

**The Political Economy of  
European Integration**  
Theory and analysis

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## Notes

- 1 A preliminary version of this chapter was presented at the European Research Institute of the University of Birmingham. There and elsewhere I was grateful to receive constructive feedback from Robert Elgie, Paul Heywood, Dave Marsh, Anand Menon, Jonathon Moses, Amy Verdun, and two anonymous referees. The usual disclaimer applies.
- 2 See for example, Berger and Dore (1996), Esping-Andersen (1999), Hall and Soskice (2001), Hollingsworth and Boyer (1997), Kitschelt *et al.* (1999), Scharpf and Schmidt (2000a, b).
- 3 See for example, Goodin (1996), March and Olsen (1989), Peters (1999), Weaver and Rockman (1993).
- 4 Note here the contrast between Polanyi and Pierson (2000: 264–5).
- 5 Note here the contrast with Puchala (1975), who argued that the concept of 'integration' should be understood explicitly in terms of harmonization.
- 6 See particularly Myrdal (1957: 1–55).
- 7 See also Jones (2002).
- 8 See for example, Franzese (2002), Iversen (1998, 1999), McNamara and Jones (1996), Soskice and Iversen (1998).

## 5 Home alone

### Integration and influence in national contexts

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**Abstract:** In an effort to reconceptualize the study of European integration this chapter focuses on the effects of European integration on the *nature* of national sovereignty. Currently, there is no clear theory that allows us to generalize about the nature of the influence integration has on sovereignty. In order to fill this gap the chapter develops a framework to test hypotheses regarding this nexus between integration and national sovereignty by modifying Albert O. Hirschman's *Exit, Voice and Loyalty* (1970) argument. Within this new framework the chapter suggests that the concept of exit can be thought of as synonymous with integration, where the level of integration is correlated with the likelihood of exit from the project of integration. As shown in the chapter this approach helps, by means of empirical and theoretical research, to generate micro-level expectations about the effects of integration on political actors and apply this to all political levels affected by integration. As a result it provides a more comprehensive picture of the process of European integration.

#### Introduction

A giant step on the road toward an integrated theory of regional integration, however, would be taken if we could clarify the matter of what we propose to explain and/or predict.

(Haas 1971: 26)

The recent history of European studies is intricately linked to the notion of integration. The 1986 Single European Act signalled phenomenal changes that came to inspire a new type of European study: integration itself came back into focus. While empirically-minded students of Europe began to map the new institutional and policy terrain that developed in the late 1980s, our more theoretical colleagues aimed to explain the sundry motivations for this new integration. The result has been a broad church of researchers who have largely traced the evolution of political sovereignty from national to supranational institutions.

This chapter provides a different way of thinking about integration. Rather than trying to explain the nature and motivation of European integration itself, I flip the traditional causal arrow around and ask: how does integration affect the *nature* of national sovereignty? In doing so, my concern is not with how much sovereignty remains at different levels of governance. Rather, I am interested in how integration affects influence on the sovereignty that remains however small

or large. While it is possible to find a number of national studies on how European Union (EU) membership and, by implication, integration has affected the nature of domestic policy choices, I am unaware of any theoretical framework that allows us to generalize about the nature of this influence. This chapter aims to fill that void.

I develop a modified version of Albert O. Hirschman's influential *Exit, Voice and Loyalty* (1970) model to generate two stylized scenarios, representing a world with and without integration. The lessons of these two stylized scenarios are contrasted to show how political influence varies with integration.

In this approach, 'exit' becomes a surrogate for integration. For Hirschman, exit represents the ability of consumers, or political actors, to switch their consumption or membership pattern. Thus the possibility of exit is intricately linked to the degree of integration. To understand this linkage, it may help the reader to consider the relationship between exit and integration in more concrete terms. Imagine the possibilities available to an investor. The capitalist's ability to withdraw an investment from a given country (exit) depends on the level of barriers inhibiting this investment elsewhere. If the market for investments is integrated, then the capitalist's cost of exit is small. If the market for investments is not integrated, exit (outward foreign investment) is costly, perhaps unviable. In this way, exit and integration can be understood in Stolper-Samuelson-like terms (but where trade does not need to substitute for factor flows), such that integration, or liberalization, benefits owners of factors that are potentially more mobile.<sup>2</sup>

This way of thinking about integration is rather different from traditional political economy approaches, as illustrated by most of the contributions to this volume. But the question that motivates this study requires that we shift our analytical perspective. In doing so, integration ceases to be a dependent variable, captured in terms of formal outcomes (institutions, policies, etc.). Instead, integration becomes an independent variable, captured 'informally' – that is, as processes that have effective consequences without formal, authoritative intervention.<sup>3</sup> Thus free movement entails the elimination of barriers to mobility as well as more positive measures for encouraging mobility, for example, institutional harmonization.

My approach generates micro-level expectations about the effect of integration on the nature and effectiveness of citizen influence. These individual influences can be aggregated in any number of ways. As European class clearances are easier to capture empirically, and because a related (globalization) literature has largely focused on class-based models, I have chosen to close the discussion by speculating about the effects of integration on class influence in member states, across Europe.

Thus in the chapter's final section I sketch the uneven pace of economic integration in Europe measured in class terms. While the public ambition of Europe's political elites has long been to encourage the 'four freedoms', the actual integration of goods, services and capital markets has proceeded much faster than the integration of European labour markets. Compared to other markets, and contrasted against the political and legal rhetoric of European elites, European labour markets remain largely segregated along national lines. These

empirical observations provide some basis for speculating about the political effects of integration on influence at home. In particular, I argue that the uneven integration of Europe's markets may be undermining labour's relative influence at home.

This finding is rather counter-intuitive and perhaps politically anathema. For most commentators on the political Left, the maintenance of nationally regulated labour markets is seen as the only effective bulwark for defending policy outcomes that favour workers. In contrast, I argue that the opposite may actually be the case: in the absence of more integrated European labour markets, domestic labour remains home alone with a muted domestic voice.

#### **A theoretical framework**

In this section I modify Hirschman's (1970) influential *Exit, Voice and Loyalty* approach. This modification allows us to generate concrete and testable expectations of how integration affects influence on national sovereignty. Hirschman's approach is chosen as a point of departure because it provides us with a useful means for overcoming two conceptual difficulties associated with a project of this type: (1) he offers a novel way of opening up the closed-polity nature of most comparative political economy approaches; and (2) his approach helps us to conceive of and operationalize integration in a way which is novel for political scientists, but perhaps more familiar to economists. In this modified approach, I assume that integration increases the likelihood of exit by reducing the cost of exit. Thus agents with greater access to exit find themselves with new and effective means of influencing political outcomes. Agents that are unable to wield the same threat of exit find themselves home alone, with relatively less influence.

#### **Initial assumptions**

I assume that the reader is somewhat familiar with Hirschman's path-breaking book. For that reason, I will avoid a detailed description of his argument and instead present two of his most relevant observations for the argument that follows. These observations allow me to dwell for a moment on the utility of Hirschman's approach for the issue at hand.

Like Pareto, Hirschman begins as a radical pessimist in that he assumes all organizations, regardless of their institutional make-up, are subject to deterioration. Human nature is characterized by entropy, so that:

Firms and other organizations are conceived to be permanently and randomly subject to decline and decay, that is, to a gradual loss of rationality, efficiency, and surplus-producing energy, no matter how well the institutional framework within which they function is designed.  
(Hirschman 1970: 15)

This assumption is critical for Hirschman, who wishes to argue that organizations need an effective feedback mechanism for gauging customer/constituent satisfaction.

I point out this assumption because the motivation for influencing political behaviour in Hirschman's approach is somewhat different from the motivation of actors in traditional political economy approaches. While the latter tend to have an 'offensive' approach to political influence (that political outcomes are a result of agents that actively influence policy outcomes on the basis of their autonomous preferences), Hirschman's approach has a more defensive, rear-guard, feel to it. Actors respond to a decline in product quality – a deterioration that is assumed to be endogenous to all organizations, because of the pervasiveness of slack. While these motivational differences reveal themselves in the discussion that follows, they do not affect the outcomes.<sup>4</sup>

The second relevant part of Hirschman's argument concerns the two, competing, 'forces of recovery' by which firms and organizations can learn of this deterioration, and correct it before becoming obsolete: exit and voice. Exit, he suggests, is neat (one either leaves or one does not), impersonal, indirect, and belongs to the field of economics. Voice is messy, personal and direct, and belongs to the study of politics (Hirschman 1970: 15–16).

Exit is the main recourse of consumers responding to a decline in the quality of a firm's product. Voice is the main recourse for citizens responding to a decline in the quality of their state's policies (i.e. citizenship). As member states in Europe become more integrated, we can expect to see states acting more like firms in a competitive market: they will face actors who wield both exit and voice. However, to conceive of state action in this way, we must first acknowledge two very restrictive, common assumptions: (1) citizens/voters act like consumers; and (2) states act like firms.<sup>5</sup>

By recognizing these two modes of influence, Hirschman provides us with an interesting way of addressing the conceptual trade-off concerning sovereignty and integration. In traditional studies of political economy, we tend to think about interests and influence in terms of closed-polity models. Thus, European studies of comparative political economy aim to explain variations in member state policies with reference to a number of domestic attributes, such as the mode of interest mediation (e.g. corporatism/pluralism), the type of electoral system, national history/culture, the strength of specific political parties, sectors (e.g. exposed/sheltered), classes (e.g. Labour/Capital), etc.

If we are to take integration seriously, however, we need to develop a framework for including new, external influences on sovereignty (of the kind we might expect from increased integration). By combining exit and voice as complementary means for influencing outcomes, Hirschman's approach provides us with a device for capturing just this sort of external influence. In this model, influence is not confined to the ballot box, or domestic political institutions; the threat of exit opens up the approach to influences that are more sensitive to the forces of integration.

In the remainder of this section, I follow Hirschman's presentation of the relationship between exit and voice, and extend its implications to states.<sup>6</sup> Hirschman depicts the relationship in two phases: voice as a residual to exit; and voice as an alternative to exit. These two phases correspond to two idealized scenarios of

European integration. The first (voice as a residual to exit) can be used to analyse the effectiveness of voice in a Europe categorized by segregated political and economic markets, that is, one with little integration. The second scenario (voice as an alternative to exit) can be used to analyse the effectiveness of different channels of influence in an integrated Europe.

#### *Segregated influence*

We begin by examining the nature of influence in a model where the costs of exit are relatively high. This model corresponds to the way in which we traditionally think about political influence (i.e. where political and economic sovereignty is relatively segregated); it is developed with an eye to elaborating the possibility of exit, but in a context where exit remains relatively costly. It is in this context that traditional models of comparative political economy provide strong analytical purchase: the greater the cost of exit, the larger the role for traditional voice. The lessons of the first scenario are clear: in the absence of a viable exit option, political actors aim to amplify their voice in national venues.

We can adapt Hirschman's model to states by reproducing his quality demand graph with one that is aimed at interpreting citizen demand for variations in citizenship quality.<sup>7</sup> This is done in Figure 5.1. It might be worthwhile to describe the figure, as it is similar to a traditional demand curve, only different. The upper part of the diagram is a traditional demand curve, where the cost of citizenship has been replaced by the quality of citizenship (depicted inversely, in order to maintain the traditional downward slope of the demand curve).

The demand curve, **D**, represents the quality elasticity of demand (or the exit response of citizens to a deterioration in the quality of citizenship). It falls because I assume that a drop in the quality of citizenship will result in a decline in the demand for that citizenship, as residents will seek exit.<sup>8</sup> Like traditional demand curves (which assume that quality remains unchanged when the effect of price changes on demand are considered), we can assume that the 'cost' of citizenship will remain unchanged while we consider the effect of quality changes on citizenship demand.

The quality of citizenship,<sup>9</sup>  $Q_c$ , can be understood in terms of a function of the benefits of citizenship (e.g. jobs, wealth, influence, size, role in the world, social and economic ideology, etc.) as well as the opportunity costs associated with choosing another state's citizenship. The cost of citizenship,  $C_c$ , is similarly understood as a function of the costs of citizenship – in both economic and less tangible means (e.g. greater responsibilities, military draft, community service, larger tax burden, etc.) – as well as the opportunity costs associated with choosing citizenship elsewhere. Along the horizontal axis we find the quantity equivalent for states: the number of citizens or residents in a country. The demand curve reflects the quality demand elasticity.

To interpret the figure, we can begin by assuming that the quality of a given state's citizenship deteriorates from  $Q_0$  to  $Q_1$ . Say, for example, the welfare state is drastically truncated without a (welfare-effect offsetting) tax reduction. The

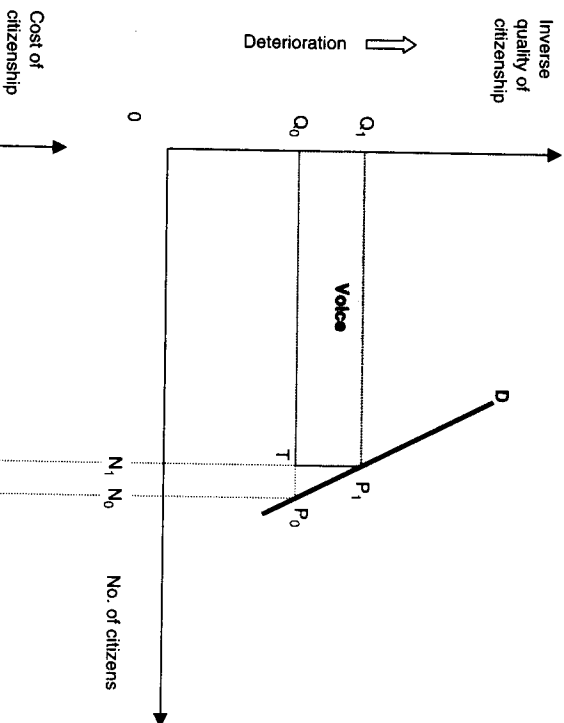


Figure 5.1 Segregated scenario.

Figure helps us to map out the effects of this change on citizen and state behaviour. Presumably, the demand for citizenship will drop with the deterioration in quality; and this fall in demand translates into emigration. (Similarly, an improvement in the quality of citizenship will provoke immigration.) Thus in Figure 5.1, outward migration is measured in terms of the decline in the number of citizens (e.g.  $N_0 - N_1$ ). As voice depends on the number of citizens ( $0 - N_1$ ) that remain and the

degree of citizenship degradation ( $Q_0 - Q_1$ ), the grey area marked 'Voice' can be used to capture the amount of voice (of whatever type) that is generated in response to that decline in citizenship quality. Obviously, the larger the size of this area, the more significant the potential voice in correcting for the decline in citizenship quality. Thus, in response to a drastic curtailment of the welfare state, citizens can choose voice or exit, depending on their quality demand elasticities. We can assume that states monitor voice for dissatisfaction to changes in citizenship quality.

The lower part of the diagram reflects the potential costs of exit, in terms of the 'revenues' (broadly defined) that are lost by the state as a result of emigration, sparked by a deterioration in the quality of citizenship.<sup>10</sup> (Similarly, an improvement in the quality of citizenship will induce revenue gains.) When citizenship quality drops from  $Q_0$  to  $Q_1$ , and assuming that the unit cost of citizenship does not change, the total revenue loss to the government is depicted by the 'Exit' rectangle. Of course, these revenues are set arbitrarily in the diagram; their significance lies only in their comparative utility, when we contrast these revenues to those lost under other conditions.

In effect, this first scenario is characteristic of segmented (political, as well as economic) markets. Because of the very high cost of exit, the quality demand curve for citizenship is relatively inelastic. Under these conditions, effective voice becomes essential for the vast majority of citizens who remain: it is their only avenue for addressing grievances. The relative importance of voice compared to exit is clearly illustrated by the size of the corresponding conduit of influence: the amount of voice in this scenario is larger than the potential revenue loss generated by exit (i.e. the 'Voice' box is larger than the 'Exit' box). As long as this revenue loss remains relatively small, states rely on voice as the most important conduit for channeling citizen discontent.

#### Integrated influence

We can now consider how citizen influence might change under conditions characterized by greater integration. In this scenario, exit becomes a more likely (if still costly<sup>11</sup>) option for disgruntled citizens. Therefore exit becomes a real alternative to voice. To show how integration affects influence, this section begins with a general model, like in the previous section, but with a more elastic quality of demand curve. These conditions can be understood as depicting a Europe with greater economic and political integration: here it is easier for citizens to respond with exit to any decline in national citizenship quality. As we shall see, under these conditions citizens enjoy increased opportunities to influence policy outcomes (or respond to quality decline), and states subsequently find it necessary to respond to these influences.

Figure 5.2 depicts the conditions of a more integrated scenario. This integration is reflected in an increase in the elasticity of the quality demand for citizenship (i.e. the shift in demand curves from  $D$  to  $D^*$ , where  $D$  is the demand curve in Figure 5.1). As in the previous figure,  $D^*$  corresponds to a decline in citizenship quality (from  $Q_0$  to  $Q_1$ ). The effect of this deterioration in quality (in the new

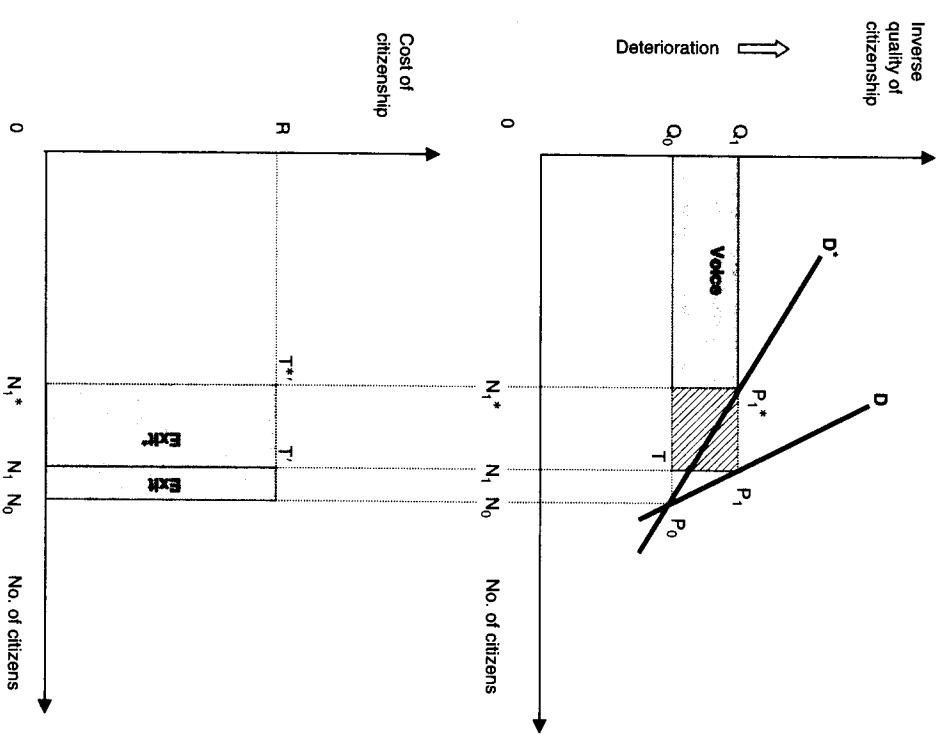


Figure 5.2. Integrated scenario.

context) is a decline in the citizenship population (from  $N_0$  to  $N_1^*$ ). The more elastic quality demand curve,  $D^*$ , shrinks the relative effect of voice and significantly increases the revenue effect of exit (compared to  $D$ ).

In this scenario, exit is no longer subordinate to voice, but can be interpreted as a real alternative to voice.<sup>12</sup> The citizen, in effect, has a new channel through which to respond to deteriorations in citizenship quality (or to generate more

'offensive' policy proposals). It is at this point that we become most aware of the closed-policy handicap in traditional approaches to comparative political economy. Obviously, this new (exit) option complicates the citizen's utility function, as he/she must now decide whether to exit. This decision depends critically on several factors, including the citizen's evaluation of his/her prospects for effective voice.<sup>13</sup> For example, if a citizen believes that his/her voice will be effective in correcting a decline in citizenship quality, he/she may postpone exit. Thus, the quality elasticity of exit (demand) depends both on larger structural considerations (e.g. degree of integration), and on the ability and willingness of citizens to use the voice option.

In this integrated scenario we find that the potential revenue loss to states from exit ( $\text{Exit}^* + \text{Exit}$ ) now exceeds the amount of voice that is generated by a deterioration in citizenship quality. It is important to point out that the amount of citizenship deterioration has not changed between the first and second scenarios. What has changed is the ability of a citizen to leave in response to that deterioration. Under these conditions, states find that they can no longer ignore the potential costs associated with exit. Indeed, as integration increases, these costs become so large that states must pay increasing attention to the threat of exit (at the expense of voice).

To the extent that this scenario represents a fully integrated Europe, we can use this framework to generate three explicit expectations about the effects of integration on political influence: (1) citizens will enjoy increased influence on issues of internal sovereignty (while the role of voice has shrunk, they now have access to the threat of exit for articulating dissatisfaction); (2) in response to the increased empowerment of citizens, states themselves need to become more responsive to citizen demands – failure to do so effectively can lead to serious resource and legitimacy losses; and (3) as a consequence of the first two expectations, we should see states begin to compete with one another in attracting mobile citizen resources (like firms in a competitive marketplace).

The discussion thus far has been framed in terms of two theoretical scenarios: a Europe without integration and a Europe characterized by integration. I have used this format to illustrate how the nature of political influence can change under two ideal-typical scenarios. By contrasting these two scenarios, we learn that actors in more integrated markets find their influence strengthened relative to the segmented scenario. In practice, of course, there are varying levels of market integration. These tend to vary across issue areas or markets. The next section will suggest how we might conceive of this (more realistic) scenario.

#### Complex integration

To capture this mixed scenario, we can consider a second, less speculative, means of interpreting Figure 5.2. Rather than assuming an aggregate shift to  $D^*$  in the context of full integration, we might assume that citizens meet, in effect, different quality demand functions. In the context of European integration, for example, we find that some markets are more integrated than others. Under these conditions,

some of the resident population may face rather steep (inelastic) demand curves because their 'markets' are not integrated (e.g. D), while other citizens may enjoy access to markets that are more integrated: they face a more elastic quality demand curve (e.g. D\*). For these citizens, voice plays a relatively small role in their response to policy dissatisfaction. Their threat of exit carries with it significant revenue flight. If strategically inclined, these citizens can serve a potent cocktail of political influence: voice mixed with a strong threat of exit. Other citizens, who do not wield a real threat of exit, must confine their dissatisfaction to traditional forms of voice articulation.

State responses to this type of citizen variation will be similar to the aggregate ideal types sketched above. For immobile citizen groups, states are unable to monitor efficiently their dissatisfaction. Even in democratic states, the voice-recovery mechanisms become increasingly ineffective over time (this follows from Hirschman's radical pessimism). In short, states increasingly lack effective responses to those citizens who do not have recourse to exit. For mobile citizen groups, however, the (real) threat of exit amplifies their political influence, ensuring that they are heard in political debates at home.

To conclude, this interpretation of Figure 5.2 suggests that states will respond with varying levels of effectiveness to the dissatisfaction articulated by different citizen groups. This level of response will depend critically on the citizen's ability to exit – which is itself determined by the degree of integration for the asset held by the citizen in question. Most strikingly, citizens who enjoy access to integrated markets have a clear advantage in articulating their dissatisfaction with any deterioration in citizenship quality. (Inversely, citizens without access to integrated markets risk being ignored.) We can expect states to respond most effectively to the concerns of citizens who enjoy both voice and exit options for articulating dissatisfaction, as they must concern themselves with the threatened revenue losses that result from exit.

Owing to space constraints, I will not elaborate on the role of loyalty in this model, though loyalty does have important consequences for evaluating the exit-effect on voice in states that are engaged in varying levels of integration. In short, loyalty can be understood as an important means of raising the costs of exit, thereby securing an important role for voice – even in a context characterized by a cheaper exit option. Loyalty – in the form of nationalism – is, of course, one of the modern state's strong suits. Thus, under conditions with a viable exit alternative, and where loyalty is a strong and real force, we can expect that the citizen's ability to influence policy outcomes will be stronger than under conditions where voice is the only means of responding to a qualitative change in citizenship. In all likelihood, increasing integration will improve the responsiveness of governments to citizen demands that are voiced under the threat of exit.

Thus far the discussion has been very theoretical. I have introduced a modified version of Hirschman's *Exit, Voice and Loyalty* argument to construct two hypothetical scenarios: one that depicts a Europe without integration, the other depicting an integrated Europe. Static comparisons of these two scenarios help us to understand the effect of integration on domestic political influence. The

model relies on individual rational actors who exude political as well as economic identities. In doing so, it allows external influences on national outcomes. In particular, the possibility of agent exit allows us a better way of conceiving political influence in the context of international integration.

In the first (segregated) scenario, we find a political context that is not unlike the one depicted by traditional comparative political economy analyses: political influence is secured primarily by domestic voice. The second scenario describes how the channels of influence and their relative importance can change when actors find themselves in integrated markets. By contrasting these two hypothetical scenarios, it is possible to develop explicit expectations of how the level of integration affects political influence at home: increased integration effectively boosts the domestic political influence of actors. More concretely, those agents who wield a real threat of exit into integrated markets have a better chance of influencing the nature of sovereignty at home.

### **The nature of integration in Europe**

The model sketched in the previous section is agnostic with respect to how interests might be aggregated within a given context. This model might be used for mapping the effect of integration on any number of social aggregations (e.g. class, occupation, ethnicity, citizenship, income, sector, etc.). To illustrate the explanatory power of the model, this section will illustrate how a class-based analysis might be employed in this framework. In doing so, I hope to provide an empirical point of departure for evaluating the nature of integration in Europe. With this information in hand, we can begin to speculate about how influence in domestic contexts might be affected by the particular nature of European integration.

While a class-based approach may appear anachronistic to some readers, there are at least two good reasons for using it. First, class-based institutional and political cleavages in Europe are still among the most visible: political parties, interest organizations, media sources, etc. are predominantly organized along class lines (at least more than, for example, sectoral or occupational lines). This makes it a fairly easy task to map the variance in integration across factor lines (e.g. capital market versus labour market integration). The second reason is clearly related to the first: there is an influential literature in contemporary political economy that looks at the effect of (global) economic integration on partisan models of government variation (e.g. Garrett 1995c and 1998; Oatley 1999, etc.). This literature tends to focus on the potential influence of capital in a world characterized by increasing financial integration. Seldom does it explicitly address the other side of the equation: how the absence of international labour mobility decreases the relative political influence of organized labour. For these reasons, the description of European integration that follows will focus on class.

From the very start of the modern European project, economic integration and prosperity have played a central and instrumental role in efforts to create a common European identity. Europe's political elites have always aimed to weave their countries into a fabric of economic interdependence. Since the Treaty of Rome,

the explicit motivation of member states has been to integrate European markets across *all* fronts: labour, capital and goods markets.<sup>14</sup> In spite of these legal intentions, there remained significant barriers to market integration in Europe. Consequently, it was not until the mid-1980s that Europe began to think of itself as 'an area without internal frontiers in which the free movement of goods, services, persons and capital is ensured' (Amsterdam Treaty, Article 14). Since the mid-1980s, market integration has proceeded rapidly across several fronts, albeit unequally. Thus, by the turn of the millennium it was increasingly obvious that trade in goods, services and investments had increased dramatically across Europe, while the rate of intra-EU migration had remained largely unchanged.

To illustrate the unequal nature of developments across several areas of economic integration, Table 5.1 reproduces Hansen and Olesen's (2001: 230) integration monitor. From Table 5.1, we can see that the integration of European labour markets is clearly lagging behind the integration of European capital, goods and services markets. I doubt that this depiction is controversial, so I see little need to belabour the point.

Of course, there are a number of fairly obvious reasons for the lack of European labour market integration, and I do not mean to suggest that we can expect labour to float around Europe as effortlessly as capital. Indeed, European social democrats have gone to great lengths to avoid the conditions that characterize US labour markets, where families are often forced to uproot in response to regional economic cycles. My immediate point is not to argue for or against increased labour market integration – it is merely to show how European labour markets are clearly less integrated than European capital, goods and service markets.

It is also important to emphasize that many of the remaining barriers to labour market integration are informal in nature. After all, labour, unlike capital, has commitments after office hours. In addition, cultural and language barriers remain important constraints on mobility. Nevertheless, there remain a significant number of policy-related barriers to mobility (e.g. the lack of integrated European-wide employment, pensions, taxation and educational legislation); and entrenched welfare systems and flexible economic responses by states will provide disincentives to move (as long as they last).

In light of the lessons generated by the model in the previous section, this uneven nature of European market integration bodes significant consequences in national political venues. To the extent that owners of capital are able to exploit the exit option offered by Europe's integrated capital and goods markets, this framework suggests that the relative influence of capital should increase in domestic policy venues across Europe. On the surface, this expectation seems to resonate with the new political realities in Europe, where national politicians find themselves constantly responding to the whims of capitalists, both foreign and domestic, or risk investment flight. In shouting to outbid other member states in attracting mobile investors, governments have been unable to hear the muted and increasingly ineffective voice of European labour.

In this sort of integrated Europe, the influence of labour remains largely limited to the conduit of voice. As labour lacks a real threat of exit, policy-makers in

Table 5.1 Rating the degree of European economic integration

Area	Rating	Comments
<i>Macroeconomic convergence</i>		
• Markets for goods and services	+++	Nearly full equalization of prices through intense intra-EU trade
• Markets for factors of production	0	No mobility across member-state labour markets, and hence no equalization of wages
– Labour market		Some mobility (ala FDI flows, mergers and acquisitions) which has led to the equalization of real profit rates
• Market for real capital	++	
<i>Macroeconomic convergence</i>		
• Nominal convergence	++	Price levels continue to vary, for example, labour intensive non-tradables remain cheaper in poor countries
– Price level		Inflation rates have converged because of intense intra-EU trade and stable exchange rates (later, the common currency)
– Inflation rates	+++	Massive cross-border financial activities, combined with fixed exchange rates/common currency, have led to a convergence of interest rates
– Nominal interest rates	+++	
• Real convergence	+	Different economic structures and lack of coordination has led to member-state specific business cycles
– Business cycle synchronization		No equalization of unemployment because of varying labour market structures and the member-state business cycles referred to above
– Unemployment	0	Mixed trends of convergence in standards of living from the ambiguous effects of mobile goods and resource on (national) distribution of economic activity
– Living standards	+	

Source: Hansen and Olesen (2001: 230).

member states can afford to ignore its voice and instead focus on more vocal (and costly) demands. Of course, the very nature of labour suggests that it can never exploit the same threat of exit enjoyed by capital, even in a 'fully' integrated Europe. There are simply too many social and personal costs associated with migration to make its threat of exit viable. Nevertheless, unless capital market integration is rescinded, or labour market integration is deepened, we can expect

influence to be unequally distributed between classes, within member states, across Europe.

Thus, to the extent that it is still possible to explain variances in policy outcomes across Europe with reference to the organized strength of labour (or capital), and to the extent that European capital markets are more integrated than those that govern European labour, then the lesson of this chapter are clear: the influence of capital on domestic policy outcomes has been enhanced by the particular character of European integration.

### Conclusion

My ambition has been to develop a framework that allows us to generate testable hypotheses about how increased integration affects the nature of sovereign political outcomes in member states. This framework is purposely vague; after all, the effects of integration extend beyond the European Union. Therefore, the model can be easily extended to consider the effects of integration on domestic influence elsewhere. In spite of this level of generality, the framework generates concrete expectations about how domestic policy outcomes should change in the face of integration. These expectations can be easily operationalized and tested empirically in future research.

I have argued that Europe's relatively segmented labour markets handicap labour's ability to influence policy at home. This argument is both controversial and counter-intuitive. While these features provoke, they also generate new research agendas. In this closing section I will comment briefly on both responses.

The main implication of this approach is to suggest that the problem facing European labour is not one of too much integration – but too little. This implication needs to be examined more closely: can the decline in labour's domestic influence in Europe over the past two decades (an assumption that needs to be tested, but that does not appear unreasonable) be explained by the inability of labour to employ the threat of exit as effectively as capital? Alternatively, we might spend more time contemplating the domestic effects of European initiatives. For example, could the creation of Social Europe actually strengthen labour at the *national level*? To the best of my knowledge, these sorts of question are not being addressed in existing research agendas.

This argument also provides us with an impetus for thinking about new ways of comparing policies within Europe. In particular, it is possible to characterize European states in terms of their relative ease of opportunity for emigration. Thus we should expect to find the strongest voice for labour – controlling for various institutional features (e.g. centralization, wage-bargaining institutions, etc.) – in those small states (e.g. Luxembourg, Ireland) where labour enjoys the easiest opportunity for exit (i.e. English-speaking or multilingual states, and/or those with a history of emigration).

Finally, the exit-voice mechanism can help us reconcile conventional wisdom about the increasing strength of capital, on the one hand, and revisionist arguments about the relative absence of large-scale capital relocations in response to significant

tax or cost incentives, on the other. From this approach we can expect exit to affect the character of domestic voice and influence. The exercise of voice in a context of integration thus negates the absolute necessity for exit. Rather than being surprised by the fact that investors do not always take flight, we might ask the question, 'what are firms getting by way of voice to compensate for their not exiting?'

At first glance, this argument may appear difficult to bear: a little historical reflection may help lighten the load. It behoves us to recall that some of the greatest political gains by modern labour (e.g. extension of the suffrage, the modern welfare state, shortened work-week, etc.) came at a time when labour was free to migrate internationally and in fact did so! The early twentieth century is full of examples (albeit understudied) of how the threat of exit abroad was used as a powerful lever for securing political gains at home.

The argument is controversial in that it forces us to think in new and different ways about the nature and content of politics in a world where political sovereignty stretches across disparate levels and institutions. Integration radically affects the way that agents can and will influence sovereign outcomes. As political analysts, we need to search for new frameworks that provide us with a better means of capturing the new nature of politics. In this regard, Ulrich Beck's depiction of the changes wrought by globalization is insightful:

[T]he new power game between national and transnational players is acted out in the familiar rules and colours of the distribution struggle of industrial society. It is as if employees, unions and governments were still playing draughts, while the transnational corporations have moved on to chess. What looks like a draughtsman may thus become a knight in the hand of a corporation, which may then suddenly deliver checkmate to a thunderstruck king. (Beck 2001: 65)

At this early point, of course, these arguments must remain speculative. Further study can help to establish the empirical legitimacy of this new framework. Until that time, however, it is not far-fetched to depict a right-ward shift in the policies of European member states over the past two decades. Is it unreasonable to explain that shift with reference to the integration of European capital and goods markets, and the increased influence this shift has brought to capital?

### Notes

- 1 I would like to thank Jostein Vik, Thomas Halvorsen, Ole Bjørn Røste, Daniel Jaquaroz, the editors, and the participants of the IPE Forum at NTNU for their useful feedback and comments on an earlier draft. Obviously, any errors that remain are my own responsibility.
- 2 See Rogowski (1987 and 1989) for a wonderful application of Stolper-Samuelson to the realm of politics.
- 3 On the distinction between formal and informal forms of integration, see Wallace (1990).
- 4 To facilitate comparisons with Hirschman's original work, I have chosen to adopt his (pessimistic) perspective in the discussion that follows.

- 5 Space constraints inhibit me from elaborating on the difficulties associated with both of these assumptions. At a certain point, the analogies to firms and consumers break down, and we must be careful not to push them too far. For example, I realize that it is unreasonable to expect the potential migrant to have the same cold/calculating attitude to social uprooting as he/she does when changing his/her brand of toothpaste. Similarly, firms hire and fire workers, and are not usually required to consider the social consequences (externalities) of their decisions; states do not enjoy this luxury. A number of other conceptual difficulties lay just beneath the surface. For now, however, I will merely note the problem, and add that I employ these assumptions cautiously. After all, I'm simply extending Hirschman's argument to the next natural step. Hirschman assumed that consumers were like organization members, and firms were like organizations; I extend this so that citizens are like organization members, and states are like organizations. In the final analysis, two factors argue for their inclusion: (1) their common employment elsewhere; and (2) the problems associated with them are not crippling enough to inhibit our careful progress. In the end, I believe that the benefits associated with these sorts of assumption (e.g. parsimony and intuitive grasp) outweigh their apparent costs.
- 6 This theoretical relationship was originally developed in Moses (2004).
- 7 Like Hirschman, I assume this deterioration to be exogenous and could occur for any number of reasons. For Hirschman's graphical depiction, see Hirschman (1970: 130).
- 8 Given the likely role of loyalty in this context, the demand curve will probably be broken up and curvilinear. As Hirschman (1970: 90) suggests, there may be one demand schedule for the deterioration in quality (with low demand elasticities at the beginning, and high elasticities as we approach the exit point), and another demand curve for when quality returns.
- 9 Obviously, this attempt at capturing citizenship quality is a gross simplification. Not only is citizenship quality multidimensional, it is questionable whether we can make inter-personal comparisons about citizenship quality (as we do, e.g. with television sets). Again, the demands of parsimony are my only defence.
- 10 This model assumes that states calculate revenues equally for all citizens. In practice, of course, states generate more revenues from some citizens than others. In both political and economic terms, the revenue-loss of an exiting unskilled labour might not compare to the anticipated losses of a fleeing CEO. (Neither are these sorts of difference unique to the revenue side of the model: it is possible that states value individual voices differently as well.) As a first approximation, however, we can adopt the assumption of standard revenues.
- 11 The question of cost is a complicated one. In one way, the cost of exit is smaller than the cost of voice, as the nature of the return to exit is fixed and known. The return on voice, however, depends on the effectiveness of the voice strategy and is therefore more risky. For Hirschman, the costs of exit to the individual consumer are smaller than the costs of voice. See for example, Hirschman (1970: 40). Later, Hirschman (1981: 222) recognizes that he 'took the costlessness of exit too much for granted'. Obviously, when discussing migration as an exit option, we must presume that the perceived costs will be much higher than those facing a consumer deciding between different brands of detergent.
- There is a third option that I will leave latent. There is a real possibility that the dissatisfied voter will remain ambivalent and alienated, and might withdraw completely from the political realm. The option of detachment falls between voice and exit. Roger Ko-Chih Tung (1981) replaces loyalty with the notion of *autism*, or self-adjustment, to compensate for this possibility.
- 12 In *Exit, Voice and Loyalty*, Hirschman assumed that there was an inverse (or see-saw) relationship between exit and voice, especially when the costs of exit were small. See also Hirschman (1992: 91). Later, in his 1993 *World Politics* article, he modifies this position and recognizes cases where exit and voice can work in complementary, or collaborative, ways.

- 13 Among other things, we might expect the likelihood of exit to increase: (1) given the proliferation of alternative (substitute) states; (2) given the relative ineffectiveness of voice in the home state; (3) the larger the population of the home state; (4) the relative unimportance of citizenship issues to the individual citizen; and (5) the less developed are the cultural and institutional contexts for voicing dissatisfaction in the home state.
- 14 Although we tend to remember the Treaty of Rome in terms of a customs union, it is important to recall that its Article 48 stipulated the 'abolition of any discrimination based on nationality between workers of member states with respect to employment, remuneration and other conditions of work and employment'; and Article 73b(1) stipulated that: 'all restrictions on the movement of capital between Member States and between Member States and third countries shall be prohibited'.