1 How to Look at European Governance

It is not, then, merely to satisfy a legitimate curiosity that I have examined America; my wish has been to find instruction by which we may ourselves profit.

Alexis de Tocqueville, *Democracy in America*

Systems of Government: The Source of Success

The system of government determines the success or failure of a society. As Europe moves toward building a continent-wide political union, it starts from a base of great economic prosperity in much of the continent, the resource of a highly educated population and individual states that have embraced democratic ways of life. But this enormously promising base will not provide the platform for the success of a continental union unless a system of government can be devised that is suited to the continent as a whole.

Such a system is not yet in sight. The governments of the individual nation states realize hesitatingly and with reluctance that the present union will not do. They do not see clearly what can replace it. The existing member states cling to what is in place, apply patch-jobs where necessary and increasingly act together in ways that may well be beneficial and productive, but depart more and more from what was envisaged in the current union's formal treaty base. There is a movement to 'constitutionalize' what is important in the present treaty base and to bring in what is missing. This is a welcome sign of the start of a more fundamental debate. However, the virtues of

constitutionalization depend entirely on the content of what is to be put in constitutional form. The danger is of badly thought-out transpositions from national experience.

Unless a new system can be devised, this great European venture will fail. The history of the last century is full of examples of countries with great initial promise, with abundant natural resources and enterprising populations that failed to deliver on that promise. At the start of the century Latin America had countries such as Argentina and Brazil with every prospect for success yet which failed to find it. At mid-century several of the newly independent countries of Africa had rich resource bases on which to build – but again the promise has not materialized. Towards the end of the century, countries in East and Southeast Asia appeared to have found a formula for success in the footsteps of a resurgent Japan. But for Japan, the last decade has been wasted and the prospects for many other Asian countries seem much more fragile and elusive than before.

The American Example

When the position of Europe's leaders, as they try to build a continent-wide system of government, is compared with the position of the founding fathers of the United States as they sat down to debate the provisions of the American Constitution, there is a striking contrast in the framework for the debate. The founding fathers of the American system started with one enormous advantage: they conducted their debates within common terms of reference about the principles of good government. The transition from a confederal to a federal form of government, and the translation of abstract principles into actual practice, provoked fierce dispute and sometimes acrimony. The outcome reflected not the triumph of pure theory but partisan political objectives, hard political bargaining and ruthless ratification tactics. Nevertheless, when it came to the underlying principles of good government the founding fathers turned, by and large, to a shared heritage of English legal theory and practice and drew in common from the political theories of Hume, Locke and Montesquieu. Crucially, they also accepted without question that most commercial activity would be undertaken by private enterprise.[1]

As Europe's political leaders seek now to build a political union in Europe, they lack such common terms of reference. All are committed to the ideal of democracy. But beyond this starting point, important as

it is, there is no agreement on the principles of good government. One strand of tradition in Europe emphasizes the importance of 'rule-based' democratic government: the idea that powers in a democracy must be placed within a system of rules. A different strand emphasizes the importance of 'rights-based' systems of government: the idea that a system of government does not gain legitimacy just by the fact of its existence but only if it respects certain fundamental rights, including social rights, which define the just society within which the system of government must work. In addition, most countries in Europe subscribe to the idea of 'representative' democracy: the idea that those who exercise political power do so on behalf of those who have voted them into office. Finally, most governments in Europe accept the philosophy of the 'social market': that is, the market moderated by government interventions in the face of any social distress.

At the same time, there is no consensus on these components, or how to express them or how to draw them together. Not all member states subscribe to the idea of rule-based government or agree where the rules should constrain democratic impulses. Equally, member states do not agree on the role of rights in a constitutional setting. While all countries subscribe to the practices of representative democracy, many also allow, particularly in the context of Europe, for a different tradition, that of direct or 'participative' democracy where people have the chance to express themselves directly on the great issues of the moment. While the attachment to the social market is pervasive, there is, at the same time, a growing realization that different versions of the model need to be rethought.

As a result of these different strands, when, at the end of the day, the existing treaties of the European Union are examined in order to see what has been agreed to date about the shape of political union in Europe, there is to be found a *mélange* of provisions that reflect not a common understanding of the principles of good government, but opportunistic, self-seeking and unprincipled bargaining by politicians and European institutions, with outcomes so complex that the text is unintelligible except to the experts. When governments try to justify to public opinion what they have agreed in the treaties, the stress is always on the good policy outcomes they hope and promise to achieve – never on the underlying principles of political association.

The confusion in the treaty base of the existing European union stems not just from the lack of common terms of reference about the principles of good government, but also from the difficulties of the modern setting facing systems of government. Many of the old anchor points about how democratic government should be organized have

been lost. The functions of government are changing, people's expectations of what politics can deliver are changing and geography no longer provides a secure basis on which to allocate functions between different layers of government. This loss of the compass for governance spills over into further evasion and muddle in the treaty base itself.

If the process of building a system of government in Europe continues down this path of confusion and ever-increasing complexity, the continent will end up in the worst of all worlds. Democratic forms of government in Europe will have been eroded, market economies will have been damaged. Instead of Europe being able to take advantage of dynamic global opportunities, it will find itself a backwater of thwarted aspirations, political discontent and the breeding ground for extremism. What lies behind the success of the United States has been the adoption of a hugely robust system of government. What lay behind so many of the stories of failed endeavour or semi-success in the twentieth century was an inability in other parts of the world to do the same.

Alternative Starting Points

In order to sort out the principles of a system of government for a continent-wide political union the choice of the starting point for the debate is itself highly important. Debates about the shape of political union in Europe typically start from assumptions that are highly questionable and that will lead the continent in the wrong direction. They appeal to fears and unfounded beliefs that stand in the way of a clear perception of the foundations for a European system of government.

The Counterfactual: Nation against Nation

The most common starting point of all for discussions about the shape of Europe is fear of the past. The finger is pointed at the aggressive nationalism that ravaged Europe in the first half of the twentieth century and it is suggested that political union in Europe is designed above all to avoid a return to that earlier condition of nation against nation. For a whole generation of European politicians, now gone

from the scene, any major speech on European union would incorporate a reference to the Second World War.

This kind of starting point about what would happen in the absence of a union has ancient roots in political theorizing. Its ancestry derives from theories that start from a postulated 'state of nature'. In most cases the 'state of nature' is not an Arcadia but a condition of brutality and lawlessness. The logic of the argument relies on a counterfactual, argument,[2] which runs that: 'If we did not have our system X, we would have the desperate condition of Y.' Perhaps the best-known example in political theory of this starting point is the state of nature described by Thomas Hobbes.

The counterfactual is seductive as a starting point because it provides a means of justifying an existing political system. Essentially, the warning is that if a brick is removed from the political edifice, a wall will crumble, the building will fall down and there will be a return to the disastrous former state that everybody wishes to avoid.

Just such a line of argument is employed to justify the existing European union. It has become an article of faith among European politicians and an actual article in the current treaty base that the so-called '*acquis communautaire*' should be maintained in full and built on. What this is intended to mean is that there can be no going back from whatever institutions, policies and procedures are in place now in the union. Taken at face value this provision would simply build redundancy and sterility into the treaties because any system of government must have the ability to change, repeal and revise. But more importantly the implied message is that if the existing union gives an inch in modifying what it has got, everything may start to unwind and Europe will be back, not to nature, but to competitive and destructive nationalism. A variant of this message is sometimes given in the metaphor of a bicycle climbing a hill: if the existing union does not go forward, momentum will be lost and everything will slip back.

One basic weakness in this whole approach is that the counterfactual can be challenged. In today's Europe it is implausible that, in the absence of the existing union, European states would indeed revert to their behaviour of the first half of the twentieth century. The overwhelming majority of people in Europe and their governments have learnt their lesson that aggression does not pay. The only exception to this lies in the Balkans. To justify an extension of the arrangements for the existing union to the whole of Europe on the grounds that otherwise all nations in Europe will once again be at each other's throats defies belief. And the more that the counterfac-

tual is disbelieved, the weaker it becomes as a foundation on which to build the edifice of a continent-wide system of government.

The real-world challenge to the counterfactual can be sidestepped. It is possible to say that the counterfactual is simply a theoretical construction. Even a theoretical 'state of nature' may still be a useful device for illuminating some essential feature of a system of government. Yet those who argue that, in the absence of the European Union, the continent would revert to the behaviour of the first half of the twentieth century are using the example as a literal rather than a hypothetical state of affairs. They are asking Europe's citizens to believe that, in the absence of a political union, Europe would indeed sooner or later find itself in a situation where nation would once again be pitted against nation.

The counterfactual approach to the construction of European political union not only defies belief but it does not get off first base for a different reason. The disasters that Europe invited on itself and succumbed to in the first half of the twentieth century provided enormously important motivation for the generation of leaders that started the move towards European political integration. But good motives are not enough. A better starting point is needed in order to provide theoretical or practical insights into the principles of a continent-wide system of governance. People need to know what kind of system of democratic government Europe can put in place, how it will operate and why they should respect it. It is not good enough to say that the existing union is better than no union at all. Such an argument could be used to justify any kind of political union in Europe. The present union has succeeded far beyond the hopes of the founding fathers of the original coal and steel community and the original economic community and this achievement should indeed be respected. But Europe cannot start by assuming that the present union provides the right structures for the continent-wide union that is now possible following the collapse of communism.

Dealing with Uncertainty

As memories of twentieth-century disasters fade away and as generations of politicians in Europe change, discussion about a European system of government increasingly starts from a different point. Attention is drawn not to dangers past but to new and future dangers. From fear of the past, Europe's politicians go straight to fear of the

future. The most frequently cited spectre on Europe's doorstep is that of 'globalization'. No matter that globalization is as much a cause for celebration as it is for trepidation and as much an opportunity as it is a threat, it is always the downside, the negative and the unknown that are pointed out. The union, it is suggested, has to be constructed so as to provide a protection and security against these new dangers.

Sometimes the same line of thinking is presented in terms of 'the end of the nation state'. The proposition is once again that the traditional so-called 'nation state' can no longer perform its accustomed functions and Europe needs to face up to a new and uncertain world where a continent-wide union offers better protection against the unknown.[3] It is also suggested that the legitimacy of modern political structures has been built around the state as an instrument for helping people to cope with the insecurities in their lives, and that now that the nation state can no longer offer any such sense of security, that legitimacy is vanishing.[4] In the context of Europe it is the wider political union that is said to provide the new and improved basis for helping people cope and around which a new political legitimacy is to be built.

Arguments such as these, based on uncertainty about the future, have also traditionally provided a starting point for the discussion of the principles of political organization. The theoretical device employed in this discussion is provided by the so-called 'veil of ignorance' or, more accurately, the 'veil of uncertainty'. According to this approach, it is argued that the rules of political association must be valid and applicable to meet circumstances that cannot be foreseen. Consequently the basic principles of political association must be those that will be universally acceptable in general circumstances. This approach had a great vogue among political theorists in the second half of the twentieth century,[5] although its roots go back much further.

One of the difficulties with approaching political construction on the basis of uncertainty about the future is that it draws too sharp a distinction between the past and the future. In the real world, the veil of uncertainty is approached not just through a fog of ignorance but also through experience both of what has been tried and found lacking and what has been tested and found to work. The past cannot be used indiscriminately to justify anything currently in place, but neither can it be ignored. Systems of government do not deal just with future abstractions, and there is a need to be clear and explicit about what it is exactly that is being carried forward into the debate from the past, and why.

There is, however, a more basic deficiency in any approach built on uncertainties about the future and that is that it opens the door to far too wide a speculation about what might be generally acceptable in unknown and unknowable circumstances. It will be argued in the next chapter that the world indeed provides a new setting for systems of government. But a precise diagnosis of this new setting is needed in order to adapt the framework. The particular response given to the new setting has also to be justified against other possible responses. Thus, in thinking about a continent-wide system of governance for Europe, it is not sufficient to say that something is needed at the European level in order to safeguard people against an uncertain future. Instead, there is a need to be much more precise about the setting to be faced, the nature of the different responses that can be given, and the justification of those that are finally chosen. Indiscriminate fear of the future is no better a guide to building a European system of government than is indiscriminate fear of the past.

The Moral Standpoint

A third traditional starting point for exploring the principles of government for Europe is to emphasize the moral dimension of governance. The moral standpoint goes beyond the claim that any system of government for Europe will be a morally superior alternative to a state of conflict between nations. It also goes beyond the claim that a European system of governance can reduce the uncertainties people face in their lives from globalization. The essence of the moral standpoint is that any system of government for Europe must be built around the concept of 'justice'.[6]

Since, in the abstract, everybody is in favour of 'justice', it seems like a firm basis on which to start thinking about a system of government for the continent. The difficulty lies in how to translate an abstract goal into the provisions of a system of government.

In the context of debate in Europe, 'justice' is usually defined to include both procedural justice and substantive justice. Procedural justice means that the system of government must respect basic standards such as free expression.[7] Substantive justice means 'social justice': in other words, the system of government must be equipped to offer social protection to those who need it and express the social virtues of solidarity between rich and poor, between generations and between the 'social partners' in Europe. The basic idea is that of the

'social state'. The individual nation state in Europe may no longer be able to perform the role of a social state, but Europe's system of governance can still be designed to embody the philosophy and design of such a state.

The ideal of the social state represents a rich and widely shared tradition in Europe. The breadth of this tradition can be illustrated by the many different ways in which the concern for justice can be formulated. The formulations, drawing on very different sources of inspiration, include the following:

- Solidarity with the community is an integral way in which people conceive their identity, and this sense of solidarity has to be built into the rules of political organization.[8]
- Some measure of agreement on the principles of social justice is necessary for a human community to be viable and durable.[9]
- A notion of what is just will help a society to select and sustain the norms, rules and institutions that are needed in any system of government.[10]
- Welfare provision by the state is necessary in order to underpin the legitimacy of government structures.[11]
- Legal systems also need to be based on 'just laws' in order to gain legitimacy since it is not any system of law and law enforcement that is legitimate.[12]

These different ways of appealing to a concept of justice in thinking about Europe's system of government are undeniably attractive, particularly for Europe's politicians. Witness the recent proclamation of the existing union's Charter of Fundamental Rights with its *mélange* of procedural and substantive rights. Yet, at the end of the day, this tradition of the social state does not provide a good starting point from which to think about the structures of a continent-wide system of government.

There are two important difficulties to starting to discuss the shape of governance in Europe from the point of moral concern about social justice. The first concerns how to express the values of procedural justice in relation to those of social justice. Placing the two definitions of justice side by side can encourage the idea that there is a 'trade-off' between the two. This is pernicious. A state that provides a high level of social protection does not as a result have to offer less respect for procedural norms.

A number of different and conflicting solutions have been suggested in order to avoid the trap of 'trade-offs'. From one side it can be

argued that notions of procedural justice have priority. From the other side it can be argued that what matters is rules that embody substantive justice and that procedural standards are subsidiary. Between these two contradictory positions there have been a number of attempts to express standards of procedural justice in ways that incorporate the social dimension. These attempts make use of concepts such as 'fairness' and 'equality', which seem to bridge the divide.[13] As mentioned above, the concept of 'basic rights' has also been employed to argue in favour of equal status for procedural and social justice on the grounds that the right to a social state is a basic right numbering alongside other basic rights such as procedural rights of participation. This is a complex debate that has not resolved the inherent tension between the two notions of justice.

The second difficulty concerns how to express the relationship between the norms of the political world and the norms of the moral world. The underlying issue is about what gives legitimacy to a political system. This will be discussed further in chapter 9. At this stage it suffices to say that, if the organization of political life involves issues that are different from those that people confront in making moral judgements, then it is not possible to move easily from propositions about the moral order of society to propositions about the political order. In other words, moral propositions (such as the virtue of social solidarity) cannot be used in any straightforward way as a basis on which to rest a political order because they will not address the particular type of issues that have to be confronted when the special properties of systems of government are taken into account. For example, systems of government have the power to coerce: to make people do what they do not want to do. Power as such is morally neutral: it can be used for purposes that are good or for purposes that are bad. But in the design of a system of political choice there is a need to address the issue of the power to coerce as a central issue, perhaps indeed as *the* central issue. Thus, how to frame the checks and balances that must accompany this power – even if it is to be used for good ends and to achieve substantive justice in society – has to be treated as a critical feature of any political system.

At first sight the moral standpoint is an attractive position to adopt in starting to think about Europe's system of government. But it overlooks the ways in which a political system differs from a system of morality and blurs the problem of how to express a concern about substantive justice alongside procedural justice. It opens wide the door to a system of government that can act without constraints as long as it proclaims fine intent.

The Outside Observer

There is finally a different starting point that avoids the debate about the counterfactual, that does not play on fears and uncertainties about what the future might bring, and that keeps views about the moral standards in society separate from the different concerns to be given a central focus in looking at systems of government. This different starting point is that of the outside observer.

Historically, the most famous example of the outside observer is that provided by Alexis de Tocqueville, who visited America over nine months in 1831 and 1832 in order to examine the American system and to find out, if he could, why a democratic form of government had taken hold in the United States but not in Europe. What is striking about Tocqueville's analysis, published in two parts, in 1835 and 1840, is that he saw the key to the way in which America's then system of government worked as lying in the way in which it connected two systems of choice: that of politics and that of the market.[14]

Updated to contemporary debate, Tocqueville's model draws attention to three features of governance. First, the outside observer will see that it is possible for people to make choices through two systems: through the mechanisms of political choice and through the mechanisms of the marketplace. Secondly, people can be viewed as starting from a position of neutrality as to which system of choice is best. There is no initial predisposition in favour either of the market or of politics. If the political system looks to be the best system for making choices, the outside onlooker will assume that participants will be attracted to that route; conversely, if the market offers greater advantage, it seems safe to assume that participants will look instead to that route. Thirdly, the outside observer does not need to prejudge what types of choice are best made through each system, nor, furthermore, is the onlooker prejudging where the borderline between the two systems of choice should be drawn. Participants will likely favour one channel for some choices and the other for other choices.[15]

What Tocqueville saw as key to a system of government is to get the connection between the two systems right. He saw the possibility that the two systems could transform each other in mutually beneficial ways.

The insight that the two systems of choice are connected seems to imply that, up to a point, they can be viewed as alternatives. If one

channel is clogged, participants will simply turn, or be forced to turn, to the other as a means for making choices. At first sight this would seem to suggest in practical terms that if, for some reason, the system of market choice is not working properly, it may be possible to compensate by doing more through the system of political choice. Conversely, if the political system does not work effectively, then it may be possible to compensate by making more choices in the market. However, Tocqueville's diagnosis does not invite any such easy deductions. Instead, he seems to suggest that if the connections between the two systems of choice are faulty, then both mechanisms for choice may become clogged and the outside observer will see that people have nowhere to turn to express either individual or social choice. In other words, the system of government will fail to provide society with any effective means for making individual or social choices and social and political breakdown will result.

Contemporary social theorists may wish to bring in additional analytically distinct social sub-systems: for example, adding to Tocqueville's two categories the additional categories of social institutions such as the family and culture. Each has had its advocates in recent times. Cultural values such as civility or trust have been pointed to as essential ingredients of a successful society,[16] as have social values such as the importance placed on the family.

Some of this advocacy of the importance of additional sub-systems has been rapidly dated by the success of the United States in recent decades. Even if the United States were now to slip into recession, this success has undermined theories about social or cultural values that foresaw the inevitable decline of the country. But Tocqueville himself would not have denied the importance of cultural or social values. His own discussion of America devoted considerable space to each. These possible refinements do not weaken his basic insight that politics and economics interact in ways that make it impossible for either to be independent of the other.

When Tocqueville looked at the two systems of choice he saw the legal system as providing the link between political choice and the market. History since Tocqueville's time has eroded the independence of legal systems. He himself foresaw correctly that government in a democratic society would be active government. In practice, the result of active government has been that government has become the overwhelming source of law. It is government that acts as the connector of both systems.

If Tocqueville's position as the outside observer is adopted as the starting point for thinking about Europe's system of government, it

implies thinking about Europe's system of government in terms of two connected systems of choice: that of politics and that of the market. It is not possible to deal with each as though it were separate. Thus in thinking in terms of systems of government the focus should not just be on the system of political choice by itself. Instead, it has to be on the system of political choice together with the system of market choice.

Moreover, Tocqueville avoids easy assumptions about the nature of the connection. He does not suggest that the relationship should be seen as a mere question of how output is divided – where either the political system is regarded as a predator on the market system or, conversely, where the market is regarded as an encroacher on choices better decided within politics. Tocqueville's diagnosis is that if the connection is established correctly, then the strengths of one system of choice reinforce the strengths of the other. If, on the contrary, the connection is set wrongly, then he warns that both systems of choice can be impaired and the weaknesses of the one can accentuate the weaknesses of the other. In other words, if the two systems of choice are working well together, then the sum of the system is worth more than the sum of its parts. The converse also applies. If the connection is faulty, the system will deliver less than its parts.

There are three compelling reasons why the standpoint of the outside observer should be preferred as the starting point for looking at a system of government for Europe. First, there is the negative reason that it avoids the weaknesses of the alternative approaches discussed earlier. It does not rest on disputed historical counterfactuals, nor on alarmism about future hypotheticals; neither does it rest among the philosophical quicksand surrounding concepts of justice and fairness.

Secondly, it offers a measure of the success of a system of government. It is a measure that does not depend on scaremongering about the dangers of globalization. Nor does it depend on unreal promises about the particular benefits – social or otherwise – that a system of governance can deliver. Tocqueville was impressed by the commercial vigour of the early United States but he was not equating success with prosperity. Instead the message can be interpreted as the need for a system of government that enables people to make the best of their choices – whatever they are, whatever existing resource endowments are, whatever future opportunities might bring and whatever their preferences might be. In other words, if the connection between political choice and market choice is right, people will have the widest possible choices in whatever circumstances and be able to make the

best use of both channels of choice. In Europe, people might choose to maximize the possibilities of economic growth, but, on the contrary, they might choose to give priority to a green and safe environment. There is no prejudice against the market. Equally there is no prejudice against political choice.

Thirdly, the standpoint of the outside observer challenges some key orthodox beliefs in Europe. In particular, orthodox formulations of the social market model in individual nation states in Europe encourage people to think of the relationship between political choice and market choice as one of benign opposites where the precise correspondence between them does not matter too much. Tocqueville warns against that kind of assumption. It is an orthodoxy that is already extremely costly in individual countries in Europe and one that will be much more damaging if adopted as a guide to what a continent-wide system of government should be doing and how it should be constructed. A fresh look is required.

Connecting Two Systems of Choice

There are two basic reasons why Europe has shied away from taking a fresh look at the relationships between the system of market choice and the system of political choice. The first stems from the view that it is unnecessary to look too closely at the relationship because there is something inevitable about the way in which democracy and 'the mixed' or the 'social market' economy go together. The second stems from the view that, when anything goes wrong in the market, the system of political choice can easily make amends. Both views are mistaken. If they are followed, Europe will fail to appreciate what is happening to the two systems of choice and what this means for systems of government. As a result, its own system of government will fail.

Democracies and the Mixed Economy

In the real world all democratic societies seem to end up with mixed economies. The combination arises because market outcomes may not be seen as desirable by democratic opinion and those who do badly in a market economy may have the power through democracy

to demand intervention.[17] The seeming inevitability of this combination lulls opinion into complacency. The temptation is to stop thinking about the way in which the state and the market interrelate.

The basic reason why the relationship needs continuous attention is that the two systems of choice interact in ways that matter enormously for the way in which people live their lives. Moreover, they may interact in ways that can be hugely damaging to the choices open to people. The most telling illustrations can be seen by looking at the points where market choice and political choice intersect. The importance of this point of intersection in the daily lives of citizens can be appreciated because what people typically confront in making some of the most critical decisions in their lives is precisely the product of both systems of choice. In other words, some of the most important decisions in people's lives have to be taken exactly where systems of market choice and systems of political choice interconnect. If individuals decide to make payments into a private pension or insurance scheme in order to be able to enjoy later life more than they could by relying on a state pension, or if they decide to pay for extra tuition out of their own purse to go to a particular university because they think the subsequent job rewards will be higher than if they opted for a cheaper state-supported university place, they are making hugely important life-cycle choices that take into account an environment that is neither pure market nor pure politics.[18]

The key question at these points of intersection when individuals and families make hugely important and far-ranging decisions is whether people's choices are being widened, narrowed or just being muddled and made more complicated. The answer across much of Europe is that at these critical moments of choice, governments muddle people's options rather than assist them to get the best out of the market and the best out of politics. If the current practices of the member states are transferred to Europe as a whole, similar muddle in people's most important choices will be inevitable. As a result, Europe's system of government will become associated with all the frustrations in people's lives.

The Fiction of Benign Opposites

The idea that Europe does not have to think too closely about democracy and the mixed economy is further buttressed by the complacent way in which a 'mixed economy' or the 'social market' is

accepted as the norm in Europe. The model of the social market, which started from a much more rigorous approach to the way in which the mechanisms of political choice were linked to market choice, has evolved to become a quite unreflective presumption that if there are deficiencies in one system of choice – the market – then they can be easily offset by the other – politics.

In fact, the conventional assumption made in Europe that the system of politics compensates easily for the defects of the market is faulty and would seem, in large part, to be the product of wishful thinking. The reality is that there is no easy demarcation line between the two and there can be no counting on the system of political choice to automatically correct for deficiencies in the system of market choice because:

- both systems of choice reflect both individual and aggregate choice – the market is not just about individual choice, neither is politics just about aggregate choice;
- both reflect the selfish as well as the social – the market can meet social concerns, and equally politics can reflect selfish concerns;[19]
- both the market and politics produce impure goods that are neither wholly public nor wholly private – the market is not just about private goods, and politics is not just about public goods;
- both contain inherent inequalities – the market is unequal because money counts and politics is unequal because information and access count;
- both are a source of injustice as well as justice – people can be victimized by politics through no fault of their own and they can do badly in the market through no fault of their own;
- both present risks – there are market risks when markets change and there are political risks when public policies change; and
- both suffer from systemic sources of failure – political systems because they suppress information, and market systems because they become unstable in the search for information.

For fifty years, countries in Europe have proceeded on the assumption that the strengths of each of the two main systems of choice could be effortlessly combined because the strengths of one system – politics – could be relied upon to offset the weaknesses of the other – the market. This assumption is now being carried over into the continent-wide union as a whole. There is a casual assumption that the right connections exist in individual member states, or near enough so that it makes no difference, and an equally casual assumption that these

same relationships can now be extended to the whole of Europe's system of government. This is wrong.

Re-examining the Setting for Governments

If Europe's system of government is to connect together the two systems of political choice and market choice so as to enhance their mutual strengths rather than aggravate their mutual weaknesses, there is a need to look afresh at the modern setting facing systems of government:

- There is a need to assess precisely where it is in this new setting that systems of political choice add value to systems of market choice.
- There is a need also to look precisely at the way in which preferences and priorities are being signalled in this new setting so that both systems are responsive to the choices people want to make.
- Finally, there is a need to look at how systems of political and market choice are best organized in this new setting so as to deliver what they are good at delivering and can best respond to signals about what people want.

Europe has an opportunity now to re-examine the connection between the two systems of choice and to try to arrange the rules for a continent-wide union so that individuals and communities can get the best out of each system. It will not achieve success unless it does so. When the relationship between the two systems of choice is examined more carefully rather than relying on conventional wisdom about how the two relate, it can be seen that one system – the system of market choice – has been rapidly adapting to offer what it is that people want, while the other system – the system of political choice – is floundering. It is this disjunction between the two systems of choice that challenges systems of government. The next chapter therefore looks at the reasons underlying this disjunction and what this setting means for building a successful system of government for Europe.