Greetings from the new co-chairs of the EUSA Political Economy section:
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Dear Section Members,

As the new section co-chairs we are keen to launch new initiatives to ensure that the section remains a useful forum for discussion, ideas and information for its members. Crucially we want to encourage and facilitate joint research projects among section members. To this end, if you are working on any project which is underway or in its gestation phase please inform us – either Tal or David or both – so that we can post information about this on the section web-site, followed by a monthly research information bulletin by email to members. Likewise, if you are involved in any conference, seek to organise a conference panel on a topic of particular interest to section members or are organising a conference or workshop of your own, please send details to us.

Current Project:
Economic Interests and the Construction of Europe, April 2006 Workshop at the University of Edinburgh, UK. See the summary of the project elsewhere in this newsletter. The aim of this project is to produce a special edition of a leading journal.

Future Project:
Graduate level textbook on the Political Economy of European Integration with theoretically rich chapters on the major sectors of European economic integration: competition policy, macroeconomic policy coordination, internal market, financial market integration, social policy, the CAP, energy, environment, immigration or policy area provisions of accession and association agreements.
A critical, comparative, multi-sector and multi-country study of the impact of economic interests on EU-level policies and European integration more broadly does not yet exist in the literature (see the EUSA Political Economy website for further information). Our project examines how economic interests shape government policies on EU-level policy developments: the dependent variable of the study being European policy developments; the intermediary variable being government policy; and the independent variable being economic interests and their preferences. The operational definitions of these variables are left to the authors.

Our first call for papers attracted a considerable amount of interest. An initial selection based upon ‘goodness of fit’ (i.e., did the proposals directly address the issues discussed in the call for papers), has brought us ten papers that will be presented initially at a Workshop at the University of Edinburgh in early April 2006 (precise date TBC) and subsequently at the 2007 EUSA Bi-annual conference. Other workshop participants include Mark Aspinwall and Amy Verdun. These papers include the following:

Andreas Bieler, Nottingham
Trade unions and EMU in Britain and Sweden

Andreas Dur, Mannheim Centre for European Social Research

Economic Interest Groups and the Making of EU Trade Policy
David Ellison, Grinnell College
Understanding Questions of Regional Growth: Politics and Growth Management in Central and Eastern Europe

Emiliano Grossman, IEP, Paris / Cornelia Woll, Max Planck, Cologne:
Interest group strategic beyond the nation-state: towards an analytical framework

Patrick Leblonde, Université de Montréal
The paradoxical relationship between economic interests and European integration: The cases of the software and takeover directives

Vilpisauskas, Ramūnas, Institute of International Relations and Political Science, Vilnius University
The role of economic interests in the new EU member states: the interplay of the interests and institutions before and after the accession

Mitchell Smith, University of Oklahoma
Regulating Chemicals in the EU: Diffuse Interests, Producer Coalitions, and the Trajectory of REACH

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Data Resources Review

Comparative Political Datasets – University of Berne
Patrick Leblond

*Comparative Political Datasets* are two datasets of political, institutional and socio-economic variables put together by a team of researchers led by Klaus Armingeon at the Institute of Political Science at the University of Berne in Switzerland. The first dataset (Comparative Political Dataset I [CPD I]) covers 23 OECD countries for the period 1960-2002 while the second dataset (Comparative Political Dataset II [CPD II]) covers 28 post-communist countries for the period between 1989 and 2004. The two datasets along with their codebooks are available for free in SPSS and Excel file formats at http://www.ipw.unibe.ch/mitarbeiter/ru_armingeon/CPD_Set_en.asp#cpdsI.

**Comparative Political Dataset I**

CPD I by Klaus Armingeon, Philipp Leimgruber, Michelle Beyeler and Sarah Menegale covers 23 democratic countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, United Kingdom, and United States. This means that the data for Greece, Portugal and Spain are missing for the periods where these countries were not democratic (1967-1973 for Greece, before 1975 for Portugal and before 1976 for Spain).

It consists mostly of annual data for variables in the following categories:

- Governments
- Elections
- Institutions
- Women in parliament
- Party system
- Central bank independence
- Openness of the economy
- Macroeconomy
- Labour force
- Trade unions and industrial disputes
- Social expenditure and revenue
- International Labour Organization (ILO)
- Demography.

The Government category includes data on cabinet composition (left, right, center parties), the ideological gap between old and new cabinet, the type of government (single party, minimal winning coalition, surplus coalition, caretaker, etc.), and the number of changes in government per year.

The Elections category provides data on the date of election of national parliament, voter turnout and the number of votes obtained and seats held by each party (according to categories such as, for example, socialist, communist, agrarian, conservative, religious, liberal, ultra-right, green, etc.

The Institutions category offers, first, a list of variables on Lijphart’s (1999) two dimensions of consensus democracies. (Although the codebook does not mention it, it most probably refers to Lijphart’s book *Democracy: Government Forms and Performance in Thirty-Six Countries*, Yale University Press.) These variables provide measures on such things as, for example, executive dominance, interest group pluralism, federalism, constitutional rigidity and judicial review. The Lijphart data cover the period 1960-1996. In addition, the Institutions category contains data on, inter alia, the degree of institutional constraints faced by central government, the degree of institutional pluralism, the degree of corporatism, the
type of electoral system (single-member district or PR), and the type of political system (presidential or parliamentary).

The Party System category offers two variables: an index of fractionalization and the effective number of parties in parliament. The Central Bank Independence (CBI) category includes six different measures of CBI collected (along different dimensions) by various economists (Alesina, Cukierman, Eijffinger & de Haan, Grilli et al.). The CBI measures generally cover different time periods and countries, although there is a fair amount of overlap.

The Openness of the Economy category deals with financial openness (current and capital accounts) rather than trade openness. These are variables provided by Dennis Quinn (Quinn, Dennis P. and Carla Inclán. "The Origins of Financial Openness: A Study of Current and Capital Account Liberalization." American Journal of Political Science 41, July 1997: 771-813). They have been updated to 1997 by Quinn.

The Macroeconomy category offers data on GDP growth, central government receipts, government debt and deficit, real long-term interest rates, imports and exports. The Labour Force category provides information on the size of the labour force, the number of people employed in agricultural, industrial and service sectors. It also contains data on unemployment (rate and number). The Trade Unions and Industrial Disputes category consists of variables on the number of disputes, the number of working days lost, the number of workers involved, and union membership.

The Social Expenditure and Revenue category includes data on social security transfers, different types of social benefits (e.g., old age cash benefits), active labour market programmes, unemployment insurance as well as health expenditures. The ILO category includes one variable measuring the total number of ILO-conventions ratified up to a corresponding year. Finally, the Demographic category deals with population data in terms of size according to age groups.

So, overall, this dataset is fairly extensive for those who want to conduct large-N comparative analyses on democratic countries involving politico-institutional and socio-economic variables.

Comparative Political Dataset II

CPD II by Klaus Armingeon and Romana Careja is similar to CPD I in terms of data coverage; however, it is generally more limited. The period is generally from 1989 to 2004 for Central and Eastern European countries (Albania, Bosnia Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Macedonia, Poland, Romania, Slovakia and Slovenia) and from 1991/92 for the former Soviet republics (Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan).

CPD II contains variables in the following categories:

- Elections
- Institutions
- Women in parliament
- Party system
- Complexion of government
- Democracy
- Labour relations
- Economy

The variables in the Elections category are similar to those in CPD I but are more extensive, including data on the number of seats contested in each election, the mode of electing the president, the latter’s term in office, the date of his/her election, the
voter turnout for presidential elections and the voting share of the winning candidate. The Institutions, Women in Parliament and Party System categories are similar to those in CPD I, except that there is a series of variables on referenda in the Institutions category not found in CPD I—where there is only one referendum variable on whether such plebiscites take place often or not. There are also data on the dissolution of parliament and impeachment in CPD II, contrary to CPD I.

The Complexion of Government category in CPD II corresponds to the Government category in CPD I. It measures the composition of the cabinet; however, the formula is different from that in CPD I since it is measured as a function of the shares of parliamentary support enjoyed by the parties with ministerial portfolios, as opposed to a function of total cabinet posts in CPD I.

CPD II contains a Democracy category since countries vary quite substantially on this measure, contrary to those found in CPD I. The variables used here are mainly from Freedom House (FH) (political rights and civil liberties). Given the apparent limits of the FH measures, one wonders why the authors of CPD II did not include Polity IV variables (http://www.cidcm.umd.edu/inscr/polity/), which cover a much larger number of variables measuring the extent to which a country is democratic. The authors also include variables on corruption, rule of law, economic liberalization and violent conflict in this category. This is needlessly confusing. It would have been more appropriate to create new categories for those variables that are not measures of democracy. For example, variables on corruption and rule of law could be included in a “Governance” category.

The Labour Relations category corresponds to the Trade Unions and Industrial Disputes category in CPD I; however, its coverage is much less extensive than that in CPD I. Finally, the CPD II codebook provides no information on the Economy category. This may explain why there is no Excel/SPSS file for this category while there is one for all the other ones.

Although the authors have made a valorous effort in creating CPD II, its more limited coverage than CPD I (for most categories) acts as a constraint on the possibility of pooling both datasets and conducting analyses that would apply to both OECD and post-communist countries. Unfortunately, it is still the case that many studies in comparative politics tend to be performed with one or the other group of countries but rarely both, thereby limiting our ability to generalize studied phenomena. Therefore, one can only encourage the authors to continue their data collecting efforts on CPD II as the additional data found in CPD I is increasingly available for post-communist countries.

In any case, this combination of datasets is a very useful one since it combines data from many databases into well-organized files, thereby saving hours and hours of work in data gathering and manipulation. Readers are highly encouraged to take a closer look.
As this is the first EU Political Economy Newsletter under the new editorial team, I would like to describe the broad aims of the Review Forum and to ask members of the EUSA Political Economy interest section for submissions to future editions.

It is tempting to begin with a definition of EU Political Economy, a discussion of the differences between the international, European and comparative strains of the (sub)discipline or a defense of political economy approaches to the study of European integration. However, I will resist this temptation for two principal reasons.

Firstly, the scholarly literature already contains a number of insightful meta-level analyses of EU Political Economy. See, for example, Amy Verdun’s article on the transatlantic divide in European studies in the Journal of European Public Policy (February 2003) and Mary O’Farrell’s essay on the definition of EU Political Economy in the EU Political Economy Newsletter (Autumn 2003).

Secondly, it is perhaps easier to get to grips with EU Political Economy through its application rather than its definition. It is in this spirit of learning-by-doing that I invite the readers of the Review Forum – whether they are graduate students, academics or practitioners – to contribute short essays on topics that are relevant to, but that also demonstrate the relevance of, EU Political Economy.

The aim of the Review Forum is to stimulate debate on current affairs (such as EU economic reform, trade liberalization and globalization) or more long-standing controversies (such as competing theories of European integration or the interplay between domestic and international institutions). Whatever their focus, the essays should reflect on how the event, theory or evidence in question relates to the broad concerns of EU Political Economy.

In this issue of the Review Forum, Benedicta Marzinotto examines recent economic developments in Germany and Italy, arguing that the puzzling performance of these Member States under Economic and Monetary Union (EMU) speaks to (and challenges) Political Economy theories of the relationship between states and markets.

Submissions to the next Review Forum should be sent to Dermot.Hodson@cec.eu.int no later than 17 February 2006.
Germany and Italy in EMU: The state-market relationship under review

Benedicta Marzinotto, London School of Economics and Political Science and University of Udine

At present, the most striking aspect about Economic and Monetary Union (EMU) is the widening divergence of its Member States. Growth rates vary from one country to another and so do employment rates. Even inflation levels, while similar, are not identical. And this happens exactly when analysts would have expected the European economy to turn instead into a monolithic bloc under the operation and supervision of a single monetary authority.

Of all EMU countries, Germany and Italy are the most surprising. The monetary union project was based on a German blueprint. The strong emphasis on the independence of the new European Central Bank (ECB) and the insistence on the need to preserve fiscal discipline bear signs of it. This notwithstanding, in the last decade, Germany has been clearly underperforming, with re-unification probably just one of the explanations. If anything, the introduction of the euro appears to have made things even worse, with fiscal policy (virtually) constrained by the Stability and Growth Pact (SGP) and the ECB too distant to allow for any coordination with German wage-bargainers. Even Italy's experience with the convergence process in the run-up to the euro sounds odd. Against any rational expectation, the country succeeded in bringing down inflation and deficit levels in time to join the euro area. Now that EMU is in full operation, Italy shows signs of fatigue, competing with Germany over the title of “sick man of Europe”.

What do these two national stories say about the relative importance of international and domestic pressures? What is the role of national institutions and the implications for the “varieties of capitalism” literature? Ultimately, has the state-market relationship changed?

Even if scholars do not agree over when Germany's economic difficulties first emerged – with some analysts even arguing that they go back to the 1970s – there is no doubt that unification has played a role. EMU has probably had an impact too as it has not generated the growth effects that had been expected. The Maastricht commitment had a minor role in German politics. It would have been unthinkable to sell euro-related sacrifices as proof of Germany's European identity. Needless to say, popular support for the single currency was low. German citizens were certainly more keen on balanced budgets than they were on the euro itself. With fiscal discipline being perceived as a public good, the Kohl Government's uncertain hand over budgetary consolidation looks even more disappointing.

The proponents of the new institutionalist school have argued that behind the country’s lack of fiscal rigor was a clear institutional deterioration, fundamentally aggravated by re-unification. A central argument cutting across new institutionalism is that centralization around the Finance Minister should be one of the core characteristics of an efficient budgetary process. In turn, they would criticize the fact that, after 1989, Chancellor Kohl assumed economic policy tasks that were once the Finance Minister’s prerogative. Still, this does not mean that the budget process became less centralized than it used to be. To be sure, one might even attempt to argue that the enormous political power around the figure of the
Chancellor would translate de facto into stronger centralization at the institutional level. Not even the more explicit constraint imposed by the SGP has been sufficient to twist fiscal authorities’ arm into firmer discipline. New institutionalism offers valuable instruments to account for final outcomes, but it leaves the question of (sectoral) preference formation unanswered.

More practically, while troubled with the challenge of re-unification, the exercise of fiscal consolidation was significantly constrained by an inflexible monetary policy. The Bundesbank relaxed its stance after 1991-92 only gradually, with its primary goal being to defend its own institutional reputation. In addition, investors would not put the German economy’s credibility into question even if unification had the potential to cause extreme disruptions, so that the external value of the DM remained relatively sustained along with the cost of exports. Markets gave little help to macroeconomic adjustment. In a sense, financial markets have exploited the German state and the comfort of its stable and reputable institutions.

In contrast, the story of Italy has been told as the parable of the prodigal son. The literature on the “vincolo esterno” (external constraint) believes EMU to have kick-started an adjustment effort whose size equals the intensity of Italy’s desire to avoid exclusion from monetary unification. In reality, the re-orientation of economic policy authorities towards the culture of stability had started earlier, with officials at the Bank of Italy and the Treasury celebrating the merits of fiscal discipline already in the mid-1980s. Exchange rate stability followed, with the lira remaining within the ERM bands from 1988 to 1992. In other words, macroeconomic stability bore the hallmarks of a national conquest rather than an emergency plan to enter EMU on time. There is no doubt that, in the 1990s, fiscal institutions were in better shape than they were a decade earlier. But institutional change seems more like the outcome of an emerging consensus in favour of financial stability than the sole determinant of successful deficit reduction from 1991 to 1997.

In practice, from 1992 to 1997, most of the relief to the state budget came from lower interest payments on the country’s massive outstanding debt. This is explained by the fact that policy-makers and technocrats did not refrain from taking advantage of the markets which, against the prospect of Italy’s EMU membership, would reward them with lower long-term interest rates. Fiscal consolidation was importantly supported by the markets with the result that a large part of the adjustment was less costly than it would otherwise have been.

The relationship between states and markets here speaks to Karl Polanyi’s seminal contribution, The Great Transformation (1944). Polany suggested that the liberal market is only available where policy-makers have adopted the laws necessary to allow liberalization. This is to say that, up to a certain point, states have the power to control markets. And, this shall be true in particular for strong (sovereign) states. This theme is at the core of the notion of “embedded liberalism”, namely the idea that a strong market is so only within a strong state. But Polany goes a step further. Thereafter is the self-regulating market freed of political impositions from above until something of a spontaneous movement emerges to bring the market to the verge of collapse. He speaks of “the double movement” to refer to the constant tension between the self-regulating market and the need for protection.

This story suggests, first, that there is, in fact, a positive correlation between the strength of the state and that of markets. The institutionally stable Germany was
confronted by authoritative markets, yet this came to the detriment of the national economy with sectoral groups asking for protection in the form of some currency depreciation. Yet, markets did not allow it. The contrary is true for Italy, a troubled unstable country that benefited from markets’ support in a way that was unpredictable. Italy’s vulnerabilities offered fiscal consolidation at a lower cost. Second, this implies that something of a double movement occurred. Protection is required but, where the state is constrained by austerity, it sometimes falls to financial markets to compensate losers. And it does not matter if markets are global; they still take on board the political and institutional characteristics of the country they are dealing with.

Transversally, the cases of Germany and Italy touch also upon the divergence/convergence debate that has long been the thematic core of International Political Economy, especially in the late 1980s. The counterintuitive outcomes of the German and Italian experiences with respect to EMU-induced budget consolidation are consistent with divergence theory but they seem to suggest, at the same time, that the “varieties of capitalism” literature might be inaccurate in stating that models of capitalism constantly adapt themselves to external circumstances, thereby perpetuating their institutional comparative advantage. The inappropriateness of the predictive model is only apparent. To be sure, the “varieties of capitalism” literature states that coordinated and liberal market economies differ from each other insofar as firms would use different formal and informal institutions to solve coordination problems. Applied to this context, is it that Germany has stopped being a coordinated market economy altogether or is it not rather the case that the nature of the coordination problem in EMU has actually changed?

Recent Publications in EU Political Economy


Beaverstock, Jonathan V., Hoyler, Michael, Pain, Kathryn, and Taylor, Peter J. “Demystifying the Euro in European Financial Centre Relations: London and Frankfurt,”

Busch, Andreas. “Globalisation and National Varieties of Capitalism: The contested Viability of the ‘German Model,’” *German Politics*, Volume 14, Number 1, April, 2005, pp. 93-106.


Schelkle, Waltraud. “The Political Economy of Fiscal Policy Co-


Smith, Mitchell P. "Germany's quest for a New EU industrial policy: Why it is failing," *German Politics*, Volume 14, No. 3 (September 2005), pp. 315 - 331.


Calls for Papers

Call for Papers for the 2006 American Political Science Association Meeting: Political Economy Section
August 31 - September 3 | Philadelphia, PA.
The 2006 Call for Papers will close on 15 November 2005. Notification of Participation Status for the 2006 Annual Meeting will occur in early March 2006.

The 22th EGOS Colloquium on "The Organizing Society" will be held in Bergen, Norway, July 6-8 2006.

We will especially call attention to Sub-theme 26: "Public Sector Agencies - The problem of coping with Autonomy, Steering and Regulation".
Convenors are: Per Lægreid, University of Bergen, Geert Bouckaert, Leuven University, Sandra van Tiel, Erasmus University.

Deadline for submissions is January 6, 2006. For more information and the call for papers, see: http://www.egosnet.org/conferences/colo22/sub_26.shtml

Midwest Political Science Association (MPSA) annual conference, Chicago, 20-23 April 2006.
New: Economic Policy Section
The Economy Policy section invites panels and papers that examine how domestic and/or international, political and/or economic (a) institutions (e.g., electoral systems, federalism/unitarism, presidentialism/parliamentarism, trade agreements, exchange-rate regimes), (b) structure (e.g., income or age distributions; cleavage structures; party-system polarization, fractionalization, competitiveness; global or regional power balances and threats), and/or (c) events (e.g., elections, riots/coups/revolutions, terms-of-trade shocks, wars) affect economic policymaking: its character and its efficacy. Proposals for research papers that develop innovative and enlightening theoretical models and/or conduct novel and powerful empirical evaluations are especially welcome. Deadline for proposals: 17 October, 2005. For more information, contact section chair Rob Franzese, University of Michigan at franzese@umich.edu or see the MPSA website (http://www.indiana.edu/~mpsa/proposal/proposal2006.html).
Deadline
for submissions to the next issue
Monday 17 February 2006

Please direct all correspondence concerning the Forum and the Data Resources Review to the appropriate editor. All other correspondence to the Managing editor.

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Mitchell P. Smith (Managing Editor): mps@ou.edu

In particular we are looking for:
◊ Members’ Recent publications (since this issue)
◊ Members’ news (since this issue)
◊ Calls for papers (due dates prior to 1 September 2006)
◊ Notice of forthcoming events (taking place prior to 1 September 2006)