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The Economic Nationalism within the European Union and the Single Market - case study of France, Germany and the United Kingdom

Master's Thesis

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Declaration:

Herewith I declare that I have written the Master’s Thesis on my own and I have cited all sources.

Prague, 27th of April 2015 …………………..

Student’s Signature

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List of abbreviations

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CME	Coordinated Market Economies
EC	European Commission
ECSC	European Coal and Steel Community
EEC	European Economic Community
EFTA	European Free Trade Association
EU	European Union
EUROATOM	European Atomic Energy Community
LME	Liberal Market Economy
SEA	Single European Act
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TFEU	Treaty on the Functioning of the European Union

I shall … venture to acknowledge, that, not only as a man, but as a British subject, I pray for the flourishing commerce of Germany, Spain, Italy, and even France itself.

David Hume: *Of the Jealousy of Trade* (1742)

Introduction

The authority of Member States governments in the European Union (EU) economy has long been at the centre of debate around European economic integration. While state interventionism was largely practiced after the World War II, it was increasingly criticised in the context of the neoliberal wave from the 1980s and of deeper integration in the form of the European Single Market. This new system of economic governance has been designed to intensify and coordinate the integration process, thus restricting the national governments' political mandates in matters of policy making, which ultimately results in certain tensions between market integration based on neoliberal principles and national policy choices. Member States governments had to pursue policies of a protectionism nature under the conditions of a complex economic and regulatory interdependence, where important strategic sectors of economic governance are no longer under their exclusive authority. However despite constraints from European institutional bodies and Single Market regulation, Member States still manage to engage in economic measures that favour the "insiders", and the extent to which they do so closely corresponds to their traditional economic models. The phenomenon of engaging in this sort of economic protectionist practices has been labelled by academics as “economic nationalism” and it essentially represents market discrimination in favour of the insiders.

Therefore, in the lack of a complete convergence into a unique economic model at the European level, the particularity of economic nationalism within the European Union consists of a confrontation between the liberal economic regime of the Single Market on one side, and varieties of economic national regimes of the Member States on the other.

This thesis analyses how tensions between different regimes of national and supranational governance have led to the phenomenon of economic nationalism within the EU and the European Single Market.

In doing so, it examines the following set of research questions:

1. What is economic nationalism and what are the particularities of this concept within the European Single Market?

2. What defines the European economic model and what are the characteristics of the European regulatory framework towards practices of economic nationalism?

3. What are the characteristics of different models of national economic governance and how do these models comply with the Single Market regulatory framework?

The chapters of this study address each of the research questions in the same order. The first section offers a retrospective of economic nationalism interpretations at different periods of time, with a focus on the past century. It also introduces the reader to new forms of economic nationalism, particular for the European integration context and which ultimately represent the subject of this paper. Next the study focuses on the particularities of the European economic model and its relation to state interventionism.

It also attempts to identify EU's mandate of action and instruments in this direction, with a special attention to the key economic sectors and dominant forms of interventionism. The last chapter provides a closer look at national regulatory traditions of three economic models: British, German and French and traces approaches to economic nationalism within these distinct models of economic governance.

This work is deeply indebted to prior scholarship in the field. Subject of the conducted research were contributions on economic nationalism from such academics as Ben Clift, Cornelia Woll, Eric Helleiner, Colin Crouch, and many others. The paper furthermore bridges literature on theory of varieties of capitalism from Peter Hall and David Soskice and on national models of governance from Orfeo Fioretos. Contributions of a particular importance were reports from European institutions such as the European Commission or DG Competition.

1. Economic nationalism: historical interpretations and forms of occurrence

The phenomenon of nationalism has had a decisive role in shaping history and world maps throughout the past two centuries; from the formation of the modern nation-state, international conflicts, the process of decolonization - nationalism was very often at the core of the strongest beliefs and revolutionary movements. Hence the serious academic scrutiny it has been receiving, particularly during the past century. Authors like Ernest Gellner, Anthony Smith, Eric Hobsbawm, Benedict Anderson or Miroslav Hroch just to name a few, have contributed with significant academic material on the issue of nationalism and its relation with the modern-state, offering various perspectives and elaborating on different theories concerning the role of nationalism in the contemporary society. There is nevertheless a common line of thought which refers to the concentration of power at the State level, a defining feature of the modern nation. This gives the State the decision power about the dominating national doctrines, the legitimate and illegitimate, and the authority in shaping both internal and external policies. The market policies represent one of the dimensions where the State applies its authority. It creates common rules of operation, thus generating a unified and centralised national economy and, by extension, an occasion and reason for the occurrence of economic nationalism.

1.1. Definitions and historical interpretations

The liberal economist Michael Heilperin asserts that the notion of economic nationalism was initially applied by Leo Pavolsky in 1928 in his pioneering book *Economic Nationalism of the Danubian States* (Heilperin 1960: 16). This study has been referred to in numerous subsequent analyses concerning economic nationalism, yet it does not offer a precise definition of this concept (Boulanger 2002, Kofman 1990). A relevant statement on the matter belongs to G. Hodgson, who in 1933 concludes that "At best economic nationalism is an indefinite term, used by its opponents, more by its proponents" (quoted in Helleiner 2002). Indeed, it is in the in-between wars period when the issue of economic nationalism began to be addressed more insistently. Between 1920 and 1940 it has become the subject of various studies and economic, political science or history textbooks, the main circumstances which triggered this interest being the rise of nationalism in Europe, the Great Depression and the creation of new nations after the First World War (Boulanger 2006). Manifestations of state protectionism could nevertheless be traced well back to previous centuries.

As nationalism itself, economic nationalism can relate to different specific national policies regulating the relations between the state and the rest of the world. As Heilperin puts it, “the policies covered by this term are very ancient; the term itself is of very recent origin” (Heilperin 1960: 16). One can use “mercantilism” or “mercantile system” when describing nationalistic economic policies followed in the seventeenth and eighteenth centuries. One of early prominent nationalist theorists is Johann Fichte (1762 - 1814), who in his work *The Closed Commercial State* advocated an autarchic national economy, and supported a centrally planned economy, which discouraged foreign trade (Helleiner 2002). With the emergence of the “free trade” concept during the nineteenth century, “protectionism” became the doctrinal approach describing an opposite policy to it. The same term was largely in use during the period after World War I, however, as already mentioned, it is then when “economic nationalism” emerges as well, especially in relation with the outbreak of the Great Depression and its consequences. There was certainly a difference between the economic nationalism introduced by Leo Pavolsky and the concept of protectionism predominant up to that point. This issue is closely addressed by Heilperin, who explains that the new notion of economic nationalism “is closely bound up with the new collectivist philosophies”, which emerged during the thirties and developed during the following decades. Protectionism however, was considerably at variance, i.e. the protectionism predominant during the nineteenth century, which relates to the liberal tradition of the West, to market economy and private enterprises (Heilperin 1960: 17). This line of thought will be developed later on in this chapter.

The task of providing a definition to economic nationalism was closely addressed by the influential academic William Emmanuel Rappart, despite his defence of laissez-faire. Rappart perceives the emergence of economic nationalism as follows:

"In the latter half of the nineteenth century and up to the present day, the individual, having emancipated himself from the state and having subjected the state to his will (through the democratic process), has furthermore demanded of the state that it serve his material needs. Thereby he has complicated the machinery of the state to such a degree that he has again fallen under subjection to it and has been threatened with losing control over it".

Despite his obvious disapproval of such an approach to economic policy, Rappard has made some interesting points when studying its implications at the end of the thirties. Firstly, the author underlines the fact that economic nationalism was at that time linked to all nations, not only to those animated by the spirit of nationalism. In this context Rappard comes up with the following definition: "(…) it (economic nationalism) was a doctrine destined to serve the nation by making it not richer, but freer, by promoting not its material welfare, but its independence of foreign influences. Economic nationalism is the policy of self-sufficiency" (Rappard quoted in Heilperin 1960: 18). The means through which economic nationalists would achieve their goal are, according to the author, limiting the consumption of goods to those the country can produce, applying measures such as tariffs, quotas, and other exchange controls. Being in fact a strong critic of economic nationalism, Rappart warns against the expansionist tendencies that a country engaged in this kind of policy might pursue, while drawing attention to similarities between mercantilists and economic nationalist, as both these policies entail a positive balance of payments and an influx of gold (Heilperin 1960: 19).

Heilperin, another liberal economist, who has based his studies largely on Rappard's work, elaborates on the reasons that would make a country strive for autarky. The first reason is to reach a high degree of independence in order to be strong in war, as a "prelude to conquest". This is applicable to the days of mercantilists, as well as later, in the thirties in the case of Nazi Germany and Fascist Italy or during the Cold War in Soviet Russia. The second reason consists in diversifying the country's production and developing its industry, which is the case of the twenties. And finally autarky becomes a dominant economic policy, when the country strives for independence of the condition of the world economy, as a consequence, for example, of the Great Depression (Heilperin 1960: 19-22).

Both Heilperin and Rappart seem to be against economic nationalism only to the extent of which it equals to self-sufficiency and as long as it poses a threat to international security and peace. As however it will be argued at a number of occasions throughout this paper, economic nationalism could be associated with a wide range of policy projects, which have been formulated in the context of different levels of international development. For example, one of the most important and prominent economic nationalists of the 19th century, Friedrich List (1789 - 1846), presents his theory as a reaction to the predominant Smithian liberal theories. List essentially draws a distinction between *causes* of development of a country and the *characteristics* of this development. He explains that each stage of economic development is characterised by the extent to which economies are interconnected, where the indicators are the level of labour division, capital investment or market size. In this context, the already mentioned self-sufficiency or autarky represents according to List the most primitive stage, where the economy requires a small amount of capital and goods are not to be traded, as opposed to advanced economies. So far this corresponds to the liberal view. The author however considers a mistake identifying these characteristics of development as its core causes, since the real causes consists according to him in the quality and quantity of the *productive powers*. Mental, material and natural capital, which together represent productive powers, are to be found in a smaller amount in less advanced countries and in large quantities in developed economies (Levi-Faur 1997). In this context, List argued that agricultural (less-developed countries) should actively encourage the growth of the industrial sector through the use of selective industries, and join the free trade only when their industrial sectors are well developed and thus competitive. List is therefore best known for his advocacy of infant industry tariff protection, while supporting the idea that "international societies can only be built on the basis of strong and equal nations." (Helleiner 2002). One could identify different other interpretations of economic nationalism from List's contemporaries. The British politician Thomas Attwood (1783 - 1856), for example, stood by the opinion that the gold standard represented a greater threat to nationalist values than liberal free trade policies, and claimed that an inconvertible currency is able to strengthen the feeling of national identity and contribute to national prosperity. Otherwise Atwood was in favour of free trade, but believed that the government should reserve the right to provide some sort of stimulus in certain circumstances, such as war or economic crises.

The policy of self-sufficiency was advocated during the nineteenth century by certain economists. Besides the already mentioned Fichte, there was the interesting approach of the conservative Prussian Adam Muller (1779 - 1829). According to Muller "the state's duty is to awaken national pride, the feeling of oneness with the national state in the economic sphere" (quoted in Helleiner 2002). Muller believed that free trade was contrary to this idea, as it encouraged the population to feel as citizens of the world. Muller therefore, as Helleiner observes, acknowledges the connection between economic international relations and one’s identity, but refutes the idea of an international solidary community, often advocated by liberals.

The idea of autarchy will be later returned to by the Nazis, and one can also find an interesting parallel in John Maynard Keynes work from 1933 *National Self-Sufficiency*. During his life (1883-1946) and activity as an economist, Keynes was the eye witness of one of the most tumultuous historical periods of time, with two disastrous wars and a grave economic crisis. His line of thought and economic theorization was directly shaped by these changing circumstances and could therefore be divided into three periods. Keynes was trained in classical economics, thus he initially was a strong advocate of liberal and free trade policies. After World War I however, he started to develop an approach directed against the international discipline dictated by the gold standard. Between 1923 and 1943 and during the rise of United States as an economic centre, Keynes gradually becomes a proponent of economic insulation expressed, above all, by national monetary autonomy. During the negotiations concerning the co-operations between the Federal Reserve Board and the Bank of England, Keynes strongly insisted on Britain’s freedom of action, and essentially became a supporter of monetary nationalism (Heilperin 1960: 95-104). He expresses his view points in a series of publications like *Treatise on Money* (1930), the mentioned *National Self-Sufficiency* (1933), and finally in the work that his best known for, *General Theory of Employment, Interest and Money* (1936). In his publications Keynes expresses his scepticism towards the advantages of a membership in an international monetary system and in his arguments he invokes, or reformulates, some points known from the mercantilist theories:

“The mercantilists were under no illusions as to the nationalistic character of their policies and their tendency to promote war. It was *national* advantage and *relative* strength at which they were admittedly aiming.

(…) We may criticize them [mercantilists] for the apparent indifference with which they accepted this inevitable consequence of an international monetary system. But intellectually their realism is much more preferable to the confused thinking of contemporary advocates of an international fixed gold standard and laissez-faire in international lending, who believe that it is precisely these policies which will best promote peace.”

On the relation between peace and international openness Keynes has also elaborated in *National Self-Sufficiency*, after openly admitting his change in economic thinking and “conversion” to economic insulation (Keynes, 1933):

“I am inclined to the belief that, after the transition is accomplished, a greater measure of national self-sufficiency and economic isolation among countries than existed in 1914 may tend to serve the cause of peace, rather than otherwise. At any rate, the age of economic internationalism was not particularly successful in avoiding war; and if its friends retort, that the imperfection of its success never gave it a fair chance, it is reasonable to point out that a greater success is scarcely probable in the coming years.”

It is however important to mention, that Keynes did not perceive the policy of self-sufficiency as an ideal itself, but more as a mean in creating the sustainable environment conducive towards an ideal.

The last phase in Keynes’ line of economic thinking begins in the middle of World War II and is ended by his death in 1946 and marks in fact the beginning of an increasingly stronger Western international economic cooperation. It is the time when Keynes changed his views from being an economic nationalist to a proponent of multilateral trade cooperation:

"… this determination to make trade truly international and to avoid the establishment of economic blocs which limit and restrict commercial intercourse outside them, is plainly an essential condition of the world's best hope" (Keynes quoted in Heilperin 1960).

It is not the purpose of this thesis to identify the causes that made Keynes switch to such extremes. Whether it was disappointment in pursuing nationalist policies or an adjustment to international circumstances, it is important to note that this switch to liberalism marked the beginning of its dominance in Western Europe and in the United States over the next decades.

In this context there has seemed to be a lack of interest from scholars to develop the concept of economic nationalism during the Cold War as well, which can be rather explained by the dominant ideological debate in binary terms, imposing thus the academic focus either on liberalism or Marxism. As Helleiner puts it, for most of the 20th century, there were only few thorough analyses of this concept (Helleiner 2002), Kofman would then add that economic nationalism was defined as "everything that did not fit with the liberal definition of economy and development, usually conjured up in a doctrinaire manner" (Kofman 1990).

Economic nationalism has received a more serious academic scrutiny from the 1970s on, the term being used to describe an "economic variant of the ideology of realism" (Helleiner 2002), a very prominent subject of the international relations studies. Examining the work of Robert Gilpin (2001) it seems more appropriate to say that realism describes a particular form, or element, of economic nationalism, which of course only adds to its complexity. When analysing the concept of economic nationalism, one should, according to Gilpin, observe the difference between its analytic and normative elements. The analytic side stands for the primacy of the state, national interests in terms of national security and political independence and the importance of power in international relations, while the normative nature of economic nationalism concerns the devotion to the nation-state and the belief in its superiority over other states. The analytic side of economic nationalism could otherwise be presented as a state-centric or realist approach and it is important to note in this context the difference between realists and nationalists. While it would be fair to say that all nationalists are realists as proponents of the decisive role of the state, security interests and the anarchic nature of international affairs, not all realists share the normative views regarding international relations (Gilpin 2001: 13-16).

Realism therefore assumes the primacy of the *territorial* state in both the domestic and the international sphere and emphasizes the crucial role of national government even in such consolidated inter-state structure as the European Union. As it will be further discussed in this study, the three major economies - France, Germany and Great Britain - were indeed central in the process of decision making and consolidation of the European project. The academic literature that analyses the manifestation of state centrism within the European Union still uses in this respect the term *economic nationalism*, although it suggests a definition very close to that of realism.

Following the historical evolution of the concept of economic nationalism does not exactly enable the construction of an accurate definition, applicable in any given historical period. It is always very important to understand the circumstances and the evolutionary stages of international relations in order to correctly appreciate the nature of economic nationalism and the reason why this policy was often pursued.

1.2. New forms of economic nationalism. State interventionism within the European Union

The debate surrounding economic nationalism has taken a particular shape within the European economic integration, or more exactly, after the accelerated implementation of liberal policies, marked by the signing of the Single European Act in 1986.

The Act itself represented a reaction to the continuous discontent from certain business and political elites (European Commission 2010) with how the free market, initially envisioned by the Treaty of Rome (1957), operated. The Commission therefore, under the guidance of President Jacques Delors has published 279 legislative measures needed to complete the single market by 1992.

The resulting European system of governance was meant to ensure the effective implementation of common European policies, which ultimately had a pronounced liberal content. This development however has critically changed the framework conditions for national economic policy (Schulten, Muller 2013). The new system of economic governance at the EU level has been designed to intensify and coordinate the integration process, thus restricting the national governments' political mandates in matters of policy making, which ultimately results in certain tensions between market integration based on neoliberal principles and national policy choices.

In 2005, the then French prime-minister Dominique de Villepin was cited by *Le Monde* (2005) when giving a speech about the need to concentrate all the energy around a genuine economic patriotism. "Je sais que cela ne fait pas partie du langage habituel mais il s'agit bien, quand la situation est difficile, quand le monde change, de rassembler nos forces (...) et défendre la France et ce qui est français" (I know this is not part of the usual approach, but it is good, when the situation is difficult, when the world changes, to gather our forces (...) and to defend France and that, which is French)[1].

The term economic patriotism was then picked up and extensively discussed by scholars like Ben Clift (2009, 2012, 2013), Cornelia Woll (2012) or Colin Crouch (2012), who introduced the broader term *economic patriotism* as a label for the economic "discrimination in favour of insiders". Clift and Woll (2013) conceive economic patriotism as

"political economic activity in contemporary Europe which seeks, by a number of means, to advance the perceived economic self-interest of particular groups and actors defined according to their territorial status".

The notion of patriotism is presented here as one encompassing a broader meaning than economic nationalism. It reveals, as the authors point out, "enduring and intriguing contradictions within state-market interactions in the context of internationalised liberal market capitalism". In another study of theirs (2012) Clift and Woll emphasize the difference between patriotism and nationalism in their economic dimension and explain how economic patriotism goes beyond economic nationalism and can include "territorial allegiances at the supranational or the local level". Both concepts however refer to economic choices that favour particular economic subject or social groups due to their territorial position and this study will therefore settle for the term economic nationalism.

What makes it is different for the form of economic nationalism that will be discussed in this study, is the particular setting that national governments and business

[1] Author's translation

[2] From July 1965, in reaction to a slew of Commission proposals addressing the financing of the Common Agricultural Policy, France boycotted the meetings of the Council and insisted on a political agreement concerning the role of the Commission and majority voting if it were to participate again. The end of the crisis was marked by the Luxembourg compromise (January 1966), which states that "when vital interests of one or more countries are at stake members of the Council will endeavour to reach solutions that can be adopted by all while respecting their mutual interests." (European Commission 2012)

[3] Block exemption gives automatic approval for a range of aid measures defined by the Commission.

elites find themselves in. More to the point, within the European Union and under the conditions set by the Single Market, national policy choices and economic models of the Member States are being shaped by commitments to liberalised international markets, overlapping competences in the process of decision-making and limited powers of state intervention. This generates what Colin Crouch (2012) calls "paradox of globalised neo-liberal democracy". It describes the situation when the political elites engage in protectionist practices, in order to get re-elected, in conditions dictated by market interdependence and limited mandates for interventionist policies.

Supranational structures like the European Single Market impose serious constraints on national protectionist policies, however, as a significant number of scholars have pointed out (Trouille, Clift, Woll, Cole, Drake), the continuous market liberalization did not necessarily lead to the liquidation of interventionist instruments, but rather to a "reconfiguration" (Clift 2013) of economic nationalist practices. The commitment to European competition policy has therefore obliged national governments to either reshape the existing protectionist policies, or to come up with entirely new means in achieving traditional economic objectives.

In particular areas of governance, such as the industrial or the financial sectors, European competition policy prohibits mechanism such as tariffs, heavy-handed interventionism that distorts competition or different forms of favoured market access. Such heavy and visible forms of intervention have therefore become obsolete and out of use, making place for less obvious forms of state aid, manipulations with the financial policy or ways of impeding foreign takeovers. A particularly interesting result in the evolution of economic nationalism is the urban policy, which essentially promotes cities as modern day national champions. The rationale is that "as competition tightens the noose around many of the things that governments try to do for favoured firms and sectors, so they start to look for activities to support their national economies that cannot be defined as anti-competitive practices" (Crouch, Le Gales 2009).

The ways how EU Member States have adjusted to the European regulatory environment largely depended on the nature of the pursued national economic model and on traditions of economic thought. Besides shaping instruments of state interventionism, these traditions and historical particularities have a great impact on the extent to which a potential convergence to one European liberal economic model is possible. Once becoming Member States, national governments have committed to liberal principle of free trade and fair competition. The main debate however still boils down to "what kind of economic liberalism to espouse in order to defend local economic interests in interconnected markets, and what kinds of state action or activism are needed to achieve it" (Clift, Woll 2012). In this respect Peter Hall and David Soskice explore different models of capitalism in their work *Varieties of Capitalism* (2001) and identify two prevailing ideal-types of capitalism: the liberal market economies and coordinated market economies. A classic example of coordinated market economy is France and, to a certain extent, Germany. Great Britain, on the other hand, and the Single European Market fall under liberal market economic model type (Hall, Soskice 2001). The analysis of national economic models according to this criteria help clarify why France, for example, is more prone to engage in protectionist practices than, say, Great Britain.

These differences in the pursued economic interests and practices between national and supranational level have significantly jeopardised the process of policy harmonisation, which the completion of the Single Market process entails. Moreover, the recent economic downturn has encouraged a certain resurgence of Keynesian ideas together with a questioning of the laissez-faire approach (Clift 2013). It has encouraged a retreat towards state aid, especially visible in the coordinated market economies and it has shown, in the words of President of the European Commission José Manuel Barroso "that there remains a strong temptation, particularly when times are hard, to roll back the Single Market and seek refuge informs of economic nationalism" (Barroso, 2009).

The potential risks that this situation could bring for the completion of the single market have thus raised concerns from both scholars and the European elite. In 2010, ex-commissioner Mario Monti presented to the President of the European Commission José Manuel Barroso a report on the impact of national interventionist policies within the European Union together with a new strategy for the Single Market. Among the first risks that the completion of the Single Market faces is "an integration fatigue, eroding the appetite for more Europe and for a single market; and more recently, a market fatigue, with a reduced confidence in the role of the market" (Monti, 2010). Monti also draws attention to the differences between social market economies and Member States with an Anglo-Saxon economic tradition in their readiness to fully embrace competition and the single market, stating that the former "could be more prepared to a new commitment". The report ultimately proposes a series of initiatives and key measure that would eventually lead to a compromise between conflicting approaches towards market capitalism and to the completion of the Single Market.

The idea of a re-launch of the single market has also been addressed by Jean-Marc Trouille (2011). More specifically, Trouille addressed the possibility of reshaping the approach of social market economies, which often engage in protectionist measures, and of convergence of all economies to a unique European economic model. The author comes to the conclusion that the Single Market has not yet generated a "truly European economic and social model", just as "Economic and Monetary Union has not brought about the desired macro-economic convergence between Eurozone members" (Trouille

2011). There are still numerous attempts at applying national industrial policies to the detriment of the Single Market principles, such as preventing foreign takeovers or “champion-building”.

The convergence to a unique economic model of shared economic interest, even to a limited extent, has to do with another issue, perhaps less relevant for the purpose of this study, yet just as interesting. A distinct form of economic nationalism is supranational economic nationalism/patriotism, which would imply a transfer of objectives from the national to, in this case, the European level. The debate around European economic nationalism would involve concepts such as “developmental state Europe”, “European shield” against globalisation or “European neo-Colbertism”, which essentially consists in liberalization inside the EU and consolidation of protectionism towards the outside market (Clift 2013). A similar stand in fact has been taken towards the agricultural policy in the EU. Although this first of all entails a convergence of economic thought and practices within the EU that for now seems rather complicated, it is certainly a matter worthy of academic attention and debate.

2. The European economic model facing forms of Member States interventionism

The European economic model was a result of continuous debate between Member States around economic priorities since the very inception of the European Community, which essentially makes the European Union a *sui generis* supranational structure. The understanding of its particular nature represents a key premise when examining the role and impact of economic nationalism and when identifying the exact line of conflict between national and supranational practices.

A breakthrough in shaping this model was marked by the developments from the second half of the 1980s. Labelled by Jobke (2006) the quiet revolution, market liberalization as from 1980s in Europe represented a process closely related to a strong institutional integration, making the European Union a crucial platform for negotiation and political action for business leaders, national political elites and even critics of free market in all member states (Jobke 2006: 2). This only added to the importance of institutional consolidation when dealing with Member States initiatives of an interventionist nature. This chapter begins with an articulation of the European economic model. The following section attempts at identifying EU's mandate of action and instruments in this direction, with a special attention to key economic sectors and dominant forms of interventionism.

2.1. The European economic model

In 1951 France, Germany, Italy and the Benelux countries signed in Paris the Treaty establishing the European Coal and Steel Community (ECSC) with the aim of organizing and controlling free movement of coal and steel and free access to sources of production, with a High Authority supervising the market, competition rules and price transparency (Piodi 2010). Despite the fact that the original idea of a Community, whose author was Jean Monnet, was of a simpler and rather technocratic nature, the Treaty has established a common market for coal and steel, meant to lead to a growth in international trade and modernization of production. The High Authority took decisions on the basis of provided information and forecasts of coal and steel production, and the ECSC held the competence of consultation and the power to make checks. Under the conditions where decisions were not respected, the High Authority could impose certain fines or penalty payments (European Commission 2014). The activities of ECSC were based on forecasts, bringing the ECSC's activity close to one of a planning agency (Niklasson 2012).

Next federalising steps included the emergence of the European Atomic Energy Community (EURATOM) and European Economic Community (EEC) in 1957, conventionally known as the Treaty of Rome. The Treaty has offered a platform for deeper integration among the six Member States. It has introduced the prospect of a customs union, freedom of movement for workers, capital market integration and other common policies, meant to be implemented by the supranational institution the European Commission (Baldwin, Wyplosz 2013: 37-39). It had therefore specified a series of steps conducive to *finalité politique*. The fundamental free trade condition consisted in the elimination of "customs duties and of quantitative restrictions on the import and export of goods" (Treaty of Rome, Article 3a), a common policy towards third countries and in the "institution of a system ensuring that competition in the common market is not distorted" (Article 3f). The later was further specified by prohibiting state aid granted by a Member State or through State resources, which would favour certain undertakings, creating a policy of common rules on competition, approximation of laws, regulations and administrative action of Member states which concerns trade operations on the common market and harmonising tax provisions.

The creation of the European Atomic Energy Community aimed at research programs coordination, improving infrastructure and funding of nuclear energy (European Commission 2012). The main objective was to create and develop Europe's nuclear industries and to ensure security of supply. The role of the Member States was to primarily encourage progress in the field of nuclear energy, by means such as promotion of research, dissemination of information, investment, joint undertakings and health protection.

To sum up, policies of state intervention were more visible within the ESCE and EURATOM, while liberal pro-market policies were very significant for the functioning of EEC.

The negotiations around the Treaty of Rome proved to be more difficult when it came to the interests at stake, given the differences of vision in economic governance. Another important issue was designing a Commission with fewer powers than the High Authority, but with an intact right of initiative in expanding the range of common policies, which ECSC has initially entailed. Other debates surrounded the creation of a common agricultural policy and of institutions which are today known as structural funds (Delors 2012).

The signing of the Treaty of Rome has generated certain tensions, which have in effect shaped the economic cooperation between European states. Great Britain has for example initiated the creation of already mentioned European Free Trade Association. The difficulties related to a progressive integration were also a response to the development of international challenges. After the so called golden sixties, came a decade marked by a significant relapse in convergence between the economies of the Member States. The fall of the Bretton Woods system had generated monetary system instability and the effect was exacerbated by the hike in oil prices. There was a lack of unanimity in voting the laws meant to lead to the completion of the common market.

This period of crisis and stagnation, marked also by the empty chairs crisis[2], lasted until the beginning of the 1980s, when the process of European integration experienced

[2] From July 1965, in reaction to a slew of Commission proposals addressing the financing of the Common Agricultural Policy, France boycotted the meetings of the Council and insisted on a political agreement concerning the role of the Commission and majority voting if it were to participate again. The end of the crisis was marked by the Luxembourg compromise (January 1966), which states that "when vital interests

a significant acceleration. In the early 1980s it became clear that progress towards a completion of the single market was continuously jeopardized by Europe's uncompetitive national economies. Given their rigidness and un-competitiveness, it was extremely difficult to reach unanimous agreements able to improve the situation. In 1985 the European Commission published a blueprint presenting the plan for reaching a genuinely frontier-free single market by the end of 1992. The adoption of the Single European Act in 1986 enabled decisions to be taken by a majority vote in the Council of Ministers. The year 1992 was supposed to mark the completion of the Single Market project. This however turned out not to be the case, as the harmonization of national legislative differences and the convergence to one economic model, which the Single Market entails, was a far more complicated process. The status achieved in 1992 therefore received the name Internal Market, while the Single Market is still perceived as an objective.

Since its inception, the European project was operating simultaneously on two different levels: regulatory and developmental according to Niklasson (2012), or liberal and social, if we follow Jessop's terminology (2006). Fred Block (2008) defines the objectives of the developmental state as meant "to help firms develop product and process innovation that do not yet exist, such as new software applications, new biotech medications, or new medical instruments". The developmental state "involves public sector officials working closely with firms to identify and support the most promising avenues for innovation" and it entails policies such as targeted funding. The regulatory state is in the European context expressed by "severe limits on taxation and spending imposed by Brussels" with limited government intervention. It is furthermore neoliberal in the sense that "it is essentially built around problems of market-failure and identifies

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of one or more countries are at stake members of the Council will endeavour to reach solutions that can be adopted by all while respecting their mutual interests." (European Commission 2012) economic efficiency with market governance” (Levi-Faur 2011). Within the European Union, the model of a regulatory European state is driven by neoliberal ideas and it carries an agenda of deregulation of markets. The developmental pattern on the other hand entails an active support for development and innovation, encourages cooperation and interventionism conducive to the accomplishment of a set of objectives (Niklasson 2012).

The developmental or social dimension describes what is known as welfare state policies. In the founding treaties of the Community, welfare and social policies were in the competence of national governments, while at the European level industrial and other macroeconomic policies were a priority, while the limited European budget prevented a significant expansion of the European welfare regime (Jessop 2006). There was however a breakthrough in the European developmental dimension two years after the accession of Spain and Portugal when adopting in 1988 a major reform on the Structural Funds, which has doubled the budget for the Cohesion Fund (Niklasson 2012), increasing thus the intensity of provided grants and financial support for innovation and entrepreneurship. Another important measure in this direction was the publication of the European Commission’s *White Paper on Growth, Competitiveness, Employment* from 1993, which recommended a wide range of social policy initiatives addressing infrastructural, educational or employment issues. The commitment to full employment at the European level was then confirmed by the Amsterdam Treaty in 1997. The matter of addressing social policy at the EU level was then consolidated in the Lisbon Strategy signed in 2000, which gave more attention to social integration and the modernization of the social policy. The approach in the Lisbon Strategy reflected a certain mix of welfare and workfare policies at the European level. Certain welfare policies (equal opportunities, standards for health and security etc.) were gradually transferred to the European level, in order to fight uneven development, support agriculture, as well as to encourage industrial development. At the same time however, there was a special emphasis on the reorientation of national employment policies, expressed by imposed measures such as increasing flexibility or reforming towards more market-friendly social protection systems (Jessop 2006).

Despite growing orientation towards social or developmental dimension, it is still the Single Market and the liberal economic strategies that dominate the European constitutional framework. The already existing norm of economic liberalization, anchored in the Treaty of Rome, was confirmed and further developed in the Single Act in 1986, which marked acceleration to a greater European unity and the re-launch of the quest for trade liberalization and market reforms. The period between 1986 and 1992 was again marked by the adoption of nearly 300 items of legislation directed at the acceleration of the single market completion. Different sets of national regulation of the Member States, which by that time amounted to 12, were replaced by one common European rule, meant to reduce the complication and costs for marketing a product within the Union, while in certain areas this harmonization was based on the principle of mutual recognition. The dominating institutional context is thus one in favour of the liberal economic model, with a relatively more accelerated development towards economic integration and market deregulation than towards common social policies.

2.2. European Single Market and economic nationalism: monitoring state intervention

The revitalization of the European project during the 1980s and the attempt of accelerating in the development of the Single Market by removing almost 300 barriers for economic integration and developing an Economic and Monetary Union, has challenged Member States to prove commitment to the project by giving in to policies of market deregulation, at the expense of national traditional economic policies.

In 1990 the European Commission has published a key position paper where it directly addressed the argument "liberalism versus interventionism" in the industry sector, in the anticipation of the Maastricht Treaty, which was supposed to offer a base for industrial policy. The paper stated that on one hand "the role of public authorities is above all as a catalyst and pioneer for innovation" and on the other, that "the main responsibility for industrial competitiveness must lie with firms themselves, but they should be able to expect from public authorities clear and predictable conditions for their activities" (European Commission, Press Release, 1990). The general objective was to gain the "capacity to stay abreast of international industrial competition". The document stresses the Single Market as a key factor for increasing competitiveness with the main components for industrial policy being "prerequisites for adjustment, catalysts and instruments to accelerate adjustment". However it also warns the public authorities in Member States from adopting "sectorial policies of protectionist nature". In relation to structural adjustment the Commission has emphasized that "the experience of the 1970s and 1980s has shown that sectorial policies of an interventionist type are not an effective instrument to promote structural adaptation", and that "special importance has to be attached in this context to research" (European Commission, Press Release, 1990).

By the end of 1992 most of the previously existing tariff barriers within the European Union had fallen. Under these circumstances, the non-tariff protection, i.e. national subsidies or state aid, has remained among the few forms of functional non-tariff protection and state interventionism. The continuous engagement in this sort of practices has consequently generated institutional pressure from the EU level towards conformation to free market conditions envisioned by the European Competition Policy.

Indeed, EU Competition Policy covers the “correct” functioning of the market. Besides financial support for companies from EU governments, it monitors agreements between companies that restrict competition, abuse of a dominant position, mergers, efforts to liberalize certain sectors (transport, energy, postal services and telecommunications), and cooperation with national competition authorities in EU countries (European Commission 2012). Among these areas, state aid represents a significant distortion of the European single market and an often used instrument of economic nationalism.

A special attention in this respect requires national assistance to industry, its significance being given primarily by its financial proportions compared to other sectors, as shown in Table 1.

Table 1. Broad sectoral distribution of non-crisis State aid

Broad sectoral distribution of non-crisis state aid (2011)					
EU-27	**In € billion**	**As a % of GDP**	**Difference when compared to previous year (in % of GDP)**	**Trend 2009-2011 (in % of GDP)**	**Difference when compared to previous trend (2006-2008)**
Aid to industry and services	52.96	0.42%	-0.06%	0.48%	0.02%
Agriculture	8.72	0.069%	-0.003%	0.076%	-0.012%
Fisheries and aquaculture	0.11	0.0009%	-0.0002%	0.001%	-0.002%
Transport	2.22	0.02%	-0.002%	0.02%	-0.06%

source: European Commission 2012

It is important to mention that although since Maastricht the Single Market constituted the core of the industrial policy in Europe, excluding measures that distorted competition, EU proved to be rather passive in urging the implementation of these policies until 2002, lacking a working concept for the transfer of competence from

Member States to the EU and resulting in constant debates between Member States pursuing different national interests. These differences in perspective have challenged a coherent approach to industrial policy, which would lead to a compromise between principles of free market approach and state interventionism (Sattich 2014). An important breakthrough in this direction was the signing of the Lisbon Strategy in 2000, a complex set of measures meant to revitalize EU economy under the conditions of starting the monetary union and enlarging to Central and Eastern European countries. The Strategy was based on two pillars (European Council 2000), the first one concerned the market competition and prohibited abuses of dominant position and biases of state aid. The second one however followed the developmental state rationale and aimed at support to the competitiveness of European firms, through research, innovation and structural policy. The new approach was labelled as "Open coordination method", according to which Member States were invited to share information and experiences so that the best practices could be selected and implemented elsewhere. The main difference from the 1990s industrial policy consisted in a higher implications of public authorities in the quest for the best direction of industrial development. The Strategy however stirred debates, especially in its initial phase of implementation, being criticised by the liberals for its openness towards governance of economy and the market (Bianchi, Labory 2012).

In relation to which specific aids are compatible with EU regulation, the Treaty on the functioning of the EU (TFEU, Article 107) stipulates that "any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal common market" (TFEU). With regard to the high degree of economic integration on the European market, almost all state intervention taking form of subsidies have a trade-distorting potential (Moussis 2011). Forms of aid like outright grants, soft loans, tax concessions, guarantees, or supply of goods or services at a smaller price than their cost are all subjects to European aid state control. Compatible with the internal market are considered: aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the products concerned; (b) aid to make good the damage caused by natural disasters or exceptional occurrences; and (c) aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic disadvantages caused by that division (Article 107 TFEU). To sum up, the European Commission's general position in relation to the approval of state aid boils down to: a) aid restoring the long-term viability and reducing social costs of restructuring are acceptable, while those maintaining the status quo of a business are not; b) aid should be granted selectively to decrease excess capacity and to redirect research spending more profitable activities; c) sector-specific aid, which is viewed as especially distortionary, is considered unfavourable (Dylla 1997).

The process of engaging in state aid practices entails certain procedural steps, the main involved actors being: the recipient (usually a region or industry), the national government, and the European Commission. The initial step involves the recipient requesting subsidies from its national government. The member States are obliged (Article 108 TFEU) to "inform in a sufficient time" the European Commission, by means of a detailed questionnaire, about the intended aid granting. Further steps require the European Commission to adopt a position on the given matter. In the case where the Commission finds the respective aid incompatible with the principles of the internal market, it decides in favour of the abolition of the intended aid within a given period of time. In the situation where the state does not respect the Commission's decision, the Commission or other interested Member State may address the issue to the Court of Justice of the European Union. The Article 108 of the TFEU further specifies: "On application by a Member State, the Council may, acting unanimously, decide that aid which that State is granting or intends to grant shall be considered to be compatible with the internal market (…) if such a decision is justified by exceptional circumstances. (…) If, however, the Council has not made its attitude known within three months of the said application being made, the Commission shall give its decision on the case". Transparency in the field of State aid policy is meant to be assured by the *State aid register* and the *State aid scoreboard*; both instruments were opened by the European Commission in 2001.

The Commission can approve a case of state aid with "no objection", which is in fact the most frequent outcome. In 2013 alone, for example, there were 237 decisions which did not raise objections out of 269 applications (DG Competition 2014).

Appeals are rather rare; however, there was one case which has motivated the Commission to abolish national governments' decision of granting state aid. In 1979 the European Commission denied the state subsidy proposed by the Dutch government to the multinational company Phillip Morris, since the Commission was not able to find any legal grounds in order to approve the aid. The aid was meant to support the company's business operations, i.e. the closure of one Dutch cigarette factory and the concentration of production in another factory in a different region in the Netherlands. European Commission has decided that that increasing production in a new factory "was not a project of European importance", or a reaction directed at an economic downturn in the Dutch economy, so it has rejected the case. The firm has next addressed the case to the European Court of Justice. As a result, the Court ruled in favour of the Commission's decision, which was based on the principle that aid is only compatible with the common interest if aims at reducing unemployment or stimulating investment (Dylla 1997).

An important aspect worth mentioning is the Commission's approach towards unlawful aid. Apart from notifying the Commission about potential state aid measures, the Member States are obliged to await the results of the investigation before taking on any actions. Any measure contravening to this principle are considered unlawful. Under these circumstances, the Commission has the authority to require the Member State in question to retract the aid from the beneficiary (European Commission). During the period between 2000 and 2012, the Member States faced 986 decisions on unlawful aid (DG Competition).

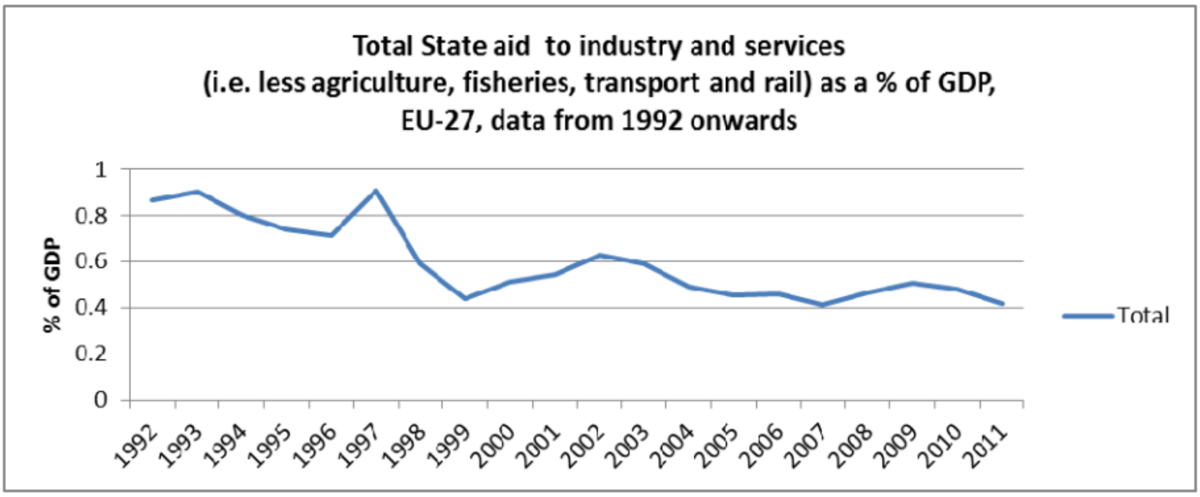
The European Commission has been closely monitoring state interventionism and state aid particularly, and since 2001 has been publishing every fall the *State Aid Scoreboard*. It is a benchmark instrument which provides in aggregated manner information on state aid practices in each Member State for the respective year. This report is publicly available and contributes to a real assessment of the EU integration effect on limiting forms of economic nationalism practices such as state aid. The Scoreboard covers information about measures authorised by the Commission, or which are being implemented under block exemption[3], excluding measures that are still under examination (DG Competition). Measures which do not affect trade or distort competition and which do not require mandatory notification are not subject of this assessment. An example of this form of state aid is *de minimis* aid not exceeding

[3] Block exemption gives automatic approval for a range of aid measures defined by the Commission.

€200,000 per undertaking over any period of 3 fiscal years (European Commission 2014).

It seems that there has been a slightly decreasing tendency in state aid expenditure from 1992 onwards, with the lowest level reached in 2007 (Figure 1).

Figure 1. Total aid to industries and services 1992-2011



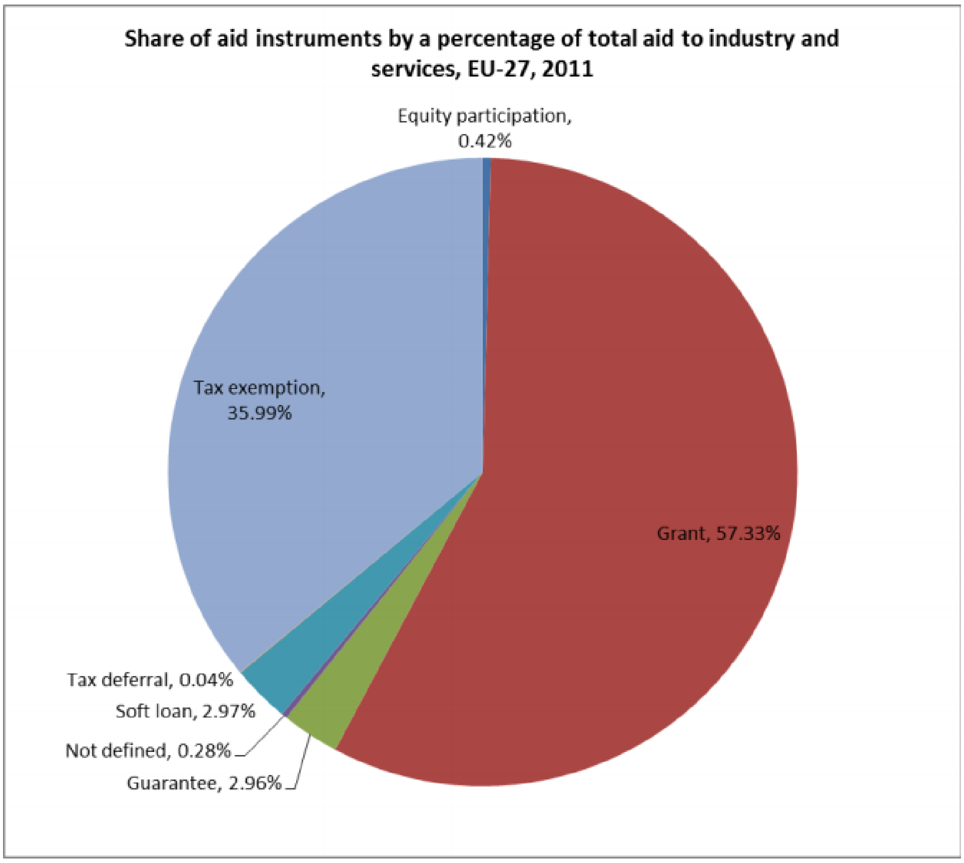
Source: DG Competition

In relation to forms of state intervention, the Member States are able to use different instruments of state aid, on which largely depends the amount of the ultimate financial benefit. The list of state aid instruments encompasses: grants, tax exemption, tax deferrals and soft loans[4], equity participation or guarantees[5]. These instruments were used in 2011 as shown in Figure 2.

[4] Soft loans and tax deferrals cover a transfer of aid in which the aid element is the interest saved by the recipient during the period for which the capital transferred is at disposal.

[5] A guarantee is typically expressed in the nominal amount guaranteed. The aid element is much lower than the nominal amount since it corresponds to the benefit which the recipient receives free of charge or at a lower than the market rate if a premium is paid to cover the risk. However, if losses are incurred under the guarantee scheme, the total loss, net of any premiums paid, is included, since it can be

Figure 2. Share of aid instruments as a percentage of total aid to industry and services



Source: DG Competition

In this context, it is important to differentiate horizontal aid from sectoral. Most prominent forms of horizontal aid are those directed to research, development and innovation, safeguarding the environment, energy saving, regional development job creation and other. Their purpose and goals were more specifically consolidated in EU 2020 strategy (European Commission). Sectoral aid on the other hand refers to specific economic sectors. European Commission in this case examines whether the difficulties

considered as a definitive transfer to the recipient. Pursuant to the Commission's Notice on guarantees, the aid is granted at the moment when the guarantee is given and not when the guarantee is invoked or payments are made under the terms of the guarantee.

faced by certain industries justifies granting the State aid and that the potential support would not distort competition (Moussis 2011). The difference essentially consists in the fact that horizontal state interventionism is more associated with policies of common European interest, while sectoral interventions are more likely to carry measures derived from economic nationalism. Thus while the Commission looks unfavourably on sectoral aid; given that it is more likely to distort competition to the advantage of specific national firms, it rather encourages regional (horizontal) aid, as it believes this could enhance Community cohesion (Delly 2009). The general trend indicates that there was a certain shift towards more horizontal aid as opposed to sectoral interventionism, reaching a total of 89.7% of total aid to industry and services in the EU in 2011 (DG Competition). The aid breakdown therefore corresponds to the Commission's preferences. This however could also encourage Member States to apply for more opaque categories of aid, as the distortionary effect of the horizontal aid is harder to detect, a fact which has been acknowledge already in 1995: "Aid under both categories can be employed for more or less hidden and unwanted purposes of industrial policy (support of single companies as national champions or protection of whole branches which are allegedly of vital national interest) and have, in such cases, particularly disastrous effects on competition" (European Commission 1995).

2.3. Monitoring protectionism within the financial sector

State subsidies are therefore recognised as real obstacles to the proper functioning of the Single Market, and the financial sector does not represent an exception. The financial sector within the European Union has always been of crucial importance. Its regulation however became even more so essential after signing the European Single

Act and the acceleration of the market integration. At the beginning of the 1990s, the Community stood before a launch of a program which entailed a mutual recognition of national regulatory practices within a harmonised framework of principles. At that time, there were significant differences between prices for financial services, and the expectations thus were that cross-border competition will eventually decreases prices down to the lowest. However, the development within the banking sector did not line up to the expectations, partly because of the existence of national currencies, partly due to the fact that banks are embedded in national history, culture and language. Along these factors, the decisive one proved to be the national importance of the banking entities, which made a potential restructuring dictated by the integration of markets hardly acceptable, this included cross-border mergers and acquisitions in the financial sector (EIB 1999).

Despite the establishment of the Single Market, the issue that remains in question is to what extent national regulations still undermine the integration of financial services. In relation to cross-border mergers, the legal basis was established in 1990 with the enforcement of the *EU Merger Control Regulation* (Levy 2004). The regulation was viewed as a vital instrument of "undistorted competition in the Community", which was based on solid assumptions, such as "the completion of the internal market and of economic and monetary union, the enlargement of the European Union, and the lowering of international barriers to trade and investment will continue to result in major corporate reorganisations, particularly in the form of concentrations". Another condition stated that mergers and acquisitions should be "in line with the requirements of dynamic competition and capable of increasing the competitiveness of European industry, improving the conditions of growth and raising the standard of living in the Community". And, most importantly, that "Community law must include provisions governing those concentrations which may significantly impede effective competition in the common market or in a substantial part of it" (European Commission 2010).

According to the Merger Control Regulation, the Directorate General of the European Commission for competition has the authority to examine mergers involving aggregate world turnover of €5bn and EU turnover of €250m. Merger counting less than these thresholds fall under the competence of national competition authorities (Ibidem).

DG competition can object a merger only when the potential merger would generate or strengthen a dominant position and therefore distort competition. The Merger Control Regulation however stipulates three exceptions in this regard. According to Article 21 of the Merger Control Regulation, Member States are allowed to take appropriate measured directed at the protection of the following three areas of interest: public security, particularly defence interests or public health; plurality of the media, i.e. efforts to maintain diverse sources of information; and prudential rules, which is an area of particular relevance for the financial sector. Prudential rules refer to the financial sector, are enforced by national bodies and cover the principles for the surveillance of banks, stockbroking firms and insurance companies. These are designed to enhance quality of services, but are however often used in order to discourage cross-border acquisitions (Eliassen 2001). More to the point, prudential rules allow national regulatory authorities to decide on cross-border mergers as part of their regulatory competence in the banking and financial sector.

Despite efforts to harmonize national regulation and the establishment of a consolidated EU merger regime, national regulations still have the capacity of undermining the single market, as the current EU legislation is ambiguous enough to permit state interventionist measures of protectionist nature, such as preventing certain mergers or takeovers by foreign firms. For example, certain Member States, such as

Italy, impose restrictions on the amount of shares held by an investor in a financial institution. The foreign acquisitions further require permission from the supervisory authority, the national central bank or the government (Molyneux 1999, Eliassen 2001).

In 1999, Mario Monti, at that time European Commissioner for Competition Policy, gave a speech at the European Banking Congress addressing the issue of competition in the financial services. Monti has underlined the crucial impact that the introduction of the single currency had on the dynamics of market integration and of the financial sector particularly. While acknowledging the potential negative impacts that the consolidation in the banking sector entails, i.e. "higher prices, control of networks to prevent smaller competitors from offering a full range of services, or stickiness in price changes", Monti also draws attention to less obvious risks, such as those associated with too fragmented markets. These could eventually lead to bank failure, "as may cause inefficiency, high costs and less innovative products". It appears that fragmentation in the financial sector is especially important to SMEs, as local small banks are specialised in lending to smaller enterprises (Monti 1999).

The retail banking mergers have been so far rather domestic, than cross-border. Indeed, in France and Germany, for example, it is relatively hard for foreign firm to penetrate the national retail banking sector (Molyneux 1999). Monti furthermore identifies several factors than can be related to this: "Risks within a single Member State seem already fairly well diversified and diversification would therefore not increase greatly by entering into a neighbouring country. In addition, it may be thought that synergies and efficiencies can be achieved more quickly and more easily by domestic mergers. Last, but not least, cultural, language, legal, regulatory and tax barriers are felt to impose higher costs on international as opposed to domestic mergers" (Monti 1999).

Under the circumstances dictated by the last mentioned factor, governments or certain political elites attempt at directly intervening in the sector and at accusing the European Union or even some of the national subjects of acting against the “national interest”. This approach is one of the main causes why EU still does not have a framework of common take-over rules. Despite the 12-year efforts to create one, the unsuccessful attempt was ended by the European Parliament in 2001. The German government, for example, justified its lack of support for the initiative at that time with the claim that such common policy “would leave German companies vulnerable to hostile foreign take-overs” (Eliassen 2001). A shift in this approach came in the aftermath of the economic crisis, which proved that irresponsible behaviour combined with lack of confidence among market participants can result in grave economic consequences. In reaction to the economic crisis, a series of EU Directives and Regulations were adopted within the framework of a Single Rulebook for EU financial services, which ultimately represents the foundation of the European Banking Union (Moussis 2011). The Banking Union operates with two main instruments: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). The SSM has a supervisory role upon the implementation of the single rulebook, and it is designed to not be prone to the protection of national interest and to weaken the link between banks and national finances. The SRM is based on uniform rules and procedure, and is meant to ensure a most cost-effective means of resolution of a bank found in difficulty, operating according to the rules of Bank Recovery and Resolution Directive (Ibidem). This should ultimately increase confidence in all EU banks and make it easier for Member States to operate within the financial sector.

Through constraints upon national policy action the European Union attempts at accelerating the convergence of Member States to a model considered European. This model is defined by the European Single Market and it is therefore based on liberal principles. This convergence however remains challenged by traditional approaches to policy making and describes a phase in integration where European institutions must continuously target attempts of market distortion, a situation described by Höpner and Schäfer (2007) as "systematic clash with national varieties of capitalism". The two authors have also pointed out a particularity of this phase, consisting in "asymmetrical targeting", as a result of conflicting economic models among Member States (Höpner, Schäfer 2007). Differences in the pursued economic thought are closer discussed in the following chapter.

3. The economic models of member states facing the Single Market

As mentioned before, a thorough understanding of economic nationalism requires a deep insight in the economic models that national states adopted. This entails a close look at traditional economic thought which has shaped specific national institutions and social configurations. From this point of view, one could ultimately view the economic models of the examined Member States as prototypes of distinct varieties of capitalism, which find themselves in different relations with the European economic model. This final chapter attempts at a closer look at national regulatory traditions, while tracing approaches to economic nationalism within distinct models of economic governance.

3.1. National regulatory traditions

The focus of this paper is aspects of three economic models – German, English, and French, which are being illustrated in this section. Besides being Europe's largest economies, these states represent an interesting set of diverse cases of capitalist traditions, that one might call *ordoliberal*, *neoliberal* and *dirigiste* respectively. However, even more relevant for the purpose of this paper is their setting within a supranational structure – the European Union, which has set certain operational limits for the domestic economic models.

3.1.1. Great Britain

The British form of economic governance is the outcome of a strong historical legacy of capitalism and reflects the historical commitment to liberal market economy. The Manchester School of liberal economic thought reflected Lockean norms of property rights which are based on logic of absolute corporate property rights. The company law was meant to protect property rights, and did not imply any social obligation in return for the licence to operate (Clift, Woll 2013).

At a closer look to the trajectory of economic thought and institutional design following the World War II, one can however identify certain shifts in the pursued economic agendas by different British governments. These could be ultimately delimited within three time periods, beginning with the fifties up to the present day.

War-time economy, characterised by isolationism and state interventionism, was a dominant tendency in the first half of the 20th century, Britain not being an exception. It was a period of time when it has abandoned its liberal model and its laissez-faire historical approach and by the end of the 1940s it has become “the most state-planned and state-managed economy ever introduced outside a frankly socialist country” (Hobsbawn 1968, quoted by Fioretos 2011:71). Among policy priorities was full employment and industrial recovery, meant to be reached by full nationalisation of key industries. During a couple of years after the World War II the British government has sought to relax the constraints and pursue economic policies conducive to greater economic openness and reduced state interventionism. However the lack of positive results and the poor economic performance has started a new debate around the appropriateness of liberal economic governance, which marked the beginning of the first out of three mentioned periods (Fioretos 2011: 70-72).

The new strategy adopted at the beginning of the 1950s consisted in modernising Britain by promoting centralised economic coordination, with the main objective of the implemented measures being a transformation from a corporate environment dominated by small-scale and under-capitalised companies to one of large specialised mass manufacturing firms that could compete successfully on the international market of advanced industries. The existing forms of interventionism consisted in encouraging long-term investments and enhancing cooperation between firms and unions. Other strategic measures that followed the same goal included devaluations and high tariff barriers on industrial goods and import surcharges, meant to protect firms from international competition (Ibidem 2011:74-75).

The previously dominating laissez-faire capitalism lost its credibility, while central governance was believed to be the key to modernisation. This of course came at odds with Great Britain’s multilateral commitments, which were at that time perceived as posing threat to domestic businesses and to the strategy of industrialization (Fioretos

2011: 74). Here is however where the issue of economic nationalism being strictly anti-liberal comes into question. While the British government saw the major multilateral initiatives such as the Organization for European Economic Cooperation as being potentially disadvantageous for the domestic business environment, it did at the same time acknowledge the insufficiency of mere domestic measures in the process of British industrial modernization. The result was an alternative initiative to EEC and the formation, alongside other six smaller economies, of the European Free Trade Association (EFTA) in 1960 (Baldwin, Wyploz 2013: 39-40). Britain nevertheless has very soon realised the importance of joining other major economic competitors in EEC, in order to gain access to the largest European markets and to boost its own industrial competitiveness. The idea of joining the EEC was surrounded by major domestic political debates, but soon it has become one of the Britain's main priorities, with the then prime-minister Harold Macmillan declaring that "a decision to join the EEC would be a political act with economic consequences, rather than an economic act with political consequences" (Macmillan 1960 quoted in Fioretos 2011:76).

The isolation of Britain caused by the French veto in joining EEC in 1963 and then again in 1967 had significantly affected the economic agenda pursued by the then centralised British government. Facing different trade terms on the European markets than other big competitors discouraged the British firms from investing in personnel and innovation, which meant the return to traditional market strategies and a deviation from the established economic objectives. The confidence in the economic policies set by the government was established only after confirming Britain's membership in a national referendum in 1975 (Fioretos 2011: 77).

The 1980s initiated a transformation in pursued economic strategies and the beginning of the second period of the British economic governance. This was marked by a return to the traditional liberal market economy model. The Conservative government under Margaret Thatcher established a new monetarist macroeconomic regime, which targeted price stability, industrial modernization, through means as budgetary restraint, lower corporate taxation rates or capital market deregulation. In fact the commitment to liberal market model persisted during the third period of institutional innovation as well, meaning during the 1990s and 2000s (Fioretos 2011: 79-87). This commitment was expressed by expansion of investment-oriented banks, enhanced flexibility in employment contracts or reduced constraints on market for corporate control. The laissez-faire therefore has again proved significant in shaping the corporate law. The company is seen as primarily a private association with no requirements or public responsibilities being stipulated (Clift, Woll 2013), which crucially shapes the nature of domestic economic laws and policies, as well as those related to the multilateral dimension.

The policies meant to regulate the foreign economic relations, i.e. the multilateral dimension, directly derive from the political agenda sought on domestic grounds, which ultimately reflects the dominant economic tradition. An example of this correlation is Thatcher’s approach to European integration. The British government under Thatcher introduced the set of European reform programs in order to gain access to unique advantageous opportunities for firms, such as abolished barriers to trade in goods and services, mobility of capital and labour, which would ultimately result in specialization and scale-economies. The international market liberalization would therefore complete the domestic reform meant to strengthen the liberal economy model.

3.1.2. Germany

The defining aspect of the German economic law-making was a traditional constitutional approach which delimited the rights and obligations of all subjects within the structure of the company. The company managing and supervisory board was drawn from all sides of the company, with an emphasis on extensive worker representation and consultation. Another important concept was that of the protection of public interest, through means of public and financial regulations. Ordo-liberal tradition is another aspect to be mentioned. It underlines the role rule-bound economic policy making and the importance of a strong state, whose intervention however conforms with the capitalist economic order, and as a result guarantees competition and economic efficiency (Clift, Woll 2013).

In the years following World War II the German economic model has evolved around a relatively distinct rationale, shaped both by historical premises and contemporary economic policy choices of other important international players. As the British case suggests, the German objective was to also create a domestic strategy that would reinforce economic reconstruction, with a direct influence from the Allied powers.

However, in contrast to Britain and France case, where the initially chosen strategy involved the nationalization of major industries, Germans have promoted a decentralised model of economic governance, partly as a reaction to the centralised system introduced by the National Socialism prior the war. The pursued strategy represented a particular version of the coordinated economy model, being labelled as *social market economy*. It was also meant to offer an alternative to the soviet model of economic planning and to strong versions of laissez-faire liberalism (Fioretos 2011: 137-141).

The social market model primarily targeted stable macroeconomic indicators, competitiveness, and industrial specialization. Decentralisation, on the other hand, generated difficulties in creating large national champions. The government's main responsibilities focused on a set of broad framework regulations which were intended to protect and secure a dynamic sector of small and medium-sized enterprises. In order to avoid coordination failures, it has come up with solutions like the creation of a complex system of socio-economic groups, to which were delegated monitoring and enforcement functions. These institutions played a major role in creating corporate strategy, determining the wages, reaching agreements between employers and unions and so on. Another important measure was the creation of a system of public sector banks established to provide financial support to small and medium-sized enterprises (Ibidem 2011: 140-142).

The multilateral dimension of German economic policy was also quite distinct. The German support for European integration was often perceived as a political project by post-war governments meant to overcome the aftermath of nationalism and military aggression during World War II. Indeed regaining sovereignty and strengthen the political position on the international stage was the foreign policy's main priority, however the support for the European project was first of all motivated by the institutional logic which the social market model entailed and which subsequently coincided with European programs of open trade and harmonisation of national regulatory structures. For example, during the negotiations around the European Coal and Steel Community (ECSC) and the European Economic Community (EEC) there was a serious debate between Chancellor Adenauer and the Foreign Ministry on one part, and the Ministry of Economics, which represented the interest subjects standing behind the social market economy, on the other. Adenauer supported the idea of reconciling with France and form a “small Europe” centred on six countries, which ultimately constituted the ECSC and EEC. The other group however favoured free trade agreements with more members. Although it was eventually decided in favour of the ideas advocated by Adenauer, the key supporters of the social market economy had a strong word in shaping the German foreign policy and its multilateral dimension (Fioretos 2011: 145-150). The German Minister of Economics during the 1960s Ludwig Erhard strongly advocated the interests of key figures of the social market model, and held the opinion that “Europe is not a stew that can simply blend together all nations… Europe’s value is a function of keeping its diversity alive without gambling away her unity” (Erhard 1966 quoted in Fioretos 2011:146). The German government was therefore highly interested preventing constraining industrial policies, which the European program entailed, such as the social policies pushed by the French government during the EEC negotiations, meant to lead to similar labour costs in the member-states. The result of Erhard government’s insistence was ultimately keeping the integrity, to a certain extent, of German policies, designing a model which still supported the dynamics of the small and medium-sized business sector (Clift 2012).

3.1.3. France

The French economic model has been strongly influenced by state traditions of economic interventionism and shaped by policies of centralized market economy. Labels like *dirigisme* or *étatisme* are often attributed to the French economic rationale from the times of Jean Baptiste Colbert’s mercantilist policies; the contemporary French economic governance could thus be considered a by-product of the historical development of French capitalism (Clift, 2009). This was mainly reflected by the long-standing tendency for concentrated ownership, prevalence of dominant shareholders, which dictated specific patterns in firms' organization and financing.

It is however important to mention that throughout the past century France has experience certain discontinuities in the evolution of its centralized economic model. While there were significant deviations towards liberalism during the nineteenth century, the interwar period required the implementation of a restructuring program, which entailed an expanded model of centralised economic governance under the command of the provisional program of Charles de Gaulle. This was followed by serious debates on whether or not making this a long-lasting project, with both opponents and proponents of decentralised economy design for the post-war period. The French governments have finally opted for a set of policies meant to boost a reshaping of the economy, aiming, as other major European economies, at economic restructuring and industrial modernization, but it has however rejected the type of multilateral programs of trade liberalization implemented in other European countries (Fioretos 2011: 108). The French strategy consisted in creating an internally complex economic system, by means of innovation of economic regulation and centralized control over the financial governance, with the objective of encouraging scale-intensive production strategies a across key industrial sectors (Cole, Drake 1998). France did not develop a culture of financial savings instruments such as pension funds or mutual funds, thus companies have not traditionally sought investment funds in financial markets, which remained rather underdeveloped. There was instead a historical reliance on institutionally allocated credit, with the states assuming the function of industrial investment control. This institutional design explains the presence of larger French corporations, as well as a prevalent family ownership, as a form of concentrated ownership, and a relatively reduced number of medium-sized firms (Clift 2009).

Complementary measures such as planning commissions were meant to reduce the investment uncertainties for firms and to secure the supply of capital and skilled labour.

The domestic economic choices alone however could not condition the extent to which the implemented measures turned out successful. The functioning of the French centralised model was significantly depended on the combination between domestic policies and foreign policy coordination.

During the post-war period the French foreign policy was designed in complete conformity with the domestic economic agenda. The very specific multilateral design was thus the direct expression of the French *dirigiste* tradition. Under the conditions where the post-war French economy lacked resources indispensable for the industrial reconstruction and economic recovery, there was a particular interest in building strategies of international cooperation that would provide the French industry with the necessary means for development. Since the major repositories for coal and coke were located in Germany, there was a significant competitiveness gap between the French and German steel production, hence the French initiative of an international cooperation on this manner and the foundation of the European Coal and Steel Community in 1951 (Baldwin, Wyplosz 2013). The objective was to reach the creation of a regulated market, whose functioning and benefits could be easily incorporated into the French economic domestic planning. The result was an expansion of levels of production and a rise in competitiveness for the larger enterprises. There were however certain concerns in relation to adaptation costs and the integrity of the domestic planning apparatus, and after a decline in the trade balance during the first half of the 1950s, the French government favoured the implementation of a rather protectionist policy, aiming at a reduction in imports from the industrialized states. The stressed was placed on stimulating domestic demand and on exports to the Franc Zone, as well as on an extensive policy of government subsidies. The trade liberalization, already strongly advocated by Germany and Britain, would be, according to the French, profitable only after a full modernization of the domestic firms. This however proved to be rather undermining for the French scope, as this approach proved to have high opportunity costs and generally not effective, which resulted in a change of strategies and France's support for EEC in 1957 (Fioretos, 2011: 107-111). France's membership entailed a commitment to a common external tariff and market liberalization and in result, as the Community progressed, France has taken over the political leadership, while recognising Germany's economic primacy. In this context, the Community was perceived as a French invention, meant to defend, among other, the European cultural patrimony and serve French interests, to the same extent as of any other member state (Cole, Drake 1998). The French government was still nevertheless interested in a limitation of adaptation losses and the protection of the domestic policy design, while being also worried about losing means of economy control such as mergers between firms or control over factor prices, which is a prime example of the paradoxical nature of France's relationship with Europe.

3.2. Practices of economic nationalism within different models of economic governance

Signing up for common economic policies led to rather a reconfiguration of policy strategy at the national level, than to a radical change of national strategy course. The integration of markets combined with increasing liberalization from the 1980s on has forced a change in the means of state economic intervention. The previously practiced protectionist industrial policies and open state intervention could not any longer conform to the multilateral undertaken commitments. These commitments have not however managed to entirely dissolve protectionist policies of state interventionism, but rather have forced the Member States to become *creative* (Clift 2009) in their quest for traditional economic objectives. New means had to be developed in order to carry economic nationalistic policies under the limits of supranational regulation.

In relation to the pursued economic models in different Member States, Soskice and Hall (2001) identify two dominant ideal-types of political economies liberal market economies (LMEs) and coordinated market economies (CMEs). In liberal market economies, the prevalent instruments of firm activity coordination are hierarchies and competitive market arrangements. Market relationships are defined by competition and formal contracting. The prices are set in relation to adjusted supply and demand, often on the basis of neoclassical calculations. Regardless the presence of important developmental elements, the European economic model aligns more closely with this particular pattern (Clift 2013).

Non-market relationships are more significant in coordinated market economies. This coordination is based on relational and incomplete contracting, exchange of private information inside networks, predominance of collaborative as opposed to competitive relationships. The balance in this context is not dependent on supply and demand, but rather on strategic interactions between firms and other subjects (Soskice, Hall 2001: 8-9). This type of coordination is secured by different institutions, whose actions are directed at a limitation of risk induced by the uncertainty of other actors' behaviour. These institutions are generally represented by strong employer associations, trade unions, systems meant to encourage information sharing and collaboration (*Ibidem*).

3.2.1. LME. Great Britain

Great Britain is a prime representative of a LME. A very important feature of the British political system is the exceptional degree of power the central government has. The single-party majority in power enjoy a great degree of independence from previous ruling governments in their political action. As a result of a combination of several constitutional features, the Westminster governments "can do almost anything they want" (Hall, Soskice 2001: 272) and have little political constraint when in relation to their constitutional power. British single-party governments therefore enjoy a high concentration of power combined with a great political autonomy in relation to other cabinets, which makes them more prone to radical policy initiatives than CMEs, like Germany or France.

These factors have created proper conditions for the significant restructuring during the 1980s and the early 1990s, which made Britain less dependent on traditional manufacturing industries and agriculture than the other mentioned EU members. This feature is directly linked to the fact that voices calling for economic nationalism in Britain are still in minority (Rossiter 2007), given the little weight this particular sectors have in the process of policy-making. Other factors discouraging the rise of economic nationalism include the steady economic growth which has managed to counterweight the impact of the negative global developments. Furthermore, Britain has historically built its national economy on global trade, which made economic openness part of its tradition. The commitment to free trade has moreover been confirmed during the debate on neoliberalism from the 1980s, while other countries have experienced it only recently (Ibidem).

Although British business and political elites have been continuously underlining the advantages of globalization and argued against economic protectionism, this free trade view has been systematically challenged, especially in the context of the economic downturn.

In his paper written for the Social Market Foundation (2007), Alex Karalis Isaac is strongly arguing against the "threat of economic nationalism". In the face of globalisation, Isaac presents two options that governments (more specifically the British government) have: either to prepare the people and strengthen their competitiveness by means of education infrastructure and "support", or to pursue isolationist forms of social protection. Isaac does not elaborate on what kind of support is meant to both support competitiveness and conform to free-market practices, but classifies the economic nationalism as a form of isolationist response, describing it as "preventing trade and preventing the movement of capital" (Isaac 2007). Although this thesis will argue in what follows that Isaac's definition of economic nationalism is rather an overly simplified and perhaps even biased approach, the author still offers interesting examples of where does the economic nationalism stand within the British economic policies.

Isaac identifies the following forms of economic nationalism: resistance to foreign ownership, resistance to foreign goods, unwillingness to allow currencies to adjust to export strength, the hiatus in world trade talks. The British government particularly faces increasing pressures concerning protectionist policies. Isaac identifies in this regard the protectionism on the left and on the right.

The economic nationalism from the left consists in calls for protectionist policies and state intervention from trade unions. Following the planned closure of Peugeot's car production in Coventry, Tony Woodley, a British trade unionist and the former General Secretary of the Transport and General Workers union, has called for immediate state intervention in the manufacturing sector: "the problem we face is the entrenched dogmas of the market economy – the cult of *non-intervention*, of leaving everything to the *invisible hand* of the free market" (Woodley, 2006), comparing the French government's take on similar issues, where "it would be unconceivable that (big) plants could be closed while the government looks on with folded arms". Woodley has primarily called for temporary subsidy to struggling industry, government to take a stake in struggling factories, an end to unpatriotic off-shoring, the adoption of more French-style labour law, public spending that prioritises manufacturing. This has become the subject of critique in Isaac's paper, who finds these measures incompatible with the modern progressive government's policy. Isaac argues against the power of the state in the international market, pointing out that this approach has been tried before in the 1970s and failed, the result being an electorate supporting Thatcher for a decade. Off-shoring accounts for 9% of European job losses in 2006. The next argument consists in the irrelevant comparison with France, where the unemployment rate is twice the British, and in the "exploitative temporary contracts with expensive, inflexible privileges some on the left admire" (Isaac 2007).

The protectionism "on the right" concerns migration, and it is probably closer to a cultural nationalism, than to the economic dimension. It could however be related to the resistance against foreign ownership. The British economics commentator Alex Brummer strongly opposed the purchase in 2006 of the British company BAA Limited by the Spanish consortium Ferrovial. In his article the journalist uses suggestive expressions such "invaders", "fall into foreign hands" or "Spanish predator". These opinions could of course have little to do with actual economic policies, they could however exert important electoral influences, which may in practice result in a rise of, for example, Eurosceptic political parties.

Generally speaking, the UK has been trying to avoid engaging in economic nationalist practices. The takeover of British firms by foreign subjects, known as the "Wimbledon effect", has been taken place in a wide range of sectors such as manufacturing (Pilkington), steel (Corus) and telecoms (O2). By the end of 1990s, the UK had 8% of the global stock of inward investment, while its share of global GDP was equal to 3%. The British labour market has experienced an influx of foreign labour, particularly after the most recent EU enlargement (Cooper 2007). Even more so suggestive is the situation on the financial market: London has the biggest foreign exchange, swaps and international insurance and reinsurance markets in the world with the highest number of foreign banks among financial centres. Foreign companies own the London International Financial Futures and Options Exchange (LIFFE), ICE Futures and Virt-X. The foreign ownership however came into question at the end of 2006, when the American Nasdaq showed interest in acquiring the London Stock Exchange. The offer was rejected, and the matter economic protectionism enjoyed wide media attention. The decision was nevertheless justified by the need for regulation rather than discrimination based on nationality of the owner. It was argued that companies operating in London should be regulated under the British risk-based regime and the supervision of Financial Service Authority (Ibidem).

3.2.2. CMEs. France and Germany

While LMEs perceive the state as an agent of market preservation, in CMEs state's role is to protect the institutions of coordination (Hall, Soskice 2001: 268). More to the point, the constitutional position of the German government is very constrained. It bars the government from intervention in certain policy areas and the responsibility for many key policy areas lies outside the government's competence. A major role in the process of decision making is played by institutions such as the Bundesbank and chambers of commerce, which are in fact private bodies with public power, protected by constitutional law. The German bicameralism together with the electoral system, which makes coalitions necessary, generate significant political constraints as well. The political representation of different groups of interest results in often disputes between coalition parties and which makes the implementation of radical political initiatives less likely. The Christian Democratic Union incorporates from advocates of the free-market (*Mittelstandsvereinigung* and *Wirtschaftsflugel*) on the right to the union-affiliated Social Committees on the left. An important wing of this coalition is the socially conservative and advocate of interventionist policies the Christian Social Union (Hall, Soskice 2001: 252-256). These factors, combined with the ordo-liberal tradition described in the previous section of this study generate a system best-known as *embedded capitalism* which could be defined as "a pragmatic and eclectic combination of ordo-liberal concepts with social policy postulates of the Social Catholic tradition" (Clift, Woll 2013). Regulation in Germany is considered reasonable as long as it is in conformity with the market. This pragmatic approach based on collaboration has allowed German businesses significant international expansion and export success, with the country becoming the driving economy among EU Member States.

As a measure of protecting its businesses however, Germany has proposed in 2008 the German Foreign Trade and Payments Act, which allows the government to intervene in all acquisitions concerning at least 25% of the shares of any German company by subjects from outside EU and EFTA. The German government has proved hostile to foreign takeovers as well, in 2006 Chancellor Angela Merkel stopped Russia's Sistema holding company from acquiring a stake in Deutsche Telekom. Stricter control on foreign acquisitions however raised criticism from the corporations themselves, since they fear a decrease of interest in Germany as a destination for investments, and also criticisms of hypocrisy, given that Deutsche Telekom has a dominating share in the telecoms sector in the Balkans and Central Europe, while energy and transport companies have acquired privatised assets in Central and East European States (Brandi 2008).

France is a case in point when talking about coordinated market economies. The collaboration between companies and the state is based on a pattern where most of managers of important firms have pasted through elite schools and held positions in the public services before taking up their functions in the private sector. This has led to close ties between the top managers and the state and as a result, they are more prone to ask the state for assistance when needed (Hall, Soskice 2001: 52). The support of national economic actors continues to be an important instrument of the French capitalist model. This has managed to resist the integration of markets within the process of globalization and the pressures from the European Union.

From a close perspective, the character of the French interventionism has taken different forms from the World War II onward. After the war, the French state owned holdings in a wide network of important firms as well as it had informal links to the elites of the financial market. The result was the emergence between 1986 and 1995 of the so called *noyaux durs*, which were firms cemented on inter-linked relationships of board members and cross-shareholdings (Plihon 2006), creating an environment dependent on state protection and interventionism. The 1980s however also brought a change in the forms the French economic nationalism could take. The state's decision power was weakened by privatisation and market internationalisation. The new model nevertheless still relied on many elements of the old dirigisme, where the state and the large firms were critical subjects, but it did so against a background of corporate governance, which was integrated in the international capital market (Hall, Soskice 2001: 324). French firms still enjoy priority within the public procurement. During the 1980s and the 1990s there was significant support directed at firms such as Air France, Renault, PSA or Michelin. Then at the beginning of the 2000s, the state again interfered and recapitalised France Telecom and Alstom (Clift 2013).

When engaging in economic nationalist practices and important role was played by Sarkozy's presidential programme from 2007, which envisioned a Europe "that protects its citizens". Sarkozy's agenda ultimately resulted in the removal of the goal of Free Competition from the Lisbon Treaty's preamble. Another manifestation of dirigiste policies was in 2009, with the rescue package *plan de relance,* following the economic crisis. Part of this agenda was the reorganization of the sizeable state-owned bank *Caisse des dépôts et consignations*, which has been historically used for state investments in different developmental projects. After the crisis however, its primary goal became investing in stakes of large French firms, which were in need of capital after the downturn. Among the beneficiaries was the car industry, with the end goal being preventing the moving of car production at Peugeot to Czech Republic. Targeting the car industry was clearly not random; car production in France comes fifth in terms of value added and fourth when it comes to employment, while also being of extreme significance in research and by extension technological externalities (Clift, 2009).

The tendency of engaging into protectionist practices naturally result in a certain line of conflict between those Member States that pursue different models of economic governance, as it is the case of France and Great Britain. This issue is particularly interesting to observe when related to the promotions of big cities as national champions. In 2010 *Financial Times* issued an article in response the then French finance minister Christine Lagarde's initiative to launch Europe's first electronic platform to trade corporate bonds. The article focused on how this could affect the future of London, where so far most trading in euro-denominated bonds and derivatives has occurred. The initiative itself is part of the transformations that the French and the German seek to engage in after the economic crisis, ensuring that the financial key infrastructure is placed inside the Eurozone, where it could ultimately attract businesses. Despite London's strong position as a financial centre, "Most British politicians and officials are bad at engaging with European institutions, and somewhat embarrassed about fighting for the nations, let alone the City. But the French financial establishment, by contrast, is highly disciplined (if not *dirigiste*) and has no qualms about protecting the national interest" (Tett 2010). Under the conditions of supranational constraint upon state interventionist instruments, cities have therefore become a new platform for practices of economic nationalism. As a new mean for state interventionism, national governments have re-directed policies towards strengthening their capital cities as national champions of economic growth (Crouch 2013).

Another interesting observation is that economic nationalism and liberalism are not necessarily incompatible, meaning that liberal economic policies could be shaped in favour of certain industries. A relevant example is the French *désinflation competitive* (Lordon 1998), which was actively pursued during the 1980s. This strategy entailed a shift in the macroeconomic policy, and the priority was no longer full employment, but rather keeping a low inflation. Given the pegged exchange rates, the idea was to achieve lower inflation rates in France than in Germany and subsequently improve French competitiveness among its European trading partners. It was therefore a mercantilist strategy, while also being neoliberal. Another example concerns the Social VAT reforms in Germany. The shift from taxing labour to taxing consumption represents a neoliberal practice (Clift 2009), however reducing non-wage labour costs meant also reducing the price on German goods on international markets.

These are examples of combination of apparent contradictory practices, mercantilist in their purpose, however liberal in their application. This is considered by certain scholars (Crouch, Clift, Woll) an adaptation of interventionist practices to the process of globalization and market integration.

Conclusion

This paper examined the phenomenon of economic nationalism within market interactions of different economic models of governance in the European Union.

The political content of this doctrine is closely correlated with historical circumstances and with the evolution of international relations. It could therefore identify with mercantile system when describing nationalistic economic policies followed in the seventeenth and eighteenth centuries, while with the emergence of the "free trade" concept during the nineteenth century it became the doctrinal approach describing an opposite policy to it. At the same time, the Listian approach opened a new perspective, arguing the importance of economic nationalism in order to protect and support selective "infant" industries, with the ultimate objective of a competitive economy ready to engage into the free trade. Economic nationalism took a particular form in the case of Nazi Germany and Fascist Italy describing a regime of economic self-sufficiency. The autarchic regime was also pursued as a consequence of the Great Depression or in the first years after World War II.

Economic nationalism can entail different interpretations in terms of objectives and motivation. Gilpin identifies in this regard two sides of economic nationalism: analytic and normative. While the analytical side focuses on the primacy of the territorial state in international relations, on competitive advantage and political independence, the normative side concerns the devotion to the nation-state and the belief in its superiority over other states.

The debate surrounding economic nationalism has taken a particular shape after the accelerated implementation of liberal policies, marked by the signing of the Single European Act in 1986. The founding of the European Community had generally a great impact on the means the Member States pursued their national objectives. It has brought together distinctive patterns of economic thought. National traditions in combination with clashes of models at the national and supranational level have shaped domestic policy choices and ways in which state interventionism has manifested itself, in those case where it was present at all.

The pressure that national interventionism has been facing is generated by the strong liberal character of the European Single Market. Although the European Union has a *sui generis* structure, with significant commitment towards a social and developmental dimension, it is still the Single Market and economic strategies conducive to liberalisation of the market that dominate the European constitutional framework. The dominating institutional context is thus one in favour of the liberal-market economy, with a relatively more accelerated development towards economic integration and market deregulation than towards common social policies. This system of economic governance was designed to intensify and coordinate the integration process. In particular areas of governance, such as the industrial or the financial sectors, European competition policy prohibits mechanism such as tariffs, heavy-handed interventionism that distorts competition or different forms of favoured market access.

The commitment towards the Single Market framework regulation has restricted the national governments' political mandates in matters of policy making, which ultimately results in certain tensions between market integration based on neoliberal principles and national policy choices. This generates what Colin Crouch (2012) calls "paradox of globalised neo-liberal democracy". It describes the situation when the political elites engage in protectionist practices, in order to get re-elected, in conditions dictated by market interdependence and limited mandates for interventionist policies.

The ways how EU Member States have adjusted to the European regulatory environment largely depended on the nature of the pursued national economic model English, German and French – are representative for diverse cases of capitalist traditions, that one might call *ordoliberal*, *neoliberal* and *dirigiste* respectively. In their relation to the EU economic model however, it is useful to examine these models of governance through the prism of classification of varieties of capitalism suggested by Hall and Soskice. When following this rationale, United Kingdom is a prime representative of a liberal market economy. The European economic model aligns more closely with this particular pattern as well. On the other side, there is the ideal-type of coordinated market economies, where a classic example is France and, to a certain extent, Germany. In this context, practices of economic nationalism are more likely to be the case of CMEs. Indeed, the example of the French state is highly suggestive when arguing the continuous predominance of economic nationalism as a component of market policy. French *dirigiste* policies and practices – such as state aid – continue to prevail despite the Single Market competition regulation. Interventionist policies are, on the other hand, extremely limited within the British economy.

The question which however remains is in what way, or to what extent the coexistence of diverging varieties of capitalism jeopardises the project of completing the Single Market and whether a convergence to a unique European economic model is possible at all, when the EU Member States still act between themselves as economic rivals. A potential solution for this critical juncture was proposed in October 2009 in Mario Monti's report, where the commissioner presented a roadmap for future reform, with ways to strengthen and deepen the single market. Monti's solution was perceived as a historical compromise between the Anglo-Saxon and continental models of capitalism, however rather asymmetrically directed towards coordinated market economies, mainly towards fighting economic nationalism, which seems hardly attainable, given its significant role in the rhetoric and practice of EU economies. The European decisions are thus still in conflict with national welfare traditions and paradoxically, European Commission's solution seems to be the promotion of further integration.

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