Journal of European Public Policy 13:6 September 2006: 943–957

Europe's market liberalization is a bad model for a global trade agenda

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ABSTRACT European Union (EU) policy-makers use the single European market as a model for extending the global trade liberalization agenda, specifically to encompass flanking issues ranging from environmental sustainability to labour market regulation to social protection. They thus seek to transform the traditional multilateral trade liberalization agenda into a more comprehensive framework for global economic integration. The problem is that the single market has succeeded primarily insofar as it is European and not global in scope. Although multilateral negotiations have reduced tariffs and quotas, they are much less successful at embracing a wider agenda. Three conclusions are suggested: global trade liberalization should focus on a shallow agenda of economic issues; any 'deeper' pattern encompassing labour market, social, and environmental concerns is more likely to succeed at the regional level (or in bilateral agreements); and the challenge for the future is to resolve disputes between national, bilateral, and regional institutions – perhaps best through the World Trade Organization (WTO).

KEY WORDS European Union; political economy; regional integration; trade liberalization.

INTRODUCTION

As the articles in this volume reveal, the trade policy pursued by the European Union (EU) has undergone a substantial change in recent years. Alasdair Young and John Peterson (2006) argue in their introduction that this change is due in part to the near-completion of the traditional trade liberalization agenda focusing on tariffs and quotas and in part to the progress made in the completion of the EU's single market: the successful reduction in global tariffs and quotas highlights the importance of non-tariff barriers to trade and the single market shows how such issues can be dealt with. The expansion of EU trade policy to encompass a wider range of issues that have an impact on global trade seems to follow logically. Not only does it promote the kind of world-wide liberalization that is endorsed by international economists, but it also underscores the relevance of Europe as a successful model for economic integration.

Journal of European Public Policy
ISSN 1350-1763 print; 1466-4429 online
http://www.tandf.co.uk/journals
DOI: 10.1080/13501760600838714

This contribution challenges the logic behind any elevation of European experience to the global level. It argues in favour of the status quo and against the mainstream views of both international economics and EU trade policy. Its basic claim is that it is unrealistic to expect to build a global deep trade agenda that integrates specific measures for market liberalization with a wide range of related policy issues stretching from environmental sustainability, to labour protection, social policy, gender relations, and beyond. The only realistic alternative for progress towards a more expansive, progressive international trading order – and there are many realistic possibilities for failure – is to build a thin multilateral agenda focusing on the removal of tariffs and quotas with a limited range of closely cognate issues related to market competition, product standards and intellectual property rights on top of thicker regional and bilateral agendas that take a wider range of issues into account under the umbrella of 'free trade'.

This realistic alternative is not necessarily static. There is some hope of building up to thicker notions of free trade and market liberalization at the global level in the future. But progress in developing a 'thicker world economy' will likely take place through successive rounds of dispute resolution rather than through complex multilateral bargaining rounds. In the first instance, such progress will depend upon the acceptance of judicial decisions by national governments and upon their approximation through national laws and regulations. At a deeper level, however, it will depend upon the elaboration of an explicit and acceptable notion of a just world economy more than on the establishment of formal institutions, whether at the national or global level. Formal institutions may come, but a broadly acceptable notion of global justice will have to precede them.

Thus while the other contributions in this volume focus on the origins of the EU's deep trade agenda and how it is pursing it, this contribution challenges the feasibility and desirability of that agenda (see also Holmes 2006). It is structured in three parts. The first explains a reluctance to embrace a global free trade agenda like that prescribed by many international economists. The second focuses attention on the deep trade agenda of the EU. The third sketches the role of dispute resolution in underpinning a progressive future and explains the importance of engaging in a global debate about the meaning of progress.

DISMAL? NO. IDEALISTIC

A number of prominent international economists, Jagdish Bhagwati (1991) chief among them, argue that governments should embrace globalization, reject regionalism, and focus attention on making progress in trade liberalization through big multilateral negotiating rounds like the Doha Round on trade and development within the World Trade Organization (WTO). Such arguments have become overly idealistic. The claim that free trade has many benefits does not entail acceptance of the merits of a global approach toward trade liberalization, particularly now, when the liberalization agenda touches on domestic institutions that have a high normative content, as political support for 'globalization' wanes (at least in the advanced industrial world), and as the distributive consequences of international economic interaction become both more obvious and more politically salient.

The rejection of big multilateral bargaining rounds does not require taking a particular position in the empirical debate between international economists as to whether regionalism throws up building blocks or stumbling blocks on the road to global economic integration (Panagariya 1999). As the WTO (2003: 46–67) has recognized, some combination of globalization and regionalism is a permanent feature of the world economy. The question is whether it makes sense to try to shift the balance in one direction or another. The argument against pushing for more and deeper globalization is that it will not work. The contrast with international economists is more *a priori*, or theoretical, than empirical. It draws upon a different set of assumptions from those which predominate in international economics. Many, if not most, international economists start with the presumption that:

- institutions are positive: they lower transaction costs and create incentives;
- policies are normative: politicians should do what is 'best'; and
- economic interaction is aggregative: the goal is to increase the size of the pie.

Comparative political economists view the world somewhat differently (Jones 2003). For them:

- institutions are normative: they embody and reconstitute social values;
- policies are positive: politicians do what they can, given political support; and
- economic interaction is distributive: the size of the pie is less important than how it is sliced.

The difference between these two sets of assumptions is between idealism and realism. Wherever they stand in the debate about globalization and regionalism, international economists are the idealists: they imagine a better world and point us in that direction. Such idealism is necessary because it sets clear goals for progress. The goals set by international economists resonate far beyond the confines of their academic writing.

Comparative political economists are the realists: they look at the world as it is, and try to explain what are the possibilities of controlling outcomes within it. Hence, without abandoning the notion of progress altogether – more specifically, while embracing the goal of free trade and an efficient international division of labour – it is important to be realistic when designing policies to accommodate globalization, regionalism, and the WTO.

Norms and institutions

Institutions matter. That much goes without saying. The debate is about why institutions matter, and how much. Among economists, transactions provide the starting point for an answer. Transactions imply costs related to bringing the transacting parties together, gathering information, assigning responsibilities, ensuring compliance, and providing avenues for expressing grievance and seeking redress. In turn, these costs make transactions inefficient if not impossible. The higher the costs, the fewer transactions will take place. At the extreme, there will be no transactions and therefore no division of labour. A major function of institutions is to lower transaction costs. Consider, for example, the creation of marketplaces and the assignment of trading hours, the regulation of information disclosure, the establishment of contracts, the underwriting or provision of enforcement and adjudication. These are all institutions that lower transaction costs.

This notion of reducing transaction costs is useful in evaluating the function of institutions as well as just describing them. The measure of how well institutions perform is the degree to which they succeed in making the cost of a given transaction lower that it would be otherwise. A good institution is one that lowers the cost of a specific transaction or set of transactions. A bad institution is one that leaves transaction costs unchanged or makes them even higher. Create too few marketplaces or keep them open too little, and the centralizing effect may leave out a number of potential buyers and sellers who cannot compete while bearing the costs of travelling to market in a timely manner. Create too many, and the market may become fragmented and the costs of maintaining a market presence may become burdensome.

Transaction costs also allow us to evaluate the interaction between institutions. Institutions come into conflict when the function of one diminishes or challenges the function of another. Information provision can delay contracting; demonstration of compliance can overburden enforcement; enforcement requirements can complicate adjudication; and so on. The reverse is also true and institutions can create positive synergies. Information can facilitate contracting, enforcement, etc.

Finally, there is the question of conflict between, or across, institutional jurisdictions. Each jurisdiction includes myriad institutions and correspondingly complicated interactions between them. Such institutional environments give rise to specific business practices or cultures. What works in one market may not work in another. Indeed, such incompatibility may be intentional.

Hence the challenge for international trade liberalization is three-fold:

- The first challenge is to eliminate institutions that are specifically intended to raise the cost of transacting between countries. The response to this challenge is found in the trade liberalization agenda focusing on the removal of tariffs and quotas.
- The second is to streamline the interaction between institutions within national economies. Here the response focuses on questions of national competitiveness and market-structural reform.
- The third challenge for international trade is to mitigate the friction between national institutional jurisdictions. Here the response is again focused on national market-structural reform but with a different set of

objectives in mind. Rather than reforming institutions to make them work better together, the goal is to reform institutions so that they can interact smoothly with institutions found in another country.

Obviously these challenges are interrelated. You cannot tackle any one without having some impact on the other two. The trick is to ensure that any improvements in institutional interaction with the outside world do not worsen the climate of institutional interaction at home. Therefore, it may be useful to think of exporting or importing whole models for economic institutions; models which, because they are 'models', can ensure institutional consistency at home and abroad (see, for example, Sapir 2005).

So far, this paper says nothing about institutions that should be either unfamiliar or objectionable. If anything, the description of the literature is restrained. Almost any interaction – political, social, or economic – can be described as a transaction. And so almost any institution – political, social, or economic – can be analysed with this transactions-cost approach. Moreover, the interaction between institutions is not limited to discrete domains for human affairs. Social institutions influence politics; political institutions influence economics; economic institutions influence society. Indeed, the economic historian Douglass North won the Nobel prize for his pioneering work in what has since become known as 'transactions-cost institutionalism' (North 1990).

The implication of transactions-cost institutionalism is that any domestic institution can become part of the global free trade debate. This is obvious in explicitly economic areas. Zoning legislation to favour family-owned business over giant retail outlets becomes a form of structural impediment to global trade. The rules that ensure workplace representation create international obstacles as well as trade unions. Voluntary industrial standards emerge as essential weapons in the arsenal of national competitiveness. The point to note is that the global free trade debate touches on a host of other domains as well. Whether children are allowed to work is an obvious example. The equality of women in the workplace is another. Both issues touch deeply on the economic structure of the family. In a similar way, rules governing state aids and market competition touch on state–society relations, they determine patterns of industrial policy, patronage and influence, and they have an impact on the mobility between political and economic elites. Rules governing intellectual property rights shape relations between universities and industry. Rules governing the environment determine how cities are built and how populations settle within them. Virtually no institution is immune from the influence of globalization because all are implicated in the raising and lowering of transaction costs.

Easy cases, hard cases, and the global agenda

The difficulty with transactions-cost institutionalism is that institutions have 'value' that is distinct from their impact on transaction costs. Transactions-cost institutionalists (like North) do not deny this point. They just choose to ignore it in the interests of parsimony. Here there are easy cases and hard cases. Few would deny that religion or gender roles are infused with non-pecuniary, non-transaction-related values. Therefore it is easy to bracket these things off from the global trade liberalization debate (although being 'easy' should not be taken to imply that it is uncontroversial to do so; see below). Tariffs and quotas provide another easy case because their function is precisely to increase transaction costs, though again their removal is not uncontroversial.

The hard cases come in two groups. The first is where the relationship of an institution to transaction costs is clear, but other values are contradictory (as in child labour, the use of which is cost competitive but morally objectionable). The second is where both the relationship to transaction costs and to non-transactional values are ambiguous. This is where the debate on trade liberalization moves beyond the domestic frontier to intersect with a variety of national or local institutions that govern labour markets, welfare state benefits, health, education, and environmental protection.

The demarcation between easy and hard cases is only as stable and as predictable as the values in play. Starting from the assumption that non-transactional values are structurally determined, that attachment to these values is weaker than concern for transaction costs, and that such values will become less rather than more important under the influence of economic growth, it should be possible to build a negotiating agenda around the hard cases. If, however, analysis starts from the premise that attachment to values is idiosyncratic (or culturally specific), that non-pecuniary values often predominate over (or trump) transaction costs, and that such values are impervious to the influence of economic growth, then it is better to ignore the hard cases and focus on the easy ones.

Whatever the assumption, a transactions-cost institutionalist approach would lead us to believe the factors that make a case hard or easy are the same from one country to the next, even if the cases themselves are not. Hence it makes sense to talk about a global trade liberalization agenda even if countries disagree on the content of the agenda or the pace with which it should be pursued.

From globalism to regionalism

Comparative political economists take a different tack in the debate about institutions. They believe that all institutions reflect (or contain) a range of values of which their influence on transaction costs is only one – and a recent one at that. Karl Polanyi (1957), who was an early and influential proponent of this view, argued that all market institutions are socially embedded, that they carry and recreate the normative foundations of their cultural environment. This notion complicates the evaluation of institutions, because it places their impact on transaction costs in a relative or comparative framework. Institutions that are good at lowering costs may be bad in other ways. Giant superstores break the social link between consumers and retailers. Comprehensive disclosure rules violate privacy. Child labour robs children of their childhoods.

There is nothing revolutionary in this view of institutions. It is easy to find a non-pecuniary value that can be attached to any institution. The task is no different from looking for the underlying transaction. What is more complicated is coming up with some way to assess the relative importance of these values. The difficulty is two-fold. First, non-pecuniary values are non-fungible; how is equality converted into leisure, or sociability into convenience? Second, non-pecuniary values are relative even when underpinned by claims to universalism; they differ from one group, one culture, or one jurisdiction to the next both in terms of content and importance. This means that institutions, the interaction between institutions, and the interaction between institutional jurisdictions are all evaluated differently from one group, culture, or jurisdiction to the next.

The view that institutions reinforce or even create values is a more radical extension of the same point. The idea is that when institutions are put into place, people learn to associate values with those institutions. At the extreme, people may even learn to recognize certain institutional features as values. In turn this creates an element of circularity. Institutions remain because they are valued and they are valued because they remain. By implication, it should be possible to find examples of institutions that long outlive any obvious relevance to lowering transaction costs and it should also be possible to find evidence of persistent differences in national values and in national institutional configurations. The evidence exists. Institutional persistence is a common feature in the seminal work of Mancur Olson (1982) and Peter Gourevitch (1986); value persistence is documented by Ronald Inglehart (1990); and the persistence of national institutional configurations lies at the foundation of a school of thought centring on varieties of capitalism (Hall and Soskice 2001). Indeed, if there is a consensus in comparative political economy, it is on the persistence of national diversity under the influence of globalization (Jones 2003).

Persistent cultural and therefore institutional diversity has important implications for trade liberalization. Specifically, it implies that regional liberalization agendas are easier to pursue than global ones. To begin with, liberalization is easier between countries with similar cultures, not because these countries somehow like each other (although they may), but because they are more likely to have similar institutional endowments. In turn, similarity of institutional endowments makes it easier for governments to engage in reciprocal bargaining and to identify reinforcing complementarities or synergies. Countries that start with similar institutions face similar problems for liberalization. This means that their national governments can agree on what to do to make trade easier between them and they can agree on what not to do because it would undermine economic performance or political stability at home. Persistent cultural and therefore institutional diversity also means that liberalization between like-minded countries is self-reinforcing. The more they create special arrangements to support complementary institutions, the more deeply these national institutions become embedded in the international relationship (Ruggie 1982).

The point can be overemphasized. Not all countries with similar cultures or institutions attempt integration. It is possible to argue that the United Kingdom is more like the United States than continental Europe, but integration between the UK and the rest of the EU is much farther along than between the UK and the US. Even where the cultures are similar, not all regional groupings between countries with similar institutions succeed. The ones that do succeed do so within limits. Even very successful groups can break down over time. Economic integration between Belgium, the Netherlands, and Luxembourg – through the Benelux – was easier for these countries than pursuing a multilateral trade liberalization agenda, but the success of the Benelux was limited (even in terms of its own agenda); the countries did not converge culturally (in fact, they became more different) and the progress of European integration has removed much of the early enthusiasm for integration within the Benelux. While the three countries continue to identify themselves as Benelux members, that identification remains limited in scope and content (Jones 2005). A similar point could be made about Nordic co-operation and a stronger one about the Visegrad group.

Within a more modest notion of regional integration, it is still possible to recognize that it is easier for more similar countries to integrate than for more different ones. It is also possible to see how integration at the regional level could go more deeply (affect more institutions which touch on more values more importantly) at a regional level between similar countries than at a global level across the world as a whole. Of course, it is possible to assert that this should not be the case. It is possible to argue that there are more gains to be had from trade liberalization between more different countries, and it is possible to insist that all institutions be assessed in terms of their impact on transaction costs. Such insistence, however, is normative and not positive. It is a claim about how the world should be and not how the world is. It is an expression of idealism and not realism. Put simply, no matter how much anyone might wish to believe that the economic consequences of institutions are paramount, that belief is not an expression of how the world really works.

POLICIES AND POLITICS

So far, this argument is overpopulated with institutions and barren of actors. Moreover, it comes to a conclusion that also could be made by bringing actors into play. Economists have shown that regionalism tends to predominate where markets are uncompetitive, where the gains from trade deflection are large, or where multilateral trade negotiations create incentives for collective action at the regional level (Ethier 1998; Krishna 1998; McLaren 2002; Ornelas 2005; Wonnacott and Wonnacott 2005). Hence, even if it is true that there is 'no coherent theory to explain' the political economy of trade policy (Grossman and Helpman 2002: 174), it is nevertheless important to admit that economists have made great strides toward elaborating one. They have done so without abandoning the transactions-cost approach to analysing institutions. Using Occam's razor, it is tempting to argue that this is enough.

The problem is that this political economy of trade policy deals primarily with the easy cases. It is good at explaining why tariffs and quotas change the way they do, and it implies a logic within which religion and other non-traded aspects of the popular culture do not change. When the world trade agenda was focused on barriers at the border, that was sufficient. But it is clear that policy-makers in the EU are unwilling to accept such a thin agenda for global trade liberalization (Young and Peterson 2006; De Bièvre 2006). Speaking before a conference on 'sustainability impact assessments', EU Trade Commissioner Peter Mandelson made seven observations about trade liberalization. The first six dealt with the difficulty of liberalization, the danger of protectionism, and the problem of development. He then insisted:

> Seventh – and, as Europeans, this is important to us – we should be committed multilateralists – and not just in pressing for market liberalisation. We should be determined about our efforts to strengthen international cooperation and rule making on trade and environment and trade and social policy in international bodies such as the ILO [International Labour Organization] and WTO. This should lead to a more lasting global consensus on core social and environmental standards.
>
> (Mandelson 2006: 2–3)

The EU is not alone in espousing such views, but it has been the most persistent actor in the international arena to do so. Under the influence of Mandelson, his predecessor Pascal Lamy (now Secretary-General of the WTO) and others, the world trade agenda has progressed to implicate both national competitiveness (meaning welfare state institutions and institutional reform) and beyond-the-border issues (meaning non-tariff barriers to trade) (Young and Peterson 2006). As a consequence, the range of non-pecuniary values implicated has increased and the identification of relevant actors or lobbying groups has become more complicated. If indeed it ever was, trade policy is no longer just a question of economic interests, transaction costs, and implicit rents. Now it has become implicated in domestic debates about the goals and meaning of society writ large. In this context, Mandelson's last sentence about how the negotiation of common rules '*should* lead to a more lasting global consensus on core social and environmental standards' is not just a throwaway line. If such rules do not lead to a supportive consensus, why should dissenting countries abide by them, who would enforce them, and how long would they survive either outright rejection or widespread abuse?

The clash of institutions

These questions are posed in terms of human agency, but they are not really agentic. If it were possible to imagine countries as individuals confronted with some comprehensive framework of new rules for trade, then it would also be possible to imagine that these countries as individuals would learn to adapt to and value such rules. But states are not individuals. Although it is possible to imagine them having certain agentic characteristics in international relations, states are just institutions. The real agency lies in the people who staff those institutions, the people who govern them, the people who elect, select, or support the government, and the people who constitute the wider society. Whether or not these people see new international rules as potential sources of value depends upon the relationship between international rules and domestic ones. The clash of institutions is what matters. The advantage of existing domestic institutions over new international rules is that domestic institutions already benefit from at least some degree of consensus and so are likely to enjoy a higher level of popular support.

Here it is necessary to reiterate that the social embeddedness of institutions is an empirical statement not a normative one. Real politics surround the creation of welfare states and other state–market–society relationships and they pivot on a number of values or mobilization points of which economic welfare is only one. The difficulty lies in reconciling national debates, national political groups, and national institutions with the consequences of integration at the international level. There is nothing new in this statement. Gunnar Myrdal (1956) described an inherent tension between national and international forms of integration as early as the 1950s. At the time he used the argument to explain why regional integration in Europe would fail. He also suggested what it would take for regional integration to succeed: 'rising production and living standards' (Myrdal 1956: 71).

Admitting that Myrdal was right, to some degree, does not diminish the many important theoretical contributions to our understanding of the sources and drivers for European integration. The prosperity of the late 1950s saved European integration and European integration contributed greatly to European prosperity. In such simplified terms, Mandelson may be right as well. New multilateral rules could create a new international consensus if such rules could coincide with and contribute to a growing world economy. But as Mandelson (2006: 2–3) himself admits, there is a lot of wishful thinking here: 'for the problems of trade policy there are no simple text book answers' and 'there is no automatic rule that trade liberalisation will lead to greater economic growth'. He goes on to argue that the right mix of rules and norms, liberalization and social or environmental protection, could create a progressive future, but his case is highly conditional.

Even if Mandelson gets lucky and the EU promotes just the right mix of liberalization and flanking measures at the global level, the resulting prosperity might not generate a lasting consensus on new international norms. Again, it is the clash of institutions that matters. Thick multilateral integration is destabilizing whenever it adds pressure for institutional change and whenever it alters or enhances vulnerability to external shocks. Here it is necessary to qualify Myrdal's argument about rising prosperity and productivity. The point is not that money solves all problems. Rather it is that money makes it easier for problems to be solved.

The recurrent theme in Myrdal's writing is the problem of distributive conflict. Where groups compete over the allocation of resources or for the promotion of competing values, the result is a deadweight loss for the society as a whole. Where distributive conflict is unchecked, and where society remains divided between rival groups, the stability of the state and of the society comes into question. Indeed, what is striking is the extent to which different actors will engage in distributive conflict even when it is clear that this will do great damage to the welfare of society as a whole. The history of the 1970s and early 1980s is littered with illustrations in the advanced industrial states of Europe, with the most obvious examples being found in the industrial disputes in Italy, France, Germany and the UK. The present period may throw up an even greater host of illustrations of its own.

Resolution of distributive conflict (and restoration of order) depends upon at least two factors. One is the emergence of a distributive coalition capable of asserting political control. The other is the use of side-payments (whether pecuniary or otherwise) to pacify the remaining opposition. Both factors lay claims on institutions. Distributive coalitions institutionalize their control over the state, and compensation becomes entitlements. Moreover, such entitlements are not always directly pecuniary. They can take the form of religious tolerance, linguistic autonomy, or even freedom of movement. The welfare state is the collection of institutions that supports the distributive coalition while at the same time binding in those necessary opposition groups. In Myrdal's terms, the welfare state integrates society by creating a framework of rules that all members are willing to support.

Rising prosperity and living standards make it easier to generate support for the welfare state by financing an expansion of the distributive coalition, by facilitating side-payments, and by underwriting an expansion of the welfare state. Importantly, however, the support created under conditions of rising prosperity is conditional. It depends upon the ability of different groups in society to recognize their role in the welfare state and the advantages that they derive from that role. The difficulty is maintaining support during periods of economic decline. While it is not always true that a growing economy is a stable one, it is more likely that a declining economy will be conflictive. In this way, welfare state reforms become more difficult even as the need for reform becomes more pressing. At times only a full-blown crisis is sufficient to induce change (Gourevitch 1986).

The goal of Mandelson's expansive global trade agenda is to avoid crisis and not to create it. Yet it is difficult to see how the EU could hope to negotiate common rules across such a wide range of different state structures and it is impossible to see how it could impose common rules without bringing about some episodes of crisis. Offers to compensate the losers from globalization out of a European adjustment fund assume that the crisis will have only pecuniary dimensions. That assumption might be justified if liberalization were restricted to easy cases where money is the predominant concern or where liberalization is ruled out, but the deep trade agenda tackles the hard cases where money is intertwined with other values and where there is no easy measure or means for using money to soothe the rest.

CONFLICT, RESOLUTION, AND PROGRESS

In practical terms, Mandelson's aspirations for a deep trade agenda are more likely to be borne out where a supporting normative social consensus already exists. That supporting consensus is likely to be reflected across countries with similar or compatible institutional arrangements. When Mandelson sets out his multilateral trade agenda, what he offers is a description of the process of European integration. Yet when European integration is viewed up close, it is easy to see how difficult it is to bring such a process about (Holmes 2006).

Description of the success of European integration can be found in the 'Europeanization' literature (Bulmer and Lequesne 2005). Essentially, this literature reveals how the different member states of the EU have adapted their national institutions to meet the requirements for competition within the European single market. This adaptation has been incremental, uneven, and partial. Nevertheless, it has moved forward across an ever wider array of ever more diverse countries.

That said, Europeanization is descriptive and not causal. The observation that member states adapted their institutions to the requirements for European integration tells us what they did and not why. Even assuming that domestic actors operated under some sort of imperative does not tell us why Europeanization worked. The two questions that arise are: why has European integration been successful, and what are the limits to European success? These questions matter because they reveal the opportunities for and the limits of the global trade liberalization agenda as well.

The three factors most often cited at work behind the process of Europeanization are the socialization of national elites who do business at the European level, the opportunities for policy learning, and the development of European jurisprudence. The first two are much weaker than the third. Elite socialization takes places through the many meetings held between officials of different governments at different levels throughout the year. This constant interaction not only promotes a sense of shared European values but also requires the adaptation of domestic political institutions, which must prepare and co-ordinate the meetings. Policy learning operates as officials compare notes about domestic problems and solutions, as they experiment with benchmarks and targets, and as they set agendas for future action.

These two areas – socialization and policy learning – are relatively weak because they work best in small homogenous environments. As Europe has become larger, these forces of Europeanization have become overburdened with too many meetings, too many actors, too many different specific conditions. At base what matters is that the political situation for the various actors involved is very different from one country to the next. Moreover, as Europe has become more diverse in its membership, the differences between national conceptions of what this 'Europe' represents have grown as well. As a result, the EU has become less collegial. Policy learning in Europe has offered fewer promises. Political opposition to Europeanization has grown. The paradox is that this opposition is focused on precisely those aspects of European integration that offer the greatest economic rewards: the single market, the single currency, and labour mobility within the context of EU enlargement.

Within a global context the influence of socialization and policy learning is likely to be much more limited even than within the EU. If addressing beyond-the-border barriers to trade is a challenge within Europe, there is not much hope that they will find acceptance in the world writ large. This is a pity in terms of aggregate welfare, but it is a reality that stems from the very nature of political institutions, the values that they contain, and the coalitions that support them. Therefore, if the goal is to promote a division of labour that extends beyond national economies, the solution is likely to involve institutional adaptation within a regional context and not as negotiated within the WTO.

The third factor at work in Europe is the evolution of European jurisprudence. Two of the great paradoxes in the study of European integration are why the member states of the EU allowed the European Court of Justice (ECJ) to define the scope of its influence and why they continue to abide by its judgments, even when these go against powerful economic interests at home. The answer lies in the value of dispute resolution and the easy communication of this value in very different national constituencies. Moreover, it is an answer that can be generalized beyond the European case to include other forms of multi-jurisdictional integration (Goldstein 2001).

The WTO has many of the same virtues as the ECJ. It has a limited competence and yet a powerful capacity to resolve disputes (De Bièvre 2006; Holmes 2006; Shaffer 2006). Moreover, past progress in global trade liberalization through the easy cases of tariffs and quotas provides a corpus of rules and conventions for the WTO to use in its adjudication of disputes. The result will not be comprehensive liberalization at the global level anymore than the impact of the ECJ has been comprehensive within Europe. It will, however, be effective and it offers a sound basis for the future. It is easier to imagine a new international consensus emerging around a consistent pattern of dispute resolution than around the sudden promulgation of new international rules.

Of course, true progress on the deep trade agenda will depend upon developing a clear normative consensus at the global level. Such progress will be difficult because normative differences between countries are embedded in domestic institutions. But domestic institutions can change to become more open, and more open domestic institutions will pose fewer problems for the elaboration of international rules. The key lies in the success of regional arrangements for thicker trade liberalization between institutionally similar or compatible countries. Here the argument is not that regionalism necessarily creates a building block for an integrated global economy – only that it has the potential to do so. How regionalism is pursued will make the difference.

In any event, the global trade agenda should not be overburdened. Beyond-the-border patterns of integration may emerge at the regional level or between clusters of similar countries to their mutual benefit. The WTO could play a role in ensuring that such regional clusters are as open as possible to the outside world and that they divert less trade than they create. But the global liberalization agenda must be limited to be successful. Because in the real world the scope for deep institutional change across countries is constrained by the many and different values with which those institutions are held. EU trade policy may be inspired by the success of European politicians in overcoming such hurdles in their own regional context. But EU trade policy-makers should accept that the 'regional' character of Europe was important in allowing such success to come about.

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ACKNOWLEDGEMENTS

A preliminary and partial version of this paper was presented at the Sixth Doha Forum on Democracy, Development, and Free Trade (11–13 April 2006). My deep thanks go to John Peterson and Alasdair Young for their extraordinary patience with my slow production. The usual disclaimer applies.

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