

Making Policy in Europe
The Europeification of National Policy-making

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SAGE Publications
London · Thousand Oaks · New Delhi

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WHAT DO MARKETS HAVE IN COMMON? TOWARD A FAST TRAIN POLICY FOR THE EC

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INTRODUCTION

One of the original hopes for European unity was that a huge frontierless economic region could replicate the economic dynamism of America's post-war economy. In the past decade the common "market" took on another meaning as Europe became disillusioned with interventionist public policies and explicitly turned to privatization and markets to promote growth. Europeification has come to mean not only efforts to break down trade barriers, but a shift away from national-level interventionism toward the sort of the market organization of economic life associated with Adam Smith. The European Community is increasingly seen as a structure for imposing discipline on governments that might otherwise meddle with industry – as a referee in an enormous free market.

Neoclassical theory poses the market as the economic state of nature – what exists in the absence of meddling states. This idealized market is driven by transcendental economic laws of exchange that determine what is efficient and what is not, and that thereby help to shape social institutions. The particular set of laws that neoclassical theory has identified suggest that economic efficiency operates best in the absence of disequilibrating political intervention. The modern social institution that has done most to promote modernization and progress (the state) plays no role in the constitution of markets or efficiency. On the contrary it can only act to disrupt primordial or natural markets. Great expectations

for the economic future of a Europe can, in essence, negotiate modern states out of the economic picture.

One paradox of this way of thinking is that while economic theory treats the market as a universal that is understood to mean the same thing everywhere, in fact people mean very different things by "the market". When states appeal to markets to produce efficiencies of various sorts, they appeal to widely different kinds of social processes. Moreover, states themselves take very different institutional roles in markets—some behave as if their actions may disturb natural markets, others are charged with reinforcing market mechanisms, and still others behave as if they must actively constitute markets. I will argue that economic integration under a single European market will not be as simple as eliminating industrial interventions that interfere with natural markets, but will involve integrating conceptions of (1) how and where markets produce efficiencies, and (2) the role of the state in the constitution of various markets. This will demand not a withering away of European states but the imposition of some new pseudo-state structure that will effect some particular, as yet undefined, vision of the market.

The integration of institutionalized economic worldviews

Students of the European Community see the problems it faces as largely political (e.g. Sbragia 1992, Haas 1958). How will the EC resolve sectoral and national interests (Fligstein and Brantley 1992)? How will nations with divergent interests reach consensus (Lange forthcoming)? Will cross-national sectoral interest groups emerge (Andersen and Eliassen 1991)? These very questions lead analysts to bracket the issue of how divergent economic worldviews will be reconciled in the European Community. Market mechanisms are institutionalized very differently in Italy, Spain, Germany, the UK, and France, and as a result Europeans have widely different ideas about what markets are.

Neoclassical economics and modern common sense alike treat "the market" as a singular ideal-type, which actual economic behaviour patterns can only approximate. But the idea of a "perfect" market implies transcendental economic laws that drive economic behaviour patterns to converge everywhere. The origin of modern economic practices is, then, thought to be a sort of overarching economic *geist* that takes the form of a set of mathematical models. A more sociological approach makes weaker assumptions about the universality of economic laws by treating ostensibly "objective" laws as things that are distilled from social experience. We know, for instance, that neoclassical theory was distilled

from the early experiences of the UK and the United States. If all economic laws are simply glosses on experience, then understanding the diversity of economic experience – and the sorts of indigenous economic laws that result – becomes important to understanding economic behaviour patterns. The main source of cross-national diversity in economic experience is certainly the nation state, as institutional economists contend (North 1981, 1990). With these insights, economic sociologists have explored market mechanisms with a social constructionist lens. They find that even within a single industry, capital markets, consumer markets, sourcing markets, and other kinds of markets may operate on entirely different principles (White 1988). They find that over time more and more realms of social life are subjected to “market” processes (Zelizer 1988, Reddy 1984). They find that particular economic behaviour patterns are sustained as actors collectively construct them as rational, and enact them with reciprocal expectations about the behaviour of others (Granovetter 1985). If the meaning of the market differs by social context, how can widely different varieties of markets be reconciled in an integrated Europe?

To illustrate the diverse conceptions of the market that will have to be reconciled if Europeification is to be successful I explore the different varieties of markets to be found in French and British high speed train policy. British and French policies constitute disparate technology markets, consumer markets, capital markets, producer markets, secondary markets, and international markets. Taken together, policies in these market realms point to incompatible conceptions of the market, and of the role of the state in the market. Policies in both countries appeal to market forces. But in the UK public policy is driven by the notion that markets and economic activity are exogenous to, and prior to, the state; in France policy is driven by the notion that markets and economic activity are produced, stimulated, and guided toward national goals by the state. What will the European Community’s high speed train market look like, given that European nations have such divergent institutionalized conceptions of markets?

I argue that nations’ conceptions of the role of government in the market are glosses on institutional experience, and that the key supranational governing institutions that will shape emergent Community-wide conceptions are already in place. Those institutions carry implications for the relationship between the European Community–qua–government and economic behaviour patterns, or markets. I argue that the institutional logic of the EC will favour certain conceptions of markets and disfavour

others. Of the three principal high speed train policies now under consideration – system integration, bilateral service agreements, and the “airline model” – only one is compatible with the conception of government–market relations embedded in the current structure of the Community. In short, Europeification implies the imposition of a particular kind of market model, and that model is already implicit in the very institutional structure of the EC.

FAST TRAIN POLICIES IN THE UK AND FRANCE

France operates state-of-the-art 300 km/h trains on a new network of rail lines dedicated to fast passenger service. The UK operates 1960s–technology 200 km/h “High Speed Trains” on the nation’s nineteenth-century freight/passenger network. The kneejerk reaction of political scientists has been to call French policy statist and British policy market-oriented, and to use this typology to explain all such differences. Yet on close scrutiny, as we will see below, the typology breaks down. In fact, France subjects elements of the railway industry to private competition or market forces that the UK dominates with state control. More generally, in both countries rail policy is state-oriented, in that railways are nationalized, and in both countries rail policy is market-oriented, in that policies are explicitly designed to employ markets to achieve economic goals. Hence the British think they are using public policy to create efficiency through market processes, but then so do the French. These outcomes are better explained as the result of very different ideas about market efficiency and the role of the state in the market.

The UK’s industrial culture (Dyson 1983) makes entrepreneurial drive the source of economic dynamism, and makes positive state action a threat to entrepreneurialism, markets, and growth. France’s industrial culture generates a different vision of the roles of state, market, and entrepreneur in the pursuit of economic efficiency and growth. In France, state technocrats play a key role in transforming entrepreneurial drive into progress, and the state must stimulate, guide, and contain both entrepreneurs and markets to achieve efficiency and growth. Whereas in the UK policy has been organized on the premise that markets spring up naturally from civil society, in France it has been organized on the premise that markets are created by the state. Whereas in the UK policy has constituted civil society as the generator of supply and demand, in France policy has constituted the state as the generator of supply and

demand. Whereas in the UK the state is exogenous to the market, in France it is endogenous.

These different institutionalized conceptions of the relationship between state and market produced remarkably different high speed train policies. Space limitations prevent me from discussing the origins of national industrial strategies and conceptions of markets in detail, but recent studies suggest that national "industrial cultures" (Dyson 1983) and "industrial policy paradigms" (Hall forthcoming, Andersen 1993) are found to be consistent across industrial sectors, emerging in the nineteenth century (Dobbin forthcoming). Thus the conceptions of markets behind high speed train policies adopted between the 1960s and the early 1990s are rooted in British and French industrial traditions. The experiences of this sector are by no means unique, and they will no doubt ring familiar. Next I review the effects these institutionalized relationships between state and economy had on policy in various sub-markets of the high speed train industry.

Technology markets

The success of Japan's high speed Shinkansen line, opened in 1964, stimulated both the UK and France to adopt fast train programmes by the end of the 1960s. But where would the technology for trains come from? Both countries operated nationalized railroads with internal development departments, but they approached the issue of technological supply differently. France treated the state as the optimal supplier of the technology, but used private sector capital to finance rolling stock. Politicians and state technocrats assumed that the state's designers were best suited to design rolling stock and infrastructure. France's Société Nationale des Chemins de Fer (SNCF), the state-owned railway, established a Research Department in the mid-1960s and set to work developing a train that could run at unprecedented speeds. The official commitment to a high speed train linking Paris and Lyon was made in 1972, and over the next four years SNCF perfected the technology that would first go into service as the TGV (train à grande vitesse) in 1981. The trains were built by a public-private joint venture under the Compagnie Générale d'Electricité. French policy engaged the private sector to build the TGV, but never opened up technology design or construction to market competition.

Across the Channel, British Rail (BR) took the initiative for technological supply in the late 1960s by establishing two in-house high speed projects. The "High Speed Train" project produced the 125-mph

InterCity 125 by making minor modifications to existing train technology. The more ambitious Advanced Passenger Transport (APT) project aimed to build an entirely new, and much faster, train. In 1982, after three trial runs that brought technological problems to light, BR dubbed the APT project a failure and abandoned research (Potter 1989). While the engineering community saw the train's deficiencies as remediable, the Government doubted the state's capacity to manage the development of such a complex technology (Potter 1989). In the belief that private entrepreneurs could better design high speed trains, BR spun off its rolling stock division (BREL) with the explicit aim of locating technology supply in the more efficient private sector. British Rail has since moved to a strategy of competitive tendering for high speed train technology which makes now-privatized BREL one among private equals (Potter forthcoming). In short, the French have employed private-sector agents to build the TGV but have presumed that the state was best equipped to design the technology. By contrast, the British were easily discouraged with the state's efforts to develop a new technology and after a minor failure chose to externalize technology development in an effort to engender a competitive market for technology supply.

Consumer markets

Where does demand come from? French and British fast train policies were predicated on estimates of market demand, but they carried very different ideas of the origins of demand. French policy treated demand as a result of public policy. In the 1960s SNCF had substantial autonomy to act as they saw fit when it came to planning new railroads (Faujas 1991). First, they embraced France's then-popular "free market" approach to public monopolies, which suggested that they behave entrepreneurially to stimulate sectoral demand. This entrepreneurial strategy was outlined in a widely read government report inspired by the experiences of the Electricité de France (Beltran forthcoming: 4). SNCF underwent an "intellectual makeover" which "resulted in their no longer reasoning as a monopoly but as one element in a highly competitive sector" (p. 1). One principle of this strategy was that SNCF could create demand by competing with road and air transport.

In accord with this entrepreneurial approach to nationalized enterprises, SNCF staffed its new Research Department with economists trained in projecting highway demand whose techniques were based on three ideas that were revolutionary in the rail industry. First, in their models increases in demand were not a linear function in increases in speed;

dramatic increases in speed could produce geometric increases in ridership by drawing travellers from road and air transport. Second, their models assumed that an aggressive public fast train policy could increase ridership sufficiently to achieve economies of scale, which would decrease travel costs, and to increase the frequency of service, which would increase convenience. Low rates and frequent service would make railroads even more competitive and spur demand even further. Third, an aggressive public transport policy could do more than draw traffic from other forms of transport, it could generate new demand. Pierre-Louis Rochet, the Chief Executive Officer of the firm that builds the TGV, argues that the SNCF had the foresight to see what fast trains could do: "France's high-speed trains generated a new market for rail travel, nearly doubling the number of passengers using trains. Nearly half were new passengers who never took the train before or opted for rail over air and road transportation" and many of the former would not otherwise have travelled (May 1992: d13). This assumption that travel demand was not a zero-sum game was quite revolutionary, and it proved sound.

The underlying assumption of these new models was that an aggressive public fast train policy could generate substantial demand in the industry. With these rosy projections for demand in hand, SNCF economists could make compelling arguments for the viability of new rail lines (Polino forthcoming). The Paris-Lyon line's success proved them right, and the Government soon gave the go-ahead for high speed rail lines connecting Paris with Lille, Calais (and the Channel Tunnel), and Brussels to the north; with Le Mans, Tours, and eventually Bordeaux to the south-west; with Nancy and Strasbourg to the east; and with Marseilles and Cannes to the south (Neher 1989).

By contrast, British policy-makers have operated on the assumption that demand was a result of forces in the private economy that were exogenous to the state, and thus was fixed and impervious to state manipulation. For one thing, British Rail has consistently used conservative estimation techniques for demand that are premised on the notions that public policy cannot draw riders from other forms of transport, create economies of scale that would reduce costs, or influence aggregate demand. British Rail's initial projections were based on the effects of incremental increases in speed on the West Coast line after its electrification in 1966. The Ministry of Transport's economists assumed that the 0.8 percent to 1.3 percent increase in ridership for each 1 mph increase in speed was a constant and as late as 1985 refused to accept the French evidence that at very high speeds, the increase in ridership could be much

more dramatic than this (May 1992). As The Economist wrote in 1985, "The ministry of transport denies that a better service would attract many new passengers, basing its argument on the assumption that each 1 mph increase in speed brings in only 0.8% in increased passengers." (1985d: 26). The Ministry sustained this position despite subsequent evidence from their own experience with the HST125, as The Economist wrote:

Trains can benefit from the gloss provided by novelty: the introduction in the UK of the HST125, the world's fastest diesel train, resulted in traffic increases far greater than could be accounted for by traditional forms of measurement. [However] the ministry of transport [still] refuses to allow the word "image" into their financial equations. (1985b: 30).

The consequence of the UK's doubts about the ability of the state to create demand for a dramatically improved rail service was a series of conservative ridership projections showing that French-style high speed trains would be a tremendous drain on the Treasury. This undermined the political viability of an all-new high speed rail network.

Capital markets

Both SNCF and BR rely on private capital to finance railway development, but they approach private capital markets very differently. In France SNCF is charged to behave entrepreneurially to attract capital to its projects. For all intents and purposes, the national railway can use whatever means it deems necessary to raise funds. For its first two lines SNCF went to international capital markets just as a private entrepreneur might have. The government did not guarantee private capital; thus investors used the same criteria they would have to back a private project. For the Paris-Lyon line fully a third of the capital came from New York banks alone and for the Paris-Atlantic line fully 70 percent of the 13 billion francs needed came from international capital markets (U.S. House 1984: 26, The Economist 1984, Macdonald 1991). The debt for these first two lines has already been paid off, and to attract capital for its new projects, SNCF invited 200 financiers to travel on the latest record-breaking train between Paris and Angers to hear a financial pitch. SNCF finance director Pierre Lubek argues: "SNCF's main priority is to build up large, liquid lines of stock in the French market that will attract investors from abroad as well as locally" (Macdonald 1991).

France's newest financing strategy makes the private sector not merely a source of capital, but a co-owner. SNCF will build the TGV-Est, from Paris through Strasbourg, in a consortium with private developers

that will lease the line to SNCF for a period of 30 years, whereupon it will become the property of the state (International Railway Journal 1990). Similarly, to pay for new rolling stock, SNCF has arranged to sell new trainsets to a banking consortium and lease them back from the consortium (Black 1991). When it comes to capitalization, the SNCF utilizes markets just as an entrepreneur might, and behind its strategy is an assumption that acting as prime mover, the state can generate legitimate demand in private capital markets. Moreover they have convinced the banking community of this. As one British banker put it: "In the TGV, SNCF has a good product that makes money. If they want to borrow to build more of them, I don't see there being a problem finding investors" (Macdonald 1991). An underlying assumption is that the state can be a successful capitalist.

British policy, by contrast, presumes that the state cannot generate legitimate demand in private capital markets because it cannot produce economically successful enterprises. One result is that the British state insists on guaranteeing all private investments in state-owned railroads, with the argument that public projects are inherently uncertain and that private investors should not be exposed to this kind of risk. This approach severely delimits the capital British Rail can collect, because guaranteed bonds come under Parliamentary limits on the national debt (Black 1990). One British Rail executive has argued that since SNCF does not guarantee loans, neither should BR: "Why should they? ... If banks are prepared to lend to Poland or Brazil, why not to SNCF, or us? Is SNCF likely to collapse? France is likely to collapse first. These loans would be "gilt". And if you give us access to the capital markets, the whole argument for privatisation collapses" (Black 1991). British Rail has also been restricted in its efforts to pursue innovative financing techniques. To get around public borrowing limits British Rail proposed to sell trainsets to a banking consortium and lease them back as the French now do, but government economists blocked the deal by arguing that such arrangements should be counted against the debt limit (The Financial Times 1992). This caution is peculiar to British rail policy, for as the Labour Party's John Prescott has pointed out, private investment is common "in European railway systems, and it is only ideological nonsense and Treasury daftness that prevents us doing it in this country" (Freeman 1991). The British inclination to think that any rail expansion will be the financial responsibility of the state, despite evidence of willing private investors, is not limited to Conservatives. The last Labour government cancelled an earlier Channel Tunnel proposal because cost-

benefit analyses, which used the conservative estimation techniques that doomed other fast train projects, showed that a new Tunnel–London fast train link could not pay off private bondholders (*The Economist* 1988).

Producer markets

Who will provide railway service? The question persists despite the fact that both countries have operated nationalized railroads for roughly half a century. In France the state holds an unchallenged monopoly, and no calls for privatization have been heard because most French policy-makers see no advantages in a private producer market. Neither policy-makers nor capitalists have advocated the introduction of private railway services in France. Transport minister Paul Quilès summed up the French position: “Our analysis shows there is no advantage to the community – privatisation is not on the agenda. Our aim is to have a railway in a sound financial state, meeting the demands of the community. Good management is in no way at odds with the concept of a public company” (Black 1991). It is generally believed that the nation’s rail network demands coordination and orchestration of a sort that the state can best provide, and there is a presumption that public management is perfectly efficient. Even when a downturn prompted Mitterand to delay for fiscal reasons the construction of the Paris–Atlantique line, which was projected to turn a healthy profit, fast train advocates never suggested privatization to solve the problem (*The Economist* 1984). In France, the introduction of private, marketized, production of rail service is simply not seen as a route to efficiency.

By contrast in the UK there has been a sense, for several decades, that the railways were really run better when they were private entities. In the UK, plans to allow private parties to provide rail services, or to somehow make BR operate more like a private company, have been heard again and again. The argument most often made is that public managers are simply incapable of running enterprises efficiently because they are not driven by the profit motive. Privatization makes anything more efficient. There is a peculiarly non-market logic in some of these proposals, which would create private monopolies in the place of public monopolies. Competition among producers is not the key to the efficiency of these proposals; the profit motive is.

First, after privatizing BR’s rolling stock division, British Rail put out tenders for bids for the new HST250 in 1991 in an effort to stimulate private production. The tender offer expired without producing bids, but BR has been pursuing this strategy and is expected to purchase Swedish or Italian tilt–train technology in the future (Potter forthcoming, Flink

1991, 1992). Second, the UK has tried to reorganize BR internally according to private managerial principles. In the 1980s British Rail was reorganized into "profit centres" on the M-form model of cost accounting, with separate divisions that keep independent books. The aim was to produce distinct, competitive, divisions handling freight, commuters, passengers, etc. that would operate on an entrepreneurial, rather than bureaucratic, model (Black 1991). The success of the regional operating divisions established by BR was heralded in these terms in The Economist in 1985: "it is noticeable that the lines in Cornwall and Scotland have shown a good deal more enterprise since they were granted a degree of independence" (1985a: 60). Third, BR has tried to spin off as many divisions as possible as private enterprises. As early as 1982 British Rail began selling off the profitable divisions that had a chance of attracting private buyers, including the National Freight Company, British Rail Hotels, and the rolling stock company BREL. Transport Secretary Riskind sees privatization as a panacea for inefficiencies in the system: "Many of the criticisms against BR are justified. I would like to see as much of BR as possible privatised in the next Parliament" (Black 1991). Fourth, a proposal now under consideration would create private regional operating monopolies (Roche 1991). As Tory MP Robert Adley argued in a debate over how to privatize:

All that we have to do in order to do what the Japanese are doing is the following: we build 2,000 kilometres of mainline railway for high-speed trains at public expense. Then we transfer British Rail, free of charge, to six non-competing regional monopolies, financed by the public sector. Having done that, we write off all BR's debts and financial commitments. (Black 1990)

This is not, incidentally, what the Japanese have done. Here the logic is to turn the rail system over to private companies that will have a greater incentive to turn a profit than public managers have had. Finally, in May of 1992 the Government announced an alternative strategy to private, regional, monopolies. The new plan would allow private firms to run trains on British Rail track, in direct competition with BR service. The "airline" model of rail organization would make BR only one among competing producers of rail service. The state would maintain the network in return for user fees, and the government's InterCity trains would be ineligible for further government funding (Potter forthcoming, The Financial Times 1992).

In sum, the French show no inclination to believe that private parties would be more efficient operators of rail service than would public managers, while the British have, all along, devised strategies for reintroducing private efficiencies into the rail system.

Secondary markets

Approaches to the secondary effects of railroads on national markets differ markedly. In France, it is the role of the state to stimulate economic development – to create and foster markets for all sorts of goods and services. As a result, the secondary economic effects of public investments are part of the calculus of infrastructural development. Policy-makers presume that it is the duty of the state to underwrite infrastructural projects that will stimulate growth in dependent parts of the economy. As in the UK, French rail projects are expected to produce a net return of 8 percent, but in France, projects that are not anticipated to meet this target are subsidized by central and regional governments when their secondary economic benefits are substantial. A case in point is the new TGV Est, which was projected to return 4.5 percent. Rather than scrap the project SNCF organized public capital infusions that would be forgiven, on the principle that regional growth would more than compensate for public outlays (International Railway Journal 1990). Moreover France has continued to subsidize TGV research and development in the belief that improved trains will increase internal demand, and generate international buyers for its trainsets (Neher 1989). Broadly speaking, French policy has been oriented to the notion that transport policy can, and should, generate secondary growth in non-rail markets.

The British have followed a very different logic about secondary economic effects. Long before the Conservative Party's recent privatization decade in the 1980s, British policy-makers contended that railways should be self-supporting, and that it was not the province of the state to second-guess the side-effects of transport subsidization. With the exception of a few areas of service that have been subsidized for reasons of tradition, the state has sought to streamline British Rail so that only profitable portions would survive. Thus, even at the beginning of the 1980s British Rail was permitted public subsidies that amounted to only 0.29 percent of GNP, whereas national railroads in her Continental neighbors (Germany, France, Holland, Spain) average 0.7 percent of GNP. By 1990 British Rail subsidies amounted to only .12 percent of GNP (Black 1991). "The British philosophy is that people who use the railways should pay the lion's share of the costs "up front" in fares"

(Black 1991). This logic is linked to the test of “commercial viability” that is applied to new rail projects: they must be self-financing and profitable. That logic has undermined a series of proposals to build a high speed link between the Channel Tunnel and London, despite the fact that a bottleneck at the British entrance to the tunnel is expected to effectively exclude the UK from full participation in the EC (Black 1990). Margaret Thatcher responded to proposals for public subsidization by arguing that private parties would finance the line if it were worth building: “We don’t believe we should subsidise international rail services” (Black 1990). More generally, the prospects of new investment in high speed rail within the UK “are heavily conditioned by the continued insistence of the British Government that any investment in improved InterCity rail infrastructure must be wholly commercially viable” (Nash forthcoming: 7). In these policies, and in the rhetoric surrounding them, there is the very clear idea that it is not the government’s duty to involve itself in decisions about how the nation’s capital will be invested. The market should make such decisions, and if private investors do not see the merit in a project, the state should certainly not second-guess them. Public capitalization of projects that would lose money constitutes a misallocation of the nation’s capital, and threatens to create externalities that are ultimately inefficient.

International markets

Since the very beginning of the TGV project, SNCF and their rolling stock partner have been attuned to the international market potential of the new fast train technology. Despite the rapid proliferation of national projects to design high speed trains – virtually every European government initiated a project – the SNCF was determined that its technology should become the industry standard. The national railroad built the Paris–Lyon line as one big advertisement for French high speed train technology, and even before the Lyon line opened in 1981, SNCF and GEC actively promoted the technology in international markets. Since 1981 they have engaged in unabashed boosterism: inviting foreign dignitaries to ride on the TGV, nurturing fast train proposals from infancy in a wide range of countries, and developing comprehensive TGV proposals for markets around the world. In 1989 they convinced Spain to buy the technology. They succeeded in promoting modified TGV trains for the Channel Tunnel, which will also operate on connecting tracks in the UK and Belgium. In the US they have promoted TGV technology for systems in Florida, the Midwest, California/Nevada, and Texas, where Texas TGV

won a major contract in 1991. They are now wooing Australia, Canada, Korea, and Taiwan (Menanteau 1991, Schmeltzer 1992, May 1992, Agence France Presse 1991). The costs associated with competing internationally have been large, because as Hubert Autruffe, undersecretary of the Ministry of Transport, argues

a TGV cannot be exported in the same way an Airbus can, which requires only an airport: TGVs require a particularly costly, heavy infrastructure that demands two to three years of preliminary studies that only the most advanced countries are capable of conducting. The required experience – to design in Texas one of the most important infrastructural projects ever realized in the United States – our clients simply do not possess. (Menanteau 1991)

Moreover in their determination to remain internationally competitive, the state and GEC have committed to ongoing research investments to ensure that the TGV remains at the cutting edge of technology (Neher 1989). In short, the public–private venture that builds the TGV has been aggressively entrepreneurial on the international scene, and much of the initiative has come from public policy–makers who believe that a state–dominated company can compete successfully in world markets against private firms.

While British Rail's tilting train technology potentially enjoyed a much larger market than the TGV, because tilting trains can operate at high speeds on virtually every existing rail system in the world, British policy–makers never discussed the Advanced Passenger Transport project as a possible source of international income. Sweden and Italy embarked on similar tilt–train projects at about the same time the UK did, and both are now marketing trains aggressively to other countries. Swedish fast trains are expected to be operating on Amtrak's Northeast Corridor in the not–too–distant future, and both Sweden and Italy have sought British contracts (Flink 1991, 1992). Of course the decision to abandon the APT in 1982 effectively killed off the project, but the decision was predicated on the belief that the state would not be able to market the technology abroad to recoup initial research and development costs. For British Rail engineers there is no small irony in the situation, because they developed the initial bogie innovations that made France's TGV possible, and eventually did little to exploit the new bogie technology save for installing them on conventional trains to create the HST125 (Potter 1989: 103). In short, British Rail's thinking about international markets has presumed that the state cannot act as an effective international entrepreneur – France, Italy, and Sweden have behaved otherwise.

The state and the market in French and British fast train policy

In France and the UK state policies constitute very different sorts of markets, and very different conceptions of the relationships between state, market, and individual economic actor. The results are distinct approaches to the sub-markets in the fast train industry. First, French policy is motivated by the belief that the state can and should generate market activity in society; British policy is motivated by the belief that the state neither can nor should generate market activity. Second, French policy is motivated by a belief that the state is a competent economic actor that can play the role of efficient, self-interested, entrepreneur when need be; British policy is motivated by a belief that the state is an incompetent economic actor that had best eschew direct economic action whenever possible. Between French and British policies we do not simply see a continuum of intervention, but very different conceptions of how markets work and of the role of the state. These conceptions shape how nations perceive economic problems, and they shape the sorts of public solutions nations conceive to those problems.

These remarkable differences in state orientations will make it difficult for the European Community to use a single, market-oriented, policy regime to structure the high speed train industry of the future. How can these differences possibly be reconciled in an industry, like the railway industry, that is transnational in nature and that, with the completion of the Channel Tunnel, will bring the UK and France into one integrated network? Coordination of rail policies across these two countries alone would necessitate a major restructuring of the industry, but coordination of high speed train policies across a dozen or more European countries implies massive changes everywhere. What will Europe's fast train policy look like?

EC FAST TRAIN POLICIES

My aim thus far has been to provide evidence to bolster two claims. First, that the creation of an integrated European market in the rail sector will involve more than simply setting market mechanisms loose, because markets in the rail sector are actively constituted in very different ways by state policies. Second, that the EC will have to make positive choices about how to constitute sub-markets and that these choices will in turn generate particular types of markets. What might an integrated policy regime look like?

I have been arguing that institutions create conceptions of markets and of economic efficiency – that the national differences I have outlined result from highly institutionalized, traditional, relationships between markets, entrepreneurs, and states in the UK and France. In essence, the high speed rail policies that have emerged since the 1960s were not created *de novo*, rather they were organized along the lines of existing policies to take advantage of existing conceptions of efficiency – of how economies work. By extension, I argue that the European Community has developed a discernable institutional structure that implies a certain collective policy orientation. I contend that this policy structure favors certain outcomes, because it contains an institutionalized conception of economic behaviour. The process of Europeification, then, will involve the subordination of these national conceptions of economic behaviour to an overarching conception that is institutionalized at the supranational level. My contention is that consensus was reached on this new conception of markets when decisions were made about the broad institutional structure of the European Community, even if the participants in the process did not realize it at the time.

My argument is distinct from two prevailing arguments. One group of scholars contends that the European Community will be constrained by its institutional capacities to the role of regulation. I have been trying to show that the participating countries will have entirely different ideas about what regulation means, because they have entirely different ideas of what markets are and of whether, for instance, the state is endogenous to or exogenous to the market. Another group of scholars argues that consensus on important policies will be impossible in the European Community because the decision-making structure contains many veto points that will allow dissenters to quash controversial policies. One implication of this argument is that there will be great diversity of opinion among national groups over key issues. But if some consensus can be reached about the roles of governing institutions and markets in economic life, then consensus about EC industrial strategies may be possible. Today, French parties of very different stripes are able to agree on broad rail strategies because they share a conception of state and market, and Conservative and Labour parties in the UK are able to agree on rail strategies because they share another conception of state and market. By extension, if EC institutions produce a coherent conception of state and market, different national interests may be able to agree on broad policy strategies.

In this section I review three proposals now being considered for a fast train network in the European Community. I argue that the conception of markets embedded in European Community institutions favors one of these three solutions. What does this institutionalized conception look like? While America's federal system may be a poor political analogy for the European Community (Sbragia 1992), it is a good institutional analogy. The European Community was designed to break down trade barriers between nations and to put firms on an equal footing in competing for European markets. The result is an administrative structure in which regulation and lawmaking are central, and in which the possibilities for large taxing and spending programmes are nil (Peters 1992: 77). On the one hand, the European Community is set up to act as a referee in a free market by ensuring that producers do not have unfair advantages, such as state subsidies. Administrative mechanisms are organized around such regulatory oversight, which aims to end the practices associated with what has come to be called "industrial policy", or public instruments that offer advantages to particular industries and sectors. On the other hand, to level the playing field, the EC is designed to break down both barriers and subsidies. As a result, the Court of Justice has come to play a central role as arbiter of what constitutes unfair public intervention (Shapiro 1992). This administrative structure almost perfectly parallels the federal administrative structure in the United States. It is conceptually compatible with only one of the existing proposals.

The European Community, the UIC (Union Internationale des Chemins de fer), and the European Conference of Ministers of Transport have all acknowledged the need for some sort of master plan for an European fast train network, and have actively debated the advantages of alternative strategies among themselves (ECMT 1986). Each group has discussed three different proposals in some detail. The Community has organized a workgroup that produced a proposal for a network of international high-speed routes, and the UIC has called for a European investment of £ 60 billion in railways over the next three decades (Black 1990, Hoop 1991). Thus there is some consensus on which routes should be served, and how much new construction will cost. But how will the network be organized?

System integration

The proposal that comes closest to the French strategy is for an integrated international high speed rail network, with one operator, one technology, and presumably one international trainset supplier (Conférence Européenne

des Ministres de Transports 1992: 37). The integrated strategy would follow the model of the Channel Tunnel, which is in essence a joint venture between the British, French, and Belgian national railroads. The Tunnel is run by a single operator using one train technology. One advantage of such a system is that it could transcend the problems faced by the TEE, the current international rail system, which stem from incompatible technologies. The TEE was originally envisioned as an effort to standardize technology, but in the end participating railroads simply agreed on broad performance guidelines (ECMT 1986). For fast trains the problems of technical incompatibility are more complex. Choices of train and track technologies are not independent, because non-tilting trains like the TGV can only run at high speeds on tracks designed especially for them. The choice between tilting and non-tilting trains, then, is linked to the choice between using existing freight/passenger lines and building new, dedicated, fast train tracks. Signalling systems standardization is also demanded by high speed trains, which are computer-guided (CEMT 1992). A single, unified, system operated by the European Community would resolve all of these problems.

The conception of markets embedded in this proposal is essentially the same as that embedded in French train policy, but it is not compatible with the structure of the European Community. On the one hand, the EC is not designed to undertake the sort of proactive role that would be implied, of imposing substantial taxes on member states, orchestrating public and private financing, selecting train technology, etc. But equally important is the fact that the members of the EC have already consented to an economic model in which proactive government has no role. Ironically, then, it appears that the EC is neither institutionally nor conceptually suited for developing a fast train policy modelled on the most successful case in Europe: the French case.

Bilateral service agreements

A second proposal is for a system of bilateral joint ventures for particular cross-border routes. This proposal is based on the belief that integrating the operations of diverse national railroads with different technical systems, operating regulations, and policy environments may be impossible. Instead, some suggest that national railroads of different countries make agreements to provide jointly operated services between major cities. The arrangements would allow for a diversity of technologies to exist within Europe, and would call for standardization only on particular routes. In the past efforts at technological standardization

between national rail networks have been only moderately successful. For instance, trains running between Italy and France are required to change locomotives at the frontier due to technical incompatibility. The Channel Tunnel train designers had to overcome the problem of three different electrical currents between the continent, the UK, and the tunnel itself (Harrison 1991). However, the use of such adaptive technologies could solve problems of technological integration on a pairwise basis between countries, without interfering with internal standards and procedures (Hoop 1991).

A *prima facie* case can be made that it is the most likely outcome because it most closely resembles the existing system for international rail transport. But this solution appears to be conceptually incompatible with the EC's governing mechanisms because it involves public monopolies. Bilateral service agreements would involve exclusive contracts between national railroads that would preclude the entrance of private providers of service. Such a system would conflict with the EC's consensual institutional mission to open markets to private entry and to eliminate public subsidies. The system would both close markets, and sustain public subsidies. It seems likely that potential private providers of rail service would object to such a system, and would use the Court of Justice to try to overrule a decision to create such exclusive bilateral agreements.

The airline model

The third proposal for a fast train network draws on what is sometimes called the airline model. It would allow independent operating companies, including national railroads and probably private concerns as well, to compete for international customers on the existing rail network, or ideally on a rebuilt system financed by user fees. The airline analogy comes from the independent and competitive character of operators, and the state's role in providing infrastructure financed by user fees—as is the case with airports. Predictably, Tory Transport Secretary Malcolm Rifkind has been one of the central advocates of such a system: "I would look forward to the day when any railway operator within a single internal market in Europe ... was free to provide services that the travelling public, or which industry, might find it useful to use" (Freeman 1991). Already the EC has issued a Directive which aims to eliminate all barriers to international freight carriers, so that any freight operator can compete for business between Manchester and Milan or Madrid and Berlin (Freeman 1991). And the European Community Task force, Group Transport 2000

Plus, has backed such an arrangement for fast passenger transport, which would charge national governments, or perhaps a special authority with responsibility for international lines, with building and maintaining infrastructure that would permit operators to compete freely (Hoop 1991). Under such a system, broad technological standards would be decided upon by the EC, and companies would be permitted to choose their own trainset suppliers.

This system would be conceptually compatible with the institutions of the European Community because it would put an end to public subsidies, eliminate national barriers to competition from extra-national firms, and end such barriers to market entry by private firms as now exist. Under this system, private operators would not necessarily become major players, because national railroads would certainly be the initial entrants. However, under such a system the traditional national subsidies for rail transport would probably be outlawed. National railroads that could not break even would quite possibly be forced out of the business of providing services, although they might continue to build and service the network of tracks in return for user fees. While it may seem unlikely that states would allow their national railroads to be bankrupted and closed down by international competition, this is exactly the arrangement the EC transport ministers have agreed to in the airline industry, where public subsidies for national carriers will be eliminated.

CONCLUSION

If this airline model of organization were to prevail, what would the implications for high speed rail sub-markets be? The technology market would be subjected to anti-subsidization and pro-competition rules that would allow publicly-held firms to compete as equals with private firms. Consumer markets might remain under the control of national governments, because national-level agencies would presumably build and maintain lines. This could permit France, for instance, to continue its policy of generating demand by building lines in anticipation of demand, while the UK could continue to follow demand. For capital markets, as in the current British scheme governments would not be able to subsidize the capitalization of operating companies, but as in the current French scheme, national railroads would probably operate freely in private capital markets. Producer markets would inevitably be opened up to competing companies. Thus, for instance, France would no longer be

able to limit access to TGV trains, and it is likely that Swedish or Italian fast trains, that can operate on nineteenth-century routes, would serve French destinations that the new TGV system does not now serve. Secondary markets would not be taken into consideration in most service decisions, again because states would not be permitted to subsidize operators. Finally, international markets would look very different. States would not be able to favour domestic producers of trainsets, for instance, as the UK, France, Italy, and Sweden have done in the past. Most important, in the provision of services this system would effectively eliminate national borders and would encourage national railroads to compete with one another for service on all routes in the international network.

What are the likely long-term effects on the industry? European experience offers few examples; however, American experience in the early railway industry and in the contemporary airline industry are suggestive. Both have the same essential characteristics as Europe's fast train industry would under the "airline" model. The EC Directives that prevent subsidization of competitive industries could well speed consolidation of such a system. In America's nineteenth-century rail industry, the Act to Regulate Interstate Commerce of 1887 put into effect a similar "market" model, and it led to an industry shakeout that produced rapid consolidation. Similarly, the recent deregulation of the American airline industry has led to a shakeout in that industry. Likewise a "competitive access" system of international rail operators would stimulate competition that would inevitably leave some national railroads bankrupt. The most likely outcome is the emergence of a single national operating company as the last standing competitor. Conventional wisdom suggests that the SNCF could be that operator.