

German Unification and the Union of Europe

The Domestic Politics of Integration Policy

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PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge CB2 1RP, United Kingdom

CAMBRIDGE UNIVERSITY PRESS
The Edinburgh Building, Cambridge, CB2 2RU, UK
<http://www.cup.cam.ac.uk>
40 West 20th Street, New York, NY 10011-4211, USA
<http://www.cup.org>
10 Stamford Road, Oakleigh, Melbourne 3166, Australia

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First published 1999

Printed in the United Kingdom at the University Press, Cambridge

Typeset in Plantin 10/12pt [CE]

A catalogue record for this book is available from the British Library

Library of Congress Cataloguing in Publication data

Anderson, Jeffrey J.

German unification and the union of Europe: the domestic politics
of integration policy / Jeffrey Anderson.
p. cm.

Includes bibliographical references.

ISBN 0 521 64355 4 – ISBN 0 521 64390 2 (pbk.)

1. Germany – History – Unification, 1990. 2. Germany – Relations – Europe.
3. Europe – Relations – Germany. 4. European Union – Germany.
5. Germany – Commercial policy. I. Title.

DD290.3.A537 1997

327.4304'09'049 – dc21 98-41171 CIP

ISBN 0 521 64355 4 hardback

ISBN 0 521 64390 2 paperback

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1 A new Germany in Europe?

On October 3, 1990, the German Democratic Republic dissolved into West Germany accompanied by formal ceremony and joyous celebration. In the same moment, the new territories joined the European Community, an event that passed with little fanfare or controversy even though something extraordinary had taken place. German unification, experienced and observed with immense hope by some and visceral unease by others, had occurred not against but within Europe, indeed *for* Europe: The Community channeled the unification process as unification in turn imparted new impulses to integration. Unification and union combined to produce an equilibration of political momentum.

To many observers, these events confirmed elemental postwar continuities.¹ For forty-five years after the end of World War II, West Germany's relationship to Europe resembled a virtuous circle in stable equilibrium: the Federal Republic drew economic prosperity and political legitimacy from its membership in a larger European project, which in turn gained strength from Germany's constructive engagement on the continent. The contrast with prewar Europe could not have been more stark.

And yet there is good reason to peer more closely into this comfortable and still intact fit between Germany and Europe, if only because so much of the postwar landscape has changed since the collapse of the Berlin Wall on November 9, 1989. Internationally, Cold War constraints on German foreign policy vanished with astonishing rapidity. Where once the mighty Warsaw Pact alliance stood poised on West Germany's doorstep, the settling dust now revealed a collection of fledgling democracies seeking to free themselves from a mortally weakened Soviet empire. Domestically, unification brought an additional 17 million

¹ But by no means all; see John Mearsheimer, "Back to the Future: Instability in Europe after the Cold War," *International Security* 15 (Fall 1990), 5–56; Kenneth Waltz, "The Emerging Structure of International Politics," *International Security* 18 (Fall 1993), 44–79; Christopher Layne, "The Unipolar Illusion: Why New Great Powers Will Rise," *International Security* 17 (Spring 1993), 5–48.

citizens into the expanded Federal Republic. Although the West Germans dictated the terms of unification to their eastern cousins, they could not prevent new wine from mixing with the old in a 1949 vintage bottle.

Since 1990 a complex pattern of continuity *and* change in Germany's European policies has emerged. Beneath broadly consistent approaches to the larger goals of integration, post-unification German policies exhibit considerable variation, from seamless continuity in trade and internal market affairs to conscious breaks with pre-1989 positions on cohesion, agricultural, and even state aid policies. The goal of this volume is to explain why this has happened. Specifically, how has the domestic politics of unification, stemming from new actors, problems, and structures, influenced German policies toward Europe? Why has continuity reigned in some areas, whereas in others significant changes, some approaching complete reversals, have been registered? What are the implications of this checkered pattern of outcomes for Germany and for Europe?

Germany in Europe: a framework of analysis

The aim of this volume is to explain the impact of unification on Germany's European policies. As such, this volume falls in the category of "case-oriented investigations", which attempt "to account for significant historical outcomes . . . by piecing evidence together in a manner sensitive to historical chronology and [by] offering limited historical generalizations which are sensitive to context."² This type of study requires an analytical framework, or what Boudon describes as a "conceptual paradigm" – an integrated system of theoretical concepts that structures complex phenomena, narrows the range of likely causes, and thereby provides a basis for constructing explanatory propositions.³ The framework developed in the remainder of this chapter draws on theoretical debates in comparative and international political economy about the role of interests, institutions, and ideas.

Peter Hall observes that economic policy "is influenced most significantly, first, by what a government is *pressed* to do, and secondly, by

² Charles Ragin, *The Comparative Method: Moving Beyond Qualitative and Quantitative Strategies* (Berkeley: University of California Press, 1987), 35. For an excellent discussion of standards of explanation in comparative politics, see Alan Zuckerman, "Reformulating Explanatory Standards and Advancing Theory in Comparative Politics," in Mark Lichbach and Alan Zuckerman, eds., *Comparative Politics: Rationality, Culture, and Structure* (New York: Cambridge University Press, 1997), 277–310.

³ Raymond Boudon, *The Crisis in Sociology* (New York: Columbia University Press, 1980), 159–69.

what it *can* do in the economic sphere.”⁴ In other words, interests and institutions matter. Interests directly shape policy responses by establishing a distribution of societal preferences that national officials take into account as they seek to build electoral coalitions capable of winning and then holding political power.⁵ Institutions influence what governments do (or don’t do) by allocating power to some actors but not others, structuring the content and sequence of policymaking, and providing opportunities for and constraints on the state as its officials seek societal support for their policy choices.⁶

To Hall’s succinct formulation, one must add a third variable: shared beliefs about the way the world works and one’s place within it. Put another way, ideas matter too.⁷ They enable actors to manage uncertainty about the expected consequences of alternative choices. Ideas can also function as cognitive maps that specify the range of possible solutions to problems, and as “frames” that provide actors with a symbolic and conceptual language to advance their causes.⁸ In the context of strategic interaction among numerous actors, ideas frequently serve as “focal points,” helping the expectations and strategies of actors to converge when there exist several possible outcomes, each of which would improve the position of the parties involved.⁹

⁴ Peter Hall, *Governing the Economy* (Oxford: Oxford University Press, 1986), 232. Emphasis in the original.

⁵ Peter Gourevitch, *Politics in Hard Times* (Ithaca: Cornell University Press, 1986), 55–60.

⁶ Hall, *Governing the Economy*, 233.

⁷ Goldstein and Keohane identify three types of beliefs, ranging from the general-universal to the specific: world views, principled beliefs, and causal beliefs. To their typology, one should add a fourth category: identity beliefs, which are described by Katzenstein as “ideologies of collective distinctiveness and purpose.” Identity beliefs appear to occupy the space between principled and causal beliefs, serving as a filter for the former and a set of normative reference points for the latter. See Judith Goldstein and Robert Keohane, “Ideas and Foreign Policy: An Analytical Framework,” in Judith Goldstein and Robert Keohane, eds., *Ideas and Foreign Policy* (Ithaca: Cornell University Press, 1993), 8; and Peter Katzenstein, “Introduction: Alternative Perspectives on National Security,” in Peter Katzenstein, ed., *The Culture of National Security: Norms and Identity in World Politics* (New York: Columbia University Press, 1996), 1–32 at 6. See also Peter Hall, ed., *The Political Power of Economic Ideas* (Princeton: Princeton University Press, 1989); Kathryn Sikkink, *Ideas and Institutions* (Ithaca: Cornell University Press, 1991); and Judith Goldstein, *Ideas, Interests, and American Trade Policy* (Ithaca: Cornell University Press, 1993). For a review and critique of the ideas literature, see John Kurt Jacobson, “Much Ado about Ideas: The Cognitive Factor in Economic Policy,” *World Politics* 47 (January 1995), 283–310; and Mark Blyth, “‘Any More Bright Ideas?’ The Ideational Turn of Comparative Political Economy,” *Comparative Politics* 29 (January 1997), 229–50.

⁸ John Campbell, “Institutional Analysis and the Role of Ideas in Political Economy,” paper presented to the Seminar on the State and Capitalism since 1800, Center for European Studies, Harvard University, October 13, 1995.

⁹ Geoffrey Garrett and Barry Weingast, “Ideas, Interests, and Institutions: Constructing the European Community’s Internal Market,” in Goldstein and Keohane, *Ideas and Foreign Policy*, 173–206.

Interests, institutions, and ideas are not independent of one another. Interests are typically conceptualized in material terms – that is, they arise from the position of actors in the domestic and international economies.¹⁰ However, interest formulation is shaped not only by the material world, but by the realm of the possible, which is itself a function of the institutional context in which actors operate.

Similarly, ideas are bound up with both interests and institutions. Ideas that achieve political ascendance almost always are intimately tied to the interests they serve. Over time, though, the belief system may begin to serve as an independent rationale for choice, and even to reshape the very interests that originally propelled it into prominence.¹¹ Moreover, once an ascendant idea emerges through political competition, it is very likely to become institutionalized, as adherents of the belief system enact laws and create agencies to secure the policy outputs consistent with the idea. Ideational effects, mediated by institutions, will often persist long past the point where the idea ceases to command broad support and legitimacy. In fact, the institutionalized idea continues to influence politics because it serves interests – specifically, those of the individuals charged with carrying out government activities based on its principles. Interests still matter, although they are not necessarily the same ones that gave rise to the idea in the first place.

Reflecting on the main empirical questions framed above, it is unlikely that a focus on the interaction of *national* interests, *national* institutions, and *national* ideas can explain patterns of change and continuity in German policies toward Europe since 1990. The reason: Germany is literally “in” Europe; that is, it belongs to an ongoing and in many ways unique supranational venture.¹² The government’s policy choices are shaped by a national context that is itself embedded in a larger system of political and economic governance that embraces actors who (a) operate within institutions that are independent of the member states;¹³ (b) hold

¹⁰ See for example Ronald Rogowski, *Commerce and Coalitions* (Princeton: Princeton University Press, 1989); Helen Milner and Robert Keohane, “Internationalization and Domestic Politics,” in Robert Keohane and Helen Milner, eds., *Internationalization and Domestic Politics* (New York: Cambridge University Press, 1996), 3–24.

¹¹ Thus, it is possible to think of ideas in much the same way as Downs conceived ideology in his work on spatial party competition: as intellectual shortcuts to choice – an efficient alternative to the cumbersome task of tallying up the costs and benefits of various strategic options. See Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957).

¹² This is a point made forcefully and articulately by Peter Katzenstein, “United Germany in an Integrating Europe,” in Peter Katzenstein, ed., *Tamed Power* (Ithaca: Cornell University Press, 1997), 1–48.

¹³ Institutionalist accounts of European integration include Simon Bulmer, “The Governance of the European Union: A New Institutionalist Approach,” *Journal of Public Policy* 13:4 (1993), 351–80; and Paul Pierson, “The Path to European

and pursue interests that are in no way purely derivative of the member states; and (c) are infused with ideas situated at the supranational level.¹⁴

In a phrase, membership in the EC/EU matters.¹⁵ And as far as national policy choice is concerned, membership is most profitably conceptualized in terms of the multilayered interactions of interests, institutions, and ideas at both the national and supranational levels. This perspective expressly recognizes the permeability of national boundaries and the contingent nature of sovereignty, which is nowhere more apparent than in contemporary Europe.¹⁶

What does this mean in concrete terms? First and foremost, the analytical focus rests squarely on national decision-makers, who ultimately decide whether and how to respond to the mix of pressures, challenges, and opportunities presented to them by a multilevel environment consisting of overlapping constellations of ideas, interests, and institutions. National officials not only reflect, act, and react within this complex environment; they constitute a significant part of that environment. Consequently, they are better positioned than other actors to wield influence over process and outcomes at the level of domestic politics. So too are they positioned advantageously *vis-à-vis* domestic actors to shape the corresponding political context in Brussels.¹⁷

Integration: A Historical Institutional Analysis," *Comparative Political Studies* 29 (April 1996), 123–64.

¹⁴ An example of an idea operating at the European level is the principle of "multilateralism"; see John Gerard Ruggie, "Multilateralism: The Anatomy of an Institution," in John Gerard Ruggie, ed., *Multilateralism Matters* (New York: Columbia University Press, 1993), 3–47. Another is the principle of "mutual recognition," which is based on a 1979 ruling by the European Court of Justice and basically stipulates that a product made and sold legally in one member state cannot be barred from another member state. A third example is the principle of "subsidiarity," which prescribes that "policy decisions . . . be made on a level as close as possible to the one on which they are implemented while remaining consonant with the basic principles of social justice." Peter Lange, "The Politics of the Social Dimension," in Alberta Sbragia, ed., *Euro-Politics* (Washington, DC: Brookings Institution, 1991), 231. In addition to these more comprehensive principles, numerous internally coherent belief systems, attached to concrete policy areas administered by the EC/EU, permeate the supranational political process.

¹⁵ Wayne Sandholtz, "Membership Matters: Limits of the Functional Approach to European Institutions," *Journal of Common Market Studies* 34 (September 1996), 403–30.

¹⁶ An earlier formulation of this analytical approach can be found in Jeffrey Anderson and Celeste Wallander, "Interests and the Wall of Ideas: Germany's Eastern Trade Policy after Unification," *Comparative Political Studies* 30 (December 1997), 675–98. On sovereignty in contemporary Europe, see Thomas Biersteker, "Locating the Emerging European Polity: Beyond States or State?" in Jeffrey Anderson, ed., *Regional Integration and Democracy: Expanding on the European Experience* (Boulder: Rowman & Littlefield, 1998).

¹⁷ The treaty foundations of the EC/EU privilege the member governments over domestic

Second, explaining national policy choice in an integrating Europe requires some basic assumptions about the integration process itself and the goals and motivations of national officials.

Assumption 1: There are two political dimensions to the European integration process: constitutive and regulative.

Constitutive politics involves processes and outcomes that establish or amend Community rules of the game, and is largely coextensive with the high politics surrounding periodic “grand bargains” like the Treaty of Rome, the Single European Act (SEA), and the Treaty on European Union (TEU). Regulative politics, on the other hand, takes place within established, routinized areas of Community activity, such as agricultural or technology policy.

Although rule-making and rule-applying are conceptually and procedurally distinct, constitutive and regulative politics are not independent phenomena; each influences the other in complex ways. For example, obtaining agreement on the SEA in 1986 necessitated an explicit side-payment that entailed a substantial budget increase and far-reaching procedural reforms enacted two years later to Community regional policies;¹⁸ in this instance, constitutive politics drove regulative politics. In turn, the 1988 reforms encouraged a flowering of regionalist sentiments and political mobilization across the Community that ultimately contributed to the creation of a new European institution – the Committee of the Regions – in the Treaty on European Union; here, regulative politics influenced constitutive politics.

Unpacking integration into its component parts is essential not only because it more accurately depicts the complexities inherent in postwar European multilateralism. It also contributes to a more refined understanding of the motivations behind the European policies of member governments. This leads to the second assumption on which this study rests.

Assumption 2: National officials will pursue a particular kind of “milieu goal” in Brussels – namely, to ensure that government policy objectives are consistent, both within Europe *and* across the national and supranational levels.¹⁹

(*and* supranational) actors in many areas of Community policymaking, particularly those involving the treaty framework itself. See Alberta Sbragia, “Thinking about the European Future: The Uses of Comparison,” in Sbragia, *Euro-Politics*, 257–91. Of related interest is Andrew Moravcsik, “Why the European Community Strengthens the State: Domestic Politics and International Cooperation,” paper presented at the Conference of Europeanists, Chicago, March 31–April 2, 1994.

¹⁸ Gary Marks, “Structural Policy in the European Community,” in Sbragia, *Euro-Politics*, 191–224.

¹⁹ On the concept of milieu goals, see Arnold Wolfers, “The Goals of Foreign Policy,” in Arnold Wolfers, ed., *Discord and Collaboration* (Baltimore: Johns Hopkins University Press, 1962); and Simon Bulmer, Charlie Jeffery, and William Paterson, “Germany’s

National officials will avoid persistent contradictions between the constitutive and regulative goals they pursue in Brussels. In other words, if member states are to derive benefits from membership, then national preferences concerning how the larger framework of Community rules should be constructed must be compatible with national preferences on substantive policy issues, and vice versa. Where enduring incompatibilities between constitutive and regulative policy objectives surface, national officials will try to reconcile inconsistencies by adjusting the government's constitutive agenda, its various regulative agendas, or both.

Furthermore, national officials will strive to replicate or, at a minimum, secure at the European level the constellation of ideas, interests, and institutions that they find (or would find) most advantageous at the domestic level. In so doing, they seek to preserve and/or create "comparative institutional advantage" for the national economy.²⁰ Each member government conducts its European foreign policy, which entails both constitutive and regulative politics, with an eye to surrounding the national political economy with a supranational environment that is facilitative, or at a minimum not hostile.

This is not to suggest that each member government succeeds in forging Europe in its own image; an obvious contrary example is the United Kingdom, which has fared abysmally in Brussels. Nor does it imply that influence is just a one-way street; as national officials pursue their supranational objectives, they open up their countries to the effects of European-level institutions, ideas, and interests.²¹ Indeed, there are

European Diplomacy: Shaping the Regional Milieu," paper prepared for the Forschungsgruppe Europa of the Centrum für Angewandte Politikforschung, Munich, December 1996. This assumption is consistent with Putnam's characterization of international negotiations, where participants face strong pressures to bargain in ways that are consistent across both the international and domestic tables. See Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42 (Summer 1988), 427–60.

²⁰ For an extended discussion of comparative institutional advantage, a concept that originates in endogenous growth theories, see Peter Hall, "The Political Economy of Adjustment in Germany," in Frieder Naschold *et al.*, eds., *Ökonomische Leistungsfähigkeit und institutionelle Innovation. WZB-Jahrbuch 1997* (Berlin: Wissenschaftszentrum-Berlin, 1997), 293–317.

²¹ This touches on a fierce debate in international relations over "constructivism." At issue is the causal role of institutions and norms: do they act as constraints on rational, self-interested actors (the central constructivist criticism of IR orthodoxy), or do they actually "constitute" the interests and even identities of actors (the constructivist challenge)? See i.a. Jeffrey Checkel, "The Constructivist Turn in International Relations Theory," *World Politics* 50 (January 1998), 324–48. This controversy is replicated within the Community studies literature; advocates of principal-agent theories like Moravcsik and Pollack come very close to ruling out the possibility that EC actors and institutions can influence the preferences and identities of domestic actors, a position hotly disputed by "diffusionists" like Marks and Hooghe. See for

many instances of national governments actively seeking to expose their countries to supranational influence; witness Italy's use of the European agenda of economic and monetary union in the 1990s as leverage to push through difficult and controversial economic reforms at home.

West Germany (1949–89)

The soundness of these two starting assumptions is borne out by the West German experience, an unparalleled success in the creation of a supportive supranational environment for the national political economy. In this section, I review the basic elements of the German model in Europe to establish this point, and furthermore to set the stage for the ensuing discussion of the possible effects of unification.

The West German model

The German model has been labeled a “coordinated market economy”²² that embodies a number of distinctive attributes. On the market side, West Germany featured an “articulated industrial system”²³ based on close relationships among firms and between firms and universal banks; these institutional linkages led managers to adopt long-term planning and investment horizons, and they conferred on the private sector the capacity to undertake sectoral adjustment in the context of industrial crisis. West German industrial relations approximated the classic Scandinavian model of neocorporatism in which comprehensive, well-organized representatives of labor and capital engaged each other in an institutionalized process of negotiated adjustment; the primary locus of activity, in contrast to Scandinavia, was at

example Andrew Moravcsik, “Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach,” *Journal of Common Market Studies* 31 (December 1993), 473–524; Mark Pollack, “Obedient Servant or Runaway Eurocracy? Delegation, Agency, and Agenda Setting in the European Community,” Working Paper No. 95–10, Center for International Affairs, Harvard University, 1995; and Gary Marks, Liesbet Hooghe, and Kermit Blank, “European Integration from the 1980s: State-Centric v. Multi-Level Governance,” *Journal of Common Market Studies* 34 (September 1996), 341–78. What is fodder for scholarly conflict in international relations is more or less conventional wisdom in comparative politics, where scholars have long accepted the notion that institutions and ideas can influence and even “constitute” the preferences and identities of actors.

²² David Soskice, “The Institutional Infrastructure for International Competitiveness: A Comparative Analysis of the UK and Germany,” in A. B. Atkinson and R. Brunetta, eds., *Economics for the New Europe* (Basingstoke: Macmillan, 1991), 45–66.

²³ Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (Oxford: Oxford University Press, 1969), 247.

the sectoral and plant level, giving the German system a decentralized cast.²⁴

The West German state was similarly decentralized. Territorially, this took the form of administrative federalism, in which the states (Länder) enjoyed significant autonomy in relation to the federal government, were responsible for implementing federal legislation, and participated directly in the national legislative process through the upper house, the Bundesrat. Functionally, decentralization flowed from the independence of the Bundesbank,²⁵ as well as the autonomy of individual national ministries, which was anchored in the constitution and enhanced by the recurrence of coalition government in the Federal Republic. The tendency of the West German constitutional order to generate many centers of authority and power contributed to several trademark characteristics of the German policy process – specifically, concertation, consultation, and power-sharing.²⁶

These institutional arrangements rested on a broad and deep ideological consensus about the relationship between state and market. Agreement over fundamentals manifested itself in numerous ways, including the high level of policy continuity despite frequent partisan turnover in government, as well as the generally depoliticized manner in which policy was carried out. The consensus was permissive in that it granted policymakers considerable leeway to formulate concrete policy alternatives and to debate their relative merits with vigor, but at the same time it imposed well-understood and accepted limits on both public and private actors.

At the core of this belief system, dubbed the “social market economy,”²⁷ was a set of consistent yet flexible principles that assigned primacy to the market, defined not as the perfect competition lionized in economics textbooks or in American political discourse, but in terms compatible with Germany’s distinctive brand of “organized

²⁴ Kathleen Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Ithaca: Cornell University Press, 1991), 43; Andrei Markovits, *The Politics of the West German Trade Unions* (New York: Cambridge University Press, 1986); Fritz Scharpf, *Crisis and Choice in European Social Democracy* (Ithaca: Cornell University Press, 1991), 119.

²⁵ For a study of the Bundesbank in comparative perspective, see John Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca: Cornell University Press, 1992).

²⁶ This clearly impressed Shonfield, who notes the coherence of German economic policymaking despite the large number of competing centers of power generated by the constitution. His explanation – coherence results from an “irrepressible administrative instinct to centralize authority” – is unsatisfactory, conjuring up tired cultural stereotypes. Shonfield, *Modern Capitalism*, 271.

²⁷ The phrase was coined by Alfred Müller-Armack, *Wirtschaftslenkung und Marktwirtschaft* (Hamburg: Verlag für Wirtschaft und Sozialpolitik, 1948).

capitalism.”²⁸ The primary task of the state was to uphold the self-regulating economic order by establishing a facilitative framework of rules and regulations (*Ordnungspolitik/Rahmenpolitik*). The state also bore a social responsibility to lessen the dislocation that inevitably accompanies the workings of the market. This entailed comprehensive welfare programs as well as a variety of industrial and regional policies designed to ease the hardship visited on individuals and regions by sectoral adjustment.²⁹

To say that West Germany sustained a market-oriented political economy is to make a relative statement. Like its EC neighbors, the Federal Republic subsidized industry.³⁰ Like its neighbors, it engaged in sectoral policies that were difficult to justify on anything other than political grounds; aid to the coal industry and agriculture stand out as prime examples. But unlike its EC neighbors, the Federal Republic subsidized less, in a less interventionist manner, and with conscious orientation to market principles.³¹

Thus, the ideology of the social market economy entailed much more than *laissez-faire* in *Lederhosen*. The state was assigned responsibilities and tasks that took it well beyond the nightwatchman state lionized by neoclassical economists and American business. Nevertheless, the postwar German state fell short of its interventionist and at times

²⁸ Christopher Allen, “The Underdevelopment of Keynesianism in the Federal Republic of Germany,” in Peter Hall, ed., *The Political Power of Economic Ideas* (Princeton: Princeton University Press, 1989), 263–89.

²⁹ For a comprehensive overview of German industrial policy, see Roland Sturm, *Die Industriepolitik der Bundesländer und die europäische Integration* (Baden-Baden: Nomos Verlagsgesellschaft, 1991). Brief but insightful discussions can also be found in Peter Katzenstein, *Policy and Politics in West Germany: The Growth of a Semi-Sovereign State* (Philadelphia: Temple University Press, 1987), 101–04; and Josef Esser and Wolfgang Fach (with Kenneth Dyson), “‘Social Market’ and Modernization Policy: West Germany,” in Kenneth Dyson and Stephen Wilks, eds., *Industrial Crisis: A Comparative Study of the State and Industry* (New York: St. Martin’s Press, 1983), 125.

³⁰ For a comprehensive, comparative overview of West German subsidy and non-tariff barrier practices, see Herbert Giersch, Karl-Heinz Paqué, and Holger Schmieding, *The Fading Miracle: Four Decades of Social Market Economy in Germany* (New York: Cambridge University Press, 1992), 227–36.

³¹ Giersch, Paqué, and Schmieding argue that despite the aggregate level of subsidies doled out by the government, most of which is directed at sunset industries on the basis of social rationales, Germany belonged to the liberal camp in the EC. Giersch, Paqué, and Schmieding, *The Fading Miracle*, 227 and 235. Other scholars have remarked on the high level of consistency between economic ideology and practice in West Germany; see Kenneth Dyson and Stephen Wilks, “Conclusions,” in Dyson and Wilks, *Industrial Crisis*, 252; Michael Porter, *The Competitive Advantage of Nations* (New York: The Free Press, 1990), 378; Kenneth Dyson, “West Germany: The Search for a Rationalist Consensus,” in Jeremy Richardson, ed., *Policy Styles in Western Europe* (London: George Allen and Unwin, 1982), 24.

omnipresent counterparts in Japan and France. Streeck aptly describes it as an “enabling state.”³²

Of course, these interlocking frameworks of institutions and ideas did not emerge full blown from the ruins of the Third Reich, nor once established did they preclude divisive conflicts between left and right over foreign policy and social and economic priorities. However, political debates unfolded within clear parameters. Although left and right disagreed vehemently over the limits of state intervention or the extent of worker co-determination, at no time during the postwar period were core institutional and ideational features of the West German political economy at stake politically. The Bonn model served the interests of a cross-class coalition centered in the export sectors of the economy, and could draw on the unswerving support of the state bureaucracy responsible for economic policy.³³

The West German model in Europe

Often overlooked in discussions of the German national model is the degree to which it was embedded in Europe. This resulted from a series of conscious choices by German elites after 1945. Hanrieder has described the fifteen years after “zero hour” (*Stunde Null*) alternately as a time when, for German policymakers, “necessity overwhelmed choice” and “choice coincided with necessity.”³⁴ There is truth in both formulations. Military defeat led not to a truncated, embittered version of prewar Germany, but to a new polity with tender democratic roots and uncertain economic prospects. Based on hard-nosed instrumental calculations, German elites embraced western multilateralism and in particular European integration. Achieving an “equality of rights” with its European neighbors via integration was viewed in Bonn as the *sine qua non* for the international rehabilitation of the new German republic and the domestic objective of reunification.³⁵ It also was seen as essential to economic recovery and reconstruction.

³² Wolfgang Streeck, “German Capitalism: Does It Exist? Can It Survive?”, in Colin Crouch and Wolfgang Streeck, eds., *Political Economy of Modern Capitalism: Mapping Convergence and Diversity* (London: Sage Publications, 1997).

³³ These include the Federal Ministry of Finance (Bundesministerium der Finanzen, or BMF) and the Federal Ministry of Economics (Bundesministerium für Wirtschaft, or BMWi). The latter, dominated by ministers from the liberal Free Democratic Party (FDP), has been described as “the political spokesman for the doctrine of the social market economy.” Dyson, “West Germany,” 35. See also H. Richard Friman, *Patchwork Protectionism* (Ithaca: Cornell University Press, 1990), 49.

³⁴ Wolfram Hanrieder, *Germany, America, Europe* (New Haven: Yale University Press, 1989), 2 and 7 respectively.

³⁵ Alan Milward, *The European Rescue of the Nation-State* (Berkeley: University of

Material and political interests infused Germany's foreign policy choices during this period, but as causal agents they can only take one so far. To fully account for many aspects of Bonn's external behavior, including its pacifist military security policy, its approach to national sovereignty, and its aversion to unilateralism, one must look beyond interests to the politics of identity in postwar Germany, which unfolded in searing domestic political debates over rearmament, reunification, and European integration carried out by a new mix of German political actors under the watchful eyes of neighboring countries and allies.³⁶

Initially, the new collective identity defined itself as the antithesis of the expansionist, predatory, undemocratic, eastward-looking state that terrorized the European continent between 1933 and 1945. It also reflected foreign expectations about acceptable German behavior.³⁷ As such, joining Europe followed almost inexorably from the country's reconstituted national identity. The multilateral frameworks created by the Paris and Rome treaties provided welcome constraints: a liberal-democratic hood for a fledgling democracy. They also allowed political elites to signal to each other, to the German public, to Europe, and to the world beyond, a changed, benign identity.

As the Federal Republic established a reputation for economic prowess, new dimensions appeared in its identity, ones characterized more by what the country embodied in the present – e.g. “the trading state” – than by the negation of what it once was.³⁸ The coincidence of European integration and democratic consolidation in Germany also meant that over time, integration insinuated itself into the national matrix of economic and political values.³⁹ Along the way, Germany

California Press, 1992), 197–98. See also Simon Bulmer and William Paterson, *The Federal Republic of Germany and the European Community* (London: Allen & Unwin, 1987), 5–6.

³⁶ On this topic, which has been described variously as “the politics of collective memory” and “identity politics,” see Andrei Markovits and Simon Reich, *The German Predicament: Memory and Power in the New Europe* (Ithaca: Cornell University Press, 1997); Thomas Banchoff, “Germany's European Policy: A Constructivist Perspective,” Working Paper Series #8.1, Program for the Study of Germany and Europe, Minda de Gunzburg Center for European Studies, Harvard University, 1998; and Thomas Berger, “Norms, Identity, and National Security in Germany and Japan,” in Katzenstein, ed., *The Culture of National Security*, 317–56.

³⁷ Scholars working in this tradition emphasize the extent to which identity is shaped by the broader environment, including the expectations of other actors. See Ron Jepperson, Alexander Wendt, and Peter Katzenstein, “Norms, Identity, Culture, and National Security,” in Katzenstein, ed., *The Culture of National Security*, 33–75.

³⁸ See for example Berger, “Norms, Identity, and National Security in Germany and Japan.” Others disagree, arguing that the Germans to this day retain an identity of negation rather than affirmation. See Marc Fisher, *After the Wall: Germany, the Germans, and the Burdens of History* (New York: Simon and Schuster, 1995), 288.

³⁹ Bulmer and Paterson, *The Federal Republic of Germany and the European Community*, 8.

experienced a “Europeanization of state identity.”⁴⁰ Political elites and average citizens increasingly viewed the Community not just as a source of concrete economic and political benefits, but as an integral part of the national model of political economy.

Bonn’s general goal in Europe was to erect institutional and normative frameworks at the supranational level that would nurture its successful domestic economic formula. Within specific policy areas, the government sought to preserve these overarching frameworks and adapt them to changing domestic and international circumstances. West Germany’s political objectives in Europe were quite likely unique. Neither British nor French governments projected the kind of integrated national model of political economy, resting on a broad political consensus, that required a supportive supranational framework of institutions and policy regimes.⁴¹

European flying buttresses for the German model took many forms. Maintaining a barrier-free internal market and a free trade position *vis-à-vis* the rest of the world were essential to the Federal Republic’s “apolitical ‘politics of productivity’.”⁴² German policymakers consistently backed proposals for EC-wide harmonization in the areas of economic and monetary cooperation, industrial policy, and regional assistance programs, all to preserve a level field of competition for German firms and to reduce the negative consequences of other countries’ policy decisions, such as imported inflation. The social dimension of the social market economy found expression and support in EC environmental policy, the Common Agricultural Policy (CAP), competition and regional policies, and social policy.

By the end of the 1980s, a high level of congruence had emerged between the Federal Republic and the European Community.⁴³ Institutionally, both were characterized by cooperative federal arrangements in which authority and competencies were shared among political

⁴⁰ Katzenstein, “United Germany in an Integrating Europe,” 29.

⁴¹ When Hanrieder identifies a persistent theme in postwar German history – “the Germans’ stubborn determination to retain a measure of economic and monetary independence, the freedom to organize their national economic life according to the principles and values they cherish . . .” – he is surely right at some level, but his statement tends to overlook the fact that German governments, in their relations with the EC, consistently sought and obtained more from Brussels than “freedom from.” Hanrieder, *Germany, America, Europe*, 228.

⁴² Joann Gowa, “Bipolarity and the Postwar International Economic Order,” in Peter Katzenstein, ed., *Industry and Politics in Germany* (Ithaca: Cornell University Press, 1989), 34.

⁴³ The following analysis is based on Simon Bulmer, “Shaping the Rules? The Constitutive Politics of the European Union and German Power,” in Katzenstein, *Tamed Power*, 49–79. See also the more general discussion in Katzenstein, “United Germany in an Integrating Europe,” 33–44.

executives at multiple levels.⁴⁴ In West Germany and the EC, the policy process was organized in a highly segmented or sectorized manner. Similar ideational principles upheld the rules of the game in each system. Political and economic actors in the Federal Republic and the Community laid great emphasis on consensualism. Similarly, the norm of subsidiarity was firmly established in each system. In the economic sphere, the two systems cast the relationship between public authority and the market in comparable terms; that is, many elements of the West German doctrine of the social market economy found ready counterparts in the social-liberal orientation of the EC's common market. Finally, the content of German and EC policies dovetailed sufficiently to suggest broad areas of common interest between Bonn policymakers and Community officials; these included liberal external trade and internal market policies, price and structural support for agriculture, the social compensation principles underlying regional economic policy, and the price stability orientation of economic and monetary union (EMU).⁴⁵

This national-supranational congruence was the product of reciprocal influence and convergence, not the outcome of Germany's forceful projection of its model onto the rest of Europe. That said, West Germany continually sought to intensify and expand the multilateralism on which the European project rested. The result was a splendid irony of postwar European history: German political elites originally embraced the Community as a means of establishing an equality of sovereign rights between Germany and its neighbors, but then used membership to diffuse a markedly different conception of those rights onto their European partners.⁴⁶

The goal of maintaining domestic system requirements at the supranational level, combined with what I have described elsewhere as "reflexive support for an exaggerated multilateralism,"⁴⁷ carried weighty implications for Germany's approach to regulative policy questions. For

⁴⁴ In Germany, cooperative federalism embraces the federal government (Bund) and the states (Länder), whereas at the EC level, parallel institutions bring together the member governments and supranational actors like the Commission. See Fritz Scharpf, "The Joint-Decision Trap: Lessons from German Federalism and European Integration," *Public Administration* 66 (Autumn 1988), 239–78; and Sbragia, "Thinking about the European Future," 257–91.

⁴⁵ An up-to-date discussion of these EU policies can be found in Helen Wallace and William Wallace, eds., *Politics and Policy in the EU: The Challenge of Governance* (Oxford: Oxford University Press, 1996).

⁴⁶ See, among others, Bulmer and Paterson, *The Federal Republic of Germany and the European Community*, 9–11.

⁴⁷ Jeffrey Anderson, "Hard Interests, Soft Power, and Germany's Changing Role in Europe," in Katzenstein, *Tamed Power*, 85.

one, it meant that Bonn rarely adopted the accountant's yardstick in Brussels. In fact, more often than not it bankrolled expensive European initiatives like the promotion of economic and social cohesion, even though domestic actors stood to receive few material benefits. Up until 1989, Germany's constitutive and regulative policy agendas stood in lagged harmony with respect to one another, with the former setting parameters for the latter, and the latter reinforcing the former. In key respects, the relationship between West Germany and Europe took on elements of a stable equilibrium. Politically, this equilibrium remained operative throughout the postwar period because it satisfied the expectations of other Community members as to the acceptable face of German power in Europe, while drawing on a firm yet permissive domestic consensus about the German model and the country's place in Europe, a consensus that was nurtured by economic prosperity.

Unification and union: interests, institutions, and ideas

Having built a successful model of political economy and, furthermore, having achieved a remarkably stable, even symbiotic relationship to Europe, (West) German officials had every reason to try to sustain the national-supranational equilibrium in its pre-unification form after 1990. Yet the intricacies of this equilibrium were exposed to the full force of events after the collapse of the Berlin Wall in November 1989. Unification altered the national mix of interests, institutions, and ideas within a remarkably brief period.

By far the most visible changes occurred in the realm of interests. The former GDR encompassed actors with territorial and sectoral interests markedly different from the west across a broad range of policy areas. In most cases, these interests were opposed to long-established national government policies, which upon unification retained their basic orientation to western German constituencies and to West German national priorities. Given the strong congruence between national and supranational governance structures, eastern German interests by extension were likely to clash with many EC regulative policies too.

Institutional alterations wrought by unification – some of a permanent nature, others provisional – occurred as well. For the most part, these entailed the mere extension of West German parliamentary-electoral and administrative frameworks to the east. In some instances, however, more substantial changes followed, raising the possibility that the Bonn policymaking process itself, finely tuned after four decades of operation, would undergo a transformation. This post-unification institutional landscape must be seen in conjunction with the new actors and interests

outlined above. Specifically, by virtue of unification, eastern German actors gained access to many national and EC policy regimes, which created obvious opportunities to exercise influence. More broadly, it meant that a major force for policy continuity – a stable institutional environment – was no longer a given after 1990.

It is less evident that unification altered the competition between ideas in the federal policy process. The discrediting of “real existing socialism,” which began well before the collapse of the wall, left intact few if any viable eastern alternatives to the reigning capitalist model in the west. Still, many eastern German individuals, groups, and agencies brought to national political debates an outlook rooted in forty years of state socialism. Socialist and post-socialist conceptions of citizen–state and state–market relations, to name just two, challenged basic elements and assumptions of the social market economy.

By transforming the domestic mix of ideas, interests, and institutions, unification propelled Germany’s complex, coherent relationship with the EC into a state of *potential* disorder. The central empirical question posed in this volume is whether and how the interaction of unification and union is contributing, either directly or indirectly, to shifts in long-standing German policies toward Europe, as well as to Germany’s place in Europe writ large. To provide structure for the analysis that follows, it is appropriate here to formulate a handful of testable hypotheses.

Alas, the scholarly literature reviewed earlier offers few concrete prescriptions. One learns that interests, institutions, and ideas matter, and moreover one can obtain a sense of how each matters – that is, the causal mechanisms these factors set in motion. Less clear is under what circumstances and how much in relation to other factors each matters. In fact, the literature is often driven by causal one-upmanship: interest-based theories are criticized for ignoring institutions; institutionalist accounts are condemned in turn for disregarding the role of ideas; and so on. One can only lament the fact that so little attention has been devoted to theoretical synthesis.

That said, the political economy literature can be mined profitably for raw materials with which to formulate specific hypotheses that address the pattern of change and continuity in German policies toward Europe since 1990. Since the range of candidate hypotheses is vast, the analysis will concentrate on a restricted subset. Each is selected for its relevance to broader theoretical issues, and is framed according to *ceteris paribus* conditions in the clearest and strongest possible terms to facilitate empirical testing.

In any study of policy choice in a democracy, the search for the

sources of change and continuity should begin with domestic interest politics. This premise is especially apropos for German unification, which resulted in the geographical extension of an established politico-economic system to previously “foreign” actors.

H1: If eastern German actors do not press for change in government policy toward Europe, government policy will not change. Conversely, if eastern German actors press for change in government policy toward Europe, national officials will adjust policy to meet their expressed needs.

H2: Regardless of the interests of eastern German actors, national officials will administer policy in a way that meets the expressed needs of western German actors. When western groups demand policy continuity, continuity will ensue. When they demand policy change, change will ensue.

H1 focuses attention on the effects of eastern German opposition to standing Bonn policies toward Europe. Empirical support for this hypothesis would sustain a central proposition derived from classical pluralist theory: interests agitate (or do not); democratically elected governments react (or do not). Even if H1 is not borne out, explanations consistent with the causal primacy of interests are still possible and perhaps even plausible. H2 addresses an especially important set of scenarios. In deciding whether to respond to pressures for policy change, national officials will have to balance any demands for change emanating from the new territories against the interests of domestic actors who have been served by existing policy. Eastern German pressure for policy change could spark a countermobilization among western German actors who support policy continuity, leading ultimately to no change in government policy. Similarly, even in the absence of eastern German pressures for change, national officials could adjust policy in response to the demands of western constituencies who are coping with new circumstances after unification.

Should either of these two hypotheses be confirmed, then explanations granting pride of place to domestic interests and the politics of unification are likely to suffice. That is, irrespective of an unchanged institutional and ideational landscape, alterations in the mix of domestic interests produces adjustments in national policy positions on EC matters. To echo the language of classical pluralism, changes in the vector of societal interests are both necessary and sufficient to alter the direction of public policy. If an irregular pattern of change and continuity materializes, however, the search for causes in the domestic politics of unification will have to expand beyond interests.

Politics unfolds within varied institutional contexts at the national level, which influence outcomes just as surely as interests do.

H3: Where unification results in a modification of national policy institutions, eastern German actors opposed to government policy toward Europe will enjoy greater success in effecting change.

H4: Where eastern German actors opposed to government policy toward Europe are included in the national policymaking process, national officials will adjust policy to meet their expressed needs.

H3 seeks to test a truism of the institutional literature: established institutional frameworks impede change and transformation, whereas institutional discontinuities create openings for change.⁴⁸ H4 takes a somewhat different tack, implying that certain kinds of institutional continuities are conducive to policy shifts. Specifically, it suggests that activated interests are necessary but not sufficient to produce policy change; eastern German opponents of government policy, however united and well organized, could be excluded from the decision-making process in the national capital, and thus fail. If they are entitled to participate directly in the policy process, on the other hand, they will enjoy more effective opportunities to shape the definition of national and/or European priorities, and may be able to enlist the support of western German groups and federal officials in their cause. As such, favorable terms of institutional access for mobilized eastern German groups will produce policy change.

The domestic politics of unification also takes place within variegated ideational contexts.

H5: Where unification results in a modification of the national belief system attached to a particular policy area, eastern German actors opposed to government policy toward Europe will enjoy greater success in effecting change.

With that in mind, H5 parallels the first of the institutional hypotheses outlined above: an established national belief system, particularly during times of great uncertainty, is a force for policy continuity, whereas a collapsed or even weakened ideational system can create a window for change.

The first five hypotheses are cast in terms of domestic interests and national institutions and ideas. There is of course another level, populated with independent actors, institutions, and ideas, that cannot be ignored in attempts to explain change and continuity in German policies toward Europe. Specifically, European actors will seek to advance their interests and policy models when confronting the challenges and opportunities generated by unification. Where their objectives dovetail with Bonn's positions, policy continuity is the likely result. Indeed, the

⁴⁸ Chapter 2 will present evidence that the German government's unification policy of rapid institutional transfer led to very few "discontinuities" of the type described in this hypothesis.

stronger the overlap in interests and ideas between national officials and Brussels, the more resistant the former will be to demands for policy change. Alternatively, where national-supranational congruence is lacking, political alliances between supranational and subnational actors may develop in opposition to federal policy, intensifying the pressures for change on Bonn.

H6: Where eastern German actors opposed to government policy toward Europe are excluded from the national policymaking process but enjoy access at the European level, they will have greater success in effecting a change in their government's policy.

H7: Where eastern German actors confront a situation in which the prevailing national policy model they oppose does not correspond to the prevailing European policy model, they will have greater success in effecting change.

H6 treats the European level as an alternative access point for stymied eastern German opponents of Bonn policy. In short, failure at home can be overcome by success in Brussels. H7 is designed to test the notion that eastern actors, when confronted with political obstacles in their national capital, may under certain circumstances be able to appeal successfully to larger European principles in pressing the case for change on their national government.⁴⁹

Case selection

To test these seven working hypotheses, I compare national responses across several European regulative policy areas in the post-unification period. The focus on the regulative dimension of Germany's approach to integration is justified for two reasons. First, it is where the empirical puzzle lies; German continuity in constitutive politics has been accompanied by a much more diverse pattern at the level of regulative politics. Second, the focus on specific EC/EU regulative policy areas dovetails with what we know about the European policy process in Germany; it is highly "sectorized,"⁵⁰ and, as such, any policy shifts will flow not from a single, coherent government position, but rather will trickle in separately and in many cases independently from the various domestic policy communities involved with Community affairs.

I examine seven regulative cases in this volume: agriculture, structural

⁴⁹ The fact that distinct ideas underpin or inform individual policy areas opens up the possibility that they may play a highly variegated causal role in EC/EU–member state interactions. In short, ideas may have stronger effects in some policy areas, and weaker ones in others, due to differences in their degree of institutionalization or their level of coherence.

⁵⁰ Bulmer and Paterson, *The Federal Republic of Germany and the European Community*, 25–31.

funds, internal market, energy, environment, trade, and competition policy. Each is an intrinsically important issue area. As a case in point, together the Common Agricultural Policy (CAP) and the structural funds account for just over three-quarters of the annual EU budget, thereby establishing in practical terms the Union as an entity that “commands resources, distributes benefits, allocates markets, and adjudicates between conflicting interests.”⁵¹

More importantly, there are compelling methodological reasons to select this set of cases. As subsequent chapters will document, the seven regulative policy areas examined encompass a range of policy outcomes; in trade and the internal market, German policies exhibit negligible signs of change since 1990, whereas significant shifts have occurred in the structural funds and agriculture.

Moreover, the cases incorporate variation in explanatory variables that are central to hypothesis testing (see table 1.1). In some policy areas, eastern German actors mobilized in opposition to government policy, whereas in others, domestic challenges from the east did not materialize. The seven cases also encompass variation at the intersection of two key institutional variables critical to the institution-based hypotheses: the organization of the domestic policy process in Bonn; and the organization of the supranational policy process in Brussels. Each regulative policy falls into one of two categories in Bonn; it is either the exclusive province of the federal government, or it is shared more or less equally between the federal and state governments. In Brussels, the policy areas delineate a range of shared and exclusive competencies between supranational and national actors.⁵² Finally, the cases embrace significant variation in the degree of congruence between the EC/EU policy model and its German counterpart, which will be central to the idea-based hypotheses.

Unified Germany has not gone “back to the future.” The country’s basic postwar orientation toward Europe remains unaltered despite the upheavals associated with the end of the Cold War. Those who expected more radical departures from the world of post-1945 Europe failed to anticipate the extent to which a stable mix of (West) German identity

⁵¹ William Wallace, “Europe as a Confederation,” *Journal of Common Market Studies* 20 (September–December 1982), 61.

⁵² This discussion follows the lead of Philippe Schmitter, “Interests, Powers, and Functions: Emergent Properties and Unintended Consequences in the European Polity,” Stanford University, April 1992. For a similar classification exercise, see J. Goodman, “Do All Roads Lead to Brussels?” in Norman Ornstein and Mark Perlman, eds., *Political Power and Social Change* (Washington, DC: American Enterprise Institute, 1991), 24–45.

Table 1.1. *European regulative policy areas: explanatory variables*

EC/EU policy	Opposition in new Länder? (1)	Counter-opposition in western Germany? (2)	Organization of policy: Germany (3)	Organization of policy: EC/EU (4)	Policy model congruence? (5)
Trade	Yes	No	Federal	All supranational	Yes
Internal market	No	No	Federal	Mostly supranational	Yes
CAP	Yes	Yes	Shared	Mostly supranational	Yes
State aid	Yes	Yes	Federal	Shared	Yes
Structural funds	Yes	No	Shared	Shared	No
Environment	No	No	Federal	Shared	No
Energy	No	No	Federal	Some supranational	No

and interests, shaped and supported by an interlocking network of domestic institutions linked firmly to the European integration project, would survive this critical juncture in history.

To consign neorealist scripture to the dustbin of history is not to suggest that the recent past will simply continue reproducing itself into the post-millennium future. The German–European relationship is subject to tensions and dynamics that are capable of reconstituting that relationship. Indeed, subtle yet tangible changes are already occurring. And the prospect of *any* change in German–European relations raises a host of genuine but often contradictory concerns. Some worry about disengagement and the resulting impact of an inward, eastward-looking Germany on European integration. Others fret about the opposite problem – a Europe that cannot withstand an ineluctable hegemony of German values and priorities.⁵³

What is the future trajectory of relations between Germany and Europe? The answer can be found in the evolution of Germany's complex place in Europe since 1990. And that, in a nutshell, is the focus of this volume. The next chapter presents an analysis of German unification and its impact on the constitutive dimensions of European integration, with special emphasis on EMU, EC/EU budgetary politics, and enlargement. Chapters 3–6 examine specific European policy areas; chapters 3 and 4 deal with those areas in which continuity is largely the order of the day, whereas the latter two take up the policies in which palpable changes can be observed. Chapter 7 provides an explanation of these patterns, and explores the broader substantive and theoretical questions raised by the findings.

⁵³ For an excellent overview of these various and often contradictory concerns, see Markovits and Reich, *The German Predicament*.