

NEGLECTED FACES OF EUROPEANIZATION: THE DIFFERENTIAL IMPACT OF THE EU ON THE DISMANTLING AND EXPANSION OF DOMESTIC POLICIES

CHRISTOPH KNILL, JALE TOSUN AND MICHAEL W. BAUER

The objective of this article is to clarify the extent and the conditions under which the European Union (EU) induces changes in the policy arrangements of its member states. For an accurate measurement of our dependent variable, we distinguish between EU-induced policy expansion and EU-induced policy dismantling. We argue that the extent to which European requirements lead to an expansion or dismantling of national policy arrangements is crucially affected by the respective governance logic underlying the regulatory activities at the European level, that is: (1) compliance with EU rules; (2) competition between national administrative systems to achieve EU requirements; and (3) communication between regulatory agents across national levels arranged in an EU legal or institutional framework. To illustrate our theoretical argument, we develop hypotheses on the likelihood and direction of national policy change under these three modes of governance, in addition, providing empirical examples from different policy areas.

INTRODUCTION

Although there is an ever-growing number of studies on the Europeanization of institutional structures, politics and policies in the member states (and even beyond), analyses of the domestic impact of the European Union (EU) so far have been characterized by a relatively limited focus on the side of the dependent variable. Scholars were primarily interested in two aspects: (1) the degree of EU-induced changes in national arrangements; and (2) the extent to which these changes lead to the convergence of national structures, institutions or policies. By contrast, no systematic studies exist which investigate whether EU-induced changes coincide with an expansion or dismantling of domestic arrangements in varying policy sectors. In other words, we know quite a lot about the degree to which Europeanization triggers domestic change as well as whether and under which conditions it entails policy convergence, but our knowledge on the direction of national policy responses is surprisingly limited. Consequently, in this article we pose the following research questions: to what extent and under which conditions does the EU influence the establishment of additional domestic institutions or policies? Conversely, in which constellations can we expect opposite scenarios that coincide with a weakening or even complete abolishment of the respective arrangements at the level of the member states?

Thus the objective of this article is to shed some light on these so far neglected consequences of Europeanization. In so doing, we restrict our analytical focus to the conditions under which the regulatory activities of the EU lead to the expansion or dismantling of policy arrangements in the member states. We measure these patterns of change on the basis of policy outputs, that is, policies adopted by a government, by distinguishing between three dimensions: (1) the policy level; (2) the instrumental level;

and (3) the level of instrumental settings. At the most general level, that is the mere presence of a policy, change can happen either through the addition of new policies or the abolition of existing ones. At the subsequent level, policy change implies the addition of new policy instruments or the abolishment of existing ones. Finally, in terms of instrumental settings, policy change is measured by the degree to which regulatory standards are either increased or reduced.

We argue that the extent to which EU requirements lead to an expansion or dismantling of national policy arrangements is crucially affected by the respective governance logic underlying the regulatory activities at the European level. In this vein, we differentiate between three particular governance patterns: (1) compliance with EU rules; (2) competition between national administrative systems to achieve EU requirements; and (3) communication between regulatory agents across national levels arranged in an EU legal or institutional framework (see Holzinger and Knill 2004, 2005; Knill and Lenschow 2005; Sommerer *et al.* 2008).

The article is structured as follows. First, we give an overview of the theoretical achievements of Europeanization research in order to show how the arguments made in this paper advance our understanding of the national policy implications of EU regulations. Second, we turn to the operationalization of our dependent variable, namely policy expansion and dismantling. Third, we elaborate on the three governance patterns and develop hypotheses on national policy change, which we also illustrate empirically. In the final section we present our conclusion and open up promising venues for future research.

THE STATE OF THE ART

As part of its remit, the EU produces Directives that affect domestic politics, policies and administrative structures. In order to explore how the EU matters in this regard, Europeanization research has focused on adaptation pressures and the implementation of European directives and regulations (see, for example, Knill 1997, 2001, 2005; Bulmer and Burch 2000; Radaelli 2000; Cowles *et al.* 2001; Héritier *et al.* 2001; Bulmer and Lequesne 2002; Knill and Lehmkuhl 2002; Olsen 2002; Börzel and Risse 2003). Thus in terms of explaining the differential impact of the EU on member states, the 'goodness of fit' between European policy requirements and existing institutions at the national level received most attention (see Mastenbroek 2005, p. 1109). The growing policy-shaping power of the EU has also motivated a number of political scientists to ask whether Europeanization leads to cross-national policy convergence (see, for example, Dimitrova and Steunenberg 2000; Hix and Goetz 2000; Knill 2001; Risse *et al.* 2001; Jordan and Liefferink 2004; Holzinger and Knill 2004, 2005; Sommerer *et al.* 2008). Hence, studies of EU-induced policy convergence are emerging as a further key area of Europeanization research.

Despite the clear-cut theoretical expectations and empirical insights gained from these studies, Europeanization research used to have an overtly narrow analytical focus. Hence, it has not systematically addressed the direction of national policy change triggered by European regulations in terms of expansion and dismantling. To be fair, this lack of attention to the question of whether the EU stimulates policy expansion or dismantling is not restricted to Europeanization research. In fact, policy analytical studies have shown this deficit in more general terms. However, in order to gain a fuller understanding of the causal mechanisms underlying the dynamics of change as such, only a systematic analysis of both possible directions of change would enable this.

There are, however, some related concepts from which theories of policy expansion and dismantling can borrow. In this context, the literature on the determinants of policy termination, which came about in the 1970s in the United States, represents a useful source (see Behn 1978; deLeon 1978; Brewer 1978; Daniels 1997, 2001; Geva-May 2001). These studies, however, failed to open up a consolidated field of research. In part, this can be explained by missing attempts to link up termination studies with related research programmes, namely theories of policy change (see, for example, Howlett and Bennett 1992; Krause 1994; Howlett and Ramesh 1998). But, more importantly, the literature modelled the dependent variable 'termination' in a too rigorous manner – it was coded either as complete termination or non-termination without accounting for gradual differences in the intensity of policy termination phenomena. In addition, the possibility of opposite directions of policy change, namely policy expansion, was neglected completely. As a consequence, the comparatively rare observation of such events of complete termination led Hogwood and Peters (1982, 1985) to conclude that studying the determinants of policy termination would be irrelevant (see also Bauer 2006).

The second related research branch is about the explanation of 'race to the bottom' and 'race to the top' phenomena, respectively. Both predictions stem from the theories of regulatory competition, which are based on economic theories of systems competition or regulatory competition (Tiebout 1956; Oates and Schwab 1988). Race to the bottom dynamics occur when policy changes adopted in one jurisdiction create incentives for other jurisdictions to adopt similar changes. The lowering of regulations in one jurisdiction increases the costs of maintaining high standards to others, causing the affected jurisdictions to follow suit in their own policies. This argument has generally been applied to capital taxation, environmental regulations, and labour standards. With respect to the race to the top dynamics, national governments upgrade their own regulation to protect their firms against foreign competitors (Scharpf 1997; Holzinger 2002). This can occur if national regulations serve as a guarantee of superior quality that is rewarded by the market, for example, with international banking regulation (Kapstein 1992, 1994). However, races to the bottom or the top are associated with economic globalization rather than Europeanization. Thus, they serve only marginally as a point of reference for deriving theoretical predictions about the implications of Europeanization for policy change.

In light of these considerations, we believe that theorizing the direction of EU-induced policy change is a seminal undertaking, enabling further progress in Europeanization research as well as studies of policy termination and policy change. In this vein, we can integrate the three research programmes for generating a more coherent theoretical model and filling the gap in the research record.

OPERATIONALIZATION

As already mentioned in the section above, the core problem with policy termination studies consisted in the crude measurement of the dependent variable. In order to increase our analytical leverage on phenomena of policy dismantling and expansion, we need to further differentiate the concept of policy change in order to be able to accurately measure the direction of national policy change.

To this end, we, first, restrict ourselves to the analysis of policy outputs, that is, different kinds of legislation adopted by a government. We do not consider policy outcomes, because they are usually affected by a number of intervening variables, and hence can only be indirectly related to the causal mechanisms triggering domestic policy change

(Holzinger and Knill 2004, p. 30). In consequence, we apply a 'positive' rather than normative approach to assessing policy change. We measure changes in the breadth and intensity of state involvement rather than judging the normative consequences of these changes – the latter is mainly the object of evaluation research and reaches well beyond the scope of this article.

Second, we concentrate on one direction of causality only: namely, how EU requirements impact upon domestic policy arrangements. We are not interested in questions related to the interaction between the European and the domestic level, for example, or whether domestic actors shift competencies to the European level for achieving domestic policy change. This analytical limitation allows us to derive clear-cut hypotheses without running the risk of over-complexity. Hence, we opt for a parsimonious model rather than elucidating all theoretically possible causal relationships.

Third, in doing so, we follow Hall's (1993) distinction of different types of change that refer to varying policy dimensions. Accordingly:

1. first-order change refers to the level of the setting of policy instruments, that is, whether levels of regulation or taxes are altered;
2. second-order change is about modifications with respect to the basic types of policy instruments, for example, authority-based regulation or treasure-based instruments;
3. third-order change is related to the presence of a certain policy.

On the basis of this typology, we measure expansion and dismantling with regard to the setting of policy instruments by the extent to which, for instance, regulatory standards or tax rates are either increased or decreased. In this context, the characterization of changes in instrument settings depends on the nature of the single item. With tax rates, for instance, a lowering of the setting implies policy dismantling, whereas with, for example, environmental pollution standards, the lowering of the maximum permissible limits would be interpreted as policy expansion since it increases the overall level of environmental protection. In terms of the instrumental level, we measure the extent to which expansion and dismantling occurs by the addition of new policy instruments or the abolishment of existing ones. Given that an authority-based instrument is replaced by a market-based one, we would not interpret this as policy dismantling but rather as substitution and before the background of our particular analytical research question as the 'preservation' of the status quo. Finally, we assess expansion and dismantling with regard to the policy goals by evaluating whether new policies were added or existing ones became abolished within the context of European integration.

TABLE 1 *Measurement of policy expansion and dismantling*

Policy dimension	Policy expansion	Policy dismantling
Policy presence	New policy is added to existing ones	Existing policy is abolished
Policy instruments	Number of instruments increases, e.g. information-based instruments are added	Number of instruments decreases, e.g. abolition of market-based instruments
Setting of policy instruments	Tightening of regulatory levels, e.g. higher tax level or lower maximum permissible limits for industry emissions	Loosening of regulatory level, e.g. lower tax levels or higher maximum permissible limits for industry emissions

Table 1 summarizes our operationalization of the dependent variable, that is, policy change.

The distinction between policy presence, instruments and settings also allows us to formulate more precise expectations about the likelihood of policy change in terms of dismantling and expansion. Changes related to the policy dimension refer to the most abstract dimension. Since modifications of entire policies imply a departure from dominant and institutionally strongly entrenched ideas of how to perceive and resolve certain political problems, we presume that this dimension is most unlikely to change substantially. By contrast, the instruments and their settings, as fairly concrete aspects of policy outputs, should be more prone to change. In fact, we would argue that this is especially the case for changes in the settings since they can be achieved within existing instruments and policies (see deLeon 1978; Hall 1993).

EUROPEAN GOVERNANCE PATTERNS

In this section we classify three basic governance patterns of how European policy-making might affect the expansion or dismantling of domestic regulatory arrangements:

1. European policies might be very demanding and prescribe a concrete institutional model for domestic adaptation (compliance);
2. They might be confined to changing domestic opportunity structures (via the mechanism of regulatory competition);
3. In their 'weakest' form, they might be primarily directed at changing the beliefs and expectations of domestic actors on the basis of institutionalized patterns of cross-national information exchange at the European level (communication) (see Knill and Lehmkuhl 2002; Knill and Lenschow 2005).

The particular governance modes imply different demands or incentives for domestic policy change. It is obvious that this distinction is analytical rather than empirical. Many European policies might be characterized by a mixture of different mechanisms of Europeanization. However, the existence of such 'Europeanization hybrids' does not call our general argument into question, but indicates the need for careful analysis of the underlying Europeanization logic in order to understand the domestic impact of a certain policy.

In developing our argument, we focus especially on the behaviour of national bureaucracies, the most central actors when it comes to the implementation of EU policies at the domestic level. We argue that they tend to follow certain general rationalities in responding to these inputs, making policy change in a certain direction (dismantling versus expansion) more or less probable. In other words, these three modes of governance provide the micro-foundation for our analytical framework. Elucidating the rationale behind the behaviour of the relevant actors is a prerequisite for arriving at explanations that are complete (Coleman 1987).

It is thus the prime aim of the sections that follow to generate hypotheses on the relationship between these modes of European governance and domestic policy change as well as to provide empirical examples from different areas of EU regulatory policy. The empirical illustrations are not intended to be systematic empirical tests of the hypotheses to be formulated, but rather as a way of evaluating the plausibility of our reasoning.

COMPLIANCE

In its most explicit form, European legislation may trigger domestic change by prescribing concrete requirements with which member states must comply, that is, the EU prescribes a policy model to which domestic arrangements have to be adjusted. Accordingly, member states have only limited institutional discretion when deciding the concrete arrangements for compliance with European requirements, but have to bring domestic arrangements in line with a policy model which is exactly defined at the supranational level.

European governance by compliance is particularly pronounced in policies of so-called positive integration, including, for instance, environmental protection, health and safety at work, consumer protection, and sections of social policy. In this case, EU policies are explicitly directed at reshaping existing domestic regulatory arrangements. Hence compliance with European legislation typically requires changes in the national policy status quo, referring to the policies present in the member states (for example, regulations on the freedom of access to administrative documents), the respective policy instruments (for example, environmental standards) as well as specific instrument settings (such as maximum levels for automobile exhaust emissions).

As there is often a close link between prescribed policy choices and the necessary institutional arrangements (regulatory styles and structures) needed for the proper implementation of European regulations. Policy compliance and institutional change are therefore strongly related to one another. In the Europeanization literature, there is broad consensus that the general response pattern is characterized by a persistence-driven orientation of national bureaucracies that attempt to meet the policy obligations while minimizing their institutional adaptation cost (see, for example, Knill and Lenschow 1998; Börzel and Risse 2000). This approach is facilitated by their rather autonomous position in finding appropriate ways towards policy compliance, since the central focus underlying the compliance mode is on the formal and timely compliance with the EU requirements, not on explicitly valuing the search for most efficient and effective paths towards solving a given policy problem. Hence, this keeps bureaucracies insulated from outside pressure to engage in extensive administrative optimization efforts. Consequently, national adjustments will primarily follow the pattern of administrative self-adaptation. Both the literature on bureaucratic politics and, more generally, that on organizational behaviour, suggest that this administrative rationality typically coincides with fairly incremental and gradual adjustments of established routines and procedures (Lindblom 1959; March and Olsen 1989).

What expectations follow from these considerations in terms of likely directions of EU-induced policy changes? To answer this question, we first have to clarify the assumptions underlying our reasoning. First, we treat national governments as rational and unitary actors, with governments possessing defined policy preferences, which they try to realize in order to maximize their benefits. Second, we assume that regulation is costly – the costs should be higher for the changing of entire policies and then gradually decrease for modifications of policy instruments and policy settings. This assumption makes the prevalence of the status quo more likely for the policy dimension than for the other two dimensions. Third, we assume that compliance benefits exceed regulation costs.

We should also highlight the fact that, by definition, European policies of positive integration are directed at the introduction rather than the abolishment of policies, instruments and settings in the member states. Although the degree of fit between European requirement and domestic institutions especially implies certain restrictions for

the scope of policy change in the member states (see Börzel and Risse 2000; Knill 2001; Knill and Lehmkuhl 2002), policy expansion rather than dismantling should be the most likely scenario under the governance mode of compliance.

When looking more closely at the dimension of policy presence, European policies of positive integration are typically directed at the adoption of new policies – that is, regulatory measures and approaches that up to that point had not been in place in one or several of the member states. Thus EU activities imply the expansion of the domestic policy repertoire rather than its shrinking. A good example is the introduction of the European directive on freedom of access to environmental information. This directive lays down the detailed conditions for making environmental information accessible, including appeal procedures against refusal or failure to provide information, charges for the provision of information, and exemptions from disclosure. Many member states by the time of the adoption of the directive, including Germany, Italy, Spain, Greece and The Netherlands, had no such policy in place and hence had to include respective measures into their existing policy repertoire (see, for example, Kimber 2000). Similar scenarios apply to many other directives in the field of environmental and social policy, such as the directive on parental leave (see Falkner *et al.* 2005).

In this context, it is fairly common that respective policy innovations in one or two pioneer states provide an inspiring starting point for the EU Commission to suggest similar measures at the European level, hence implying the introduction of new policies in many member states while leaving the status quo for the pioneers unchanged (Héritier *et al.* 1996; Andersen and Liefferink 1997). At the general level of policy presence, either preservation of the domestic status quo or policy expansion are logically possible. By contrast, it is hardly conceivable that the adoption of a certain policy at the level of the EU requires the replacement or even the abolishment of existing domestic policies. For instance, the adoption of a European policy on air pollution from industrial plants does not demand that member states give up their existing policies in this or related fields.

Turning to the dimension of instruments, the expected pattern is rather similar, although here a ‘clash’, emerging from the incompatibility of European requirements and national arrangements, is the more likely scenario. More precisely, two scenarios are conceivable: expansion and substitution, with the latter case implying the preservation of the status quo according to our definition of policy dismantling and expansion.

In the first constellation of expansion, the EU defines policy instruments that are not only new to the domestic context, but also do not interfere with national equivalents – that is, different instruments that serve similar policy objectives to those underlying the respective EU policy.

In the field of environmental policy, for instance, it is evident that member states strive to put forward their own national regulatory concepts at the European level. This leads to a relatively large range of different regulatory instruments, which range from substantial limits (quality and emission limits) to purely procedural instruments (information and participation rights) (Héritier *et al.* 1996). This broad range of different regulatory instruments with which member states are confronted in the implementation process generally results in an enrichment of the repertoire for environmental policy action at the national level. This is demonstrated, for example, by the European Eco-Management and Audit Scheme which provides industries with the possibility of voluntarily introducing an externally validated environmental management system. It is well documented, for instance, that due to EU influence, Austria, France, Ireland, The Netherlands, and the United Kingdom introduced a number of ‘new’ environmental policy instruments such

as eco-taxes and voluntary agreements (Jordan and Liefferink 2004, 224ff.). In all of these cases, member states add new instruments to their existing regulatory repertoire, without abolishing existing instruments such as authorization restrictions.

The scope for policy expansion, however, is restricted by the compatibility of European requirements with domestic regulatory traditions. In view of the efforts of national administrations to avoid far-reaching regulatory adjustments and to integrate EU instruments as far as possible into the existing regulatory context, new instruments are frequently integrated into the national repertoire. This especially holds true in constellations in which the misfit between EU requirements and national regulatory traditions is high and often coincides with high implementation deficits of EU policies in the member states (Knill 2006).

The second constellation of substitution refers to constellations in which European legislation defines policy instruments that interfere with respective instrumental equivalents already applied at the domestic level. In Britain, for instance, the emissions standards introduced by the EU's clean air policy conflicted with the institutional background of the British governmental and administrative tradition, which encouraged consensual bargaining and informal rules rather than classical top-down regulation to regulate emissions from industrial plants. Furthermore, the British case also illustrates that the scope for substitution is restricted by the institutional compatibility of EU requirements and national administrative traditions. Thus for a long time Britain tried to implement EU requirements by relying on its existing system of pollution control. It was only in the context of further domestic administrative reforms, reducing this institutional misfit, that Britain finally adapted to the EU requirements – something that entailed the complete substitution of its domestic instruments by the approach prescribed at the EU level (Héritier *et al.* 1996, pp. 219–23). In terms of policy expansion versus policy dismantling, the British case is an example for a strong status quo orientation which emerged first from the strong resistance to change and later on from the complete substitution of existing instruments by the one defined at the EU level.

Turning to the level of instrument settings, all three scenarios, of: (1) expansion; (2) dismantling; and (3) preservation of the status quo, are theoretically conceivable. However, since the EU usually defines minimum standards (for example, air and water quality standards), standards which the member states can exceed at the national level, policy expansion seems more likely than does dismantling. In fact, dismantling could only happen when the EU prescribes total harmonization with common standards that lower previous national approaches. In addition, in these cases, a dismantling scenario is in some way unrealistic since the EU generally reaches total harmonization only on fairly high levels that rarely pose problems of compliance across countries.

Hypotheses 1: policy change under the compliance mode

These considerations lead us to the following expectations with regard to policy change at the level of policy presence, the instrumental dimension, and the settings level, in constellations in which EU governance is based on the compliance mode.

Policy presence

For the policy presence dimension, we expect no policy dismantling.

For the policy presence dimension, we expect policy expansion, if the member states have no policies in place that correspond to those prescribed by the Commission. For the

policy presence dimension, we expect the prevalence of the status quo, if the member states have policies in place which correspond to those prescribed by the Commission.

Policy instruments

For the policy instruments dimension, we expect no dismantling.

For the policy instruments dimension, we expect expansion, if the prescribed instruments are not present at the domestic level and if these instruments are compatible with domestic regulatory arrangements. For the policy instruments dimension, we expect the prevalence of the status quo, either if the EU prescribes the substitution of existing instruments or if EU instruments are highly incompatible with domestic regulatory arrangements and are hence not properly transposed.

Policy settings

For the settings dimension, we expect policy dismantling, if the EU applies total harmonization and if the prescribed settings are less stringent than the respective domestic standards. For the settings dimension, we expect policy expansion, if the EU either applies minimum harmonization or total harmonization with a prescribed setting that is above the respective national standards. For the settings dimension, we expect the prevalence of the status quo, if the EU applies total harmonization which corresponds to the level of the respective national standards.

COMPETITION

The influence of EU regulatory policy on national institutions is less direct in the case of governance by competition. This approach implies only limited legally-binding requirements for domestic institutional change. Rather, its main purpose is to promote and stimulate the optimization of institutional arrangements in the member states within a general framework set on the EU level. Thus pressure for institutional adjustment basically emerges from the need to rearrange and redesign national arrangements in order to enhance their effectiveness for achieving particular, politically defined, objectives (such as an increase of foreign direct investment or the reduction of unemployment) in comparison to the performance of other member states (Oates and Schwab 1988). While European policies thus pose potential challenges for domestic institutions, they do not prescribe any distinctive institutional model of how the new institutional equilibrium should actually look but leave the member states broad discretion for institutional design. Their coercive impact is confined to the definition of legally-binding 'rules of the game' member states have to comply with (Knill and Lehmkuhl 2002).

Examples of EU governance being based on the competition mode can be found in particular in the market-making policies of the EU (negative integration). These policies basically exclude certain options from the range of national policy choices, rather than positively prescribing distinctive institutional models to be enacted at the national level. Their impact is generally restricted to the abolition of domestic administrative arrangements which distort the functioning of the common market part of the EU, such as national regulations protecting domestic industrial sectors against foreign competition.

In this case, in contrast with the compliance mode, the rationale behind institutional change is systems' competition, implying that there are certain re-distributional effects between member states that are affected by the comparative performance of national regulatory practices and institutions. Consequently, rather than securing institutional

persistence, the basic focus is on institutional effects such as the impact of certain regulatory arrangements on the competitive position of the national industry within the common market. Differing taxation systems in the member states, for instance, could trigger moves of capital and investment between countries that would bear far-reaching consequences for national tax revenues, the overall economic development, and the level of employment. Accordingly, there is an enhanced potential for societal mobilization and politicization in favour of institutional change. This potential implies that any particular bureaucracy is no longer in an autonomous position when adjusting national arrangements to European requirements. Instead, bureaucratic behaviour becomes highly contingent on the preferences of and the strategic interaction between political leaders. The bureaucracy will thus have a more instrumental role in institutional reform and can more easily be transformed 'from outside' (Knight 1992).

What do these considerations imply for EU-induced policy change? In this context, our theoretical considerations rest on the above-made assumption on costs related to regulation, implying that the effects of competitive pressures are different for the different policy dimensions under investigation (policy presence, instruments, and settings).

While we generally expect more fundamental changes to domestic policies, as is the case under the compliance mode, our expectations vary in light of the different dimensions under investigation. For the dimension of policy presence, to begin with, we expect national arrangements to remain largely unaffected, hence implying the preservation of the status quo. This can be traced to the fact that EU policies do not require the abolition of complete policies but only of those regulatory arrangements that entail restrictions to the realization of the requirements of the EU. In other words, member states are potentially required to abolish certain instruments and – induced by competitive pressures – might face incentives to change instrumental settings rather than abolishing or introducing complete policies.

Turning to the dimension of instruments, there is a high likelihood that the EU triggers domestic dismantling. Dismantling is driven by two factors. On the one hand, member states are legally obliged to abolish such instruments that are in contradiction with the objective of market liberalization. In particular, member states are no longer allowed to rely on measures such as import restrictions or tariffs in order to protect the competitive position of their industries. This can be illustrated by the effect of the EU on the alcohol policy of the Nordic countries, that is, Finland, Norway, and Sweden. Before EU accession, the import, export, wholesale, and retail trade in alcohol in these countries was governed by state monopolies. This arrangement was motivated by the overriding aim to reduce alcohol-related harm in these societies. By accepting the *acquis communautaire*, however, the Nordic countries also accepted Article 16 of the European Economic Area Agreement, which obliged the contracting parties to ensure that state monopolies of commercial character would be adjusted to exclude discrimination regarding the conditions under which goods are procured and marketed. Accordingly, the state monopolies were in conflict with the EU requirements and had to be abolished (Ugland 1997). Even though the Nordic countries struggled hard to maintain their earlier regulations, the European Commission found a source of inconsistency in relation to the contrast between the monopolies' domestic and foreign activities. Some of these activities and practices were clearly discriminatory and could not be justified with reference to health and social policy considerations. They could instead be regarded as being motivated by purely commercial and economic interests. As a result, these countries – partially – abolished

the state monopolies. Thus, in terms of dismantling this particular policy, the EU certainly had an important effect (Graver 2002).

On the other hand, instrument dismantling is likely to emerge from competitive pressures: the second factor. This can be illustrated by the case of European road haulage policy, which in 1993 liberalized cabotage, that is, activities of transportation firms with foreign headquarters in other countries' markets. It therefore moved towards a deregulated international market by establishing a legal framework for abolishing the protection of national transport markets with resident operators. Although the European legislation left member states broad discretion for designing a domestic framework for market regulation, the liberalization of cabotage implied fundamental challenges to existing regulatory arrangements. Cabotage induced international regulatory competition in creating new strategic options for certain groups of actors such as users of transport services. At the same time, it reduced the number of feasible options for others since domestic tariff regimes for road transport no longer functioned as a means to promote the market position of national hauliers. This put pressure on the member states to redesign their regulatory arrangements for replacing regulatory burdens on domestic industries.

These reforms entailed the complete termination of instruments that were incompatible with the aims of the national transport industry, namely, international competitiveness. This concerned, for example, programmes to fix maximum or minimum prices for transport services, terminated in the member states with an interventionist regulatory tradition (Germany and Italy, for example). Furthermore, instruments in the area of market access control were also dismantled: quantity-based licence restrictions were eliminated. Today, the only prerequisite for access is the fulfilment of qualitative access requirements (demonstrating the reliability of the firms). The developments in Italy also demonstrate that these extensive forms of policy termination occurred despite numerous veto points and the high resistance of the national transport industry.

With regard to the settings dimension, the literature on regulatory competition and the related concepts of 'races to the bottom' and 'races to the top', respectively, indicate that both policy dismantling and expansion are theoretically feasible options. In this context, a distinction often made between product and production process standards is helpful (see, for example, Scharpf 1996, 1997). Process standards are generally associated with a race to the bottom scenario since a stricter regulatory standard presumably raises the costs of production. Hence, if competition refers to the regulation of process standards, we can either expect that no policy change occurs for securing the – even disadvantageous – level of production costs, or policy dismantling is likely to take place.

The theoretical expectations for product standards are, by contrast, less homogeneous. Most important in this context is the extent to which high-regulating countries are able to actually enforce stricter standards. If it is possible to erect exceptional trade barriers, as for example for health or environmental reasons under EU and WTO rules, a race to the top can be expected (Vogel 1995; Scharpf 1997). In accordance with this logic, we make a fourth assumption, stating that in the case of product standards, harmonization benefits surmount regulation costs. This assumption about the ordering of the payoffs allows us to formulate more precise – and therefore more easily falsifiable – expectations about whether expansion, dismantling or the maintenance of the status quo is likely once competitive pressures are present. Moreover, despite competitiveness pressures, national regulations could be kept as a kind of guarantee of superior quality that is rewarded by the market. In consequence, we should either expect the preservation of the status quo or policy expansion.

The German beer purity law (*Reinheitsgebot*) serves as an excellent example for elucidating this logic. Basically, this law allows only four ingredients in the beverage – water, hops, barley, and yeast – which meant that foreign competitors who used additives in their products faced problems in entering the German market. In 1987, the European Court of Justice ruled against the German beer purity law, allowing ingredients beyond the four mentioned above. This judgment has, however, ‘not affected traditional policy legacies or preferences, nor has it altered German beer drinking habits’ (Schmidt 2001, p. 13). The German breweries continued to apply the purity law and did not ‘relax’ this particular product standard by permitting the use of additives – even *vis-à-vis* increasing competitive pressure. In fact, a number of foreign beer producers – albeit voluntarily – adhered to the beer purity rule for those products destined for the German market.

We can also observe dismantling, that is, an ongoing lowering, with regard to corporation and income tax levels in the member states, which stems from the European system of competition for mobile capital and foreign direct investment (see Devereux *et al.* 2002; Ganghof 2005). As far as the harmonization of corporation taxes is concerned, the issue has been debated by the Commission for almost 30 years, but rather than a legally binding instrument, the latest initiative has taken the form of a politically agreed Code of Conduct. Hence, no formal approximation of tax rates is foreseen (Martínez-Serrano and Patterson 2003). This is also reflected by the figures, which show a steady decline from rates of around 50 per cent in 1985 to rates between 30–40 per cent in 1995, with Finland and Sweden displaying the most dramatic falls (see Tanzi 1996). Yet it is still disputed whether this development is consistent with the scenario of a race to the bottom or merely a ‘levelling off’ or a ‘race to the middle’ (Hobson 2003). Nonetheless, to a certain extent we can explain the dismantling of tax levels by the absence of European tax coordination, something which is completely in line with our argument.

Finally, the literature on the policy change implications for product standards due to competition pressures points to endogenous factors, which might stand in the way of lowering national standards and tax rates, for example, the number of veto players, institutional opportunity structures and the strength of interest organizations (Swank and Steinmo 2002; Holzinger 2002). It is necessary also to take into consideration, as Ganghof (2005, p. 11) emphasizes, that such structural limitations for potential policy dismantling are becoming less significant the greater the system competition – something which has also been illustrated by the European road haulage policy. Summarizing theoretical arguments, we can specify the following hypotheses on the relationship between European governance by competition and policy change.

Hypotheses 2: policy change under the competition mode

If European governance is based on the competition mode, we have the following expectations with regard to policy change at the level of policy presence, the instruments dimension, and the settings level.

Policy presence

For the policy presence dimension, we expect neither policy dismantling nor expansion but the preservation of the status quo.

Policy instruments

For the policy instruments dimension, we expect neither policy expansion nor the preservation of the status quo, but policy dismantling as a result of legal and competitive pressures.

Policy settings

For the settings dimension, we expect dismantling of process standard levels as a result of competitive pressures. For the settings dimension, we expect either expansion or dismantling of product standard levels as a result of competitive pressures.

COMMUNICATION

The third mode of European governance refers to the way in which communication and information exchange lead to domestic policy change. Communication between member states aims at accomplishing two objectives. Firstly, it stimulates mutual learning between national policy-makers through the exchange of information. Secondly, it pursues the development and promotion of innovative regulatory models and 'best practice'. Thus, the underlying idea is to foster voluntary forms of policy-transfer (Dolowitz and Marsh 2000) and cross-national lesson-drawing (Rose 1991). Again there are no legally-binding prescriptions of institutional models of compliance, leaving broad leeway for interpretation and adjustment to domestic conditions (see Knill and Lehmkuhl 2002; Knill and Lenschow 2005).

In terms of domestic policy change, we argue that the dominating logic now underlying the behaviour of national bureaucracies is about legitimizing existing domestic arrangements within a transnational discourse. In order to gain legitimacy or to prevent its loss, actors adapt those arrangements which are most widespread in the organizational environment, leading to isomorphism (DiMaggio and Powell 1991). Analytically, this striving for legitimacy is distinct from the persistence- or performance-driven rationalities of the two former modes of governance. It implies a higher responsiveness to dominant discourses as well as a disposition to flexible and far-reaching reforms of existing arrangements if these are perceived as helpful for securing the survival of the institution. The pre-condition for this legitimacy-driven rationality is the embeddedness of national bureaucrats and policy-makers in transnational expert networks implying the presence of 'transnational scrutiny'. In consequence, we can expect more dynamic adjustments, which are directed by the transnational acceptance of the emerging design.

Empirical studies from diffusion research also point to other characteristics of these processes. Firstly, the higher the number of countries adopting a certain approach, the more likely it becomes that the search for legitimacy results in domestic policy change (Meyer and Rowan 1977; Meyer *et al.* 1997). Secondly, the individual probability – of adaptation particularly – increases when cultural or geographical 'neighbouring countries' use this policy option, a new one for the adopting state (Meseguer Yebra 2003, 2006; Brooks 2005; Knill 2005). Thirdly, constellations of high uncertainty (DiMaggio and Powell 1991, p. 70), the existence of time-pressure (Bennett 1991, p. 223), or the attempt to avoid high costs of information (Tews 2002, p. 180), are likely to induce domestic policy-makers to follow the mainstream. Therefore, we expect a potentially high degree of policy change with the objective to 'move closer' to the leading model.

At the European level, this mode of governance is mainly pursued through the Open Method of Coordination (OMC) (Hodson and Maher 2001; de la Porte 2002; Héritier 2003). At present, the OMC is applied to domains such as the information society, research and development, enterprises, economic reforms, education, employment, social inclusion, health care and pensions – that is, flanking policies for building the economic union with an emphasis on social cohesion (see Szyszczak 2006). The concrete design of the OMC varies from policy field to policy field, some emphasizing information exchange (for example, pensions and health), others building up stronger adaptation pressure through cross-national and Commission peer reviews (for example, employment and to a lesser extent also social inclusion).

What are the consequences from these considerations for EU-induced policy change? Generally we expect that the desire of being compatible with internationally dominant policy models stimulates policy change in one particular direction: policy expansion. This expectation stems from the nature of OMC processes, which is mainly marked by setting benchmarks, goals, and minimum standards which can easily be exceeded at the national level.

An elucidating example for the communication mode, realized via the application of OMC, is provided by the European Employment Strategy (EES). The EES emerged from a crisis in social policy that came to a head in the mid-1990s with tremendously high unemployment levels in most EU countries. The overall goal of the strategy is to maintain the European Social Model by reforming it through a number of measures: (1) higher employment participation; (2) more active unemployment systems; (3) more skills; (4) more employment intensive growth; (5) fewer obstacles to low skill work; (6) flexibility with security; (7) smaller companies and entrepreneurship; and (8) gender equality.

In response to these dimensions of EES, several member states brought about changes in existing national employment policy arrangements, which resulted from cognitive shifts by incorporating EU concepts and categories into domestic debates, exposing policy-makers to new approaches, and putting pressure on them to reconsider long-established but increasingly counterproductive policies (Zeitlin 2007, p. 5). Remarkably, in some member states, EES has been used as a persuasive tool to implement policy changes in areas characterized by a lack of consensus at the national level (Szyszczak 2006, p. 496). At the policy level, many countries implemented new labour market policies: preventative and active unemployment policies, for example. 'Preventative' measures refer to the issue of long-term or permanent unemployment by ensuring that workers who lose their jobs maintain their skills and willingness to reenter the job market. Active policies involve training, subsidies for the hiring of the unemployed, public works programmes, and job search assistance (Trubek and Mosher 2001, p. 12). At the level of instruments, Greece, Spain, Italy, and Portugal introduced part-time work. And with regard to the settings dimension, The Netherlands increased their target for female employment to 65 per cent (European Commission 2002, pp. 23–5). From these considerations we derive the following hypotheses on the relationship between European governance by communication and policy change.

Hypotheses 3: policy change under the communication mode

If European governance is based on the communication mode, we have the following expectations with regard to policy change at the level of policy presence, the instruments dimension, and the settings level.

Policy presence

For the policy presence dimension, we expect no policy dismantling. For the policy presence dimension, we expect policy expansion, if the policy innovation is not present in the member states yet. For the policy presence dimension, we expect the prevalence of the status quo, if the policy innovation is already present in the member states.

Policy instruments

For the instruments dimension, we expect no policy dismantling. For the instruments dimension, we expect policy expansion if the proposed instruments are not present in the member states yet. For the instruments dimension, we expect the prevalence of the status quo, if the proposed instruments are already present in the member states.

Policy settings

For the settings dimension, we expect no policy dismantling. For the settings dimension, we expect policy expansion if the proposed settings do not correspond to the national level. For the settings, we expect that prevalence of the status quo, if the proposed settings correspond to the national level.

CONCLUSION

In this article we scrutinized a phenomenon that so far has not been explicitly analysed – the impact of European policies on national policy expansion and dismantling. Our main finding is that the activities of the EU trigger domestic policy changes that move in both directions. There is no clear and unambiguous direction of national policy developments induced by Europeanization effects. Notwithstanding this general finding, the likelihood of different directions of policy change varies, not only with the specific governance mode underlying EU policy-making, but also with the respective policy dimension under investigation. Policy expansion is most likely when European governance is based on compliance or communication, while dismantling effects are to be expected if EU governance follows the competition mode. Moreover, changes appear in general more probable at the instrumental and settings dimension. Table 2 gives an overview of our theoretical expectations on policy change.

Since our article should be considered as a first exploratory step in investigating so far neglected issues in the Europeanization debate, our endeavour is far from encompassing. Rather, our analysis indicates several issues that future research may want to address. Firstly, in our proposed approach to generating hypotheses for the individual governance modes, we had to concentrate on a relatively small number of variables. To a great extent, we were forced to neglect the multi-faceted nature of national institutional arrangements, which from this and any other perspective dealing with the implementation of national policies, exert a large causal influence. However, in our view, the next step ‘European’ dismantling research must take, lies precisely in the analytical integration of various national structures and institutions of policy implementation. Secondly, emphasis in future studies should be placed on the systematic empirical testing of the hypotheses developed in this study.

Regardless of the shortcomings outlined above, our analysis emphasizes that EU-induced processes of policy expansion and dismantling should be systematically integrated into the debate on changing forms of governance and policy-making in the European multi-level system. The changes in the nature of statehood triggered by the

TABLE 2 *Implementation mode and directions of policy change*

Implementation mode	Direction of change for different policy dimensions	Conditions and/or enhancers of policy change
Compliance	Policy presence: expansion or status quo Instruments: expansion or status quo	Compatibility of the prescribed instruments with domestic regulatory arrangements
	Settings: expansion, dismantling or status quo	Depending on whether minimum or total harmonization is applied and whether prescribed standards differ from domestic ones
Competition	Policy presence: status quo Instruments: dismantling	Dismantling effects either through legal requirements (instruments incompatible with market integration) or through competitive pressures (systems competition)
	Settings: expansion or dismantling	Depending on whether product or process standards are regulated
Communication	Policy presence: expansion or status quo	Presence of policy innovation in member states
	Instruments: expansion or status quo	Presence of instruments in member states
	Settings: expansion or status quo	National regulatory level

EU entail a substantial share of modification potential, which should be taken seriously. Unless scholars pinpoint and systematically explain these different forms and directions of policy change, the research on policy-making and governance in the European multi-level system is destined to remain incomplete.

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