

ON THE “NET IMPACT” OF EUROPEANIZATION The EU’s Telecoms and Electricity Regimes Between the Global and the National

DAVID LEVI-FAUR
Australian National University
and the University of Haifa

This article examines the outcome of the EU policy process from various comparative perspectives in an effort to distinguish the “net effects” of EU membership and EU-level regimes from more general—perhaps global—processes of change. It argues that the major features of liberalization would have been diffused to most if not all member states even in the absence of the European Commission, other agents of supranationalism, and EU-level intergovernmental commitment to liberalize. This is not to suggest that Europeanization does not matter but that it matters in less obvious and perhaps in less critical ways than is frequently assumed. The argument is supported by comparative empirical analysis of the spatial and temporal diffusion of liberalization since the 1980s and of nationalization since the late 19th century.

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Does Europeanization matter, and if so, to what extent and in what respects? Although research on the European Union is thriving, only limited empirical efforts have been directed toward a discussion of this fun-

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damental question.¹ Notable exception is the pioneering paper of Verdier and Breen (2001) that examines the effects of Europeanization on the labor and capital markets, on the one hand, and on electoral competition and center-local government relations on the other. This article extends their research agenda by asking “Does Europeanization matter to the liberalization of Europe’s infrastructure industries (i.e., telecoms and electricity)?” Using four different comparative perspectives, it argues that although Europeanization has led to some liberalization, there are good reasons to believe that the later would have diffused to most if not all member states even in the absence of distinct structures of governance at the European level.² This is not to suggest that Europeanization does not matter but that it matters in less obvious and perhaps less critical ways than is frequently assumed as to the advance of liberalization.

The two network industries, telecoms and electricity, that stand in the center of the analysis have experienced radical degrees of liberalization and Europeanization. Indeed, the extent of change in these two industries exceeds that of other infrastructures in the modern economy (e.g., post, gas, oil, railways, roads, airlines, and media). Important is the fact that they were subjected to European regimes to an extent that makes them “most favorable” cases for the argument that Europeanization has become a driving force in the transfer of liberalization across the member states. Thus if the arguments in favor of EU-driven liberalization is discredited for the most favorable cases of telecoms and electricity, it is even less likely to be supported in less favorable cases. In addition, despite experiencing a common and explicit trend toward liberalization and Europeanization, the telecoms regime has been more liberal and more supranationalist than the electricity regime. These variations open an additional opportunity for comparative analysis and

1. It seems that some Europeanists assume that the economic and political benefits (or alternatively the costs) of Europeanization are self-evident or alternatively, that it is too difficult to untangle the complex interactions between liberalization and Europeanization. The task is complex because the EU’s institutional structure is ever evolving and ever spreading and its rapid advance in the past two decades has made it a moving target. In addition, the uniqueness of the EU and the complex procedures that govern it defy simple interpretations of the process, its sources, and its effects. Not least problematic is the fact that since the 1980s Europeanization has interacted with radical structural changes in the governance of the capitalist economy. The crisis of the “postwar order” and the rapid advance of the global economy since the 1970s are due to unidimensional forces that are anything but simple. Yet although unraveling these complex processes of change is daunting, the task is unavoidable if one wishes to understand the transformation of governance in general and its European aspects in particular.

2. That is, liberalization and Europeanization are only marginally associated. Our definition of Europeanization rests on Cowles, Caporaso, and Risse (2001), and thus we look for the effects of the emergence and development at the European level of distinct structure of governance. See the first section of the article for extended discussion and operationalization.

strengthen the plausibility of the article's argument. Finally, these industries supply a good basis for empirical study, not least because they have attracted the attention of many scholars of liberalization and thus allow theoretical debate that is based on overlapping empirical analysis.³ Indeed, the growing tendency to compare the two sectors confirms the theoretical value of the pair (Bartle, 1999, 2002; Coen, 2001; Levi-Faur, 1999a; Murillo, 2002; Padgett, 2001; S. K. Schmidt, 1997, 1998).

There are widespread perceptions that Europeanization is the driving force behind the liberalization of the member states' telecoms and electricity industries. A plain statement to this effect has been made by Sandholtz (1998):

The evidence is clear: the EU has created a supranational policy domain in telecoms, and the initiative came primarily from the Commission, armed with legal precedents from the European Court of Justice and acting in alliance with societal groups that had a stake in efficient pan-European telecommunications. (p. 135)

Sandholtz's account of the power of the European Commission is not exceptional, yet other accounts are skeptical of his views. Schneider (2001), for example, has argued that EU's member states vary in the degree to which they respond to Europeanization (i.e., France and Germany responded to globalization, but Italy needed the pressures of EU-level action). Humphreys (2001) stresses "the danger of focusing too much on the explanatory power of 'Europeanization', and the institutional aspects of EU policy transfer, and not enough on the structural pressures arising from globalization" (p. 4). Indeed, it is now widely accepted that liberalization in telecoms is the outcome not only of Europeanization but also of globalization, but whereas both effects have been acknowledged, no effort has been made to distinguish them empirically.

Similarly, most accounts of electricity liberalization place special emphasis on the role of the European Commission and other EU-level actors. Eising and Jabko (2001), for example, have argued that the source of change in the preferences of the major EU member states is the EU process itself:

National perceptions and positions evolved in response to the liberalization process at the EU level. Despite the considerable inertia of national electricity

3. S. K. Schmidt (1997) points to the following three critical problems in the study of the European policy process: (a) case-specific findings, which are too specific to allow for generalization; (b) dichotomous theoretical perspectives, which do not allow a refined view of the integration process; and (c) the rarity of overlapping research, which constrains empirical and theoretical debate. I add the problems of Eurocentrism and too conservative research designs.

sectors, the member states' involvement in EU negotiations opened the way for a reassessment of their electricity supply models and for a redefinition of their preferences. Ultimately, the formal and informal institutional dynamics of EU negotiations induced preference changes and political realignments at the domestic level. (p. 743)

Stephen Padgett (2003) writes "the EU's multi-level institutional system has considerable transfer potential" (p. 31). S. K. Schmidt (1997) argues that the European Commission has played an important role in both industries but especially so in electricity. Again, also in the case of electricity, there are no empirically informed efforts to distinguish global processes from the effects Europeanization.

Methodologically, the article offers an alternative to common research designs in the study of Europe. These research designs are usually Euro-centered in their case selection and generally bounded by the three common forms of small *N* analysis (case study, comparison of two sectors in one country, and comparison of two countries as to one sector).⁴ As alternative, this article offers stepwise research design (Levi-Faur, in press), and the research question is examined gradually against four comparative analyses. Thus we first compare variations in downward delegation of authority in the two sectors for all countries other than the member states of the EU. This comparison helps us to demonstrate that cross-sectoral variations in upward delegation in the EU reflect global tendencies rather than uniquely European outcomes. Second, a most different research design is employed to compare 14 out of the 15 member states of the EU⁵ with 16 Latin American countries⁶ (hereafter LA16).⁷ Because the Latin American countries differ considerably in their state traditions, level of economic development, democratic stability, and the efficiency of their bureaucracies, they offer a remarkably different perspective on the effects of EU membership. Third, a most similar research design is

4. This is not to suggest that the study of Europe from within and small *N* analysis do not represent a highly important contribution. Still, the time is ripe to complement small *N* analysis by applying more complex designs to the study of European politics and policy.

5. Luxembourg was excluded from my database, which includes countries with a population of more than 1 million people.

6. The concepts of most different system design and most similar system design are often confused with Mill's methods of difference and agreement (see Faure, 1994, for clarifications). A most similar system design compares as similar cases as possible on the assumption that the more similar the cases being compared, the more possible it should be to control the effects of different variables. A most different system design compares as contrasting cases as possible to show the robustness of a relationship between dependent and independent variables (Przeworski & Teune, 1970).

7. Argentina, Bolivia, Brazil, Chile, Columbia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

employed as well and is based on comparison of 14 of the EU's member states (hereafter EU14) with a group of 8 most similar countries (Australia, Canada, Israel, Japan, New Zealand, Norway, Switzerland, and the United States, hereafter the Democratic & Rich Group of Eight or D&R8).⁸ These 8 economically developed countries enjoy stable democratic regimes and have relatively efficient bureaucracies, and they supplied an additional test for the evaluation of the extent to which Europeanization matters in the diffusion of liberalization. Finally, a comparative historical analysis is undertaken whereby the diffusion of telecoms and electricity privatization since the 1980s is compared with the diffusion of telecoms and electricity nationalization since the last quarter of the 19th century.⁹

If Europeanization matters, one should expect support for most or all of the following five hypotheses. First, one should expect different patterns of liberalization across Europe from those of two other groups of countries. This hypothesis is examined against data on (a) ownership (timing, scope, and extent of privatization), (b) the establishment of sector-specific regulatory authorities (timing and nominal independence), and (c) the creation of regulatory regimes for the promotion of competition (wholesale and retail competition). Second, Europeanization would matter not only in sectors that are prone to liberalization but also in those that are not. This hypothesis is examined against cross-sectoral variations in the propensity of telecoms and electricity for competition. Third, one should expect Europeanization to have an effect on all or at least most member states. This hypothesis is examined through aggregate measures of liberalization and Europeanization. This allows us to augment case studies and deterministic inference with descriptive statistics of groups' mean and the median and probabilistic inference. Fourth, one should expect that Europeanization would matter not only for indicators of liberalization that are most favorable to Europeanization but also for those that are not. This hypothesis is discussed against three indicators of Europeanization—ownership policies, sector-specific regulatory authorities, and competition in segments of these sectors. The three indicators differ in the degree to which they have been subjected to EU legislation and thus supply valuable comparative leverage in the study of the relations between Europeanization and liberalization. Finally, one should expect that the convergence of the EU14 group on the desired governance regime would

8. In the selection of countries I have followed the conventional wisdom as to the extent of democracy in each countries' and World Bank's data as to GNP per capita.

9. It is obvious that our research design does not follow statistical procedures of random sampling; yet the careful selection of cases maximizes the power of explanation and the validity of conclusions when one considers the alternatives of employing inferential statistics or small *N* methods of analysis.

be stronger nowadays than in the past. This hypothesis is examined against a comparative analysis of the diffusion of nationalization in these sectors in the past with the diffusion of privatization nowadays.

CONCEPTUALIZING CHANGE: THE ANALYTICAL FRAMEWORK

Our dependent variable (liberalization) and control variable (Europeanization) are multidimensional. Distinction between these dimensions is a precondition for any empirical analysis as it allows a refined picture of the effects of different European regimes on different aspects of the liberalization process in each of the three groups of countries that are examined here. Thus we first clarify the various dimensions of these widely used but often vaguely defined concepts and then spell out their interaction in the transformation of the telecoms and electricity regimes.

Liberalization, our dependent variable, is defined here as the promotion of a market economy via private ownership and competitive allocation of resources. Thus a positive step toward liberalization may include one or more of the following policy measures: privatization, deregulation, regulation of competition, regulation for competition, and the establishment of separate and independent regulatory authorities (Levi-Faur, 1999a). Each of these components of liberalization might be implemented separately. Privatization is the transfer of ownership from public to private hands. Deregulation is the elimination of economic, political, and social restrictions on the behavior social actors (in our context, mainly business). Deregulation differs from two others components of liberalization—regulation of competition and regulation for competition—that are often confused with it. Whereas deregulation aims to strengthen market processes and competition by the removal of political constraints, regulation of competition and regulation for competition aim to promote competition via the enforcement of roles through administrative controls. Regulation of competition and regulation for competition differ in their degree of intervention. Although both require the establishment and the strengthening of governance capacities, regulation for competition requires far more intrusive capacities. This is best indicated by the economy-wide responsibilities of national competition authorities in the case of regulation of competition and the sector-specific responsibilities of regulatory authorities in the case of regulation for competition. The broader responsibilities of national competition authorities give them less influence on market actors who know their industry better. These broader responsibilities also imply that competition authorities adopt a reactive approach to anticompetitive mea-

asures. In regulation for competition, the responsibilities of regulatory authorities are narrowly confined to a sector or industry, but they usually give those authorities much more influence over market actors. Unlike the reactive approach of competition authorities, these sector-specific authorities are proactive and involved in market design and market control to an unprecedented extent.

Europeanization, like liberalization, has many facets. These facets reflect its popularity as a topic of political analysis but render it a contested concept. So contested has it become that Kasim (2000) argues that it is futile to use it as an organizing concept. Johan Olsen (2002) however has responded recently by suggesting that it may be premature to abandon the term and made an attempt to clarify some of its meanings and to point to various processes that promote them. Europeanization, according to Olsen, might be used in the following five different ways: (a) changes in external territorial boundaries, (b) the development of institutions of governance at the European level, (c) central penetration of national and subnational systems of governance, (d) exporting forms of political organization and governance that are typical and distinct for Europe, and (e) a political project aiming at a unified and politically stronger Europe. Cowles, Caporaso, and Risse (2001) concur and made Europeanization a central concept in a project that examined various aspects of the "transformation of Europe," yet their definition is narrow enough to allow operationalization and is therefore the one that we use here. *Europeanization*, they suggested, is "the emergence and development at the European level of distinct structure of governance" (p. 3), which makes much sense. Operationalization of this concept is achieved through a distinction between different forms of Europeanization (none, informal, intergovernmental, and supranational).

Let us distinguish first between intergovernmental and supranational forms of Europeanization. This distinction is based on the degree of transfer of control to extranational institutions. Although intergovernmental and supranational regimes both involve upward transfer of control, the former have specific provisions that guarantee room for maneuver and autonomy of policy makers at the national level. In other words, the design of an intergovernmental regime allows more national discretion than does that of a supranational regime (Levi-Faur, 1999a). In addition to these two formal regimes, at the European level it might be also useful to point to the possibility of Europeanization via the informal consolidation of norms of behavior. Unlike the cases of intergovernmentalism and supranationalism, where contractual commitments exist among the parties and there are distinct and specific mechanisms for dispute resolution and enforcement,

Europeanization through informal regimes is based only on common norms, mutual trust, and minimal conflict of interest among the actors of the regime.

The legislative leverage that the EU enjoys over each of the components of liberalization varies considerably. The EU's actors from the Judiciary to the Commission have no authority over the ownership of the means of production (that is, public or private property), little authority over governance issues at the national level, and wide authority on competition issues. In what follows we shed light on some of these issues, starting with privatization. According to Article 222 of the Treaty of Rome, privatization is outside the jurisdiction of the treaty and cannot be subject to either an intergovernmental or a supranational regime. The language of the article is very clear and leaves little room for doubt: "This Treaty shall in no way prejudice the rules in Member States governing the system of property ownership." Thus, the scope for Europeanization of this important aspect of any governance regime is very narrow as it would require a constitutional change that seems unlikely or at best remote.

The establishment of separate and independent regulatory authorities is also largely outside EU legislative power. Yet unlike with ownership, no provision is found in the various treaties governing the EU that prevents the legislative bodies from requiring the member states to establish such authorities. Although all member states except Germany have established such authorities, they have done so spontaneously and not in compliance with any part of the electricity directive of 1996. Indeed, the Commission is at present trying to oblige member states to establish national regulatory authorities in electricity.¹⁰ A directive proposed by the Commission in March 2001 and still pending at the European Parliament declares that "Member States shall establish national regulatory authorities. These authorities shall be wholly independent of interests of the electricity industry" (Article 22). This part of the directive will most probably be opposed by the member states but not because they oppose the idea itself. After all, with the exception of Germany all of them have already established separate regulators for electricity. Opposition might arise from the desire of the member states to protect their "institutional autonomy," that is, "the right of the member states to perform the tasks that stem from membership of the EU on the basis of their own constitutional rules" (Dimitrakopoulos, 2001, p. 444).

The competition components of liberalization (deregulation and regulation of and for competition) have always been within the jurisdiction of the EU's supranational structure. The authority of the EU in these matters rests

10. Commission's proposal of March 13, 2001, available at <http://www.europa.eu.int/comm/energy/en/internal-market/int-market.html>.

directly on the principle of a single market and specifically on Article 3(f) of the Treaty of Rome (Cini & McGowan, 1998; McGowan & Wilks, 1995). Yet whereas the authority of the EU here is generally indisputable, the form of Europeanization of these sectors is a matter for bargaining—especially in respect of public services (Nicolaidis, 1998).

We are now ready to examine the policy choices that were made at the EU level and to distinguish between different strategies of liberalization and Europeanization as they apply to different segments of the sectors.

STRATEGIES OF LIBERALIZATION AND EUROPEANIZATION: EU-LEVEL POLICY CHOICES

Table 1 presents EU-level policy choice as to the form of Europeanization and the strategy of liberalization. The table is partly grounded in a study of liberalization strategies in five micro regimes of the two sectors (telecoms equipment, interconnection, generation, transmission, and distribution) (see Levi-Faur, 1999a).¹¹ The study suggests that Europeanization is a matter of degree not only across sectors but also within sectors. It also suggests that different strategies of liberalization were applied to different segments of these sectors. Thus the EU telecoms equipment regime, for example, experienced deregulation, but the infrastructure of telecoms transport was subject to regulation for competition. In the electricity sector, regulation of competition governed the generation of electricity, but transmission and distribution were subject to regulation for competition. Column 1 shows those aspects of the liberalization process that were outside the reach of the EU or where there was no EU regime. It covers privatization in both sectors and highlights the absence of EU legislative leverage over this component.

Column 2 of Table 1 presents the aspects of liberalization where informal regimes, based on trust and common conceptions of best practices, were chosen to propel the process of Europeanization. Because none of the telecoms and electricity directives obliged the member states to establish regulatory authorities and because the member states did so in both sectors with amazing uniformity (again, with the exception of German electricity), it is suggested that this aspect of the process of liberalization is governed by an informal European regime.

11. The economy of the research led us to leave some segments of the telecoms sectors out of the analysis (e.g., mobile and telecoms services). The methodological and theoretical costs of these decisions are negligible.

Table 1
Strategies of Liberalization and Europeanization

Component of Liberalization	EU-Level Policy Choices		
	No EU Regime	Informal Regime	Intergovernmental Regime
Ownership	Privatization in telecoms and electricity		Supranational Regime
Administrative reform		Separate and independent regulatory authorities in telecoms and electricity	
Deregulation			Telecom equipment
Regulation of competition			Notably electricity generation (in principal all segments are subject for EU competition law)
Regulation for competition			Electricity transmission and distribution Telecoms networks

Source: Based partly on Levi-Faur (1999a).

Columns 3 and 4 show "positive" cases of Europeanization and distinguish intergovernmentalism in electricity from supranationalism in telecoms. As was suggested earlier, the analytical basis of the distinction is the extent of the transfer of control upward from the member states to the EU. The lesser degree of transfer of control in electricity and thus its intergovernmentalism is evident in the wide discretion of member states that is recognized by the electricity directive. The intergovernmentalism of electricity is manifest in four critical elements: the access regime, the transportation tariffs regime, the reciprocity clause, and the rule that governs distribution companies. First, the directive allows member states to opt either for a third party access principle or for single buyer status. In the former case, consumers or suppliers negotiate the terms of access with the operator of the grid, whereas in the latter case a single national operator will handle all requests for import and will be directly responsible for the supply of electricity to the consumers. Second, the directive opens the way for a member state to choose a system of negotiated or regulated access. Here the question of tariffs takes center stage. The generators and the consumers are critically dependent on the grid operator, which may abuse its power. Here, member states can leave the question of tariffs and conditions of access to the market (negotiated third party access) or regulate it (regulated third party access). Clearly, only the second case provides safeguards to competition, but the directive allows member states to avoid competition and Europeanization.

Third, a reciprocity clause allows member states (up to a period of 9 years) to restrict import of electricity from countries that do not open their markets to the same extent. Finally, the issue of whether to allow distribution companies to shop freely for the electricity they distribute was left to the discretion of the member states. This is a critical aspect of competition as the distribution companies are well placed to exert pressure on generators and transmission operators to get their electricity at cheaper costs. This element again reinforces the intergovernmental features of the distribution regime and in fact of the electricity sector as a whole (Levi-Faur, 1999a). None such discretion is visible in telecoms, so it is possible to suggest that the governance regime in telecoms is more supranational than in electricity.

UPWARD AND DOWNWARD DELEGATION: THE EU VERSUS THE REST OF THE WORLD

To what extent is the relative reluctance to transfer control upward in electricity unique to Europe? Is there something in electricity that makes politicians in general—not only EU's politicians—less enthusiastic to transfer

control than in telecoms? It would help if there were additional EUs somewhere in the world, but unfortunately there are not any so we must devise another strategy to answer this question. We suggest that a more comprehensive picture of the uniqueness of the European policy outcomes may be gained by examining patterns of downward delegation in the two industries throughout the world.

Let us explain what we mean by delegation first. Delegation is transfer of control; it may involve transfer of controls from national-level policy makers to international institutions (upward) or as in the case of the transfer of control from policy makers at the national level to separate sector-specific regulatory authorities (downward). In both cases the degree of control at the national level is constrained by the act of delegation. The extent of delegation downward varies from case to case (a case might be a country or a sector) and across time, and as it is manifested in formal as well as informal rules of conduct, it is extremely hard to measure. Yet crude measures of delegation downward might be useful for our purposes. Table 2 presents two features of the new institutional design that is emerging across the utilities. The first feature is the growing tendency—usually explained as a reflection of best governance practice—to create separate and sector-specific regulatory agencies to govern the industry. The second reflects even greater commitment to keeping politicians at arm's length from the regulators through the creation of an institutional mechanism that will ensure the fiscal and legal autonomy of the regulator.

Table 2 shows the propensity of countries that are not members of the EU to delegate downward in the two sectors. Evidently, policy makers outside the EU tend to create more separate regulatory authorities in telecoms than in electricity (68% and 38%, respectively). When they establish these regulators they tend to give them nominal independence to a greater degree in telecoms than in electricity (74% and 55%, respectively).¹² This suggests that there are similarities between the extent of transfer upward in Europe and the patterns of transfer of control downward to national regulatory authorities. This suggests that the source of the variations across the EU's telecoms and electricity regime lies not in the EU policy process but in the way policy makers worldwide perceive the costs and benefits of transferring control in each of the sectors.

12. Levi-Faur (1999a, 2003) offers a political explanation for these variations across sectors.

Table 2
Delegating Downward: Non-EU Countries

	Countries That Established Separate Regulatory Authorities		Countries That Allow Them Nominal Independence	
	<i>n</i>	%	<i>n</i>	%
Telecoms	98 out of 145	68	67 out of 90	74
Electricity	45 out of 117	38	22 out of 40	55

Sources: Telecoms liberalization: Printed material for the telecom cases include Noam (1992, 1998), Petrazzini (1995), Manzetti (1999), and Wellenius (2000). In addition, interviews and e-mail exchanges with regulatory authorities and ministries were used such as EU regulatory developments (<http://www.ispo.cec.be>), the International Telecommunication Union regulatory database (<http://www.itu.int/ITU-D-TREG/>), Organization for Economic Cooperation and Development (OECD) (www.oecd.org/subject/regreform/), and World Bank Papers on Regulatory Reforms (<http://econ.worldbank.org/topic.php?topic=14>). Electricity liberalization: Printed sources in the electricity cases include Pollitt (1997), Bacon (1999), Gilbert and Kahn (1996), several publications of the International Energy Agency (2001), and the Financial Times Energy (1995, 1997, 1998). Invaluable material was collected in the document center of the International Institute of Energy Law, the University of Leiden. Interviews and e-mail exchanges with regulatory authorities and ministries were also used. Online sources included energy information from the U.S. Department of Energy (www.eia.doe.gov/emeu/cabs/contents.html), the Electricity Project of the Catholic University of Chile (www2.ing.puc.cl/power/), the OECD (www.oecd.org/subject/regreform/), and World Bank Papers on Regulatory Reforms (<http://econ.worldbank.org/topic.php?topic=14>). Telecoms and electricity's nationalization: Various accounts of a country's economic developments and online histories by a country's incumbents and by government agencies.

Note: χ^2 for column 1 = 22.5; χ^2 for column 2 = 13.46; both significant at the level $< .001$. Data for 2001.

EUROPEANIZATION IN MOST SIMILAR AND MOST DIFFERENT PERSPECTIVES

The comparison of upward and downward delegation across the sectors and the ensuing suggestion that the similarities reflect the responsiveness of the Europeanization to global patterns of delegation are somewhat indirect. More direct evidence on the impact of Europeanization might be obtained through comparison of the results at the national level inside and outside the EU. If Europeanization is driving the process of liberalization, one would expect significant variations in the process of liberalization between members and nonmembers of the EU. Table 3 presents some indicators of liberalization for the EU14, LA16, and D&R8 groups and for the two sectors. These indicators allow us to compare the EU members with Latin America, providing a most different perspective on the process of liberalization and therefore a most favorable design for the argument that Europe matters. At the same

Table 3
National Level Patterns of Liberalization in Telecoms in Electricity

	European Union (N = 14)		Latin America (N = 16)		Democratic & Rich (N = 8)	
	Telecoms	Electricity	Telecoms	Electricity	Telecoms	Electricity
Ownership						
Number of privatization events	100% (14 of 14)	62% (8 of 13)	62% (10 of 16)	69% (11 of 16)	100% (7 of 7)	57% (4 of 7)
Median year of privatization events	1996	1991	1994	1995	1990	1993
Mean year (range and standard deviation)	1995 (19, 4.5)	1992 (15, 5.3)	1993 (16, 5)	1995 (14, 4)	1992 (14, 5.5)	1994 (5, 2.2)
Ownership ^a 1975 (score and standard deviation)	Public (1.3, 0.6)	Mostly Public (2.1, 1.3)	Public (1.1, 0.3)	Mostly Public (1.4, 0.5)	Mostly Public (1.9, 1.5)	Mostly Public (2.2, 1.5)
Ownership ^a 2000 (score and standard deviation)	Mostly private (3.7, 1)	Mixed (2.8, 1.4)	Mixed (3.2, 1.6)	Mixed (2.9, 1.4)	Mostly private (4, 0.9)	Mixed (2.6, 1.3)
Administration						
Established regulatory agencies	100% (14 of 14)	86% (12 of 14)	100% (16 of 16)	81% (13 of 16)	62% (5 of 8)	62% (5 of 8)
Median year	1996	1997	1995	1994	1987	1987
Mean year (range, standard deviation)	1994 (12, 4.3)	1997 (11, 3.3)	1994 (15, 3.8)	1994 (12, 3.3)	1976 (58, 24)	1974 (61, 26)
Nominal independence of regulatory agencies	100% (14 of 14)	93% (11 of 12)	62% (10 of 16)	54% (7 of 13)	100% (5 of 5)	80% (4 of 5)

Competition									
Wholesale ^b	100%	100%	44%	50%	100%	62%			
	(14 of 14)	(14 of 14)	(7 of 16)	(8 of 16)	(8 of 8)	(5 of 8)			
Retail ^c	100%	29%	6%	6%	75%	50%			
	(14 of 14)	(4 of 14)	(1 of 16)	(1 of 16)	(6 of 8)	(4 of 8)			

a. Ownership key: private = 5, mostly private = 4, mixed = 3, mostly public = 2, public = 1. Ownership classifications are based on my own estimates of the public share in the total sector revenues. The following criteria were applied: public (more than 85%), mostly public (70% to 85%), mixed (30% to 70%), mostly private (15% to 30%), and private (less than 15%). Ownership calculations in telecoms refer to the traditional business of telephony.

b. Opening the international telecoms market for competition and transmission networks in electricity.

c. Telecoms unbundling or free choice of supplier in electricity

time, Europe is compared with a group of eight democratic and relatively rich countries (providing a most similar perspective on the process of liberalization and therefore a least favorable case for the argument that Europe matters). If Europe matters, one should easily observe different patterns of liberalization in the EU group compared with Latin America. We expect that the variations across the most similar groups of EU14 and D&R8 will be more difficult to discern, but on the other hand they will provide more robust support for the argument that Europe matters than variations with the LA16 group.

Let us first examine the issue of ownership across the three groups of countries. The number of privatization events—which record the decision to sell part of the dominant telecoms or electricity operators—reveals some gaps between the EU and Latin American groups. Although all the European countries studied here privatized at least some of their major operators, only 62% of the Latin American group did so (10 countries out of 16). In electricity the Latin American group seems to show a somewhat greater propensity for privatization. The indicator of the timing of telecoms privatization suggests that the EU14 group lags 2 years behind Latin America (the summary statistics for the mean and the median reflect the same conclusion).¹³ In electricity however, EU member states were quicker to move ahead, with median years of 1991 and 1995, respectively (again, the groups' median and the mean suggest similar conclusion). The structure of ownership, which was very similar throughout these two groups of countries and in both sectors in 1975, seems to become even more similar in 2000. The differences in the telecoms sector between the mostly private structure in Europe and the mixed structure in Latin America are less visible when the actual scores are examined (3.71 for the EU and only 3.2 for Latin America).¹⁴ Overall, the similarities in the two groups seem to be much more robust than the differences.

We stay with the ownership aspect of liberalization but move on to discuss the EU and the D&R8 groups (columns 1 and 3). The results confirm the observation of no effects on ownership by EU's membership. In both sectors there are minimal variations in the extent, scope, and timing of privatization. Most interesting is the finding that the variations between the 14 EU member states and the two remarkably different groups of Latin America and D&R8 are similar. The privatization of telecoms and electricity industries is so sweeping that the effects of variations in state traditions, level of economic development, political institutions, and public preferences seem to have min-

13. The timing of privatization's indicator records the first decision to privatize in each sector.

14. The scores were calculated for each country on a scale of 1 (*private*) to 5 (*public*). Averages were then calculated for each of the three groups.

imal effects on the advance of liberalization. However, because EU institutions have no leverage over the extent of privatization, one may argue reasonably that this is not the best indicator of Europeanization. Yet if the EU matters and if we are interested in the overall effects of EU membership, ownership patterns still supply an important indication of the marginal role of the EU-level process. One has to admit however that it is not the most important possible indicator. Moreover, privatization, although outside the legislative power of the EU, is a relatively convenient indicator of the sweeping spread of liberalization as a global process that is not dictated by any political institution above the nation state but reflects common perceptions among policy makers. Thus it helps us to dispel misconceptions about the role of the Commission and other supranational actors at the EU level promoting liberalization against the will of the nation states (Grande, 1994; Levi-Faur, 1999b).

Let us now discuss the issue of regulatory authorities, beginning with a comparison of the EU and the Latin America groups. Again there are significant similarities in the incidence of regulatory authorities across the two groups. In telecoms, 100% of the countries in the two groups established regulatory authorities. In electricity, there was somewhat less consistency, but still an impressive majority opted for this institutional innovation (outside the United States and Canada): In the EU, 86% of the 14 member states studied here did so, whereas in Latin America, 81% established regulatory authorities. The difference of 5% seems safely within the range of statistical error. A similar picture emerges from the data on the median and mean years for the establishment of regulatory authorities. Latin America seems to have moved earlier than the EU, but the gaps are relatively narrow (1 to 3 years). The first exception in this picture of cross-group similarities is the reluctance of Latin American policy makers to grant independence to their separate regulatory institutions. This reluctance to delegate in Latin America is evident across both sectors, and the variations are big enough to suggest a qualitative difference in this respect between the two groups of countries.

Still on the issue of regulatory authorities, we move on to a comparison of the EU and the D&R8 groups. Here we find that the extent and the timing of the establishment of regulatory authorities across the two groups and the two sectors are remarkably different but the tendency to delegate is remarkably similar. More specifically, the members of D&R8 varied considerably on the decision to create regulatory authorities. The United States adopted this method to preserve its private ownership structure from the mid-1930s. The Canadians followed in the 1970s, but the New Zealanders refused until recently to consider regulatory authorities a legitimate part of the liberalization program. It is remarkable however that when the D&R8 group created

regulatory authorities it allowed similar degrees of nominal independence for them.¹⁵

Thus on the extent and timing of the creation of regulatory authorities, we found similarities with Latin America (where we expected differences) and differences from D&R8 (where we expected similarities). Expectations of similarities and variations were confirmed however as regards the independence of the regulatory authorities. To what extent do these data confirm the hypothesis that the EU matters? The answer is that they do not support it. The general tendency in the 1990s to create separate regulatory authorities is in no way a European phenomenon, and the variations between the EU member states and the D&R8 group should not be overemphasized. Much more important—and much more telling about the limits of the arguments that Europeanization determines liberalization—is the finding that the propensity to grant independence to regulatory authorities is similar across the two groups. Again, as in the case of privatization, the case for significant effects of EU membership on the patterns of liberalization is weak.

More remarkable differences between the EU and the Latin American groups are evident with regard to the indicators of competition. Here, where the EU institutions have the largest leverage over liberalization outcomes, one indeed finds qualitative differences between the two groups of countries in the emphasis on competition. Whereas all the EU member states opened their international market to competition, only 7 of the 16 Latin American countries did so. Whereas all EU member states opened their local telecoms loop to competition, only 1 of the Latin American countries did. Similarly, in the electricity sector the Latin American countries are behind the EU in opening the transmission networks and in supplying the regulatory framework that is essential for retail competition. This might be interpreted as striking evidence of the effects of EU membership, yet the Latin American comparison is a most favorable case for the assertion that the EU matters with regard to the spread of liberalization policies. Some skepticism might be in order here. For example, it is highly plausible that these variations are a product of different levels of economic development (to suggest just one possibility) rather than of EU membership. Specifically, it might be argued that retail competition makes economic sense only when there is universal access to the telecoms and electricity networks in Latin America. Variations between Europe and the D&R8 group would provide more significant support for the hypothesis that the EU matters. Yet such variations are hardly to be found. There are almost none between the two groups of countries in the telecoms

15. The EU degree of nominal independence in electricity is slightly higher, but the difference is not significant.

sector. The variations in the extent of regulation for competition in electricity are more significant, but they do not display a definite pattern. The EU member states moved more decisively toward a competitive regime in the opening of the transmission network, but they lagged behind the D&R8 group with regard to retail competition.

All in all, we found no convincing or conclusive evidence to support the suggestion that EU membership has made a critical difference in the transfer of liberalization across the world. In fact, we found more evidence to support the view that the EU does not matter in this respect than to refute it. We can safely suggest that it matters less than is often assumed or explicitly stated in the literature. All this suggests that the EU is not the major force driving liberalization as liberalization is just about omnipresent and Europe as a group has lagged behind other significant actors in moving to liberalize.

EUROPEANIZATION IN COMPARATIVE HISTORICAL PERSPECTIVE

Additional insights into the "net effects" of Europe may be gained through a comparison of the diffusion of liberalization today with the diffusion of nationalization in the past. As will be demonstrated, clear indications are found of interdependencies between the decision of one country to nationalize and the decisions of others to take the same course. In many countries, and for the most of the 20th century, nationalization, not privatization, was considered the best practice for the governance of the telecoms and electricity industries, and accordingly nations and policy makers learned from each other and made use of each others' actions to gain legitimacy and power in their own countries.

Figure 1 presents the diffusion of nationalization and liberalization across the 14 EU member states in the two sectors. Consider first the patterns of the diffusion of nationalization. Telecoms and electricity were developed technologically and commercially in about the same decade (1876 and 1882, respectively), yet European policy makers chose to nationalize telecoms first and to move toward the nationalization of electricity only decades later. A critical moment followed the decision of the British postmaster-general to advance the case that telephone is sort of a telegraph and therefore subject to the control of the government under the Telegraph Act. Although this decision did not lead directly to government provision of the telephone service, it allowed a gradual process of expansion of government control that had impact all over the world. In the early years many countries seemed to replicate the British decision to place the telephone under the control of their post-

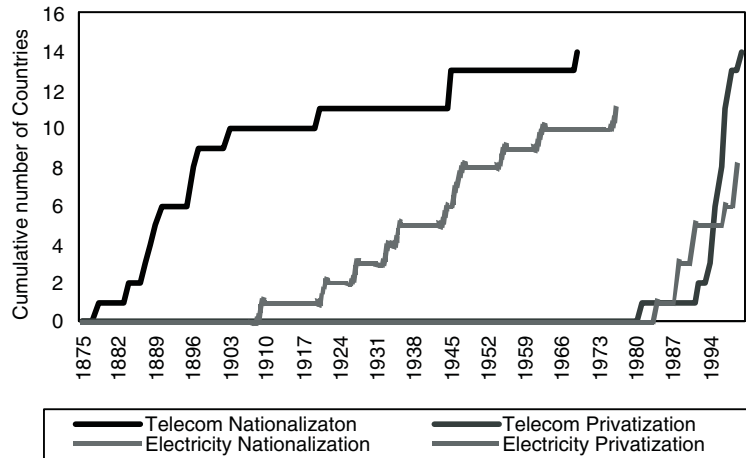


Figure 1 Europeanization in comparative historical perspective (EU14)

masters. Yet it was not long before Belgium, Austria, Sweden, France, and Denmark made deep inroads into the field of telephony through the nationalization of the entire industry or through control of critical strategic assets such as the long-distance networks. At the end of 1911, the British nationalized their telephone services, thus practically sealing the future of commercial telephone services in Europe (Levi-Faur, 2002).¹⁶

Public (municipal) ownership in the electricity industry started to spread slowly from the very beginning of the industry. As in the case of early transport and water systems, an electricity concession was usually a precondition for the provision of electricity, and thus they were given to concessionaires according to various sets of criteria. Often they were given to the powerful. In other cases, other criteria were important, such as a promise to give the municipality a share of the revenue or the supply of an adequate level of public service. A range of service problems with the provision of electricity as well as a rising tide of municipal pride and socialism led gradually to the municipalization of electricity services in many small and big cities around Europe. Yet unlike telecoms, the provision of electricity remained for a long time under private ownership. The advance of the state in this area came relatively late, through the construction of large hydroelectric and irrigation pro-

16. Spain and Portugal were exceptional in that they nationalized their industries very late, and Mussolini's Italy made an attempt (that failed) to reinvigorate the commercial provision of telephony.

jects or the promotion of national high-voltage transmission networks.¹⁷ Indeed, governments in most countries made inroads into electricity during the interwar period. The Finns moved toward state entrepreneurship in this sector in 1921. The new Irish republic nationalized electricity provision in 1927. Still, state ownership was not to become the dominant pattern until the end of the Second World War. Most remarkable were the comprehensive state monopolies created right after the Second World War by France (1946), Britain (1947), Greece (1955), and Italy (1962).¹⁸

The diffusion of privatization since the 1980s has advanced much faster than the diffusion of nationalization. Within a span of two decades, all 14 EU member states privatized their telecoms industries, and 8 did the same with their electricity industries.¹⁹ The process of change in the telecoms industry started with the privatization of British Telecom in 1984.²⁰ It took a decade for other EU member states to follow suit. In 1992, the Danes partly privatized their telecoms operator, and all the other members of the EU14 group quickly followed them. In electricity, the process started with the privatization of the shares of the German federal government in electricity supply in 1984. Over the next 4 years, none of the other EU member states followed the German example. In 1988, the federal government in Austria and the Spanish government privatized some of their electricity assets. In 1991, Britain and Sweden privatized electricity and were followed in the second half of the 1990s by Portugal, Italy, and the Netherlands.

It might be tempting in view of the more rapid diffusion in the era of liberalization to argue that Europeanization has created stronger interdependencies between the member states. Yet there is little support for this suggestion when the matter is examined in cross-national perspective. We rest our case here with Figures 2 and 3 that lead us back to cross-regional comparison. The figures present the rates of diffusion of privatization and regulatory authorities for the EU and Latin American groups. The proximity of the lines that describe the cumulative trends of diffusion in the two groups demonstrates that the EU process is in no way exceptional. It may also suggest that there are growing interdependencies between units of the international system and not necessarily between constitutive units of the EU. If the diffusion of privatiza-

17. Remarkable step was made in 1909 by the Swedish government in the establishment of Vattenfall, the first state-owned utility in Europe and probably in the world.

18. Again, as in the case of telephone, Spain and Portugal were exceptional. Spain never nationalized its entire electricity industry but made significant moves in that direction in 1985. Portugal nationalized the industry in 1976.

19. Belgium did not nationalize electricity and therefore could not privatize it.

20. A significant precedent for this step was the privatization in 1981 of the former provider of telecoms services to the British Empire, Cable and Wireless.

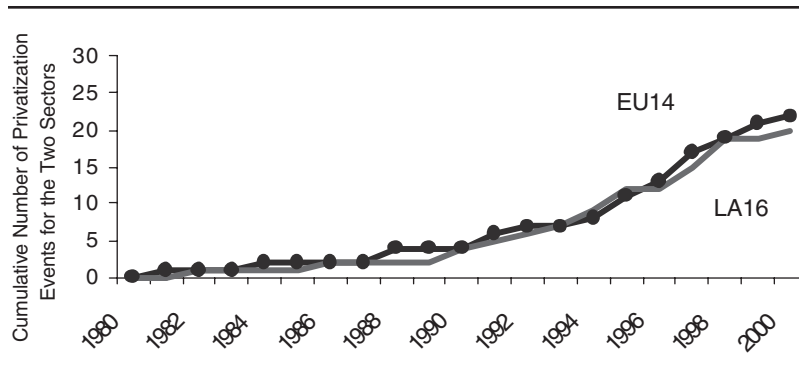


Figure 2 Diffusion of privatization throughout Latin American and the EU

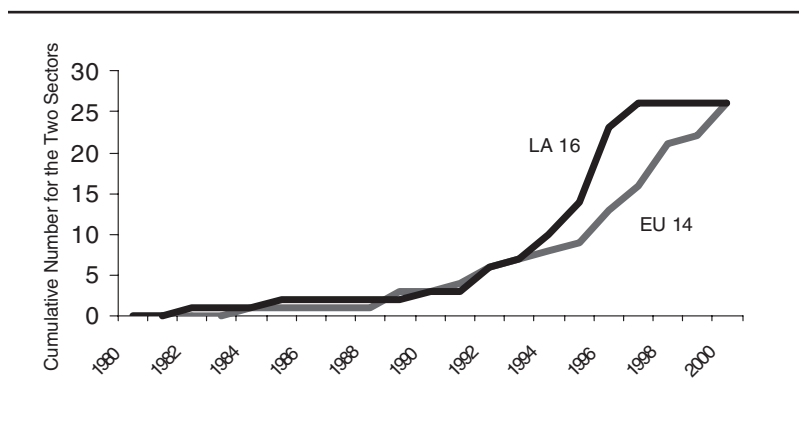


Figure 3 The diffusion of regulatory authorities throughout Latin America and the EU

tion in Latin America is as rapid as in Europe, it is not plausible to argue that the EU accelerates the processes of privatization and establishment of regulatory authorities.

CONCLUSIONS

We conclude that although the Europeanization of the telecoms and electricity industries led to some liberalization, it is highly plausible that the major features of the liberalization process would have diffused to most member states even if the Commission and other agents of Europeanization

had not existed. This rather thin interpretation of the effects of the European policy process is based on four major observations. First, variations in upward delegation to the European level largely correspond to variations in the downward delegation in these two industries. This pattern of change suggests that policy outcomes at the EU level reflect rather than dictate national policy outcomes. Second, policy choices at the national and sectoral levels with regard to the establishment of regulatory authorities and privatization reveal clear preferences for liberalization at the national level. This is particularly important as these components of Europeanization were outside the jurisdiction of the EU. Third, policy choices at the national and sectoral levels in the EU member states were not remarkably different for the EU14 group when compared with the most similar group (D&R8) and the most different group (LA16). Fourth, historical patterns of diffusion of governance change reveal that the interdependence between countries in the choice of governance mechanism is not a novel feature of the international system and world political economy. Certain mechanisms of policy emulation served to induce convergence across European countries in the past even without EU-level mechanisms of policy transfer.

These observations seem to support Bomberg and Peterson's (2000) warning from exaggerating the effects of European-level politics and policy making. At the empirical level, our observations provide support for the findings of Verdier and Breen (2001) as to the relations between Europeanization and globalization in the economic arena, specifically as to the organization of labor and capital markets. In these two markets, Verdier and Breen have found out that European integration seems to make no difference.²¹ None of these arguments means that Europeanization is an illusion. There is a real and to some extent effective governance structure in Brussels that will make a real impact on the way telecoms and electricity are governed in Europe in the future. Yet this real governance structure seems to be led by liberalization rather than to lead it.

This conclusion is somewhat refined by the following four suggestions. First, although the article's conclusion applies to both sectors, it is more valid in telecoms than in electricity. The effect of EU membership, although not decisive or independent of processes outside Europe, is stronger in the move

21. Verdier and Breen (2001) found contradictory evidences in the political arena (electoral competition and local government). In this sphere of action—in contrast to the economic—EU's membership seems to make a difference. Verdier and Breen did not explain their contradictory results probably because the matter deserves a paper of its own. It is significant however to note that in the four economic arenas where the EU was supposed to matter directly (unlike the indirect effects in the cases of electoral competition and local government), it did not!

to liberalize the electricity sector than the telecoms sector (cf. K. S. Schmidt, 1997). Second, whereas the article's conclusion applies to all member states, it is more valid in some countries than in others. Specifically, the effect of Europeanization on liberalization, although not critically important, is stronger in the southern countries and perhaps in France than in northern Europe. This proposition confirms to some extent a conclusion reached by Schneider (2001): Europeanization was more important in Italy than in France and Germany. One may add on the basis of studies of the liberalization process in Eastern Europe that the role of the Commission and EU-level considerations in the promotion of liberalization among the Eastern European candidates for accession was stronger than it was among the EU member states (Jacoby, 2001).

Third, although the first proposition applies to all the components of the liberalization program, it does not apply equally to them. Privatization of ownership and the widespread move toward the creation of independent regulatory authorities are less the product of Europeanization than of the advance of retail competition (unbundling in telecoms and consumer choice of suppliers in electricity). Yet the EU-led process of liberalization in retail competition was not found to be unique or more advanced among the member states than elsewhere in the most similar groups of the D&R8. Finally, although EU membership served as a catalyst for liberalization in some countries, it delayed the process for most of the members as it relieved them of some pressures to move faster. In this sense, the EU has acted more as a conduit for global forces than a shield against them (cf. V. A. Schmidt, 2002).

In sum it might be useful at this stage to point to some implications of the findings and to some possible directions for further research. First, if Europeanization is more potent in some spheres than in others, we should create a unified scale of Europeanization and employ cross-sectoral/sectional designs to understand its dynamics. Second, if Europeanization reflects choices that were made largely independently from the creation of EU regimes, could it might well be that the relations between the EU and the member state are less confrontational and less problematic on the major issues than is usually assumed? If so, is it possible that the process of integration is much more voluntarist than is often believed? Third, if the power of Europeanization is often exaggerated as confirmed here, one may want to know why is it so and specifically to explore to what extent this is an outcome of political maneuvering at the EU level and if so to what purposes and to whose benefits. Finally, if liberalization is so widespread and so potent that even an exceptionally strong international institution—such as the EU—does not determine its advance, which other political explanations (in contrast to economic) may help us to explain its global dynamics?

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David Levi-Faur is a senior lecturer (on leave) at the University of Haifa, and a senior research fellow with the Regulatory Institutions Network (RegNet) at the Australian National University's Research School of the Social Sciences. He is also a visiting scholar in the University of Oxford. He has also had visiting positions at the Universities of Amsterdam, Utrecht, and California at Berkeley, and has published in such leading journals such as the Journal of Public Policy, Journal of European Public Policy, Review of International Relations, Studies in Comparative International Development, and European Journal of Political Research.