a full treatment of this important issue see Lintner (2000).

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APPENDIX

Fig. 1
The Relationship Between Sovereignty Losses and Size and Economic Power of Nation States