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Europeanization and the retreat of the state

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ABSTRACT Is the state on the retreat? We examine this question through an analysis of changing patterns of government involvement in infrastructure provision, which is generally considered to be one of the main functions of the modern state. Based on an analysis of the extent of privatization of infrastructure companies between 1970 and 2000 across 20 OECD countries, we find that there is indeed a general trend towards less public infrastructure provision visible in all of the countries and that the main factors associated with the extent of privatizations are EU membership and government ideology. Overall, the results of the study are consistent with the view that the trend of privatizing infrastructure companies was triggered by a change of the prominent economic discourse in the 1970s and that a rightist party ideology and EU membership fostered the adoption and implementation of these ideas in domestic settings.

KEY WORDS Belief system; discourse; Europeanization; infrastructure; privatization; state.

1. INTRODUCTION

Few other topics in political and social science are currently as hotly discussed as the changing position of the state in a world where markets become increasingly global and new centres of political power emerge above and beneath the nation state. Some scholars point to 'post-national constellations' (Habermas 2001) or herald the end of the nation state (Ohmae 1995). Others relegate such alarmist accounts to the realm of myths (Weiss 1998). Research on 'the state of the state' thus appears as an 'uncertain science' showing parallels with the dispute on global warming: on the one side, there are scholars who strongly believe in big changes and derive far-reaching conclusions; on the other side, there are disputes about whether this phenomenon exists at all. Even the review literature is extensive (Berger 2000; de Vries 2001; Genschel 2004; Leibfried and Zürn 2005).

The article investigates whether the presumed transformation of the state is real, and which role Europeanization plays in this process. Is Europeanization

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a major contributing factor? Is it rather an attenuating force? Or is the 'net effect' negligible after all? To examine these questions, the study relies on novel data on the extent of state ownership of societal infrastructures. Many scholars measure the size of the state by government expenditure as a percentage of gross domestic product (GDP). In German, this is called the 'ratio of the state' ('Staatsquote'). However, to remain in the analogy of global warming, this is somewhat like measuring a society's 'average temperature'. In contrast, to measure the state's property space would correspond to observing the expansion and contraction of polar ice caps. The provision of infrastructure is a traditional stronghold of the state and major changes at this level are important evidence for a changing position.

The article is structured as follows: in the first section, the evolution of state ownership of infrastructures in 20 countries is described for the period 1970–2000. Subsequently, different theories of privatization are discussed and their linkages with the current debates on the effects of globalization and Europeanization are outlined. The next section of the article describes the research design, the data and the variables. This is followed by sections presenting the results of the statistical analysis and interpreting the findings of the study. The article concludes with a summary. While the results of our analysis indicate that the state is indeed retracting from public infrastructure provision, they also nourish serious doubts about the validity of the widespread belief that the current transformation of the state is a direct and inevitable consequence of economic forces.

2. THE STATE OF THE STATE

How can we obtain systematic evidence that the position of the state is really weakening? To measure the state is not an easy task. In modern societies it has become a complex and encompassing organization including not only a broad variety of components and levels, but also multiplex internal structures and complex dependencies in its social environment. Although forms and structures of contemporary states vary considerably, today the state is still the core of all political systems. To claim that this central institution declines in a rather short period of time implies a heavy burden of proof. It supposes that at least three instances of 'state power' and its changes over time can be measured:

1. The power of nation states *vis-à-vis* other competing centres of power (e.g. international organizations, multinational companies, etc.). A proxy measure could be power reputation and centrality of state actors in policy-making. However, such measures only exist for very few policy areas.
2. The weight of state activities within the overall transactions of a given society. An indicator that comes close to this measure is the 'ratio of the state', which embraces all economic resources that 'go through' the state (i.e. expenditures) as a proportion of the GDP.

3. The number of key policy areas that the state is controlling through its capacity of making binding decisions. This is difficult to measure, but our analysis of public property in key infrastructure sectors comes close to such a positional indicator.

In the following, the evolution of the state's position is described by the mean percentage of state ownership of the main airline and the dominant enterprises in the telecommunications and electricity sector of a country. This indicator is called the 'public infrastructure ratio'. It is evident that this is only a proxy measure for a state's position in the provision of infrastructure services in general. In addition, the indicator points solely to the direct involvement of the state in this function. While direct control could be replaced by more indirect state influence such as regulation (Grande 1994; Majone 1997), indirect control is by definition less strict than direct control through ownership. The analysis is based on a novel data set covering 20 Organization for Economic Co-operation and Development (OECD) countries during the period from 1970 to 2000 (Schneider *et al.* 2005).

Figure 1 depicts the development of the average public infrastructure ratio over time. Its most important message is that a continuous decline of the public infrastructure ratio starts in the early 1980s. Up to that point in time, the ratio had remained largely constant, with minor increases from time to time. The decline of the infrastructure ratio is unambiguous. It sank from

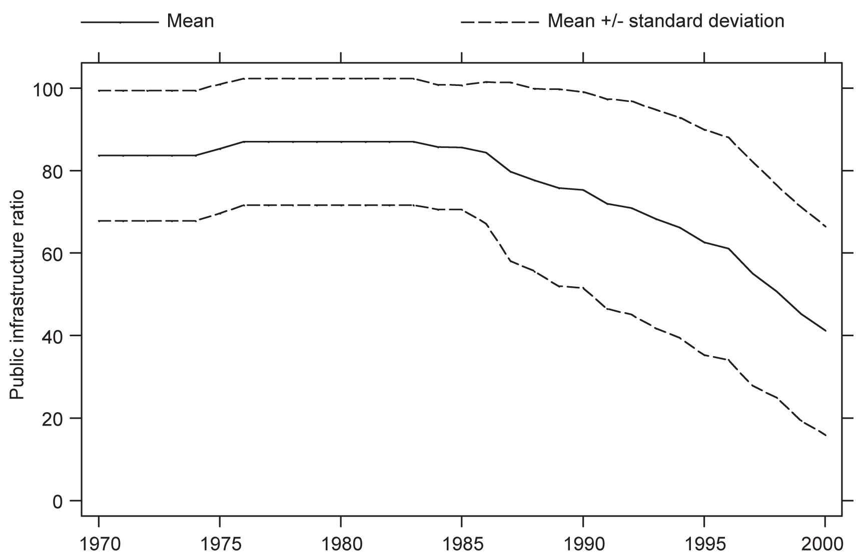

Figure 1 Mean and standard deviation of public infrastructure ratio, 1970–2000
Note: The figure is based on data for 20 OECD countries. For a list of the countries and the data sources, see the web-appendix at http://www.uni-konstanz.de/FuF/Verwiss/Schneider

almost 87 per cent in 1983 to just over 41 per cent in the year 2000, which is a relative decrease of more than 50 per cent. The standard deviation of the public infrastructure ratio also increased over time, indicating that privatization efforts of countries varied considerably. Thus, the retreat of the state hypothesis can be maintained with respect to public infrastructure ownership. The importance of this transformation should not be underrated. The retreat happened in key sectors which even economic liberals, such as Adam Smith, have taken for granted to be core functions of the state.

3. THEORIES AND HYPOTHESES

How can this retreat be explained? Which theories provide convincing interpretations of this transformation? In our opinion, there are at least four theoretical perspectives that explain the phenomenon by rather different mechanisms:

1. The Marxist perspective conceives privatization as ‘commodification’, the transfer of non-commodities such as common or public goods into commodities, money and capital. In this case, infrastructures become integrated into the capitalist mode of production, which tries to absorb all other co-existing modes of production. This mechanism was outlined in detail by Marx (Marx and Engels 1887). It is important to note that political processes, such as persuasion, coercion, etc., are also involved in this transformation, and that the state plays an active role, either as stabilizing mechanism or as an instrument of expansion.
2. The transaction-cost perspective views privatization, when combined with liberalization, as expanding market co-ordination. Markets are conceived as an alternative co-ordination mechanism to hierarchy, and their expansion (or contraction) is non-political and primarily driven by transaction cost efficiency (North 1981; Williamson 1985). Markets expand because their co-ordination function is less costly and functionally superior. In this view, the extension of market co-ordination to infrastructures became possible through technological progress saving production but also transaction costs. The state is conceived as a kind of general support structure, guaranteeing important conditions for market exchange (North 1981).
3. The property regimes approach conceives privatization as the reconfiguration of property rights from public property to private assets. Property rights theorists generally assume that common ownership means that individuals lack exclusive rights for the use of resources and thus have less incentive to use them efficiently. Whenever it is technically possible to assign private property rights to a resource, it will be more efficiently produced, exchanged and used (Alessi 1987). A more refined version emphasizes that property is a complex bundle of rights, which can be configured quite differently with each regime creating different incentive structures (Ostrom 2003). The state is conceived not only as a more or less passive support structure, but also as an important inventor and designer of efficient property structures.

4. A more diverse group of political approaches sees the shrinking of the state as a result of strategies of powerful actors (groups, classes, alliances) to redistribute political power and control. In this case, privatization is used by a societal group as an instrument to strengthen itself and to weaken its opponents (Feigenbaum *et al.* 1999). Such explanations often refer to the large privatization programme of Thatcher, which was interpreted either as a grand strategy to change political culture (i.e. promote popular capitalism), or as a transformation of social structures (i.e. increase the number of shareholders) to broaden the conservative electorate (Dobek 1993). A related interpretation sees privatization as an instrument to weaken trade unions.

The first and the last explanation see the retreat of the state also as a political battle. In contrast, a commonality of the other two approaches is their apolitical view of the process. In these perspectives, history is efficiency driven: efficient market co-ordination and private property regimes crowd out less successful systems. Globalization and market integration are conceived as non-political processes, where different co-ordination systems and property regimes compete in an ever enlarging selection environment.

Globalization

In the globalization debate this efficiency idea re-emerges in a specific form. The argument of the so-called efficiency hypothesis states that intensified international competition over production locations directs capital flows to countries whose governments interfere little with private property and market co-ordination. Under this pressure, the nation state minimizes regulation (e.g. of labour markets) as well as the tax burden for companies. As a consequence, the power of nation states to achieve autonomous political goals becomes increasingly limited (Scharpf and Schmidt 2000; Strange 1996).

In contrast, under the compensation hypothesis, economic openness is not expected to lead to a shrinking government, but rather to an increase in state activity to protect negatively affected social groups (Rodrik 1998). According to the efficiency hypothesis, the financing of such measures becomes increasingly difficult because of the international mobility of capital, which evades high tax burdens. Which of these processes actually gains the upper hand, that is the increasing demand for social security or the dwindling capacity of the state to satisfy this demand, ultimately remains an empirical question (Verdier and Breen 2001).

Europeanization

In the literature on Europeanization, there also exist competing theories with respect to government involvement, even different perspectives about what Europeanization actually is (for a recent overview, see Bulmer 2006). In this article, Europeanization is considered as consisting of the regional pooling of supranational power, an expanding internal market and related policy harmonization among the members of this community. More generally, Europeanization may be seen as a regional form of globalization, where tighter market integration further increases external economic pressure. This leads not only to competition over national production locations, but also indirectly to competition between regulatory systems and regulation standards (Scharpf 1999). Just like in the efficiency hypothesis of the globalization debate, this competition among nation states is supposed to result in a 'race to the bottom' regarding state interventions in the economy.

However, an opposite trend is predicted by Vaubel (1995): European Union (EU) member governments can counter the 'mutual underbidding' by co-operation or majority decisions on the supranational level. Countries with a high level of regulation or taxes attempt to impose their standards on countries with a lower regulatory level by pursuing a 'raising rivals' costs' strategy. Besides the two perspectives that hypothesize positive or negative effects of Europeanization, respectively, a third variant assumes that the 'net effect' of Europeanization is close to zero, since similar transformations take place everywhere around the world owing to globalization (Levi-Faur 2004).

In concluding this theoretical reflection, we can derive the following testable hypotheses. According to the efficiency hypothesis, globalization and Europeanization induce national governments to privatize their infrastructures because of efficiency considerations. Because the EU countries are exposed to both regional as well as global economic integration, the adaptation pressure should be greater for member states than for non-EU member states (Verdier and Breen 2001). A similar type of reasoning holds for the compensation hypothesis, but the expected effect has the opposite direction. International economic integration is supposed to lead to more demand for social protection and therefore to more rather than less state involvement. But again, the effect should be more pronounced in EU countries than in non-EU countries. Finally, the 'raising rivals' cost' hypothesis also predicts a general increase of state activity in the infrastructure areas in EU states rather than non-EU states. Whether Europeanization has a positive, a negative or no effect at all on state activity is examined in the following empirical analysis.

4. RESEARCH DESIGN AND VARIABLES

The statistical analysis is based on data on 20 OECD countries for the time period from 1983 to 2000. To answer the research question, the change in the public infrastructure ratio over the entire period is regressed against globalization and Europeanization variables as well as several control variables. A cross-section regression has the disadvantage that it can only rely on relatively few countries as observations, which limits the ability to incorporate a large number of control variables in the regression and to test more sophisticated model specifications. However, for the subject of this study, a cross-section regression is more appropriate than its main alternative, that is, pooled time-series cross-section regression. The goal of the study is not to explain specific changes in the public infrastructure ratio or even the precise timing of these changes, but rather to explain general trends in public infrastructure ownership. For this purpose, a long-term perspective in the form of an analysis of the change in the public infrastructure ratio over the entire time period is conceptually more appropriate than an analysis focusing on short-term changes.

The dependent variable for the analysis is based on the public infrastructure ratio. The extent of state withdrawal from infrastructure provision is operationalized as the change in the public infrastructure ratio over the entire timeframe as a percentage of its 1983 level. Using the percentage change rather than the first difference has the advantage that it adjusts the extent of privatization by the countries' level of state ownership at the beginning of the time period. Including the initial level of state ownership as a separate variable in the model achieves the same result, but adds another coefficient to be estimated in the analysis. Given the small sample size, the more parsimonious way of taking account of the dependent variable's initial level is preferable.

The main question to be investigated is whether globalization, Europeanization, or both processes drive privatization. Market pressure at global and European level is measured by trade dependence and mobility of capital. The sum of exports and imports as a percentage of GDP serves as a measure of the international integration of product and service markets. An index of the extent of deregulation of capital markets compiled by Quinn (1997) is used to measure capital mobility.

As the theory review has shown, domestic political constellations could also have an impact on privatization efforts. One classical theory of political economy links economic policy to the party orientation of the government. The party difference hypothesis (Hibbs 1977; Schmidt 1996) generally states that left-oriented governments promote economic interventions by the state, while right-wing governments, consisting of liberal or conservative parties, put more faith in market forces and are more critical of state interference in the economy (Imbeau *et al.* 2001). Consequently, liberal or conservative parties are more likely to pursue privatizations of state-owned companies. The percentage of cabinet seats occupied by left-wing parties is used as an indicator for government ideology (Schmidt 1996).

Along with the external pressure and the motivation for reforms, a political system's capacity for action must also be taken into account. This capacity is determined, in particular, by the institutional context in which governments act. These are formal norms, which are codified in the constitution or in laws and lead to restrictions in the governing parties' ability to pursue their policy goals. However, informal arrangements between interest groups, parties and governmental bodies also make certain policy changes possible and impede others.

Formal institutional constraints should have a negative impact on the overall capacity for policy change (Schmidt 1996). Therefore, privatizations should be less extensive as the institutional constraints of the government's capacity to act become greater. An interesting formal theory about institutional restrictions is presented by Tsebelis (2002) in the form of the veto player concept. However, its explanatory power in the context of infrastructure liberalization and privatization is disputed (Bauer *et al.* 2004). In line with other comparative studies, the analysis focuses instead on institutional constraints as measured by the index developed by Schmidt (1996).

With respect to informal structures, we distinguish between pluralist and corporatist interest group systems (Schmitter and Lehmbruch 1979). Pluralist systems are characterized by a multitude of rather weakly organized interest groups which compete for political access. Strong opposition to governmental policies cannot be expected in such cases. Corporatism is marked by a few tightly organized and powerful interest groups, which are linked to state actors by long-term exchanges. Unions generally assume a powerful role in such co-operative relations (Garrett 1998; Swank 2002). Their affiliation with the political left implies that corporatist systems should hinder rather than enhance privatization. Thus, corporatist countries are expected to have privatized to a lesser extent than pluralist systems. As a measure of the degree of corporatism, the index developed by Siaroff (1999) is used.

Finally, the analysis controls for the possible effect of public debt, as it has been argued that governments of any partisan complexion are likely to respond to severe fiscal problems with 'selling off the "family silver"' (Zohlnhöfer and Obinger 2006). Most of the independent variables enter the analysis either as averages over time or as change variables, depending on theoretical and methodological considerations. Given that the variables for international economic integration show a strong increasing trend over time and that their effects are expected to manifest themselves mainly along the time dimension, these variables enter the analysis as changes over the entire time period. In contrast, political and institutional variables hardly vary over time. Therefore, the average of these variables over the time period is used in the statistical analysis. As an indicator for the ramifications of European integration, a dummy variable was constructed, which takes the value one, if the country was a member of the EU before 1995 and the value of zero otherwise. The membership of the three countries that acceded in 1995 (i.e. Austria, Finland and Sweden) was considered to be too short to have an effect on their privatization records. As a measure of public debt, its maximum value during the time period was used. In most cases, the development of public debt over time is characterized by a single peak, at which the increasing trend turned into a decreasing one, making both the use of the average value or the change over time problematic[1].

5. RESULTS OF THE STATISTICAL ANALYSIS

The main results of our analysis are presented in Table 1 which illustrates the results of cross-section regressions with the extent of privatization as dependent variable and different combinations of the independent variables.

Table 1 The determinants of infrastructure privatization

Dependent variable: privatization (Δ 1983–2000 in %)	*20 countries*					*19 countries (without Spain)*	
Model	*1*	*2*	*3*	*4*	*5*	*6*	*Jack-knife*
Government ideology	−0.369		−0.499*	−0.427*	−0.490*	−0.662***	−0.661***
(Ø 1983–2000)	(1.24)		(1.59)	(1.89)	(2.02)	(3.51)	(3.02)
Corporatism	−4.906		−6.211				
(Ø 1983–2000)	(0.74)		(0.84)				
Institutional constraints	1.751		0.488				
(constant)	(0.27)		(0.08)				
Public debt	−0.033		0.088				
(max 1983–1997)	(0.19)		(0.48)				
EU membership	25.148*	30.596**		26.311**	24.571**	18.297**	17.625*
(member before 1995)	(2.35)	(3.06)		(2.62)	(2.46)	(2.22)	(1.94)
Financial market deregulation	−1.931	−3.189		−1.306			
(Δ1980–1997 absolute)	(0.70)	(1.25)		(0.64)			
Trade dependence	−0.042	0.062					
(Δ1983–2000 in %)	(0.18)	(0.27)					
R-Square	0.49	0.35	0.31	0.46	0.45	0.59	
Adjusted R-Square	0.19	0.23	0.13	0.36	0.39	0.54	

Notes: Results of OLS regressions, absolute t-values in parentheses, t-values are based on heteroscedasticity robust variance estimates; *significant on the 10 per cent level, **significant on the 5 per cent level, ***significant on the 1 per cent level; two-sided tests; results for the constant term are omitted; Ø denotes an average, △ denotes a difference; model 6 shows the results for model 5 without the outlying case Spain; the last column presents jack-knife estimates of coefficients and corresponding t-statistics resulting from 19 re-estimations of model 6 where each re-estimation omits one of the countries from the estimation sample.

Model 1 contains the estimated results for all the explanatory factors discussed in the preceding section. Neither financial market deregulation nor trade integration shows a statistically significant effect on the extent of privatization. Among the external factors, only the coefficient for EU membership indicates a significant positive impact on infrastructure privatization. As for the domestic factors, institutional constraints and corporatist arrangements can be ruled out as explanatory factors. Political party orientation also does not show a significant effect, but its t-statistic is still of such a size that it warrants further investigation. Indeed, when two different models are run, one incorporating only external (model 2) and another incorporating only domestic factors (model 3), government ideology shows a significant effect in the latter, while the results for the former model are basically the same as for the full model. The remaining models reduce the number of independent variables in a step-wise manner by excluding those with a t-score smaller than one. While a reduction of the number of independent variables is desirable given the limited number of cases, this procedure also provides insights about the stability of the remaining relationships. It should be noted that despite the relatively small sample size, the calculated models show no signs of excessive multicollinearity. Even in model 1, none of the variables included has a variance inflation factor larger than 1.75 (values greater than 10 are generally considered to be problematic). Model 4 shows the results of an intermediate step and model 5 represents the most parsimonious model. While the coefficient of EU membership is slightly smaller in the reduced models, party influence shows a larger and clearer effect. The explanation of the extent of privatization can ultimately be reduced to two influential factors: the ideology of government and Europeanization.

Further support for the influence of party ideology can be drawn from model 6 in Table 1. This regression replicates model 5 but excludes Spain from the calculations, which was identified as a severe outlier in the regression diagnostics. As the Spanish case is characterized by almost complete privatization through left-wing governments (Etchemendy 2004), this case is clearly deviating from the overall pattern. A comparison of the R-square statistics between the models based on all countries and those without Spain also makes it clear how sensitive this statistic is towards individual outliers. The adjusted R-square of 0.39 in model 5 increases to 0.54 in model 6 when Spain is omitted. The latter result represents considerable explanatory power for a model with just two independent variables.

Further analyses show that the results are robust to both changes in sample composition and model specification. The jack-knife estimates reported in the last column of Table 1 indicate that the results from model 6 are not sensitive to the exclusion of further countries from the sample.[2] Overall, government ideology and EU membership show strong and statistically significant relationships with the extent of privatization. The results of the analysis are visualized in Figure 2.

The predicted values plotted in the graph are based on model 6 in Table 1. Accordingly, the essential factors accounting for the extent of infrastructure privatization are the ideological orientation of the government as well as

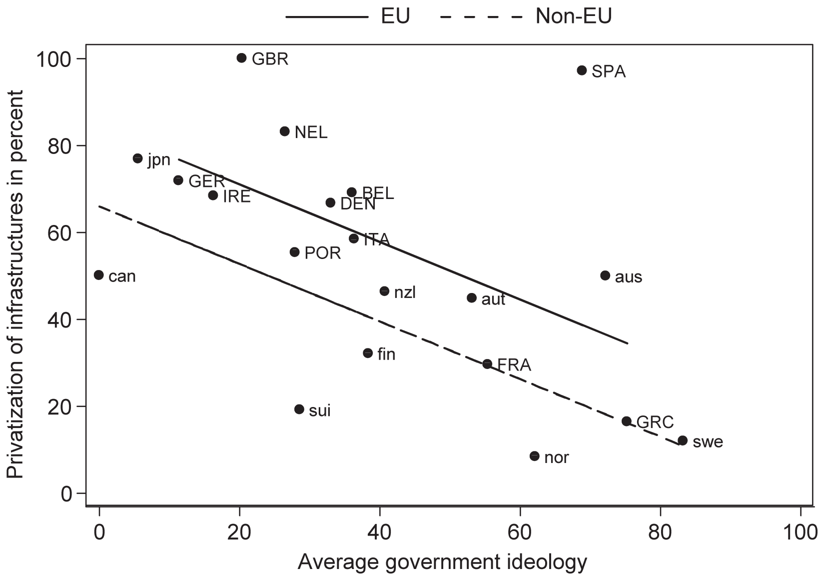

Figure 2 Illustration of the results of the regression analysis
Note: The figure is based on model 6 in Table 1. Lines represent predicted values for EU12 member states and non-member states, respectively. The value for Spain is only shown to illustrate its deviation from the overall pattern; the country is not included in the calculation of the predicted values plotted in the figure.

membership of the EU. Figure 2 is a scatter plot of the dependent variable against the average proportion of left party seats in the cabinet. Non-EU12 countries are abbreviated with lower case letters and EU12 countries with capital letters. The lines print predicted values conditional on EU membership, with the upper line referring to the EU12 and the lower line to the non-EU12 countries. The slope of the lines reflects the party effect and the vertical distance between the two lines illustrates the effect of EU membership.

As indicated by the difference in the height of the intercepts of the two lines, the extent of privatization was more than 18 percentage points higher in EU member states than in non-member states. Also, the extent of privatization in both groups of countries is approximately 0.66 percentage points less for each percentage point of cabinet positions that were on average held by left parties over the time period. Although not too much emphasis should be put on the exact magnitude of the effects, their large size, the relative robustness and the clarity of the relationships seem to justify the conclusion that the privatization of infrastructures tended to be more extensive in EU countries and countries in which the government consisted of right-wing parties than in non-EU countries and countries with governments dominated by left-wing parties.

6. INTERPRETATION

The statistical analysis examined the factors that fostered or hindered privatization. This tool cannot provide insights regarding the factors that are responsible for bringing about this wave of privatization in the first place. However, any satisfactory explanation should not only be able to make sense of the variation in the extent of privatization across countries, but also shed light on the emergence of the privatization trend. This section argues that the privatization wave was started through the establishment and diffusion of a new neo-liberal policy model for infrastructure sectors and that the timing and extent of privatizations depended on the compatibility of that model with the belief systems of influential political actors. In this framework, it is implausible to regard the significant effect of EU membership on the extent of privatizations as directly caused by a higher level of economic integration among member states. Instead, Europeanization is interpreted as a mainly political process driven by self-interested policy-makers.

As the statistical analysis showed, the general retreat of the state from public infrastructures cannot be traced back to changed conditions in foreign trade and investments. It is more plausible, therefore, that the potential effects of globalization constituted only one of the justifications for the adoption of the neo-liberal economic model, not the actual cause for privatizations. Thus, the discourse prevailing in a certain political system does not only affect the capability of governments to react to 'objective' external economic pressures (e.g. Schmidt 2002). Even more importantly, economic problems are only recognized as such in the light of a certain policy paradigm. The international diffusion of the new paradigm is the actual trigger of reforms of the state, not just a mediating factor affecting the extent and timing of transformations.

Regarding the emergence of the new neo-liberal policy model for infrastructure sectors, a paradigmatic change in economics played an essential role. As a response to Keynesianism, theoretical arguments focusing on the ineffectiveness of state intervention emerged during the 1970s, and alternative proposals demanded less government and more market freedom. The adaptation of these ideas into public policy-making led to the emergence of a new theoretical framework to conceptualize the overall political economy. Eventually, this policy model spread throughout the world.

From a theoretical standpoint, it can be ruled out that this spread was a 'rational learning process' as it is theorized in the literature on policy transfers (Dolowitz and Marsh 1996). Infrastructures are based on long-term investments whose effectiveness can only be judged on a long-term basis. However, very few reliable empirical studies on the effects of privatization over time and the transformation of infrastructure sectors in general existed at this time (Bauer 2004). For instance, systematic evaluations on the British privatization process had been published only in the early 1990s (Miller 1995). Thus, political actors usually privatized without the possibility of weighing the performance of the new policy model against the traditional mode of infrastructure provision. Bottlenecks in the energy supplies in the United States as well as security problems in the British railroad network are only a few examples that shed doubt on the long-term efficiency and overall superiority of privately organized infrastructures. From a long-term economic perspective, the possibility that an inferior development path was chosen cannot be ruled out.

Accordingly, the extent to which political actors adopted these strategies depended on how well they supported or could be brought into line with the existing cognitive frame and action orientation of actors. A useful way to analyse this 'ideational' level is offered with the concept of 'policy belief systems' (Sabatier 1998). This concept distinguishes between main core, policy core and secondary aspects. The main core contains fundamental normative and ontological axioms. The policy core comprises the strategies applied to implement the concepts of values of the main core within a certain policy area, while the secondary aspects refer primarily to the adequate pursuit of these strategies by means of concrete administrative and legislative measures. The extent to which elements of an action orientation can then be changed depends on the abstractness of the structural category to which these elements belong. Change in one's core convictions is less probable than change in the secondary aspects of the practical implementation of these objectives. Changes in the belief system are assumed to come about through instrumental learning. In practice, this means that information that sheds doubt on existing basic ideas is rejected and scientific analyses are primarily used by actors to support their own principles and beliefs or to attack those of their political opponents.

For liberal and conservative parties, whose core convictions traditionally include the idea of a limited role of the state in the economy, adopting the neo-liberal infrastructure model was not a difficult task. The neo-liberal model confirmed their assessment that the market is generally superior to the state as a co-ordination mechanism. Left parties, however, had greater difficulties in conforming to this model because they generally exhibit more trust in state regulation than in market co-ordination. However, the more this policy model spread and the greater the consensus over its comparative advantages grew, the greater the pressure became on the remaining governments, which had yet to adopt this model in their countries. Ultimately, left governments also privatized, but more hesitantly and not as extensively. Owing to the considerable difference between the core beliefs of left-oriented parties and the principles underlying the new policy model, it was difficult for them to accept the neo-liberal proposals as a political strategy. The party effect on the extent of privatization, which was identified in the analysis, can therefore be traced back to the degree of consistency between the new policy model and the government parties' traditional action orientation.

The effect of EU membership can be interpreted in a similar vein; it operates through several mechanisms simultaneously. In the area of telecommunications, Schneider and Werle (2007) recently distinguished four types of Europeanization which also apply to the sectors involved in our study:

- Engagement of supranational EU actors in the various policy domains and the adoption and execution of European rules in these areas.
- Adjustment and adaptation of domestic actors and institutions in EU member states to policy processes and goals at EU level.
- Institutional convergence through horizontal bargaining and other interaction processes that go beyond mere information sharing.
- Institutional convergence through policy diffusion, where member states copy or emulate policy programmes without active concertation and co-ordination.

As a closer look at liberalization and privatization in telecommunications shows, these different mechanisms worked closely together. Telecommunications policy at the EU level not only followed the preferences of the majority of its member states, but also the self-interest of its supranational institutions such as the Commission and the Court of Justice. Both institutions dispose of specific resources to produce compliance even by dissenting member states. In addition, the new policy paradigm has also spread through horizontal policy transfer.

Earlier regulatory reforms in the United States and Japan mobilized the European Commission to anticipate global adaptation pressures in the coming years. The Commission's perception was that European industry would lose industrial ground if member governments delayed institutional readjustment for too long. Through this strategy, the Commission entered into a kind of paradoxical 'political alliance' with the United States, supporting American requests for deregulation and liberalization, with the long-term goal of improving European competitiveness. Essentially, the European Commission promoted institutional adaptation through a strategy that combined elements of 'neo-liberalism' with 'neo-mercantilism', i.e. state-led adaptation of industrial sectors through the introduction of competition. On the one hand, the Commission supported European industry through extensive research and development programmes (e.g. Esprit and Race); on the other hand, it promoted liberalization measures.

Both strategies were successful, and liberalization was also supported by a number of decisions of the European Court of Justice, which essentially extended the principle of competition into the realm of former public monopolies and publicly administered bodies (Schmidt 1998). During the early years of liberalization, the state monopolist telecommunication administrations tried to defend their status quo. But over time, they gradually changed their preferences. Challenged by open competition, they increasingly considered their public status as a competitive disadvantage and became interested in changing their structure into a private law company. Through this accelerating privatization pull, most of the formerly public postal and telecommunication companies changed their status to private corporations during the 1990s, whose shares were eventually sold and traded on the stock exchange.

These horizontal pull and push forces of policy diffusion have clearly been amplified by supranational, 'vertical' relations, forcing institutional changes in countries which initially did not support such changes or did not have the capacity to enforce such reform efforts. For instance, this was the case in Italy, where institutional change without pressure from Brussels would have been impossible. Italy complied with EU requirements only reluctantly. The dominance of status quo-oriented interests and the fragmented political decision structure created too many obstacles in the Italian political system for swift structural adaptation to occur. Much of this inertia could only be overcome through pressure from Brussels. In effect, Europeanization prompted the government to realize that it had no choice but to change its policy strategies (Schneider 2001).

Supranational pressures from the EU also supported and amplified the process of structural reform in Germany and France. In both countries, the European Commission entered into transnational alliances with domestic reformers; and in both countries, decisions of the European Court of Justice significantly improved the position of liberalizers, despite the straddling goals of their governments in the Council.

Most of these processes can be generalized to all infrastructures that are dealt with in this analysis. Thus, the effect of EU membership can be attributed to a combination of: (1) the cognitive predisposition of the European Commission towards the new policy model; (2) the EU's institutional possibilities of supporting and enforcing policy transfer throughout Europe; and (3) intensified interactions between member countries facilitating policy diffusion and policy transfer (Radaelli 2000).

7. CONCLUSION

This study investigated whether the state is really undergoing a process of transformation as currently debated and, if so, to what extent Europeanization is driving this process. First, conceptual and measurement problems encountered when facing the question of whether or not the state is on the retreat were discussed. A new indicator for one of the core functions of the modern state, the provision of infrastructures, was introduced. This measure, the public infrastructure ratio, shows clearly that the role of the state has declined since the early to mid-1980s. While all countries made some steps towards privatizing infrastructure companies, the measure also shows that the extent to which this happened varied considerably across countries.

Several approaches and theories are advanced in the literature to account for this phenomenon. It is often argued that factors in the regional and international environment of states influence their roles and power positions, but also domestic political structures, beliefs and preferences. Based on these theoretical views, hypotheses were derived about the effects of Europeanization and globalization, as well as domestic factors such as institutional constraints, corporatist arrangements, government ideology, and public debt. The statistical analysis showed strong and significant relations of government ideology and of Europeanization with the extent of infrastructure privatization, while the coefficients for the globalization variables and for the other domestic factors were insignificant. Therefore, the main conclusions from the statistical analysis are that Europeanization promoted infrastructure privatization and that left governments were rather reluctant to privatize state-owned infrastructure companies.

However, it is important to note that a statistical analysis can at best account for changes in a certain phenomenon, not for its origin. In this respect, the statistical results say something about the varying degrees of privatization, but not about what started the wave of privatization in the first place. The origin of the privatization trend lies in a paradigm change in economics during the 1970s, the advent of neo-liberal thinking. The diffusion of ideas among political actors is conditioned by their existing belief system. If actors have strong cognitive priors conflicting with a certain idea, it will be harder to persuade them to adopt a different point of view. This framework can account for and accommodate both of the two main empirical findings of the statistical analysis, namely that Europeanization and a rightist government ideology affect the degree of privatization of infrastructure companies. Right-wing politicians were happy to incorporate neo-liberal prescriptions into their policy views as it was providing them with scientific justifications for ideas already held in similar form. An analogous picture can be drawn for the European Commission. During the late 1980s and the 1990s, a primary way to advance its own institutional powers was to implement the economic programme enshrined in the Single European Act, which is to a considerable extent based on neo-liberal ideas.

What does all this mean for the question set out in the beginning of the paper? Is the state really on the retreat? According to our indicators, the answer is yes. But as already mentioned, this does not necessarily mean a declining role of the state in society. It could simply be the case that direct interventions are replaced by more indirect and less visible means of control such as regulation. And even if the current retreat of the state is taken as granted, the analysis has pointed out that there is nothing inevitable and irreversible about this trend. It is all man-made and not an automatic consequence of international economic integration. Coming back to the comparison with the global warming debate, there are still sceptics arguing that there were always long-term cycles in temperature and therefore it is too early to conclude that global warming really exists. A similar argument can be made with regard to the coming end of the state. Pro/contra government feelings may simply be at the bottom of a long cycle at the moment and the trend could reverse in future. Recent events, ranging from election outcomes in South America, mass demonstrations at World Trade Organization and G7 meetings, to the rejections of the EU Constitutional Treaty in the Netherlands and France, might be indications that the neo-liberal consensus is crumbling.

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NOTES

1 The data are available as part of the web-appendix at http://www.uni-konstanz.de/FuF/Verwiss/Schneider. This appendix contains more details on data sources and variables. In addition, the web-appendix discusses further justifications for a cross-section regression approach.
2 The results can also be replicated using a number of alternative model specifications; these are reported in the web-appendix.

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