The Benelux Countries: Identity and Self-Interest

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List of Abbreviations

CAP	Common Agricultural Policy
ECSC	European Coal and Steel Community
EDC	European Defense Community
EEC	European Economic Community
EMS	European Monetary System
ERP	European Recovery Program
EU	European Union
GDP	Gross Domestic Product
NATO	North Atlantic Treaty Organization
OECD	Organization for Economic Cooperation and Development
OEEC	Organization for European Economic Cooperation
SGP	Stability and Growth Pact
WEU	West European Union

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The purpose of this chapter is to analyze the relationship between the European Union and the Benelux countries–meaning Belgium, the Netherlands, and Luxembourg. The argument is that for each of these countries, participation in European integration originated as an act of national self interest. However, it developed into a facet of national identity. Along the way, conceptions of self-interest changed as well. The process is untidy and yet the general principle is straightforward. Participation in Europe changes the member states even as the member states create and change the institutions of Europe. The end result of this circular relationship is ambiguous. Belgium, the Netherlands, and Luxembourg are transformed but they do not disappear. They share a common identity and yet they remain different countries, each distinctive in its own way.

The chapter is organized in five sections. The first analyzes integration in the Benelux as a harbinger or precursor for integration in Europe. The second examines the preferences and politics of the Benelux countries as participants in European integration up to the mid-1960s. The third sets out the domestic distributive consequences of participation from the 1960s onward. The fourth looks at the institutional implications, again from the 1960s onward. The fifth returns to the question of preferences and politics and concludes with some suggestions about what the experience of the Benelux countries implies about the process of Europeanization more generally.

Identity and Self-Interest

As a starting point, it is worth noting that the choice to treat the Benelux countries as a single unit for analysis is more reflective of the need to hold down the number of chapters in this volume than of any strong assertion that the Benelux countries are all alike. Nevertheless, the choice to group the Benelux countries together is not arbitrary. Belgium, the Netherlands, and Luxembourg share the same geographic space–known generically as the 'Low Countries'. They have shared a special economic relationship for more than half a century. And, of Europe's smaller countries, they have the longest experience of integration.

Still, the irony is that the three countries are actually very different from one another. Take language, for example. Like most countries in Europe, the Dutch speak a single language–called 'common civilized Dutch'–albeit with a moderate-to-strong dialectical variation from South to North and from West to East. People from Amsterdam (which is toward the northwest) can understand people from Maastricht (which is in the southeast), however the people from Maastricht can make it difficult if they choose. The Belgians are divided by language, with the northerners speaking Flemish varieties of the Dutch and the southerners speaking Walloon French.[1] The capital of Belgium, Brussels, is officially a bilingual city French/Dutch. Even there, however, visitors are quick to note that the shopkeepers tend to prefer one language over another. Finally, the Luxembourgers are polyglot. They are educated in French and German, they use French as their official language, and they speak their own German dialect–Lëtzebuergisch–at home. This multilingual education is actually a clever strategy for keeping Lëtzebuergisch alive. So long as everyone is equally well-trained in French and German, no-one need feel they are disadvantaging their children by speaking to them in dialect.

[1] There is also a very small community of German speakers in the eastern-most part of Belgium who were ceded to the country as part of the territorial settlements at the end of the Second World War.

Political Identity

The point to note is that such linguistic differences are more political than 'organic'. The people who live in Low Countries have long spoken a variety of languages and dialects–just as everywhere else in Europe. However, in contrast to countries such as France, Germany, or Italy, the Low Countries were never subject to linguistic homogenization as a group–and not for wont of opportunity. At the start of the 19th Century, the Great Powers cobbled together the Low Countries under the Kingdom of the Netherlands in order to create a viable buffer between France and Germany. It was the end of the Napoleonic Wars, the Concert of Europe was just asserting itself, and the 'balance of power' provided the organizing principle for the European state system. A single Kingdom of the Netherlands could not defend itself against a resurgent France or a united Germany. However, it could do reasonably well against a downtrodden France and a fractious cluster of German principalities. Hence the Dutch king, William of Orange, set about unifying the different parts of the Low Countries economically, politically, and, after 1819, culturally and linguistically as well (Bernard 1961).

The problem was that the Belgians did not enjoy being under the tutelage of the House of Orange, for religious as well as linguistic reasons. The Belgians were more Catholic than Protestant in addition to being more likely to speak French than Dutch. For their own part, the Luxembourgers preferred existence as a sovereign duchy than as a dependent province. Culturally, they felt more attuned to France or Germany than to the Netherlands. The Belgian revolt of 1830 put an end to the united Kingdom of the Netherlands and the Treaty of London in 1839 restored the sovereignty of the Grand Duchy of Luxembourg. Luxembourg and the Netherlands remained in a personal union, with the King of the Netherlands being also Grand Duke of Luxembourg. However, by the end of the 19th Century even this union fell apart as a woman (Wilhelmina) ascended to the Dutch throne but was prevented from becoming Grand Duchess. (Up to that point the rules governing succession in the Luxembourg permitted only men to inherit titles; within less than two decades, the rules were changed to extend this privilege to women as well). The House of Orange retained control over the Grand Duchy, but along a different branch of the family from that residing in The Hague. In this way, the last vestiges of the post-Napoleonic Kingdom of the Netherlands were undone, and the promise of economic, political, and cultural unification along with them (Bernard 1961; Weil 1970).

Environmental Self-Interest

The Low Countries chose not to remain unified and yet they could not escape the dictates of geography or of the European state system (Eyck 1959). They preferred not to live together, but they could not prosper easily alone. Hence, for much of the early 20th Century, relations between the three small countries alternated between cordial and fractious. Throughout, it was self-interest that drove the countries together and identity that pushed them apart. To give an example, the people of Luxembourg acknowledged that they would have to join in an economic union with some larger country in order to remain viable after the First World War. Given the choice in referendum, however, the Luxembourg population voted overwhelmingly for union with France. Britain resisted such a union and France demurred. Belgium offered the only other alternative, and the 1922 economic union between Belgium and Luxembourg was the result (Bernard 1961: 690-691; van Meerhaeghe 1987).

The Benelux as an organization has similar origins. During the Second World War, the political leaders of the three small countries found themselves together in exile in London. They realized that some formal relationship between their economies would be better than going it alone. And yet they feared that domestic opposition would scupper any attempt to negotiate a union during the period of reconstruction that was sure to follow the war. Hence they decided to negotiate the terms of the Benelux union before the war ended and under the exceptional power they retained as leaders in

wartime. In this way, the union would be a *fait accompli* (Spaak 1969: 150-152). As it turned out, their reasoning was well-founded. Not only did the Benelux countries implement their union only slowly after the war, but they also had to fend off a number of competing but less universally acceptable proposals from France and Italy–with names such as 'Fritalux' or 'Finebel' (Milward 1984: 306-316).

As an 'union', however, the Benelux has been something of a disappointment. The customs union between the three countries was successful both in opening Dutch markets to exports from Belgium and Luxembourg after the Second World War and in providing a favorable context for the belated industrialization of the Netherlands. The currency union proved less robust. The parity between the Belgian and Luxembourgish franks remained fixed per their earlier agreement, but the exchange rates between frank and the Dutch guilder moved already by the end of the 1940s. Finally, the elaboration of common Benelux political institutions had little if any success. As a symbol or aspiration, the proposal to deepen the institutions of the Benelux in the 1960s may be said to have encouraged greater enthusiasm for integration via the European Community. But as a practical venture it offered few tangible results (Weil 1970: 224-231).

Unity with Diversity

The development of the Benelux was tightly circumscribed by the differences in the identities of the three countries and by the overlap in their self-interest. Admitting that, however, should not imply that either identity or self-interest have proved immutable. On the contrary, the promotion of the Benelux greatly increased the pace of exchange between the Low Countries–tightening cultural as well as economic bonds (Samoy 1981). The fact that it makes sense today to group the Benelux countries together is testament to the impact that the experience of their union has had on the development of their separate national identities. Whatever the limits of the union between them, the Benelux countries are now more than just Belgium, the Netherlands, and Luxembourg. They are 'Benelux countries' and as such can be treated as a case group.

Preference and Policy

The overlap in self-interest lies at the heart of the Benelux approach to Europe up through the 1960s. For all three countries, the top priority was to ensure that they would benefit from market access. The problem is that as small countries they were more dependent upon access to European markets than any of the larger countries of Europe (France, Germany, Italy, the United Kingdom) were dependent upon the provision of exports from the Low Countries. As a result they had little leverage to secure their self-interest against the wishes of their larger neighbors. Of course, the Benelux countries were not unique in this dependence. Virtually all of the small countries of Europe shared the problem of needing large country markets more than large countries needed them (Katzenstein 1985). However, four geographic factors–one common, and three particular–make the position of the Low Countries somewhat unique. The common factor is position: The Low Countries nestle between France, Germany, and Britain. As a result, they were (almost) symmetrically dependent in a number of different directions. It was not enough for these countries to have access to one large country or another. Their self-interest was to have access to them all.

The three specific factors appertain to each of the Low Countries. Belgium included the earliest industrialized zone on the continent–predominantly located in the French-speaking south of the country–and so was economically dependent upon mature industries such as coal, steel, and textiles, for which the danger of market protectionism is particularly acute. A similar point can be made for Luxembourg, however with the proviso that the Grand Duchy's economy was so small as to rely almost wholly upon coal extraction and metal processing. Meanwhile, the Dutch economy centered on

agriculture, fishing, and commerce. In addition to the country's large production of meat and dairy products, the harbors at Rotterdam and Amsterdam provided the principal gateway from the Atlantic seaways to the European continent. Hence the Low Countries all required access to trade to differing degrees and for different reasons (Eyck 1959).

Multilateral Market Access

The first major experiment with trade integration came already in the 1930s. Within the context of the League of Nations, the Low Countries joined with the Nordic countries (Denmark, Finland, Sweden, Norway) in a tariff alliance–called the Oslo Alliance after the Norwegian capital city where the treaty was signed. The goal of this alliance was to arrest the movement toward trade protection that coincided with the onset of the Great Depression. The small countries agreed to consult with each other over trade restrictions between themselves and to work together in their tariff negotiations with the larger countries of Europe. The result was less than hoped for. The larger countries refused to join in the Oslo alliance and worked actively to promote its disintegration. By the end of the 1930s, the Oslo alliance was in tatters (Van Roon 1989).

Despite this failure, however, the importance of institutionalized collective action became a cornerstone for the foreign economic policy of the Low Countries (Eyck 1959: 84). The alliance of small countries may have failed, but at least it offered a chance of success. Moreover, politicians in the Low Countries made a direct connection between the failure of international economic relations and the breakdown of international security. Such reasoning is evident in the recollections of Paul-Henri Spaak (1969: 148-149), a long-time Foreign Minister of Belgium and one of the principal architects of European integration:

> In 1942, my thinking could be stated precisely as follows: 'There is no political solution without an economic solution and vice-versa. In the world of tomorrow, particularly in the Europe of tomorrow, and even more particularly for the small countries of Europe, the problems of security and prosperity will be indissolubly mingled.'

Spaak went on in his recollections to argue about the need for the creation of supranational authority over the national governments of Europe–replacing 'nationalism' per se with a type of enlightened 'internationalism'. However, his admiration for supranationalism was less widely shared within the Low Countries than was his commitment to the need for collective action between countries. If there is a common characteristic to the lesson-learning of the inter-war period, it was that regional integration should be institutionalized around national self-interest in order to succeed. The Benelux is a case in point that has already been touched upon. However, it is worth outlining the economic situation at the end of the Second World War in order to illustrate the type of economic exchanges that international integration makes possible.

Market access and trade lay at the core of the Benelux as an economic bargain. At the end of the Second World War, Belgium and Luxembourg had large supplies of coal and steel that the Netherlands could use for reconstruction. The problem was that the Netherlands had little to offer in exchange. Even worse, Belgium and Luxembourg had ample foreign exchange reserves while the Netherlands did not. By implication, any trade between Belgium or Luxembourg and the Netherlands would result in a bilateral imbalance that the Netherlands could not finance. Yet Belgium and Luxembourg needed to sell their coal and steel and the Netherlands needed to buy them. The Benelux promised to square the circle by guaranteeing market access in both directions–skewing Dutch exports toward Belgium and Luxembourg in order to enable the Dutch to finance imports from its two southern

neighbors. The result was never entirely effective, and hence the breakdown in the fixed exchange rate between the frank and the guilder by the end of the 1940s. However, the trade diversion did take place and economic connections within the Benelux tightened rapidly (ERP 1949).

The Schuman Plan

The imprint of national self-interest can also be found in the different reactions of the Low Countries to Robert Schuman's May 1950 proposal to create a European Coal and Steel Community (ECSC). As major coal and steel producers, Belgium and Luxembourg were clearly affected by the proposal. However, the implications for the two countries were very different. Belgian diplomats expressed concern that their older industries would be among the first to be phased out as a result of European competition. Given that these industries were located in the French-speaking south of the country, such competition would invariably feed into growing political tension between Walloons and Flemings. Hence the Belgians agreed to the Schuman Plan only reluctantly and on condition that they be allowed to subsidize coal and steel producers beyond the levels provided by the ECSC and that they also be permitted to opt out of the agreement in the event that the domestic implications proved unmanageable (Milward 1992: 46-83).

By contrast, Luxembourg diplomats focused on the planning side of Schuman's proposal. Their concern was that Belgium would use the excuse of the ECSC to undermine the privileged access that Luxembourg producers had to Belgian markets under the terms of the 1922 economic union between the two countries. The justification for this concern was that privileged access through the Belgium-Luxembourg Economic Union had skewed the export orientation of Luxembourg industries and so made the excessively dependent upon Belgian markets. (Here already we can see how the experience of integration has changed the calculation of self-interest.) At the same time, the Luxembourgers noted that the powers of the High Authority–the supranational body responsible for administering the coal and steel pool–would give it effective control over the mainstay of the Grand Duchy's economy. Hence they demanded guarantees that they would not lose their existing market advantages and that their sovereignty would not be unduly eroded by the High Authority.[2]

The reaction of the Netherlands of the Schuman Plan was also ambivalent. Although supportive of the ideal of an integrated European market, the Dutch were deeply suspicious of the delegation of national responsibilities to a supranational agency such as the proposed High Authority. Such an agency would be likely to be coopted to serve the interests of large countries rather than small, and would offer little or no protection to Dutch national interest in any event. Hence the Dutch insisted on the creation of an intergovernmental Council of Ministers to oversee the actions of the High Authority and to safeguard the national interest of the member states (Griffiths 1980: 278-279).

Toward the Common Market

Despite the ambivalence of the Low Countries regarding the ECSC, their enthusiasm for European economic integration was unmatched. The Dutch were particularly energetic in coming up with ideas. Soon after the announcement of the Schuman Plan, the Dutch Foreign Minister, Dirk Stikker, proposed

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[2] Evidence for this point can be found in a brilliant website assembled by University of Leiden professor Richard Griffiths. The commentary on the site is available only in Dutch; the documents are in original languages. The specific document used here is a memorandum to the Luxembourg Minister of Foreign Affairs and dated 7 December 1950. The URL for the website is: http://esf.niwi.knaw.nl/esf1997/projects/schuman/we/welkomframe.html.

that the countries of the Organization for European Economic Cooperation (OEEC–an institutional pre-cursor to the OECD) engage in an aggressive liberalization of European trade by sector. Weeks later, his counterpart at the Dutch Ministry of Agriculture, Sicco Mansholt, proposed the creation of a European Agricultural Community along much the same lines as the ECSC. Neither of these proposals came to fruition–although the Mansholt proposal arguably survived in the Common Agricultural Policy (CAP) of the European Economic Community (EEC) if only insofar as Mansholt himself was the first European Commissioner for Agriculture (Milward 1984: 446-454). Such failings only underscore a harsh reality identified by Charles Kindleberger (1986: 298) in his analysis of the Great Depression: Even 'the most sensible proposals emanating from small countries are valueless if they lack the capacity to carry them out and fail to enlist the countries that do.'

The experience of a further Dutch initiative bears this out. During the ill-fated deliberations over the creation of a European Defense Community (EDC 1951-1954), another Dutch Foreign Minister, Willem Beyen, proposed that the members of the ECSC form a common market. His reasoning echoed the sentiments of his Belgian counterpart, Paul-Henri Spaak (cited above). Security integration must be underpinned by economic integration in order to function, because only economic integration can ensure the political union of those countries aspiring to create an EDC. More important, however, the Beyen Plan signaled the determination of the Netherlands to keep the issue of market access on the European agenda. And while the collapse of the EDC brought down the Beyen Plan as well, the proposal to create a European customs union and common market remained embedded in the integration process (Griffiths and Milward 1986).

Within less than a year from the end of the EDC deliberations, the members of the ECSC agreed to return to the question of market access. In their declaration at Messina (1955) they announced:

> The governments of the Federal Republic of Germany, Belgium, France, Italy, Luxembourg and the Netherlands believe the time has come to take a new step on the road of European construction. They are of the opinion that this objectives should be achieved first of all in the economic sphere.
>
> They believe that the establishment of a united Europe must be achieved through the development of common institutions, the progressive fusion of national economies, the creation of a common market, and the gradual harmonization of their social policies.[3]

Support for Supranational Authority

The progression from the Messina declaration to the Treaty of Rome is well-known and fits comfortably within the national interest of the Low Countries as described above. However, one element of initial Low Country preference remains to be explained. During the ECSC, both Luxembourg and the Netherlands expressed concern about the supranational High Authority–with the Netherlands insisting even that the ECSC be endowed with an intergovernmental Council of Ministers. As Richard Griffiths (1980: 279) notes: 'Interestingly, there is no sign, at this early stage, of the belief in supranationalism that was later to become the hall-mark of the Dutch approach'.

The change in attitudes centers around the negotiation of the French Fouchet Plan (1960-1962) and the concomitant first British application for EEC membership (1961-1963). The two episodes are

[3] The text of the Messina Declaration can be found at another website hosted by Richard Griffiths. The URL is http://www.let.leidenuniv.nl/history/rtg/res1/messina.htm .

not directly linked. However they are connected through the relationship between the larger and smaller member states. The Fouchet Plan was a French proposal to broaden the scope of European integration into a number of different functional areas–foreign policy, defense, economics, and culture–each of which would be endowed with its own administrative organization much like the European Commission served the common market. The center of gravity in this new system would be the Council of Ministers and by implication the separate supranational authorities would have little scope for autonomy. This arrangement would seem to be in keeping with Dutch attitudes as revealed in the ECSC negotiations and yet the Netherlands emerged as an immediate and steadfast opponent of the proposal (Silj 1967).

Dutch opposition rested on two concerns. First, European defense cooperation would undermine relations between Europe and the United States within the North Atlantic Treaty Organization (NATO) and it would also undermine cooperation with Britain, which was in NATO and the West European Union (WEU)–effectively the European pillar of NATO–but which was not a member of the EEC. Second, any organization dependent upon a Council of Ministers that included only the six original EEC member states could too easily devolve into a Franco-German condominium at the expense of the smaller countries. This position is entirely consistent with the earlier objection to the ECSC. Having a supranational agency that is implicitly captive to the interests of large countries is bad for small country interests. Having an intergovernmental arrangement that is explicitly dominated by large countries is worse.[4]

The Dutch strategy for opposing the Fouchet Plan had two components: support for British entry in the EEC; and insistence that the European Commission remain the singular and encompassing supranational authority for the Community. Initially, the Dutch were isolated in their opposition. Although they would have preferred to have Britain in the EEC and to retain a strong supranational check on Franco-German dominance, Belgium and Luxembourg were initially willing to support the Fouchet Plan. However, as French opposition to British entry became clear and as De Gaulle became more demanding in the Fouchet negotiations, Belgium and Luxembourg swung their support behind the Dutch (Silj 1967; Jones 1993: 114-121).

The Fouchet negotiations collapsed and the EEC moved into a period of conflict and relative stagnation–marked by the French vetos of British accession (1963 and 1967), the empty chair crisis (1965), and the Luxembourg compromise (1966). However, the Low Country position within the EEC was secure. France and Germany did not dominate the Council of Ministers. The Commission was strong enough to check the Council but not so strong as to override the national interests of even the smaller member states. And progress toward the extension of market access across a wide range of sectors was running ahead of schedule. The question to consider then is what impact this had on the Benelux.

Distribution and Adjustment

The economies of the Benelux countries changed dramatically during the period from the 1960s through the 1990s. In Belgium, the balance of wealth shifted from South to North, with the Flemish-speaking provinces becoming the new center of gravity for politics and economics. Meanwhile, the mature industries of the Walloon South stagnated and coal mining disappeared entirely. Luxembourg developed

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[4] As Christian Franck (1983: 86-87) points out, this interpretation does not rely on an implicit understanding among the smaller countries. Indeed, the advantage of supporting the Commission against the Council is precisely that it supports small country interests even when a coalition of the smaller states cannot be formed.

as a financial center, it attracted a large immigrant workforce, and it consolidated its position as host to a number of large European institutions. The Netherlands enjoyed a brief period of manufacturing success but then returned to its origins as a predominantly service-sector economy. At the same time, Dutch agriculture flourished and consolidated, becoming not only among the most productive food exporters in Europe but also one of the most heavily capitalized.

The difficulty lies in determining how much (if any) of such transformations should be attributed to European integration per se. The balance of wealth and power in Belgium was shifting northward before the onset of the Second World War and per capita grew faster in Flanders than in Wallonia from 1948 to 1959 (Chaput and de Falleur 1961: 186). The migration of foreign workers to Luxembourg is a long-standing development as well. What is more, any progress that the Grand Duchy has made as a financial center is at best only equal to (at least in relative terms) that achieved by Switzerland and Liechtenstein despite their being outside the European Community (now Union). Finally, the renewed service sector emphasis of the Dutch economy only mirrors developments elsewhere. Hence if there is a clear beneficiary of European integration it is Dutch agriculture. Given the role that the Dutch played in shaping the CAP, it would be surprising if it were otherwise.

The difficulties of estimating the precise impact of Europe are not unresolvable. But their resolution is more complicated than necessary to chart the broad contours of the EU-member state relationship. Indeed, the scholarly literature has focused primarily on three questions: Has European integration benefitted capital more than labor? Does it constrain macroeconomic strategies to focus on stability rather than growth? Or is the effect of European integration really to enhance rather than to diminish the capabilities of the member states? The first two of these questions are independent but complementary. Europe can be either pro-capital or pro-stability without necessarily implying the other, and it can be both pro-capital and pro-stability without giving rise to contradiction. The third question is exclusive because it changes the frame of reference. If Europe enhances the capabilities of the nation-state, then the state can be pro-capital or pro-stability, but European integration cannot. Otherwise, so soon as state policymakers changed their attitudes toward either capital-labor relations or the trade-off between growth and stability, they would find their autonomy constrained by Europe and not enhanced.

Integration and Business

Paulette Kurzer (1988, 1993, 1997a) is the most forceful proponent of the argument that European integration has privileged capital over labor, particularly as it applies to Belgium and the Netherlands. The force of her claim rests on three propositions. First, market access facilitates the direct foreign investment of large multinational corporations, many of which were attracted to the Low Countries at the start of the European Communities in the 1960s. Roughly one-quarter of all United States investment into the EEC during the 1960s went into the Low Countries, and foreign direct investment into Belgium accounted for as much as one-half of the country's net capital formation (Van Rijckeghem 1982: 592-593). These foreign firms represented a new political force for the governments of the Low Countries to have to take into consideration. Second, market access works the other way as well, making it easier for domestic firms to move their production facilities abroad without losing their position with domestic consumers. In this way, domestic firms became politically more powerful because they could use the threat to move production abroad as a lever to manipulate government policy. Third, the liberalization of international capital flows in the late 1970s and 1980s, strengthened the first two forces by making it easier for firms to enter the Low Countries and easier for them to exit as well. Beyond that, capital market liberalization also gave rise to 'international finance' as a separate power with which the governments of the Low Countries had to contend. Banking become an economic mainstay in Luxembourg during the 1980s (Hey 2003: 81), and banking interests moved to the center of monetary

policymaking in Belgium and the Netherlands as well (Kurzer 1988).

Kurzer (1993) uses this argument about the pro-business bias of European integration to explain why social democracy in the Low Countries has fared less well than it has in either Austria or Sweden. As business and financial interests have grown in importance, the rights and privileges of the working classes have been downgraded. This is most evident in the pressure to reform public expenditures and labor market regulations. It is also evident in the gradual shift in the distribution of value-added from labor to capital that took place in Belgium and the Netherlands during the 1980s and 1990s.

A Pro-Stability Bias?

The macroeconomic constraints implied by European integration emerge from similar factors and particularly from the free movement of capital across national borders. The force of the argument derives not from the intentions of any specific group–say, business versus labor. Rather it emerges from the unintended consequences of the capital flows themselves. Mobile capital creates volatility in foreign currencies, international trade, public expenditure, and national output. This volatility in turn has profound implications for virtually everyone in society (Strange 1986, 1997). The European response to this volatility has been to tighten the institutions for exchange rate coordination, first through the European Monetary System (EMS) and later through the creation of a single European currency, the euro.

Kenneth Dyson (2000) argues that one effect of monetary integration is to change the structure of policy-relevant values in participating countries. The politicians and policymakers who join the monetary union do more than just reject the volatility of international capital markets and they do more than simply aspire to stability per se. Such politicians and policymakers ultimately come to embrace the particular notion of stability that underwrites the European single currency and to accept the importance of adhering to rules and procedures in order to bring that stability about. Specifically: they accept the numerical ceilings for acceptable debts (60 percent of gross domestic product [GDP]) and deficits (3 percent of GDP) as set down in the excessive deficits procedure of the Treaty on European Union; they accept the medium-term commitment to achieve a budgetary position that is close to balance or in surplus as required in the Stability and Growth Pact (SGP); and they accept the multilateral enforcement and monitoring procedures that underwrite these commitments (Jones 2002b: 35-57).

Dyson (2002: 359-366) leaves open whether this conception of stability necessarily privileges business over labor. Indeed he suggests that the opposite may be the case. The goals and procedures that underwrite European stability may be more useful for shoring up the welfare state than for dismantling it. What matters for Dyson is simply that the commitment to stability is normative and recursive. The more countries want rule-based stability, the more they come to believe in its necessity.

Writers like Kurzer (1997b) and Verdun (2002) are skeptical that any such pro-stability bias in the Low Countries actually emanates from the process of European integration. They admit that Belgium and the Netherlands are committed to macroeconomic stability and to fixed exchange rates. However, they note that these commitments pre-date the process of integration in Europe. Hence, they suggest, it is more likely that Belgium and the Netherlands inculcated these values at the European level than the other way around. What is more, both Kurzer and Verdun note that fiscal policy was never so tight in Belgium or the Netherlands as the architects of the EMS and the single currency would have liked. Any reform of the welfare state that did take place emerged only piecemeal, and was not part of some wholesale conversion to the values of macroeconomic stability as set out in the European Union's excessive deficit procedure or SGP.

Rescuing the Nation State

This debate over the normative influence of monetary integration brings discussion of the Low Countries into the framework suggested by Peter Katzenstein (1985). In his *Small States and World Markets*, Katzenstein argued that small states like the Low Countries survive (even flourish) in world markets by combining international integration with domestic forms of compensation, which is to say a strong welfare state. The Low Countries fit this pattern very closely. As they entered into first the Benelux and then the European Communities, all three countries established domestic institutions to protect both labor and industry from the shocks and volatility that are inherent in opening up to world markets. In other words, the social welfare institutions in these countries exist to compensate for the costs of integration. Hence there is no surprise in finding that the Low Countries would be slow to implement welfare state reform even as integration progressed.

The interesting question is how the Low Countries have managed the tensions between integration in world markets and generous welfare state institutions. Here we should accept that Kurzer's argument about the pro-business bias of European integration has some merit. The competitive forces both in European and world markets do pose a number of challenges for the functioning of welfare state institutions. Demographic changes, ranging from declining birth rates to increasing life-spans, pose problems as well. To assume that Belgium and the Netherlands could avoid having to respond would be unrealistic (Hemerijck and Visser 2000). Even tiny Luxembourg is not impervious to the inexorable forces for welfare state reform (Osborn 1999).

At least part of the answer to the question of reconciling integration and the welfare state was found in using the requirements for integration in Europe as an excuse for undertaking otherwise necessary reforms. Hence, coalition governments in both Belgium and the Netherlands justified fiscal consolidation as being necessary to prepare for entry into the single currency (Jones 1998a, 1998c). To an even greater extent, however, the answer was found in pursuing ever deeper forms of European integration in order to stave off the requirements for domestic economic or political adjustment. This is the essence of Alan Milward's (1992) argument about the *European Rescue of the Nation State.* And it has particular resonance for the Benelux.

The Low Countries used market access to increase export earnings and promote industrialization. They used exchange rate coordination to stabilize the foreign trade developed within the Common Market. They supported the elimination of non-tariff barriers to trade in the 1980s in order to foster greater European competitiveness versus third countries such as the United States or Japan. They saw capital market liberalization as a means to escape the liquidity constraints operating on small countries. And they relied on monetary integration to moderate the volatility implied by liberalized capital markets. At each step in the process, the goal was not to strip away the powers of the state. Rather it was to strengthen the capabilities of the state initially to expand, then to protect, and then shore up the provision of social welfare. That some welfare state reform took place should not necessarily imply that an adverse European bias is at work. It may only suggest that the strategy of pursuing integration was insufficient to the challenge at hand (Jones forthcoming).

Institutions and Adaptation

The problem with assertions that European integration has somehow 'rescued' the Benelux countries is that they gloss over the many and difficult adjustments required within the integration process. In general terms, countries must adapt to the institutions, norms, and procedures of multilateral decision-making. In specific terms they must implement and enforce the legislation passed at the European level. Neither aspect of adjustment is easily accomplished, and both strain domestic political institutions and practices (Peterson and Jones 1999: 37-41).

By most accounts, the Benelux countries have been much better at the general than at the specific. While widely regarded as effective negotiators, neither Belgium nor the Luxembourg has amassed a strong record in the transposition of European Union (EU) legislation into national law (Beyers, Kerremans, and Bursens 2001: 72-73). Poor transposition used to be a problem in the Netherlands as well, but was eliminated through an overhaul of Dutch implementation procedures at the start of the 1990s (Harmsen 1999: 101-102). The conclusion to draw from this is simply that being a good European citizen does not come naturally even in the smallest member states or in those with the longest record of participation.

The challenge is to identify the magnitude of adjustment implied by the integration process, the structure of the political interests surrounding the adjustment process, and the resulting pattern of adaptation. In the scholarly literature, such concerns are bracketed within the larger context of 'Europeanization'–understood broadly to encompass virtually the whole of the EU-member state relationship (cf. Olson 2002). This literature focuses predominantly on institutional concerns. From this institutionalist perspective, the magnitude of adjustment derives from the 'goodness of fit' between national and European institutions (Börzel 2002). The structure of political interests is contextually specific (Börzel 1999: 577-580). And the pattern of adaptation depends upon a 'logic of appropriateness' inherited from pre-existing political and social institutions (Harmsen 1999: 85; see also Petersen 1998).

Goodness of Fit

The Benelux countries would seem to be a good fit with the practice of policymaking at the European level. Among students of comparative politics, Belgium and the Netherlands illustrate type cases for consensual democracy. Luxembourg also has a strong reputation for institutionalized consensus building. And, the European Union relies on consensus as well. With its complex legislative procedures, super-majoritarian voting rules, and multiple reinforcing political cleavages, the European Union is arguably even more dependent upon consensus than any of the member states–the Benelux countries included.

The irony is that consensus politics is more problematic than helpful in dealing with the European Union. Consensual institutions imply that a large number of actors must be involved in the formation of any national position. The coordination of these many views is a daunting challenge in its own right. The reconciliation of competing interests is more problematic still. Such coordination is possible, but it is complex (Beyers, Kerremans, and Bursens 2001). Hence private interests in the Netherlands prefer to lobby the European Union outside the official channels managed by the government (Van Shendelen 1993). Private interests in Belgium channel their demands directly through the country's Permanent Representative, who helps them to network with other interested parties at the European level and without recourse to the Belgian state (Pijnenburg 1993: 171-172). Such broad use of the Permanent Representative is not necessarily a weakness. However, it does imply that Belgium has to take great care in the selection and maintenance of its representation to the EU despite the fact that the Belgian Ministry of Foreign Affairs is only blocks away from the European Commission (Kerremans and Beyers 2001).

Excessive resort to consensus also has a negative effect on the ability of the Benelux countries to implement EU legislation. The more complicated the mechanism for transposing European legislation into national law, the slower the process of transposition and the more susceptible it becomes to backlog. This is the most often cited explanation for the relative failings of Belgium on the implementation side of its relations with Europe (cf. Kerremans and Beyers 1998). Legislative complexity also used to be a major factor behind the weakness of implementation in the Dutch case (Hoetjes 1996: 164).

As in the Netherlands, the Belgian government attempted to streamline its procedures in order to improve performance (de Wilde d'Estmael and Franck 1996). However, it was unable to overcome the demand by different groups in Belgian politics for adequate representation. The Netherlands was more successful. Yet this success in reforming the implementation of EU legislation has given rise to concern in the Netherlands that the state is infringing on the rights and privileges of civil society. Whether such concerns will become problematic remains to be seen. Whatever the outcome, moving away from consensus does impose a cost. And the more deeply consensus is embedded in the country, the higher the cost becomes. Hence, 'in the Netherlands . . . it is the autonomy of society, not the sovereignty of the state, which may ultimately prove to be the fault line at which supranational integration could stumble' (Harmsen 1999: 105).

The difficulty in Luxembourg is not too much consensus so much as it is too few people. The small number of government officials actually makes it much easier to coordinate policies through the state. However, it also makes it more difficult to transpose and implement EU legislation in a timely manner. Luxembourgish officials have to run to stay in place. Hence, their relatively poor performance actually constitutes quite an achievement. In contrast to the attitudes prevalent among Belgian bureaucrats, the Luxembourgers are pleased with their record for transposition (Beyers, Kerremans, and Bursens 2001: 88 fn 49). The point remains, however, that the fit between Luxembourgish and European institutions is not as good as the simple correlation of consensual characteristics would suggest.

Interest and Institutional Context

But institutions can be changed. The difficulty is that most institutional innovations–in the Benelux countries as elsewhere–take place for reasons that have little to do with the process of European integration. Some such developments may complement Europeanization. Others may work against it. For example, each of the three Benelux countries has undergone and important transformation during the past four decades. Belgium has witness the rise of linguistic conflict and the subsequent federalization of political authority. The Netherlands has experienced a pluralization of domestic politics and a weakening of formal political institutions. Luxembourg has seen its economy changeover from a heavy reliance on steel manufacturing to an equally heavy reliance on banking and finance. The question to consider is whether these changes have made it easier or more difficult for the governments of the Benelux countries to participate in the European Union.

The federalization of Belgium has certainly made matters difficult. This is true in part because a federal Belgium includes many more formal actors who wish (indeed, who are obliged) to be involved in the process of European integration. On those matters where the Belgian regional governments are sovereign, such as public transport, the regional governments actually represent the Belgian 'state'. However, it is also true because politicians in the regional governments have attempted to use the European Union as a lever in the competition for national resources. At one point during the 1990s, for example, a Flemish bus manufacturer (Van Hool) tried to overturn a Walloon public procurement decision on the grounds that it violated European law. The fact that the European Commission agreed with Van Hool and its representative in the Flemish regional government only made matters more and not less complicated. The Commission had no powers to direct the Walloon regional government and could only refer matters to the courts. Meanwhile, the Belgian federal government could not intervene because public procurement is a matter of regional authority. By the time the European Court of Justice intervened, the procurement process was already completed (Jones 1998b: 154).

The pluralization of Dutch politics has had a more ambivalent effect. During the early years of European integration, politics in the Netherlands was controlled by political parties rather than by the

government per se. Political elites commanded a certain deference from the electorate and, correspondingly, had a reasonable amount of leeway in conducting multilateral negotiations. With the pluralization of Dutch politics, however, the control of the political parties has weakened and the deference accorded to political elites has evaporated. By implication, the government has become relatively stronger and more decisive. However, the electorate has become less docile and more challenging. The strength of the government makes it possible for the Netherlands to be more successful in implementing EU legislation as suggested above. However, the weakening of elite control has given rise to increasing electoral volatility. The May 2002 elections witnessed unprecedented turmoil in Dutch politics (Jones 2002a). And the campaigns leading up to the January 2003 elections saw a growing ambivalence among many political parties in their attitudes toward European integration.

The growth of the Luxembourgish financial industry is problematic as well. Much of the money deposited in Luxembourg comes from the other member states of the European Union. The motivation of the depositors is to avoid paying tax. Hence much of the European Union would like to see Luxembourg change its regulations as they apply both to banking secrecy and to the taxation of interest income. Because it fears such changes would drive away business, the Luxembourg government refuses. How long they can continue to refuse and still remain in the good graces of the European Union remains to be seen (Hey 2003: 80-83).

Idiosyncrasy and Persistence

In the previous example, the politics of Luxembourg has altered very little over time. Industrial dependence has changed over from industry to banking, but the political constitution of the country has changed little if at all. Meanwhile, Belgium has transformed itself from a centralized unitary state into a decentralized federation, and the Netherlands has moved from a highly structured consociational democracy to a highly volatile pluralist one. The question to consider is which of these cases is the odd one out. Put another way, all three of the Benelux countries have participated in European integration during the past half century and only Luxembourg remains politically unchanged: Does that make Luxembourg the exception or the norm?

The question hinges on a false dichotomy. The reality is that all three Benelux countries are equally idiosyncratic in their political development. The reason is that political development is sensitively dependent upon initial conditions, on context, and on what institutionalists refer to as historical path dependence. Despite the common forces of Europeanization, the politics of European countries has grown little more alike if at all. Indeed the developmental trajectories followed by European countries over the past decade are almost all different from one another (Anderson 2002).

Perhaps the Benelux countries remain different because of their participation in the European Union. Of course, it would be convenient if the persistence of idiosyncracy could be marked down to the work of factors external to the process of European integration. Then we could retain a convergent notion of Europeanization while at the same time conceding the divergent effect of exogenous factors or stochastic shocks. However, it may be true that European integration is itself a source of diversity. This could happen if European integration were to make it possible for countries to sustain outmoded industrial sectors, such as coal in Belgium. It could happen through incentives to specialize according along lines of comparative advantages, such as agriculture in the Netherlands. Or it could happen by removing the institutional supports for an area of existing specialization, such as finance in Luxembourg. Diversity could also take the form of encouraging political centralization (Netherlands), decentralization (Belgium), or overload (Luxembourg). The end result of such forces would be to make the Benelux countries less alike and not more; rendering them less likely as objects for analysis as a group.

Self Interest and Identity

More than ever in their history, however, the Benelux countries share a common identity–as Benelux countries and as EU member states. This common identity does not transcend national self-interest. But it does shape conceptions of self-interest. To give an example, much of the political ambivalence toward European integration expressed by Dutch political parties in the Autumn of 2002 was directed at the Common Agricultural Policy. Their concern was not that the CAP would be reformed, but rather that the reforms would not be sweeping enough. Far from being worried about the state of their farmers, Dutch politicians are concerned about the costs and distortions that will arise from the enlargement of the European Union to the East.

This common identity is experiential and not accidental. It does not emerge despite the diverse effects of European integration. Rather it is a result of the common need to manage these effects. Europeanization is nowhere the same. The fact that Europeanization is a challenge to be dealt with is. The Benelux countries have a long history of advocating and participating in European integration. That history began as an act of self interest. But that history soon took on a meaning and significance all its own. Just as the political development of the Benelux countries is historically path dependent, their identities are grounded in past experience. No matter what the material effects of that experience, the fact remains that European integration has been shared as a process. The fact that participation in Europe offers advantages has been shared as well. And so has the fact of Europeanization itself. In this sense, integration in Europe has been much more powerful as a source of identification than was union within the Kingdom of the Netherlands. As a result, Belgium, the Netherlands, and Luxembourg share a common identity even while they remain different countries, each distinctive in its own way.

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