



Integration and Differentiation in the European Union

Theory and Policies

Dirk Leuffen · Berthold Rittberger
Frank Schimmelfennig

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PREFACE TO THE 2ND EDITION

When we started writing the first edition of this book, the EU seemed well on track. The Lisbon Treaty had entered into force and the big bang of Eastern enlargement appeared well digested. The euro crisis at first appeared to be a punctuation, an exception to the broader trend of both consolidation and differentiation of the integration process. Almost a decade has passed since then, and rather than experiencing a period of consolidation, it has been a decade of internal and external crises in rapid succession. First, the UK voters' decision to leave the EU was a shock to the integration project, by making disintegration become real. Brexit and the new EU-UK relations certainly underline the importance of looking at the integration of outside states into the EU, a relation we termed 'external differentiation' in the first edition. Second, the so-called refugee crisis with its peak in 2015 revealed structural shortcomings in the Area of Freedom, Security, and Justice. The negotiations on a mandatory refugee relocation scheme resulted in gridlock, highlighting the severe ideological divisions among EU member states. Seemingly, unsurmountable tensions between supranational demands for solidarity and burden sharing and the constraints imposed by domestic politics and politicization became apparent. Third, the Crimean crisis, the presidency of Donald Trump, and the rise of China in world politics underlined the need for closer European cooperation in external affairs. While we diagnose some changes in this area, the factual development of the Common Foreign and Security Policy still lags behind declaratory ambitions. Fourth, the Corona

crisis has underlined growing inequalities among the EU member states, aggravating gaps and cleavages already prominent during the eurozone crisis. Calls for stronger intra-EU redistribution and a more social Europe have become louder and carry political clout.

On the academic playing field, too, some noteworthy developments occurred in the past years, related to some extent to the EU's polycrisis. First, the literature on differentiated integration has matured and became an established subfield of EU studies. Second, the crises have rejuvenated the debate on European integration theories, as highlighted by numerous special issues published on the topic. Third, the debate on integration has shifted in focus from 'ever closer Union' to threats of 'disintegration'. Fourth, postfunctionalism now occupies its own register in the choir of integration theories. While the politicization and the domestic politics of integration already were important ingredients of the first edition of this book, we now account for the growing importance of postfunctionalism by dedicating a new theoretical chapter to it.

Revising the book turned out more demanding but also more exciting than we had first expected and, truth be told, also hoped. To some extent this echoes the experience of the first edition. Fortunately, however, it turned out that our theoretical synthesis still remains valid today and the update has not led to a substantive revision of our understanding of European integration. If you are impatient to learn where the ship is steering, you may read the Conclusion first.

In response to reactions to the first edition, we decided to change the book's title. The old title, 'Differentiated Integration. Explaining Variation in the European Union', is still correct analytically. However, many readers apparently had mistakenly thought the book was only about 'differentiated integration', in a narrow sense, while it actually addresses European integration in general: it presents the main integration theories and examines the major policy areas of the European Union. In addition, this new version contains self-tests and discussion questions to improve its use as a textbook.

At a personal level, the past decade also left an imprint on us. Dirk, after the end of his term as vice rector for research at Konstanz in 2019, together with his family bought a beagle that keeps him busy and in close touch with nature. Berthold left Mannheim for Munich and since then has become a connoisseur of the Upper Bavarian mountains and enjoys the proximity to South Tyrol. Frank academically is as restless as ever, but also frees up time to devote himself to amateur jazz guitar playing.

We finally thank our students for engaged discussions on differentiated integration. Simon Bulmer and a number of anonymous referees provided very useful comments in preparation of the second edition. Thanks also go to Max Heermann, Daniela Kroll, and Jonathan Scholz for research support and to Buket Buse Demirci for preparing the index.

Konstanz, Germany
Munich, Germany
Zurich, Switzerland
September 2020

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ABBREVIATIONS

AFSJ	Area of Freedom, Security, and Justice
CAP	Common Agricultural Policy
CEEC	Central and Eastern European Country
CFSP	Common Foreign and Security Policy
EBU	European Banking Union
EC	European Community
ECB	European Central Bank
ECJ	European Court of Justice
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EEA	European Economic Area
EEAS	European External Action Service
EEC	European Economic Community
EFSF	European Financial Stability Facility
EFTA	European Free Trade Association
EMA	European Monetary Agreement
EMS	European Monetary System
EMU	Economic and Monetary Union
EP	European Parliament
EPC	European Political Cooperation
EPU	European Payment Union
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
ESDP	European Security and Defence Policy
ESFS	European System of Financial Supervision
ESM	European Stability Mechanism

EU	European Union
EUMC	European Union Military Committee
EUMS	European Union Military Staff
GDP	Gross Domestic Product
HG	Headline Goals
HHG	Helsinki Headline Goals
IGC	Intergovernmental Conference
IMF	International Monetary Fund
IO	International Organization
IR	International Relations
JHA	Justice and Home Affairs
LI	Liberal Intergovernmentalism
MEP	Member of the European Parliament
NATO	North Atlantic Treaty Organization
OECD	Organisation for Economic Co-operation and Development
OEEC	Organization for European Economic Cooperation
OLP	Ordinary Legislative Procedure
PESCO	Permanent Structured Cooperation
PSC	Political and Security Committee
RI	Realist Intergovernmentalism
SEA	Single European Act
SGP	Stability and Growth Pact
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
US	United States
USA	United States of America
WEU	Western European Union
WHO	World Health Organization
WTO	World Trade Organization

COUNTRY CODES FOR FIGURE 2.3

A	Austria
B	Belgium
BG	Bulgaria
CH	Switzerland
CY	Cyprus
CZ	Czech Republic
D	Germany
DK	Denmark
E	Spain
EST	Estonia

F	France
FIN	Finland
GR	Greece
HR	Croatia
HU	Hungary
I	Italy
IRL	Ireland
IS	Iceland
L	Luxembourg
LT	Lithuania
LV	Latvia
M	Malta
N	Norway
NL	Netherlands
P	Portugal
PL	Poland
RO	Romania
S	Sweden
SK	Slovakia
SLO	Slovenia
TR	Turkey
UK	United Kingdom

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CHAPTER 1

Introduction

A STORY OF INTEGRATION—AND DIFFERENTIATION

Since its beginnings in the 1950s, the European integration project has come a long way. Starting with six member states in the European Communities, the EU has expanded to 28 in 2013, to shrink to 27 when the UK left the union in 2020. From its initial specialization in coal and steel, it has evolved into an organization dealing with all major policies. While it had embraced the principle of ‘supranationalism’ from the start, a strong judiciary and an increasingly powerful parliament complemented its technocratic and intergovernmental beginnings in the course of time. This remarkable expansion of membership, tasks, and competences is only part of the story of European integration. From its early days, European integration has varied between policies that were strongly integrated and policies that remained predominantly intergovernmental. In this book, we call this variation ‘vertical differentiation’. Moreover, many of the new steps taken towards integration do not apply uniformly to all member states, while EU non-members participate selectively in EU policies. This is ‘horizontal differentiation’. Integration in the EU thus varies across both policies and countries. It is *differentiated integration*.

Today, the monetary union is the most vertically integrated policy of the EU. It is directed by the independent European Central Bank (ECB) having the exclusive competence to make monetary policy. At the same time, monetary union is weakly horizontally integrated. The euro is

legal tender in only 19 of the 27 member states. During the Maastricht Treaty negotiations, the UK and Denmark secured a formal ‘opt-out’. Whereas Sweden is legally obliged and economically capable to join, it stopped the process unilaterally after holding a referendum in 2003. Other countries—Bulgaria, Croatia, and Romania—would like to join the eurozone but do not yet fulfil the criteria. Moreover, the non-member states Kosovo and Montenegro, together with several micro-states, have introduced the euro without participating in the European System of Central Banks. Moreover, since the sovereign debt crisis began in 2010, speculation about a break-up of the eurozone has repeatedly surfaced. Some suggested that individual countries (the most prominent being Greece) abandon the euro, others recommended dividing the eurozone into a ‘northern’ and a ‘southern’ currency area. A structural feature of the eurozone that many identified as the deep cause of the crisis is the dualism of highly integrated monetary policy and weakly integrated fiscal policy—an instance of vertical differentiation. In response, some demand that fiscal union follow monetary union whereas others fervently oppose slipping into what they call a ‘transfer union’.

A number of measures designed to rescue the eurozone might have contributed to deepening already existing divisions within the EU, thereby aggravating horizontal differentiation. The crisis thus constituted a critical juncture. For instance, the Treaty on Stability, Coordination, and Governance was agreed outside the formal EU treaty framework to circumvent opposition from the UK and the Czech Republic (the latter country actually ratified the treaty in 2019 after a change of government). An important part of this treaty is the so-called Fiscal Compact, which only binds the 19 member states of the eurozone, plus Bulgaria, Denmark, and Romania. The Banking Union is yet another example of intensified horizontal differentiation as it fosters deeper integration of the banking system with a particular focus on eurozone member states.

The cross-border movement of people is another policy area displaying differentiated integration. Travel and migration have long remained national policies in the European Community. In a first attempt to integrate these policies, a small group of member states signed the Schengen Agreement in 1985, outside the Community framework. During the 1990s, these policies were integrated into the EU, and the Union’s competences in these policy areas have augmented since. Yet, five member states have remained outside ‘Schengenland’. Britain and Ireland on its coat-tails did not wish to participate. Bulgaria and Romania would like to

participate, but have not been allowed into in the Schengen club, because some member states continue to block their entry. In principle, Cyprus is also expected to join the Schengen border regime but the division of the island remains a major obstacle. By contrast, four non-member states—Iceland, Liechtenstein, Norway, and Switzerland—are full members of the Schengen area. Croatia has a special arrangement for passport-free travel of its citizens to the neighbouring EU member states. In addition, visa requirements were abolished for the other Western Balkan countries (except Kosovo) in 2009 and 2010. Similar to the vertical differentiation between monetary and fiscal policy in the Economic and Monetary Union (EMU), we find a discrepancy between rather strongly integrated travel and migration policies, and more weakly integrated judicial and police cooperation.

The euro and Schengen are only the most prominent examples of how the expansion of tasks, competences, and membership in European integration has developed side by side with differentiation across issue areas and countries. Horizontal differentiation both within the EU and beyond its organizational borders has become a pervasive feature of the EU. The Treaty of Amsterdam of 1997 first introduced ‘enhanced cooperation’, a general procedure for formal differentiated integration in EU legislation. In July 2010, the EU authorized its first use when 14 member states moved forward to cooperate more closely on divorce rules for transnational couples. Another application is the introduction of the EU Patent by 25 member states (circumventing Italian and Spanish opposition against the proposed language regime). However, there is much more differentiation in secondary law than the few instances of enhanced cooperation suggest—especially in EMU, in the area of interior and justice policies, as well as in defence policy.

Differentiation is also a typical by-product of enlargement. Accession treaties usually contain a host of transitional arrangements that qualify the membership rights of the new entrants or exempt them from applying EU rules for a certain time. The acceding member states of Central and Eastern Europe, for instance, had to accept that the free movement of workers could be limited for their citizens by the old member states for up to seven years after accession. In return, the new member states were granted transitional exemptions (e.g. with regard to the application of EU environmental or agricultural standards). But transitional arrangements from the accession treaties are just that—transitional. They typically expire a few years after new member states joined the EU.

Finally, non-member states participate to varying degrees in a large number of EU policies. The European Economic Area (EEA), comprising the internal market and a number of flanking policies, extends to Iceland, Norway, and Liechtenstein; the Customs Union includes Turkey; Switzerland has concluded a series of bilateral treaties with the EU that are based on EU rules, and it incorporates individual EU rules autonomously into its domestic legislation. Candidate countries adopt the *acquis communautaire*, the body of EU law, in a process that can stretch over many years. The Eastern European, Middle Eastern, and Northern African countries that participate in the European Neighbourhood Policy also adopt parts of the EU *acquis*, even though there will be no opportunity for them to join the EU in the foreseeable future.

As in the case of transitional arrangements in EU accession treaties, some differentiation across policies and countries is temporary. Weakly integrated policy areas may catch up with those that are more strongly integrated. For instance, monetary policy lagged behind market integration for four decades before reaching an even higher level of integration at the end of the 1990s. Over time, the eurozone has grown from 11 to 19 members. Schengen started as an intergovernmental regime of five member states; it now has 26 member states and involves the supranational actors of the EU—the European Commission, the European Parliament, and the Court of Justice of the EU.

Overall, both vertical and horizontal differentiations have expanded and there is reason to believe that they are here to stay. First, whereas the level of EU competences and supranational centralization has markedly increased during the course of European integration, the gap in vertical integration between policies regarding market-making and market-correcting regulation, on the one hand, and core state policies of internal and external security as well as the redistributive welfare state, on the other, has remained. Even though the EU has acquired some competences in the areas of security and welfare, these areas have clearly remained predominantly national and intergovernmental. Second, the euro and Schengen differentiations have proven remarkably durable, and each treaty revision since the Treaty of Maastricht in 1992 has produced new opt-outs. Candidates, such as Turkey, together with many of the Western Balkan countries, will take a considerable time to become member states—if they accomplish this goal at all. It is also highly unlikely that a large number of countries participating in the European Neighbourhood Policy will ever become candidates. Finally, the EEA countries

and Switzerland are not on the verge of accession even as they increasingly adapt to the EU's rules.

There are also theoretical reasons to assume that European integration will remain differentiated. Differentiated integration is intrinsically linked to increasing heterogeneity among European states. The expansion of Community tasks and competences is one cause of heterogeneity. It is relatively easy for member states to agree on abolishing tariffs and creating a single market, as such policies are generally perceived to benefit the economies of all member states. It is more controversial to agree on directly redistributive (social) policies that imply massive fiscal transfers or to negotiate monetary and security policies that affect the core of sovereign state powers. The more the EU moves into such areas, the more it meets diverging interests and heightened resistance. Moreover, it is easier for the member states to agree on intergovernmental cooperation than on supranational centralization, because of the limits it imposes on member state autonomy. The more that European integration deepens, the more likely it meets opposition by societies and governments eager to protect their identity and sovereignty. In other words, increasing identity and sovereignty costs increase anti-integrationist politicization.

The expansion of Community membership is another cause of growing heterogeneity. European integration started with a set of countries most willing to integrate, and comparatively similar in socio-economic structure and economic and administrative capabilities. As the Community enlarged, it admitted countries that were less enthusiastic about European federalism, had different beliefs and interests, or were less capable of meeting the demands of market and policy integration.

Politicization has added to the trend towards differentiation. In the first decades of European integration, policy-making was an elite affair: policies were negotiated among governments, facilitated by package deals, and integration benefited from a 'permissive consensus' that characterized member state societies. Since the 1990s, however, integration has become more politicized. Eurosceptic parties and movements have proliferated in the member states and have mobilized the economic losers of integration as well as those who cherish national identity and sovereignty. The politicization of European integration has become most influential in national referendums on EU treaties, and many opt-outs are a result of actual or anticipated negative votes. From this perspective, it is no surprise that differentiation has increased tremendously since the early 1990s when the Community embarked on a new phase of ambitious task

expansion, supranational centralization, and enlargement and generated domestic politicization.

In order to adequately understand European integration, we need to keep track of and analyse both the *expansion* of tasks, competences, and membership, and the *differentiation* of integration across policies and states. Despite the interdependence of these two dimensions, existing theories and analyses of European integration have focused almost exclusively on expansion. Moreover, disintegration has captured scholars' interest only recently (cf. Vollaard 2018); turning points were the growing concerns about the EU in the wake of the eurozone crisis and the 2016 Brexit referendum in the UK. During the Corona crisis, polls in Italy showed growing discontent about membership in the EU and the eurozone.

We argue throughout this book that both integration and disintegration are theoretically and empirically linked to differentiated integration. On the one hand, differentiation facilitates integration by accommodating disgruntled member states through opt-outs from and selective participation in contested EU policies. On the other hand, differentiation and disintegration are driven by increasing heterogeneity and politicization. Disintegration indicates a failure to manage these dynamics by way of differentiation. In sum, studying differentiation is important for two reasons: first, because the EU is best understood as a system of differentiated integration and should be analysed accordingly; and, second, because the analysis of differentiation allows us to better trace and understand the dynamics and mechanisms of European integration and disintegration, more generally.

By conceptualizing the EU as a system of differentiated integration, this book takes a novel approach to the study of European integration. Rather than understanding differentiation as an accidental or transitional feature, we take differentiation to be a fundamental and durable feature of European integration and the EU. We describe and explain European integration as the interplay of expansion and differentiation. For this purpose, we draw on and further elaborate integration theories to address not only the conditions under which the EU is likely to deal with new issues, acquire new competences, and admit new members, but also to explain why policy integration varies across European policies and EU member states. In our presentation of EU policies, we analyse both the major steps towards supranational integration of these policies and their differentiated membership. As a result, we aim at conveying a more adequate understanding of the nature and the development of the EU.

DIFFERENTIATED INTEGRATION IN EU STUDIES

Differentiation is not a new topic in the study of European integration. The analysis of vertical differentiation, i.e. the explanation why policies were integrated at different points in time and at different levels of centralization, has been a major issue for integration theorists from the very beginning—even though they did not use the term. By contrast, integration theories have not had much to say on horizontal differentiation until more recently.

Vertical differentiation was a core issue in the early dispute between neofunctionalist and intergovernmentalist integration theories. Whereas both agreed that the integration process was most likely to start with economic integration, they differed on how far it would go. Neofunctionalism initially assumed an incremental spillover process that could encompass, in principle, all policy domains; intergovernmentalism assumed that the ‘logic of integration’ would remain restricted ‘to the area of welfare’ (Hoffmann 1966: 882). Or, according to Stanley Hoffmann’s famous metaphor, after the leaves of the artichoke (the low-politics areas conducive to economic integration) are peeled off, its heart (the high-politics areas resistant to political integration) would still remain intact (Hoffmann 1966: 883). In the foreword to the second edition of the *Uniting of Europe*, the seminal work of neofunctionalism, Ernst Haas adopted the distinction between integration-friendly (low or) ‘pragmatic-interest politics’ and ‘high politics’ (1968: xxiii). Yet he attributed their varying conduciveness to integration to policy goals and styles ('dramatic-political aims' vs. 'incremental-economic aims') rather than essential and structural distinctions between policy areas (Haas 1968: xxv). Analysing the variation in timing, progress, level, and mode of integration between policy areas has since been a staple of European integration studies. Elaborating on the early dichotomies, Philipp Genschel and Markus Jachtenfuchs have more recently proposed to distinguish market integration and the integration of core state powers (2014).

Horizontal differentiation did not feature in the neofunctionalist-intergovernmentalist debate. Rather, it started being discussed in political circles as a strategy to overcome stagnation in European integration from the 1970s onwards, and it featured in numerous conceptual proposals to rethink European integration and policy proposals for EU reform (Holzinger and Schimmelfennig 2012). It took a long time until EU studies and integration theories picked up horizontal differentiation. To

name just a few seminal contributions, Alexander Stubb (1996) suggested an influential classification, distinguishing ‘multi-speed’, ‘variable geometry’, and ‘à la carte’ integration; Alkuin Kölliker (2001, 2006) drew on collective goods theory to explain the centrifugal or centripetal dynamics of horizontal differentiation, and Rebecca Adler-Nissen (2014) used a sociological approach to study the interactions and strategies of in- and out-groups. These contributions have used concepts and theories outside of the canon of classical integration theories, however.

In recent years, horizontal differentiation has resurfaced as a major—and contested—issue in the EU reform debate. For instance, the European Commission’s 2017 ‘White Paper on the Future of Europe’ proposed a scenario of ‘those who want more do more’ as one of the options for reforming the EU. In his programmatic speech at the Sorbonne in the same year, French President Emmanuel Macron championed differentiation as a core principle of EU renewal. At the same time, horizontal differentiation has become a subject of normative and positive integration theoretical as well as systematic empirical analysis (Lord 2015; Bellamy and Kröger 2017; Heermann and Leuffen 2020; Schimmelfennig et al. 2015; Schimmelfennig and Winzen 2020). It is now commonplace to employ ‘differentiated integration’ and ‘horizontal differentiation’ as synonyms. In this book, however, we continue to distinguish horizontal and vertical differentiation as two dimensions of differentiated integration.

THE HOW AND WHY OF DIFFERENTIATED INTEGRATION: A PREVIEW

In this section, we preview the main arguments of our book. The book first describes a number of core patterns of integration over time and across policy areas. We then introduce a repertoire of explanations that will guide us to make sense of these patterns. In our mapping of European integration, we distinguish vertical and horizontal integration as well as vertical and horizontal differentiation.

- *Vertical integration* is the transfer of policy-making competences from the national to the European level and, at the European level, from intergovernmental coordination and cooperation to supranational centralization.

- *Horizontal integration* is the territorial expansion of integrated policies among the member states, to new member states, and to non-member states.
- *Vertical differentiation* refers to the fact that the level of vertical integration varies among policies. Some policies remain exclusively under the purview of the states, whereas others are in the domain of EU supranational policy-making.
- *Horizontal differentiation* captures the variation in horizontal integration across policies. Some integrated policies apply to the entire EU, others even extend to non-member states, and still others exempt a number of EU member states.

Our mapping of European integration over time reveals a distinct pattern: *overall progress in integration is accompanied by increasing horizontal as well as vertical differentiation*. European integration is a process of growth, expansion, and differentiation. There are periods of accelerated growth (the 1950s and the 1990s) and periods of relative stagnation. By contrast, disintegration has remained the exception. No other member state has, until now, decided to follow the UK out of the EU, and in the euro and migration crises, the EU has been able to prevent major renationalization of integrated policies. Average vertical integration across policies has risen from the level of intergovernmental coordination in the first phase of integration to the level of supranational policy-making. Qualified majority voting in the Council and co-decision of the European Parliament is now the standard decision-making mode. Horizontal integration has increased significantly, too. Integration commenced with six countries. Now, around three quarters of all European countries take part in EU integrated policies. In addition, vertical integration and horizontal integration have developed at roughly the same speed and have reached approximately the same level. At first glance, it therefore seems that the much-discussed dilemma of deepening versus widening does not exist.

The increase in vertical and horizontal integration is accompanied by vertical and horizontal differentiation. Vertical differentiation has been present from the very beginning when commercial policy was integrated while other policies remained at the national level. Over time, more policies were integrated and vertical integration progressed. Horizontal differentiation barely existed with respect to primary law during the first three decades of European integration. Since the early 1990s, it has steadily increased. In addition to internal differentiation, a constellation in which some member states do not participate in an EU policy, we

find external differentiation (i.e. non-member states participating in an EU policy), and policies in which internal and external differentiation is mixed. Moreover, the EU crises have intensified the differentiation pressures in European integration. In sum, the history of the EU is a history of integration *and* differentiation.

We further find that the major policies of the EU—the internal market, monetary union, defence policy, and the justice and home affairs policies covered by the so-called Area of Freedom, Security, and Justice (AFSJ)—display highly diverse patterns of integration and differentiation.

- The *internal market* is characterized by early and high vertical and horizontal integration. The Common Market was one of the first major policies of the European Economic Community, and it was supranationally integrated from the beginning. It also marked the beginning of the deepening of integration in the 1980s and 1990s: the Single European Act (SEA) of 1986 established the Internal Market programme and was the first important treaty revision after the 1957 Treaties of Rome. The internal market not only applies to all member states, but non-members—such as Norway and Switzerland—also participate to a large extent. It thus combines a lack of internal differentiation with high external horizontal differentiation. The exit of the UK constitutes a major case of (horizontal) disintegration from the internal market.
- The supranational integration of *monetary policy* followed the establishment of the internal market and has also reached a high level of vertical integration. In fact, monetary policy is both the most vertically integrated and the least horizontally integrated policy of the EU. Of the 27 member states, only 19 form the eurozone, and there are no formal agreements with non-member countries (except for some micro-states). EMU is thus characterized by a high degree of internal, but no (formal) external differentiation. Disintegration threats ('Grexit') were tangible in the euro crisis but did not materialize. Rather, the euro crisis has led to a significant leap in vertical integration.
- Integration in *interior policies* also followed market integration but, initially, remained at the level of intergovernmental cooperation. In the treaty changes since the Amsterdam Treaty, signed in 1997, it has increasingly turned more supranational. The AFSJ shows a unique pattern of external and internal horizontal differentiation: some non-member states participate in the Schengen/Dublin regime of border control and asylum policy, whereas a number of member

states have opted out from it. The migration crisis of 2015 brought the Schengen/Dublin regime to the brink of breakdown, but in spite of several restrictions, disintegration was prevented. In contrast to the eurozone, the crisis did not lead to additional vertical integration in the AFSJ.

- Finally, vertical integration in *defence policy* is not only a latecomer, but has also remained at a low level. Defence policy is, furthermore, the least horizontally differentiated of the policies we compare in this book. Only Denmark has fully opted out of this policy, and non-member states do not participate formally. At the same time, the ‘permanent structured cooperation’ (PESCO), the policy-specific scheme of enhanced cooperation, has gained momentum recently with the Council proposing a plethora of projects, suitable for a closer moving together of willing EU member states in the area of defence capability development.

In this book, we introduce readers to the differentiated vertical and horizontal integration of these major EU policy areas. In addition, we seek to explain the overall pattern of differentiated integration and the policy-specific differences in integration and differentiation. For this purpose, we develop a synthetic explanatory account that builds on and elaborates four major theories of integration: intergovernmentalism, supranationalism, constructivism, and postfunctionalism.

- *Intergovernmentalism* attributes integration to the interests of state governments to preserve and increase their autonomy and efficiency in the face of international interdependence. Its liberal variant assumes that governmental preferences are largely shaped by societal interests. Integration outcomes result from intergovernmental constellations of preferences and bargaining power, and governments remain in control of the integration process.
- *Supranationalism* explains integration as a response to transnational interactions supported by supranational organizations. Initial integration strengthens interdependence and supranational capacity. ‘Spillovers’ into other policy areas and countries generate further integration.
- *Constructivism* stipulates that integration depends on the strength of an international ideational consensus and a shared community identity. In absence thereof, integration is likely to stagnate or to fail in the first place. The formation of supranational ideas, norms, and identities in the process of integration facilitates further integration.

- *Postfunctionalism* focuses on explaining integration backlash. Deepening and widening have led to the domestic politicization of European integration and a ‘constraining dissensus’ in the EU. The strength of national identities, Eurosceptic parties, and domestic institutions, such as referendums, affect the course of integration, differentiation, and disintegration.

In the policy chapters of this book, we apply these theories to the Single Market, the Economic and Monetary Union, the Area of Freedom, Security, and Justice as well as Security and Defence. We argue that none of the established integration theories fully explains the complex processes and patterns of differentiated integration. Roughly speaking, intergovernmentalism establishes a useful baseline model. Moreover, it provides a satisfactory account of the initial stages of integration; it has difficulties, however, capturing the endogenous dynamics of subsequent integration. Intergovernmentalism further struggles to account for identity-driven processes of politicization that generate patterns of horizontal differentiation. For these developments, supranationalist, constructivist and postfunctionalist integration theories provide important insights.

In line with this observation, the synthetic explanation that we develop in this book starts from an intergovernmental analytical framework. Integration theories generally agree that governments remain key actors in the integration process, as they negotiate integration outcomes, which are then submitted to national ratification processes. Demand for integration is primarily created by international interdependence. At the same time, whether and how this demand translates to integration is conditioned by domestic preferences, international preference constellations, states’ bargaining power, and the agenda-setting and policy-shaping powers of supranational institutions. As integration progresses, demand becomes more endogenous and the relevance of supranational institutions increases. Once integration reaches a critical level of centralization, the path of integration bifurcates. If politicization remains low, integration is likely to progress further. If politicization is high, but states are highly vulnerable to interdependence, we are likely to see more integration, too. Otherwise, high politicization produces stagnation or differentiation.

International interdependence is the fundamental driving force of integration. Interdependence means that it is impossible for states to solve certain problems or achieve certain goals unilaterally. Oftentimes societal actors are the first to become aware of interdependence. When they are

confronted with international policy externalities such as barriers to trade, exchange rate risks, transboundary pollution, or crime, they may demand of their governments, but also of supranational actors, to engage in policy coordination.

Interdependence is not sufficient for integration. First, the *preferences of governments* need to be compatible. Interdependence does not automatically lead to common interests: governments may be affected in different ways by interdependence, or they may disagree about the appropriate policy to address interdependence. Second, *politicization* reduces demand for integration, or creates obstacles to negotiating integration. Politicization is low for technical issues. The more, however, an issue is perceived as reducing the sovereignty of the state, undermining the collective identity of the nation, and involving the transnational redistribution of welfare, the more politicized it tends to become. When citizens and political parties successfully mobilize against integration, international negotiations may stall due to constrained negotiators. Whereas homogeneous preferences and technical issues facilitate integration, heterogeneous preferences and politicization inhibit integration and abet differentiation.

Intergovernmental bargaining power and *supranational institutions* can counteract the effects of preference heterogeneity and politicization. Governments with superior bargaining power may prevail over less powerful governments and supranational institutions potentially facilitate the harmonization of preferences (e.g. by upgrading the common interest or by triggering learning and socialization processes). They may also depoliticize issues by transforming them into technical issues and by removing them from the domestic political arena. Finally, they can propose compensation measures or create linkages to other issues in order to make potential losers accept a specific integration policy.

In addition, the level of attained integration makes a difference. First, *demand* becomes more *endogenous*. Integration is not only a response to interdependence that created the demand for integration in the first place, but integration is also the source of new interdependence. Integration stimulates further and denser interactions between societies, affects additional countries and policy areas, and limits the ability of governments to respond to such effects unilaterally. Endogenous interdependence alters the preferences of at least some societal actors and governments, and generates demand for further integration. Second, integration strengthens

supranational institutions. Supranational organizations such as the European Commission, the European Courts, or the European Parliament have attained competences and resources that they frequently use to promote their own integration agenda. Supranational norms and rules emerge that may shape the expectations and the behaviour of member states, too. This dynamic of progressive vertical and horizontal integration works best if *politicization* remains *low*. By contrast, in those policy areas or countries that are particularly sensitive to sovereignty and identity concerns, politicization heightens sensitivity, mobilizes citizens and domestic political actors, generates opposition to (further) integration, and leads to divergence in governmental preferences and tougher bargaining behaviour. In particular, in areas traditionally linked to state sovereignty—‘core state powers’—politicization is an obstacle to deeper integration. If these obstacles to integration are unevenly distributed across states and policy areas, we encounter horizontal or vertical differentiated integration.

The conditions and processes emphasized by intergovernmentalism—exogenous international interdependence, national preferences, and inter-governmental bargaining—form a useful baseline explanation of European integration. In our view, they are particularly suitable for explaining the early stages and low levels of integration. At the same time, inter-governmentalism has a static orientation, neglecting feedback processes and other integration dynamics. Here supranationalism has a word to add. Supranationalists stress the impacts of both the endogenous demand for integration (as triggered by previous integration steps) and the policy entrepreneurship of supranational agents. However, these processes do not operate automatically and detached from domestic politics. Instead, recent developments have cautioned, for instance, against an automatic and a-political understanding of ‘spillover’ dynamics. In particular, politicization—occurring oftentimes in the colours of nationalism—can limit the influence of supranational actors and restrict governments in heeding to integrationist calls.

We designed our synthetic explanation to capture the most general temporal and policy-related patterns of integration and differentiation. The overall progress and the absence of rollback during the first sixty years of the European integration project highlight strong demands for integration triggered by interdependence and amplified by spillover dynamics and institution building. We should not overlook, however, the cases of stagnation and integration failure that have accompanied this process. For

instance, the French Parliament vetoed the European Defence Community in 1954, and it was French President Charles de Gaulle, who not only blocked further supranational centralization, but also the first enlargement of the European Communities in the 1960s. In the 1990s, as the EU began to centralize policies traditionally linked to the core of national identity and state sovereignty, politicization has resulted in increasing non-participation of the more Eurosceptic EU member states. At the same time, outsider states increasingly felt the pressure to join the integration trajectory in those policy areas, which affected them strongly due to their interdependent nature. A paradigmatic example is the Single Market. In sum, the variegated interplay of spillover and politicization dynamics has shaped the vertical and horizontal patterns of European integration throughout its history.

The increasing differentiation across policies in European integration is in line with the dualism of the spillover and politicization dynamics, too. This dualism leads to more vertical integration in areas of low politicization, on the one hand, and stagnation in areas of high politicization, on the other. The result is vertical differentiation. Moreover, the dualism generates horizontal differentiation. Whereas the spillover dynamic ensures full participation of EU member states and even attracts non-member states in areas of low politicization, the politicization dynamic leads countries to abstain from, or to be excluded from, participation in areas of high politicization.

Our explanation further suggests that policies characterized by high interdependence and low politicization are integrated early, attain a high level of vertical and horizontal integration, and are unlikely to lead to internal horizontal differentiation. The establishment of the internal market confirms this expectation. Commerce is the archetypical area of high transnational exchange and international interdependence. For liberal states, it is also an area in which the autonomy and identity costs of integration are low. Under these conditions, the spillover dynamic of vertical and horizontal integration could unfold without major impediments. Commercial policy was thus conducive for getting European integration started and for revitalizing it in the mid-1980s. The internal market quickly reached high levels of vertical integration, triggered the demand of non-member states to join the Community, and had no opt-outs. Rather, neighbouring countries that cannot join or do not want to the EU for various reasons still seek access to the Union market. This

gives rise to the characteristic pattern of no internal differentiation, but significant external differentiation.

The characteristics of market integration contrast starkly with policy areas that were integrated at a later stage. Monetary policy and policies of border control, immigration, internal security, and defence have traditionally been exclusive domains of the state, and transnational interactions in these areas have been more limited than in trade. The supranational integration of these policies causes a substantial loss of autonomy for the participating states. Giving up the national currency, the national army, and the control of borders and migration are also likely to create strong concerns about the preservation of national identity. The fact that these policies came under the purview of European integration at all has mainly to do with prior market integration and the endogenous interdependence it created. Monetary union and the AFSJ followed the deepening of market integration, the liberalization of capital controls, and the free movement of persons inherent in the internal market programme of '1992'.

Whereas spillovers from market integration generated demand for more integration in these and related policy areas, their relevance for state sovereignty and national identity gave rise to politicization. EMU and AFSJ have therefore caused horizontal differentiation. The fact that EMU was extremely centralized from the start produced less horizontal integration than in the initially more intergovernmental AFSJ. In both areas, the spillover dynamic created by integration has attracted further member states and—in the case of Schengen—non-member states, but politicization still limits horizontal integration. In particular, the most Eurosceptic governments or societies among the member states have refrained from adopting the euro.

By contrast, the internal market has not significantly boosted interdependence in defence policy, with the notable exception of the market for defence procurement. With levels of security interdependence low, given the continued prominence of NATO, the pressure for integration has also remained lower in this policy area than in others. At the same time, defence policy is arguably at the core of state sovereignty. As a result, it has not moved beyond intergovernmental coordination and cooperation and, because it has remained at this low level of integration, a politicization dynamic that would have resulted in major differentiation has failed to develop.

STRUCTURE OF THE BOOK

This is a book about European *integration*. The study of European integration is concerned with the *development* of the EU, and theories of European integration explain why and how the EU has become what it is today. We therefore focus on the provisions of EU treaties and treaty revisions, which change the functional scope of integration, the competences of EU actors, and the membership of the EU and its policies. Conversely, this is not a book about EU *politics and policy-making* (i.e. on how the EU decides and works). While recent research has unveiled that differentiation has been quite prominent in the area of secondary law as well (Duttle et al. 2017), legislative differentiation generally follows the logic of treaty-based differentiated integration and has decreased over time (Schimmelfennig and Winzen 2020). We therefore only partially refer to differentiation dynamics in the area of secondary law; in particular, we take a closer look at a number of cases considered for enhanced cooperation in the EU (Kroll and Leuffen 2015), such as permanent structured cooperation (PESCO) in the field of defence.

This book is dedicated to the theory-based analysis and explanation of European integration. Rather than describing and tracing the historical development of European integration, it seeks to provide students with the tools for theory-based explanation and to demonstrate how these tools can be applied to enhance our understanding of European integration.

The book is further based on our strong belief that the study of European integration remains an important and indispensable aspect of studying the EU. The EU is not merely about ordinary politics and policy-making that we find in any political system. It is also a highly dynamic and unsettled polity, which has been involved in a quasi-permanent process of changing its institutions, competences, and membership. The ‘polycrisis’ of the EU in the past decade underlines this point. As any political actor, political actors in the EU are concerned with remaining in office, winning votes, and obtaining their preferred policies. But they also deal with a number of questions that national policy-makers are very rarely confronted with: Which peoples and territories do we admit? Where are our borders? How do we distribute competences and policies? Which members of the polity obtain an exemption from our common rules? Finally, whereas national policy-makers mainly worry about citizens’ support for their policies, parties, and government, EU

policy-makers must also be concerned about support for the polity, as such.

The book has eleven main chapters. In Chapter 2, we describe the EU and its development. We ask what kind of polity the EU is. We compare the EU to the state and the international organization—the two typical political organizations in the modern international system—and show that it does not fit either type well. Rather, we propose to conceptualize the EU as a system of differentiated integration. We then describe how this system has developed since the beginnings of European integration. We show, first, and notwithstanding phases of stagnation, that the Community has significantly expanded its tasks and competences since its inception. This is what we call ‘vertical integration’. Second, the expansion of membership in EU policies (or ‘horizontal integration’) has kept pace with the expansion of tasks and competences. We also show that vertical and horizontal integration varies significantly, depending on the issue. EU members and competences change both across time and across policies. This variation requires explanation.

Part I introduces the theories of integration that offer explanations: supranationalism, intergovernmentalism, constructivism, and postfunctionalism. In Chapters 3–6, we present the general assumptions of each theory, portray the main conditions and mechanisms for explaining vertical and horizontal integration as well as differentiation, and, finally, develop propositions, and formulate hypotheses about differentiated integration. These hypotheses are then be applied to EU policies in the second part of this book.

In Part II, we describe and analyse a diverse sample of major EU policy areas: the internal market, EMU, defence policy, and the AFSJ. These policies are not only politically important in their own right; they also represent different levels of vertical integration and different types of differentiated membership. They thus allow us to apply and evaluate theories of integration in highly varied settings. Chapters 7–10 are each dedicated to the analysis of one policy (area). The Conclusion presents a comparison of these policies and the synthetic theoretical framework that explains the variation in integration and differentiation across time and policies.

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CHAPTER 2

The European Union as a System of Differentiated Integration

Jacques Delors, a former president of the European Commission, once called the European Union a UPO—an Unidentified Political Object. Already in the early 1970s, Donald Puchala (1971) likened students of European integration to blind men each examining a different body part of an elephant and, predictably, coming to divergent conclusions about the object of their study. Indeed, since its beginnings, scholars have debated the ‘nature of the beast’ without reaching consensus.

We argue that conceiving the EU as a ‘system of differentiated integration’ is an indispensable key to better understand its nature. In this chapter, we will make the case for this notion in two steps. First, we explore the particularities of the EU by contrasting it with the two traditional and most widespread types of polities in the contemporary international system: the state and the international organization. The comparison serves to show that the EU fits neither type and that it is like an international organization in some respects but more akin to a state in others. Second, we argue that the classic comparison obscures the differentiated nature of European integration which unfolds along three dimensions: the level of centralization, functional scope, and territorial extension. Because the EU’s centralization and territorial extension vary across policies, the EU is a system of differentiated integration.

In the second part of the chapter, we measure and map differentiated integration. For each policy area, we measure its level of centralization

(vertical integration) and its territorial extension (horizontal integration) over time. This allows us to capture both integration and differentiation at the level of the EU and its individual policies. We show that vertical integration has generally increased over time. The data further highlight that vertical and horizontal integration are less conflicting than is often claimed. ‘Deepening’ and ‘widening’ go largely hand in hand in the history of European integration. The analysis also reveals that integration has been accompanied by differentiation. The difference in the level of centralization across policies (vertical differentiation) is pronounced and has increased, rather than shrunk, over time. So has horizontal differentiation: following the 1980s, the territorial extension of EU integration has begun to vary increasingly across policies.

BETWEEN INTERNATIONAL ORGANIZATION AND STATE

The European Union (EU) defies the classic dichotomous categories of public law, which distinguish two basic types of contemporary polities: the modern state and the international organization. Figure 2.1 contrasts the characteristics typically associated with the two types. Whereas there are differences in degree and individual exceptions, most states and international organizations cluster at either end of the spectrum. Figure 2.1 also shows where the EU fits in the picture. The further a cross ('X') is located to the right, the more the EU resembles an international organization; the further it is located to the left, the more it is akin to a state.

Membership

States are composed of citizens who mostly acquire their citizenship or nationality by birth. It is rare for individuals to change their citizenship or to be a citizen of more than one country. By contrast, the members of international organizations are states. The individual is not a subject of classic international law. Moreover, states become members of international organizations on a voluntary, contractual basis—usually by an international treaty. States are free to leave an international organization (although this is rather rare) and usually belong to many international organizations.

The EU’s membership regime is that of an international organization. Only states can become EU members. Accession is voluntary. It results from an accession treaty that needs to be ratified by all member states

	STATE	EU	IO
<i>Membership Members</i>	Citizens	X	States
<i>Delimitation Borders</i>	Territorial, physical	X	Functional, institutional
<i>Issue Scope</i>	General	X	Specialized
<i>Authority</i>			
Sovereignty	State sovereignty	X	Sovereignty of MS
Legal Order	Hard, highly legalized	X	Soft, weakly legalized
Decision-making Rule	Majoritarian	X	Non-majoritarian
Separation of Powers	Yes	X	No, only executives
<i>Governance Capacity</i>			
Coercive	Centralized	X	Decentralized
Administrative	Centralized	X	Decentralized
Fiscal	Taxation, large budget	X	Low state contributions
Welfare Provision	Interventionist, redistributive	X	Regulatory
<i>Legitimacy</i>			
Identity	Common	X	Fragmented
Public	Integrated	X	Fragmented
Political Infrastructure	Integrated	X	Fragmented

Fig. 2.1 The EU: between state and international organization (*Source* own illustration)

and the candidate state. The member states are also free, in principle, to leave the EU. The most recent of the EU's treaty revisions, the Treaty of Lisbon, formally introduced an exit procedure (Article 50), which was triggered for the first time by the UK in 2017. In contrast to other international organizations, there is an EU citizenship, as well. Among other things, the EU accords its citizens the right of free movement and residence throughout the EU, and the right to vote and stand in local and European elections in any member state. Yet, EU citizenship is derivative of and subordinated to national citizenship. Individuals acquire EU citizenship as an automatic consequence of citizenship in any of its member states, and the Treaty stipulates that EU citizenship shall supplement rather than replace national citizenship.

Delimitation

The system of states is a territorially delimited system. The borders between states are physical, geographical lines. State territories are also generally exclusive and exhaustive. It is rare for (land) territories to be governed by two or more states at the same time, or by no state at all. By the same token, states are functionally integrated. They possess the authority to deal with all areas of public policy on their territory: external and internal security, economy and welfare, individual rights and freedoms. By contrast, international organizations are typically functionally delimited. Their authority is mostly task-specific: the North Atlantic Treaty Organization (NATO) is a security organization, the World Trade Organization (WTO) covers trade and the World Health Organization (WHO) deals with public health issues. Obviously, the borders between these organizations are institutional rather than physical, and their competences are partially overlapping. For instance, both NATO and the United Nations Security Council may be involved in the same security issue either in cooperation or in competition, and both the WTO and World Intellectual Property Organization regulate intellectual property rights. Whereas states tend to integrate all task-specific competences on a single territory, (global) international organizations strive to regulate one specific issue for multiple territories.

In this respect, the EU is more like a state than an international organization. The EU has a clearly demarcated (and fairly contiguous) territory, as well as a physical border. People enter the EU much as they would enter the United States of America—and not as they would ‘enter’ the WTO or NATO. European integration has also thoroughly transformed border regimes among its member states. Borders between member states have largely lost their traditional functions as barriers to the free movement of persons and goods, except in times of crisis. In many places, they look more like borders between administrative districts within a state, rather than traditional borders between states. By contrast, the borders between member states and non-member states have become external EU borders at which the EU’s border regime is applied.

The EU covers all policy fields: having started as an economic organization, it has expanded into all areas of public policy including foreign policy, internal and external security, and the protection of civil and social rights. Although its competences vary from issue-area to issue-area, there is hardly a field of policy-making that is not regulated and affected in some

way by the EU. In contrast to the typical state the territorial extension is not the same for all policies: the European Research Area is larger than the internal market, which is again larger than the eurozone. That territorial extension varies by functional regime is characteristic of international organizations—and a core feature of the EU as system of differentiated integration that we will discuss in more detail below.

Authority

The modern state is sovereign—regardless of whether sovereignty ultimately rests with the people, an autocratic class, or a dictator. Its relationship to its citizen-members is hierarchical. The state alone has the authority to make and enforce laws that are binding for all people living on its territory. International organizations do not have these attributes of sovereignty. Their powers derive from the consent of the member states, which do not give up their individual sovereignty upon founding or joining an international organization. The relationship between the international organization and its members (as well as among the members themselves) is anarchical: every state has no master other than itself. Rather than being subordinated to an international organization, the member states coordinate their policies within its institutional framework. Decision-making is typically based on intergovernmental consensus. The member state executives that participate in international policy-making are not checked and balanced at the international level by parliamentary (citizen) representations or by independent judiciaries. Adherence to the rules of an international regime is voluntary, and international law is typically soft law. Many rules are not legally binding and, even if they are, their interpretation and the settlement of disputes are subject to negotiations between the member states. Third-party adjudication is rare—and mostly voluntary, where it exists.

To qualify as sovereign, the EU would have to be able to decide its constitutional order autonomously. Yet, its basic principles and rules remain treaty-based, and the member states remain the ‘masters of the treaties’. Any change in the EU’s formal ‘constitution’ needs to be negotiated among the member governments, agreed by unanimity, and ratified in each member state. This is typical for international organizations.

Short of sovereignty, however, the EU’s institutions resemble those of a state. First and foremost, its legal system is highly integrated. The EU produces legislation taking direct effect in the member states and

are superior to competing domestic law. Cases of non-compliance and legal disputes are ultimately settled by an independent court, the Court of Justice of the European Union (CJEU), which makes binding decisions and is entitled to fine the member states, if need be. National courts refer cases involving European law to the Court for binding preliminary rulings. Second, the separation of powers is more similar to (liberal-democratic) states than to international organizations. The EU not only has an independent judiciary, but also a directly elected European Parliament (EP). Nevertheless, executives play an important role in legislation and jurisdiction, as well. The most powerful chamber of the legislature, the Council, is composed of member state governments, and the European Commission is not only the EU's executive, but also formally initiates all legislation and monitors member state compliance. Third, decision-making in the EU is mainly majoritarian. Most EU laws are passed under the 'ordinary legislative procedure', which combines majority voting in the Council and the EP and covers virtually all areas of EU policy-making. However, EU decisions generally require large ('qualified') majorities, and the Council, in practice, takes most of its decisions by consensus. In sum, the EU has arguably travelled half way from anarchy to hierarchy. Whereas rule-making and adjudication are clearly hierarchical, ultimately, the EU is not sovereign and cannot order the use of force against non-compliant member states. In other words, EU authority is characterized by hierarchy in the shadow of anarchy.

Governance Capacity

International organizations have weak policy-making capacity. Whereas in states, including most federal states, the centre normally has the strongest administration and receives the biggest share of state revenues, the bureaucracies of international organizations are typically small, weak, and without independent income, let alone the power of taxation. Whereas the modern welfare state can use its powers to intervene in the economy and engage in redistribution, international organizations typically focus on regulatory policies: they make rules that coordinate and constrain the actions of states, rather than intervening directly in market or social relations. And, whereas the state has the monopoly of the legitimate use of force, international organizations do not have the means to physically coerce their members into compliance with their rules.

The advanced legal integration of the EU stands in marked contrast to its limited governance capacity. First, it is not matched by any coercive powers. The use of force remains firmly with the member states; there is neither an EU police force nor an EU army. Second, the administrative capacity of the EU is strong for an international organization but weak by comparison with the states of Europe. The European Commission has approximately 32,000 staff, less than the federal administration of Switzerland (more than 38,000 in 2019), a highly decentralized European country. However, whereas the Swiss federal administration serves a population of 8.5 million, the European Commission serves almost 450 million. It is therefore not surprising that the EU relies strongly on the administrations of its member states to implement its policies. Third, the EU has weak fiscal capacity. It cannot directly tax the EU citizens, traditionally it is not allowed to run deficits, and its expenses are normally limited to little more than 1% of the EU's GDP. This contrasts starkly with the public expenditure quota of more than 46% of GDP that member states, on average, spent in 2018. Given its limited budget, it is clear that the EU cannot engage in the same kind of interventionist, redistributive economic, and welfare policies for which the member states use most of their revenues. Whereas the EU does spend around 70% of its budget for redistribution, support is sectoral (agriculture) and regional (cohesion policy), not personal. In line with typical international organization activity, its policy-making activities are predominantly regulatory. It is in the area of economic rule-making that the EU has its most impressive powers: market integration, monetary policy, and competition policy.

Legitimacy

The modern state is, or aspires to be, a nation-state. With the help of institutions such as schools and the media, it promotes the idea that its citizens form a distinct community (a 'nation') that shares a common and distinctive history and destiny, language, culture, and/or religion. Ideally, the state rests on a common identity of its citizens, who regard and support it as the political form of their community. Moreover, the political community of the modern state rests on nationwide mass media, associations, and parties for political will-formation. By contrast, international organizations do not have strong identity and cultural underpinnings. They are composed of states that represent multiple national communities and do not establish direct relations of political loyalty with the citizens of

these states. Political life remains domestic. The legitimacy of international organizations depends predominantly on efficiency: the production of public goods that the nation-state could not provide autonomously.

The EU's sources of legitimacy are more typical of an international organization than of a state. European identity is weak. According to *Eurobarometer* surveys, only around 10% of the respondents consider themselves exclusively or primarily as Europeans. The pattern of identification has proven extraordinarily stable in the past decades—and that is likely to remain, given that crucial resources and institutions of nation-building remain bound to the nation-state: mass media, education, and language. At the same time, the EU has a stronger identity basis than most international organizations. From a global perspective, a European regional and cultural identity exists, and the EU defines itself as a community of liberal democracies. Hence, whereas the EU does not possess a ‘thick’ national identity as a diffuse source of loyalty, it can still rely on a ‘thin’ transnational civic identity. Moreover, a large majority of EU citizens see themselves as Europeans, in addition to their national identities. The European public and the EU’s political infrastructure are equally fragmented. Linguistic barriers and national media systems limit Europe-wide public debate and the formation of a European demos. Moreover, interest groups and parties are predominantly national; the European federations that have formed are comparatively weak and loose. EP elections are considered as ‘second-order elections’ since EU citizens continue to vote for national candidates nominated by national parties in reaction to national politics.

In sum, William Wallace’s (1983) characterization of the European Community as ‘less than a federation – more than a regime’ certainly still holds today. But it amounts to a purely negative definition: it tells us what the EU is *not*. In addition, the classificatory exercise has highlighted that the EU does not end up uniformly on either the international organization or the state side of the spectrum. It is neither a strong international organization nor a weak state, but is similar to a state in some respects, and to an international organization in others. Whereas its constitutional foundations (state membership and sovereignty) and its political legitimacy (fragmented identities, media, and political infrastructure) are typical for an international organization, the EU’s territoriality, issue-scope, and governance structure (separation of powers, majority voting, and law enforcement) make it similar to a state. Another remarkable

feature is the coexistence between strong legal integration and regulatory policy-making, on the one hand, and weak (administrative, coercive, and fiscal) governance capacity and redistributive policy-making, on the other.

Whether and why the EU will remain more like an international organization or become more like a state are questions at the heart of classic integration theoretical debates. For instance, supranationalism claims that the momentum created by initial, small steps of integration may lead to an expansion of the Community's tasks, competences, and capacities, and finally to a shift in citizens' identity and loyalty away from the nation-state and towards the new centre. Intergovernmentalist theory, by contrast, argues that member state governments will remain in control of European integration and guard their ultimate sovereignty. In addition, the weakness in capacity and identity—increasingly highlighted by postfunctionalism—will remain a structural obstacle blocking the EU's trajectory towards state-building.

DIFFERENTIATED INTEGRATION

So far, we have looked at the EU as a whole and compared it with the ideal types of state and international organization. We have seen that the EU cannot be unequivocally subsumed under either type. This comparison, however, obscures further complexity in European integration: the variation among areas of EU policy and among European territories. Whereas it is true that the EU now deals with virtually all fields of policy, the nature and degree of integration in each area of EU policy differs significantly. Moreover, whereas the EU has a demarcated and rather contiguous territory with a physical EU border, there is variation in integration among, and even beyond, its territory.

To better grasp this differentiation, we propose to think about European integration as a multi-dimensional process. To this end, we start with a more general understanding of polities as three-dimensional configurations of authority.

- The *level of centralization* is the first dimension. It is on this dimension that the variation between the state, with its hierarchical authority and centralized governance capacity, and the anarchical and decentralized international organization is captured. In abstract terms, polities where all authority is vested in one place (the centre)

have the maximum level of centralization, whereas competences dispersed equally across a multitude of organizations indicate a low level of centralization.

- The *functional scope* of a polity is the second dimension. It varies between authority over a single issue (minimum functional scope) and authority over the entire range of policies (maximum functional scope). The state, with its all-encompassing policy competence, and the functionally specialized international organization differ strongly on this dimension as well.
- The third dimension is *territorial extension*. The authority of a polity can be limited to a single political territory (minimum territorial extension) or encompass the entire world (maximum territorial extension). Here again, the state and the (global) international organization (with universal membership) are at the opposite extremes of the dimension.

Figure 2.2 illustrates different types of polities displaying variation in the configuration of authority. Territorial extension is shown on the horizontal x-axis, the level of centralization on the vertical y-axis, and functional scope on the z-axis. The classical configurations are the (unitary) state and the international organization. In the unitary state, all policies are made at the same (central) level and cover the same (limited) territory. In addition, the state traditionally has maximum functional scope: it covers all policies. By contrast, international organizations are typically decentralized and task-specific, but cover more territories.

The lower three shapes represent more complex configurations of authority. Here, we distinguish between policies (A, B, and C in the figure) because the level of centralization and/or the territorial extension varies across the functional scope of the polity. The *federation* is the most familiar complex configuration. It differs from the unitary state in that at least one policy is governed at the subnational (regional) level (here: sector B) or co-governed by subnational and national authorities (sector C), whereas other policies are fully centralized (A). Federal states typically have areas of exclusive federal competences, areas of mixed or shared competences, and areas of exclusive subnational competences. Defence is normally a federal competence whereas education is often a subnational one. The territorial extension and functional scope of the federation, however, is of the same order as that of unitary states. It deals with all

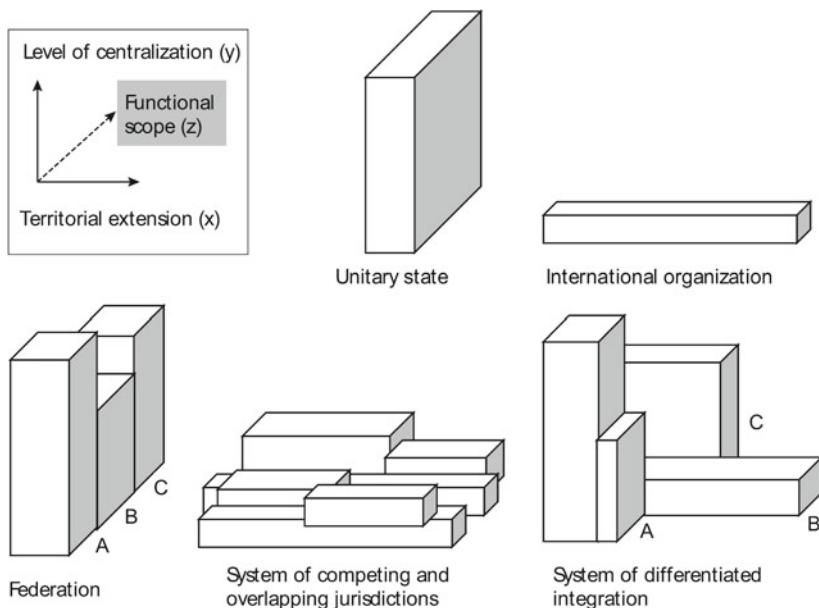


Fig. 2.2 A three-dimensional representation of polity-types

policies on a closed territory. This is also the basic model of traditional, federalist conceptions of European integration.

The second and much ‘messier’ configuration of authority is the *system of competing and overlapping jurisdictions*. We take this concept from Bruno Frey and Reiner Eichenberger, who developed the idea of functional overlapping competing jurisdictions (FOCJ) as ‘the new democratic federalism for Europe’ (Frey and Eichenberger 1996). In this configuration, each jurisdiction focuses on a single policy or function, each policy is provided or offered by several jurisdictions that compete with each other, and the membership of the jurisdiction varies in size. In the international domain, the coexistence of hundreds of international organizations, most of them highly specialized, some working in the same policy fields, with variable and overlapping membership and different regional foci, is an (imperfect) approximation of this model. In the discussion about the form and future of European integration, Philippe Schmitter (1996: 136) called this type of polity ‘*condominio*’ and describes it as ‘many

Europes', in which 'there would be multiple regional institutions acting autonomously to solve common problems and produce different public goods'. Liesbet Hooghe and Gary Marks (2003) label this configuration of task-specific jurisdictions with intersecting memberships 'type-2 multi-level governance' and contrast it with 'type-1 multi-level governance', which is exemplified by the federation.

In our view, the EU is a hybrid type. In contrast to federal type-1 governance, the territorial extension of the EU varies by policy or task. The EU has different borders for the eurozone, 'Schengenland', or the single market. On the other hand, categorizing the EU as functional type-2 governance ignores the extent to which the EU has developed an institutional centre and a membership core that reaches across the EU's policies with their variation in centralization and territorial extension. This institutional core is constituted, first, by the Treaty on European Union. It covers all policies of the EU and—in the Lisbon Treaty—defines the EU as a single legal entity. The institutional core is furthermore constituted by the EU's institutions. The European Council, composed of the member states' heads of state and government, gives general directions for all policies of the EU and for treaty revisions. The Council, the Commission, the EP, and the ECJ are also present (albeit to differing degrees and with varying competences) across the board of EU activities and across the territories into which the EU's external relations reach. Finally, a large core group of member states take part in all the policies of the EU at the highest level of centralization: the six founding members, most southern and some eastern European member states. The EU is not 'many Europes' with task-specific jurisdictions each having their own organization and membership. It is one Europe with *an organizational and member state core but with a level of centralization and territorial extension that vary by function*. This is how we define a 'system of differentiated integration'.

A representation of a system of differentiated integration is depicted in the lower right corner of Fig. 2.2. It has the same functional scope as the state and the different levels of centralization for the policy areas A–C that characterize a federal state. In addition to variation in the level of centralization, however, the territorial extension varies by policy as well. In this example, the highly centralized sector A is limited to a few territories, resembling a state's authority pattern, whereas sector B is similar to an international organization. Sector C combines medium–high centralization with extended territorial coverage. Policy sector A is more complex

than sectors B and C, since a few territories accept a high level of centralization in this sector but one does not. An example would be Denmark and EMU—it participates in the Exchange Rate Mechanism, but has not adopted the euro.

MEASURING DIFFERENTIATED INTEGRATION

If the EU is best understood as a system of differentiated integration, its development needs to be measured and mapped accordingly. Scholars of European integration have traditionally focused on the level of centralization and the functional scope. Leon Lindberg and Stuart Scheingold (1970) were the first to undertake a systematic categorization and mapping of the scope of the EU's system of decision-making. Their work focused on the *extension* of policy areas where the EU can claim authoritative decision-making power, and the *intensity* of EU decision-making. This enabled them to capture the relative importance of EU-level decision-making compared with domestic processes in a given policy area (Lindberg and Scheingold 1970: 66–70). Many scholars have built on and updated Lindberg and Scheingold's pioneering work (see, among others, Börzel 2005; Donahue and Pollack 2001; Hix 2005; Schmitter 1996). Whereas their assessments of the progress and extent of European integration capture the level of centralization and the functional scope, they do not take into account the horizontal dimension of territorial extension, which is crucial for a system of differentiated integration.

Our focus in this book is on EU treaties or primary law (rather than legislation or secondary law). Treaties are negotiated in intergovernmental conferences and need to be signed and ratified by all member states. Similarly, the accession of new states to the EU requires the approval of all member states. Box 2.1 displays the major milestones of European integration understood as treaty changes. The creation of the European Coal and Steel Community (ECSC), the ensuing failure to establish the European Defence Community, and the establishment of the European Economic Community (EEC) and Euratom, commonly referred to as the Treaties of Rome, in the 1950s, reflect the major steps of the first decade of European integration. The Single European Act (SEA) marks the first major revision of the Treaties of Rome. The Treaty of Maastricht established the European Union and was rapidly followed by the Amsterdam, Nice, and Lisbon Treaties. Treaty changes in the EU generally entail advances in scope and centralization. For instance, the Maastricht Treaty

added two new pillars—the Common Foreign and Security Policy and Justice and Home Affairs—as well as the Economic and Monetary Union. Moreover, from the SEA to Lisbon, treaty changes have introduced more areas of majority voting in the Council and strengthened the powers of the EP. Finally, accession and withdrawal treaties change the territorial extension of the EU. Box 2.1 lists the different enlargement rounds, starting with the accession of Denmark, Ireland, and the UK in 1973, followed by two rounds of Southern enlargement in the 1980s, the second Northern enlargement of 1995, the two rounds of Eastern enlargement in 2004 and 2007 and the accession of Croatia in 2013. Because of the withdrawal treaty with the UK, the size of the EU has shrunk for the first time in 2020.

Box 2.1 Timeline: Major steps of integration

- 1952 ECSC
- 1954 EDC (not ratified)
- 1958 EEC & Euratom (Treaties of Rome)
- 1967 EC (Merger Treaty)
- 1973 EC 9
- 1981 EC 10
- 1986 EC 12
- 1987 Single European Act
- 1993 EU (Maastricht Treaty)
- 1995 EU 15
- 1999 Amsterdam Treaty
- 2003 Nice Treaty
- 2004 EU 25
- 2007 EU 27
- 2009 Lisbon Treaty
- 2013 EU 28
- 2020 EU 27 (Brexit)

We explore how integration and differentiation have developed in the history of the EU along these milestones of formal integration. In line with our stylized representation of a ‘system of differentiated integration’ in Fig. 2.2, we start from the assumption that the EU potentially covers the entire range of policies, but that different policies vary with regard to

the level of centralization and the territorial extension. We call changes in the centralization of policy-making *vertical integration*. By contrast, change in the territorial extension of policies is *horizontal integration*. To the extent that vertical and horizontal integration differ across policy areas, we observe *vertical* and *horizontal differentiation* in the EU.

To empirically grasp vertical integration, we build on Tanja Börzel's (2005) measurement of the 'depth' of integration. She operationalizes 'depth' by coding the 'procedures according to which policy decisions are taken focusing on the involvement of supranational bodies and Council voting rules'. Depth thus refers to the level of centralization and, hence, the degree to which member states pool their sovereignty (e.g. decide on policy by qualified majority or unanimity), or delegate decision-making authority to supranational institutions, such as the Commission, the Parliament, and the Court of Justice. Börzel (2005: 211) distinguishes six categories of depth (Table 2.1).

Category 0 refers to the absence of any policy coordination at the EU level. Such a policy is exclusively decided at the level of the state. Examples are the use of military force or certain aspects of research and education policy (where national or regional governments zealously guard their prerogatives, for instance, to fund universities, define university entrance requirements, or define school curricula).

Table 2.1 Measurement of vertical and horizontal integration of European states

	Vertical Integration	Delegation	Pooling	Horizontal integration (Count)
0	<i>Coordination</i> No EU-level policy coordination	None	None	1...
1	Intergovernmental coordination	None	None	
2	Intergovernmental cooperation	Minimal	None	
3	Joint decision-making I	'Community method'	Limited pooling	
4	Joint decision-making II	'Community method'	Pooling	
5	Supranational centralization	Full delegation to supranational bodies		

Source Börzel (2005: 221) for vertical integration

Category 1 refers to situations in which there is some form of ‘intergovernmental coordination’, which implies that the member states decide by unanimity in the Council while supranational actors, such as the Commission, the EP, and ECJ, have neither agenda-setting, nor legislative decision-making or adjudicatory powers. For instance, any form of policy-making in the field of social security and social protection would have to meet unanimous agreement of the EU member states. Until the Treaty of Maastricht, low levels of policy coordination also characterized most policy decisions in the area of external and internal security: the authority to take decisions rested exclusively with the member states deciding by unanimity on whether or not to make use of common European prerogatives.

Category 2 ‘intergovernmental cooperation’ differs from ‘intergovernmental coordination’ in that it allows for limited supranational involvement. While the prevalent decision-making rule in the Council remains unanimity, the Commission, EP, and CJEU exercise very circumscribed decision-making power, e.g. the Commission may share the right of initiative with the Council, and the EP may be consulted in legislative decision-making process. Prior to the entry into force of the SEA, this form of intergovernmental cooperation was the predominant decision-making mode. Based on the so-called Luxembourg Compromise, an informal decision rule adopted to end the ‘empty chair crisis’ which paralyzed legislative decision-making in the Community between July 1965 and January 1966, every piece of legislation could be vetoed by a single member state if ‘vital’ national interests were deemed to be at stake. At present, it is in the area of security and defence policy where member states continue to accord only very limited influence to the Commission and the EP, even though a wide set of policy competencies are shared between EU and national levels.

Categories 3 and 4 capture what is commonly referred to as the ‘community method’ of decision-making. Following a Commission proposal, both the Council and EP bargain over the final legislative outcome, while the ECJ exercises judicial review over legislation. Börzel discriminates between two forms of the community method: ‘joint decision-making I’ and ‘joint decision-making II’. The main difference between the two is that, in the former the Council decides by unanimity, while in the latter case the Council voting rule is qualified majority voting. In both cases, the EP can exercise legislative influence by proposing amendments to legislative proposals, which the Council has to take into account. All policies

where the co-decision procedure (with qualified majority voting in the Council) applies fall into the ‘joint decision-making II’ category. Since the entry into force of the Lisbon Treaty, this mode of decision-making is the dominant legislative procedure in the EU, hence its name ‘ordinary legislative procedure’ (OLP). The OLP extends to the policy areas traditionally covered by the co-decision procedure, such as environmental policy, consumer protection, and legislation relating to the realization of the internal market; it includes most issues in the field of justice and home affairs, ranging from border protection, asylum, and immigration policies to judicial cooperation in criminal matters. Moreover, the OLP applies to the area of external trade and the conclusion of international agreements, as well as to the EU’s big spending policies (agriculture, structural, cohesion, and research policies).

Category 5 of vertical integration refers to a fully centralized decision-making mode labelled ‘supranational centralization’. This mode of decision-making precludes legislative involvement of member state governments and gives precedence to unilateral action on behalf of ‘non-majoritarian institutions’, such as the Commission, the European Central Bank (ECB) or the ECJ, which operate at arm’s length from governments. The paradigmatic—and, at the time of writing, only—case in this category is monetary policy and the dominant role attributed to the ECB in this context. Table 2.1 lists the six categories of vertical integration. While ‘delegation’ refers to the involvement of supranational actors in decision-making, ‘pooling’ captures the application of super-majoritarian voting rules in the Council.

Turning to horizontal integration, the most important procedure is enlargement. New member states are obliged to adopt the entire body of EU law, the so-called *acquis communautaire*, so that accession simultaneously increases the horizontal integration of all EU policies in principle. Yet, EU member states do not equally partake in all of the EU’s activities, and new member states are not obliged to join all policies on day one. Various countries ‘opt out’ from specific policies, while other countries (and even some non-member states) ‘opt in’. This renders the boundaries of the EU fuzzy, and such fuzzy boundaries are an important feature of differentiated integration.

How do we go about measuring horizontal integration? To measure horizontal integration at the level of individual policy areas, we need

to determine how many states formally subject themselves to the corresponding rules at a particular point in time. Note that horizontal integration not only includes members of the EU, but is also open to the possibility that non-member states formally adopt EU rules. Therefore, we count the number of countries participating in different EU-related policy ‘regimes’ no matter whether they are EU member states or not.

We further distinguish four qualitatively different constellations of horizontal integration. During the first four decades of European integration, it was an almost unquestioned assumption that all EU rules should uniformly apply to all EU member states ([a] in Table 2.2). The prospect of differentiation was equated with fragmentation and considered to pose a threat to the integration project. In the eyes of Euro-Federalists, differentiation was incompatible with the goal of achieving an ‘ever closer union’. Nonetheless, politicians such as Willy Brandt and Leo Tindemans floated the idea of horizontal differentiation as early as in the mid-1970s, an era often characterized by stagnation of the integration process. Leaving aside some early examples of horizontal differentiation in the 1980s, such as the Schengen Agreement (initially not part of EU law), durable horizontal differentiation was, until the 1990s, largely non-existent. Since then, commentators and scholars have begun to claim that the ‘nature of European integration is undergoing a piecemeal revolution’ with the ‘process of differentiated integration ... replacing the erstwhile process of unified integration’ (De Neve 2007: 503; Stubb 1996, 2002).

If EU rules apply uniformly to all member states but outsiders also adopt these rules, we observe an externalization of the *acquis communautaire* (*external* differentiation). Take the free movement of goods and services as an example. From the entry into force of the Treaty establishing the EEC in 1958, all six founding member states were subject to the rules governing this particular policy area. Following different enlargement rounds, all 27 members of the EU have also been subject to the provisions governing the free movement of goods and services. Hence, we could conclude that there is no horizontal differentiation

Table 2.2 Types of horizontal differentiation

[a]	No horizontal differentiation (uniform application)
[b]	External differentiation
[c]	Internal differentiation
[d]	Internal and external differentiation

since the Treaty rules uniformly apply to all member states. However, the non-EU member states of the European Economic Area (EEA)—Iceland, Liechtenstein, and Norway—have also enacted EU legislation on the free movement of goods and services. The EU's internal market thus effectively extends to the whole of the EEA. Switzerland, which is not a member of the EEA, has negotiated bilateral agreements with the EU, which cover trade in industrial goods and—some—services. One could thus argue that the provisions governing the free movement of goods and services extend beyond the circle of EU member states, to cover 30 states (or even 31, if we also account for Switzerland).

A second form of horizontal differentiation is *internal* differentiation. EU rules cease to apply uniformly to all EU member states, since individual member states decide to opt out from membership with respect to a particular policy area. The Treaty of Maastricht marks a milestone in this regard, as it paved a legal avenue for this form of differentiation. The euro is a paradigmatic case. Two member states, Denmark and the UK, negotiated concessions allowing them to opt out from taking part in the third stage of EMU, the single currency. Presently, only 19 out of 27 EU member states have renounced their domestic currencies in favour of the euro.

As highlighted above, the Treaty of Maastricht equally marked a watershed for foreign policy cooperation by deepening vertical integration in the area and embedding CFSP in the EU Treaty as its ‘second pillar’. At the same time, Denmark was granted an opt-out from defence-related matters. The trend that started in Maastricht continued in the Treaties of Amsterdam, Nice and Lisbon, which formally enshrined and extended the possibility for horizontal differentiation in matters of common security and defence policy. In December 2017, the member states launched PESCO (Permanent Structured Cooperation)—without the participation of Denmark, Malta, and the UK.

Finally, *external* and *internal* differentiation can coincide. In such a situation ‘insiders’ (one or more EU member states) decide to ‘opt out’ from a certain policy, while ‘outsiders’ (one or more non-EU member states) ‘opt in’ by subjecting themselves to EU rules. A prominent example is the Schengen border regime. The Schengen Agreement was signed between France, Germany, and the Benelux countries in 1985 outside the EU legal framework, and it was only formally incorporated into EU law with the Amsterdam Treaty. Schengen provides for the removal of border controls between the participating countries

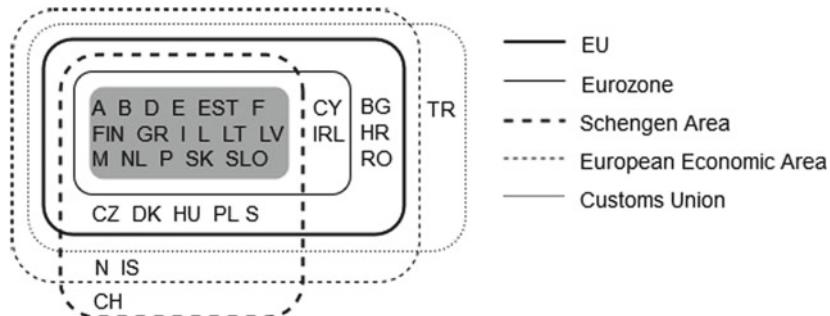


Fig. 2.3 Differentiated membership in the EU (*Note* Map represents selected policies in 2020 and excludes micro-states. The abbreviations for the countries are in full on pages xviii–xix. *Source* Mapping design inspired by Kölliker [2001])

and the harmonization of their visa, immigration, and asylum policies. In the meantime, many EU member states have joined the border regime, however, Bulgaria, Cyprus, Ireland, and Romania (as well as the UK) remain exempted. In contrast, Iceland, Liechtenstein, Norway, and Switzerland are part of the Schengen zone which, at the time of writing, consists of 26 states.

In Fig. 2.3, we provide an overview of differentiated membership in the EU and major EU-based regimes in 2020. The core membership consists of 17 countries that participate in all policy regimes. Another 14 countries, members and non-members alike, participate selectively in these major policy regimes. At the time of writing, five further states are in accession negotiations.

MAPPING DIFFERENTIATED INTEGRATION

Having set the conceptual stage, we will now provide an overview of vertical and horizontal integration, covering a range of 19 public policies spanning seven decades of European integration from 1950 to 2020. We distinguish regulatory policies (which are aimed at market-making and market-correcting measures), economic and monetary policies, expenditure policies (which involve the distribution of financial resources), and the areas of interior and foreign policies. The scores for vertical integration are mostly adopted and updated from Börzel (2005). Table 2.3 shows the scores at the time of the main treaty changes.

Table 2.3 Vertical integration across EU policies at the time of treaty changes

	1958	1987	1993	1999	2003	2010
<i>Foreign policies:</i>						
Political external relations	0.0	1.0	1.5	2.0	2.0	2.5
Defence policy	0.0	0.0	1.0	1.0	1.5	1.5
Economic external relations	1.5	1.5	3.5	3.5	3.5	3.5
<i>Interior policies:</i>						
Criminal/domestic security	0.0	0.0	1.0	2.0	3.0	4.0
Civil	0.0	0.0	3.0	3.5	4.0	4.0
<i>Economic and monetary union:</i>						
Macroeconomic policy and employment	1.5	1.5	1.5	3.5	3.5	3.5
Monetary policy	1.0	1.0	4.0	5.0	5.0	5.0
Tax	1.5	1.5	1.5	1.5	1.5	1.5
<i>Regulatory policies:</i>						
Economic freedoms	2.0	4.0	4.5	4.5	4.5	4.5
Competition and Industry	2.0	2.0	3.0	3.0	4.0	4.0
Environment/consumer Protection	0.0	3.0	3.75	3.75	3.75	3.75
Occupational health and safety standards	0.0	4.0	4.0	4.5	4.5	4.5
Energy and transport	2.0	2.0	2.0	2.0	2.0	4.0
Labour	1.0	1.0	3.5	4.0	4.0	4.0
<i>Expenditure policies:</i>						
Culture	0.0	0.0	1.0	1.0	1.0	4.5
Welfare	0.0	0.0	3.0	4.0	4.0	4.0
Research and Development	0.0	3.5	3.5	4.0	4.0	4.0
Agriculture	3.0	3.0	3.0	3.0	3.0	4.5
Cohesion	1.5	3.9	3.25	3.75	4.0	4.0

Note Values range from 0 to 5 according to categories in Table 2.1. Following Börzel (2005), in this table a vertical integration of 3.5 captures a situation of unanimity and co-decision or majority voting and consultation of the European Parliament; 4.5 accounts for the usage of co-decision (OLP) in joint-decision-making II.

Source Partly based on Börzel (2005: 222–3)

Figure 2.4 displays the average vertical score of the 19 policy areas and horizontal integration from 1950 to 2020. Some general trends can be discerned. The figure shows an unambiguous trend towards further integration on both dimensions of integration. Both integration lines start at zero in 1950. Today, the average value of vertical integration across all our policy areas almost reaches the level ‘4’, i.e. joint decision-making II. The ‘ordinary legislative procedure’ thus deserves its name. Figure 2.4 further shows that the two processes of vertical and horizontal integration go ‘hand in hand’. During the 1960s and 1970s, vertical integration is

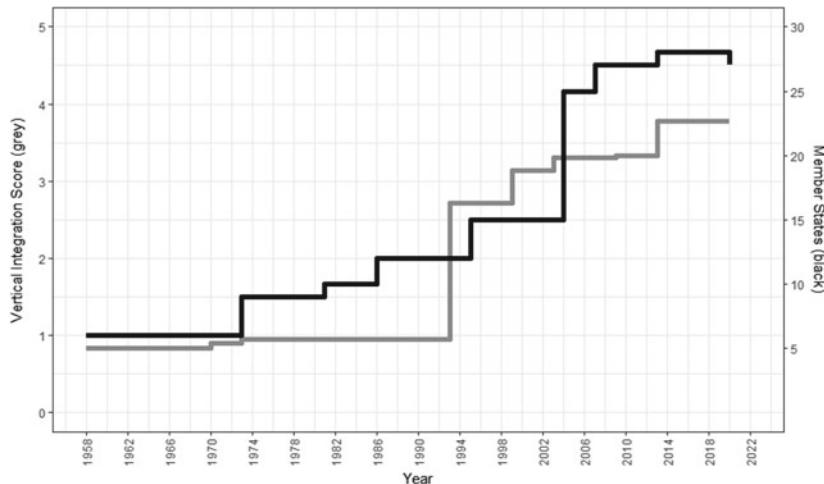


Fig. 2.4 Vertical (all policies, 1950–2020) and horizontal integration

characterized by a period of stagnation, but during the 1980s the *relance européenne* kicks in and we see a continuous trend of deepening, culminating with the entry into force of the Lisbon Treaty in 2010. We also find a steep increase of horizontal integration in the 1980s and, especially, in the 2000s.

The aggregate data suggest that integration has grown over the past 60 years in a stop-start process. Phases of steep growth (in the 1950s and the late 1980s through the 1990s) have been followed by periods of relative stagnation (the 1960s and 1970s, as well as the most recent period since the Treaty of Lisbon). Yet, vertical integration has never decreased throughout the history of European integration. Setting aside the fact that some countries moved in and out of the European currency arrangements during the 1970s and 1980s, states have also never withdrawn from policy integration once they decided to participate. The UK withdrawal of 2020 is the first—and so far only—such case. Moreover, it is remarkable that the two dimensions of integration have largely moved in parallel. The data thus seem to suggest that a general dilemma between ‘deepening’ and ‘widening’, vertical and horizontal integration, does not exist. Apparently, the EU has not expanded geographically at the cost of

further institutional integration, and competence transfer to ‘Europe’ has not deterred countries from joining.

The picture of joint growth in vertical and horizontal integration, however, masks other important patterns of European integration: vertical and horizontal differentiation. Vertical differentiation is the variation in the level of centralization across policies. Horizontal differentiation is the variation in territorial extension across policies. Differentiation becomes visible when we move from aggregate data, averaging across policy areas, to disaggregated data at the level of individual policies.

Figure 2.5 illustrates vertical integration for selected policy areas. We observe a deeper integration over time in all policy areas. At the same time, there is marked variation in their trajectories and levels of centralization.

When the European integration project was launched in the 1950s, the majority of policy areas still resided at the national level. Economic or ‘market-making’ regulation was the chief occupation of the EU in its first 30 years of existence. The EU held some (albeit very limited) competencies and decision-making prerogatives for those policies aimed at dismantling national barriers to the free movement of goods and services, and securing undistorted competition. In the context of the single market programme, the regulatory competencies were extended, decision-making switched from unanimity to qualified majority voting and the competences of the EP strengthened.

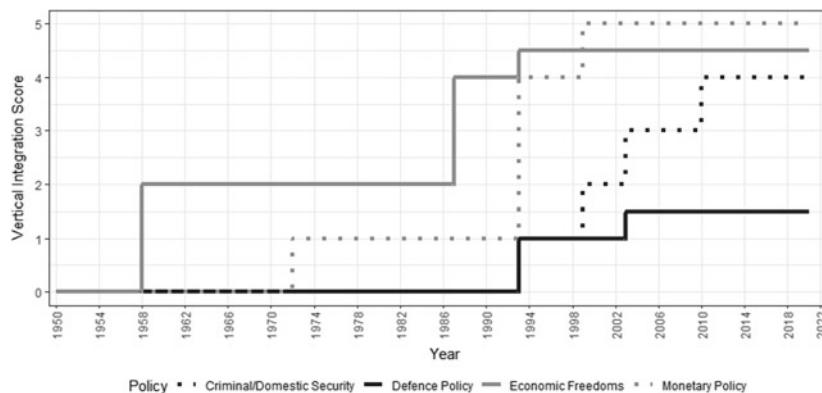


Fig. 2.5 Vertical differentiation (selected policies, 1950–2020)

The other policy areas depicted in Fig. 2.5 became subject to European level decision-making as a result of the SEA and after the entry into force of the Maastricht Treaty. The trajectory of monetary policy integration is particularly impressive. Beginning only in the 1970s, this policy reaches the top level of vertical integration, supranational centralization, by the end of the 1990s. Internal and external security policies depict a noticeable difference or ‘disparity’ of integration (see Börzel 2005: 225–6). Not only have security policies trailed behind market-related policies; when vertical integration in these policies had finally increased in the 1990s, the level of vertical integration climbed noticeably higher for internal than for external security policies. The area of external security remains dominated by ‘intergovernmental cooperation’ with strongly circumscribed involvement of the Commission (no CJEU adjudication and mere EP consultation), while vertical integration in internal security policies conforms to ‘joint decision-making II’. Following the Lisbon Treaty, visa, asylum, and immigration policies, as well as issues relating to policing, judicial cooperation, and criminal prosecution, are generally decided under the ‘ordinary legislative procedure’, which endows the Commission with the right of initiative, the Council and EP with co-equal legislative powers, and the CJEU with an adjudicating role. In fact, with the sole exception of defence, the policies displayed in Fig. 2.5 are solidly subject to the ‘Community method’ of decision-making after Lisbon.

Finally, vertical differentiation has not disappeared over time. As European integration has deepened, the range between the most and least centralized policies of the EU has even increased slightly. According to our five-point integration score, it was three points in the first three decades of integration and currently stands at 3.5 points.

Similarly, both horizontal integration and horizontal differentiation have also increased over time. From the 1970s onwards, we see a rising number of states participating in European integration over the different accession rounds (black line in Fig. 2.6). Eastern enlargement has led to a visible increase in the number of EU member states. When comparing the patterns of participation in specific policy areas, the story becomes more nuanced. In monetary policy, for instance, the UK, Sweden, or Denmark have chosen to stay out of the Eurozone, the Eastern member states, for capacity reasons, were initially excluded. Perturbations in the early 1990s—such as the ‘Black Monday’ of 1992—have provoked abrupt changes in the number of states participating in the European exchange rate mechanism. Monetary policy is also the one policy in which the levels

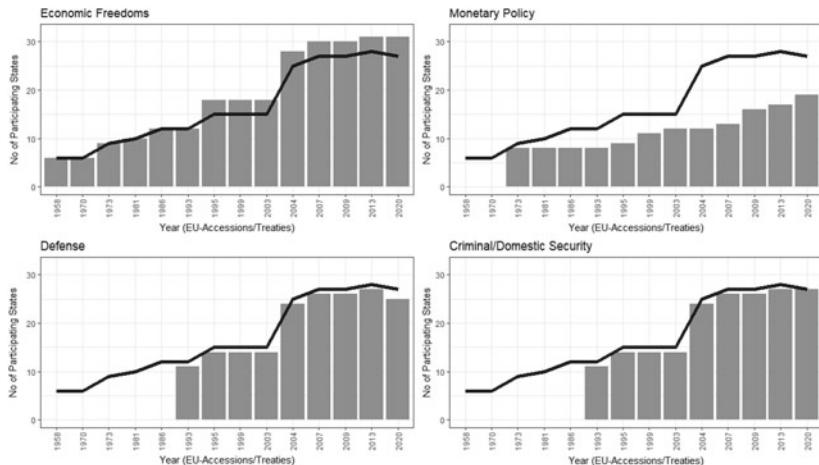


Fig. 2.6 Horizontal differentiation across selected policies. Note Black lines show EU member states over time. Bars show number of participating states in each policy area over time

of vertical and horizontal integration clearly diverge. Whereas it is vertically the most integrated policy in our selection, it is at the same time the least integrated horizontally. Economic freedoms are most integrated horizontally because they include all member states and the additional participants in the EEA; therefore, the bars extent beyond the member state line in Fig. 2.6 in the plot on economic freedoms. Until recently, when PESCO led to additional differentiation, the areas of internal and external security, which are highly differentiated vertically, followed a similar trajectory of horizontal integration. In contrast to internal security (Schengen), however, non-member states have not signed up to treaty provisions in the defence sector (yet many non-EU member states participate in the EU's civilian and military operations).

Figure 2.7 shows the number of policy areas at the beginning of each decade that fall under the different categories of horizontal differentiation introduced above. In the first three decades of European integration, uniformity was the rule. Internal differentiation started with monetary policy in the late 1970s. The EEA added external differentiation in the 1990s, and the Schengen Agreement introduced a policy with a mix of internal and external differentiation. Over time, horizontal differentiation

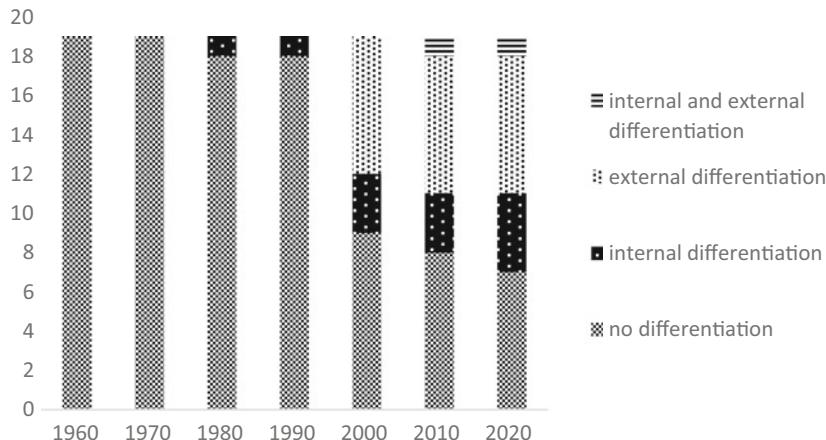


Fig. 2.7 Types of horizontal differentiation over time

has become both more pronounced and more diverse. After coding the Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union ('Fiscal Compact') as differentiated, only seven of the 19 policy areas still conform to the idea of uniform integration in 2020.

DIFFERENTIATION: A PERSISTENT FEATURE OF EUROPEAN INTEGRATION

Europe has become both more integrated and differentiated. The EU has strengthened its policy competences, and decision-making on these policies has become supranational. At the same time, policies continue to vary considerably in the extent of EU competence and supranational centralization. In the first decades of European integration, even the most integrated policies were only at the level of intergovernmental cooperation. Following the SEA and in the 1990s, the difference between national policies and some of the integrated policies covers the full range of levels of vertical integration from intergovernmental coordination to supranational centralization. The same holds for the territorial extension of integration. Over time, EU policies have covered an ever-larger number of European countries, while variation in territorial coverage across policies has become more pronounced. Until the mid-1990s, the territorial

extension of the integrated policy areas has been very similar. The gap widens slightly in the second half of the 1990s and more significantly with Eastern enlargement. Currently, formal membership and policy participation are congruent only in a minority of policy areas. In addition, the types of horizontal differentiation have diversified. Initially, internal differentiation was the only form of horizontal differentiation. Since the 1990s, however, external differentiation and a mix of internal and external differentiation have become more frequent.

Major leaps in vertical and horizontal integration are accompanied by increasing differentiation. This is a core feature of EU development best illustrated by the Treaty of Maastricht and Eastern enlargement. The Treaty of Maastricht established the European Union as a polity covering all policy areas and included important advances in supranational decision-making. Eastern enlargement produced the largest intake of new member states in the history of the EU. At the same time, the Treaty of Maastricht introduced the first durable opt-out provisions (from EMU, external and internal security policies). Eastern enlargement excluded the new member states from the full participation in the free movement of labour, 'Schenengenland' and the eurozone. Whereas most differentiations originating in Eastern enlargement have expired, some have proven durable, too.

None of the developments that have brought about and sustained differentiation are likely to go away in the near future. For one, the functional and territorial expansion of the EU has greatly increased the diversity of policies, actors, and interests in the EU. In addition, political identities and loyalties have remained predominantly national. There is no consensus on the direction that European integration should take, or the final institutional form that it should have. Whereas some member state governments and parties aspire to some form of United States of Europe, others think that integration has gone too far already. The increased use of referendums has added to the complexity of the EU. Since top-down coercion is not an option in the EU, divergent preferences need to be accommodated through flexibility and differentiation if European integration is not to come to a standstill, and if the EU is not to break apart.

The picture of a both more integrated and more differentiated EU that emerges from this analysis poses a challenge for theories of European integration. Ideally, they should be able to explain both the growth and the differentiation in vertical and horizontal integration. Which policies are taken up by the European enterprise and when? Why do these policies differ in the ways they are negotiated between Brussels, Strasbourg, and

national capitals? Why do certain policies only address EU member states whereas others invite outside actors? Why do some outside actors demand participation while others are more reluctant? Why does differentiation increase over time? And how can we explain the temporal dynamics of European integration more generally? Such are pertinent questions that we need to understand when analysing the processes and structures of European integration. In order to shed light on these questions, we now turn to the major theories of European integration.

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PART I

Theory

THE DEVELOPMENT OF INTEGRATION THEORIES

In the early days of European integration, ‘integration theory’ was equivalent to theorizing about the origins, development, and trajectory of the European Community. Moreover, neofunctionalism, introduced by Ernst B. Haas (Haas 1968), was *the* theory of European integration. Since then, theory-driven explanations for European integration have strongly diversified. On the one hand, neofunctionalism has been rivalled by intergovernmentalist theories of European integration since the 1960s and by constructivist and postfunctionalist approaches more recently. On the other hand, theories of European politics and policy-making have complemented theories of integration. We propose to distinguish four families of integration theories: supranationalism, intergovernmentalism, constructivism, and postfunctionalism. We first recapitulate briefly how integration theory has developed over time. We then outline a framework for describing integration theories and introduce the major assumptions and differences of the four theories. In the subsequent chapters, we go into the details of each theory and derive propositions on (differentiated) integration.

There are two major sources of development and change in the theory of European integration (see also Rosamond 2007). On the one hand, changes are inspired by *theoretical* developments in the broader discipline. Theoretical innovations in International Relations (IR) and Political Science tend to be tried out in, and adapted to, the study of

European integration eventually. On the other hand, theoretical change reflects *political* developments in European integration. Dynamic growth in specific areas of European integration is likely to trigger increased scholarly interest in these areas and a focus on the driving forces of integration, whereas periods of stagnation and crisis favour reflection on the obstacles to integration and the stability of the system. Fig. PI.1 maps the development of integration theory chronologically onto the development of vertical and horizontal European integration and indicates how theories of European integration have responded over time to broader theory debates and to real-world developments in European integration.

Neofunctionalism, belonging to the supranationalist ‘school of thought’, was the dominant theory of integration in the early period of integration theorizing. Scholars such as Ernst B. Haas, Leon Lindberg, Joseph Nye, and Philippe Schmitter defined the neofunctionalist research agenda. The mid-sixties saw the birth of intergovernmentalism to mark a counter-point to neofunctionalism with Stanley Hoffmann being its most prominent proponent. The debate between supranationalism and intergovernmentalism mirrored the paradigmatic debate between ‘idealism’ and ‘realism’ in International Relations. Neofunctionalism drew on and elaborated the functionalist theories of international cooperation and organization at the core of IR idealism. They stipulated ways to overcome the balance of power behaviour and recurrent warfare that realists consider endemic features of international politics. The initial dominance of neofunctionalism in integration theory reflected the upswing of supranational economic integration in the 1950s. In line with the functionalist model, the six original member states started with integration in economic areas first and transferred competences to a supranational authority. This development appeared to contradict realist assumptions about the primacy of state autonomy and power in an anarchical international system.

By contrast, the rise of intergovernmentalism in the mid-1960s coincided with the De Gaulle era and increasing obstacles to integration—such as the French 1963 and 1967 vetoes on UK membership and the ‘empty-chair crisis’ of 1965. These developments discredited the idea of a linear integration process ending up in a European federation and inexorably driven by ‘spillovers’ from one policy to another and from the original member states to further countries. Rather, De Gaulle’s vision of a ‘Europe of Fatherlands’ and his rejection of a further delegation and pooling of national sovereignty were more in line with realist theory. The

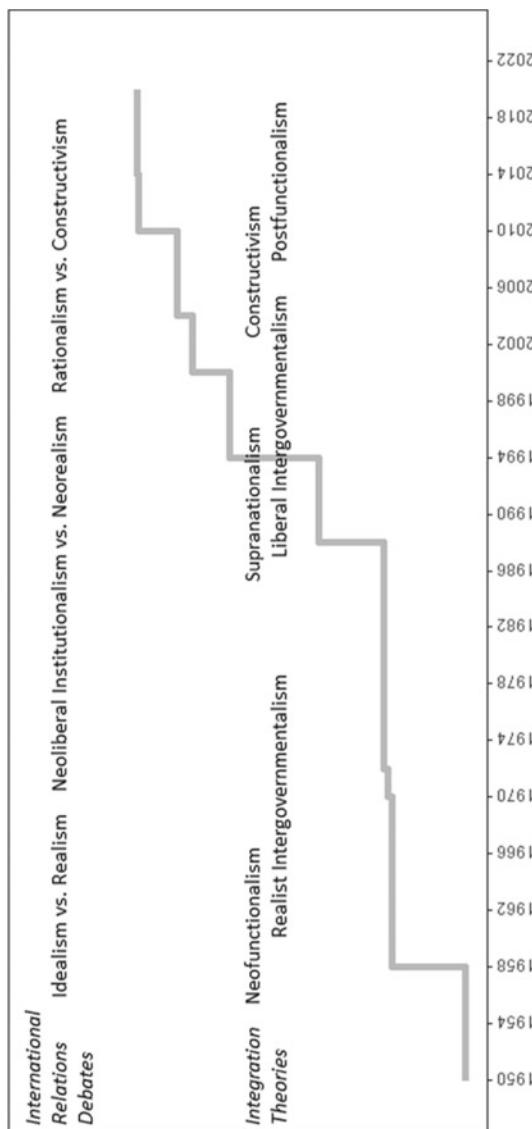


Fig. PI.1 Development of European integration theory (*Note*: The line represents the score of vertical integration in the EU. See Chapter 1)

ensuing ‘doldrums era’ (Caporaso and Keeler 1995: 13), which was characterized by the absence of big leaps in integration, reoriented research on the European Community away from integration theory altogether. It was at that time that Ernst Haas, the most influential neofunctionalist, declared regional integration theory ‘obsolete’ (Haas 1975). By contrast, Leon Lindberg and Stuart Scheingold (1970) turned towards analysing the European Community as a special political system. Others focused on the individual policies of the Community and policy-making within the existing institutional framework (Wallace, Wallace, and Webb 1983).

The *reiance européenne* of the 1980s revived integration theory. The Internal Market and Economic and Monetary Union (EMU) overcame the unanimity constraint of decision-making in the Community, included many new policy areas, and led to unprecedented sovereignty transfers to supranational institutions. These developments were duly followed by a new wave of theorizing on European integration in the 1990s, which reproduced the supranationalist-intergovernmentalist divide, albeit in a modified form. Both sides now started from different strands of institutionalism in political science (Aspinwall and Schneider 2000; Hall and Taylor 1996). Supranationalist theorizing of the 1990s drew heavily on ‘historical institutionalism’ and the notion of ‘unintended consequences’ to explain the momentum in European integration (Pierson 1996; Stone Sweet and Sandholtz 1997), whereas Andrew Moravcsik’s ‘liberal intergovernmentalism’ (1993, 1998) applied central assumptions of ‘neoliberal institutionalism’ in IR with its focus on international institutions facilitating and stabilizing cooperation among rational state actors. Neoliberal institutionalism (Keohane 1984; Keohane and Nye 1977) had established itself as the major challenger to the (neo)realist paradigm in IR theory during the 1980s.

Just as stagnation in the 1970s brought about a turning away from integration theory, so did the relative saturation setting in towards the end of the 1990s. The debate between intergovernmentalism and supranationalism was widely considered stale and largely subsided. Rather, both rational institutionalists drawing on theories of American and Comparative Politics (e.g. Hix 1994, 2005) and students of ‘multi-level governance’ (e.g. Hooghe and Marks 2001; Marks et al. 1996) concurred in the view that the EU had reached a more or less stable constitutional setting and that policies would change only marginally and incrementally.

Therefore, research on the EU was directed towards the analysis of EU politics and policy-making within given institutions.

At the same time, however, two new theoretical developments reached integration theory. First, the paradigmatic debate between rationalism and constructivism spilled over from IR (Christiansen et al. 2001). Whereas rationalist theories assume that strategic and economic self-interest drive international politics, constructivists accord primacy to ideas and identities. Intergovernmentalism and supranationalism share rationalist assumptions. By contrast, constructivist approaches analyse integration as a process of community formation driven by and transforming identities, values, norms, and policy ideas. To a considerable extent, constructivist theorizing in integration theory has taken up and renewed earlier neofunctionalist and transactionalist theorizing on actor socialization, regional identity formation, and community building (Checkel 2005; Risse 2010).

Second, there has been growing awareness since the 1990s that European integration and democratic politics were becoming ever more intertwined. Not only had the impact of regional integration on national policy and peoples' lives become stronger and more visible. In addition, regional integration was turning into a contested issue of domestic politics. Populist parties began to mobilize the economic and cultural losers of integration, and referendums on EU treaties and membership provided a venue for popular discontent with the EU. Against this backdrop, Liesbet Hooghe and Gary Marks (2009) formulated a postfunctionalist theory of European integration focusing on public opinion, party systems, and electoral politics as conditions of integration (or rather stagnation and disintegration). Had EU integration theory been mainly influenced by theoretical debates in IR in the past, research on the politicization of the EU and hence work informed by postfunctionalism, has left its mark on recent debates in IR. As the post-war liberal international order and its institutions face unprecedented challenges from within, scholars of international organizations, and global governance more generally have turned to analyse the domestic sources of the contestation of the liberal international order (Zürn 2018).

As earlier periods of dynamic change in European integration, the recent crises—from the euro crisis via the refugee crisis to Brexit and Corona—have refuelled the scholarly interest in and debate on theories of European integration. The theoretical debate on the crises

testifies to the continued relevance of the old dualism of neofunctionalist/supranationalist and intergovernmentalist theories (see, e.g., Ioannou et al. 2015; Jones et al. 2016; Niemann and Zaun 2018) but now also includes postfunctionalism as a theoretical alternative. In addition, scholars have begun to explore what integration theories have to say on ‘disintegration’ (Vollaard 2018; Webber 2018).

AN ANALYTICAL FRAMEWORK FOR EUROPEAN INTEGRATION THEORIES

Theories of European integration stipulate the conditions and mechanisms under which competencies and boundaries shift in the European multi-level system. They explain the scope and dynamics of integration and allow us to formulate expectations as to when and under what conditions integration will progress (or stall). We seek to go beyond their traditional focus on explaining (further) integration vs. no (further) integration, however. We are interested in both vertical and horizontal integration as well as in vertical and horizontal differentiation. For this reason, we study integration at the level of individual policies rather than the EU as a whole. We ask four kinds of questions:

- (1) What explains the *vertical integration* of a policy? Under which conditions do policy competences shift to the European level? And when does decision-making become more supranational?
- (2) What explains the *horizontal integration* of a policy? Under which conditions do states join an integrated policy?
- (3) Why are policies more or less integrated vertically (*vertical differentiation*)?
- (4) Why does the membership of integrated policies differ (*horizontal differentiation*)? Why is there internal or external differentiation (or both)?

Integration theories typically tell us about the ‘demand for’ and the ‘supply of’ integration, as well as about the feedback of earlier steps of integration on future integration (see Figure PI.2). *Demand* refers to the needs and preferences of actors. Governments, interest groups, parties, and other types of actors form preferences on the extent of vertical and horizontal integration in a policy area depending on their interests or ideas and depending on the constraints under which they operate. They may see (further) integration as a solution to their policy problems, as a

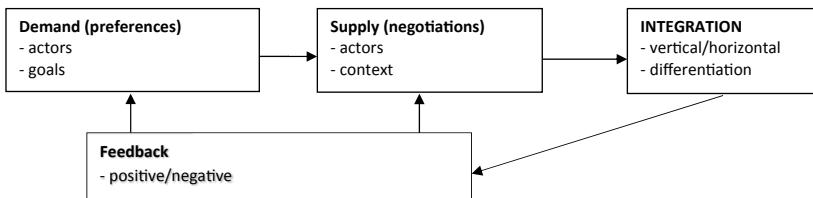


Fig. PI.2 Analytical framework of integration (*Source* Own illustration)

way to increase their welfare, or as a desirable form of ordering regional international relations. Conversely, they may regard integration as the source of policy problems, fear losing their power, wealth, or identity from policy integration, or regard integration as an undemocratic or otherwise problematic political order. The *analysis of integration preferences* is the first step of explanation in any integration theory.

Integration preferences can be distinguished on two dimensions. First, the relevant or dominant integration preferences originate from different *actors*. All integration theories agree that governments are central actors in European integration. In addition, however, they regard national and transnational societal actors and supranational organizations as relevant. Second, these actors pursue different *goals* in European integration, e.g. autonomy, welfare, or community-building goals.

Demand for integration leads to negotiations on integration. It is here that supply conditions influence whether demand is met. *Supply* depends on the actors that participate in the negotiations, their constellations of preferences and power, and the institutional context in which they negotiate. Demand can be realized if actor preferences ‘match’ or if one group of actors is able to persuade another to agree to their preferred level and extension of integration. Institutional and cultural conditions facilitate or impede agreement. The *analysis of integration negotiations* is therefore the second explanatory step in any theory of European integration.

Concerning the relevant or dominant *actors* in the negotiations, we distinguish intergovernmental negotiations from those that are nationally or supranationally *embedded*. Integration theories assume that governments are always relevant in integration negotiations. The question is whether they are the only relevant actors. In nationally embedded negotiations, domestic actors such as parties, parliaments, or electorates play a formally or informally relevant role, too. In supranationally embedded

negotiations, supranational organizations such as the Commission or the European Parliament facilitate or constrain intergovernmental negotiations. Moreover, the integration outcome can be determined by the relative power of governments alone or constrained by supranational and national political, institutional, or ideational contexts.

Demand and supply result in an integration outcome: a specific level of vertical and horizontal integration but also a specific extent of vertical and horizontal differentiation. This outcome feeds back into demand and supply at a later stage of integration. For instance, the outcome may add new actors: a notable example being supranational organizations like the European Central Bank or the EU Military Staff. Integration may also change actor preferences or shape future negotiations—in particular, if integration constrains the range of options that governments have, triggers learning processes, or changes the rules of negotiation. Integration theories differ, however, on the importance and the direction of the feedback mechanism.

The framework is sufficiently general to apply to the major integration theories we present in this book: intergovernmentalism, supranationalism, constructivism, and postfunctionalism. To be sure, the four theories are schools of thought or theory families united by core assumptions rather than single, consistent theories. They have developed and changed over time, e.g. from traditional, realist intergovernmentalism to liberal intergovernmentalism and from neofunctionalism to supranational institutionalism, and each consists of several strands or approaches. For the purposes of this book, however, we will concentrate on the basic assumptions and propositions that constitute the core of each school of thought. Each theory offers answers to the main questions presented in our analytical framework. For the demand side, each theory stipulates who the main actors of European integration are and which goals they primarily pursue in integration. For the supply side, they tell us who negotiates and under which constraints. In addition, they differ from each other regarding the feedback dynamics of integration. In the following paragraphs, we summarize the core assumptions and propositions of each theory that we will develop in more detail in the subsequent chapters. Table [PI.1](#) provides the keywords for each theory at a glance.

According to *intergovernmentalism*, European integration is the outcome of intergovernmental negotiations, in which national governments' relative bargaining power determines to which extent they can

Table PI.1 Keywords of integration theories

	<i>Demand: integration preferences</i>	<i>Supply: integration negotiations</i>	<i>Feedback</i>
	Actors <i>Governments and ...</i>	Goals <i>and ...</i>	Actors <i>Governments and ...</i>
Intergovernmentalism	national interest groups (LI)	Welfare (LI) (RI)	supranational organizations institutionally constrained
Supranationalism	transnational interest groups and supranational organizations	Welfare	supranational organizations ideationally constrained
Constructivism	national, transnational, and supranational actors	Regional community	supranational organizations ideationally constrained
Postfunctionalism	national voters and parties	National self-determination	national voters and parties domestically constrained

realize their preferences. The variants of intergovernmentalism introduce some nuance to this story. Traditional, realist intergovernmentalism assumes that states are unitary actors whose preferences are shaped ultimately by the quest for autonomy and security. States care about welfare if autonomy and security are not in danger. By contrast, LI assumes that domestic interest groups are the fundamental actors and that governments pursue the dominant groups' welfare preferences. The institutional and cultural context of negotiations and feedback processes generating unintended consequences are negligible. Integration remains under the collective control of member state governments.

Supranationalism considers actors and processes beyond the nation-state to be the mainspring of European integration. Supranational actors and transnational interest groups increasingly gain autonomy throughout the integration process and attempt to push the integration process in their preferred direction. Integration preferences become increasingly endogenous, i.e. shaped and reshaped by the progress in integration. In order to achieve their goals, transnational interest groups rely on their lobbying power. Supranational organizations use their formal institutional competences as well as informal institutional resources (such as expertise) to affect integration processes and outcomes. Processes of institutionalization at the supranational level support supranational organizations and constrain the power of states. Under certain conditions, the institutions created by member state governments trigger a self-reinforcing process, which begets further integration and escapes member state control.

In the *constructivist* perspective, European integration is about the building of a regional community. Ideational preferences and processes drive integration. The dissemination and distribution of common, 'European' identities, values, norms, and policy beliefs, determines the strength of the community and, consequently, the speed, extent, and direction of integration. The ideational context and processes of arguing and persuasion constrain intergovernmental negotiations. These processes promote the expansion and consolidation of a supranational community over time.

By contrast, *postfunctionalism* argues that regional integration may create a backlash at the domestic level and undermine the integration process subsequently. European integration creates losers at home who not only fear for their welfare but also for their national self-determination, and bolsters Eurosceptic parties who mobilize these voters. These voters and parties produce Eurosceptic governments in turn

or constrain integration-friendly governments in their negotiations, especially if national rules of executive scrutiny and treaty ratification empower them.

In the chapters that follow, we present the four integration theories in more detail. We set out with intergovernmentalism, since it is our baseline model for explaining EU integration (see Introduction). First, we describe the basic assumptions and general theories from which each of the four integration theories start. We identify three ‘institutionalisms’ as the theoretical foundations of the integration theories: rational institutionalism for intergovernmentalism, historical institutionalism for supranationalism, and sociological institutionalism for constructivism and postfunctionalism. Second, we show how the basic assumptions about how institutions develop and work translate into propositions about European integration. Finally, we apply the integration theories to differentiated integration. A set of testable conjectures, questions for study and discussion, and suggestions for further reading conclude each theory chapter.



CHAPTER 3

Intergovernmentalism

FROM REALIST TO LIBERAL INTERGOVERNMENTALISM

The origins of intergovernmentalism are tightly linked to the first period of stagnation in European integration. In the mid-1960s, the presidency of General de Gaulle and the ‘empty chair crisis’—France’s representatives refused to attend any intergovernmental meetings because of a conflict over the financing of the Common Agricultural Policy—appeared to mark the limits of supranational integration and the resilience of state interests and power. It was then that Stanley Hoffmann (1966, 1982) formulated the major assumptions and expectations of intergovernmentalist integration theory. Intergovernmentalism, however, is not confined to explaining the limits of integration. Historian Alan Milward (Milward 1984, 1994) later argued that European integration had worked as an intergovernmentalist project from the very start. In his view, it was designed as the ‘rescue of the nation-state’ from the shambles of World War II. And Andrew Moravcsik’s liberal intergovernmentalism (Moravcsik 1993, 1998) claimed to explain the new momentum of European integration in the 1980s and 1990s as well.

These are the core tenets of traditional intergovernmentalism:

- States are and will remain the dominant actors in the process of European integration: they shape European integration according to their national interests.

- The extent of European integration is limited by the states' interest in autonomy, the interest in self-preservation of nation-state bureaucracies, the diversity of national situations and traditions, the dominance of national identities, and by external actors and influences (such as the United States or NATO).
- European integration does not undermine the European nation-state but has strengthened it in the post-World War II reconstruction and in the global competition with other economic powers and emerging markets.
- Integration is limited to the economic sector and related 'low politics'. States anxious to preserve their autonomy will resist the integration of the core functions of the sovereign state (the 'high politics' of internal and external security or foreign policy).
- For the same reason, the supranational organizations of the EU are, and will remain, weak. They lack the expertise, the resources, and the popular support to expand their power at the expense of the member states.

Because the unitary state, its power, and its quest for autonomy—core assumptions of realism in International Relations—is placed at the centre of theorizing about European integration, we will refer to this traditional version of intergovernmentalism as 'realist intergovernmentalism' (RI).

Intergovernmentalism received fresh impetus from the renewed interest in European integration in the second half of the 1980s. It also reflected recent developments in IR theory. In the 1990s, Andrew Moravcsik developed 'liberal intergovernmentalism' (LI), which follows in the footsteps of the realist variant in so far as it puts states, state interests, and state bargaining centre stage but gives societal actors and international institutions a more prominent theoretical role. LI is based on 'neoliberal institutionalism' in IR (Keohane 1984; Keohane and Nye 1977). In line with the *liberal* component of this IR theory, LI assumes that the foreign policy of the state results from a domestic policy process and reflects the issue-specific interests of the dominant domestic groups. In line with its *institutionalist* component, LI emphasizes the relevance of international institutions for facilitating and stabilizing cooperation between states. In his book 'The Choice for Europe' (1998), Moravcsik analyses the major steps in European integration 'from Messina to Maastricht', i.e. from the establishment of the EEC to the foundation of the EU.

More recently, a group of EU scholars proposed a ‘new intergovernmentalism’ (Bickerton et al. 2015) that seeks to capture the post-Maastricht development of the EU. In line with intergovernmentalist thinking in general, these authors attribute progress in European integration in this period to the intensification of policy coordination between member governments (rather than delegation to traditional supranational institutions such as the Commission). However, this ‘new intergovernmentalism’ also integrates building blocks associated with supranationalism (deliberative decision-making norms) and postfunctionalism (domestic politicization pressures).

Because Moravcsik’s is the most prominent, up-to-date, complete, and theoretically elaborate intergovernmentalist integration theory, our presentation will be mainly based on LI but highlight the differences to RI where appropriate. Table 3.1 presents the main building blocks of intergovernmentalist integration theory, which will be discussed in more detail in the coming sections.

In this chapter, we will climb down the ladder of abstraction in three steps. We begin our presentation of intergovernmentalism by explicating its theoretical roots in rationalist institutionalism in IR and by identifying four more middle-range rationalist theories that intergovernmentalism uses to explain international cooperation. We then apply this framework to European integration in general and specify liberal and realist intergovernmentalist hypotheses. Finally, we extend intergovernmentalism to the phenomenon of differentiated integration.

Table 3.1 Building blocks of intergovernmentalism

<i>General assumptions</i>	Rationalist institutionalism in International Relations Rational states in an interdependent and anarchical international system
<i>Explanatory theory</i>	Endogenous trade theory, bargaining theory, club theory, functional theory of institutions
<i>Factors of integration</i>	Interdependence, constellations of national preferences and state power, collective action problems <i>LI</i> : sector-specific societal welfare preferences, issue-specific bargaining power, severity of enforcement problems <i>RI</i> : geopolitical state autonomy preferences, overall power resources

RATIONALIST INSTITUTIONALISM

General Assumptions: International Interdependence and Rational Choice

Intergovernmentalism starts from the assumption that European integration is similar enough to general international politics, and the EU is sufficiently like other international institutions, that it can be profitably studied and explained from an IR perspective. Indeed, Moravcsik maintains that the ‘EC is best seen as an international regime for policy co-ordination’ (1993: 480; cf. Hoffmann 1982: 33) and that European integration represents ‘a subset of general tendencies among democratic states in modern world politics’ (1998: 5). IR theories traditionally assume that states are the central actors in international politics and that they act in a context of anarchy, i.e. in the absence of a centralized authority making and enforcing political decisions. Policy-making in international politics generally takes place through intergovernmental negotiations, and agreements require the consent of all state participants.

The second fundamental is a rationalist framework that puts actors centre stage and explains collective outcomes such as integration as a result of the interaction of rational individual choices. (Bounded) rational choice means that, on the basis of their knowledge about the world and their preferences, actors calculate the utility of alternative courses of action and choose the one that maximizes (or, at least, satisfies) their utility under the circumstances. Rationalist institutionalism in IR theory, then, explains the establishment of international cooperation and international institutions as a collective outcome of interdependent (‘strategic’) rational state choices and intergovernmental negotiations in an anarchical context.

The fundamental starting point for rationalist institutionalism in IR is international interdependence. An international constellation is characterized by interdependence, if states are unable to fulfil their security or welfare needs alone—or if it would be inefficient for them to act autonomously. Take, for instance, the case of international trade: according to liberal economic theory, societies as a whole benefit if they open up for international trade and allow for a division of labour in which they can concentrate on their most efficient economic sectors. In sum, in a situation of international interdependence, states are better off collectively if they cooperate.

Yet international cooperation can be problematic for at least three reasons. First, there is a transaction cost problem. It is costly for states

to get information about the preferences and capabilities of other states in order to determine the most efficient cooperative solution, and it is costly to negotiate this solution. Under unfavourable circumstances, these transaction costs can be so high that states prefer not to cooperate at all. Second, even if states find an efficient solution that benefits all participants, they are often faced with the problem of how to distribute the gains and costs of cooperation among them. States try to maximize their own share of the gains—and they might forgo a deal that they consider unfair or lopsided. For instance, the Doha round of trade negotiations in the World Trade Organization has failed because developing and emerging economies reject deals that they perceive to benefit the ‘North’ disproportionately. Third, international cooperation is complicated by the problem of enforcement. It is often rational for a state to ‘free-ride’, i.e. defect from cooperation and exploit the cooperative behaviour of others. For instance, states would benefit from protecting their own unproductive economic sectors against foreign competition while all others open up their markets.

Explanatory Theories: The Functional Theory of Institutions, Endogenous Trade Theory, Bargaining Theory, and Club Theory

Rationalist institutionalism offers four substantive theories that specify how and under which conditions rational state actors cooperate in an anarchical but interdependent international system. The functional theory of institutions shows how international institutions help states overcome the transaction costs and enforcement problems of international cooperation. Endogenous trade theory accounts for the policy preferences of states; bargaining theory explains the substantive outcomes of international negotiations; and club theory explains the size of international institutions.

Functional theory of institutions. States establish international institutions because they are functional in dealing with fundamental problems of international cooperation. Efficient, welfare-maximizing solutions to international interdependence require reliable information on the state of the world, cause-effect-relationships, and other actors’ preferences and capabilities. For instance, what are the obstacles to the liberalization of international trade? How much would states benefit from removing them? What are other states willing and able to do to lower trade barriers? Because of their expertise and impartiality, international organizations

are often better at providing this information than governments alone. Furthermore, they reduce transaction costs by offering a forum for multi-actor negotiations and services for effective and efficient communication. Finally, the enforcement problem requires effective monitoring and sanctioning. Again, international institutions are established because they fulfil these tasks more effectively and efficiently than individual states. Different institutional designs then reflect the need to deal with different problems of collective action (Koremenos et al. 2001). The demand for centralization increases with uncertainty about the preferences of other states or about the (future) state of the world and with the severity of the enforcement problem caused by incentives to free-ride.

Endogenous trade theory. The preference of a state for or against an international policy depends on the effect that this policy has for the state. For the paradigmatic case of trade policy, ‘endogenous trade (or tariff) theory’ (see Nelson 1988 for a political scientist’s survey) tells us under which conditions states prefer free trade arrangements (low or no tariffs) to protectionist policies (high tariffs). This has mainly to do with the state’s economic endowments and structure. According to the Heckscher-Ohlin model, trade liberalization benefits the relatively abundant factor, i.e. capital-owners gain and workers lose when capital is abundant, whereas workers gain but capital-owners lose in labour-abundant countries. If we assume that the factors are specific to industries (the Ricardo-Viner model) because capital cannot easily move from one industry to another in pursuit of higher returns, it is industries rather than factors that gain or lose from trade liberalization. Export-oriented industries gain from trade liberalization whereas import-competing industries lose. In both cases, the winners will lobby for free trade, whereas the losers will lobby for protection. The success of lobbying in turn depends on how well the groups can organize. Small groups with concentrated gains or losses are better able to organize and lobby than large groups with dispersed gains or losses. This is the reason why producers are usually better lobbyists than consumers and why highly concentrated industries do better than those with a large number of small enterprises. Finally, the theory tells us that the power of large and small countries differs. Whereas large countries (with large domestic markets) can affect the world market unilaterally with their domestic policies, small countries are unable to do so. This already leads us to bargaining theory.

Bargaining theory. The substantive outcomes of international negotiations—how the gains from international cooperation are distributed

among the actors—depend on the actors' relative bargaining power. Bargaining power results from the asymmetrical distribution of information and of the benefits of a specific agreement (compared to those of the status quo or alternative agreements or ‘outside options’). Generally, actors that have more and better information are able to manipulate the outcome to their advantage (cf. Schneider and Cederman 1994). In addition, actors that are less in need of a specific agreement, because they are more satisfied with the status quo or have alternative options, have more bargaining power: they are able to threaten the others credibly with non-agreement and thereby force them to make concessions. If all actors benefit from cooperation, those with the highest bargaining power can impose their preferred distribution of the costs and gains of cooperation on the others.

Club theory. Finally, club theory deals with the issue of organizational size. A club is a voluntary association deriving mutual benefit from producing and sharing collective goods such as a common market or a healthy environment. Membership in clubs can be limited—and often needs to be because new members are not only additional contributors to the club goods but can also become rival consumers who restrict the old members' access to the club goods (causing so-called crowding costs). When states integrate their economies, they may produce external effects for non-member countries (for instance, by diverting trade and investments away from them). However, third countries can also produce externalities for the integrated states. For example, lower taxation or social regulation attract business away from the integrated market and thus bring its rules and policies under pressure. If this is the case, it would be useful to enlarge the club or, at least, negotiate common rules to create a level playing field. In addition, a larger size might produce economies of scale and increase the budget of the international organization. Thus, in a rationalist perspective, the question is whether a given integrated area already has optimal size or whether collective welfare may benefit from admitting further countries. The core hypothesis of club theory posits that a club will expand (only) until the marginal costs of admitting a new member equal the marginal benefits. Since clubs are voluntary associations, all old and new members must derive a positive utility from expansion lest they use their veto.

LI draws on all four theories to analyse European integration. Endogenous trade theory accounts for state preferences on integration (and not only on issues of commercial policy); bargaining theory explains who

gets what in intergovernmental negotiations on integration; the functional theory of institutions tells us when and why governments delegate power and competences to European supranational organizations; and club theory sheds light on the conditions of enlargement.

INTERGOVERNMENTALISM AND EUROPEAN INTEGRATION

Which specific propositions on European integration does intergovernmentalism derive from these general rational-institutionalist assumptions and theories? Andrew Moravcsik proposes a three-stage analysis: domestic politics generates national preferences; intergovernmental negotiations produce substantive bargains; and governments pool and delegate state competences in common institutions to secure these substantive bargains. In its most condensed form, Moravcsik's argument is that

EU integration can best be understood as a series of rational choices made by national leaders. These choices responded to constraints and opportunities stemming from the *economic interests of powerful domestic constituents*, the *relative power of each state* in the international system, and the role of institutions in bolstering the *credibility of interstate commitments* (Moravcsik 1998: 18, italics added).

National Preferences

RI assumes that there is a 'national interest' defined by the state. It most fundamentally consists in preserving and increasing the autonomy, security, and influence of the state. National preferences on the EU thus depend on how beneficial or detrimental integration is to national autonomy. In this perspective, small states are more integration-friendly than large states. Larger states need international cooperation less than smaller states because their autonomy and security is less threatened in an interdependent world. In particular, integration offers smaller states the possibility to bind larger states to collective rules and to increase their limited power by joining forces with others (Grieco 1996). In addition, integration follows the realist logic of alliance formation: European states are the more willing to integrate the more they feel threatened externally.

By contrast, LI follows a liberal theory of preference formation. Liberalism as a theory of foreign policy assumes that governmental preferences vary between policy issues and reflect the interests and power of societal

groups (intermediated by domestic political institutions). To the extent that European integration has focused on economic policies, state preferences have also been predominantly economic. While general demand for European integration results from interdependence, the pressure to cooperate for mutual benefit in an expanding and ‘globalizing’ international economy, concrete integration preferences emerge primarily from ‘the commercial interests of powerful economic producers’ (Moravcsik 1998: 3). As a consequence, governments pursue integration as ‘a means to secure commercial advantages for producer groups, subject to regulatory and budgetary constraints’ (Moravcsik 1998: 38). Depending on how competitive these powerful producers are on the European market, states demand either the opening and deregulation of markets or protection and compensation. This is in line with endogenous trade theory.

In policies that deal with non-economic issues or affect business only indirectly, other societal actors have a stronger role and state preferences will be more strongly shaped by their concerns. In public policies such as environmental policy or immigration policy, the strength of environmental or immigration interest groups and the distribution of environmental and immigration preferences in the electorate complement and may even override economic interest. In addition, domestic economic interests most clearly shape state preferences, the ‘more intense, certain, and institutionally represented and organized’ they are (Moravcsik 1998: 36) and the less ‘uncertainty there is about cause-effect relations’ (Moravcsik 1999: 171). This applies, for instance, to agricultural policy with its concentrated, well-organized, and well-informed producer lobby. Conversely, ‘the weaker and more diffuse the domestic constituency behind a policy’ (*ibid.*) and the more uncertain and modest ‘the substantive implications of a choice’, the less predictable are national preferences and the more likely ideological preferences will be influential (Moravcsik 1998: 486–89; Moravcsik and Nicolaïdis 1999: 61). According to Moravcsik, this is the case, among others, for macroeconomic policies such as monetary policy, where preferences are based on ‘the macro-economic preferences of ruling governmental coalitions’ (Moravcsik 1998: 3).

LI regards interest groups as the relevant domestic constituency of European integration. Mass publics only become relevant under two conditions: that European integration creates strong and concrete cost and benefits affecting large groups of society and that these groups find a way to affect the government’s integration policy and decisions.

According to Moravcsik, this is unlikely in the EU's core commercial policies because the interests of consumers and taxpayers are too diffuse to become effectively mobilized (Moravcsik 1993: 488). It is more likely in the case of 'public goods issues' such as environmental or social policy, about which mass publics care more strongly and where powerful societal organizations exist (Moravcsik 1993: 493).

Even in these policy areas, however, Moravcsik does not expect effective political pressure because the public policies that voters care about most (welfare-state policies) are not integrated and because European integration strengthens national governments and weakens the influence of democratic politics (Moravcsik 1993: 514–515). First, the lack of transparency of EU politics weakens the domestic accountability of national governments. Second, national parliaments are only weakly involved in European-level policy-making and have few opportunities to decide on EU issues. If they do, as in treaty ratification, they can only say 'yes' or 'no'—and in a parliamentary system, the government can usually rely on the majority to support the European deals it has negotiated. Finally, voters only get a chance to ratify European decisions if they are put to a referendum, and referendums are only used in a few countries on the occasion of treaty changes.

Interstate Bargaining

Intergovernmentalism describes the most relevant negotiation processes in European integration as processes of intergovernmental bargaining concerning the distribution of gains from cooperation. Because the costs and benefits of any cooperative arrangement are likely to differ across member states, the national preferences of the member states usually diverge, and because integration decisions often have binding and substantial material consequences for governments and market actors, the stakes are high. Negotiations therefore consist in *hard bargaining*,

in which credible threats to veto proposals, to withhold financial side-payments, and to form alternative alliances excluding recalcitrant governments carried the day. The outcomes reflected the relative power of states – more precisely patterns of asymmetrical interdependence. Those who gained the most economically from integration compromised the most on the margin to realize it, whereas those who gained the least or for whom the costs of adaptation were highest imposed conditions. (Moravcsik 1998: 3)

This account has two negative implications for the impact of supranational organizations. First, Moravcsik argues that efficiency is not a serious collective action problem in European integration. Transaction costs are generally low, and information is plentiful and symmetrically distributed among states (Moravcsik 1998: 479–480) so that intergovernmental negotiations reliably produce efficient outcomes. In other words, governments normally do not need supranational organizations such as the Commission to help them find a feasible and efficient deal. Second, and as a corollary, the bargaining power of supranational organizations is low because they are thus deprived of their main potential bargaining resource: scarce and asymmetrically distributed information. Supranational entrepreneurship is not necessary to reach efficient agreements, and supranational organizations lack the power to bargain successfully for concessions by the member states. For these reasons, governments remain in control of the integration process. Supranational organizations do not get more power than the states want them to have and deem necessary to provide for stable intergovernmental cooperation.

By contrast, the LI analysis of interstate bargaining is open to the effects of domestic politics on intergovernmental negotiations (Moravcsik 1993: 514–517). These are captured by the metaphor of the ‘two-level game’ (Putnam 1988). In the two-level game, national governments negotiate simultaneously at two tables—one with other governments and the other with domestic veto-players. In order to reach an agreement, governments need to find terms that are acceptable both to the other governments and to those domestic actors that need to ratify the agreement. In doing so, they face a trade-off. A large domestic ‘win-set’, i.e. the set of domestically acceptable agreements, facilitates intergovernmental agreement because it makes it easier for governments to accommodate the divergent interests of other states. At the same time, however, the agreement may be far away from their preferences. By contrast, a narrow domestic win-set makes it more difficult to reach international agreement but increases the government’s bargaining power. If a government can credibly threaten other governments with the non-ratification of an agreement that they value highly, these governments will accommodate the preferences of the constrained government in order to secure ratification. By the same token, the constrained government will achieve a negotiation outcome that is close to its ideal. This is also known as Schelling’s ‘paradox of weakness’. Under conditions of uncertainty, governments can also exploit the ratification constraints strategically (see Schneider and

Cederman 1994). Since a government usually knows better than other governments what its own domestic win-set is, it can present its ratification constraints as more severe than they really are in order to get a more beneficial deal.

Institutional Choice

Institutional choice is again driven by governments—and by their concern about each other's future compliance with the substantive deals reached. In other words, whereas EU governments do not need or want supranational organizations to define their preferences, to provide them with the information necessary to reach efficient agreements, or to devise the rules of distribution, they rely on them to solve the problems of monitoring and sanctioning. Even in this respect, however, the supranational organizations remain instruments and agents of the governments rather than autonomous actors.

Whether such enforcement problems arise, depends first of all on the nature of the collective action problem at hand (Scharpf 1999: 165–166). On the one hand, there are issues of *coordination*: here, actors need to agree on a common standard but have no incentive to defect unilaterally once this standard is in place. In these cases, there is no enforcement problem, and governments delegate decisions to common decision-making or supranational organizations mainly in order to reduce transaction costs. By contrast, when states do have an incentive to defect and an *enforcement* problem exists, governments are willing to centralize decision-making and delegate more extensive powers to supranational organizations such as the Commission, the Court of Justice, or—in the case of monetary policy—the ECB.

By transferring competencies to international institutions, governments remove issues from the influence of domestic actors, which might build up pressure for non-compliance if their costs deriving from integration are high. They also remove them from decentralized intergovernmental control, which may be too weak to secure compliance, in particular if powerful member states violate the rules (Moravcsik 1998: 9, 73). The degree to which governments favour the pooling (majority voting) and the delegation of competences to supranational institutions depends on the value they place on the issues and substantive outcomes in question and on their uncertainty about the future behaviour of other governments. The more a government benefits from a cooperative agreement,

and the higher the risks of non-compliance by other governments are, the higher is its readiness to cede competences to the EU to prevent policy losers from defecting (Moravcsik 1998: 9, 486–487). The intensity, clarity, and predictability of a state's institutional preferences depend on how certain or strong their welfare or autonomy implications are. When institutional effects are uncertain or weak, governments' institutional preferences will also be weak or follow ideological attitudes. Only in such cases will federalist or anti-federalist preferences shape the powers of supranational organizations.

In contrast with the liberal variant, realist intergovernmentalism assumes that states are primarily concerned about autonomy and influence in institutional choice—and not so much about issue-specific gains. They only consent to transferring competences to the EU if they expect net gains in overall autonomy and influence. This is the essence of Joseph Grieco's 'voice-opportunity' thesis, which posits that weak states are particularly interested in European integration and willing to sacrifice formal sovereignty because they see it as a way to bind the stronger states and to enhance their influence on international outcomes (Grieco 1996). The 'new intergovernmentalism' concurs with the older, realist intergovernmentalism in that governments are generally reluctant to delegate authority to supranational institutions. Yet this is because they are concerned about the domestic legitimacy of such delegation in a politicized EU—and not about the loss in state autonomy. In this respect, the 'new intergovernmentalism' overlaps with postfunctionalism (see Chapter 6).

General Hypotheses

Intergovernmentalism assumes that states (governments) are the relevant actors in European integration. They initiate, steer, and control the process of European integration as an instrument to realize national preferences under conditions of international interdependence. The level of centralization and the territorial extension of European integration result from intergovernmental negotiations and reflect the extent of interdependence, the severity of collective action problems, and the intergovernmental constellation of preferences and power. Indeed, integration is fundamentally driven by patterns of interdependence, which trigger not only a general demand for international cooperation but also shape state preferences, bargaining power, and institutional choice.

- The strength of interdependence explains how much demand there is for cooperation.
- The position (e.g. stakes and competitiveness) of domestic society in international interdependence explains state preferences.
- The asymmetry of international interdependence (and of domestic ratification constraints) produces differential bargaining power.
- The nature of the collective action problem generated by interdependence shapes institutional choice.

Demand for integration increases with the strength of interdependence. When international interdependence increases in an issue-area and promises to increase the utility of member state governments from integration, demand for extending the scope of integration will arise. In addition, the more uncertain governments are about the future state of the world and the future rule-compliant behaviour of their cooperation partners (relative to the utility of cooperation), the more willing they are to centralize decision-making and enforcement powers in the EU. Likewise, whenever the non-integration of a state generates externalities and expectations of gains from integration, member governments and non-member governments will demand increasing the territorial extension of integration. Conversely, there will not be any integration in the absence of interdependence because states will not derive any utility from cooperating.

In the case of LI, the issue-specific interests of powerful domestic actors define the utility of integration. In the case of RI, utility is defined by the overall interest of the state in autonomy and security. The higher that the expected gains from integration are, the stronger the demand for integration will be. Whether and how this demand for integration will be translated into actual integration, however, depends on several supply conditions: the constellation of preferences and bargaining power, as well as the availability of adequate institutions.

The likelihood of integration increases with the convergence of national preferences. Agreement on integration requires that all states reap net benefits from it—otherwise they would use their veto. The more that the preferences for integration converge, i.e. the win-set of the negotiations expands, the easier it is for the states to find a point of agreement.

The substantive terms of integration result from the international distribution of bargaining power. The more powerful a state is, the more it shapes the terms of integration according to its interests: it is able

to make other states accept its preferred sectoral regulation (e.g. its preferred degree of market liberalization or product regulation), distribution of gains from territorial expansion, and level of centralization. For LI, bargaining power increases with satisfaction with the status quo, the availability of outside options and the strength of domestic ratification constraints. It decreases with the intensity of issue-specific societal preferences for European integration. By contrast, in the realist perspective, bargaining power increases with overall power resources—such as the size of the territory, population, economy and, ultimately, military capabilities.

INTERGOVERNMENTALISM AND DIFFERENTIATED INTEGRATION

According to the intergovernmentalist account, successful integration depends on mutual international interdependence and overlapping national policy and institutional preferences. If governments are not mutually dependent on each other for achieving their policy goals and increasing their utility, there is no need for integration. If they are interdependent, but pursue incompatible policy goals, there is no basis for integration either. The same is true if governments are interdependent and have compatible goals but lack the financial, technical, or administrative capacity to provide for effective cooperation. In such situations, there may still be opportunities for issue linkages and package deals (Moravcsik 1993: 504–506). If one government needs the cooperation of another government on one issue, and the other government needs help on another issue, they can agree on a package deal, in which the first government cooperates on the second issue in exchange for the second government’s cooperation on the first issue. Yet the international heterogeneity of interdependencies, preferences, and capacities may be so large that agreement on integration becomes elusive (Schimmelfennig 2019: 179–180).

Under the constraints of uniformity and unanimous agreement, the most status quo-oriented government determines the limits of integration. This state could and would block any vertical or horizontal integration going beyond its most preferred outcome. Differentiated integration expands these limits by overcoming the rigidities of uniform integration. It creates opportunities for policies and groups of countries to be integrated at different levels of centralization. It is thus an efficient strategy for accommodating international heterogeneity and avoiding deadlock

when intergovernmental consent is required. In line with its general assumptions and hypotheses, intergovernmentalism explains differentiated integration by differences in interdependence and cooperation problems, state preferences, bargaining power, domestic ratification constraints, and—in the case of RI—autonomy costs and benefits.

Realist Intergovernmentalism: Autonomy-Driven Differentiated Integration

In the RI perspective, differentiated integration results from different autonomy costs across sectors and countries. In contrast to LI assumptions, according to which states have no problem trading in their autonomy to increase their welfare, realists assume that states value their autonomy for its own sake and would rather accept reduced welfare than compromising autonomy—in particular those autonomy rights that constitute the core of their sovereignty.

In the 1960s, Stanley Hoffmann introduced the distinction between ‘high politics’ and ‘low politics’ to explain the limits of integration and spillover. ‘High politics’ include those policy areas that concern the sovereignty, security, and status of a state in the international system. In these policy areas, it is hard to identify a common good that could be furthered through integration. Rather, the logic of relative gains and zero-sum games dominates: one state’s gain is another state’s loss. By contrast, in the areas of ‘low politics’, states can pursue a common good and realize mutual gains without compromising their national sovereignty, security, and power status. In general, foreign policy, defence, justice, and home affairs policies are the core domains of high politics but taxation, energy, and monetary policy can be considered key areas of national sovereignty as well (Hoffmann 1966). By contrast, market economies (which make up the membership of the EU) generally grant businesses a high degree of autonomy in the market—and agencies independence in technical regulation. In his later work, Hoffmann conceded that variation between absolute-gains or common-good issues and relative-gains or zero-sum issues could be found in principle across the entire range of policies (1982: 29). It is thus the nature of the collective action problem rather than the substantive policy area that determines whether it is high or low politics.

In line with this reasoning, we should expect a high level of vertical integration first and foremost in areas of low politics, whereas areas of high politics are either unlikely to be integrated at all or will be integrated

later and at significantly lower levels of centralization than low-politics domains. In addition, horizontal integration is likely to vary with the policy characteristics of a sector. The integration of high-politics sectors will be less territorially extended than policy integration in low-politics sectors—especially if the level of centralization is high. The reason is that states shy away from integration if autonomy costs are high. This applies to the big and powerful member states in particular. They are in general less affected by international interdependence, possess higher autonomy as well as a higher status in the international system, and are more capable of providing for their own security, whereas small states have less de facto sovereignty in the first place and stand to gain rather than lose autonomy from integration.

In the RI perspective, then, vertical and horizontal differentiation across policies reflects variation in the autonomy and power costs of integration. High-politics areas are less vertically and horizontally integrated than low-politics areas, and small or weak countries are more likely to be integrated (at a higher level of centralization) than large and powerful countries. As a corollary of these considerations, we are likely to find external differentiation in low-politics areas, which attract non-member states that shy away from the autonomy costs of full membership, and internal differentiation in high-politics areas in which some member states are reluctant to commit to deep vertical integration.

Liberal Intergovernmentalism: Heterogeneity of Interdependence, Interests, and Capacities

In the LI perspective, demand for differentiated integration increases with the heterogeneity of interdependence, interests, and capacities across policies and states. As for the *heterogeneity of interdependence*, policies with early and high international interdependence are likely to be integrated earlier than those sectors in which interdependence is weaker or develops later. That trade policy was integrated earlier than immigration policy and that defence policy is extremely weakly integrated today, would therefore be explained by earlier and stronger interdependence in trade (in comparison with migration) and by the absence or weakness of security interdependence. In addition, some policies are characterized by severe enforcement problems, whereas others merely require international coordination. Both kinds of heterogeneity in interdependence give rise to vertical differentiation across policies.

Moreover, policies vary with regard to the territorial extension of interdependence. Some issues—such as the pollution or biodiversity of international rivers and lakes—only affect a few bordering countries; others such as trade or climate change generate region-wide or global interdependence. Accordingly, variation in the territorial extension of interdependence produces demand for horizontal differentiation. Where the region of critical interdependence is smaller than EU, we should see internal differentiation; and external differentiation where the region of critical interdependence extends beyond the EU. Demand for the external differentiation of the internal market would thus be explained by the reach of significant market interdependence beyond the organizational boundaries of the EU.

The same reasoning applies to the historical development of integration. In this perspective, the integration of the original six member states would have to be explained by the fact that interdependence among them was high—and higher than their interdependence with the non-member countries. According to the same reasoning, countries apply for membership after their interdependence with the EU rises substantially. European countries that do not want to join the EU should typically be those that are least dependent on cooperation with the EU.

Even if international interdependence affects all countries and policies equally, demand for differentiated integration may still result from *heterogeneity of state interests and capacities*—in particular, in the EU's signature economic policies (Moravcsik 1993: 487; Schimmelfennig 2019: 182). In market-making commercial policies, competitive position is paramount. Export-oriented sectors support market expansion and liberalization, whereas import-competing sectors seek protection from outside competitive pressures. To the extent that market-correcting policies affect competition, a similar logic prevails. Producers from high-regulation, high-standard national economies prefer a similar level of regulation in the EU to counter the competitive advantage of competitors from low-regulation states; those from states with weak regulation or weak standards oppose high-level harmonized standards to keep their competitive advantage in a system of ‘mutual recognition’. Finally, net contributors to the EU budget oppose the extension of EU subsidies, whereas net recipients favour an increase in EU expenditure (Moravcsik 1993: 495; Thomson 2011: 136–137).

A good approximation of the major cleavage generating heterogeneity of interests and capacities is wealth (Bailer et al. 2015; Thomson 2011:

148–155). Wealthier countries are more likely to have competitive, export-oriented sectors, to start from higher regulatory standards on issues such as production and product safety, social security, and the environment, and to be net contributors to the EU budget. In addition, wealth goes together with higher administrative, regulatory, and technical capacity as well as more scope for independent policy-making. By contrast, poorer countries typically have less competitive sectors, lower standards, and lower capacity. Conversely, they rely more on international assistance such as the EU's agricultural and infrastructural subsidies. Accordingly, LI expects heterogeneity to arise mainly between rich and poor states. In market expansion and liberalization as well as EU-wide regulatory standards, the richer countries should favour more integration, whereas the poorer countries will seek protective exemptions to reduce market pressure and regulatory costs. By contrast, when it comes to budget expansion and EU subsidies, the poorer countries are likely to favour 'more Europe', whereas the richer countries prefer to remain at a lower level of integration.

Correspondingly, the heterogeneity of interests and capacities produces both vertical and horizontal differentiation. For one, international heterogeneity reduces vertical integration. Policies characterized by similar state preferences and capacities enjoy higher levels of integration than those characterized by substantial heterogeneity. In this perspective, the weakness of vertical EU defence integration might thus not (only) result from weak interdependence but from incompatible preferences on the form and substance of integration and from vastly different military capacities. Alternatively, international heterogeneity reinforces horizontal differentiation. States with similar interests and capacities group together and integrate separately from those with different preferences and capacities. In this perspective, the differentiated membership of member states in EMU would reflect different monetary policy preferences or different levels of fiscal and financial capacity.

In part, RI and LI arrive at different propositions because they assume different geopolitical environments and policy contexts. To the extent that European integration takes place in a benign international environment, in which security threats are weak or taken care of by NATO, and to the extent that it focuses on low-politics areas—market-making and market-correcting policies, in particular—states do not need to worry

primarily about their autonomy and security but can prioritize economic gain. Furthermore, the overall size of state resources and capabilities loses relevance. Instead, issue-specific interdependence and capabilities increase in importance (Moravcsik 1998: 6, 60).

The Supply Side of Differentiated Integration: Size, Externalities and Bargaining Power

Differentiated integration as a remedy for deadlock caused by international heterogeneity works under the condition that all participating states regard differentiation as more beneficial than the uniform status quo. Generally, that should be the case: all states can choose a level of sectoral and vertical integration that is in line with their level of interdependence and their integration preferences. This demand may not be met, however, because of three supply conditions: size, externalities, and bargaining power.

First, the feasibility of differentiation depends on the *size* of the group of countries seeking to integrate. Evidently, this group needs to be large enough to deal effectively with the policy problem at hand. Moreover, the benefits of integration need to exceed the transaction costs, which consist, among others, in negotiating an additional agreement and creating and sustaining additional or separate institutions. If the criteria of homogeneity of interdependence, interests and capacities produce a too small group of countries willing and able to integrate, vertical and horizontal differentiation lag behind demand.

Second, differentiated integration may be undermined by *externalities* between vertically differentiated policies and horizontally differentiated groups of countries. The fact that two policies are integrated at different levels may create costs and inefficiencies for one or both, and the fact that two groups of countries cooperate at different levels of integration may negatively affect at least one them. As an example of externalities in vertical differentiation, take the freedom of movement of persons (strong vertical integration) and weakly integrated police competences. The effectiveness of the national police is undermined if criminals can easily cross borders but police officers in their pursuit cannot. In this case, the more integrated policy creates negative externalities for the less integrated one. By contrast, the combination of a supranational monetary policy and an intergovernmental fiscal policy is often seen as an example of a less integrated policy undermining the more integrated policy, because the EU

cannot strictly enforce fiscal discipline nor decisively support states in economic crisis.

In the case of horizontal differentiation, the more integrated group can produce either positive or negative externalities for the less integrated group in the same policy sector (Kölliker 2001, 2006). Positive externalities allow the less integrated countries to free-ride. This is the case if the integrationist group creates a pure public good, from which non-contributors cannot be excluded (at reasonable cost). To take up the example of monetary policy, the eurozone's banking union and rescue funds also benefit banks from non-eurozone member states operating in the eurozone, even though their home states do not contribute. Alternatively, horizontal differentiation may impose negative externalities on the outsiders. In the police example, in case that one group of member states was willing and able to integrate their police forces whereas another group was not, transnational organized crime would have an incentive to move its activities to the less integrated countries. In this case, the outsiders are not only excluded from the public good (security) of the insiders; but being excluded creates an extra burden in comparison with the pre-differentiation status quo.

Differentiated integration affected by significant externalities is hard to sustain. In vertical differentiation, it leads the more integrated policy to be abandoned or the less integrated policy to be upgraded. In horizontal differentiation, positive externalities create incentives for insiders to defect—why contribute to deeper integration if you can enjoy the benefits outside?—and negative externalities makes outsiders want to join. Either way, differentiation disappears (Schimmelfennig 2019: 186–187; Kölliker 2001).

Finally, the chance to realize differentiated integration depends on the intergovernmental constellation of *bargaining power*. On the one hand, states can use their bargaining power to impose differentiation on others. In negotiations about integration, the most status quo-oriented member states can threaten to use their veto against any unwanted change. Such a veto threat will force the integrationist governments either to conclude a separate treaty outside the EU framework (as in the cases of the original Schengen Agreement or the Fiscal Compact) or to grant the integration sceptic an opt-out from vertical integration. In addition, countries with higher ratification constraints can more easily attain opt-outs. To achieve the higher level of integration that they desire, states are more willing to let countries with credible non-ratification threats free-ride rather than

jeopardizing the entire agreement. This explains the concessions made to countries like Denmark or Ireland after the negative referendums on the Maastricht and Lisbon treaties. Moreover, powerful member states can exclude those that do not share their integration preferences or have insufficient integration capacity. For instance, the old member states have repeatedly used their superior bargaining power in accession negotiations to impose discriminatory transition arrangements on new member states such as restrictions on the free movement of persons or agricultural subsidies (Schneider 2009).

On the other hand, states might also use superior bargaining power to prevent unwanted differentiation—especially if they fear being exploited by free-riding behaviour or suffering from negative externalities. For instance, the EU has used its superior material bargaining power to prevent a renegotiation of the freedom of movement agreement with Switzerland after the Swiss voted in favour of a popular initiative restricting immigration and discriminating against foreigners in 2014. In the withdrawal negotiations after the British Brexit vote, it has likewise sought to ensure that the UK could not cherry-pick from market integration and would not be better off as a non-member state.

CONJECTURES

According to intergovernmentalism, the main factors driving and constraining vertical and horizontal integration and differentiation are international interdependence, the constellation of state preferences and capacities, the severity of compliance problems, and—at least according to RI—the extent of states' autonomy concerns and costs. Table 3.2 provides an overview.

These conjectures also have implications for the development of integration over time. For one, policies characterized by higher international interdependence, more preference homogeneity, less severe compliance problems, and lower autonomy costs are integrated earlier. Likewise, countries that are more dependent on the (other) integrated countries and have more mainstream preferences participate in integration earlier and are more likely to be part of the insiders in differentiated integration.

Table 3.2 Intergovernmentalist conjectures

<i>Integration outcomes</i>	<i>Explanatory factors</i>
Vertical and horizontal integration increase with	<ul style="list-style-type: none"> • International interdependence • Homogeneity of state preferences and capacities • Severity of compliance problems • Low-politics' policy characteristics • International interdependence • Homogeneity of state preferences and capacities
Vertical differentiation increases with variation in	<ul style="list-style-type: none"> • Severity of compliance problems • High and low politics • Absence of externalities between policies
Horizontal differentiation increases with	<ul style="list-style-type: none"> • Heterogeneity of states' international interdependence • Heterogeneity of state preferences and capacities • 'High-politics' policy characteristics • Size of the integrationist group • Absence of externalities between groups • Bargaining power of states preferring differentiation

SELF-TEST AND DISCUSSION QUESTIONS

1. Which are the three steps in a liberal-intergovernmentalist explanation of European integration? Which are the relevant explanatory factors at each step?
2. Consider three different policy areas in European integration: agricultural, environmental, and monetary policy. Which are the relevant domestic interest groups and how would you characterize their integration preferences? Whose interests will shape the integration preferences of the government?
3. What are the sources of bargaining power in intergovernmental negotiations on integration? Do the big member states generally get the most out of European integration?

4. Why are governments capable of keeping the integration process under their control according to intergovernmentalism? Which factors or developments might undermine their control?
5. Commercial policy is more integrated than defence policy. How would intergovernmentalists explain this vertical differentiation?
6. France and Germany participate in all EU policies, whereas the UK (when it was still a member state) and Romania are not part of the eurozone and the Schengen area. How could intergovernmentalism explain this variation?

FURTHER READING

Moravcsik, Andrew. 1998. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca: Cornell University Press, is the most complete outline of liberal intergovernmentalism and provides a detailed analysis of major steps in European integration from the Treaties of Rome to the Treaty of Maastricht.

For an earlier and shorter presentation of liberal intergovernmentalism, read Moravcsik, Andrew. 1993. Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach. *Journal of Common Market Studies* 31 (4), 473–524.

You can also find a textbook overview of the theory with applications to the recent crises of the EU in Moravcsik, Andrew, and Frank Schimmelfennig. 2019. Liberal intergovernmentalism. In *European Integration Theory*, ed. Antje Wiener et al., 3rd ed., 64–84. Oxford: Oxford University Press.

A special issue on liberal intergovernmentalism in the *Journal of Common Market Studies*. (Liberal Intergovernmentalism and Its Critics, ed. by Mareike Kleine and Mark Pollack 2018) revisits the empirical evidence for liberal intergovernmentalism and has a concluding article by Andrew Moravcsik.

Finally, see Schimmelfennig, Frank. 2019. The Choice for Differentiated Europe: An Intergovernmentalist Theoretical Framework. *Comparative European Politics* 17 (2) 176–191, for an outline of an intergovernmentalist theory of (horizontal) differentiated integration.

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CHAPTER 4

Supranationalism

Supranationalist and intergovernmentalist theories have been the main competitors in integration theory for a very long time. In the early phase of European integration, neofunctionalism and realist intergovernmentalism shaped the debate; in the 1990s, against the backdrop of the single market programme and the Maastricht Treaty, supranationalism and liberal intergovernmentalism fervently opposed each other. After a decade of relative calm, the onset of the EU's crisis decade in the 2010s led to a resurfacing of the debate between the two theories about which of the perspectives best captures the dynamics and trajectories of European integration.

Whereas intergovernmentalism claims that European integration is shaped by the preferences and power of states, and remains under their control, supranationalism argues that transnational society and supranational organizations are relevant actors, too, and that the initial steps of European integration built sufficient momentum to push integration beyond the level governments had originally intended. While intergovernmentalism emphasizes the continuity of European integration as a form of international cooperation, supranationalism stresses its transformative potential: how the integration project grows out of the domain of international relations and develops into a new kind of polity. In one of the phrases most often cited by students of European integration, Haas defines integration as a 'process whereby political actors in several distinct

national settings are persuaded to shift their loyalties, expectations, and political activities toward a new and larger center, whose institutions possess or demand jurisdiction over pre-existing national states' (Haas 1961: 366–367).

Neofunctionalism was the dominant theory of integration in the early periods of integration theorizing. Prominent scholars such as Ernst Haas, Leon Lindberg, Joseph Nye, and Philippe Schmitter defined the neofunctionalist research agenda from the late 1950s until the 1970s. Since the late 1980s, the supranationalism of Wayne Sandholtz and Alec Stone Sweet has marked a major refinement of neofunctionalism. Supranationalism differs from its neofunctionalist predecessor in noticeable ways.

First, the original formulation of neofunctionalism sought to explain the ultimate formation of a European federal state, or—once this prospect seemed to have been undermined by the crises and stagnation of political integration in the mid-1960s—more modest institutional configurations. Scholars such as Sandholtz, Stone Sweet, Fligstein, and their collaborators were less interested in explaining the trajectory towards a particular *finalité* or end-point of the integration project. Instead, they directed their focus to studying processes and outcomes of *institutionalization*: The emergence and evolution of supranational rules, the capacity of supranational and transnational actors to shape, interpret and employ these rules for their purposes, and the effect of such rule-governed activity on cross-border transactions and the reshaping of the EU's authority structure (Stone Sweet et al. 2001: 3; Stone Sweet and Sandholtz 1998: 16–20).

Second, supranationalists have broadened the range of objects studied. While neofunctionalism mainly focused on 'spillover' processes in the economic realm to explain the expansion of integration to new policy sectors, supranationalists also study processes and shifts towards increased centralization, a process we have labelled vertical integration. In doing so, they have addressed a diversity of topics, ranging from the empowerment of the EP, or the expansion of the ECJ's jurisdiction to the institutionalization of policy areas such as internal and external security (e.g. the contributions in Stone Sweet et al. 2001).

In the next section, we present supranationalist assumptions and key theoretical arguments in more detail, before we discuss supranationalism as a theory of European integration. In the final section, the phenomenon

Table 4.1 Building blocks of supranationalism

General assumptions	<i>Historical institutionalism</i> Boundedly rational domestic, transnational, and supranational actors; in particular the latter act as integration agents Preferences are endogenous to the integration process No clear <i>finalité</i> ; unintended consequences of institution-building
Explanatory theory	Dynamic theories of integration and institutionalization: pluralism, transactionalism, principal-agent and incomplete contracting theory, and path dependence
Factors of integration	Intensity of transnational exchanges, autonomy of supranational actors, and rule density

of differentiated integration is illuminated from a supranationalist perspective. We conclude with the presentation of a set of supranationalist conjectures on differentiated integration. To set the stage for theory discussion, Table 4.1 provides an overview of the main building blocks of supranationalism.

GENERAL ASSUMPTIONS: BOUNDEDLY RATIONAL ACTORS IN A PATH-DEPENDENT PROCESS OF INSTITUTIONALIZATION

As intergovernmentalism, supranationalism has its origins in IR theory. In the 1950s and 1960s, the theories of neofunctionalism and transactionalism were the main challengers of the then dominant realist theory. These theories did not dispute the realist assumption that states are rational actors in an anarchical international system but, rather, questioned the conclusions that realists drew from this assumption. They held that, under the right social conditions, the international system was not bound to be characterized by recurring wars, permanent insecurity, and the dominance of great powers, but could be transformed into a rule-governed system through processes of institutionalization.

Supranationalism is similar to liberal intergovernmentalism in that it assumes (boundedly) rational actors, both at the state and societal levels. ‘Societal actors, in seeking to realize their value-driven interests, will choose whatever means are made available by the prevailing democratic

order' (Haas 2004: xv). It also shares the starting point of intergovernmentalist theorizing: dense international interactions create a situation of international interdependence, in which unilateral state action is inefficient; international cooperation is needed, but difficult to realize in an anarchical system; states therefore agree on international rules and establish international organizations to facilitate and stabilize international cooperation for the benefit of all participants. Furthermore, supranationalism does *not* dispute that governments are relevant and powerful actors in the integration process, and that (hard) bargaining constitutes an important mode of interaction among the member states (Pierson 1998: 29; Stone Sweet and Sandholtz 1997: 134).

In two fundamental respects, however, supranationalism differs from intergovernmentalism. First, it extends the list of relevant actors. Whereas realist intergovernmentalism regards states as unitary actors and the only actors that matter in European integration, liberal intergovernmentalism adds powerful domestic interest groups. Supranationalism includes transnational and supranational actors, too. Multinational corporations (i.e. firms that are not solely based in a single country) and transnational interest groups (ranging from business, professional, and labour associations to issue-specific associations representing environmental, educational, or civil rights interests) proliferate in the course of integration and act autonomously from the states. They demand supranational rules and the abolition of national rules, if supranational rules help them obtain their objectives. In addition, supranationalism regards supranational organizations such as the Commission, the ECJ, the EP, or the ECB as actors in their own right, rather than as mere instruments of the member states. They also seek to pursue their individual and collective interests in an instrumental fashion. This brings us to the second fundamental difference.

Supranationalism questions the assumption shared by intergovernmentalists that states can design and keep control of international institutions in a way that those continuously and reliably stay in line with their preferences. Such functional arguments, which are prominent in the liberal intergovernmentalist account of integration (see Chapter 3), impute institutional choices from the effects which states wish these institutions to produce (Keohane 1984). Hence, institutions are explained by their (expected) effects or functions. Supranationalism shares a core tenet of historical institutionalism by rejecting functional explanations about institutional choices for three reasons (Pierson 1996, 2000, 2004). First, historical institutionalists doubt that political actors are as far-sighted as

suggested by functional theorists; instead, they assume that political actors have rather short time horizons (given, *inter alia*, re-election constraints) and do hence tend to discount the potential long-term consequences of institutional choices. Second, historical institutionalists emphasize the possibility that initial institutional choices can have unintended consequences, since boundedly rational actors are unable to foresee all possible contingencies and consequences of their actions. Complex social processes that involve a large number of actors are likely to produce feedback loops and interaction effects that cannot possibly be foreseen or understood by even the most far-sighted actors (Pierson 1998: 39). Third, historical institutionalists contend that political actors can only marginally correct certain institutional developments, because of the path-dependent effects of initial institutional choices. For instance, once in place institutions beget vested interests or induce learning effects, which renders them difficult to reverse in the long run.

The arguments advanced by historical institutionalists that institutions are ‘sticky’ and may produce consequences that their creators did not intend, are central to supranationalism. Supranational organizations not only monitor the rules that member states have agreed on, but also reformulate and reshape these rules. Supranationalists argue that the process of integration creates ‘gaps’ (Pierson 1996) in the subsequent treaty settlements, which prove to be enabling for some actors (interest groups; supranational actors, such as the Commission, the ECJ, or the EP) while they are difficult to reverse for others (most notably the member state governments). Consequently, integration may engender unintended consequences for the EU governments, which inhibit self-reinforcing dynamics. In the medium to long-term, the process of integration deviates from the purpose governments had intended it to have and forces them to adapt their preferences and behaviour in order to avoid high costs. Haas’s stipulated that the (1961, 366–367) ‘process whereby political actors ... are persuaded to shift their loyalties, expectations, and political activities toward a new and larger center’ is thus not the result of a deliberate choice at the beginning of the integration project; it is the unintended result of a series of incremental decisions to shift competences from the national to the European level, each of them motivated by the imperfections and inefficiencies of previous integration steps and by the calculation that, ultimately, preserving the *status quo*, cutting back integrated competences, or exiting from the Union would have been more costly than moving ahead.

EXPLAINING THE DYNAMICS OF INTEGRATION

On the basis of these general assumptions on actors and institutions, supranationalism builds on different sets of theories that highlight driving forces and structural conditions conducive to integration. First, the supranationalist assumption that transnational social groups play an important role in the integration process is rooted in a *pluralistic* understanding of politics, stressing the importance of interest groups in competing for access and influence on political decisions. Second, supranationalism borrows from *transactionalism* the emphasis on cross-border ('transnational') exchanges among societal actors as a precondition for political integration. Third, the problem of control highlighted by *principal-agent theory* is relevant for supranationalist theorizing in order to understand the mechanisms underpinning what Pierson (1996) has referred to as 'gaps' in member state control. Finally, we will briefly elaborate on the historical-institutionalist mechanism of *path dependence*.

Pluralism. Ernst Haas argues that integration is most likely to proceed in highly industrialized economies characterized by the mobilization of society 'via strong interest groups and political parties, and leadership by elites competing for political survival and dominance under rules of constitutional democracy' (Mattli 2005: 329–330). Supranationalism is thus rooted in a theory of pluralism: groups, not states, are the central actors in the integration process. In modern, economically interdependent societies, it is the competition among interest groups—striving to maximize the utility of their individual group—that drives the political process. Policy outcomes are the result of the differential pressure exercised by various interest groups (Haas 1961: 374, 378; 1968: xxxiii–xxxvi). Integration, industrialization, and pluralism are inextricably linked in liberal democratic states. According to Haas, 'the modern "industrial-political" actor' has most to win from integration, because he 'fears that his way of life cannot be safeguarded without structural adaptation' and hence 'turns to integration' (Haas 1961: 375). Integration is therefore in the interest of those social and political interest groups—such as export-oriented manufactures and producers, or highly qualified and mobile white-collar workers—who realize that expanding their activities beyond the confines of the nation-state may be conducive to securing socio-economic benefits and objectives (Fligstein 2008). The potential for transnational exchanges among these groups further increases if the pluralistic structures displayed by different countries resemble each other, a condition Mattli refers to as

‘symmetrical regional heterogeneity’ (Mattli 2005: 330). The similarity of pluralistic structures (or socio-economic cleavages) in a region greatly facilitates the potential for social and political interest groups to join forces with their transnational counterparts in order to foster economic ties and hence promote integration (Mattli 2005: 330).

Transactionalism. The supranationalist emphasis on social groups and cross-border transactions is also congruent with theoretical approaches placing socio-economic exchanges and the resulting interdependence among states at centre-stage. One theory linking cross-border transactions (ranging from inter-personal communications to trade) to community building is Karl Deutsch’s theory of transactionalism. According to Karl W. Deutsch (1954), the increasing density of cross-border communication and social exchanges among individuals will result in a closer community among states, held together by common loyalties and sentiments. Deutsch argues that the more intense and dense transactions between two states are the more important (or interdependent) these two states will be to one another. Moreover, if these transactions and communications are deemed to be beneficial, they will promote trust, foster loyalties between the two states (Rosamond 2000: 44), and even lead to the development of a new ‘amalgamated’ community. Deutsch’s theory of transactionalism and supranationalism departs from the postulated effects of social cross-border exchanges on the ‘quality’ of the emerging community: While transactionalism points at the potential formation of a ‘security community’ sharing a common sense of solidarity and common institutions, supranationalism is more concerned with the creation of supranational rules and governance structures (Stone Sweet and Sandholtz 1997: 300). To explain supranational governance, however, supranationalists argue, akin to transactionalism, that cross-border transactions are integral as they create ‘demand’ for supranational rules, destabilizing, and eventually replacing those at national level.

Principal-agent and incomplete contracting theory. Principal-agent theory can be considered a further building block of supranationalism. According to the functional theory of institutions, governments, acting as ‘principals’, delegate decision-making authority to ‘agents’ to fulfil certain collective tasks effectively and efficiently: setting the political agenda, providing unbiased expertise, or monitoring compliance (Pollack 1997). Yet, several problems come with the delegation of tasks to agents. The first problem is adverse selection: how can principals be sure that they

have selected the ‘right’ agent? The second problem is one of moral hazard: once an agent is selected, how can principals be sure that the agent does not develop an agenda of his or her own? In both instances, the principal faces the problem of asymmetrical information: in the case of adverse selection, principals are uncertain about the true motives of the agent prior to establishing the contractual relationship. In the case of moral hazard, the principal is uncertain about the activities of the agent once the contractual relationship is in place. In both instances, principals establish an ample set of control mechanisms to prevent the potential for ‘agency slippage’ or ‘bureaucratic drift’. We can distinguish a variety of so-called *ex ante* and *ex post* control mechanisms, which can be employed by principals to limit the agents’ discretion. Administrative procedures are *ex ante* control mechanisms, which ‘define more or less narrowly the scope of agency activity, the legal instruments available to the agency, and the procedures to be followed by it’ (Pollack 2003: 27). *Ex post* control mechanisms, in contrast, are geared towards oversight of the agent’s activities and include procedures to monitor agency behaviour to rectify information asymmetries, or to influence the agent’s behaviour through the application of sanctions (e.g. cutting the budget, dismissing agency personnel, and overriding agency behaviour with new legislation). In spite of elaborate control mechanisms to hold agents at bay, however, agents ‘will seek to use grants of authority for their own purposes, and especially to increase their autonomy’ (Pierson 1998: 35).

The ‘incomplete’ nature of contracts, such as international treaties, tends to exacerbate the problem of agency slippage and bureaucratic drift. The notion of an ‘incomplete contract’ stipulates that the process of contracting is fraught with uncertainties, since it is hard for the contracting parties to anticipate contingencies arising in the future, which could prompt parties subject to the contract to offer conflicting interpretations over the initial contract. Moreover, asymmetric or incomplete information raises the costs of negotiating, and may result in a contract or treaty that represents a second-best option for the parties involved. As a result, contractual imperfections tend to force the contracting parties to renegotiate aspects of the initial bargain (Cooley and Spruyt 2009: 26), which can be very costly and cumbersome when the re-negotiation and ratification requirements are restrictive. Contractual incompleteness and the challenge for multiple principals to change the existing contract tend to increase agents’ discretion and hence their autonomy vis-à-vis their principals.

Path dependence. Institutional path dependence (Pierson 1996, 2000) refers to the idea that institutions are sticky: Once created, they become difficult to reform, even if they develop in unintended ways, become inefficient due to changing circumstances, or contradict the preferences of the principals. Paul Pierson (2000: 252) defines path dependence as a process ‘in which preceding steps in a particular direction induce further movement in the same direction’. Actors that have decided to take one of several paths at an intersection are more likely to continue on this path in the future, rather than returning to the intersection to explore alternative paths. The mechanism of ‘increasing returns’ captures the rational behaviour that generates and supports path dependence. Put positively, the benefits of continuing on the chosen path (relative to switching to another path) increase the further one walks. Actors become ever more experienced in dealing with an institution as time passes. Conversely, the ‘sunk costs’ and ‘exit costs’ rise (Pierson 2000: 252). When new institutions are introduced, actors make personal investments to adapt to the new institutions. These investments are often so high that, as a consequence, actors stick to these institutions even if new and more efficient alternatives appear. Unless major ‘exogenous shocks’ occur (such as wars, revolutions, or economic crises) the institutional route, once taken, becomes increasingly resistant to change. Exit costs further increase with the number of relevant other actors in the same institution. Either it is too costly for a single actor to exit if everybody else stays in, or it becomes too difficult to agree on how to change the institution.

In its analysis of European integration, supranationalism thus draws on pluralism and transactionalism to explain demand and support for European integration beyond the group of governments; and it draws on principal-agent theory and path dependence to explain the self-reinforcing dynamic of the integration process.

SUPRANATIONALISM AND EUROPEAN INTEGRATION

When it comes to explaining the initial steps of European integration, supranationalist and intergovernmentalist accounts are relatively similar. Supranationalists may give a more prominent role to transnational societal interactions and organizations in producing and voicing demand for integration, but will otherwise agree with a story of how governments

agree on a particular level of centralization, functional scope, and territorial extension based on the intergovernmental constellation of preferences and bargaining power. Supranationalist and intergovernmentalist explanations diverge once supranational institutions have been created and started to work.

Spillover

How do the mechanisms of transnational exchange and activism of social groups, agency discretion, and institutional path dependence feature in supranationalist theories of European integration? How do they work together to produce progressive vertical and horizontal integration? Supranationalists have traditionally subsumed mechanisms of transformative change under the label of ‘spillover’. Ernst Haas saw the logic of spillover as the central mechanism to explain the expansive logic of European integration (Haas 1968: 283–317). Later works have categorized the factors and conditions producing integration’s expansive logic into *functional*, *political*, and *institutional* (or cultivated) spillover mechanisms (Schmitter 1969; Lindberg and Scheingold 1970; Tranholm-Mikelsen 1991: 15–16).

Functional spillover results from the connectedness of different policy sectors. The functional spillover mechanism postulates that there will be a demand for further integration if the gains resulting from integration in policy sector A remain sub-optimal, unless adjacent policy sectors B and/or C will also be integrated, or when integration of A has negative effects on sectors B and/or C, unless they are all being integrated collectively (Lindberg and Scheingold 1970: 117). Put differently: the externalities of integrating a particular policy sector incite governments to undertake further, previously unplanned, steps of integration in adjacent policy sectors in order to prevent welfare losses. A similar logic is behind what Haas calls ‘geographical spillover’ as a trigger of horizontal integration—enlargement (Haas 1968: 313–315). States, which may be initially reluctant to join the EU, will feel pressured to join eventually, given the negative externalities of staying outside the Community.

Political spillover occurs as a reaction to initial integrative steps once interest groups, bureaucrats, and other domestic political actors direct their expectations and activities to the new, supranational level of decision-making. To the degree that integration improves the likelihood that the

actors will achieve their political aims at the supranational rather than at the national level, we are likely to observe the formation of transnational coalitions and the development of common problem-solving perspectives (Haas 1968: xxxiv). Even though this process does not necessarily have to be harmonious (Schmitter 1969: 166), political actors will—in the course of time—develop new loyalties that transcend the nation-state. Lindberg and Scheingold (1970: 199) characterize this process as actor socialization, thereby underlining the proximity of political spillover to constructivism (see also Haas 2001; Niemann and Schmitter 2009). Interest groups, bureaucrats, and other domestic actors will—on the basis of these newly acquired identities, attitudes, and coalitions—exercise pressure and influence on governments, and press them to advance the process of integration.

Institutional spillover is triggered by the activities of the EU's supranational actors, the Commission, the ECJ, and the EP. On one hand, these actors contribute to the processes of functional and political spillover: they allude to connections between different policy sectors and point to the potential positive externalities of further integration—and, conversely, the negative externalities and consequences of potential failures to advance sector integration (Nye 1971: 59). For the same reason, supranational actors support the formation of transnational coalitions. On the other hand, supranational actors—first and foremost, the Commission—help the governments of EU member states to discover their common interests and opportunities for efficient cooperation. Furthermore, they play a crucial role in helping the member states to ‘upgrade their common interest’ (Haas 1961) in finding bargaining solutions that are considered optimal from an integration perspective. This argument, however, is founded on the condition that supranational organizations—such as the Commission—possess an information advantage vis-à-vis the member state governments, which they are willing to exploit fully.

More recent supranationalist analyses have taken up and refined the notion of spillover as the core mechanism generating the expansionary dynamic of integration. Alec Stone Sweet and Wayne Sandholtz (1997, 1998) argue that European integration progresses are a result of the interplay of three developments: the expansion of transnational exchange, the political influence of groups that benefit from this exchange, and supranational actors' capacity to pursue an integrative agenda.

- As transnational economic exchange expands, the costs of adopting separate national rule-systems increase, as does the demand of transnational actors—interest groups, transnational corporations, producer, and consumer groups—for supranational rule-making and policy coordination. The objective of transnational actors is to abolishing disparate national rule-structures, which hinder the free flow of goods and services, and demand supranational rules instead. This demand will be stronger, the more these actors expect to profit from cross-border exchange and, hence, the larger the perceived advantage of uniform EU-level rules vis-à-vis different national rules. This process is in line with the idea of *functional* spillover.
- Transnational actors direct their demands for uniform EU-level rules to facilitate cross-border exchange at their respective national governments; yet, if these prove reluctant to advance the agenda for more uniform EU-level rules, transnational, and societal actors turn to supranational organizations to voice their demands, for instance through lobbying or litigation. This is evidence for *political* spillover.
- Finally, and corresponding with the logic of *institutional* spillover, the Commission, the EP, and the ECJ use the powers and information at their disposal to expand the scope of EU-level rules to facilitate cross-border exchange and, thus, help to increase collective transnational utility (Stone Sweet 2004; Stone Sweet and Sandholtz 1997: 299, 306; 1998: 4).

The Constitutionalization of the Treaties

Supranationalism allows us to shed light on integration dynamics that are often referred to as the EU's constitutionalization—a process whereby the EU's institutional structure comes to mirror the fundamental principles and norms of liberal democracy, which includes parliamentary democracy and a highly judicialized legal system.

One of these processes is *European integration through law*. For supranationalists, the interplay of transnational social actors and supranational actors was not only the main driver behind the creation of an EU-wide common market and various flanking policies, but also responsible for the formation of a supranational polity (Burley and Mattli 1993; Fligstein and Stone Sweet 2002; Mattli and Stone Sweet 2012). As transnational economic exchanges increase, legal or technical problems

and obstacles may arise from the diversity of national legislation and regulations that hinder the free flow of trade in goods, services, and capital. Firms that lose business or incur costs as a result then turn to policy-makers and courts, and demand rules that solve these problems. If these demands are met, markets are likely to expand since the rules provide these actors with new opportunities to engage in market transactions: ‘If market actors adapt their activities to exploit these new opportunities, then the feedback loop will be completed, and the cycle will begin anew’ (Fligstein and Stone Sweet 2002: 1213). The long shadow cast by European law on national regulations and administrative practices thus empowers those private actors that are actively engaging in transnational exchanges. Stone Sweet (2004) employs this theoretical framework to account for the gradual *constitutionalization* of the EU, exemplified by the establishment and acceptance of the ECJ’s doctrines of direct effect and supremacy of European law. He shows that these doctrines had a profound impact on patterns and density of transnational exchanges: as private actors were enabled to plead rights bestowed by EU law before national courts, and as national judges applied EU law and prioritized it over (competing) national law, private actors made use of their opportunity to litigate before national courts and ask them to remove domestic (legal) obstacles to trade in order to expand their markets. As transnational activities intensified, ‘the pool of potential litigants expands, as does the number and diversity of situations likely to give rise to conflicts between traders and states’ (Stone Sweet 2004, 15). Consequently, there is a constant and self-reinforcing process linking transnational exchange, litigation, and rule-making that feeds back onto traders and private actors seeking (further) opportunities to realize their socio-economic interests.

Stone Sweet and collaborators also find that social groups that are not directly engaged in economic activities, such as environmental groups or advocates of women’s rights, ‘would use the courts to destabilize or reform national rules and practices they find disadvantageous’ (Stone Sweet 2004: 15). For example, in 1976, the ECJ declared that Art. 141 of the EC treaty, which posits that men and women shall receive equal pay for equal work, is part and parcel of the EU’s objectives and thereby stipulated that the EU is not merely an economic community ‘but is at the same time intended ... to ensure social progress and seek the constant improvement of the living standards and working conditions of [its] people’ (*Defrenne II*, ECJ 43/75). While the founding members of the EEC Treaty inserted Art. 141 to discourage social dumping, ‘over the

course of twenty-five years, private litigants and national judges helped the Court transform the provision into a basic right to sex equality in the workplace' (Stone Sweet 2004: 148). The ECJ developed 'a rights-oriented interpretation of the Treaty ..., which further empowered women, vis-à-vis national governments, within processes governments could not directly control' (Stone Sweet 2004: 148).

An ongoing debate between supranationalists and intergovernmentalism centres on the scope of the ECJ's judicial activism (Alter 2014; Blauberger and Schmidt 2017). Intergovernmentalism inspired research posits that the court exercises judicial restraint, especially when it expects strong member state opposition (Garrett et al. 1998; Carrubba et al. 2008; Carruba and Gabel 2015; Larsson and Naurin 2016), and hence conceives of the court as a more-or-less faithful agent of the member states. Supranationalism, in turn, argues that this perspective fails to acknowledge that the institutional bases of the ECJ's powers are those of a trustee or fiduciary court and that ECJ activism regularly goes beyond member states' preferences. According to supranationalists, the effective insulation of the ECJ from member state control was crucial to engendering the further institutionalization of the EU (Fligstein and Stone Sweet 2001: 31; Stone Sweet and Sandholtz 1997: 310–312).

The *expansion of the powers of the EP* is another example of the EU's constitutionalization. Over the course of the past decades, the EP has strategically employed gaps in the intergovernmental treaties, and employed its bargaining leverage in day-to-day policy-making vis-à-vis the member state governments in the Council. From a supranationalist perspective, the EP's (self-)empowerment can be accounted for by the unanticipated institutionalization of intergovernmental treaties. Even though the EU's primary law initially reflected the preferences of member states and their respective bargaining power, the application of the EU treaties developed in directions unforeseen or unintended by member state governments—as suggested by historical institutionalism. First, actors who operate under the treaty rules adapt to them and use the opportunities offered by them to realize their own preferences, which may not be congruent with those of the member states who enacted the rules in the first place (Lindner and Rittberger 2003: 451–452). Second, treaty rules never represent a complete contract that caters for every possible contingency, since rules are open to interpretation; rules (obviously) may offer controversial interpretations, and sometimes they may not even offer clear prescriptions or proscriptions for action. In situations like these,

supranational organizations, such as the ECJ, the Commission, as well as the EP, may exploit this grey zone for their own advantage.

Since the 1990s, the EP has been extremely successful in interpreting the formal rules laid down in the treaties to further its own institutional prerogatives, against the will of many member state governments (e.g. Farrell and Héritier 2003, 2004; Héritier 2007; Héritier et al. 2019; Hix 2002). The starting point of the argument is similar to the argument on judicial empowerment. The treaty and its rules on legislative procedures represent an incomplete contract, and governments lack complete information as to how the EP will interpret the formal treaty rules. Members of the EP (MEPs) have two crucial advantages over governments: a longer time horizon relative to the Council members and the Presidency in particular, which finds itself under pressure to deliver results during its short tenure, and a lower sensitivity to failure because governments (rather than MEPs) will be blamed if the EU does not deliver. These advantages translate into EP bargaining power in day-to-day decision-making, which it can use to delay or veto important decisions unless governments consent to giving the EP informal competences in practice that go beyond the formal powers conferred by the treaties. These informal rules effectively shift the balance of power from the member states to the EP's benefit and are often formalized in the next round of treaty revisions. These processes, whereby the EP challenged existing formal rules through discretionary rule interpretation (Hix 2002) proved to be highly successful and helps explain the EP's impressive power 'ascendance' in the EU's institutional system (Héritier et al. 2019).

European Integration and Path Dependence

From a supranationalist point view, these constitutionalization processes show that the intergovernmental treaty negotiations on which intergovernmentalists focus are effectively embedded in transnational and supranational contexts. They take place in an environment that undergoes significant changes in the period between two intergovernmental conferences. In this respect, the treaty conferences are convened against the background of new demands by transnational actor coalitions and an institutional context shaped by the self-reinforcing dynamic of the process of institutionalization. The demand for further integration is thus less the result of 'exogenous shocks' (manifestations of increased

international interdependence resulting, for instance, from crises or technological changes) but, rather, springs from endogenous, path-dependent processes, and intergovernmental negotiations are less the generators of integration but, instead, its product (Caporaso 1998: 350; Stone Sweet and Sandholtz 1998: 16, 20).

Supranationalists also hold that once a certain level of integration is reached, it will be almost impossible for governments to reverse it (Fligstein and Stone Sweet 2001: 38, 55). As stated, supranationalism takes recourse to the mechanisms of high institutional thresholds and sunk costs postulated by historical institutionalism in order to explain the (near) irreversibility of an institutional path once taken (Pierson 1998: 43–47). First, the rules to amend or change the treaties are very restrictive, since they demand unanimous agreement among governments, plus ratification in each member state; furthermore, policy changes within the treaties require at least a qualified majority. When only a minority of states benefits from a particular rule, the majority will do everything it can to block change. Second, over the course of the period since the 1960s, national political systems have become increasingly penetrated by rules originating at EU level. The sunk costs of adapting national rules and policy-making processes to the exigencies of EU politics render the mere existence of a state outside the EU increasingly unattractive. In this sense, ‘exit’ is also becoming an ever more unlikely policy option for an EU member state. From a supranationalist perspective, the threat of leaving the EU, let alone actually exiting from the EU, are thus unlikely to be rational and therefore credible strategies or outcomes, respectively. We will need to return to this expectation when discussing Brexit in the chapter on the single market.

General Hypotheses

Supranationalism explains European integration as a progressive, self-reinforcing process of institutionalization. Integration may initially correspond to intergovernmentalist expectations of a formal agreement negotiated among interdependent states, and shaped by their preferences and power. Once supranational organizations and rules are in place, however, integration produces unintended and unanticipated consequences, and escapes the exclusive control of the states. Several mechanisms triggered by initial integration and described by supranationalist approaches explain the dynamic.

- Transnational interactions create a demand for more supranational regulation.
- (Transnational) societal actors turn to supranational organizations to obtain support for this demand (political spillover).
- Supranational organizations use their competences to support societal actors, strengthen supranational rules, and expand their own powers (institutional spillover).
- The externalities of integration in one policy area create demand for integration in other policy areas (functional spillover).
- The externalities of integration among a limited group of countries create demand for integration in other countries (geographical spillover).
- The short time horizons of governments and the incompleteness of treaty contracts strengthen the bargaining power and discretion of supranational actors.
- High consensus requirements for treaty change and prohibitive exit costs stabilize the integration gains of transnational and supranational actors, and prevent the rollback of vertical or horizontal integration.

The general hypotheses of supranationalism, then, refer to the factors that trigger and sustain the self-reinforcing process of integration.

Integration is likely to progress if it increases transnational societal actors' expected utility. Firms, interest groups, and civil society organizations demand more vertical integration if supranational rules and competences promise higher benefits and better regulation. When based in a non-member country, they advocate joining the EU.

Integration is likely to progress if supranational actors possess the capacity to further their own institutional interests and the interests of transnational actors. This capacity consists in filling the gaps in intergovernmental treaties, interpreting and elaborating the rules, and mobilizing and organizing transnational societal groups.

To the extent that successive rounds of integration strengthen the utility of transnational actors and the capacity of supranational actors (thanks to spillover and institutionalization dynamics), the process becomes self-sustaining. Governments are increasingly constrained: whereas the opportunities to stop integration or devolve competences

to the national level become rarer, the pressure to strengthen and expand integration mounts. In addition, *the framework of substantial regulations and the rules of integration correspond increasingly to the constellation of transnational interests and supranational rule-making and rule-interpreting activity*, and less to the initial intergovernmental bargains.

SUPRANATIONALISM AND DIFFERENTIATED INTEGRATION

What conjectures can we derive from supranationalism to account for patterns of differentiated integration? Differentiation can be said to be the result of the same two major forces that also drive advances in integration. First, differentiation may be caused by variation in the intensity of transnational exchange between different sectors and countries. Second, it may be affected by the capacity and preferences of supranational actors to promote their policy and institutional interests by furthering the integration process.

We start from the assumption that both transnational and supranational actors tend to be interested in unified, rather than differentiated, integration.

- Supranational actors have an institutional interest in achieving high levels of centralization across the board of policies in order to maximize their own turf and competences. They also tend to believe that supranational regulation is more efficient than are national regulations. For these reasons, they are in favour of high vertical integration in all policy areas.
- Supranational actors also have an institutional interest in avoiding horizontal differentiation. Horizontal differentiation makes European governance more complicated. Decision-making and monitoring become more cumbersome. Internal differentiation comes with exemptions and derogations that need to be managed by the supranational organizations, and sometimes requires additional organizational set-ups. For instance, the eurozone countries often meet separately; but there is a need to consult with the non-eurozone countries on financial and monetary issues, too. External differentiation also goes hand in hand with a proliferation of association councils and bilateral committees, and does not allow for centralized enforcement. Supranational actors should welcome the fact

that horizontal differentiation allows member states to move ahead with supranational integration despite the opposition of others, and expands supranational rules to encompass countries that are otherwise unwilling or unable to join the EU. But they are unlikely to accept differentiation as a permanent condition, and will work towards overcoming opt-outs and towards EU membership of hitherto associated countries.

- Transnational actors can be expected to be comfortable with vertical differentiation but less so with horizontal differentiation. They often have a policy-specific agenda and organization, and strive for the level of centralization that corresponds to the level of transnational interactions in their area and that suits their policy-specific interests. But for each policy sector, they will want to ensure that all states participate. For instance, transnational business associations seek to create a level playing field for their members across the EU. The same is true for transnational trade unions trying to prevent a race to the bottom as a consequence of ‘social dumping’. Transnational civil society organizations, such as environmental or women’s rights associations, pursue the system-wide improvement of standards.

By contrast, initiatives for horizontal differentiation are usually rooted in the special interests or deviant preferences of national governments or societal actors. It then depends on the strength and capacity of transnational and supranational actors whether they can counteract these initiatives and push for more unified integration.

Intensity of Transnational Exchange

One core proposition of supranationalism posits that the intensity of transnational exchange is a good predictor for explaining patterns of supranational dispute resolution and rule-making (Stone Sweet and Brunell 1998). According to supranationalists, variation in transnational exchange should be related strongly with variation in the demand for supranational rules. We therefore hypothesize that integration is more likely in policy areas characterized by high levels of transnational exchange. This implies that integration in economic policy sectors should advance more rapidly than in those areas with only few societal or transnational transactions to generate a demand for supranational rules, such as in

the area of security and defence policy (Fligstein 2008, for a qualification of this argument).

This hypothesis can also be cast in temporally dynamic terms. The fact that integration in the EC-6, and later in the EC-12, proceeded more rapidly in the area of the free movement of goods than in other policy fields can be explained by patterns of transnational exchange, which were initially more pronounced in the area of free movement of goods than in other policy sectors. This logic also applies to non-EU member states: the higher the levels of transnational exchange between EU countries and ‘outsiders’, the stronger the demand on behalf of transnational social actors from EU and non-EU countries to partake in integration. Transnational societal demand for integration should thus be lowest in countries where the scope of transnational exchanges linking the EU and non-EU countries is small. In *The Uniting of Europe*, Haas (1958) briefly touched upon this phenomenon: Under what conditions would supranationalists expect the occurrence of ‘geographical spillover’ (Haas 1958: 314), i.e. the expansion of sector integration to non-EU countries? According to Haas, trading patterns play an important role: the more interdependent the economies and the higher the levels of cross-border exchanges between EU ‘insiders’ and ‘outsiders’, the higher the demand for integration should be—both by political and economic elites in general, and traders and actors engaged in transnational economic exchanges in particular.

Patterns of differentiation along the horizontal dimension encompass, for instance, full membership in the EU or—below the threshold of full membership—association agreements offering selective integration between the EU and a third country (e.g. external differentiation). In the context of an association agreement, a third country may, for instance, be granted tariff-free access to EU markets. Supranationalists would thus expect ‘geographical spillover’ when the scope and density of cross-border exchanges is high—and the higher the scope and density of exchange, the higher the likelihood that demands for full membership will be voiced. However, ‘geographical spillover’ may not merely be restricted to the economic realm: the externalities of market-making policies, which may pertain to issues such as environmental protection, but also to questions about controlling and managing immigration, border controls, and ensuring internal security (all of which become prevalent in an economic community without internal borders), trigger demand for managing these externalities with third countries.

The density and scope of transnational exchange should also have a demonstrable effect on the demand for supranational rules or the abolition of domestic rules acting, for instance, as barriers to cross-border economic exchange. This should be reflected, *inter alia*, in the absolute number of cases brought before national courts to enforce EU law, as well as in the scope and density of supranational rule-making (secondary legislation) in a policy area characterized by high levels of transnational exchange. This latter point is interesting since it points at a particular dynamic or pattern of differentiated integration, that between ‘negative’ and ‘positive’ integration (Scharpf 1999). While negative integration refers to the abolition of national rules, which serve as obstacles to cross-border exchange, positive integration is the process whereby supranational rules are established to replace national rules in a particular area of policy.

As negative integration progresses, new obstacles to cross-border transactions—such as domestic laws, regulations, and administrative rules to protect the environment, consumers, workers’ health, and so on—will be exposed and targeted by social actors. These ‘newly exposed strata of national regulatory systems’ are likely to be targeted by traders ‘in subsequent rounds of litigation’ (Stone Sweet 2004: 74). Over the course of time, new groups of private actors not primarily engaged in cross-border trade but, instead, supporting an environmentalist agenda or non-discriminatory practices in the workplace, have pleaded rights under EU law. As a result, the ECJ has ‘steadily developed a rights-oriented interpretation of the Treaty (and of relevant secondary legislation)’ (Stone Sweet 2004: 148) thereby encroaching into new policy domains. Thus, indirect obstacles to trade, such as social provisions, as well as non-trade related issues, would become the (new) target of private actors. Thereby, the application of EU law spurred positive integration, i.e. the construction of EU-wide legal regimes in policy domains, such as social policy, environmental policy, and even taxation, where policy outcomes are predominantly under the Council’s (and also the EP’s) control.

We can thus hypothesize that integration is most likely to proceed initially in the domain of market-making policies, but is likely to spill over into the market-correcting domain as the EU’s legal system grows denser and the Court becomes more activist, taking up the demand for supranational rule-making from transnational society. This latter point is important, since market exchange and transnational demand do not suffice to bring about integration. As Philippe Schmitter has aptly

remarked, in and of itself interdependence ‘based on high rates of transactions is impotent’ (Schmitter 1969: 164). We need to turn to the preferences and capacity of supranational actors in responding to, and even promoting, the demands of transnational society.

Capacity and Preferences of Supranational actors

When and under what conditions do supranational actors, such as the Commission, the ECJ, or the EP, act upon the demand of transnational society to expand the reach of supranational rules? The capacity of these supranational actors to shift policy outcomes in directions that run counter to their member state ‘principals’ is tied to the level of discretion that these supranational ‘agents’ can exercise. The more loosely *ex ante* and *ex post* control mechanisms are designed, the higher is the level of discretion that supranational actors can exercise. As a result, ‘they will try to expand the gaps in member-state government control, and they will use any accumulated political resources to resist efforts to curtail their authority’ (Pierson 1998: 35).

What are the implications of this argument for our analysis of differentiated integration? We would expect that supranational actors less constrained by control mechanisms should be able to exercise higher degrees of discretion than supranational actors who are tightly controlled. Based on this reasoning, we would also expect integration to have a self-reinforcing effect. Looking at vertical integration, we would expect that in those policy areas where supranational actors already possess relatively high degrees of discretion (e.g. the Commission in competition policy or the ECB in monetary policy), the capacity of supranational actors to shift policy outcomes beyond the principals’ intentions should be higher than in policy areas where their discretion is more limited (e.g. the Commission in security and defence matters).

We also expect the processes of spillover and institutionalization to work against differentiation over time. First, if a policy sector is integrated earlier or at a higher level than others, the mechanisms of spillover create functional pressures or political steps to integrate neighbouring sectors (at a higher level) as well. Second, if a member state obtains an opt-out, or is excluded from a policy sector, the respective government or relevant interest groups may find themselves disadvantaged or marginalized, and strive to become fully integrated. Alternatively, institutionalization at the

supranational level stemming from court decisions, organizational development, and informal development provide de facto unification while differentiation continues de jure. For any given step of differentiation, supranationalism therefore leads us to expect an increase in unification as time passes.

CONJECTURES

As demonstrated in the previous sections, the main factors driving differentiated integration in supranationalist integration theory are the scope and intensity of transnational exchanges, as well as the preferences and capacity of supranational actors. At the level of *policies*, conjectures respond to the question as to why some sectors are more integrated, or have been integrated earlier, than others. At the level of *countries*, conjectures seek to explain why some states are less integrated, or have joined the EU and its policies later than others. Table 4.2 highlights how these different conjectures relate to vertical and horizontal integration and differentiation, respectively.

The scope and intensity of transnational exchanges in a particular policy sector also affect the *timing* of EU integration of a *policy area*. Policies characterized by a high intensity and scope of transnational exchanges will be integrated earlier than policies where this is less the case. The same logic holds for supranational capacities and discretion: Policy sectors where the capacities and discretion of supranational actors are more

Table 4.2 Supranationalist conjectures

<i>Integration outcomes</i>	<i>Explanatory factors</i>
Vertical and horizontal integration increase with	<ul style="list-style-type: none"> • scope and intensity of transnational exchanges • capacity and discretion of supranational actors
Vertical differentiation increases with variation in the	<ul style="list-style-type: none"> • scope and intensity of transnational exchanges • capacity and discretion of supranational actors across policies
Horizontal differentiation decreases with	<ul style="list-style-type: none"> • more geographically extended and intense transnational exchanges • higher capacity of supranational actors

developed are likely to be integrated earlier than where they are less pronounced. The timing of integration of *countries* is affected by the scope and intensity of transnational exchanges: the higher the scope and intensity of transnational exchanges exhibited by one country relative to another, the former will integrate earlier than the latter. Conversely, less interdependent and stronger countries are more likely to reject or opt-out from integration.

SELF-TEST AND DISCUSSION QUESTIONS

1. What are the key theoretical differences between intergovernmentalism and supranationalism?
2. Why do supranationalists believe that the study of European integration demands more than analyzing integration summits between heads of states and governments?
3. ‘EU integration is a process characterized by path dependence.’ Explain the concept of path dependence. Provide an example of how path dependence has shaped European integration in a selected policy area.
4. Supranationalists often refer to institutions, such as the ECJ and Commission, as ‘engines’ of EU integration. Discuss the conditions under which these ‘engines’ function at their best.
5. The EU has a common currency, but not a common army. How would supranationalism explain this example of differentiated integration?
6. Several EU member states, such as Sweden and Bulgaria, are not members of the eurozone. What accounts for this instance of horizontal differentiation according to supranationalism?
7. Why, according to supranationalism, did market integration precede integration in areas such as the free movement of persons or migration policy?
8. ‘The Corona-crisis is a likely candidate to trigger further integration!’ Discuss this claim for a supranationalism perspective.

FURTHER READING

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CHAPTER 5

Constructivism

In 1999, the *Journal of European Public Policy* published a special issue entitled ‘The Social Construction of Europe’, which signalled the formation of a ‘constructivist school’ in the study of EU integration (Christiansen et al. 1999). As in the case of intergovernmentalism and supranationalism, the theory was imported from IR where constructivism had established itself a few years earlier as the counterpart to the rationalist mainstream. Indeed, most of the early proponents of constructivism in EU studies had their academic roots in IR. Since then constructivism has firmly established itself as an approach to studying the EU but has not yet consolidated as a theory of European integration on the same level as liberal intergovernmentalism or neofunctionalism.

Simply put, constructivism claims that social ideas, collective identities, and discourses matter for European integration. This is not to say that ideas had not featured in theorizing on the EU before. But they were prominent mainly in early theoretical approaches. Federalism relied heavily on ‘ideas of Europe’ and value-based commitments as a motivation and orientation for European integration movements (Burgess 1989; Lippens 1982). Karl Deutsch’s ‘transactionalism’ defined an emerging ‘sense of community’, i.e. a transformation of identities, as the essence of integration (Deutsch 1957: 5). Neofunctionalism envisaged that European integration would lead to the socialization of actors involved in the

Table 5.1 Building blocks of constructivism

<i>Sociological institutionalism in international relations</i>	
General assumptions	Primacy of ideas Logic of appropriateness and arguing
Explanatory theories	Community theory of institutions Argumentation theory Socialization theory
Factors explaining integration	Ideational consensus Legitimacy Exposure to ideas and arguments

integrated policy-making process and ultimately result in a shift of citizens' loyalties and identities from the nation-state to the supranational community (Haas 1968: 16). Even traditional intergovernmentalism had a place for ideas such as the diversity of national traditions and the dominance of national identities—albeit as a limiting factor in European integration (Hoffmann 1966). By contrast, from the 1980s onwards, theories of European integration were based on explicitly 'rationalist' foundations (see Chapters 2 and 3). Liberal intergovernmentalism accords ideas only a minor role in the formation of preferences for integration and conceives them predominantly as a residual explanatory factor in situations of uncertain or negligible material consequences. The supranational institutionalist successor theories to neofunctionalism started from rationalist micro-foundations as well. The arrival of constructivism in EU studies thus redirected the theoretical attention to the ideational underpinnings, driving forces, constraints, and outcomes of European integration. In recent years, advances in scholarship on the 'new institutionalism', most notably the introduction of discursive institutionalism (Schmidt 2008), and the different crises which have plagued the EU—the Euro crisis, the migration crisis, or Brexit—have spurred interest in how ideas and communication about ideas affect EU integration and may even engender (dis-)integration (Börzel and Risse 2018).

Table 5.1 presents the main building blocks of constructivist theorizing on European integration. As in the previous chapters, we start at the most abstract level with general assumptions and hypotheses of sociological institutionalism in IR. On this basis, we outline building blocks of a constructivist theory of European integration, on the basis of which we will finally deduce hypotheses on differentiated integration.

GENERAL ASSUMPTIONS: IDEAS AND APPROPRIATENESS

Constructivist assumptions are fundamental to sociological institutionalism in International Relations. The label ‘sociological institutionalism’ covers approaches to the study of international institutions that deviate on two accounts from rationalist institutionalism as well as historical institutionalism—one relating to structure, the other to agency. First, sociological institutionalism assumes the primacy of ideational rather than material structures. Second, rather than behaving instrumentally or strategically, actors follow the ‘logic of appropriateness’ (March and Olsen 1999: 160) or the ‘logic of arguing’ (Risse 2000).

According to constructivism, the most relevant structures in International Relations are social constructions or, simply put, *ideas*. These ideas are social insofar as they do not only shape the thinking and actions of individuals but structure the cognitions of entire social groups. Ideas can be instrumental or principled. Instrumental ideas (or knowledge) relate to shared understandings of cause-effect relationship and problem-solving, e.g. about the causes of environmental degradation or the best ways to encourage international trade. Principled ideas comprise values and norms. Political values describe the desired properties and purposes of political order, e.g. freedom, equality, or economic growth. Norms are collective standards of appropriate behaviour. They consist of ‘dos’ and ‘don’ts’ that describe the socially desired behaviour of individuals and organizations and the appropriate means to achieve the purposes of the political order.

Identities are another important type of ideas. An identity expresses who we are, who belongs to us, and what unifies us. Typically, an identity also conveys what distinguishes us from others, the ‘in-group’ from the ‘out-group’. The identity of a group can be based on instrumental and principled ideas. In this case, the group defines and distinguishes itself by its knowledge, values, and norms. Such identities are in principle universal. Any individual can adopt an identity and belong to a group by adopting the group’s instrumental and principled ideas. As in the case of ethnic identity, however, identities may also be based on race, kin, homeland, or native language. Such identities are also socially constructed but refer to properties that are difficult or even impossible for individuals or groups to change or adopt voluntarily.

A *culture* consists of the entirety of a group’s ideas. To the extent that a group defines itself by its culture, it is a community. The members of

a community possess a positive collective identity—they identify themselves as part of the group and with each other—and share values, norms, knowledge, and other common ideas.

Ideas shape social preferences, interactions, and outcomes, and they do so in ways that cannot be reduced to material structures and interests. The focus on ideas distinguishes constructivism from both intergovernmentalism, which gives primacy to the material structure of interdependence, and supranationalism, which additionally brings institutional and organizational structure into play. Constructivism does not deny the relevance of material and organizational structures. But in the constructivist perspective, ideas shape how actors interpret interdependence and which solutions they choose to deal with it. In addition, they may enable or prescribe individuals' actions and outcomes that run against actors' cost-benefit calculations or power constellations, and they may exclude or prohibit behaviour that would seem instrumental on the basis of given existing material structures. Finally, constructivism assumes organizations and their behaviour to be motivated and constrained by organizational culture (knowledge, values, norms, and identities).

The 'logic of appropriateness' is the logic of action that corresponds to the primacy of intersubjective structures. According to this logic, actors do not judge alternative courses of action by the consequences for the actors' utility but by their conformity to values, norms, and identities, or to the actors' social obligations. Even if the ideas are unclear or contested, and thus do not prescribe a single appropriate behaviour, actors do not revert to instrumental behaviour and to maximizing their self-interest. Rather, they follow the 'logic of arguing', i.e. they enter into a discourse in which they exchange arguments in search for the valid idea and the appropriate course of action (Risse 2000).

Whereas rational institutionalism assumes governmental preferences to be exogenously given, sociological institutionalism treats them as endogenous in principle. That is, the identities, ideas, and interests of states can be modified or changed in the process of international negotiations and as a result of participating in international institutions. This transformation of identities and interests can be a result of argumentation and socialization.

EXPLANATORY THEORIES: COMMUNITY INSTITUTIONS, ARGUMENTATION, AND SOCIALIZATION

Sociological institutionalism offers three substantive theories that specify how ideas affect international negotiations and institutions. The ideational or community theory of institutions specifies under which conditions international institutions are formed, how they work, and what they do. It is equivalent to the functional and club theory of institutions in rationalist institutionalism. Argumentation theory explains the outcome of international negotiations in which ideas are contested. It is the constructivist counterpart of bargaining theory. Finally, the theory of international socialization tells us how international institutions shape and transform the ideas of international actors. Its purpose is similar to the path dependence mechanism in historical institutionalism. Sociological institutionalism thus seeks to explain two cause-effect relationships: the ideational causes of international institutions and their ideational effects.

Community theory of institutions. According to sociological institutionalism, international organizations are ‘community representatives’ (Abbott and Snidal 1998: 24). The origins, goals, and procedures of international institutions are shaped by the standards of legitimacy and appropriateness of the international community they represent (and which constitutes their cultural and institutional environment)—rather than by the utilitarian demand for efficient problem-solving (see e.g. Barnett and Finnemore 1999: 703; Katzenstein 1997: 12; Weber 1994: 4–5, 32). Different international communities with different collective identities, values, norms, and instrumental ideas establish international institutions with different purposes and organizational cultures and structures. Accordingly, an organization of democratic states will have other goals and rules than an organization of autocratic states, and an organization of Latin American countries differ from an organization of African countries.

First, international institutions depend on the strength of international community. The establishment of international institutions requires shared ideas, and their strength and stability increases with a common culture. Second, the culture and structure of international organizations depend on the ideas and identity of the underlying international community. What international organizations do, how they do it, and how they make and implement decisions is shaped by the instrumental and principled beliefs as well as the values and norms, of the community. Third, participation in international institutions is patterned by shared ideas.

The membership and borders of international organizations follow the borders of international communities. The design and membership of international institutions thus do not follow considerations of efficiency but community-based standards of legitimacy.

Argumentation theory. Put simply, an argument is a claim justified by a principle (a basic idea). Arguing is a negotiation mode based on the use of arguments—in contrast with the use of threats and promises in the bargaining mode. The theory of argumentation explains, among other things, under which conditions arguments are effective (Schimmelfennig 2003: 208–213). First, actors enter into arguing mode when claims are contested. If actors agree on the ideas and the behaviour that follows from them, there is no point in arguing. Second, the better argument prevails. The better argument is the one that provides a superior justification for the claim. The superior justification is either based on the better (correct or more legitimate) conclusion from a shared principle or—if the principle is contested—by the better (correct or more legitimate) higher-order idea. The actors with the better arguments thus obtain argumentative power and are able to define the consensus on the basis of their claims. They influence or shape the goals of the institution, the rules according to which it works, the collective decisions, and the distribution of gains and losses. If, however, the participants in a debate do not agree either on the principle of justification or any higher-order idea that can adjudicate between controversial claims, arguing does not lead to a consensual outcome.

In addition, the likelihood of argumentative persuasion depends on the institutional setting in which arguing takes place. In general, these are settings that facilitate or even normatively proscribe, but certainly do not punish, sincere argumentation and the openness of debates. Institutional settings that blur role identities, privilege authority based on expertise and or moral competence, and oblige chairs to be neutral have been credited with the propensity to favour argumentative persuasion, whereas the effect of publicity is ambiguous (see e.g. Risse and Kleine 2010). At any rate, and in contrast to explanations of rational institutionalism, the substantive outcomes of international negotiations and the activities of international organizations do not necessarily reflect constellations of material preferences and bargaining power. Rather, they mirror constellations of ideas and the power of the better argument.

Socialization theory. International organizations are not only community representatives but also community-building agencies. According to sociological institutionalism, they are able ‘to impose definitions of member characteristics and purposes upon the governments of [their] member states.’ (McNeely 1995: 33; Finnemore 1996). They ‘define international tasks [and] new categories of actors [...], create new interests for actors [...], and transfer models of political organizations around the world’ (Barnett and Finnemore 1999: 699). In that way, they do not simply regulate state behaviour but constitute state identities and interests. How and under which conditions they are able to induct actors to the community culture is the subject of theories of international socialization.

Constructivists have established a widely accepted catalogue of conditions under which international socialization is likely to be effective (Checkel 2001: 562–563; Johnston 2001: 498–499; Risse 2000: 19).

- Actors face *novel* situations characterized by high *uncertainty*. This makes them susceptible to learning new ideas, whereas their old ideas appear inadequate.
- The organization possesses the *authority* to act on behalf of a community with which a particular actor *identifies* (or to which an actor aspires to belong). Actors that do not identify themselves positively with the community or do not accept the authority of the international organization are less likely to accept the community’s constitutive ideas or the organization’s prescriptions.
- Actors are *exposed intensely and consistently* to the community ideas. The more closely and frequently actors participate in and interact with the community organization, and the more consistent the messages are that they receive from it, the more effective international socialization is likely to be.
- Socialization concerns norms and rules which enjoy high *legitimacy* in the community.
- Socialization takes place in an environment which encourages *deliberation* and is characterized by the absence of external and political constraints. Put differently, arguing is more conducive to socialization than bargaining.
- The domestic or societal *resonance* of the community ideas is high. If community ideas appeal to or can be demonstrated to build on existing domestic ideas, they are accepted more easily.

Socialization agencies and processes that fulfil these conditions are more likely to shape and transform the ideas to which international actors adhere.

CONSTRUCTIVISM AND EUROPEAN INTEGRATION

In the constructivist perspective, European integration is at its core a process of community-building. Over time, community-building and (institutional) integration mutually influence and potentially reinforce each other. Initially, strong communities with shared ideas and a positive collective identity are conducive to growth in integration. In turn, integrated institutions that provide for dense interactions and possess high legitimacy deepen the community through socialization processes. While constructivism highlights the social processes leading to community-building and integration, postfunctionalism (see Chapter 6) focuses on the rigidity of national identities and Eurosceptic ideologies as counter-forces to EU-wide community-building.

The constructivist research programme in European integration studies has three distinct foci that can be seen in a temporal sequence—roughly equivalent to the three-step explanation of integration in liberal intergovernmentalism. The first focus is on the effects of ideas on integration preferences. The main assumption here is that institutional integration depends on the strength of transnational community: the stronger the collective, ‘European’ identity, and the larger the pool of common or compatible ideas, the more institutional integration we will see. By contrast, weak European and strong national identities generate resistance to institutional integration. Without shared normative and causal beliefs, common institutions and integrated policies are hard to agree on.

The second focus asks how the intersubjective context of negotiations and decision-making affect integration outcomes. Thirdly, constructivists are interested in the effects of European integration and institutions on community-building. These latter two perspectives start from the assumption that institutional integration promotes community-building. Moreover, they provide the theoretical foundations for neofunctionalist expectations of upgrading the common interest, actor socialization, and shifting identities and loyalties (Lindberg and Scheingold 1970: 117–120). Integrated policy-making generates intense and frequent contacts and cooperation and takes place in a distinct environment structured by

community norms. This environment facilitates integration-friendly decisions and promotes social learning processes that have the potential to transform identities, restructure discourses, and lead to common meanings and beliefs. The three foci correspond roughly to the three explanatory approaches. The community theory of institutions explains integration by ideational preferences, the theory of argumentation explains the outcome of negotiations, and socialization theory explains the effect of community institutions on actor beliefs and preferences.

Ideas and Integration Preferences

The constructivist account of integration starts with ideas. In a first step, ideas shape the integration preferences of individual actors. In a second step, the constellations of ideas across relevant actors determine the chances for integration to occur. The most general hypothesis stipulates that the likelihood of integration increases with the agreement of pro-integration, ‘European’ ideas among the relevant actors. This hypothesis triggers further, more concrete questions: Which ideas matter? What is the meaning of ‘Europe’ or ‘European’? How much agreement is needed? Who are the relevant actors?

All types of ideas are potentially relevant for community formation.

- The integration of policy sectors requires that the actors share *instrumental ideas* regarding the best or appropriate way to achieve policy goals—including the belief that the policy is best pursued through regional integration. In a constructivist perspective, the Common Agricultural Policy is based, among others, on the belief that a secure supply of food in Europe requires protecting and subsidizing farmers by the Community. The ‘meaning of Europe’ at the instrumental or policy level consists in specific ideas on ‘European governance’, which are distinct both from national policy-making and global governance beyond Europe.
- *Principled ideas* shape both the policy goals and the constitution of the EU. For constructivists, European integration is based on and committed to promoting specific values and norms. To learn about these principled ideas and see what ‘Europe’ means, one can turn to the Treaties. Liberty, democracy, respect for human rights, fundamental freedoms, and the rule of law, solidarity, national diversity, and economic and social progress are listed in the Preamble to the

Treaty on European Union. These and other principles inform decisions on integration as well as EU policy. According to the concept of ‘normative power Europe’ (Manners 2002), for instance, liberty, democracy, human rights, fundamental freedoms, and the rule of law provide the ‘normative basis’ for the EU’s role in the world and its foreign policy.

- Finally, *identities* matter greatly for constructivist integration theory. Identities can be ethnic or civic. An ethnic conception of identity would conceive of European identity in terms of a sense of belonging and allegiance to the imagined community of Europeans as defined by a common culture or history. The second, civic conception of a European identity is based on the values and norms of European integration. In this view, ‘Europeanness’ is defined by adherence to such principles as liberal democracy, national diversity, multilateralism, and supranational integration. We can also distinguish these two conceptions of ‘Europe’ as ‘thick’ and ‘thin’ European identities. Whereas a thick European identity resembles national identities in being based on group identification, a thin European identity consists of abstract transnational values and norms.

How much agreement is needed? At least in the beginning of the integration process, the ideas that shape integration preferences mostly stem from the national political and cultural environment. National policy paradigms regarding economic and other policies, national constitutional values and norms, and national identities and images of Europe inform preferences on the desirability, form, and substance of European integration. Constructivists assert that these ideas need not necessarily be harmonized but must at least be compatible in order to allow for integration. For instance, empirical research shows that *exclusive* national identities weaken support for the EU (Hooghe and Marks 2005; Kuhn 2019). Having a national identity, however, is not necessarily detrimental to support for European integration if people feel at least somewhat ‘European’, too. In the Brexit referendum, for example, feelings of Scottishness were more pronounced among Scottish ‘remainers’ than among Scottish leave voters. In England, to the contrary, strong feelings of Englishness translated into a high likelihood to vote leave (Kuhn 2019). Conceptions of national and European identity are thus not always compatible, because of the different conceptions of Europe that are embedded in national identity discourses. Still, for EU integration to

ensue national identities need not to be replaced by a harmonized European vision. It is sufficient if these visions are compatible and include the European project as a part of national identity (Waever 2009).

Constructivism as such does not take any particular stance regarding the relevant actors in European integration. Ideas can operate at the level of governments, parties, associations, citizens, and supranational organizations. To some extent, *whose* ideas matter has to do with opportunities and constraints in the decision-making process—just as liberal intergovernmentalism relies on institutions and power constellations to determine whose interests become the national interest. Most fundamentally, there is an elite-mass or class divide on European integration. Educated and well-to-do people are more likely to see themselves as Europeans (Fligstein 2008: 145), and mainstream parties are generally in broad support of European integration. Conversely, exclusive national identities and the Euro-scepticism that they engender are most likely to be found outside the political mainstream. Consequently, progress in integration depends on the extent to which mainstream elites remain in control of the national preference formation process or their opponents are able to mobilize identity-based dissent. Not only constructivists highlight that the support of mainstream elites is essential for the advancement of the integration process, supranationalism (Chapter 4) and intergovernmentalism (Chapter 3) also underline the importance of political and economic elites as drivers of EU integration. Widespread mainstream elite support for EU integration was largely unquestioned until the early 1990s. Not least since the Maastricht Treaty, identity-based conflicts over EU integration have become more prominent, effectively ‘politicizing’ EU integration (Hooghe and Marks 2009) and awakening of the ‘sleeping giant’ (Van der Eijk and Franklin 2007). A permissive consensus and elite agreement about EU integration has given way to an intensification of political conflict over EU integration. The rise of Eurosceptic mass identities and populist challenger parties is indicative for the politicization of EU integration. Postfunctionalist theory (see Chapter 6) explores systematically how this new cleavage, which pits conflicting ideas and visions about Europe against each other, constrains mainstream elites in steering the integration process.

Negotiations in a Community Environment

Constructivist integration theory emphasizes the diversity of national identities, images of Europe, integration discourses, institutional traditions, and policy paradigms. At least in the initial phases of integration, when European institutions are still young and weak, long-standing, and well-established national ideas and discourses are likely to dominate. This state of affairs poses a problem for the constructivist explanation of progress in integration. After all, it starts with the assumption that integration depends on transnational community. The national constitution of ideational integration preferences will only be unproblematic under two conditions: first, that national ideas and preferences are similar or at least compatible; or second, that integration remains limited to ‘technical’ issues without notable identity or value connotations, which are unlikely to be politicized. In addition, however, constructivism proposes mechanisms of argumentation and appropriate behaviour in negotiations on European integration that facilitate consensus in the face of diverse and value-laden preferences.

In the rationalist perspective, integration outcomes result from constellations of interests and power. If national interests diverge, states with superior bargaining power are able to shape integration according to their interests. By contrast, constructivists claim that actors with conflicting preferences engage in a process of arguing in which the ‘better’ argument prevails. The quality of an argument is mainly determined by its relative legitimacy in a given community environment. A more legitimate argument is, for instance, based on a more fundamental, time-honoured, consensual, or formalized community idea than another argument. In the context of European integration, preferences and arguments based on treaty rules, basic principles of the EU, uncontested identities, values and norms, or long-standing practice will thus have higher legitimacy than preferences and arguments referring to secondary law, technical rules, contested ideas, and recent practice.

The most far-reaching outcome of arguing is *persuasion*: actors with weaker arguments are convinced by the better arguments and change their integration preferences. In the end, consensus reigns. However, actors do not necessarily change their preferences. Rather, actors whose preferences are not (or less) in line with the community identity, norms, and values are subjected to negative *social influence* like shaming and shunning, ostracism and opprobrium (Johnston 2001). To avoid these

social sanctions and to restore their reputation as a community member, these actors conform to the legitimate arguments and behaviour without changing their convictions (Schimmelfennig 2001; Thomas 2009).

Studies of enlargement provide ample evidence for ideational effects on negotiations and their outcomes. Already in the early 1960s when the big member states favoured giving Franco's Spain a membership perspective, the Parliamentary Assembly of the EEC invoked the liberal-democratic (and anti-fascist) identity of the Community to mobilize successfully against association (Thomas 2006). In the early 1990s, the same liberal-democratic identity worked in favour of Eastern enlargement. When a powerful majority of self-interested member states were reticent to give the Central and Eastern European countries (CEECs) a firm membership perspective, the CEECs' governments and their supporters in the EC framed enlargement as an identity issue, referred to the pan-European and liberal-democratic enlargement norms of the EC and reminded the opponents of past promises made to the East (Schimmelfennig 2001). This 'rhetorical entrapment' compelled the reluctant member states to agree to enlargement (without harmonizing their enlargement preferences). The same mechanism has been at work in EU–Turkey relations ahead of the start of accession negotiations in 2005 (Schimmelfennig 2009).

In the constructivist perspective, the constitutionalization of the EU has likewise been a result of arguing dynamics (Rittberger and Schimmelfennig 2006; Schimmelfennig 2010). Integration systematically undermines traditional channels of parliamentary representation and accountability by pooling sovereignty and delegating it to supranational institutions for reasons of efficiency. For the same efficiency reasons, governments are generally not interested in empowering the European Parliament or other supranational institutions. In addition, their ideas about what constitutes a legitimate constitution for Europe diverge (Rittberger 2005). In this situation, actors with a preference for democratizing the EU scandalized the democratic deficit, invoked the uncontested principle of parliamentarism, and successfully put normative pressure on reticent member state governments in order to strengthen the competences of the EP.

Even if arguing fails because standards of legitimacy are too weak or too controversial to adjudicate between claims, negotiations do not necessarily resort to hard, strategic bargaining. Rather, constructivist analyses point to informal norms of deliberation, compromise, and consensus that govern intergovernmental negotiations and decision-making in the EU

(Joerges and Neyer 1997; Lewis 2003a, 2003b). Jeffrey Lewis (2010) argues that the insulation from domestic politics in in-camera settings, a high intensity of interactions, a wide scope of issues under negotiation, and a dense set of formal and informal norms facilitate cooperative, accommodative behaviour—and he finds these conditions in the Council and its committee system. Risse and Kleine (2010) compare negotiations on the same issue in an Intergovernmental Conference and in the Convention that drafted the Constitutional Treaty. They find that the less rigid roles, the transparent debate, and the expert-based leadership during the Convention facilitated arguing and persuasion.

Finally, political agreement among domestic and EU-level elites may prove insufficient to advance the course of EU integration, since publics need to be persuaded as well. Discursive institutionalists have pointed out that for EU integration to be successful, policy coordination among elites through deliberation and persuasion is necessary but insufficient for policy agreement (Schmidt 2008). To obtain support, political elites have to engage in a mass process of public persuasion—a ‘communicative discourse’—about the necessity and appropriateness of a proposed policy or political programme (Schmidt 2008, 2010). In her analysis of the euro crisis from the purview of discursive institutionalism, Schmidt (2014) argues that failures in crisis management were due to both, ideational clashes among EU leaders hampering attempts at persuasion at the elite level, as well as the incommensurability between elite-level discourses and communicative discourses between elites and publics. Given the strength of the electoral connection with national publics, national leaders considered national communicative discourse more important than the EU elite-level discourse. Placating and convincing national publics seemed more important, even when it jeopardized the adoption and success of crisis management measures (see also Degner and Leuffen 2020).

In sum, constructivists see a stark contrast between negotiations and decision-making in domestic, mass-level politics, which are likely to mobilize exclusive national identities and limit or slow down integration (as emphasized by postfunctionalism, see Chapter 6), and in international, elitist forums, where community standards of legitimate policy and appropriate behaviour are likely to dominate and facilitate further integration. In both arenas, integration is shaped fundamentally by ideas and communicative interactions.

Integration and Socialization

In European integration, socialization processes are considered to take place at three different levels: the socialization of states or governments inside and outside the EU; the socialization of individual officials participating in integrated policy-making; and the socialization of citizens. The general causal factors of socialization listed above can be grouped under two main conditions: exposure and legitimacy. First, European socialization is more likely to be successful if actors are frequently and intensively exposed to the outcomes of European integration, EU institutions, and European ideas. Exposure is facilitated if the actors are willing to engage in contacts with the EU and open to adopting new ideas. Second, European socialization requires that actors find these ideas legitimate. This is more likely to be the case if they identify with ‘Europe’, European ideas resonate with prior individual or national ideas, and socialization takes place in a deliberative setting (see e.g. Lewis 2005).

We speak of ‘state socialization’ when countries incorporate EU policy ideas, values, and norms into their state institutions or policy rules. The socialization of governments means that governments as corporate actors come to share EU ideas and identities and include them in their policy programmes and behavioural repertoires. State and government socialization operate at a collective, institutional level; they do not necessarily imply that individual members of government or state officials change their individual beliefs and attitudes. States or governments are more likely to be socialized and change their ideas in line with EU policy and normative ideas under the following conditions:

- States are new (e.g. newly independent), unconsolidated, or in a process of restructuring, which makes them more open to (and interested in) external ideas.
- State structures and institutions are conducive to supranational integration or multi-level governance (e.g. in federal states or states with international-law friendly constitutions).
- States have policy rules that resonate with EU rules.
- Governments do not run on a nationalist or anti-integration platform or do not include coalition partners that do so.
- States and governments are in frequent and intense contact with the EU.

Although it is often assumed that long-standing member states are more likely to be socialized to EU policy ideas, values, and norms, these conditions make clear that this needs not be the case. Whereas old member states have been exposed to integration for a longer time, novelty and uncertainty work in favour of new member socialization. Finally, identification, legitimacy, and resonance may vary independently of how long a state has been an EU member. Old member states with strong national identities, centralized and unitary state structures, and protectionist policy rules may be more resistant to European socialization than new member states with integration-friendly institutional and policy legacies.

These conditions also hold for non-member states. Factors like novelty and uncertainty in the international system, identification with the EU community of values and norms, perceived legitimacy of the EU and its rules, resonance of EU norms and rules with domestic ones, and exposure to the EU explain the propensity of non-member states to seek membership and to adopt EU rules as well as the willingness of member states to support their accession. Constructivism thus explains enlargement (and horizontal integration in general) as a result of successful socialization.

At the individual level of socialization, we can distinguish individuals, who are directly involved in European institutions and policy-making processes, from ordinary citizens. The first group consists of officials who either work for the EU or are sent to Brussels by their governments but may also include lobbyists and journalists. Studies of officials hypothesize that socialization depends on factors such as the length of stay, the intensity of contact, previous experiences, age, and prior attitudes. Officials who are employed by the EU full-time, started their work for or with the EU at a young age, and were favourably disposed towards ‘Europe’ are more likely to adopt and internalize pro-European ideas than those who are only seconded by their governments late in their career and for a short-time—and those who come to Brussels with strong national identities and beliefs in state sovereignty. Empirical studies emphasize the key role of prior beliefs and attitudes acquired at the national level and domestic recruitment and selection patterns and point to the limited relevance of exposure (Beyers 2005; Hooghe 2005; Kassim et al. 2013). However, the fact that pro-European officials are more likely to participate in EU politics facilitates European policy-making even in the absence of strong exposure effects.

Regarding the European socialization of ordinary people, constructivist analyses stipulate similar conditions. Direct experience of European

integration such as paying with the Euro or crossing Schengen borders should strengthen European identity (Kuhn 2015). But direct experience with Europe can also be negative. European attitudes and identification were negatively affected by the EU-imposed financial and economic crisis measures, which had hit several EU member states with economic recessions and harsh austerity programmes throughout the 2010s. Polyakova and Fligstein (2016) show, for instance, that citizens in the countries hit hardest by economic downturns, identified less with the EU and turned to their national identities instead. More generally, however, young age, the knowledge of foreign European languages, and travel experiences also have a positive influence on opportunities to interact with other Europeans and to build pro-European attitudes (Fligstein 2008). For instance, the Brexit vote exhibits a strong class, educational and generational divide among remain and leave voters. While younger and higher educated voters voted in favour to stay in the EU, the less educated and more precariously employed voters supported the leave side (Hobolt 2016).

Constructivist integration theory is open to the possibility that integration and socialization create a self-reinforcing process. As integration increases, so will the exposure of governments, officials, and ordinary people. To the extent that exposure is perceived as beneficial, these actors will adopt a pro-European identity and European policy ideas. This will then translate into pro-integration preferences and enable further integration. The ‘virtuous circle’ is not a foregone conclusion, however. Whether exposure results in positive socialization depends on prior attitudes and the nature of the exposure. Nationalist governments and individuals are likely to feel culturally threatened by increasing integration. EU policies that do not resonate with domestic values and policy beliefs produce ideas-based resistance towards integration, too. In addition, coercive, heavy-handed, or redistributive EU policies could trigger opposition, as was evidenced by the EU’s multi-crisis. ‘Too much’ integration may therefore lead to ideationally motivated backlash, a point which we will return to in the chapter on postfunctionalism (see Chapter 6).

General Hypotheses

According to constructivism, integration is shaped by the nature and distribution of ideas—and by their development and transformation over time. Integration fundamentally depends on the extent of ideational consensus among the actors participating in the integration process. The

more compatible or common the relevant identities, norms, values, and policy beliefs are the more likely integration can be achieved. This effect is reinforced or supported by the institutionalization of common norms, values, and policy ideas in the EU and by argumentative settings at the supranational level. Successful integration contributes to the further institutionalization of ideas in the EU and generates socialization processes, which potentially increase the commonality or compatibility of ideas among the participating actors—in particular if the integration outcome increases exposure and enjoys high legitimacy. Both institutionalization and socialization increase the likelihood of future integration.

Supranationalism and constructivism thus share the view—rejected by intergovernmentalism—that institutions have an independent and integration-friendly effect on the preferences and behaviour of actors. According to supranationalism, however, supranational institutions support integration mainly by altering the cost–benefit calculations of state actors, whereas they change actors’ ideas in the constructivist account. On this basis, we can formulate three general constructivist hypotheses about integration.

Integration increases with the commonality of (pro-integration) ideas. The more that the relevant actors in European integration share ideas of ‘Europe’, the more likely it is that they can agree on further vertical and horizontal integration. The relevant actors are those that have a say in the making of integration decisions. In order to work in favour of integration, these ideas obviously have to support integration or at least should not be anti-integrationist: if, for instance, all actors shared the idea of the primacy of national sovereignty, integration would not obtain despite a strong value consensus. Moreover, the ideas need to fit the scope of the envisaged integration step. Whereas a shared pro-European identity facilitates integration in general, agreement on policy ideas may promote further integration in the specific policy-area. Whereas further horizontal integration requires an expansion of ideational community to other countries, vertical integration requires shared ideas about the appropriate level of national sovereignty, the appropriate division of competences between the national and the supranational level, and legitimate decision-making rules beyond the nation-state.

The substantive terms of integration are shaped by consensual ideas. European policies mirror policy ideas that are widely accepted as legitimate and

that resonate well with national policy ideas among the member states. The constitution of the EU reflects European constitutional norms.

Integration is facilitated by the supranational institutionalization of ideas and decision-making in argumentative supranational settings. There are two reasons for this. First, ideas (norms, values, and policy beliefs) that have been institutionalized at the European level (in treaties, in declarations, or in political practice) enjoy high legitimacy and help form a consensus around contested integration proposals. Second, it is easier to build support for integration among elites (who tend to be more integration-friendly than ordinary citizens) at the supranational level, where decision-making is partly removed from the conflicts of domestic politics, and in committees that privilege the reasoned search for consensus. At the other extreme, domestic mobilization of national identity and decision-making involving referendums are most likely to block further integration.

CONSTRUCTIVISM AND DIFFERENTIATED INTEGRATION

The constructivist explanation of differentiated integration is structurally similar to intergovernmentalism but based on legitimacy rather than efficiency considerations. Whereas intergovernmentalism stresses unequal interdependence as the main source of differentiation, constructivism emphasizes imperfect ideational consensus. The ‘heterogeneity of preferences’ in intergovernmentalism corresponds to ‘ideational heterogeneity’ in constructivism.

Conditions

The factors that influence differentiation in European integration in the constructivist perspective follow from the general hypotheses outlined above. The extent of ideational consensus is the fundamental factor. In addition, argumentation and socialization effects matter.

Legitimacy of constitutional ideas. The extent of differentiation depends on legitimate constitutional ideas. If there was an ideational consensus that the level of integration has to be the same across all policy sectors, we would not see vertically differentiated integration, and if it was legitimate that all member states should be subject to the same rules and

that non-member states ought not to participate in EU policies, we should not observe horizontal differentiation. By contrast, if the dominant constitutional ideas about European integration allowed for or even proscribed vertical or horizontal differentiation, we should observe it more frequently. For instance, the actors may believe that trade policy ought to be more integrated than defence policy, or that member states should be allowed to select autonomously which integrated policies to participate in.

Ideational contestation. In general, ideational contestation produces integration failure or low levels of integration. If it varies across policies, however, it is source of vertical differentiation. Policies with a strong ideational consensus are likely to be more integrated—and integrated earlier—than those in which policy ideas are contested. The difference in the extent and timing of integration in trade and defence could therefore alternatively be attributed to the early existence of shared policy ideas in trade and to contested policy ideas in defence. The larger the difference in ideational consensus across sectors, the more vertically differentiated integration will be. A similar reasoning applies to horizontal differentiation: societies and states with a strong consensus on the ideational foundations of integration and policies are likely to be uniformly integrated, whereas ideational contestation between groups of states is conducive to horizontal differentiation.

Integration norms. Differentiation is potentially inhibited by integration norms. The most general one is enshrined in the general principle of ‘ever closer union’, which entails two norms that are relevant in the context of differentiated integration: the unity norm and the integration norm. The unity norm demands that the member states preserve the unity of the EU and EU law. The integration norm obliges the member states to integrate further. Both norms work together in discouraging differentiated integration if it destroys the unity of the EU without promoting integration. They are compatible with vertical differentiation if issue-areas are integrated more strongly and more quickly than others and if new integrated policies start at a lower level of vertical integration than older ones. The premise is that the less integrated areas will catch up in due course. By contrast, regressive vertical differentiation resulting from a reduction in integration would run counter to these norms. Horizontal differentiation is also permissible if it permits one group of countries to move ahead with integration rather than being blocked at a low level of uniform

integration—especially if it allows and encourages the laggards to join later.

Institutionalization of ideas and argumentative setting. Negotiations in a community environment further increase the chances that integration can be achieved and differentiation can be circumvented—even if there is no ideational consensus to begin with. Agreement on further and unified integration is most likely to obtain if the ideas on which a policy is based are in line with fundamental values and norms and well-established instrumental beliefs of the community, and if these values, norms, and beliefs have been institutionalized in EU rules and practice. Under these conditions, they possess high legitimacy and exercise a consensus and compliance pull on the actors. The norms of arguing and consensus operating in the supranational negotiating forums of the EU reinforce this effect.

Socialization. Socialization may reduce differentiated integration if the conditions are right. Assume that, initially, the integration of a policy is low or differentiated because of high ideational contestation. Exposure to the new policy—and the European institutions executing it—may then soften the initial opposition and help building a consensus that makes stronger integration possible and persuades member states to give up their opt-outs. As time elapses, the new policy is likely to gain legitimacy. In addition, officials and citizens of the opt-out countries may feel marginalized and seek to reconnect fully with the community. Thus, all else being equal, both institutionalization and socialization can be expected to reduce differentiation over time.

CONJECTURES

On the basis of these considerations, we can now formulate general conjectures about (differentiated) integration. The main conditions are consensus and legitimacy. Consensus refers to the commonality of integration-friendly ideas across countries and legitimacy to the institutionalization of such ideas in the EU (Table 5.2).

These factors also affect the *timing* of integration. Policies are integrated earlier and faster if they exhibit higher consensus and if integration is viewed as more legitimate. Turning to the timing of integration of countries, constructivists expect that the likelihood of a state to participate

Table 5.2 Constructivist conjectures

<i>Integration outcomes</i>	<i>Explanatory factors</i>
Vertical and horizontal integration increase with	<ul style="list-style-type: none"> • legitimacy of ideas • ideational consensus • supranational institutionalization of ideas
Vertical differentiation increases with	<p>differences in</p> <ul style="list-style-type: none"> • legitimacy of ideas • ideational consensus • institutionalization of ideas between policies
Horizontal differentiation increases with	<ul style="list-style-type: none"> • ideational contestation of the policy • differences in legitimacy beliefs across countries

in the integration of a policy increases with the adoption of transnational identities and perspectives, the proximity of its policy ideas and values to the other participating states, and the domestic legitimacy of EU integration. Conversely, countries with more exclusively national identities, outlier ideas, and contested domestic legitimacy of European integration are more likely to participate in European integration later or more selectively, and seek opt-outs from further integration.

In the constructivist perspective, a decrease in horizontally differentiated integration requires that collective identities, ideas, and legitimacy beliefs converge transnationally. Constructivism assumes that socialization can further these developments, especially if actors are highly exposed to institutionalized ideas in supranational contexts conducive to argumentative discourse.

SELF-TEST AND DISCUSSION QUESTIONS

1. Constructivists emphasize the analytical primacy of social over material structures. Identify and describe the most important social structures according to constructivism.
2. What is the difference between ‘arguing’ and ‘bargaining’?
3. Why should a citizen’s age impact attitudes on European integration from a constructivist point of view?

4. Consider any pair of EU states, e.g. Germany and France or Hungary and Poland. How would you describe their EU-related identities? What are the consequences of these identities for EU integration?
5. EMU is more vertically integrated than defence policy. How would constructivism explain this vertical differentiation?
6. Sweden has an opt-out from the Euro, but it participates in the Schengen area. How would constructivists explain this variation?
7. How would constructivism explain the lack of a joint EU response to the migration crisis and, conversely, the joint integrative response to the Euro-crisis?

FURTHER READING

The collection of essays in Thomas Christiansen, Knud Eric Jørgensen and Antje Wiener (eds). 1999. *The Social Construction of Europe*, *Journal of European Public Policy* 6 (4) set the scene for constructivism-inspired analyses of EU integration.

Checkel, Jeffery and Moravcsik, Andrew. 2001. A Constructivist Research Program in EU Studies? *European Union Politics* 2 (2), 219–249 engages in a lively debate about the promises and pitfalls of constructivism in explaining EU integration.

Lewis, Jeffery. 2005. The Janus Face of Brussels: Socialization and Everyday Decision Making in the European Union. *International Organization* 59 (4): 937–971 demonstrates how the socialization of high-ranking government officials into a Brussels-based collective culture affects the process and outcome of EU-level negotiations.

Risse, Thomas. 2015. *A Community of Europeans?: Transnational Identities and Public Spheres*. Ithaca: Cornell University Press explores the long-term effects of EU integration on citizens' political identities.

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CHAPTER 6

Postfunctionalism

Postfunctionalism is the most recent addition to the canon of major integration theories. In an article published in the *British Journal of Political Science* in 2009, Liesbet Hooghe and Gary Marks coined the term and presented the foundations of a theory of integration that they juxtaposed to the dominant ‘functional’ integration theories, intergovernmentalism and supranationalism (Hooghe and Marks 2009). In contrast to the theories we presented in the preceding chapters, postfunctionalism has its roots in theories of democratic and comparative politics rather than in IR and institutionalist theory. It builds on research on multi-level governance, public opinion, parties, and elections.

The concept of multi-level governance starts from the observation that political authority is dispersed across numerous spatial and functional jurisdictions. The concept had already been established for quite some time in the study of the EU (Jachtenfuchs and Kohler-Koch 1996; Marks et al. 1996) but it was mainly used as a framework for describing the workings of the EU and not as a theory of institutional development. The same is true for the use of concepts and theories of democratic politics. Research on public opinion, party preferences, and competition as well as legislative, executive, and judicial politics in the EU and its member states had made major progress since the 1990s (see Hix and Hoyland 2011 for an overview of this line of research). Yet it was

focused on the ‘day to day’ politics of the EU rather than the constitutional dynamics of the EU polity. The turn towards theories of multi-level governance and democratic politics in the EU is based on the assumption that traditional integration theories are myopic towards the variegated domestic foundations of EU politics. Moreover, given the EU’s increasing role in the authoritative allocation of values on the European continent (and beyond), or in other, Lasswellian words, its role in determining ‘who gets what, when and how’, those schools have insisted on the importance of studying the EU as a political and governance system. But postfunctionalism goes one step further. While they start from the multi-level-governance and democratic-politics lines of research, Hooghe and Marks (2009) spell out their implications for the development of European integration and challenge existing integration theories directly.

The name of the theory derives from the postfunctional logic of the allocation of competences within a system of multi-level governance (Hooghe and Marks 2016). Postfunctionalism agrees with the sociological-institutionalist assumption that jurisdictions build on communities of common cultures and identities (see Chapter 4 on constructivism). As community beings, individuals have a fundamental interest in the collective self-determination of their community—with regard to both national and democratic self-determination. This fundamental goal is likely to conflict with the functional logic of efficient authority allocation underpinning both intergovernmentalism and supranationalism. Whereas efficiency often calls for an expansion of political units, self-determination is generally better served in smaller entities.

Finally, postfunctionalism starts from the assumption that regional integration has become firmly embedded in the democratic mass politics of states; at least after it has crossed a certain threshold of integration. In the case of the EU, ‘politicization’ is often argued to have started with the Treaty of Maastricht. Therefore, contemporary explanations of regional integration can hardly ignore public opinion and party politics any longer. They need to account for the attitudes of citizens, their collective identities, and as a result, their support for integration. They further need to take into consideration the structure of party systems and party competition as well as national institutions and processes of democratic decision-making and preference aggregation, also with respect to treaty ratification. The rise of self-determination concerns and the increasing politicization of regional integration constrain

Table 6.1 Building blocks of postfunctionalism

<i>Sociological institutionalism</i>	
General assumptions	Postfunctional logic of self-determination Democratic mass and party politics of integration
Explanatory theories	Multi-level governance; democratic politics
Factors of integration	Core state policies, national identity, party constellations, domestic democratic institutions and processes

the ‘detached’ intergovernmental bargains theorized by intergovernmentalism, the spillovers theorized by neofunctionalism and the supranational community-building prospects theorized by constructivism. The domestic salience and contestation of European integration, the rise of Eurosceptic parties and governments, the Brexit vote, and the deep crises of the EU provide *prima facie* empirical plausibility for an integration theory that puts mass politicization and domestic constraints centre-stage in explaining the trajectory of European integration. Table 6.1 presents the main theoretical building blocks.

MULTI-LEVEL GOVERNANCE AND THE DEMOCRATIC POLITICS OF REGIONAL INTEGRATION

Like constructivism, postfunctionalism subscribes broadly to the tenets of sociological institutionalism. It shares the assumption that socially constructed ideas play a fundamental role. In particular, it stresses the relevance of collective identities and ideologies for integration. They shape political preferences, organizations, and behaviour, and they do so in ways that cannot be reduced to functional needs or material interests. Moreover, they tend to override calculations of material costs and benefits and considerations of efficiency.

Beyond this fundamental agreement, however, constructivist and postfunctionalist analyses of European integration give different answers to the three-fold question: ‘which ideas matter, where, and how?’ First, postfunctionalism focuses on identities and ideologies. Hooghe and Marks ‘claim that *identity* is decisive for multi-level governance in general, and for regional integration in particular’ (2009: 2, emphasis in the original). In addition, postfunctionalist analyses put strong emphasis on party ideologies. These ideologies traditionally encompass the economically,

socially, or culturally ‘conservative’ and ‘progressive’ ideologies of the left and right. Of particular relevance for the issue of identity and supranational integration is the clash between nationalism and internationalism, or communitarianism and cosmopolitanism (De Wilde et al. 2019). Moreover, the ideology of populism has made massive inroads in European party systems. To be sure, identities and ideologies are important for constructivism, too. But constructivist analyses start from a broader conception of ideas and put a focus on principled policy ideas and norms.

Second, postfunctionalism is rooted in comparative politics and multi-level governance and therefore has a domestic focus. As we have seen in Chapter 5, constructivism, while being largely agnostic about the level of analysis, regards international organizations as sites and actors of ideational production (Checkel 2005). For instance, it studies how ideas are constructed and reconstructed at the European level, through transnational interactions between officials or the norm generation and dissemination of supranational organizations. By contrast, postfunctionalism concentrates on domestic actors and interactions: public opinion, national parties, and the processes of democratic politics.

Finally, whereas constructivism emphasizes the malleability and enabling power of ideas, postfunctionalism highlights their rigidity and constraining power. Constructivist analyses focus on how contacts, discourses, and persuasion may change beliefs, socialize actors, reconstruct identities, and mitigate bargaining power, thereby facilitating the integration process. Postfunctionalism, however, stresses the ‘constraining dissensus’ (Hooghe and Marks 2009) and potential backlash against integration generated by resilient national identities and thriving nationalist and populist ideologies. In sum, whereas constructivism regards the international social reconstruction of ideas as a path towards regional community-building, postfunctionalism views the domestic mobilization of national identities and ideologies as a counter-force to integration.

Multi-Level Governance

Regional integration constitutes one rung of the spatial ‘ladder of governance’ (Hooghe and Marks 2016: 15), extending from the local to the global level, from the municipality to the United Nations. Hooghe and Marks (2003) distinguish two ideal types of multi-level governance. General-purpose jurisdictions (type I) consist of a limited number of durable and spatially delimited levels of governance, which bundle a

multitude of policies within a well-defined constitutional framework. The federal state is an example of this type. By contrast, task-specific organizations (type II) specialize in comparatively narrow policy domains. They are typically less durable, more flexible, more numerous and less clearly delimited and less integrated into an overarching institutional architecture. The ‘alphabet soup’ of international organizations approximates this ideal type. The types of multi-level governance offer different solutions to the problem of coordinating autonomous units of authority: the bundling of tasks, the limitation of units and their integration into a constitutional framework in type I; and the separation of tasks and the limitation of connections between units in type II. As we have argued in Chapter 2, the EU mixes important traits of both types. On the one hand, it bundles many policies and its treaties distribute competences between the EU and its member states, specifying mixed competences in many cases. On the other hand, however, its policies differ not only with regard to the level of centralization, i.e. vertical differentiation, but also with regard to their membership, i.e. horizontal differentiation, both inside and outside the EU.

Initially, the concept of multi-level governance has served to overcome the traditional state-centrism in the analysis of politics and to provide a framework for describing the complex constellation of contemporary political authority. It has been particularly attractive for the study of the EU, which is not a state, yet institutionalizes processes for the production and enforcement of binding rules. To qualify as an integration theory, however, the multi-level governance approach needs to be able to answer additional questions. Why are tasks allocated to a specific level or shifted from one level to another? Why are some organizations task-specific whereas others are general-purpose (see Hooghe et al. 2019)? And how do multi-level governance systems develop over time? To answer these questions, postfunctionalism distinguishes two logics of task allocation (Hooghe and Marks 2016).

According to the *functional logic*, the design of jurisdictions and the allocation of tasks among them are oriented towards the effective and efficient provision of collective goods. The territorial expansion of authority helps realize scale gains, i.e. the reduction of per capita costs for the provision of collective goods, and the bundling of tasks in a single higher-level unit helps overcome externalities across policies and facilitates log-rolling and linkages. Beyond these general advantages of scale, the functional logic stipulates that jurisdictions are adapted to issue-specific conditions.

Whereas effective defence or the reduction of production costs calls for international alliances and large free-trade agreements, the cleaning up of a small lake or the transport of commuters is more efficiently organized at the local level. The scale effects of larger units need to be balanced against the advantages of smaller units, which tend to be more citizen-orientated, flexible, and innovative (Hooghe and Marks 2016: 9ff.). This functional logic is broadly compatible with the intergovernmentalist and supranationalist thinking about integration. Intergovernmentalism, however, links functional task allocation to the interests and power of domestic interest groups and governments, and the resulting integration design may not be ‘functional’ in a pan-European or objective perspective. Supranationalism emphasizes the unintentional and path-dependent dynamics of integration designs. Yet both theories assume—in line with the functional logic—that citizens are primarily interested in the output of governance. Put bluntly, they do not care who governs them and how they are governed if governance provides them with what they need and desire at a reasonable price. If supranational, technocratic organizations deliver superior output to national, democratic institutions, then so be it.

According to the *postfunctional logic*, however, ‘governance is also an expression of community. Citizens care – passionately – about who exercises authority over them. The challenge for a theory of multi-level governance is that the functional need for human co-operation rarely coincides with the territorial scope of community. Communities demand self-rule, and the preference for self-rule is almost always inconsistent with the functional demand for regional authority’ (Hooghe and Marks 2009: 2). In line with sociological institutionalism, postfunctionalism views political units as expressions of political communities, which are based on common identities and cultures. As community beings, citizens have a fundamental belief in the merits of self-determination of their community, above and beyond whatever issue-specific preferences may exist. Community self-determination has two dimensions. For one, citizens oppose ‘foreign rule’, i.e. dominance by other communities. In the context of the international system, this is *national* self-determination. In addition, there is *democratic* self-determination, citizens’ opposition against dominance by members of their own community. The ‘sovereignty of the people’ in the democratic nation-state brings together both dimensions. Whereas the functional logic generally calls for the expansion of political units for reasons of efficiency, political integration creates tensions with self-determination according to the postfunctional logic. In a national

community oriented perspective, larger and more centralized political units increase the distance between those who govern and those who are governed. They extend and dilute the chain of accountability and reduce opportunities for participation. Moreover, they tend to be more diverse, exhibit a thinner or more fragmented collective identity, produce less solidarity and generate weaker trust. To the extent that multi-level governance is argued to limit the self-determination of the community, it generates problems of legitimacy even if it solves problems of efficiency.

Communities prefer territorial general-purpose jurisdictions with political boundaries that match the boundaries of the community (Hooghe and Marks 2003: 240–241). They bundle all relevant tasks and thereby exclude heteronomy, and they provide the social requirements for democracy: a *demos* with a strong collective identity, a unified public sphere, high social capital, and a dense infrastructure of political associations and parties. By contrast, task-specific organizations typically suffer from weak communitarian and democratic foundations (Skelcher 2005: 96). Task-specific organizations may run into legitimacy problems if they broaden their tasks and deepen their competences. This holds, in particular, if they engage in coercive and redistributive policies. In a postfunctionalist perspective, this explains growing concerns about the EU's legitimacy.

Democratic Mass Politics

Intergovernmentalism, supranationalism, and constructivism start from a limited and specific role of domestic actors and processes. The ‘real action’ happens beyond the national political systems. In liberal intergovernmentalism, domestic politics is the source of state preferences, but the main actors are issue-specific interest groups, and once their preference and power constellations have influenced government positions, their contribution to integration is over. Supranationalism also starts from a pluralist conception of domestic politics. Yet whereas Haas (1968) studied support for integration of interest groups and parties in parliament early on, he focused on political and economic elites. Neofunctionalists did talk about politicization including mass mobilization, cleavages, and contestation as consequences of integration later on (Lindberg and Scheingold 1970: 251; Schmitter 1969), but the supranationalist institutionalism of the 1990s returned to the dominant perspective on transnational and supranational dynamics of integration. Whereas constructivism emphasizes identities and public spheres, it is less interested in the domestic

politics of the EU than in the (re)construction of ideas in the process of European integration.

Postfunctionalism, by contrast, is deeply rooted in the analysis of democratic mass politics and in the concomitant theoretical approaches of political sociology and comparative politics. The study of democratic mass politics is concerned with public opinion (the formation, distribution, and effects of citizens' beliefs and attitudes), political behaviour (such as participation, electoral, and protest behaviour), party systems and competition and domestic political processes (such as elections and referendums). Domestic and European politics are not distinct spheres mediated by a small political elite. European integration has a deep impact on domestic mass politics, and national democratic politics has major effects on EU negotiations and agreements.

Public opinion. Studies of public opinion focus on explaining support for the EU. They investigate support for EU membership, trust in the EU and its institutions, the democratic legitimacy of the EU (e.g. satisfaction with democracy and political efficacy in the EU), and support for the European integration of specific policies—most often using data from the European Commission's Eurobarometer surveys (Hobolt and de Vries 2016). The literature distinguishes three main types of explanation (Hooghe and Marks 2005; Hobolt and de Vries 2016). According to economic or utilitarian models, individuals base their assessment of the EU on its consequences on their individual welfare and the welfare of their (mainly national) groups. These models are in line with the assumptions of liberal-intergovernmentalist and supranationalist integration theories. By contrast, sociological and social-psychology models assume that dispositions and values but also group identities—and national identities, in particular—shape patterns of EU support. These models underpin constructivism and postfunctionalism. Finally, cue-taking and benchmarking approaches start from the assumption that citizens lack knowledge and information on European politics but rely on domestic actors (national parties and media) and their assessment of the nation-state to form an opinion on the EU. The benchmarking approach is particularly well attuned to the EU as a multi-level governance system: it suggests that EU support is best understood by comparing how citizens evaluate the regime and policies of the EU with how they assess their national political system (De Vries 2018).

Party politics. According to Lipset and Rokkan's cleavage theory from the 1960s (Lipset and Rokkan 1990), party systems and voter alignment are an expression of structural social conflicts resulting from critical junctures in the development of the state. Bartolini and Mair (1990: 213–220) base their definition of cleavages on three necessary and jointly sufficient attributes: (i) a social-structural division between groups that (ii) translates into collective group identities and (iii) manifests itself in durable organizations and behavioural patterns of these groups. Lipset and Rokkan distinguish territorial and functional cleavages. Conflicts between the centre and the periphery and between state and church emerged in the ‘national revolution’ and generated regional and religious parties; conflicts between capital and labour as well as rural and urban regions developed during the ‘industrial revolution’ and generated agrarian and socialist parties. Over time, however, the functional class division became the most important cleavage in European party systems and manifested itself in the dominant left-right axis of political competition. In addition, political scientists discovered a trend towards issue-specific ‘new politics’ such as the environment and voter dealignment from their political milieus since the 1980s. Today the traditional one-dimensional axis does not adequately represent the political space any more. Rather, party-political competition unfolds in a two-dimensional space, in which a social or cultural axis runs orthogonally to the economic axis. The Chapel Hill Expert Survey places parties on the cultural axis along a GAL (green, alternative, libertarian) vs. TAN (traditional, authoritarian, nationalist) scale (Bakker et al. 2012).

Democratic institutions and processes. Finally, domestic institutions and democratic processes impact the integration trajectories of European states. First and most fundamentally, national elections and the ensuing coalition formation processes determine who represents the member states in the intergovernmental bodies of the EU (the European Council and the Council of the EU) and who is proposed as the ‘national’ Commissioner. Moreover, approaching national elections affect governments’ bargaining and decision-making behaviour (Schneider 2019; Wratil 2018). Second, elections to the European Parliament not only determine the composition of the second legislative chamber of the EU but also affect the selection of the Commission President. In a multi-level governance perspective, studies of EP elections have focused on the question whether they represent predominantly national or truly European

contests. According to the dominant view, EP elections are ‘second-order’ national elections (Reif and Schmitt 1980). Third, referendums on EU agreements establish a direct link between national voters and EU negotiations and decisions (Hobolt 2009). Here again, one line of research has been concerned with whether EU referendums really are about the EU or verdicts on the performance of and trust in the national government. Others have focused on the effects of referendums on intergovernmental negotiations (Hug and König 2002). Lastly, national parliaments and courts may constitute veto points for EU decisions.

In sum, the postfunctionalist theory of European integration builds on the conception of the EU as a multi-level governance system, on the distinction of functional and postfunctional logics of demarcating multi-level jurisdictions, and on the democratic mass politics shaping the multi-level political process. Postfunctionalism combines these building blocks into a dynamic account of European integration.

POSTFUNCTIONALISM AND EUROPEAN INTEGRATION

Just like supranationalism, postfunctionalism does not take issue in principle with the intergovernmentalist account of the initial steps of European integration, but assumes that integration generates a feedback process once it exceeds a certain threshold. Supranationalism assumes a positive, self-reinforcing dynamic following the logic of functional efficiency, taking place at the European level, driven by international interdependencies and spillover and shaped by transnational interest groups and supranational organizations. Postfunctionalism argues, however, that integration succumbs to a negative backlash process once it begins to seriously affect the national self-determination of the member states’ political communities. The relevant developments take place at the domestic level: via new cleavages and voter realignments, the mobilization of public opinion by Eurosceptic parties affecting election and referenda outcomes. In short, European integration has become politicized (De Wilde 2011). In the following, we present three sources of politicization, which change the demand for European integration: progress in integration, party competition, and identity politics. We then discuss their expected effects on EU negotiations.

Integration Progress

Politicization is the process of moving an issue into the sphere of politics where it becomes subject to public deliberation and authoritative decision-making (De Wilde and Zürn 2012: 139). The focus is here on *domestic* politicization: that EU policies and decisions turn into prominent subjects of deliberation, contestation, and mobilization in the domestic politics of member (and non-member) states. The most widely shared definition of EU politicization features the growing domestic salience of European governance, the polarization of opinions and preferences on EU issues, and the expansion of actors and audiences engaged in or attentive to EU affairs (De Wilde et al. 2016: 4).

In this sense, the politicization of European integration was low initially. The average citizen was not much aware of and did not feel much affected by European policies. European issues did not play a major role in the public debate, party competition, or elections. The general popular attitude was one of benevolent indifference: a ‘permissive consensus’ (Lindberg and Scheingold 1970: 41) allowed European integration to be a mostly functionalist, elite-driven process. Contrasting such intergovernmentalist and supranationalist assumptions, postfunctionalism claims that the permissive consensus is outdated, at least after Maastricht. To be sure, the concept of politicization, in principle, does not imply Euroscepticism. It could well mean that citizens who become more aware of European policies, engage in the debate on alternative courses of European integration, and participate in policy-making, provide the integration process with higher support and additional impetus (Schmitter 1969). In the postfunctionalist analysis, however, the constraining effect of politicization results from demands for national self-determination.

Politicization is a reaction to the impressive progress reached in policy and institutional integration (Hooghe and Marks 2009; De Wilde and Zürn 2012), which was not matched by the formation of a European political community. The more that integration broadens, deepens, and widens, the more it widens the gap between institutional and community integration, the more it undermines the collective self-determination of national communities, and the more it becomes politicized.

In terms of policy scope, the integration of a few technical policies in a task-specific organization generates only little potential for politicization. The more encompassing and open-ended the policy scope of

the organization becomes, the more it competes with existing general-purpose jurisdictions such as the nation-state. This is especially true if it expands into policies that are relevant for the sovereignty, identity, and solidarity of the community—such as defence policy, immigration policy, and welfare-state policies. This argument overlaps with the realist-intergovernmentalist distinction of low and high politics and the more recent distinction between market integration and the integration of core state powers (Genschel and Jachtenfuchs 2014). In this respect, the expansion of the EU in the 1990s beyond the internal market including the creation of a common currency, the removal of internal border controls, the establishment of Union citizenship, and the modest beginnings of a common defence policy were bound to politicize integration.

As for the level of centralization, the politicization potential of a shallow integration based on consensus decision-making and minor delegation to supranational organizations is again low because it does not significantly limit the democratic self-determination of national communities. The more pooling and delegation progress, however, the more national governments (and, indirectly, national parliaments and voters) are disempowered. Deepening thus puts in doubt the democratic self-determination of national communities and the democratic legitimacy of integration. Because political communities remain predominantly national, the empowerment of the European Parliament and other opportunities for representation and participation at the European level cannot fully compensate this ‘democratic deficit’ of integration in a postfunctionalist perspective. The transition to majority decision-making in most policy areas, the rapid growth of EP competencies, and the increased delegation to supranational agencies (such as the ECB) in the 1990s and 2000s have therefore reinforced the politicization generated by the integration of core state powers.

The dynamic widening of the EU in the same period contributed further to politicization. In a postfunctionalist perspective, the major concern is not the number of member states as such (which may create efficiency problems), but their cultural heterogeneity. Integration taking place between communities sharing the same or similar values, norms, beliefs, and languages creates fewer challenges to identity than the integration of national communities based on diverse civic and religious cultures. Transnational trust in Europe increases not only with the economic and political modernization of societies, but also with their

cultural similarity (Delhey 2007). The more enlargement increases the cultural heterogeneity of the EU, the more likely it will be politicized—especially if integration deepens and expands into core state powers at the same time.

Cleavage Transformation and Party Competition

As regional integration progresses and penetrates the member states, it transforms existing political cleavages. In the early decades, the integration process was mainly a project of centre-right, especially Christian-democratic parties, which combined a preference for market making with a ‘Catholic’ support for supranationalism. By contrast, social democrats tended to be more sceptical. Positions on European integration thus mapped well on the dominant left–right cleavage. During the 1980s, social-democratic parties became more favourable towards European integration as they accepted that the Community was there to stay and discovered its potential for social regulation at the supranational level. At the same time, tensions on the issue of European integration became apparent within the left and right camps. In particular, the more nationally oriented parties of the right and the social-democratic parties of strong welfare states were more Eurosceptic than the average of their party families (Marks and Wilson 2000). These tensions have strengthened since. Party positions on European integration do not follow the left–right cleavage; rather, centre-right and centre-left parties share strong support for integration, whereas both radical right and radical left parties are Eurosceptic. By contrast, positions on European integration map well onto the cultural or GAL-TAN axis encompassing ‘new politics’ issues such as immigration and the environment. Whereas Green parties are on average the most positive about European integration, nationalist-populist parties have the most negative positions (Hooghe et al. 2002).

In addition, the cultural conflict on European integration has its social basis in a new cleavage. Hooghe and Marks (2018) speak of a ‘transnational cleavage’, because it bundles European integration with other issues such as migration, trade, and—more generally—globalization. This cleavage is a product of the transformation from industrial to knowledge-based, and from nationally embedded to globalized and disembedded, economies and societies. It divides the well-educated winners and the less educated losers of this transformation (Kriesi et al. 2006). Others label

the new division at the party and individual level ‘universalism vs. particularism’ (Häusermann and Kriesi 2015), ‘integration vs. demarcation’ (Kriesi et al. 2006) or ‘cosmopolitanism vs. communitarianism’ (Teney et al. 2014). These divisions, in turn, create distinct preferences for or against European integration.

Whether parties are able to exploit the new cleavage and its politicization potential depends on their credibility and the unity of their members and voters (Hooghe and Marks 2009: 18–19). Cleavage theory assumes that parties, which have formed in response to an older cleavage, find it difficult to adapt to a new cleavage. They will not disappear but their electoral support will diminish. In line with these expectations, the mainstream parties of the centre-left and centre-right found themselves heavily constrained. They could not credibly switch to a Eurosceptic position because they had been the drivers and supporters of integration. Moreover, they are characterized by internal disagreement on European integration and other issues on the new politics and cultural axis (such as social values and globalization issues). Centre-left parties, which have managed to bring together workers and public-sector professionals on a programme of state intervention in the economy, fall prey to the educational divide between the two groups. Whereas public-sector professionals support cosmopolitan values, workers tend to be more attached to the nation-state and sceptical of immigration. Centre-right parties, which unite both liberal and conservative pro-market groups, are divided on cultural values and transnational issues. Because open contestation on European integration would bring these internal divides out in the open, big mainstream parties prefer depolitization.

Fringe parties of the radical left and right, and new parties, which formed in response to the ‘new politics’ issues (mainly the Greens), were not constrained in this way. The radical parties were able to easily integrate Euroscepticism within their anti-elite, nationalist and anti-capitalist programmes. The green parties could embrace the new-politics issues with full support by their educated supporters. Both sides stood to benefit from mobilizing the new cleavage and politicizing European integration. And this has served them well—they have all gained electorally at the expense of mainstream parties.

Identity Politics

In all dimensions of integration—functional scope, centralization, and territorial extension—progress in integration potentially challenges national democratic self-determination. Transnationalist, cosmopolitan parties and nationalist, and communitarian parties take up this challenge but their solutions differ. Put bluntly, cosmopolitans welcome the shift of self-determination to the European (or even global) level, whereas the communitarians demand a repatriation of policies and the strengthening of national democratic authority. Three major issues divide the two camps: (i) whether national self-determination is illusory in an interdependent, globalized world (cosmopolitans tend to agree), (ii) whether democracy can work at the supranational level (communitarians are sceptical) and (iii) whether national identities can be Europeanized (cosmopolitans are optimistic). In principle, this is an open contest. Postfunctionalism expects the communitarian side to maintain the upper hand, however. First, national identities and national democratic institutions and practices have stronger historical roots and are more deeply entrenched. Second, whereas cosmopolitan beliefs are strong among the educated elites that were able to shape the integration process in the past, the mass politicization of integration benefits the nationalists disproportionately. For both reasons, postfunctionalism hypothesizes that mass politicization creates downward pressure on the level and scope of integration (Hooghe and Marks 2009).

Politicization transforms the politics of integration. Hooghe and Marks distinguish interest group and mass arenas of politics (2009: 9). In the interest group arena, politics is about distributing the gains of integration. This is in line with the liberal-intergovernmentalist conception of domestic politics. In the mass arena, welfare-state redistribution is only one core issue. The other is identity politics. Not only has identity ‘greater weight in public opinion than for elites and interest groups’ (Hooghe and Marks 2009: 12). It also becomes more relevant ‘to the extent that an issue has (a) opaque economic implications and (b) transparent communal implications that are (c) debated in public forums by (d) mass organizations rather than specialized interest groups’ (Hooghe and Marks 2009: 13). This statement lists issue- as well as arena-specific scope conditions under which the integration process is likely to follow postfunctionalism rather than liberal intergovernmentalism.

To what extent integration becomes politicized, is not only a function of how strongly existing or planned integration challenges the national identities and self-determination of the participating communities. It also depends on the varying strength of national identities and the varying quality of national solidarity and governance. First, only exclusive national identities clearly undermine support for European integration (Hooghe and Marks 2009: 12). When citizens can reconcile their European with their national identities, the latter do not systematically constrain European integration. Second, citizens enjoying high levels of good governance at the national level and living in highly developed welfare states are more sceptical towards European integration (Sanchez-Cuenca 2000). The varying proportion of citizens with exclusive national identities and the variations in perceptions of good governance and welfare-state policies are thus important sources of cross-country variation in demands for self-determination.

Politicization turns European integration from a marginal to a core issue of national democratic politics and party competition. Identities and identity politics matter. Parties reorient their programmes towards the new cleavage, new parties emerge, which in turn can upgrade European integration into a major issue of electoral campaigns and coalition formation. The politics of regional integration then becomes increasingly subject to national party competition and democratic processes (Hooghe and Marks 2009: 21–22). Thomas König (2018) terms this approach to studying European integration ‘national partyism’.

Negotiations in the Shadow of National Democratic Politics

In postfunctionalism, national parties rather than national governments are the basic actors in European integration. Party—rather than national—preferences shape negotiations and coalitions at the domestic as well as at the regional levels. Put differently, the party composition of the government and its ideological orientation—rather than issue-specific socio-economic interests and resources—shape what governments bring to the European negotiation table. Moreover, whereas intergovernmentalism assumes state preferences to follow durable material structures such as interdependence, wealth, resources and economic factors, parties are orientated towards more short-term and volatile electoral and coalition-building incentives. Correspondingly, changes in the party composition

and ideological orientation translate into changes in the integration preferences of national governments and into the policy and institutional goals that they pursue in European negotiations (König 2018: 1244–1245).

Second, the politicization of integration constrains the room of manoeuvre that governments and supranational actors enjoy at the European level. Because of politicization, the media attention to EU politics increases, especially in the case of high-level intergovernmental negotiations involving the heads of state and government. It also raises the attention and the scrutiny of Eurosceptic parties that seek to exploit the opportunities that intergovernmental compromises and decisions in favour of ‘more integration’ present for national politicization and opposition. These developments raise the uncertainty about the national repercussions and ratification of intergovernmental bargains in general. They are particularly pressing in member states with strong exclusive national identities, sizable Eurosceptic parties, imminent elections, and direct-democratic procedures of ratification. Governments facing one or several of these domestic democratic constraints suffer from limited leeway in pursuing integrationist preferences and making compromises with other governments. The more governments are constrained in this way, the more difficult it becomes to reach EU-wide agreement. Here is the catch: the increase in the heterogeneity of EU members and in the contestation of institutional and policy integration requires higher flexibility to make compromises and concessions to reach agreement; yet the same heterogeneity and contestation increase domestic politicization and thereby constrain the required intergovernmental room of manoeuvre.

On the other hand, in what is known as Thomas Schelling’s (1963) ‘paradox of weakness’, governments under strong domestic pressure can turn their constraints into a source of bargaining power. If a government can credibly point out to other governments that its hands are tied and that only an agreement close to its negotiating position will have a chance of surviving domestic ratification, less constrained governments will accommodate these more constrained preferences. This bargaining strategy is particularly credible if national ratification involves a referendum, as the voting population becomes an additional veto player. In addition, while governments are usually capable of estimating the likelihood of finding a majority in parliament that will support intergovernmental agreements, referendums introduce a higher uncertainty. At the same time, governments usually have privileged information on their own domestic ratification constraints that they can strategically use (within

the limits of credibility) to manipulate negotiations and extract higher concessions (Schneider and Cederman 1994; König 2018: 1246–1247). Because the domestic electorate and the parties that mobilize for referendums tend to be more Eurosceptic than the government, the paradox of weakness will typically generate less integration, however. In other words, politicization of European integration entails a status quo bias.

Imminent elections have a weaker but still visible effect on intergovernmental negotiations. They cause governments facing elections to engage in harder bargaining and credit-claiming behaviour—or to seek delays until after the elections if they expect to have to make painful concessions. In return, governments engage in collusive behaviour, granting advantages to governments facing elections and expecting the favour to be returned when they are in the same situation (Schneider 2019). Other institutions of domestic political systems—such as their media systems or legal systems—also affect how easily integration is politicized and which veto points are available for constraining integration. For instance, the Eurosceptic British tabloid press and the German Federal Constitutional Court are important factors in this respect.

Finally, institutional decisions on the pooling and delegation of competences follow partisan and ideological preferences—rather than the efficiency and credibility considerations highlighted by intergovernmentalism (König 2018: 1247–1248). Mainstream parties, which form governments regularly and have centrist policy preferences, and cosmopolitan parties are in favour of more supranationalism in EU decision-making and policy implementation, whereas nationalist fringe parties are against major pooling and delegation. Partly, this is a corollary of their cosmopolitan or communitarian identity and ideology. Mainstream parties additionally, however, expect supranational delegation to lock in their preferred policies and to remove them from the impact of domestic politicization. And they prefer to cure the ‘democratic deficit’ of the EU through empowering the European Parliament, which they expect to secure and strengthen European integration, whereas improving scrutiny powers of national parliaments is more likely to constrain integration progress. As König (2018: 1248) points out, however, these institutional moves are likely to boost the populist opposition against the EU even further.

General Hypotheses

Postfunctionalism expects a self-undermining integration process. The theory does not make an original contribution to the explanation of initial integration and its progress. In this respect, the functional logic of multi-level governance is compatible with intergovernmentalist and supranationalist theorizing of European integration. Rather, postfunctionalism seeks to explain when and why integration stalls or declines. The more institutional integration progresses and thereby reduces the self-determination of national political communities, the more it politicizes the integration process and provokes the domestic resistance that will constrain integration or even produce disintegration. The politicization mechanism at the core of postfunctionalism can be summarized in a few steps:

- Progress in integration is perceived by parts of the EU population to threaten the national identity and self-determination of national political communities when it encroaches on policies that are relevant to the identity and solidarity of the nation, supranational centralization undermines national sovereignty and democracy, and enlargement introduces significant cultural heterogeneity.
- These threats end the permissive consensus on European integration by raising the salience and contestation of European integration. Challenger or anti-establishment parties raise the awareness about the presumed sovereignty and autonomy costs of European integration and thereby fuel the mobilization of the public. In turn, the shift to the level of national publics entails a prioritization of the cultural- or identity-related dimension of political conflict, impacting national elections and referendums.
- The domestic politicization of European integration constrains governments in European negotiations, shrinks their room of manoeuvre for reaching intergovernmental agreements and creates disintegration pressures.

Because they put forward integration constraints, blockades, and decline, the general hypotheses of postfunctionalism are mostly negative hypotheses about integration. On the demand side, deepening and widening—and the politicization they ensue—provoke Eurosceptic reactions, particularly among those actors that cherished exclusive national identities in the first place. On the supply side, the strength of Eurosceptic parties and referendum opportunities stands out.

Integration is likely to be the more constrained the more it produces losses of national identity and self-determination for national political communities. Whereas the progressive deepening and widening of integration weakens national self-determination and national identity on average, not all integration steps are equally detrimental and equally conducive to politicization. Policies that affect core state powers—imposing sovereignty costs—are most likely to be politicized and constrained. Moreover, exclusively national identities and strong attachment to national institutions limit integration or even facilitate disintegration. The most nationalist societies—and those with highest-quality democratic and welfare-state institutions—are the most reluctant towards integration.

Integration is likely to be the more constrained the more national party systems and democratic institutions facilitate mass politicization. Specifically, the presence and electoral strength of Eurosceptic parties and their representation in national governments reduce the possibility of (further) integration. Whereas the Europe-wide strength of these factors generates a general downward pressure on integration, their variation across countries affects whether states participate in (deeper) integration. Moreover, the institutional venues for politicization affect the strength of integration constraints. Referendums have been singled out as the most important venue. Whether they are available, and how easily they can be used, affects the chances of integration—and the integration of specific countries—negatively.

POSTFUNCTIONALISM AND DIFFERENTIATED INTEGRATION

Postfunctionalism explains (the limits of) European integration by the (prospective) losses of national self-determination that vertical and horizontal integration produce and by the opportunities of politicization that the mass arena of domestic politics provides. Correspondingly, vertical differentiation results from policy-specific differences in self-determination losses, whereas country-specific differences in the strength of political communities and in the agents and opportunity structures of politicization account for horizontal differentiation.

Core state policies that strongly affect the identity, security, and solidarity of national political communities are less integrated and more horizontally differentiated (internally) than policies related to market integration. When such core state policies arrive on the European agenda,

they are most likely to be domestically politicized, to mobilize Euroscepticism and to constrain European negotiations and agreements. Consequently, there will be less supranational pooling and delegation than in the area of market integration and its flanking regulatory policies, which do not have the same strong links to national self-determination. According to postfunctionalism, the vertical differentiation of European integration thus runs between core state and non-core state policies.

Moreover, core state and market policies differ with regard to horizontal differentiation (Schimmelfennig et al. 2015; Schimmelfennig and Winzen 2020). For the same reason that the integration of core state policies is more politicized, the chances increase that individual states either opt-out of or are excluded from policy integration in this domain. The likelihood of horizontal differentiation increases with the heterogeneity of countries regarding their attachment to national identity, the quality of and attachment to their national democratic institutions, the strength of Eurosceptic parties, and national veto opportunities—especially referendums.

For one, member state societies with highly exclusive national identities and strong attachment to national institutions are likely to demand and enforce exemptions from participation in the integration of core state powers. In such member states, the integration of core state powers is contested and mobilizes Eurosceptic parties and voters that constrain the government through elections and referendums. Thanks to their bargaining power as status quo-oriented member states, these governments are also generally able to get their way in EU negotiations. This is because they can either use their veto against the integration of core state powers or credibly threaten the other member states with non-ratification. To be able to move ahead with integration, the more integrationist governments must be willing to grant them opt-outs.

In addition, the integration of core state powers raises concerns of the integrationist governments about their potential partners. Because integration deficits and failures in these policies may have negative repercussions on national security, solidarity, and identity, integrationist states have an incentive to exclude those countries that they fear might produce such negative effects. Either way, the integration of core state powers causes internal differentiation under conditions of member state heterogeneity.

By contrast, market integration is unlikely to cause major or durable internal differentiation. If it does create differentiation at all, it will be

external. External differentiation again has two sources. On the one hand, EU non-member states that reject the national self-determination costs of EU membership regard the selective participation in the EU market as less problematic because it does not directly affect their core state powers. On the other hand, EU member states are willing to grant selective market access to non-member states even if they reject their full membership, e.g. because of cultural differences, fear of migration, or a threat to security. In sum, whereas the integration of core state powers generates opting out, market integration generates opting in.

CONJECTURES

According to postfunctionalism, the main factors of integration and differentiation are the integration of core state powers and the strength of national identities, national democratic institutions, Eurosceptic parties and national veto points—in particular referendum opportunities. Table 6.2 shows how these factors relate to vertical and horizontal integration, on the one hand, and vertical and horizontal differentiation, on the other.

Table 6.2 Postfunctionalist conjectures

<i>Integration outcomes</i>	<i>Explanatory factors</i>
Vertical and horizontal integration decrease with	<ul style="list-style-type: none"> • integration of core state powers • exclusive national identities • quality of national democratic institutions • strength of Eurosceptic parties • referendum opportunities
Vertical differentiation increases with Horizontal differentiation increases with	<ul style="list-style-type: none"> • integration of core state powers • integration of core state powers • different degrees of attachment to national identities • heterogeneity of national democratic institutions • heterogeneity of Eurosceptic party strength • heterogeneity of referendum opportunities

As in the case of the other integration theories, these factors should also affect the timing of integration. Core state powers are not only less integrated and more horizontally differentiated; they are also integrated later than non-core state powers. Moreover, countries characterized by exclusive national identities, strong attachments to national institutions, strong Eurosceptic parties, and ample referendum opportunities integrate both less and later in time.

SELF-TEST AND DISCUSSION QUESTIONS

1. How do the functional and postfunctional logic of demarcating jurisdictions and designing multi-level governance differ?
2. Why is European integration becoming more politicized?
3. Consider any pair of European states, e.g. Germany and Italy, the UK and Ireland, or Austria and Switzerland. How would you describe and explain the differential domestic politicization of European integration?
4. Commercial policy is more integrated than defence policy. How would postfunctionalism explain this vertical differentiation?
5. France and Germany participate in all EU policies, whereas the UK was not and Romania is not part of the eurozone and the Schengen area. How could postfunctionalism explain this variation?
6. Can the EU avoid or reduce politicization? And how could politicization become a process that supports rather than constrains further integration?

FURTHER READING

Hooghe, L., and Marks, G. 2009. A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus. *British Journal of Political Science* 39 (1): 1–23 is the seminal paper outlining postfunctionalist integration theory.

For these authors' analysis of the transnational cleavage, see Hooghe, L. and Marks, G. 2018. Cleavage Theory Meets Europe's Crises: Lipset, Rokkan and the Transnational Cleavage. *Journal of European Public Policy* 25 (1): 109–135.

- König, T. 2018. Still the Century of Intergovernmentalism? Partisan Ideology, Two-level Bargains and Technocratic Governance in the Post-Maastricht Era. *Journal of Common Market Studies* 56 (6): 1240–1262 does not use the label ‘postfunctionalism’ but also develops an alternative account to intergovernmentalism based on domestic and party politics. Hanspeter Kriesi (2016) provides a review of the research on politicization in the EU in ‘The politicization of European integration’, *Journal of Common Market Studies* 54 (S1): 32–47.
- Winzen, T., and Schimmelfennig, F. 2016. Explaining Differentiation in European Union Treaties. *European Union Politics* 17 (4): 616–637 develop and test a postfunctionalist argument about differentiation in EU treaty revisions and contrast it with an intergovernmentalist argument about differentiation in EU enlargement treaties.

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PART II

Policies

In Part II of the book, we show how the theories of integration can be used to analyse and explain integration and differentiation in major policy areas of the European Union. In this introduction, we summarize our theoretical expectations, explicate our approach to theory application, and describe our selection of policies.

Table PII.1 summarizes and juxtaposes the conjectures on integration and differentiation stipulated by intergovernmentalism, supranationalism, constructivism, and postfunctionalism. From an intergovernmentalist perspective, the demand for integration increases with international interdependence and, in particular, with the compliance problems that international cooperation creates. It is further facilitated by compatible national preferences in ‘low-politics’ policies. Supranationalism stipulates that broad and intense transnational interactions and strong supranational actors further integration. By contrast, constructivism expects integration to be more likely if it benefits from high international legitimacy, a strong ideational consensus among the participating states, and the supranational institutionalization of ideas. In the postfunctionalist perspective, the constraints on integration increase if it affects core state powers and if exclusive national identities, national democratic institutions, Eurosceptic parties, and referendum opportunities are strong.

Differentiation obtains if these factors are distributed unevenly across policies and countries. If international interdependence, the compatibility of state preferences and capacities and compliance problems are significantly higher in one policy than another, intergovernmentalists expect

vertical differentiation—under the condition that negative externalities across policies remain low. The same applies if integration includes both low and high-politics issues. Correspondingly, horizontal differentiation is more likely to occur if a policy area is characterized by uneven international interdependence, national preferences, and national capacities as well as high politics—provided that the groups of differentially integrated countries have sufficient size, intergroup externalities are weak, and states in favour of differentiation possess superior material and institutional bargaining power.

For supranationalists, differentiation results from the uneven intensity of transnational exchange across policies (vertical differentiation) or the uneven participation of countries in transnational exchange (horizontal differentiation). Vertical differentiation is also more likely to occur if supranational organizations have higher capacity and more discretionary power in one policy area than in another. Assuming that supranational organizations have an interest in unified integration, horizontal differentiation is more likely to obtain if supranational organizations are too weak to achieve this goal.

In the constructivist perspective, we expect to see vertical differentiation if integration is more legitimate, less contested, and more institutionalized in one policy area than another. Horizontal differentiation results from differences in legitimacy beliefs and from ideational contestation across countries.

Postfunctionalism hypothesizes vertical differentiation along the divide between core state and other policies. Core state power integration also makes horizontal differentiation more likely. Moreover, horizontal differentiation is driven by differences in the exclusiveness of national identities, the quality of national institutions, the strength of Eurosceptic parties, and the availability of referendum opportunities between countries.

The table depicts both similarities and differences between the theory-based conjectures. Both intergovernmentalism and supranationalism emphasize cross-boundary interconnections (interdependencies and exchanges) but differ on the relevance of supranational actors. Supranationalism and constructivism agree on the importance of supranational institutions, but whereas constructivism focuses on ideas and their legitimacy, supranationalism highlights institutional capacity. Intergovernmentalism and postfunctionalism overlap with regard to the constraints on integration produced by high-politics/core state power policies and domestic actors and institutions but disagree about the relevance of

Table PII.1 Conjectures compared

Conditions of:	Intergovernmentalism	Supranationalism	Constructivism	Postfunctionalism
<i>Vertical Integration</i>	High interdependence Compatible state preferences and capacities Problematic compliance Low politics	Large scope and high intensity of transnational exchanges High capacity and discretion of supranational actors	High legitimacy of integration Ideational consensus Supranational institutionalization of ideas	Non-core state powers Inclusive national identities Insufficient quality of national democratic institutions Weak Eurosceptic parties Low referendum opportunities
<i>Horizontal integration</i>			Varying scope and intensity of transnational exchanges across issues Varying capacity and discretion of supranational actors across issues	Non-core and core state power integration Varying legitimacy across issues Varying consensus across issues Varying institutionalization of ideas across issues
<i>Vertical differentiation</i>		Varying issue interdependence Heterogeneous state preferences and capacities across policies Different compliance problems across policies High- and low-politics issues Weak externalities between policies	Varying legitimacy across issues Varying consensus across issues Varying institutionalization of ideas across issues	

(continued)

Table PII.1 (continued)

Conditions of:	Intergovernmentalism	Supranationalism	Constructivism	Postfunctionalism
<i>Horizontal differentiation</i>	Heterogeneous interdependence across states Heterogeneous state preferences and capacities High politics Sufficient group size Weak externalities between groups High bargaining power of pro-differentiation countries	Varying scope and intensity of transnational exchanges across countries Weak capacity and discretion of supranational actors	Varying legitimacy beliefs across countries Ideational contestation between countries	Core state power integration Varying inclusiveness of national identities Heterogeneous quality of national democratic institutions Varying strength of Eurosceptic parties Varying referendum opportunities

national identities and parties. Finally, postfunctionalism and constructivism agree on the importance of identities and legitimacy, but whereas postfunctionalism focuses on the constraining effect of national identities and democratic legitimacy, constructivism emphasizes the integrative potential of supranational identities and ideas.

We use the integration theories and the conjectures we derive from them for three purposes in the subsequent chapters: to illustrate how they can be applied to empirical cases, to learn something about European integration, and to learn something about the theories. Most basically, we show how the abstract concepts and the general assumptions and conjectures of the theories can be translated into concrete, case-specific expectations, and applied to real events in European integration. Additionally, we use the theories in order to learn something about integration and differentiation in a variety of policy areas. Theories ‘structure reality’. They distinguish what is relevant from what is irrelevant, help us select and sort information, and provide us with the general concepts to describe and classify what we observe. They also tell us why and how the phenomena and events that we observe and describe have come about. They direct us to the causes and conditions of our observations. In sum, theories help us ‘make sense’ of what we observe.

In line with this approach, we begin each policy chapter with the history of the policy in European integration. We describe the major events in the development of the policy and the evolution of its integration and differentiation. These descriptions produce many questions: Why was the policy integrated? Why did it happen when it happened, and why not before? What explains the major changes in the integration of the policy and the level of integration that it has now? And why do some member states not participate in integration, whereas some non-member states do? We then apply each theory separately in order to see what we can learn from it in order to answer these questions. We start with an intergovernmentalist explanation, move on to supranationalism and constructivism, and conclude with a postfunctionalist account of policy integration. Each theory points us to different actors, factors, and processes, and it gives us different explanations of integration, some of which may be competing whereas others are complementary or overlapping. In the end, we hope to gain a fuller and more nuanced understanding of European integration than would be obtained from the application of a single theory.

Finally, the analysis of integration and differentiation also tells us something about the theories. The theory may account well for our observations, but the analysis may also reveal weaknesses. First, we may detect ‘blank spots’ in the theories—i.e. events, processes, and outcomes—on which they have little or nothing to say. Second, the expectations of the theory may be indeterminate: the theory does explain what happened, but it would also have explained a different course of events or the opposite outcome. Finally, the expectations may be wrong: on the basis of the theory, we would have expected a different result, or the process of how the result came about does not fit with the theory’s assumptions.

In line with this approach, we conclude each policy chapter with a balance sheet. First, we will offer an idea of the strengths and weakness of each theory in explaining integration in the particular policy area. Does it provide a plausible explanation of integration and differentiation overall? Or is it silent, indeterminate, or simply wrong on some aspects of the case? Second, we discuss the relative merits of each theory. Are their accounts equivalent, or does one theory provide a more convincing explanation of policy integration (or certain aspects of it) than the others? Finally, comparing how the theories fare across the policy chapters also gives us an idea of their systematic strengths and weaknesses. For instance, does one theory generally neglect or underestimate relevant actors and processes? Is one theory generally better at explaining vertical integration, horizontal integration, or horizontal differentiation than the others? These questions will be further explored in Chapter 11.

Our approach to the theory-guided analysis of European integration is pluralistic. We start from the assumption that European integration is unlikely to be fully explained by a single theory, and that each theory has something valuable to contribute to our understanding of integration. Pluralism is not relativism, however. We do not assume that each theory explains each aspect of European integration equally well and reject the idea that the empirical analysis of European integration cannot tell us anything about the relative merits of each theory. Whereas we do not expect to find a single, clear winner, we do expect to learn something about the relative strengths and weakness of each theory of integration.

For both purposes—learning about integration and learning about theory—it is important that we select the right policies for detailed study. Our selection was guided by relevance and variety. Our choice of market integration (Chapter 7) and monetary integration (Chapter 8) followed considerations of relevance. Market integration was the first and has

remained the fundamental policy area of European integration. At its core, European integration has been a process of economic policy integration—whatever the ultimate purposes that member states have attached to it. Monetary integration is the most ambitious and contested policy area of European integration.

By contrast, our choice of defence policy (Chapter 9) and the Area of Freedom, Security, and Justice (AFSJ) (Chapter 10), a policy area comprising home affairs and judicial policies, was guided by an attempt to increase variation. These policies were integrated at a later point than market and monetary policy, and they were initially integrated in separate ‘pillars’ of the EU—the second pillar for the Common Security and Defence Policy and the third pillar for Justice and Home Affairs. Defence policy has remained at an intergovernmental level of centralization, whereas the AFSJ has seen a dynamic development of vertical integration since the early 1990s. And while defence policy is almost not horizontally differentiated at all, the AFSJ shows a peculiar pattern of both internal and external differentiation.

Our selected policies thus vary on several dimensions:

- *Timing of supranational integration.* European integration started with market integration in the 1950s. Monetary policy was integrated supranationally in the 1990s, and the AFSJ followed roughly a decade later. Defence policy is not yet supranationally integrated.
- *Level of vertical integration.* Monetary integration is one of the most supranationally centralized policies of the EU, whereas defence policy is one of the least centralized EU policies. Market integration and the AFSJ fall in between. By the same token, our case selection explores the full range of vertical differentiation.
- *Extent of horizontal integration.* The extent of horizontal integration of our selected policies ranges between 30 (the European Economic Area for the internal market) and 17 (the eurozone for monetary policy). These two policies mark the maximum and minimum horizontal integration across the EU’s policy areas.
- *Types of horizontal differentiation.* The internal market is the paradigmatic case of external differentiation without internal differentiation. The eurozone exemplifies internal without external differentiation. The AFSJ has long combined external and internal differentiation, whereas defence policy has hardly any differentiation whatsoever.

All four policy areas are linked to the crises that European integration has experienced in the past decade. The financial and economic crisis of the Great Recession turned into a crisis of the monetary integration of the eurozone. The increased migration pressures culminating in the 2015 refugee crisis put high pressure on the border and asylum policies of the AFSJ. Brexit has tested the EU's market integration. The free movement of persons was a core issue at the origin of the Brexit vote. After Brexit, EU-UK negotiations have focused on the degree and conditions of UK access to the internal market. Finally, the weakness of EU defence integration was challenged both by Russia's military assertiveness and interventions at the Eastern borders of the EU and by rifts in NATO during the Trump administration.

In sum, the policy areas we analyse in Part II of the book are not only highly relevant for the EU; they also cover the full range of vertical and horizontal integration, and differentiation, represent highly different points in time for the move towards supranational integration, and have been exposed to significant crises and challenges recently. Our policy selection thus allows us to examine whether the theories of integration are able to explain the full range of integration outcomes. (On a cautionary note, we point out that, for a conclusive theory test, we also have to make sure that there is significant variation in the values of the *explanatory factors* proposed by the theories, too. We assume that this is a case, although we cannot examine this requirement in detail here.)

In addition, each of our policy chapters benefits from internal variation. For each policy, we study variation over time. Chapter 7, on market integration, examines the early market integration envisaged by the Treaties of Rome, the deepening of market integration agreed on in the Single European Act of 1986 and the Brexit challenge to market integration. Chapter 8, which deals with monetary integration, compares monetary policy before and after Maastricht, and also takes into account the changes made in response to the eurozone crisis. Chapter 9 looks at the failure of the European Defence Community in the 1950s and the developments since the 1990s, and Chapter 10, on the AFSJ, follows the development of policy since the 1970s and the EU response to the refugee crisis. Moreover, some policy areas are composed of policies with different levels of integration. For instance, Chapter 8, on the EMU, compares monetary and fiscal policy. These comparisons, over time and across policies, increase the analytical leverage of our case studies.



CHAPTER 7

The Single Market

In October 2010, the European Commission published a Communication with the telling title ‘Towards a Single Market Act. For a highly competitive social market economy. 50 proposals for improving our work, business and exchanges with one another’. These proposals ranged from the introduction of an EU patent, the management of copyrights, energy efficiency, the coordination of national tax policies, the recognition of professional qualifications, to the creation of a single integrated mortgage market, aimed at stimulating growth in an era of globalization and digitalization. The Commission’s communication highlights at least two important facts about the Single Market. First, the main ambition of the Single Market is to promote economic growth by increasing competition, unlocking innovation and by enabling a Europe-wide efficient allocation of resources. Second, and more important for the topic of this book, the creation of the Single Market remains an ongoing project. Since the signing of the Treaties of Rome in the 1950s, the Common Market, with its four freedoms, has been on the European agenda. Today, one of the European Commission’s priorities is to bring the benefits of market integration also to the digital economy.

The Internal or Single Market importantly shapes the patterns of state-market relations in Europe, affecting citizens as consumers, producers, traders, or employees. Moreover, European regulations reach beyond the EU’s geographical boundaries, and the EU today regulates numerous

global markets—a capacity recently coined the ‘Brussels Effect’ (Bradford 2020). Historically, different phases of market integration can be distinguished. The treaty establishing the European Economic Community (EEC) first created a Customs Union, gradually abolishing all quotas and tariff barriers between its member states. The second phase is characterized by an emphasis on harmonization. Exhaustive ‘Euronorms’ were designed to establish common standards for all partners. The third phase was heralded in the 1970s with the Dassonville and Cassis de Dijon rulings of the European Court of Justice. Later taken up by the Commission and the member states in the Single European Act (SEA), these rulings promoted the principle of mutual recognition. According to this principle, a member state is required to accept—subject to certain exceptions—goods that have been produced in accordance with the rules of another member state. Given that the negotiation of harmonized standards proved to be a rather cumbersome and time-consuming process, this new principle promised to speed up market integration. Since, this approach focuses on the abolishment of technical barriers to trade, it is often referred to as ‘negative’ or market-making integration (Scharpf 1999); note that negative integration also covers the privatization of state-owned enterprises and restrictions to state aid programs. At the same time, in order to compensate potential losers of deregulation and market-making, the SEA has also introduced and intensified ‘positive’, market-correcting measures targeted at promoting common regulatory standards as well as economic and social convergence across Europe. For example, environmental policy, consumer protection, public health, security in the workplace, or cohesion policies are typical market-correcting policies. In these areas, we find many examples for minimum harmonization today. Likewise, the digital Single Market is increasingly characterized by positive integration, as highlighted most prominently by the General Data Protection Regulation.

Market integration has been at the heart of European integration since the 1950s. Because it covers a wide range of policies, we restrict our analysis to just a few topics. We will concentrate on the establishment of the four freedoms: the freedom of movement for people, goods, services, and capital. Besides the Treaties of Rome, the SEA will be analysed as a major step towards a further deepening of the Common Market. The SEA is often considered a major milestone of the so-called *relance européenne* of the 1980s, the revival of the integration project after a lengthy period of stagnation in the 1960s and 1970s. Because legal rulings first spurred the

debate on negative integration, the issue of integration through law will also be discussed in this context.

In terms of horizontal integration, the Single Market is mostly characterized by a uniform application of rules. However, discriminatory measures affecting new EU member states are examples of a temporary internal differentiation. For instance, in the first years after the 2004 and 2007 enlargement rounds, the free movement of workers was restricted for citizens from the new Eastern European member states (cf. Schneider 2009; Schimmelfennig and Winzen 2017). Moreover, Article 114 TFEU foresees possible exceptions from harmonization in matters related to health, safety, environmental protection, and consumer protection (cf. Vos and Weimer 2017). In addition, the Single Market has some noteworthy repercussions in non-EU member states. An important example of external differentiation is the European Economic Area (EEA), which incorporates the European Free Trade Area (EFTA) countries of Iceland, Liechtenstein, and Norway in the internal market. The EEA allows a fine-grained testing of integration theories since it exposes a range of different trajectories of European states. In the EEA negotiations, three different pathways emerged. Three members of the EFTA—Austria, Finland, and Sweden—chose full EU membership; Iceland, Liechtenstein, and Norway opted for the EEA; and Switzerland—whose voters had rejected the EEA in 1992—entered into bilateral negotiations. Another interesting case for our theoretical discussion of horizontal integration is the UK, which initially rejected the EEC only to apply for membership a few years later. And, of course, Brexit represents the largest shock to the Single Market since it came into being. As of 2021, the UK is not anymore a member of the Single Market but is linked to it through the EU-UK Trade and Cooperation Agreement.

The chapter starts with a brief historical overview of the Single Market. After describing vertical and horizontal integration in this sector, we survey what our theories have to offer, first, on the Rome treaties, then, on the SEA and, finally, on differentiated integration. We conclude by evaluating the strengths and shortcomings of the theoretical approaches.

THE DEVELOPMENT OF THE SINGLE MARKET

The Treaties of Rome

The Treaties of Rome were signed in March 1957 by France, Germany, Italy, and the three Benelux countries Belgium, the Netherlands, and Luxembourg. The Treaties of Rome consist of two key treaties: first, the Treaty establishing the Atomic Energy Community (Euratom), and, second, the treaty establishing the European Economic Community (EEC). Ratification of this treaty went comparatively smoothly in the member states of the European Coal and Steel Community (ECSC), and the Treaty came into force in January 1958. The Treaties of Rome are generally considered a major step in setting the integration process back on track after the ratification failure of the European Defence Community in 1954 (a matter that will be discussed in Chapter 9).

The idea of revitalizing the community project had been taken up by the Messina conference of June 1955. In their resolution, the ministers of foreign affairs of the ECSC member states declared that ‘the moment has come to go a step further towards the construction of Europe’. In their view, the first step should be taken in the economic field. In Messina, the six ministers of foreign affairs decided to create an intergovernmental committee to investigate further steps of integration. This committee, under the chairmanship of the Belgian Minister for Foreign Affairs, Paul-Henri Spaak, drafted a report on economic integration, presented to the foreign ministers in April 1956. The ‘Brussels Report on the General Common Market’ pleaded for the fusion of markets by the establishment of a Customs Union between the six-member states of the ECSC, and the setting up of a common external tariff and commercial policy. Britain observed the deliberations of the Spaak committee cautiously; however, it later pulled back its observer when it realized that it was unwilling to pursue matters that would ultimately commit it to becoming a member of a customs union.

The foreign ministers of the six approved the Spaak Report in Venice in May 1956; it became the basis for the intergovernmental conference that prepared the Treaties of Rome. Central components of the EEC treaty were the setting up of a customs union that eliminated tariffs and quotas among the member states; the creation of a common external tariff on goods entering the Union; and the establishment of a common agricultural, transport, and competition policy (cf. also Lindberg 1963: 14–26). Article 2 of the EEC Treaty specifies that ‘The Community shall have

as its task, by establishing a Common Market and progressively approximating the economic policies of member states, to promote throughout the community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the states belonging to it.. To this end, the EEC Treaty establishes the ‘four freedoms’ as an objective to be attained by the member states.

The customs union is accompanied by a common external trade policy. This policy importantly distinguishes a customs union from a mere free-trade association. In order to assure free competition, the EEC treaty prohibits restrictive agreements and state aids (except for specific derogations provided for in the Treaty) which can affect trade between member states and whose objective is to prevent, restrict, or distort competition. Competition policy is a typical market-making measure and it is clearly ‘anchored in the principles of free-market capitalism’ (Wilks 2010: 134).

In terms of its institutional set-up, the EEC Treaty was built on the institutional triangle established by the ECSC. Besides the Council, the Treaty foresaw a consultative assembly, which later became the European Parliament, and a Commission that was mandated to propose Community legislation (its executive tasks, however, were more limited than those of the ECSC’s High Authority). In addition, the Treaty granted judicial review powers to the CJEU. In 1958, decision-making in the Council demanded unanimity, but a shift towards qualified majority voting (QMV) was foreseen after a transition period. On our vertical integration scale, the Common Market can be coded as ‘joint decision-making I’ (see Table 2.4).

The establishment of the EEC did not receive uniform support in Europe. In response, Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the UK established the EFTA, which entered into force in May 1960 (Finland joined in 1961, Iceland in 1970, and Liechtenstein in 1991). The EFTA considered itself an intergovernmental organization and, in contrast to the EEC, it did not establish a common external customs tariff.

The Single European Act

The Treaties of Rome had scheduled the completion of the Common Market for 1968. The customs union, indeed, eliminated the internal tariffs and established a common external tariff on manufacturing products by that date. However, tariffs are just one—probably the most

obvious—barrier to trade. Non-tariff barriers to trade include licensing or technical barriers, state aid for national products, or discrimination in public procurement. The attempt to address such non-tariff barriers through harmonization, however, in the eyes of many observers ran into trouble, and the period between the 1960s and the early 1980s has often been described as a period of stagnation, or even ‘Eurosclerosis’. This characterization, however, neglects the role that the CJEU has played since the early 1960s in promoting integration. Important legal doctrines—such as the supremacy of EC legislation over national legislation, the principle of the direct effect of EC legislation, and the principle of mutual recognition—have made a lasting impact on European integration, not only in the legal, but also in the political sphere. The principle of mutual recognition, formulated in the court’s Dassonville (1974) and Cassis de Dijon (1979) rulings, has played a major role in shifting the EC’s focus in market integration from harmonization towards mutual recognition. The principle of mutual recognition prevents a member state from discriminating against foreign goods that have been produced in accordance with the standards of another member state—unless they endanger public welfare (Craig and De Búrca 2008: 606).

The decisive step that transformed the Common Market into a Single Market on 1 January 1993 is the Single European Act (SEA). The negotiations about institutional reform had started in the early 1980s. In June 1983, the heads of state and government passed the ‘Solemn Declaration of Stuttgart’ based on a draft by the German and Italian Ministers of Foreign Affairs, Hans-Dietrich Genscher and Emilio Colombo. In the Stuttgart Declaration, the heads of state and government underlined their will to promote a ‘united Europe’. They confirmed their commitment to ‘progress towards an ever closer union among the peoples and Member States of the European Community’. In addition, they identified ‘serious economic problems’ facing the member states and proposed more efficient decision-making, an upgrading of social policy in the Community, and a strengthening of European political cooperation.

The next important step after Stuttgart was the Fontainebleau summit of June 1984. During this summit, Prime Minister Margaret Thatcher received the long-requested rebate for the UK’s contribution to the EC budget. By solving the ‘BBQ’ (British budgetary question), the heads of state or government were now able to turn towards institutional reforms. The Fontainebleau summit commissioned the Irish senator James Dooge to form an ad hoc committee to examine institutional reforms in the EC.

The Dooge Committee was able to draw on both the Genscher–Colombo initiative and a ‘Draft Treaty Establishing the European Union’ the EP had proposed and adopted in February 1984. Following the presentation of the Dooge Report, the Milan European summit of June 1985—against the explicit opposition of the UK, Greece, and Denmark—decided to convene an intergovernmental conference to begin the negotiations on the SEA.

At the same time, in preparation for the Milan European summit, the Commission under its new president, Jacques Delors, had published the White Paper ‘Completing the Internal Market’ (COM(85)310, 14 June 1985). Elaborated under the supervision of British Internal Market Commissioner Lord Arthur Cockfield, it identified about 280 legislative measures to be implemented by the end of 1992. Some of these measures aligned well with the liberal economic ideas of the British government—e.g. on matters concerning the liberalization of insurance services and public procurement. At the same time, Lord Cockfield was able to draw on ideas previously developed by the Thorn Commission (cf. Cameron 1992: 52). For instance, in 1981, Internal Market Commissioner Karl-Heinz Narjes had already proposed the removal of customs booths across Europe, level value-added taxes, and an acceleration of the movement of goods (Fligstein and Mara-Drita 1996). The White Paper proposed a set of detailed measures to remove physical, technical, and fiscal barriers to European trade. Physical barriers, for instance, refer to customs or border controls. Technical barriers, for example, concern product safety rules and public procurement policies. Fiscal barriers mainly constitute differences in tax rates and laws. In short, the Commission’s White Paper was ambitious, in substance and tone, ending with the bold following statement:

Europe stands at the crossroads. Either we go ahead—with resolution and determination—or we drop back into mediocrity. ... Just as the Customs Union had to precede Economic Integration, so Economic Integration has to precede European Unity. What this White Paper proposes therefore is that the Community should now take a further step along the road so clearly delineated in the Treaties. To do less would be to fall short of the ambitions of the founders of the Community, incorporated in the Treaties; it would be to betray the trust invested in us and it would be to offer the peoples of Europe a narrower, less rewarding, less secure, less prosperous future than they could otherwise enjoy. That is the measure of the challenge which faces us. Let it never be said that we were incapable of rising to it.

The SEA was the first major reform of the EEC Treaty. It was signed in 1986 and entered into force in July 1987. The SEA combines market liberalization with institutional reform. While the institutional side is geared towards rendering the decision-making process more efficient and more legitimate, the liberalization component aims to promote trade, competition, and economies of scale. It represents a clear commitment of the member states to the four freedoms, as highlighted by the new article 8a to the EEC Treaty: ‘The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty’. With its aim of removing physical, technical, and fiscal barriers to trade, the SEA announces a paradigmatic shift from harmonizing member states’ national legislation towards liberalization based on the principle of mutual recognition. In terms of policies, the SEA promoted the development of European political cooperation (Title III of the SEA; cf. also Chapter 9 of this book), and the inclusion of research and development (Title VI) and environmental matters (Title VII). Title V of the SEA introduces ‘Economic and Social Cohesion’ as an accompanying branch to the completion of the internal market, thereby complementing negative with positive integration.

In terms of institutional provisions, the SEA envisaged QMV in the Council and, hence, marked a significant departure from the informal ‘Luxembourg compromise’ (the ‘gentlemen’s agreement’ which stipulated that, in matters a member state declared as vital to its national interest, negotiations had to be continued until agreement could be found among all member states). In addition, the SEA introduced the assent procedure that granted the EP the right to veto enlargements and international agreements, and the cooperation procedure, which was chiefly designed to pass legislation pertaining to the completion of the Internal Market. The SEA thus extended the range of QMV and declared that unanimity is no longer required for measures designed to establish the Single Market, with the exception of measures concerning taxation, the free movement of persons, and the rights and interests of employed persons. The shift from unanimity to QMV in matters pertaining to the Internal Market is often seen as the most important reform of the SEA (cf. Garrett 1992: 548). The cooperation procedure also strengthened the role of the EP by providing the Parliament with the opportunity to amend the Council’s common position, or to reject it (SEA, Art. 7). If the EP has rejected the Council’s common position, unanimity is required for the Council to act on a second reading (Crombez 1996; Tsebelis 1994).

The SEA thus moves Single Market issues from joint decision-making I towards joint decision-making II ('community method and pooling') on our vertical integration scale.

After the SEA

After the SEA, the next institutional changes to the legal foundations of the Single Market came into force with the Treaty of Maastricht, which most prominently introduced the co-decision procedure for market-related issues. Co-decision strengthens the EP's role as compared to the cooperation procedure; the EP, under co-decision, acts as co-legislator on an almost equal footing with the Council. Reformed at Amsterdam, the co-decision procedure was finally replaced by the 'ordinary legislative procedure' in the Treaty of Lisbon (Art. 294 TFEU). Also note that, following to Art. 238(3) TFEU, the Nice Treaty's long-contested qualified majority rule was replaced by the 'dual majority' of 'at least 55% of the members of the Council representing the participating Member States, comprising at least 65% of the population of these States' in November 2014. Otherwise, the Treaty of Lisbon only made 'modest changes' to the Single Market programme (cf. Young 2010: 116)—for instance, by establishing provisions for a 'uniform protection of intellectual property rights throughout the Union and for the setting up of centralised Union-wide authorisation, coordination and supervision arrangements' (Art. 138 TFEU).

Moreover, even beyond the setting of primary law, market integration remains an ongoing process, as already illustrated above with reference to the Commission's 2010 communication 'Towards a Single Market Act'. In addition, in 2007, the Commission launched an initiative on 'A Single Market for 21st Century Europe' in which it pleaded for a 'smarter mix' of policy instruments, including an increased usage of soft law for the sake of better implementation and enforcement (Young 2010: 127). All these measures broadly relate to the Barroso commission's goal of promoting 'better regulation' in the Single Market. More recently, a number of additional issues are at the top of Ursula von der Leyen's Commission agenda, as, for example, defining more ambitious targets to fight climate change (the European Green Deal), shaping the Digital Single Market, promoting Capital Market and Banking Union, as well as updating the EU's competition law. All this highlights that the European Commission also uses the Single Market to promote more general goals of the EU such as climate protection, mastering the digital transformation, and stabilizing

EMU. However, since the proposals in these areas do not directly relate to primary law, we will not cover them in detail in this book.

Horizontal Integration

Apart from a number of enlargement-related or Article 114 TFEU exceptions, market legislation applies mostly uniformly inside the EU. Moreover, the Single Market attracts outside states to participate, which makes it an important case of strong internal uniformity in combination with external differentiation.

The EEC sets out with six-member states. Over time, the Single Market has grown to include the 27 member states of the EU. In addition, Iceland, Liechtenstein, and Norway participate in the Single Market through the EEA agreement. Switzerland is also hooked to the development of the Single Market through bilateral treaties and by adapting most market regulations on a case-by-case basis in order to ensure unobstructed access of Swiss products into the EC. Switzerland and the EU are currently negotiating an Institutional Agreement, to which we will return below.

As already highlighted in the introduction to this chapter, the Single Market is an instance of a mostly uniform application of EC legislation. Other than some temporary exceptions in the context of enlargement, all EU member states participate fully in the Single Market. At the same time, the EEA is an interesting example for external differentiation by allowing non-EU member states access to a particular EC regime.

The EEA agreement coincides with the Single Market programme. The ambitious plans towards the completion of the Single Market raised concerns of marginalization in the remaining member states of the EFTA. Already by 1984, the so-called Luxembourg process had launched a sector-by-sector approach of establishing closer cooperation between the EC and the EFTA countries in new policy areas (cf. Gstöhl 1994). This process, however, was perceived to become increasingly complicated. In reaction, European Commission President Jacques Delors proposed the establishment of a more strongly institutionalized form of cooperation through the EEA in January 1989. The aim of this more encompassing approach was to guarantee the persistence of the four freedoms between the EC and the EFTA states. Talks on the EEA started in 1989, and continued during 1990 and 1991. However, eventually, in 1994, only Iceland, Liechtenstein, and Norway became EEA member states. The Swiss people rejected membership in 1992; Austria, Finland, and Sweden

had in the meantime opted for full EU membership (the Norwegian voters had voted against EU membership in November 1994). Under the EEA agreement, the EEA-EFTA countries Iceland, Liechtenstein, and Norway adopt legislation relevant to the internal market quasi-automatically—assuring a uniform application of internal market-related rules in the EU and EEA. This excludes matters related to fisheries and agriculture, but includes flanking policies of the internal market, such as research and development, environment, consumer protection, social policies, and policies directed towards achieving economic and social cohesion. The EEA-EFTA countries have no formal say over EU rules and only contribute informally to ‘decision-shaping’ through participation in Commission-sponsored committees. Iceland, Liechtenstein, and Norway also agreed to contribute financially to support the reduction of the economic and social disparities inside the EU. In the EEA’s ‘two-pillar’ system, the compliance of the EEA-EFTA countries with internal market regulations is monitored and adjudicated by EFTA institutions, but the EFTA Court is expected to follow the jurisdiction of the CJEU.

Box 7.1 Timeline: EC market integration

1951	European Coal and Steel Community
1955	Messina Conference
1957	Treaties of Rome
1973	Northern Enlargement
1974	Dassonville Ruling
1979	Cassis de Dijon Ruling
1981	Greek Enlargement
1983	Declaration of Stuttgart
1985	Commission White Paper ‘Completing the Internal Market’
1985	Messina Conference
1986	Southern Enlargement
1987	Single European Act
1993	Treaty of Maastricht
1994	European Economic Area
1995	European Free Trade Area Enlargement
2004	Eastern Enlargement I
2007	Eastern Enlargement II
2007	Eastern Enlargement II
2013	Croatian Enlargement
2020	Brexit

The case of Switzerland is more complicated. After the Swiss voters had rejected the EEA agreement in a referendum in 1992, the Swiss government negotiated a more flexible form of integration with the EU (cf. Lavenex 2009; Tovias 2006). In 1999 and 2004, Switzerland and the EU passed two packages of bilateral treaties (or ‘bilaterals’), which cover important internal market issues such as the free movement of persons, technical barriers to trade, public procurement, research policy, and road and air traffic. In contrast to the EEA agreements, the bilateral agreements are neither dynamic (which means that changes in the Single Market are not automatically incorporated into the agreements), nor subject to judicial monitoring (cf. Lavenex 2009: 551). Accordingly, Switzerland is neither formally involved in decision-making on internal market issues, nor obliged to enact new pieces of EU legislation. At the same time, the Swiss legislator ‘autonomously’ copies large parts of EU legislation in order to secure smooth access to the internal market to Swiss economic actors. Since 2014, the EU and the Swiss Confederation have been negotiating an Institutional Agreement to set the future relations and Swiss access to the Single Market on a more institutionalized foundation approximating the dynamic rule adoption and monitoring procedures of the EEA. A draft agreement was reached in 2018; however, because of strong domestic opposition, the Swiss government asked for ‘clarifications’ on a number of issues.

After Croatia became a member of the EU in 2013, the Single Market comprised 31 states. As of 2021, the UK is not anymore a member of the Single Market, but the EU–UK Trade and Cooperation Agreement assures preferential arrangements of the two parties linked to Single Market policies.

Conclusion of the Historical Overview

The Common Market has been at the heart of the European integration project since the 1950s. The Treaties of Rome mark the starting point of the Common Market. In terms of vertical integration, the EEC Treaty established intergovernmental coordination between the EEC member states. This equates to a value of ‘3’ on our scale of vertical integration introduced in Chapter 2. The ‘Luxembourg compromise’ of 1966 blocked the introduction of QMV, and more than two decades passed until the next major integration step, the SEA, was enacted in 1987. The SEA established QMV for acts relating to the Single Market and replaced

the consultation procedure with the cooperation procedure. Accordingly, in 1987, the level of integration of the economic freedoms rises to '4' on our scale, representing 'joint decision-making II'. The co-decision procedure, introduced by the Maastricht Treaty, signifies another instance of deepening, leading to a vertical integration at the level of '4.5' after 1993.

Horizontal integration of the Single Market has likewise gradually increased over time. At the time of writing, more than 80% of all European states participate in the Single Market. However, Brexit was a shock to the so far 'ever-wider' Union story of the Single Market.

Overall, the Single Market is a comparatively early and highly integrated policy area in the EU—vertically as well as horizontally. With the historical trajectory and the levels of vertical and horizontal integration in mind, we will now turn to the integration theories with the aim of inspecting how well they are able to explain the patterns of market integration in Europe. As we will see, the Single Market has received strong attention from integration theorists. In fact, because the Single Market has been so central to the European project, one could argue that every serious theory of European integration needs to be able to account for the dynamics of market integration. Also, the founding of the European Coal and Steel Community and the Common Market in the 1950s gave birth to theorizing about integration in the first place. The intellectual enthusiasm raised by these early steps of market integration resonates well in Lindberg's (1963: 4) statement that these developments in Europe allowed political scientists to 'observe the actual processes whereby political actors move beyond the nation-state as a basic framework for action, appearing finally to realize the oft-proclaimed "fact" of the international interdependence of nations. Forces are at work in Western Europe that may alter the nature of international relations'.

In the following, we will take up our theoretical expectations derived from intergovernmentalism, supranationalism, constructivism, and post-functionalism to address the following questions:

- First, how can we explain market integration over time? Why was the Common Market founded in the 1950s to be followed by another *relance européenne* in the 1980s? Why has the Single Market been one of the most integrated policy areas in the history of the EU, and what explains the particular form market integration has taken in Europe?

- Second, what explains the horizontal patterns of market integration? Why does the Single Market display mostly uniform integration inside the EU while, at the same time, attracting outsiders (leading to external differentiation)?
- Third, we must inquire about Brexit, as probably the most remarkable shock to market integration in post-war Europe. Why did it come about and how does it affect cooperation in the Single Market?

We will begin with a review of intergovernmentalism, and then submit supranationalism, constructivism, and postfunctionalism to empirical scrutiny. For each of these theories, we will start addressing vertical integration over time by investigating the EEC Treaty and then the SEA. We then take up the issue of horizontal integration and differentiation.

INTERGOVERNMENTALISM

For many years, one important cleavage dominated the field of European integration research and separated theorists into two seemingly irreconcilable camps. Neofunctionalism and supranationalism opposed (liberal) intergovernmentalism, whereas neofunctionalism and supranationalism underlined the dynamic and self-reinforcing character of regional integration in Europe driven by transnational exchange and supranational entrepreneurship, intergovernmentalists took a more static—and statist—perspective by maintaining that the nation-states remain in the driver's seat of integration.

- For intergovernmentalism, state preferences and bargaining power determine integration outcomes. Governmental actors weigh the costs and benefits of integration. Only when the benefits outweigh the costs does integration become possible. For realist intergovernmentalists, the measure of costs and benefits is state autonomy and power. Accordingly, for realist intergovernmentalists, geopolitical developments determine the scope and pace of integration. In particular, the devastating effects of World War II and the emergence of the Cold War led European states to closer cooperation. Cooperation will be limited to ‘low politics’ that do not substantively constrain state sovereignty. For liberal intergovernmentalists,

governmental actors strive to maximize societal support and therefore take societal demands closely into account when formulating their European policy positions. In contrast to realist intergovernmentalism, liberal intergovernmentalism therefore sees interdependence and converging preferences as driving forces of regional economic integration.

- From a realist intergovernmentalist perspective, horizontal integration and differentiation can best be explained by a variation of geopolitical conditions and imperatives. For liberal intergovernmentalists, uneven interdependence and varying costs of economic integration can account for the differentiated patterns of horizontal integration.

The Beginnings of Integration: Post-World War II Europe, Economic Interdependence

For realist intergovernmentalists, Western Europe after World War II was in a state of turmoil. The war had devastated most of the continent. Hoffmann (1966: 872) speaks of the ‘political collapse of Europe’ and finds that ‘Europe did not merely lose power and wealth: such losses can be repaired, as the aftermath of World War I had shown. Europe, previously the heart of the international system, the locus of the world organization, the fount of international law, fell under what de Gaulle has called “the two hegemonies”’. The nuclear stalemate and the emerging bipolarity of the international system of states posed new challenges for European leaders. Not only was Europe harmed in material respects, it also suffered from the ideational shocks of the war. For Hoffmann, these are key conditions in explaining the willingness of the founding states to engage in institutionalized economic cooperation in the form of the EEC. In his view, the national interest—defined as the ‘national situation times the outlook of the foreign policy makers’ (Hoffmann 1966: 869)—allowed integration in the economic realm.

Against the backdrop of the tensions between the two superpowers, the USA and the Soviet Union, the beginnings of European integration can be considered an instance of balancing. Interestingly, the most prominent neofunctionalist, Ernst Haas (1958: 279), cites Chancellor Adenauer’s adviser Walter Hallstein—later the Commission’s first president, who declared at the opening of the Brussels Expert conference convoked after Messina: ‘The Federal Government believes that we must

take a decisive step now. This is much more a political than an economic necessity. A balance between East and West is only possible if there is European unity. We believe that the purely economic activities of GATT and OEEC must have a political counterpart'. Haas (1958: 298) also stresses the importance of the Suez Canal crises underlining the importance of European integration as a 'means of survival in a global setting of Soviet-American dominance and rising Asian and African nations'. It is surprising to find such geostrategic arguments in the neofunctionalist classic *The Uniting of Europe*, since the logic perfectly conforms to realist intergovernmentalist theory.

At the same time, for realist intergovernmentalists, the transfer of competences remains selective to specific issues, and the process of partial integration is carefully conducted by interest-maximizing nation-states. British historian Alan Milward (1994) speaks of the 'European rescue of the nation-state'. For Milward (1994: 18), '[i]ntegration was not the supersession of the nation-state by another form of governance as the nation-state became incapable, but was the creation of the European nation-states themselves for their own purposes, an act of national will'. Realist intergovernmentalists underline that a demise of independence is clearly limited to sectors of 'low politics'. For realists, there is no question that 'high politics'—defined as those sectors that substantively relate to national sovereignty—should remain unaffected by integration. Therefore, it comes as no surprise to realists that the establishment of the Common Market was more successful than the setting up of the European Defence Community (EDC), which will be discussed in Chapter 9.

Finally, a realist expectation that small states have a stronger interest in establishing institutionalized ties between states is partly confirmed by the role the smaller delegations played in the preparation of the Treaties of Rome. For instance, Dutch Foreign Minister Beyen is often argued to have importantly set the agenda before the Messina conference of 1955 (cf. Haas 1958: 269). The horizontal patterns of integration and the differences in demand for integration from different states in the 1950s can be explained from a realist perspective by the degree to which different nations were affected by the war and the emerging Cold War situation. We will discuss this in greater detail below.

For liberal intergovernmentalism, economic concerns and incentives are the main driving forces of regional integration. For Moravcsik (1998), concerns about export promotion determine the preferences of the British, French, and German governments. Since, during the 1950s,

British industry relied heavily on preferential access to colonial and Commonwealth markets, the UK was more hesitant with regard to establishing a customs union than France and Germany (cf. Moravcsik 1998: 135). At the same time, Moravcsik acknowledges that economic preferences alone cannot explain the establishment of the EEC and he grants individual politicians a decisive role. For him, Chancellor Adenauer's geopolitical orientation determined the German preference for the establishment of the EEC: if 'Erhard [the minister for economic affairs, *the authors*] had ruled Germany, the likely result would have been an Anglo-German FTA with no agricultural component' (Moravcsik 1998: 137). Thus, Moravcsik borrows from the realist intergovernmentalist toolbox in order to explain the emergence of the EEC. While economic interests have primacy for the formulation of national preferences, they seem insufficient for explaining the particular choices taken in 1957. At the same time, from a liberal intergovernmentalist perspective, supranational actors such as the High Authority and Jean Monnet's Action Committee for the United States of Europe play only a negligible role in the process.

Integrative Dynamics: Growing Interdependence and Preference Convergence Before the SEA

The shift from unanimity to QMV, together with the empowerment of the EP enacted by the SEA, should constitute a puzzle for realist intergovernmentalists. QMV hollows out a state's autonomy, since states can be forced to implement policies they do not support. Realist intergovernmentalists may counter that the integrative developments of the SEA are still primarily restricted to 'low politics' and are therefore less important. In addition, they would agree with the supranationalists' reading that, due to structural changes in the world economy, Europeans had strong incentives to make their economies more competitive. If the Single Market programme can contribute to this goal, the demise of the Luxemburg compromise may be a bitter pill that the nation-states would grudgingly swallow.

Liberal intergovernmentalism only partly agrees with this traditionalist reading and, instead, puts forward a different set of causal mechanisms. In his analysis of the timing and content of the SEA, Moravcsik (1998) challenges the supranationalist view that the reform resulted primarily from an elite alliance between supranational actors such as the Delors Commission and the EP, and pan-European business interest groups. He

finds that the role of Jacques Delors is often exaggerated in the literature: ‘the breakthrough in the relaunching of the EC had already occurred before Delors became president of the Commission. The causality of the supranational explanation is thus reversed: the selection of a prestigious politician for the presidency was merely a symptom of mounting trilateral pressure for reform’ (Moravcsik 1991: 46). Similarly, for Moravcsik, it is important to note that, while the White Paper ‘Completing the Single Market’ was drafted by Lord Cockfield in the Commission, it had previously been mandated by the member states. This implies that the nation-states remained the masters of the integration process.

Geoffrey Garrett (1992: 538) finds that an ‘ever-growing trade dependence of the European economies, combined with more than a decade of poor and declining economic performance (“Eurosclerosis”), greatly increased the benefits of completing the common market relative to the costs of participation’, and—in line with supranationalist expectations—underlines that ‘the power of large transnational firms increased significantly during the early 1980s. Given the strong preferences of these firms for free access to other markets and for reducing cross-border transactions costs, the greater influence of transnational business added further to the pressures for trade liberalization in Europe’. But, at the same time, he claims that these demands were ‘significantly mediated by domestic political and institutional factors, such as electoral competition, government partisanship, ideology, and the organization of economic interests’ (Garrett 1992: 541). Thus, the member state governments kept their hands on the project by representing the aggregated societal interests, but also infused their own political ideas into the European negotiations.

Moravcsik (1991) explains the deepening of the Single Market by pointing to the convergent economic positions of the large member state governments—the UK, Germany, and France (see also Cameron 1992: 56). There is hardly any doubt that a wider liberalization of commerce in the EC was fully in line with the ideological standing of the British Conservative government. Moravcsik (1991: 37) cites British Foreign Minister Geoffrey Howe who called for the removal of ‘all – and I mean all, economic barriers’ by 1990. Most observers agree that the Northern member states shared the ‘common goal of increasing the competitiveness of European goods and services in global markets’ (Garrett 1992: 535). The economically less competitive member states demanded compensatory measures for their agreeing to a liberalization agenda that was likely to imply heavy political costs. Against this backdrop, the declared goal of

article 130 of the SEA—to promote economic and social cohesion, which later led to a substantive increase of structural funds—can be viewed as a side-payment to the Southern and less competitive member states. Their necessary support was thus ‘bought’, and the SEA negotiations came to resemble a package deal. This pattern matches the intergovernmentalist emphasis on interstate bargaining rather well.

Similarly, the enactment of institutional reforms—such as the extension of QMV against the explicit critique of some member states, notably the UK—can be explained by interstate bargaining (cf. Moravcsik 1991: 36). France and Germany as the drivers of vertical integration were in a strong position, since they could credibly threaten the UK with exclusion from deeper market integration. At about the same time, they enacted the intergovernmental Schengen Agreement together with the Benelux countries outside the EC institutional framework in order to circumvent British, Danish, and Greek opposition (cf. Chapter 10 on the AFSJ). The threat of establishing a two-tier Europe was thus used to ‘discipline’ reluctant Europeans.

At the same time, the pro-European side, too, had to compromise. In line with intergovernmentalist expectations, during the negotiations of the SEA, many progressive proposals were watered down. Truly ambitious reforms were ultimately limited to the Single Market and, even here, some more contentious issues (such as fiscal and social policies) were excluded from the majority voting rule. For intergovernmentalists, the SEA thus represents a lowest common denominator outcome. In addition, the conflation of market liberalization and institutional reform is often described as a package deal. For instance, Parsons (2010: 711) argues that ‘the SEA resulted from a deal between distinct liberalizing and Europeanist agendas’ (see also Cameron 1992).

(Differentiated) Horizontal Integration

The patterns of integration in the Single Market conform in parts to intergovernmentalist expectations. For realist intergovernmentalists, the initial reluctance of the UK is in line with this country’s ‘special’ position after World War II. The UK had not been defeated during World War II; additionally, after the war, this country kept close ties with its former colonies through the Commonwealth and maintained a pronounced transatlantic outlook. As Winston Churchill succinctly puts it in the House of Commons on 11 May 1953, ‘We are with Europe but

not of it. We are linked but not comprised. We are associated but not absorbed'. However, why did the UK seek membership from the early 1960s and finally joined the EC in 1973? From a realist intergovernmentalist perspective, one could argue that the Suez crisis of 1956 revealed that Britain was no longer a great imperial power—in fact, Prime Minister Anthony Eden's successor, Harold Macmillan, strongly supported British accession to the EEC.

However, in our view, the case of the UK fits the liberal intergovernmentalist framework better. Andrew Moravcsik (1998: 123) argues that 'the British policy of apathy and opposition to the customs union was the rational one for a government that traded little with the continent, had high tariffs in place, and feared competition with German producers'. In particular, the close economic ties with former colonies and overseas countries initially dictated different priorities to the UK. Milward (1994: 426) supports this economic explanation for the initial British reluctance, but also underlines that the British administration had serious doubts about a successful establishment of the EEC. At the same time, outsiders such as the UK kept a jealous eye over the economic progress of the EEC and, indeed, as the Common Market promoted growth through the abolishment of tariffs and duties in Europe, Britain found that staying out of the system was becoming increasingly costly. When the importance of the Commonwealth declined, the UK applied for EEC membership. For Moravcsik (1998), the UK's position is therefore primarily driven by commercial interests. This view is shared by Ernst Haas (1958: 159), who argues that the UK had been reluctant regarding the ECSC for economic reasons. As to the EEC, he finds growing support for the project in Britain: '[a] common market, implying the possibility of discrimination against British trade in search of increasing Continental rather than Commonwealth outlets, proved to be a potent centre of attraction' (Haas 1958: 161). However, on these grounds, liberal intergovernmentalism can hardly explain the negative outcome of the Brexit referendum. Most observers stressed the net economic costs—not just for the City of London—of exiting the EU. In contrast, intergovernmentalism can inform about the bargaining dynamics between the EU and the UK to shape their future relations. Importantly, the UK's bargaining position was weakened through Brexit because it lost its veto position and economically strongly depends on Europe (cf. Schimmelfennig 2018; Kroll and Leuffen 2016). However, while the bargaining position can explain that the UK accepted the terms of the EU in the withdrawal

agreement, it is less evident why the UK refused participation in the Single Market or in a customs union after exiting.

An interesting pattern of external differentiation is the establishment of the EEA. In fact, the relationship of Iceland, Liechtenstein, and Norway towards the EU is characterized by sector-specific homogeneity with general identity-related heterogeneity. Since, the latter makes full integration difficult, a point to which we will return when discussing postfunctionalism, there are strong functionalist forces promoting integration in the Single Market. Fearing discrimination and negative external effects of EU market integration, the EFTA states had an interest in taking up the Commission's idea of negotiating a global agreement that would ensure their access to the Single Market. Since, they were hesitant to go all the way towards full membership, they had a weak bargaining position as highlighted *ex post* by the rather costly outcomes for Iceland, Liechtenstein, and Norway. Besides the 'influence deficit', these states had to contribute financially to strengthening cohesion in the Single Market through the so-called EEA grants.

Overall, the bargaining dynamics and outcomes of the EEA agreement illustrate that, in line with intergovernmentalist expectations, the EU negotiated from a position of strength. For Gstöhl (1994: 356), there is 'no doubt that the bargaining leverage was on the Community's side. The EFTA countries needed an agreement more than the EC, and their expectations did not correspond to what the EC was either able or willing to deliver'. Ultimately, only few countries opted for the 'half-way' house between isolation and integration. According to Gstöhl (1994: 334), the 'unanticipated shape of the EEA is likely to have contributed to the EFTA countries' change of policy in favor of full EC membership' (see also Varwick and Windwehr 2007: 19). Fearing 'cherry-picking' in the Single Market, the EU demanded a high price for allowing selective integration.

Finally, liberal intergovernmentalists can explain the fact that the EFTA countries and Switzerland still object to full membership by pointing to idiosyncratic factors relating to those countries. For, instance, the Swiss *Sonderweg* can be explained by the institutional structure of a direct democracy in combination with an economy that relies heavily on the banking sector.

Internal differentiation in the area of the Single Market is rare, and uniform application of EU legislation is the rule. This observation seems in line with the theoretical expectations formulated by the literature on the EU as a regulatory state (Majone 1996), since a regulatory state

primarily enhances efficiency. At the same time, despite a compelling market logic, there often are disputes between the EU member states concerning Single Market issues. A dispute, for instance, erupted on the question of the establishment of an EU patent. This case is particularly interesting because it is, so far, one of the few examples in which the enhanced cooperation procedure has been used in practice (cf. Box 6.2). Enhanced cooperation had first been institutionalized in the Treaty of Amsterdam. It allows a subset of EU member states to cooperate more closely on matters covered by the Treaties, and to use the institutions and procedures of the EU (see Art. 20 TEU). Since, the terms of cooperation do not bind the member states that do not participate in the enhanced cooperation, it introduces horizontal differentiation in the application of secondary law (cf. Stubb 2002). For us, it is interesting to see that the mechanisms of decision-making in primary and secondary law sometimes resemble one another.

Brexit constitutes a challenge for intergovernmentalist integration theory. From a realist intergovernmentalist perspective, Brexit could, indeed, be interpreted as a response to the deepening of integration. Since, the unanimity and ratification requirements for a treaty revision make it difficult to reverse track, in such a perspective, a total exit is the only way forward. At the same time, against realist intergovernmentalist expectations, Brexit was hardly under control of a strong and sovereign British government. While Prime Minister David Cameron had initiated the referendum and had repeatedly underlined having no ‘romantic attachment to the European Union and its institutions’, he still stated that he would ‘campaign … with all [of his] heart and soul’ for Britain to remain in the EU (as cited by Kroll and Leuffen 2016).

Likewise, liberal intergovernmentalism has difficulties in explaining Brexit. In an article, published on 8th April 2016 by the Financial Times, Andrew Moravcsik spoke of a ‘great Brexit kabuki — a masterclass in political theatre’, and expected Brexit never to be executed, even in the case of a negative referendum outcome. In fact, it was not economic interest groups who lobbied in favour of Brexit. Certainly, the financial industries of the City of London were massively opposed to leaving the EU.

Box 7.2 Enhanced Cooperation in Practice: EU patent

In April 2011, the European Commission issued a proposal for a regulation that implemented enhanced cooperation for the creation of a European Union (EU) patent. The decision to choose the road of enhanced cooperation followed a long dispute within the EU's legislative machinery. The Commission had already published a Communication on 'enhancing the patent system in Europe' in 2007. In this communication, the Commission underlined that European patents are about nine times more expensive than Japanese and US patents, which would impose unnecessary costs on European economies. At the end of 2009, the Council has reached a general agreement about the usefulness of such a system; however, the translation arrangements for the EU patent were not covered in its conclusions. In 2010, it became evident that the member states were unable to reach unanimity on the translation arrangements. In particular, Spain and Italy objected to an EU patent restricted to English, French, and German. It therefore seemed unlikely that a uniform patent system would be established in the EU. In response, twelve member states expressed their desire to establish enhanced cooperation in this area. On 15 February 2011, the European Parliament consented to proceeding with enhanced cooperation. The procedure was then formally authorized by the Council in March 2011.

Italy and Spain – the opponents of an EU patent – lodged a complaint before the European Court of Justice against enhanced cooperation on the EU patent. Spain's EU affairs minister, Diego Lopez Garido, explained that the Spanish government 'insists that the reinforced cooperation mechanism was used to impose a solution which excludes Spain with a mechanism which, paradoxically, was thought up to facilitate the integration of the Member States.' In a statement, the Italian Ministry of Foreign Affairs declared: 'The use of enhanced co-operation within the patent sector is contrary to the spirit of the Single Market, because it tends to create division and distortion within the market, and will thus prejudice Italian businesses.' Internal Market Commissioner Michel Barnier replied that he was 'confident, that the enhanced cooperation procedure

presented by the Commission is not discriminatory. We are assured that Spanish and Italian business will suffer no discrimination. ... I hope that in time Italy and Spain will join in the enhanced co-operation: that would be in the general European interest.' In alignment with the Commission, the European Court of Justice decided against Spain and Italy in April 2013. Likewise, Spain's complaint against the implementation proposal was rejected in May 2015. After Italy's decision of September 2015 to participate in the EU patent, only Spain and Croatia remain the only outsiders.

At the same time, the Unified Patent Court (UPC) still is not operational at the time of writing. Germany has not ratified UPC, after its Constitutional Court declared the Bundestag's vote void due to a formal error. Moreover, a central division of UPC will need to be moved from London in consequence of Brexit.

Sources Citations from www.euractive.com; for further information see http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/intm/119665.pdf.

SUPRANATIONALISM

For supranationalism, transnational exchanges are a necessary condition for the emergence of regional integration. With denser transnational exchanges, (transnational) societal actors are expected to develop stronger demands for closer policy coordination between nation-states. Following the establishment of supranational institutions, societal and supranational actors work together to promote further integration. The following expectations on the emergence and the development of the Single Market can be generated from supranationalism:

- The decision to establish the EEC in the late 1950s was primarily motivated by economic concerns. Transnational exchanges can best explain the EEC Treaty. When surveying the process leading to the establishment of the EEC, we should observe that transnational interest groups play an important role. In addition, the organs of the ECSC should actively support the establishment of the Common

Market. Once the Common Market has been set-up, supranationalism expects an increase of transnational exchanges inside the EEC. This, in turn, should spur demand for further integration among transnational actors. The supranational actors of the EEC should also be able positively shape the integration agenda.

- Successful integration of the Common Market leads to spillover effects to other policy sectors and incites demand for integration from neighbouring and initially recalcitrant states. Supranationalism thus predicts a deepening and widening of the Common Market over time.

The Beginnings of Integration: Transnational Exchanges and the EEC Treaty

Interestingly, neither of the neofunctionalist classics, the *Uniting of Europe* (Haas 1958), Lindberg's (1963) *The Political Dynamics of European Economic Integration*, or Lindberg and Scheingold's (1970) *Europe's Would-be Polity* provides an in-depth analysis of the founding of the Common Market. The *Uniting of Europe* analyses 'political, social, and economic forces 1950–1957', and thus focuses on explaining and describing the ECSC. Lindberg (1963) focuses on the political consequences of integration. How does integration impact on decision-making patterns in the Europe of the six? Further elaborating on this topic, Lindberg and Scheingold (1970) analyse the patterns of change in the European Community. Similarly, the supranationalists of the 1990s are more concerned with developments of the Single Market over time than with its beginnings.

Why did market integration begin in the 1950s? Explaining the timing of political decisions and events is a challenging task for social science theories. In fact, dense transnational exchanges between European states had already been present long before the outbreak of World War II. This suggests that this factor alone is not sufficient to explain the foundations of the EEC. This is also accepted by Haas (1968: xix), who argues that a purely functional argument is insufficient to explain integration in the 1950s: 'Politicians were important in the process. Economic reasoning alone was not sufficient. ... Politics remained imbedded in the functional logic'. For Haas (1958: 524), state support remains a necessary condition for integration: 'when the governments, for identical or converging reasons, are determined *not* to find a federal solution to their problems ...

High Authority initiative will be neither solicited nor respected'. At the same time, it is noteworthy that integration, indeed, occurred in a sector where a high level of transnational exchanges were present. As we will highlight in Chapter 9, on defence policy, the EDC failed to be ratified by the French National Assembly in 1954, whereas the Common Market turned out to be an instance of successful integration only three years after the EDC was buried. When comparing these two sectors, one could, in line with supranationalism, argue that there was more transnational demand for integration in the economic than in the external security domain.

In addition, from a supranationalist perspective, previous integration of the coal and steel sectors should have paved the way for further economic integration. Although the High Authority's competence was initially limited to issues relating to the ECSC, it made use of its visibility more generally to promote a pro-European agenda. Giving a voice to societal demands for integration, the High Authority accelerated spillover processes towards a 'general economic unity' (Hass 1958: 109). For instance, High Authority President Jean Monnet's proposal of an extension of the powers of the ECSC to all sources of energy found wide support among the participants at the Messina conference (cf. Haas 1958: 107). Representatives from the High Authority and the ECSC council of ministers were present at the EEC negotiations and—according to Haas—they were able to shape the outcomes by drawing on their expertise: '[f]our years of experience with sector integration were thus brought to bear on future plans and the conclusions of ECSC personnel found a wide hearing in the proposal before the six governments' (Hass 1958: 108). Jean Monnet's Action Committee is often argued to have provided important stimuli for the Euratom treaty. The continuity from the ECSC to the EEC is thus not surprising from a supranationalist point of view. Haas (1958: 301) detects a 'direct causal connection between the negotiation of the Euratom and the General Common Market treaties and the crisis over the extension of ECSC powers'.

For neofunctionalism, the EEC was only a starting point for further political integration (cf. Lindberg 1963: 7). Integration was conceived as an incremental process but, to the surprise of the early neofunctionalists, the next important steps of vertical integration were only taken more than 25 years after the entry into force of the Treaties of Rome with the signing of the SEA.

Explaining the Single Market Programme: Transnational Exchanges, Institutionalization, and Spillover

After a period of conceived ‘Eurosclerosis’ in the 1970s, the SEA is often considered a major step in putting European integration back on track. At the same time, it revived a theoretical interest in European integration. Had integration theories been declared ‘obsolescent’ by Ernst Haas in 1976, the SEA revived the debate between neofunctionalists and intergovernmentalists; this time with supranationalists and liberal intergovernmentalists opposing each other. For supranationalists, the development of the SEA confirmed some important expectations of neofunctionalism. Supranationalists identified an alliance between economic transnational interest groups and the supranational actors as the central driving force behind the *relance européenne* in the early 1980s.

Sandholtz and Zysman (1989: 96) underline that both international economic factors and the capacities of supranational actors—most notably the Commission—paved the paths towards further integration. Changes in the international economic structure—the stagnating economies in Europe and in the USA, and the rise of the Japanese economy—were a necessary but not a sufficient condition for ‘1992’ i.e. the Single Market programme:

Other conditions were equally necessary and, in combination, sufficient. First, 1992 emerged because the institutions of the European Communities, especially the Commission, were able to exercise effective policy leadership ... In addition, a transnational industry coalition also perceived the need for European-level action. The Commission, aided by business, was able to mobilize a coalition of governmental elites that favoured the overall objective of market unification.

In addition, as these authors acknowledge, favourable domestic conditions facilitated the enactment of the Single Market programme. A decisive moment was French President François Mitterrand’s 1983 decision to move towards a more liberal shift of French policy in order to avoid a withdrawal of the franc from the European Monetary System. Government shifts in Germany and the UK additionally allowed the enactment of more market-oriented solutions. As Sandholtz and Zysman (1989: 113) metaphorically put it, this was ‘the domestic political soil into which the Commission’s initiatives fell’.

The explanation thus consists of three steps that mirror the historical developments. First, structural change in the global economy leads to a societal demand for integration (cf. Fligstein and Mara-Drita 1996). Moreover, transnational exchanges had made the persistence of disparate national rules increasingly costly: ‘intra-EC trade and investment have grown steadily since the founding of the EEC, creating the need for greater degrees of supranational governance in issue areas closely linked to expanding the common market. Naturally, the EC rules for the Single Market have in turn encouraged increases in the trans-border transactions they were meant to facilitate’ (Stone Sweet and Sandholtz 1997: 308). In the case of the Single Market programme, as a reaction to US decline and the rising economic importance of Japan, European business—represented, for example, by the European Roundtable of Industrialists—demanded more European support for research and technology development. The demand for liberalization—also driven by an increasing amount of intra-European mergers and alliances—is, second, taken up by an entrepreneurial Commission. An alliance of societal and supranational actors thus managed to set the agenda, for instance, by publishing the 1985 White Paper ‘Completing the Single Market’. The Commission also displayed leadership when Common Market Commissioner Etienne Davignon built an alliance between 12 major electronics companies in the EC to promote the information technology sector, which culminated in the creation of the European Strategic Programme for Research and Development in Information Technology (ESPRIT). Finally, elite bargains among governments made the reforms possible. Market-oriented governments supported the Commission and established the goal of ‘1992’. Thus, the support of governments is a necessary condition in Sandholtz and Zysman’s account; however, it cannot explain by itself why integration came about.

Sandholtz and Zysman (1989) also find that national parliaments, political parties, and trade unions at that time had not become centrally involved in the integration process and thereby qualify central intergovernmentalist expectations and claims. Since, business is identified as a driving force behind the removal of non-tariff barriers to trade, supranationalists are not surprised about the ‘decisively neo-liberal (pro-market) character’ (Stone Sweet and Sandholtz 1997) of ‘1992’. The substantive policy outcomes are thus in line with their theoretical expectations.

In addition, supranationalists have drawn our attention to the important role of the European Court of Justice for promoting integration (cf.

Sweet Stone 2004). Stone Sweet and Brunell (1998: 65) demonstrated forcefully that transnational exchanges create a demand for dispute resolution; and by ‘revealing important collective action problems that beg for normative solutions (transnational rules)’ push for modes of supranational governance. According to Burley and Mattli (1993), a triangle of private litigants, national judges, and the ECJ—aided by the preliminary ruling system—has spurred integration to an extent exceeding that which member states had initially envisaged. Integration, moreover, is characterized by positive feedback: the dismantling of national rules preventing the free flow of goods and services fuels more transnational activity—in particular, trade—which, in turn, increases the potential for further disputes over those domestic rules, which are considered to inhibit free trade. Institutionalists argue that the ECJ’s Cassis de Dijon verdict acted as a catalyst for integration by provoking a pro-market response by the Commission. For Alter and Meunier-Aitsahalia (1994: 552), the Commission interpreted the ruling in its general battle against protectionism, and ‘the entrepreneurship of the Commission put the issue on the table and forced a debate’.

Horizontal Integration and Differentiation

The patterns of horizontal integration in the Single Market are broadly in line with supranationalist expectations. The growth of the Community to 27 EU member states and the close association of Iceland, Liechtenstein, and Norway through the EEA and Switzerland through the bilateral treaties illustrate the functional dynamics of market integration. All these countries are highly interdependent in economic terms, as there is a high density of transnational exchanges in Europe. The promise of growth has ensured political support in most European countries for the Single Market. It is primarily for economic reasons that outside states participate in the Single Market, and this resonates well with the supranationalist focus on economic actors. By including more member states, the EU has made exclusion increasingly costly for trade-dependent non-member states and triggered their demand for closer association with the Single Market.

In line with supranationalist expectations, Commission President Jacques Delors sets the agenda for the EEA in 1989, proposing the establishment of a special regime enabling the extension of the four

freedoms to the EFTA states. In the EEA agreement, the EU's supranational institutions supported external integration but, at the same time, they complicated matters for the EEA candidates. In particular, the ECJ clearly objected to attempts to create a joint EEA Court of Justice (cf. Gstöhl 1994: 347). This highlights that the Community institutions strongly watched over maintaining and not diluting the EU institutional framework and their own powers.

At the same time, supranationalists have greater difficulties in explaining the persistent reluctance of some states *vis-à-vis* the integration project. It is hard to account for the initial reluctance of Denmark or Sweden, or the continuous hesitation of Norway and Switzerland, to becoming full members of the EU solely on the basis of transnational economic exchanges and trade dependence. All these countries are closely tied to the other European states in economic respects—for instance, the EU is by far the most important trading partner of Norway and Switzerland. The same holds for the UK and the Brexit decision. Trade and transnational exchanges alone can hardly explain the refusal of integration or disintegration.

CONSTRUCTIVISM

Constructivist propositions on the Single Market break with rationalist assumptions and put ideational factors to the fore.

- For constructivists, pro-European ideas led to the founding of the EEC in the 1950s. Over time, the participating actors became socialized to follow pro-Community norms, facilitating further integration. The reforms of the Single Market programme can best be explained by an ideational consensus on how successfully to promote growth in the European economies.

The Beginnings of Integration: Ideas Matter

In the aftermath of World War II, federalist European ideas were promoted by the European movement. In May 1948, the Hague Congress under the chairmanship of Winston Churchill united 750 delegates to discuss the future of Europe; among them, such important figures

as Konrad Adenauer, Harold Macmillan, Paul Ramadier, François Mitterrand, and Altiero Spinelli. When focusing on such events and actors, the founding of the EEC is primarily an idea-driven response to the decline of Europe after World War II; in line with constructivist expectations that a situation of uncertainty can promote ideational persuasion or processes of socialization (cf. Checkel 1999).

From a constructivist angle, Robert Schuman and Jean Monnet were primarily driven by pro-European ideas. They wanted to promote European cooperation in strategically important sectors such as coal and steel in order to make another war between France and Germany impossible (cf. also Lindberg 1963: 4). From this perspective, the EEC is not just about economic cooperation, but aims at achieving peace in Europe and, potentially, European political unity. In his account of the Treaties of Rome, Parsons (2003) underlines the important role that pro-European actors played in the process. For instance, Parsons considers the fact that Guy Mollet—and not Pierre Mendès-France—headed the French government as ‘Président du Conseil’ from February 1956 to May 1957 was a decisive circumstance for a successful conclusion of the EEC negotiations. Mollet, according to Parsons, was driven by a federalist ideology, rather than by geostrategic or economic concerns. He argues that ‘[r]ather than being lobbied by interest groups, Mollet’s team lobbied them’ (Parsons 2003: 91). Therefore, for Parsons (2003: 102), ‘pro-community leadership’ is a key explanation of European integration. It should be noted, however, that while Parsons grants ideas an important role in the integration process, the mechanisms that he puts forward would also fit into a rationalist framework, since he does not argue that the power of the better argument has prevailed, or that persuasion or socialization was taking place. In our view, his historic account basically brings domestic politics back into the equation. Others have put an even stronger focus on ideas proper. For instance, Kaiser (2007) and Accetti (2020) highlight the importance of Christian Democratic ideology with respect to the origins but also to some of the EU’s still existing key institutional characteristics, such as the principle of subsidiarity and its ‘consociative’ approach to policy-making.

Integrative Dynamics: Shared Understandings of Common Challenges

The previous paragraphs highlighted that World War II and its devastating effects can be considered a favourable background from which new ideas could emerge on the European scene. In such a reading, uncertainty and

the fact that other ideas such as aggressive nationalism and imperialism were discredited, called for new solutions. But how can constructivism explain the dynamics of the Single Market?

During the early 1980s, European states faced growing uncertainty about the ‘right’ responses to the economic challenges of the time—the rise of the Asian economies, the perceived decline of the USA, stagflation of their own economies, and the fear of falling behind other parts of the developed world in technological respects (cf. Fligstein and Mara-Drita 1996: 11; Sandholtz and Zysman 1989). It is against this background that European leaders turned, one after the other, to neoliberal ideas of economic policy-making. In this logic, politics followed economic thought, since the discipline of public economics had previously and broadly experienced a paradigm shift from Keynesianism towards neoliberalism in the 1970s (cf. Donnelly 2010; McNamara 1999; Hien 2020). Market-oriented solutions were dominating the economic discourse of the time, allowing right-wing parties such as the British Conservatives or the German CDU nationally to enact reform agendas and promote more liberal positions on the European level. From a constructivist perspective, the White Paper on the Single Market strongly resonates with the liberal outlook of the conservative governments, but also with the dominant economic ideas and narratives of the time.

Jabko (1999, 2006) introduces a strategic form of constructivism as a middle-ground between the actor-centred and the ideational approaches. For Jabko, the Commission strategically used the ‘market’ as a norm to promote European solutions—for instance, in the case of the 1988 Capital Movements Directive. Again, we thus find a package deal emerging between the pro-integration camp, after 1983, prominently represented by the French socialist government, and the pro-liberalization camp, most prominently represented by the UK’s government under Margaret Thatcher. In Jabko’s (2006: 26) view, political strategy is a causal factor of institutional change, more so than the power of ideas: ‘The politics of market ideas, not these ideas themselves, fuelled the European Union’s quiet revolution’. He continues that the ‘key political actors who became the promoters of Europe in the 1980s and 1990s were extremely strange bedfellows. They shared a desire to change the status quo, but for very different reasons’ (Jabko 2006: 28).

The Commission’s White Paper (COM 85 310) ‘Completing the Internal Market’ nicely illustrates a strategic use of ideas. At the beginning of this document, the Commission refers to a number of declarations

by the European Council relating to the internal market. For instance, it cites the declaration of the Fontainebleau European Council 1984: ‘It asks the Council and the Member States to put in hand without delay a study of the measures which could be taken to bring about in the near future ... the abolition of all police and customs formalities for people crossing intra-Community frontiers’. Similarly, the European Council of Dublin 1984 is cited: ‘The European Council ... agreed that the Council ... should take steps to complete the Internal Market, including the implementation of European standards’. Also, the Brussels Conclusions of March 1985 are mentioned: ‘the European Council laid particular emphasis on the following ... fields of action: (a) action to achieve a single large market by 1992 thereby creating a more favourable environment for stimulating enterprise, competition and trade; it called upon the Commission to draw up a detailed programme with a specific timetable before its next meeting’. Since, the addressee of the White Paper is the European Council meeting at Milan in June 1985, the Commission suggests that the White Paper only executes the European Council’s own desires. In the Commission’s logic, if the European Council objected to the Commission’s proposals, it would only reveal internal inconsistencies. In line with Schimmelfennig’s (2003a, b) logic of ‘rhetorical action’, the Commission thus tried to rhetorically ‘entrap’ the European Council.

(Differentiated) Horizontal Integration: Constructivism

When surveying the map of Europe over time, we realize that the Single Market started with six members and covers 30 states today (when including the EEA states). There is thus a strong trend towards market integration in Europe. However, the trajectories of different countries vary. How does constructivism explain the choices of the outsiders? We have highlighted the importance of ideas for explaining the vertical integration of the Single Market. Here, we argue that, in order to develop a political impact, pro-integration ideas need to resonate with the worldviews of those actors whose support is necessary for political integration. In democracies, this is ultimately the public.

For constructivists, the initial reluctance of the UK is easier to explain than its later accession. In terms of identity, Britain as an island country had not considered being part of Europe. To cite Winston Churchill once again: ‘If Britain must choose between Europe and the open sea, she must always choose the open sea’. The British outlook in the 1950s

was thus rather transatlantic and oriented towards the Commonwealth. But why then did the UK accede to the EC in 1973? There is, in fact, little evidence for a Europeanization of the British public between the 1950s and the 1970s. Most observers agree that British entry into the EC was far from a love match and was primarily due to materialistic considerations. Therefore, the explanatory power of constructivism seems limited for the UK's integration into the EU. At the same time, constructivists have less difficulties accounting for Brexit. In a constructivist reading, the UK never really socialized into the EU and ideational and identity-related opposition—Stephen George famously spoke of an ‘awkward partner’—were the ground for the ‘leave’ campaign’s success. However, the mechanisms of Brexit are more fully spelled out by post-functionalism—in particular, with respect to the orchestration and the timing of the process.

What about the other outsiders? According to Gstöhl’s (2002) analysis of the ‘reluctant Europeans’, Switzerland or Norway—as small and economically strongly integrated states—would, indeed, have economic incentives to join the EU. However, in her view, identity concerns prevent these countries from becoming EU member states. For instance, Gstöhl (2002) identifies three core characteristics of Swiss identity—neutrality, a strong federalism, and direct democracy—which, in her view, can best explain Swiss reluctance towards EU membership. The accession of Switzerland (to the EEA) and Norway (to the EU) were both vetoed in referenda. However, the ‘bilaterals’ (Switzerland) and the EEA (Norway) were approved by the voters. Economic incentives thus seem to appeal to these publics; however, more far-ranging agreements seem out of reach. Thus, while identity hinders these countries from becoming full EU members, they still have economic incentives for demanding access to the Single Market. The result is external differentiation in the Single Market.

POSTFUNCTIONALISM

Postfunctionalism puts a large question mark behind the ‘permissive consensus’ of European integration. It draws attention to the fact that concerns about national self-determination have always played a role in European integration and that the politicization of European politics has increased over time. We can deduce the following Single Market specific propositions from postfunctionalism.

- The establishment of the Common Market was comparatively uncontested; at least among the populations of those countries that joined at the beginnings. Because of its regulatory quality distributive issues played less of a role, winners and losers were hard to make out. Moreover, as a non-core state policy, the Single Market at first was not conceived to pose a threat to national sovereignty. However, with its growing interference in state market relations in the EU and its constraining impact on national welfare states e.g. through the free movement of labour, the Single Market was increasingly criticized by parties and citizens left of the political centre.
- In terms of the horizontal patterns of integration, we can observe variation with respect to the in- and the outsiders. The outsiders found the EU's far-reaching goals—e.g. the 'ever closer Union'—exaggerated and instead opted for founding EFTA. Over time, a number of EFTA countries decided to join the EU, others, such as Norway or Switzerland, preferred not to. However, even these latter countries today are associated to the Common Market, either through the European Economic Area or through bilateral agreements. If we find internal differentiation in the Single Market, it is usually only of a temporary nature e.g. in consequence of transitory agreements in the context of enlargements.
- Brexit is a case of its own. The exit of the United Kingdom in 2020 after almost 50 years of EU membership is a singular event. The case that it was the consequence of a negative referendum driven by concerns about immigration and loss of national self-determination makes Brexit an almost paradigmatic case of postfunctionalist integration theory.

Postfunctionalism and the Single Market

The Single Market is a non-core-state policy and as such not prone to strong politicization. Its regulatory policies had limited (re)distributive consequences and, at least in the early phases of integration, the Common Market hardly interfered with national identities. In consequence, contestation was limited, and postfunctionalism is hardly preoccupied with the establishment and the early phases of market integration. Moreover, the various steps of deeper or vertical integration did not substantively raise the level of politicization; notwithstanding growing critiques on specific

initiatives such as the services directive, launched by Dutch commissioner Frits Bolkestein in 2004. More generally, the free movement of persons regularly raises identity concerns and provides food for populist mobilization against the EU.

At the same time, it is important to realize, that market integration kicked off the entire European integration project and a number of West European states, already at the outset feared the too far-ranging implications of market integration, threatening their national self-determination. In response, those more reluctant states founded EFTA. Over time, however, most of the EFTA states aligned more closely to the Common, later the Single Market. Full integration proved to be more difficult, however, in those countries, whose constitutions foresaw obligatory referendums. Referendums generally exposed the gap, so prominently highlighted by postfunctionalism, between elites and ordinary citizens. For instance, Norwegian voters repeatedly opposed accession to the EC/EU. And the Swiss electorate even vetoed membership of the European Economic Area in the early 1990s leading to the *Sonderweg* of the bilateral approach. For Switzerland, as for other countries, one component of the Single Market seems to trigger the strongest objections, namely the free movement of persons. While the four freedoms are inseparable for the European Commission—leaving aside temporary exceptions in the context of enlargement—wealthy outside states have problems of justifying the free movement of persons to their domestic constituencies.

While postfunctionalism has little to contribute to the demand side of integration, it has important insights to add when it comes to explaining resistance. The most prominent example certainly is Brexit. In fact, Brexit almost scrupulously followed the postfunctionalist script as sketched out by Liesbet Hooghe and Gary Marks in their 2009 piece. Founded in response to the integrationist surge of the early 1990s, the United Kingdom Independence Party (UKIP) gave British Euroscepticism a strong partisan voice. By linking its traditional anti-EU agenda with a new anti-immigrant agenda, UKIP continuously increased its electoral share; in 2014, it even managed to receive more than a quarter of all British votes at the European Parliament elections. Its success—signalling a growing discontent of the British electorate—increasingly put pressure on the political establishment to take a tougher stance towards Brussels. In response to the mounting critique of Tory backbenchers, in early 2013, Prime Minister David Cameron gave his infamous speech at Bloomberg, in which he demanded a critical stocktaking of EU–UK relations. After

negotiating a number of, mostly cosmetic, reform proposals with the EU, the UK's population was asked to vote on the UK's membership in the EU. The result is well-known: on Thursday 23rd June 2016, a narrow majority of 52% of the British voters voted in favour of leaving. After triggering the Article 50 TEU process and after heavy domestic turmoil—including the resignation of two Prime Ministers—and tense European negotiations, the UK's membership with the EU ended in February 2020.

One key point of contestation concerning the future EU–UK relations has been the inseparability of the four freedoms. The UK strongly values the freedom of goods, capital, and services, but is heavily opposed to the freedom of persons. While an agreement such as the one reached with Canada through CEFTA does not foresee free movement of persons, it also is less far-ranging with respect to the freedom of capital and services. A Norway model would bind the UK close to the Single Market, however, it would include the free movement of persons and leave the UK out of the decision-making structures, violating the desire for more national autonomy (cf. Hix 2018).

The Brexit saga largely conforms to postfunctionalist expectations: Maastricht was a turning point by making clear that the EU aspired to be more than just a Common Market. Partisan actors from the Eurosceptic fringe of the Conservative Party and from UKIP took up the challenge and made Europe an integral part of British politics. The Brexit campaign clearly addressed postfunctionalist concerns—for instance, the ingenious referendum slogan ‘Let’s take back control’ is foremost a claim for reinstalling national sovereignty and reasserting self-determination. During the Brexit campaign, the EU was depicted as a threat to British identity and way of life; moreover, the EU was criticized for being far too costly. One important element concerned the free movement of person; in particular, after Eastern enlargement, there was a strong increase of mostly Eastern European citizens working and living in the UK. While the UK, together with Sweden, had not imposed temporary limitations on the free movement of persons—according to Prime Minister Tony Blair’s government because it valued liberal principles—parts of the population conceived of the growing number of immigrants as a cultural threat. Miguel Carreras et al. (2019) argue that the ‘leave’ camp was able to mobilize on both economic as well as cultural factors, because, in their view, the former impact on the latter. Their analysis highlights that economic decline at the district level drives cultural grievances. Those grievances, in turn, engendered support for Brexit (cf. also Hobolt 2016).

The fact that voters from more deprived areas voted to leave the EU, also underlines that the Single Market has not profited all regions and citizens in Europe alike or at least that the merits of the EU have not been perceived as such by many citizens.

CONCLUSION

In this chapter, we analysed a number of events related to the construction of the Single Market, including the founding of the Common Market through the EEC Treaty, and the reforms of the Single Market programme in the 1980s. Moreover, the chapter covers Brexit, as arguably the most striking blow to market integration in Post-War Europe.

As the Single Market has formed the core of European integration since the 1950s, it, unsurprisingly, has been a central battlefield for integration theories. In this chapter, we surveyed some of the most important debates between the four theoretical accounts. Table 7.1 provides an overview of the key contributions that each theory makes to the patterns of integration in the Single Market.

The four theories differ with respect to the importance they attribute to different actors, the types of preferences these actors hold, and the interactions that take place between these actors.

The most pronounced difference between supranationalism and intergovernmentalism is the importance attributed to supranational actors and to prior steps of integration. Supranationalism stresses the prominent role of supra- and transnational actors in the process; intergovernmentalism sees the nation-states, represented by their governments, in the driver's seat of integration. Naturally, in the 1950s, the influence of supranational actors such as the ECSC's High Authority was limited. In contrast, during the 1980s, we find an active Commission presenting an ambitious White Paper on 'Completing the Internal Market'. At the same time, member state governments commanded market integration and, eventually, signed, ratified, and implemented the SEA. Our position in this debate is agnostic, as both national and supranational actors mattered in the process leading to the SEA, and they both managed to shape the final negotiation package.

Liberal intergovernmentalism can satisfactorily account for the outcomes of the EEC and the SEA bargaining processes. It also agrees with supranationalism that economic incentives predominantly motivated the political decisions. A factor that is largely neglected by realist and

Table 7.1 Integration theories and the Single Market

	<i>Intergovernmentalism</i>	<i>Supranationalism</i>	<i>Constructivism</i>	<i>Postfunctionalism</i>
<i>Vertical integration</i>	Economic interdependence; global competition	Transnational exchanges and business networks combined with supranational activism	Shared economic ideas / political concerns about welfare and autonomy	Limited politicization potential, but growing concerns against neoliberal agenda
<i>Horizontal integration/differentiation</i>	Interdependence, bargaining power with respect to outside states	Transnational exchanges, outreach of supranational powers	Shared economic ideas / political concerns about welfare and autonomy	National identity, Euroscepticism linked to anti-immigration preferences, referenda

liberal intergovernmentalism is the temporal dynamic of integration. To borrow a metaphor from Pierson (1996), liberal intergovernmentalism presents snapshots of integration episodes and refrains from formulating a dynamic theory of regional integration. In contrast, supranationalism takes the endogeneity of the integration process into account; previous integration leads to an intensification of transnational exchanges, which, in turn, entails an adaptation of integration preferences. Moreover, supranational actors empowered at an earlier instance of integration use their competences and resources to advance the integration agenda and their own powers beyond the intergovernmental agreement. In this way, the CJEU has played an important role in shaping the development of the Single Market.

Both, supranationalism and intergovernmentalism have difficulties in explaining the reluctance of some European countries regarding the integration project. While the initial reluctance of the UK can still be explained on economic grounds, accounting for the positions of Switzerland and Norway is more difficult. These countries have strong economic incentives for participating in the Single Market. However, not least for reasons of identity, the voters of these two countries have refused EU membership. In order to compensate for resulting losses, they have opted for the EEA, in the case of Norway, and for the conclusion of bilateral treaties, in the case of Switzerland. Constructivism with its focus on ideas, and even more so postfunctionalism with its focus on identity-related politicization of integration, are thus indispensable for understanding external differentiation in the Single Market. Brexit, in particular, is a showcase for postfunctionalism, at least with respect to the causes of the British decision to leave the EU. Here, cultural threats and concerns about the loss of national sovereignty were driving forces of the politicization of European integration. As to, at the time of writing, still ongoing EU–UK negotiations, intergovernmentalism has a word to add. Importantly, Brexit has changed the bargaining position of the UK in the withdrawal negotiations. Whereas the UK had been a powerful institutional veto player inside the EU, Brexit turned Britain into a comparatively weak outsider.

This chapter has shown that the four theories shed light on different parts of the puzzle and thereby contribute to our understanding of integration dynamics in the Single Market. All four theories managed to take this crucial hurdle, with intergovernmentalism and supranationalism best

explaining the driving forces of integration, and constructivism and post-functionalism adding important insights on the obstacles. In the following chapters, the Single Market—with its mostly uniform application of EU rules—can serve as a baseline against which we can compare integration in economic and monetary issues, defence affairs, and the AFSJ.

This chapter has not covered the Corona crisis. The Covid-19 pandemic has severely hampered economic growth worldwide. Europe was not spared from the crisis, and the immediate reactions to the medical crisis displayed serious deficiencies of national health systems as well as a lack of joint European capacities. The crisis revealed deadly shortcomings in the supply of medical equipment, and the coordination between the EU member states was far from optimal, at least at the beginning of the crisis, in February and March 2020. We will return to the issue of border closings in Chapter 10. However, the Corona crisis may also represent a critical juncture for the future development of the EU. For some observers, it signalled increasing inequalities among the EU's member states, threatening its cohesion. Others consider this crisis as a catalyst for promoting deeper integration. The 2020 Covid-19 recovery fund and the augmented Multiannual Financial Framework (MFF), the EU's seven-year budget, highlight that growing intra-European solidarity was considered indispensable for saving the accomplishments of the Single Market. We will return to these measures in Chapter 8.

SELF-TEST AND DISCUSSION QUESTIONS

1. Why has the Single Market been at the heart of the European integration project?
2. Which are the most important strengths and weaknesses of the integration theories in explaining market integration in Europe?
3. Why is the Single Market characterized by a large degree of uniformity at the inside? And why does it attract economically powerful outsider states, such as Norway?
4. Given economic incentives for membership of the European Economic Area, why has Switzerland refrained from officially joining?
5. In your view, are the four economic freedoms inseparable? Find examples to back your position.
6. In your view, is Brexit only a risk or also a chance for European integration?

7. Imagine the European Commission asked you for advice on whether the Single Market should be complemented by a stronger social Europe. What would you recommend and why?
8. Would a horizontally differentiated social Europe make sense? Discuss.

FURTHER READING

For further reading, we recommend the following titles.

- Bradford, Anu. 2020. *The Brussels Effect: How the European Union Rules the World*. Oxford University Press, argues that the sheer size of the Single Market combined with the EU's political will and capacity to set and enforce stringent standards, enables the EU to regulate global markets.
- Egan, Michelle. 2015. *Single Markets: Economic Integration in Europe and the United States*. Oxford: Oxford University Press, provides a comparative historical introduction to market integration from a transatlantic perspective.
- Hix, Simon. 2018. Brexit: Where is the EU-UK Relationship Heading? *Journal of Common Market Studies* 56: 11–27 uses a bargaining model to evaluate different scenarios for the future EU-UK relationship against the background of their economic interdependence.
- Scharpf, Fritz W. 1999. *Governing in Europe: Effective and Democratic?* Oxford: Oxford University Press scrutinizes Market integration in Europe from a legitimacy-oriented point of view.
- Stone Sweet, Alec. 2004. *The Judicial Construction of Europe*. Oxford: Oxford University Press, from an integration through law perspective investigates how ECJ rulings affected the development of the Single Market.

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CHAPTER 8

Economic and Monetary Union

The Economic and Monetary Union (EMU) was formally established by the Treaty on European Union, negotiated and signed in Maastricht in 1991. But plans had already been made since the late 1960s. EMU concerns the integration of macroeconomic policies. Whereas the market integration presented in Chapter 7 focuses on removing barriers to the free movement of goods, services, capital, and labour across national borders, macroeconomic policy integration refers to monetary and fiscal policies.

Monetary policy consists of all authoritative measures that affect the supply of money in an economy. Normally, monetary policy is a monopoly of the state. The state issues legal tender, controls the amount of money in circulation, and determines or influences the exchange rate of the national currency with other currencies. In most states, monetary policy is delegated to a central bank; in Western countries, central banks generally enjoy political independence from the government. By targeting interest rates, lending and borrowing money to this effect, and revaluing or devaluating the currency, monetary policy affects the entire economy. A policy of cheap money may stimulate growth and employment, whereas the tightening of monetary supply helps prevent the economy from overheating and reduces inflation. Devaluating the currency stimulates

exports, but may make imported goods more expensive and deter foreign investment.

Fiscal policy refers to the making of the state budget and its use to influence the economy. It has a revenue side consisting mainly of raising taxes and debt. Expenditures are used to finance state activity and social welfare. Whereas monetary policy is generally delegated to a central bank, fiscal policy is made directly by the government and controlled and co-decided by the legislature. As with monetary policy, fiscal policy can be used to stimulate the economy—in this case, by reducing taxes or increasing government expenditures. Thus, both monetary and fiscal policies have an effect on growth, inflation, and employment. But they also affect each other. For instance, a restrictive monetary policy makes it more expensive for the government to raise debt (as interest rates will be high). Conversely, highly indebted countries have an incentive to increase the money supply and allow for high inflation in order to reduce their debt burden.

At the beginning of European integration, macroeconomic policy was a monopoly of each member state. Each country had its own currency and central bank and was sovereign in making and managing its budget. European macroeconomic policy is thus not simply about controlling the supply of money, and budgetary revenues and expenditures, but also about the allocation of monetary and fiscal authority between the national and the European level, and about the coordination of national macroeconomic policies.

This chapter examines integration in both areas of macroeconomic policy. Apart from their obvious political relevance for the EU, European monetary and fiscal policy offer rich and interesting data for the study of differentiated integration. First, monetary policy is one of the most integrated policies of the EU. It has moved, over time, from intergovernmental coordination to supranational centralization. The EMU introduced a supranational currency, the euro, and centralized monetary policy at the EU level. By contrast, fiscal policy has remained at the level of intergovernmental cooperation of member state budgetary policies. Only in the eurozone crisis have member states taken the decision to give up more sovereignty in this area. Second, macroeconomic policy is the most horizontally differentiated policy of the EU. Currently, 19 out

of 27 member states (the eurozone) participate fully in monetary integration, and eurozone member states have agreed to a higher level of fiscal policy integration than non-eurozone countries.

In this chapter, we explain the differentiated vertical and horizontal integration of macroeconomic policies in the EU. In the first section, we describe how integration has developed over time. In the remainder of the chapter, we apply the four integration theories to EMU.

THE DEVELOPMENT OF MONETARY AND FISCAL INTEGRATION

The Bretton Woods system

At the start of European integration, the Bretton Woods system of global monetary policy was still intact. The Bretton Woods system—named after a town in New Hampshire, USA, where delegates of the Allies met in 1944 to prepare the post-war global economic and financial order—was a system of fixed but adjustable exchange rates centred on the US dollar. The dollar, in turn, was linked to gold at a fixed rate. All member states of the International Monetary Fund (IMF) were required to peg their currency to the dollar, and to maintain the declared parity (within limits of 1% below or above). In cases of disequilibrium, however, the parity could be adjusted after consultation in the IMF. In addition, the Bretton Woods agreements called for the free convertibility of national currencies.

The Bretton Woods system did not contain any rules directly related to fiscal policy. In the event of balance-of-payment difficulties, however, states could draw on short-term IMF credit facilities so that they would not have to resort to changing the exchange rate, cutting imports, or deflating their economies. The Bretton Woods system thereby sought to avoid the negative impact of balance-of-payment crises on trade and employment that had plagued the world economy before World War II.

In Europe, the European Payments Union (EPU) was established in 1950 in order to facilitate the convertibility of European currencies and intra-European trade. In 1959, the European Monetary Agreement (EMA) succeeded the EPU. Both were established in the framework of the OEEC (since 1961, the Organisation for Economic Cooperation and Development—OECD) rather than the European communities.

Box 8.1 Timeline: Macroeconomic integration

1950	European Payment Union
1959	European Monetary Agreement
1970	Werner plan
1972	Currency Snake
1979	European Monetary System
1989	Delors report
1992	Maastricht Treaty (UK opt-out)
1993	Denmark ratifies Maastricht Treaty with opt-out
1997	Stability and growth pact
1999	Start of Monetary Union (11 member states)
2002	Euro notes and coins
2005	Stability and growth pact
2007	Slovenia, first Eastern European member state, joins (13 members)
2010	Eurozone crisis begins, 1st Greek bailout, European financial stability facility
2011	Reform of stability and growth pact ('Sixpack')
2012	European stability mechanism, ECB commitment to preserve euro
2013	Treaty on stability, coordination and governance (Fiscal compact)
2014	European Banking Union
2015	3rd Greek bailout, Eurozone crisis ends, Lithuania joins (19 members)

In this wider context, monetary policy did not feature in the ECSC in any way and remained marginal in the EEC. The EEC Treaty called on ‘each member state … to maintain confidence in its currency’ (Art. 104). Art. 105 envisaged the intergovernmental coordination of economic policies in general—including collaboration between central banks—as well as the establishment of a consultative Monetary Committee composed of member state and Commission experts. In addition, a Committee of Central Bank Governors was set up in 1964. The member states further committed themselves to the gradual liberalization of cross-border payments and mutual assistance in cases of balance-of-payments crises (to be decided by QMV in the Council). In addition, member states were authorized to take safeguard measures if they were hit by an acute balance-of-payments crisis, or if other member states seriously distorted competition in the Common Market by changing their exchange rates. Finally, even though the EMA remained outside the Treaty framework,

the member states of the EEC used it to limit their margins of fluctuation against the US dollar to 0.75% (rather than 1%).

In sum, in the early phase of European integration, fiscal and monetary policy were either national or global. The core competences remained in the hands of the member states. To the extent that the member states were constrained by international institutions and regulations, this occurred outside the Community under the auspices of the IMF or the OEEC/OECD. Whereas the ECSC did not concern itself with monetary policy, the EEC introduced a few rules and procedures that are best classified as intergovernmental coordination. The EEC rules and procedures applied to the six original member states without exception, but not beyond the EEC.

The Snake and the European Monetary System

Change came with the crisis and eventual breakdown of the Bretton Woods system in the late 1960s. In the course of the 1960s, growing US trade and budget deficits and US inflation had made the dollar–gold peg increasingly untenable. In addition, the convertibility of currencies and the increase in dollar holdings outside the USA led to considerable financial interdependence and speculation, which complicated domestic and international monetary policy. In August 1971, US president Nixon ended the dollar–gold convertibility. The Smithsonian Agreement of the same year, in which ten major economies agreed to widen the fluctuation bands of their currencies to plus or minus 2.25%, collapsed in 1973. As a result, the global monetary system turned into a system of floating exchange rates.

The EC currencies were also affected by imbalances and speculation: in 1969, the French franc was devalued by more than 11%. Such devaluations and revaluations threatened to disrupt the EC market. They created particular problems for the newly established Common Agricultural Policy (CAP) because French farm products suddenly became much cheaper. As a quick fix, the member states introduced a monetary compensation scheme (adding a tax to French agricultural export prices).

At the same time, they entrusted a committee composed of the chairmen of various EEC committees headed by Pierre Werner, the Prime Minister of Luxembourg, to design a plan for EMU. The Werner Report of 1970 proposed a three-stage process towards a single currency and

a supranational system of central banks (similar to the process and set-up of the Maastricht EMU of the 1990s). In addition, it recommended establishing a Centre of Decision for Economic Policy to coordinate and monitor fiscal policies—including the harmonization of indirect taxes and excise duties, and the adoption of binding guidelines for member-state budgetary revenues and expenditures. The Werner Plan thus envisaged a far-reaching integration of both monetary and fiscal policies. It was, however, first watered down because of conflicting views among the member states, and then abandoned altogether.

In order to reduce the detrimental effects of the looser fluctuation margins of the Smithsonian Agreement, the EEC countries created the Currency Snake regime in 1972 instead. This was seen as necessary because the 4.5% band *vis-à-vis* the dollar could end up in a 9 per cent difference *vis-à-vis* another EEC currency if one EEC currency started appreciating from the bottom and another depreciated from the top margin (Hosli 2005: 20). The Snake therefore limited fluctuation among the EC currencies to plus or minus 2.25%. However, the oil-price shock and the divergent policy reactions of the EC countries—the primacy of price stability in Germany versus fiscal expansion in France and Italy—quickly put enormous pressure on the regime. Denmark, Ireland, Norway, Sweden, and the UK (which had joined the Snake in anticipation of EEC membership) quickly withdrew from the regime. So did France and Italy. Exchange rates had to be adjusted frequently. From the mid-1970s, only Germany, the Benelux countries, and Denmark (which rejoined) remained in the Snake.

Following a joint initiative by France and Germany, 1979 witnessed a new attempt at monetary policy integration in the EC: the European Monetary System (EMS). Similar to the Snake but without any reference to the dollar, the EMS was based on a grid of bilateral parities between the member state currencies. National central banks were obliged to intervene to support the parity before the exchange rate diverged by 2.25%. This was called the Exchange Rate Mechanism (ERM). Britain did not join the ERM, which forced Ireland to break its peg with the pound sterling, and both Ireland and Italy were allowed a margin of 6%. To facilitate intervention, central banks offered each other short-term credits.

In addition, the member states created the European Currency Unit (ECU), a unit of account whose value was determined by a basket of currencies. It was used for exchanges between central banks and for setting the central rates of the ERM. The Council of Economic and

Finance Ministers of the member governments (Ecofin Council) had the authority to change the weights of the national currencies in the ECU, and to adapt the central ERM rates to account for market developments and economic divergence. The EC thus reintroduced a system of fixed but adjustable exchange rates at the regional level several years after the global regime had collapsed.

Initially, adjustments took place fairly often. In the course of the 1980s, however, the EMS became increasingly stable. Moreover, further states joined: Spain in 1989, the UK in 1990, and Portugal in 1992. In addition, the Nordic countries (Finland, Norway, and Sweden) decided to peg their currencies to the ECU in 1990 and 1991. Yet, the EMS again entered a period of monetary turmoil. Speculation against the pound sterling forced the UK to leave the ERM in 1992. So did Finland, Italy, Sweden, and Norway. In 1993, the Irish pound devalued. In the same year, the bandwidth was increased from 2.25 to 15% to ward off speculation against the French franc. Italy and Finland only re-entered the ERM in 1996.

After the failure of the Werner Plan, the introduction of the Snake—and, later, the EMS—constituted only a minor step in monetary integration. The fact that exchange rates were fixed and adjusted in the EC context mainly replaced the previous level of global integration with roughly the same level of regional integration. Yet, the currencies themselves, the defence of the exchange rate, the setting of interest rates, and the fiscal policies that flank monetary policy, remained strictly national competencies. In terms of *vertical integration*, monetary policy remained at the level of intergovernmental coordination and outside the Treaty framework. Exchange rates were set and changed subject to mutual consent in the Council. The governments delegated certain tasks to the central banks—such as the interventions in defence of the exchange rates, or the use of short-term credits. But the central banks also operated on the basis of (transgovernmental) coordination; there was no delegation to any European organization involved. The European Monetary Fund envisaged in the EMS agreement was never established.

Finally, *horizontal integration* was highly differentiated from the start and subject to considerable variation over time. The stable core group comprised only five member states: Germany, the Benelux countries, and Denmark. France, Ireland, and Italy quickly left the Snake but then participated in the EMS. The new member states of the 1980s—Greece, Portugal, and Spain—took several years before they joined the ERM. In

a short period between 1990 and 1992 only, the UK and the Nordics participated in the ERM.

Economic and Monetary Union

In the mid-1980s, European integration gained new momentum. The programme for the completion of the internal market, which resulted in the SEA signed in 1986, also contained a call for closer monetary cooperation. In 1988, the former French and Italian finance ministers (Balladur and Amato) and German foreign minister Genscher launched initiatives in this direction. At the Hannover European Council of the same year, the European heads of state and government commissioned a plan for the establishment of a monetary union. A committee of national central bank presidents and experts headed by Commission President Delors presented this plan (the 'Delors Report') in April 1989. It eventually found its way into the provisions on Economic and Monetary Union (EMU) of the Treaty on European Union signed in Maastricht in 1992. Similar to the Werner Plan of 1970, the Delors Report envisaged a three-stage process towards monetary union. In contrast to the Werner Plan, however, it provided neither for the transfer of fiscal sovereignty to a supranational authority, nor for a sizeable central budget that would have allowed the EU to conduct fiscal policies independently of the member states.

At stage 1, from July 1990, the trans-border movement of capital was fully liberalized. As already agreed in the SEA, all remaining capital controls were abolished. Stage 2, from January 1994, saw the establishment of the European Monetary Institute (the precursor institution of the ECB), full independence of all national central banks, and the start of economic policy coordination (monitoring of convergence criteria) between member states. Monetary union (stage 3) started in January 1999 with the irrevocable conversion of the national currencies to the euro. Euro notes and coins replacing national money were issued in 2002.

At the same time, the ECB assumed its work. Formally, the European monetary union is headed by the European System of Central Banks (ESCB), which is composed of the national central banks of the member states and the ECB. It is independent from governments both at the national and the supranational levels (Art. 130 TFEU). The ECB is governed by the six-member Executive Board, composed of experts appointed by the heads of state and government, and the Council, which comprises the Executive Board and the national central bank presidents

of the eurozone countries. The day-to-day operation of monetary policy is in the hands of the Executive Board. According to the Treaty, the ECB is obliged to make price stability its main concern (Art. 127 TFEU). It controls the money supply by setting interest rates and by managing the currency reserves of the eurozone. It does not actively manage the external exchange rate of the euro and attends to growth only once price stability is secured.

Before joining the eurozone, EU members need to fulfil the ‘convergence criteria’ of economic and fiscal performance. These criteria call for convergence of inflation and long-term interest rates towards the rates of the countries with the lowest inflation, medium-term exchange rate stability within the ERM, budget deficits of not more than 3% of GDP, and total government debt not exceeding 60% of GDP. States outside the eurozone are required to submit a convergence programme that shows how they will achieve the criteria.

Following an initiative of German finance minister Waigel, the euro countries further agreed on the Stability and Growth Pact (SGP) in 1997, which obliged them to maintain fiscal discipline after adopting the euro. The SGP goes beyond the multilateral surveillance procedure described in Article 121 of the TFEU. According to the multilateral surveillance procedure, the Council (on recommendation by the Commission) decides with QMV on broad, but ultimately non-binding, guidelines for the economic policies of all member states, and makes recommendations in the event that these broad guidelines are not followed. The SGP increased the precision and enforcement of fiscal rules. State budgets are monitored by the EU, and countries with deficits higher than 3% of GDP receive warnings, and eventually face fines decided by the Council (Excessive Deficit Procedure). Ultimately, however, monitoring and sanctioning remain political decisions made by the member state governments.

In 2005, under pressure of France and Germany, the Council watered down the SGP rules. Whereas the thresholds (3% for budget deficits and 60% for sovereign debt) were maintained, more exemptions were granted to the member states by taking into account periods of slow growth, contributions to ‘international solidarity’ and ‘the unification of Europe’, and the costs of structural reform (such as pensions reforms). In addition, the deadlines for taking effective action were extended. The comparatively weak centralization and enforcement of fiscal policies went together with the absence of community liability for member state budgets (Art. 125 TFEU). The ECB was legally prohibited from providing credit facilities

to member states or Community institutions, and from buying their debt instruments (Art. 123). This is also known as the ‘no bailout’ clause.

Monetary union started with 11 member states in 1999: the original EC-6, Austria, Finland, Ireland, Portugal, and Spain. Greece joined in 2001, Slovenia in 2007, Malta and Cyprus in 2008, Slovakia in 2009, and the Baltic countries between 2011 and 2015. The UK secured an opt-out from monetary union in the Maastricht Treaty negotiations; Denmark was granted an opt-out after the treaty was rejected in a referendum, but its currency remains pegged to the euro within the ERM margins of 2.25%. The other seven non-eurozone member states have a treaty-based obligation to adopt the euro, but only Bulgaria, Croatia, and Romania have declared a strong interest in joining the eurozone. A majority of Swedish voters rejected the euro in a 2003 referendum. No member state besides Denmark participates in the ERM, but Bulgaria and Croatia applied to join.

The establishment of the EMU marks a leap forward in the *vertical integration of monetary policy*—and European integration in general. Whereas monetary policy had been a predominantly national competence before, it now became exclusively European. The issue and supply of money, as well as the control of money in circulation, ceased to be a sovereign right and policy. Interest and exchange rates could no longer be set by national central banks (or governments). Moreover, monetary policy is *supranationally centralized* in the EMU. It is fully delegated to the ESCB, with the ECB at its head. Thanks to the independence of the ECB, governments do not have any formal influence on the operation of monetary policy.

By contrast, the *horizontal integration* of monetary policy fell behind other policies of the EU. To this day, only 19 out of 27 member states are part of the eurozone. Some member states decided not to participate in monetary union on political grounds (the Czech Republic, Denmark, Hungary, Poland and Sweden). Others are willing to join but do not yet qualify (Bulgaria, Croatia, and Romania). In addition to the micro-states of Andorra, Monaco, San Marino, and the Vatican, two non-member states adopted the euro without participating in the institutions of monetary integration: Kosovo and Montenegro.

Fiscal policy remained at a lower level of *vertical integration*. Certainly, multilateral surveillance, the convergence criteria, and the SGP did remove the national budgets from the exclusive purview of the member

states. But European competences were limited to setting, monitoring, and enforcing upper limits for budget deficits and, in practice, vertical integration did not go beyond *intergovernmental cooperation*. The decision-making procedures included recommendations by the Commission but no competences for the EP. The EP was merely informed of Council decisions regarding the multilateral surveillance of economic policies and consulted on secondary legislation implementing the excessive deficit procedure. The Treaty of Lisbon did not improve the powers of the Parliament in this area. The EU could not interfere directly with the national budgets of the member states, and its own budget was too limited to create significant macroeconomic effects. Other economic policies focusing on growth and employment operated on the basis of guidelines and recommendations, rather than on binding rules. In contrast to monetary union, fiscal policy integration was not horizontally differentiated: the multilateral surveillance and excessive deficit procedures under the Treaties and the SGP applied to all member states—regardless of whether they had the euro as their currency.

The Eurozone Crisis and the Reform of EMU

The eurozone crisis, which engulfed the EU between 2009 and 2015, has arguably been the deepest and longest crisis in the history of European integration. It affected the most ambitious and most defining project of the post-Maastricht EU and its most centralized policy: monetary union. At its height, disintegration was a manifest threat: the crisis might have led to the breakdown of the common currency or the breakup of the eurozone. Instead, the eurozone crisis triggered a major leap in integration: new European institutions, additional competences of the EU's supranational institutions and increased financial commitments of the member states. At the same time, the crisis widened the institutional gap between the eurozone and the rest of the EU, thereby increasing horizontal differentiation.

The eurozone crisis erupted at the end of a chain reaction set off by the subprime mortgage crisis in the United States, which triggered a global financial crisis and recession. Because of their participation in and linkages with the US financial market, European banks were heavily affected. The economically and fiscally weaker southern European member states were hit particularly badly. When they joined the monetary union, they enjoyed

high financial market confidence expressed in low interest rates and large inflows of surpluses from the northern eurozone countries, fuelling real-estate bubbles (mainly in Ireland and Spain) and public sector debt (above all in Greece, Italy and Portugal). When the recession hit and the bubbles burst, the deficit countries entered into what has been called a ‘doom loop’ between states and banks. Because EMU left the responsibility for stabilizing national banking systems and servicing debt with the individual member states, governments bailed out systemically relevant banks to avoid a financial meltdown. In turn, they accumulated sovereign credit risk, which further increased the vulnerability of national banks invested in sovereign bonds and deterred foreign lenders, bringing the hardest-hit countries to the verge of sovereign default. Before monetary integration, governments could have taken to looser monetary policy in order to avoid the crunch and stimulate growth. Yet, external currency devaluation as a way out of the crisis was now blocked.

When Greece appeared unable to refinance its debts in early 2010, the EU states decided to disregard the no bailout-clause, rather than risking the bankruptcy of one of its members and the possible breakup of the eurozone. Together with the IMF, they granted Greece a €110 billion loan and created an emergency fund of €750 billion (the European Financial Stability Facility—EFSF) as a guarantee for further countries in difficulty—conditional upon hard austerity measures to re-establish budget stability. Ireland was the first country to receive support from the EFSF in November 2010, followed by Portugal in May 2011 and Spain in June 2012.

At the same time, the eurozone countries entered into negotiations on the reform of EMU in order to create higher stability in the longer term. First, the EFSF was superseded in September 2012 by the European Stability Mechanism (ESM), a permanent treaty-based international financing institution with a capital stock from the eurozone countries and a lending capacity of 500 million euro. In addition, the ECB intervened on several occasions to provide relief to highly indebted countries and banks by buying sovereign bonds and offering long-term cheap credit. In July 2012, ECB president Mario Draghi pledged to ‘do whatever it takes to preserve the euro’, implying that it would provide unlimited liquidity to keep eurozone governments receiving ESM assistance afloat. Whereas the mandate of the ECB was not formally revised, these commitments and measures informally superseded the no bail-out provisions of the treaties.

Second, a series of legislative acts (most notably the ‘Six-Pack’ of December 2011 and the ‘Two-Pack’ of March 2013) and the Treaty on Stability, Coordination and Governance in the EMU (including the Fiscal Compact) strengthened the regulation and supervision of national fiscal policy. Fiscal surveillance now starts with ex-ante control of national budgets. Member states are obliged to establish a national balanced budget rule and procedure in addition to EU-level rules and monitoring. In case member states exceed the deficit limits, sanctions can enter into force faster and more easily. According to the revised rules, a qualified majority of member states is required to stop rather than enact sanctions. The structural difference between monetary and fiscal cooperation is thus narrowing as fiscal integration is moving from intergovernmental cooperation towards the effective pooling of sovereignty.

Third, the EU strengthened financial market integration in response to the crisis. Initially, the EU created a European System of Financial Supervisors including the European Banking Authority in 2010 to establish harmonized standards, create a level playing field, and—as a last resort—address decisions to national authorities. Subsequently, the EU set out to create the European Banking Union based on three pillars: supranational banking supervision, centralized bank recovery and resolution, and a common deposit insurance (see also Box 8.2). Two of the three pillars are in place. In 2014, the ECB was entrusted with the supervision of eurozone banks. In addition, the recovery and resolution of ECB-supervised banks were delegated to a centralized Single Resolution Board. The resolution of failing or failed banks is financially supported by the Single Resolution Fund (SRF), to which the participating states have started contributing since 2016. By contrast, Commission proposals for a European Deposit Insurance Scheme, which would help sharing risks among depositors across national boundaries, have failed to generate intergovernmental agreement.

Yet, the biggest leaps in vertical integration triggered by the eurozone crisis were limited to eurozone countries. Whereas non-euro area member states have generally supported treaty revisions and legislation strengthening the fiscal and financial integration of the eurozone and have participated in reforms that aim at better macroeconomic coordination and financial market regulation, they have not taken part in policies entailing major financial commitments (such as the ESM or the SRF), supranational centralization (as in the banking union), and sanctions (in the case of excessive deficits). Whereas the crisis has not had

a major impact on the composition of the eurozone—no country left and none joined beyond the Baltic countries that had already planned to adopt the euro before the crisis—the reforms increased the institutional differentiation between eurozone insiders and outsiders.

The reforms initiated at the height of the crisis in 2011 and 2012 made an important contribution to preventing a breakup of the eurozone and to consolidating monetary union. However, the most important single event probably was the so-called Draghi effect: the ECB's commitment to unlimited financial support for eurozone countries, which calmed the financial markets, reduced the spread of government bond yields across the eurozone and gave the deficit countries larger fiscal space. The crisis flared up again in the first half of 2015 when the left-wing and anti-austerity Syriza party formed the new Greek government and initially refused the conditions for a third bailout programme. In spite of a negative referendum, however, the Greek government accepted the bailout terms in July 2015. In August 2018, Greece was the last eurozone country to end its bailout programs.

Box 8.2 Close Cooperation in the European Banking Union

The financial market is a part of the EU's Single Market. Like the other parts of the market, it is uniformly integrated in general. As a response to the global financial crisis of 2008, the EU created a European System of Financial Supervision (ESFS) in 2010, consisting of several new supervisory agencies, including the European Banking Authority. This first major package of regulation for financial institutions in the internal market was again uniform—all member states participated equally; no distinction was made between members and non-members of the euro area. In the eurozone crisis, however, the euro area member states came to the conclusion that the EFSF, which left the supervision and resolution of banks to national authorities and funds, was insufficient. Yet the European Banking Union (EBU) they proposed was too supranational for the taste of the non-members of the euro area. In order to circumvent the difference in preferences, the EU did not use Enhanced Cooperation (see Box 7.2) but a set of ordinary regulations (which are in principle directly binding and applicable for

all member states). These regulations, however, make a difference between euro area and non-euro area member states. Whereas Eurozone countries are mandatory full members of the banking union, non-Eurozone countries can voluntarily participate by establishing ‘close cooperation’ between their national regulatory authorities and the ECB. Close cooperation is asymmetrical, however. States entering into close cooperation are represented on the Boards of the Single Supervisory and Resolution Mechanisms. The Single Supervisory Board only makes draft decisions, however, which need to be formally adopted by the Governing Council, the main decision-making body of the ECB, on which non-Eurozone countries are not represented. Consequently, their national bank supervisors are obliged to abide by decisions in which they do not partake. Otherwise, the ECB can suspend or terminate close cooperation. In order to mitigate this asymmetry, non-Eurozone participating member states have the right to terminate close cooperation, if they disagree with ECB decisions. Moreover, whereas Eurozone banks are eligible to recapitalization by the ESM, those in non-Eurozone participating member states are not. Bulgaria and Croatia were the first non-euro area member states to enter into close cooperation with the banking union in 2020. For both countries, however, close cooperation is a stepping stone towards full membership in the monetary union and came at the same time as the entry of their national currencies into the Exchange Rate Mechanism II with the euro—one of the treaty-based convergence criteria for joining the eurozone. Non-eurozone countries such as Denmark and Sweden, which take a Eurosceptic position on the single currency, have discussed participation in EBU but have been reluctant to make a decision.

Throughout the eurozone crisis, financial support for the deficit countries was the biggest source of intergovernmental conflict. Northern eurozone countries led by Germany initially rejected bailouts and later insisted that any financial assistance would have to come in the form of repayable credits tied to austerity conditions. The idea of a ‘transfer union’ equipped with a sizable budget for redistribution remained a taboo for the rich and fiscally healthy net contributors to the EU budget. When the Covid-19 pandemic struck in 2020, dealt an even stronger economic blow

to the EU than the Great Recession, and again hit the southern European countries disproportionately, the issue of European financial support was back on the agenda. The ECB reacted quickly along the lines established in the eurozone crisis, whereas governments again entered into an acrimonious debate about financial solidarity. In contrast to the eurozone crisis, however, Germany and France in May 2020 made a joint proposal to allow the EU as a whole to raise debt for a European Recovery Fund, which would be repaid by the member states according to their financial capacity but redistributed (as grants rather than loans) according to need. During the budget negotiations in July 2020, EU heads of state and government agreed on a €750 billion package, of which 390 billion would be paid in grants. The size of the package (on top of the €1074 billion budget for 2021–2027), the collective borrowing, and the strong redistributive component mark a step change in EU fiscal policy.

Conclusion

Macroeconomic policy in European integration has undergone a dynamic and differentiated process of vertical and horizontal integration (see Figs. 2.5 and 2.6 in Chapter 2). First, neither monetary nor fiscal policy were integrated in the initial years of the European Communities. Second, whereas monetary integration went through the full trajectory from no integration to supranational centralization from the early 1970s to the end of the 1990s, fiscal policy integration remained at the level of intergovernmental cooperation. Fiscal policy integration, both in the form of tighter regulation of national budget and in the form of higher EU-level fiscal capacity, only advanced in response to the eurozone crisis and again in the Covid-19 pandemic.

Macroeconomic policy integration has not only been vertically, but also horizontally differentiated from the start. The Snake and the EMS included the full membership of the EC only for short periods of time, even though they did not move beyond intergovernmental coordination. The monetary union that succeeded these initial arrangements has always been the most horizontally differentiated policy area of the EU. It produced the most durable opt-outs and exclusions, and the deepest institutional divide, within the membership of the EU. When fiscal policy gradually became more integrated in the wake of the eurozone crisis, it started to generate internal differentiation as well. The development of monetary and fiscal integration thus calls for four major explanations.

- First, why and how did EMU come about? What explains the leap from the intergovernmental coordination of exchange rates to the *supranational centralization of monetary policy and intergovernmental fiscal cooperation*, and why was it decided at the end of the 1980s, having failed almost 20 years before?
- Second, why do we see such strong *horizontal differentiation* in monetary integration? Why have some countries been part of a rather stable core group from the beginning (Germany and the Benelux countries), whereas others joined this group later (mainly France and the southern member states) and others again have remained aloof? The most interesting cases are those countries that were able but not willing to join monetary union: Denmark, Sweden, and the UK.
- Third, how can we explain *vertical differentiation* in macroeconomic policy? Why has fiscal integration followed, but consistently lagged behind, monetary integration?
- Four, why have the eurozone and, potentially, the Covid-19 crises produced both more vertical integration and horizontal differentiation?

In the next sections, we use the integration theories to shed light on these questions.

INTERGOVERNMENTALISM

What should we observe if intergovernmentalism was able to explain the integration and differentiation of macroeconomic policy?

- The *leap from intergovernmental coordination to supranational centralization* would need to be explained by a critical increase in international interdependence and convergence of national preferences in the 1980s. We should see the emergence of considerable threats to national autonomy, security, or welfare (which motivated the EC member states to give up their national currencies), and of opportunities to improve member-state autonomy and welfare by moving ahead decisively with macroeconomic integration. We should also be able to trace the high level of vertical integration back to massive commitment and compliance problems in this area. Moreover, the substantive terms of monetary integration should mirror

the preferences of the most powerful state or group of states in European monetary policy. The same conditions should have been present in the eurozone crisis when vertical integration advanced further.

- Intergovernmentalism attributes *horizontal differentiation* to uneven interdependence, heterogeneous policy preferences and capacities, and to the high degree of centralization and politicization of monetary policy. Opt-outs from monetary integration would have to be explained by one, or a combination, of these factors—as well as weak externalities of differentiation, a sufficient group size of the integrated member states and high bargaining power of the opt-out countries.
- From an intergovernmentalist perspective, the *vertical differentiation* of monetary and fiscal policy should reflect higher levels of interdependence, international homogeneity, and compliance problems, together with lower autonomy costs, in monetary policy, as compared with fiscal policy. Moreover, externalities between the two policy areas should be low.

Realist Intergovernmentalism: Monetary Integration to Increase State Autonomy?

From the vantage point of realist intergovernmentalism, it is highly unlikely that states give up a core competence of state sovereignty such as monetary policy. Which exceptional circumstances could motivate such a loss of autonomy? There are three candidates for solving the puzzle: external balancing, internal balancing, and hegemonic imposition.

External balancing First, EMU may be interpreted as a monetary alliance designed to balance the dominance of the US dollar as a global reserve currency and trade currency for important raw materials such as oil. Already in 1971, the Europeans had been told by US Secretary of the Treasury John Connolly that the dollar was ‘our currency but your problem’. Whereas the individual European states were not in a position to control the dollar’s externalities and create a counterweight, together they might muster sufficient economic clout. This explanation is under-determined for timing, however. Why did the member states take the decision to create EMU at the end of the 1980s, rather than during the two previous decades when the dollar was rather more dominant? One

possible explanation is Europe's reduced security dependence on the USA at the end of the Cold War, which increased its room for manoeuvre in balancing America. But when the initiative for monetary union was taken in 1988, the Cold War was far from over.

Internal balancing Second, EMU may not have been directed against external US but against internal German dominance in monetary policy. Indeed, the EMS had developed into a deutschmark zone in practice, whose members followed the Bundesbank's anti-inflationary monetary preferences and its interest-rate policy without being able to influence its decisions. By delegating monetary policy to the symmetrical ESCB, in which each member state formally has equal weight, EMU effectively disempowered the Bundesbank and gave the member states a greater and more balanced say in monetary policy. From this perspective, EMU is a prime example of how supranational integration can enhance de facto autonomy, even though it involves a loss of de iure state sovereignty (Grieco 1996). Balancing German monetary dominance was an important motivation for French president Mitterrand to support monetary union, indeed.

In spite of its general plausibility, however, this explanation has a crucial shortcoming: it explains the motivation of all member states but Germany. Why should Germany give up its powerful currency, accept the disempowerment of the Bundesbank, and agree to lose its monetary autonomy? It is sometimes suggested that monetary union was the price Germany had to pay for reunification. Yet, the German foreign minister, Genscher, proposed monetary union in 1988 and the Delors Report on EMU was accepted by the European Council in June 1989—i.e. at a time when reunification was nowhere on the political horizon. Reunification could therefore only have been a secondary and additional factor. Germany's interest in committing itself to deeper integration in order to reassure its neighbours has likely accelerated negotiations on EMU, but it did not bring them about.

Hegemonic imposition Finally, EMU may be viewed as the formalization and stabilization of Germany's hegemonic position in European monetary policy (e.g. Kaelberer 1997). Indeed, EMU mirrored German preferences on monetary policy to a large extent. The ECB is as—if not more—-independent from political interference as the Bundesbank and, like the Bundesbank, it is obliged to focus on price stability. Yet, EMU still meant

a net loss in autonomy for Germany. German hegemony could have been imposed more effectively in the EMS than through the symmetrical ESCB. Thus, the autonomy-maximizing behaviour assumed by realist intergovernmentalism does not convincingly explain either the timing of EMU or Germany's consent.

Liberal Intergovernmentalism: Interdependence, Preference Convergence, and Credible Commitments

According to liberal intergovernmentalism, European states do not care about autonomy and security as such. They are willing to trade autonomy for wealth and efficiency. From the LI perspective, three conditions needed to come together for a leap in macroeconomic policy integration: critical interdependence, compatible or convergent national preferences, and the need to pool and delegate sovereignty in order to reap the benefits of cooperation (for the following, see Moravcsik 1998: ch. 6).

Monetary policy interdependence in the EU had increased, indeed—or was about to do so—due to the growth of intra-Community trade and the liberalization of capital mobility. The more that the trade interdependence of a national economy increases, the more costly the monetary policy differences, the instability of exchange rates, and the transaction costs of currency exchange become. In addition, the more that cross-border capital mobility is liberalized, the less effective unilateral monetary policy becomes and the more a currency is susceptible to market pressure and speculative attacks. Monetary policy interdependence, however, had been present in the Common Market from its beginnings and had complicated common policies such as the Common Agricultural Policy, but had not gone beyond the various schemes of monetary policy coordination in the course of integration history. It is also difficult to determine whether interdependence really reached a critical threshold in the late 1980s, which would have necessitated the leap to full supranational integration.

What made the difference from the intergovernmentalist perspective was the fact that the monetary policy preferences of the major member states—France and Germany, in particular—had converged in the years before EMU. Whereas Germany had traditionally been a hard-currency country with a monetary policy committed to price stability and conducted by an independent central bank, France had been a soft-currency country in which the government used devaluations and the

expansion of monetary supply to improve competitiveness and stimulate the economy. In the course of the 1980s, however, France approximated the German position: it committed itself to the *franc fort* and achieved an inflation rate that was only slightly above Germany's. In addition, faced with the devaluation of the US dollar, the industries (and the governments) of both countries were interested in a looser monetary policy in order to protect their export interests. Germany's export-oriented industry, in particular, stood to gain from a common currency because it meant that its competitiveness would no longer be undermined by recurrent currency devaluations in its most important markets and the constant pressure on the deutschmark to appreciate. The economic and policy convergence increased the chances of sustainable monetary integration. By contrast, British inflation rates were much higher than those of Germany and France at the time. Under these circumstances, monetary integration with these two countries was not in the interest of British business or government.

German and French preferences on the process and design of monetary union remained divergent, however. France (together with Belgium, Italy, and—to some extent—Luxembourg) championed a 'monetarist' or 'locomotive' strategy. According to this strategy, the establishment of monetary union is, first and foremost, a political decision, to be followed by the macroeconomic policies to make it work and by convergence in the real economy. Moreover, France had consistently favoured a strong role for governments in monetary integration (represented in a *gouvernement économique*) and had tried to limit supranational centralization since the debate on the Werner Plan in the late 1960s and early 1970s. By contrast, Germany (with the support of the Netherlands) defended the 'economist' or 'coronation' theory. In this perspective, economic convergence must come first; monetary union is only possible and sustainable if the member states' economies, and economic policies are synchronized. In addition, Germany favoured the delegation of monetary policy to an independent central bank.

The pre-EMU status quo favoured Germany. First, under the EMS regime, France needed to follow the Bundesbank's monetary policy and incurred higher costs on the capital market: the credit standing of French bonds was not as high as that of German bonds. Germany therefore had less interest in changing the status quo than France. Second, Germany already 'benefited disproportionately' from the EMS, which stabilized

the deutschmark and ‘dampened its appreciation against other participating currencies’ (Walsh 2000: 13). Finally, the German government was more constrained domestically. Whereas the export-oriented industries had every reason to welcome monetary union, the Bundesbank stood to become its biggest institutional loser: its representatives were therefore highly sceptical regarding EMU. At the same time, the bank and its anti-inflationary policy enjoyed a high reputation in German society. The German government could thus not afford to renounce the principles of independent monetary policy and price stability in a European monetary union. Both its higher satisfaction with the status quo and its domestic constraints accorded the German government strong bargaining power in the negotiations about the conditions and the design of EMU (Wolf and Zangl 1996). Moreover, EMU without Germany did not make any sense. In other words, France did not have any credible outside options. Therefore, if France wanted supranational monetary integration, it had to accept German preferences.

In addition, Germany wanted to make sure that the EMU it preferred would not be undermined and hollowed out once it was in place. As a result, the German government not only insisted on economic convergence as a prerequisite for accession to EMU (the ‘convergence criteria’), but also pushed for the SGP in order to constrain member states’ fiscal policies subsequently. The no bailout-clause and several other rules were put in place to make sure that the richer and more fiscally disciplined member states would not be obliged to pay for the debts and deficits of the poorer or more profligate ones. Finally, these rules were cast into treaty law together with the principles of price stability and central bank independence, so that it became impossible to change them against the will of any single member state. At the same time, Germany opposed any ‘economic government’ in the EMU that could have given the ECB political directions and reduced its independence.

The supranational centralization of monetary policy can thus partly be explained by Germany’s superior bargaining power. Germany’s preferences were closest to the status quo and Germany stood to lose most from EMU in terms of autonomy. The German government could therefore not only successfully impose its monetary policy preferences on the EMU, it could also install institutional safeguards to prevent its preferred monetary policy from being undermined in future. Realist and liberal intergovernmentalism thus agree on the relevance of German bargaining power for the establishment and design of the currency union.

Whereas, however, Germany's policy is difficult to explain on the basis of autonomy-maximizing behaviour, as in realist intergovernmentalism, it appears plausible as a policy that exchanged national autonomy for economic efficiency while imposing German macroeconomic policy preferences on the entire Community, and establishing the strongest possible institutional arrangements to safeguard these preferences in future.

In addition, the transfer of monetary sovereignty to the EU was also meant to send a signal to the financial market and domestic actors. As long as European monetary policy was limited to intergovernmental coordination, governments could easily be put under market pressure to devalue their currency or leave the monetary system, rather than bearing the political or financial costs of mounting a defence of their exchange rate, bringing down wages to restore competitiveness, or implementing budget cuts to restore creditworthiness. Monetary union deprived governments of some instruments and brought about a tremendous increase in the costs of others. They could no longer devalue and, while in practice it was still possible to leave the eurozone, the costs would be enormous. The introduction of the euro and the delegation of monetary policy competences to a supranational agency thus not only bound the member state governments to the rules of EMU, but also demonstrated a strong commitment to domestic interest groups and opposition parties, and to financial market actors. In addition, the sheer size of the new monetary union was thought to deter speculative attacks. As expected by intergovernmentalism, the high degree of vertical monetary integration reflected the severity of enforcement problems in this area.

Finally, the intergovernmentalist explanation is not only in line with the outcome but also with the process of monetary integration. The negotiations mainly took place between 'core executives', i.e. heads of state and government, the relevant ministers, and central bankers. Although business was broadly in favour of EMU, the lobbying of sectoral interests did not play a crucial role. In line with liberal intergovernmentalist expectations, the minor importance of interest groups had to do with the remoteness and uncertain distributional effects of macroeconomic policy (Dyson and Featherstone 1999: 14).

In sum, liberal intergovernmentalism offers a plausible account of the leap from EMS to EMU. Against the background of increasing monetary interdependence in the Common Market, the convergence of macroeconomic preferences, policies, and performance in the 1980s made more

monetary integration possible. That it went all the way towards full supranational centralization can be explained by the need for a double credible commitment. First, it was a necessary signal of resolve to the financial market and to domestic politics. Second, it was necessary to dampen the fear and scepticism of the German government and public that EMU would lead to inflation and transfers from rich to poor countries. Because monetary interdependence had already been present when the Werner Plan failed, and Germany had already become the dominant monetary policy actor in the Community during the 1970s, the convergence of macroeconomic policy preferences bears the greatest weight in the liberal intergovernmentalist explanation of EMU. Yet, intergovernmentalism does not tell us what caused this convergence.

Differentiated Horizontal Integration

In the intergovernmental monetary coordination regimes of the Snake and EMS, entry and exit depended mainly on the individual decisions of the participating governments. Typically, governments decided to leave the Snake or the EMS when market pressures made it too costly to defend the fixed exchange rate. Membership fluctuated strongly and was mainly driven by economic considerations. In general, this issue-specific and intergovernmental dynamic matches well with liberal intergovernmentalist assumptions. There is at least one exception, however. The decision of the Irish government to break the link with the pound sterling and align the Irish pound with the EMS in 1979 was not economically motivated: economic ties between Ireland and the UK were stronger than those with the continent.

Can intergovernmentalism also explain internal horizontal differentiation in EMU? First, the observation that horizontal and vertical integration diverged sharply when the euro was introduced is in line with the general intergovernmentalist conjecture that the centralization of high-politics issues generates horizontal differentiation tendencies. But can intergovernmentalism explain which countries are in and which ones are out?

At first glance, it would seem plausible to assume that *all* member states were subject to monetary interdependence and deutschmark dominance, and that *all* of them participated in the convergence of macroeconomic preferences. For intergovernmentalism to provide an explanation

for the variation in participation, we would therefore have to demonstrate that interdependence and policy convergence—or capacity to meet the convergence criteria—varied among the member states, and that the pattern of variation coincided with the boundaries of the eurozone. Let us look at the newer and older member states in turn.

For the member states joining in 2004 and 2007, the introduction of the euro was not an automatic by-product of membership. Whereas they were legally obliged to adopt the euro, they also had to fulfil the convergence criteria before being admitted to the eurozone. In the meantime, half of the new member states have introduced the euro. Juliet Johnson (2008) explains the divide between ‘pacesetters’ and ‘laggards’ among the new member states with different economic interests having to do with size and interdependence. The smaller and more trade-dependent new member states—the Baltic countries, Slovakia, and Slovenia—had a strong interest in pegging their currencies to the euro to gain international economic credibility and facilitate trade. By contrast, the larger and less trade-dependent new member states—the Czech Republic, Hungary, and Poland—were more concerned about the potentially growth-inhibiting and inflationary risks of a pegged exchange rate. This explanation is highly compatible with liberal-intergovernmentalist assumptions about the effects of interdependence, and the costs and benefits of integration, on national preferences. At the same time, however, the Central European non-eurozone members are deeply integrated economically with Germany, and Romania, a large new member state, is interested in adopting the euro. The liberal-intergovernmentalist explanation thus appears indeterminate at best.

Moreover, intergovernmentalism does not convincingly explain the opt-outs of Britain, Denmark, and Sweden. They do not form any clear pattern of preferences and interdependence. Neither do they distinguish themselves from the eurozone members by a common pattern of deviation.

- Going back to the *external balancing* hypothesis, the UK, Denmark, and Sweden abstained from EMU even though they were no less affected by the dollar externalities than the other member states. Whereas the British opt-out could be interpreted as an expression of its special security relationship with the USA, this explanation does not fit the case of Sweden.

- It is also unclear why these countries should have refused to join an anti-hegemonic movement against the deutschmark. Most strikingly, Denmark had long pegged the krone to the deutschmark and continued to do so with the euro. It should have had the same interest in *internal balancing* as, say, Belgium or the Netherlands. If the euro really was a hegemonic scheme, it is also not clear why large member states such as France and Italy did not resist it more strongly than Denmark or Sweden.
- Denmark and Sweden are small and highly *trade-dependent economies*, just as the ‘pacemakers’ in the new member states. They conduct roughly 70–75% of their foreign trade with the rest of the EU and should therefore have had a similar interest in adopting the euro.
- The *macroeconomic policy preferences* of the opt-out countries did not deviate from the German model. Indeed, their preferences were more in line with Germany’s, and had been so for longer, than those of many of the (southern) euro countries.
- Whereas British opposition against EMU can be partly attributed to a lack of *economic convergence* with the rest of the EU, neither Denmark nor Sweden would have had major difficulties in meeting the convergence criteria.

If we take the conflicting preferences on monetary union as given, can intergovernmentalism explain why horizontal differentiation was possible? To answer these questions, we need to take into account externalities and bargaining power. In general, the negative externalities of horizontal differentiation are weak in the case of the EMU. The fact that some countries keep their national currencies does not undermine the euro-zone; neither does the existence of the euro undermine the welfare of the non-members. In other words, whereas horizontal differentiation potentially reduces the benefits of a larger unified currency area, it does not harm either the euro countries or the outsiders relative to the status quo of national currencies. First, whereas the weight and functioning of the eurozone would probably have benefited if it had counted the economically and fiscally strong countries of Denmark and Sweden as well as the large market of the UK with its powerful financial services among its members, it is sufficiently large without the opt-out countries and is not undermined in its functioning by the survival of the pound sterling

or the Danish or Swedish krone. Second, whereas the non-euro countries forego the efficiency gains of a common currency, they still benefit from lower exchange rate risks and transaction costs, as well as increased economic stability in their trade with the euro countries. Finally, the opt-out countries mustered sufficient institutional bargaining power to gain the consent of the eurozone countries. The Maastricht Treaty paving the way for EMU required unanimous support of all member states. Given British resistance and the negative Danish referendum, the treaty could not have been ratified without granting them the exemptions they demanded.

The countries that are most likely to suffer from horizontal differentiation are those that would like to join but are excluded until such time as they meet the convergence criteria. This was true initially for Greece and for the new member states after 2004. These countries stood to gain significantly in attractiveness and credibility as an economic and financial partner by introducing the euro. Potentially, the financially and economically weaker member states could have vetoed EMU unless they were given immediate access. But given German bargaining power, it was more beneficial for them to agree to the convergence criteria set by Germany and its allies (as long as such criteria seemed achievable), rather than having no EMU at all. The candidate countries seeking EU accession did not have the bargaining power to demand immediate accession to the euro area either. In order to gain membership, they accepted several discriminatory provisions, such as temporal constraints to the free movement of labour and the phasing-in of agricultural subsidies. Delayed and conditional accession to the eurozone was one of them.

In sum, whereas intergovernmentalism does not account for the preferences of the EU member states that chose to opt out from the euro, it explains why horizontal differentiation was possible, and why some member states could be excluded initially.

Differentiated Vertical Integration

Why, finally, is fiscal policy less vertically integrated than monetary policy? According to intergovernmentalism, the difference would have to be explained by ‘lower politics’ or lower interdependence—creating higher autonomy costs of integration—as well lower international homogeneity and compliance problems in the area of fiscal policy.

Intergovernmentalism offers a plausible account based mainly on considerations of interdependence. When member states agreed on monetary integration, their loss of monetary autonomy had been more pronounced than that of fiscal autonomy. National currencies had long been integrated into international regimes and transnational markets that exposed them to foreign exchange trade and speculation. Moreover, monetary policy had been entrusted to independent central bankers in a growing number of countries. By contrast, the member states' fiscal sovereignty had remained much more intact. Fiscal policies were not subject to international regimes and could be managed by adjusting state-controlled resources (taxation) and expenses. In addition, they had remained under firm political control. The provision of social security and fiscal benefits to the population is the main area of state expenditure and most important source of political support for the EU's member states and governments. The supranational centralization of fiscal policy would thus have involved a major loss of not only formal, but also material autonomy.

Moreover, the policy convergence that is generally seen as the crucial enabling factor for monetary integration appears to be absent in fiscal policy. The differences in government debt across Europe widened in Western Europe between the 1970s and the 1980s, and only narrowed during the 1990s. In addition, there is little evidence for convergence among EU member states regarding tax burden or structure between the 1960s and the 1990s (Delgado and Presno 2010).

Yet, the vertical differentiation between fiscal and monetary integration cannot be explained by diverse enforcement requirements. Governments are generally under strong domestic pressures regarding taxation and social policies. The domestic political incentives to deviate from international fiscal policy rules are thus considerable. In addition, governments in a currency union are tempted to free-ride on the fiscal discipline of others. Finally, as the history of EMU has shown, deficit rules are extremely difficult to enforce. There would thus be a strong incentive to move toward supranational centralization in fiscal policy, too.

Integration in the Eurozone Crisis

The eurozone crisis corresponds to a typical intergovernmentalist integration scenario and bears a strong resemblance to the constellations and

processes at the origin of EMU. An exogenous economic shock threatened the welfare and autonomy of the member states and dramatically increased their interdependence. The euro area's responses to the crisis can be explained plausibly as a result of intergovernmental bargaining based on partly converging and partly diverging member state interests and designed to strengthen the credibility of member state commitments to the common currency.

First, the crisis exposed the high level of international interdependence within the eurozone. For the deficit countries, abandoning the euro would have meant sovereign default, a likely breakdown of the monetary and financial system, and hyperinflation. Moreover, contagion effects were widely expected. Whereas the other eurozone countries would probably have been able to cope with a default and exit of Greece alone, there was reason to fear that financial markets would lose confidence in the euro more generally and withdraw from larger deficit countries (such as Spain and Italy) that were too big to rescue. Even for Germany and the north, a breakdown of the euro would have resulted in a steep appreciation of their currencies, a concurrent slump in exports, and deep and long-lasting recession. For these reasons, preserving and consolidating the eurozone was the first and common preference of all of its members.

Second, however, member state held divergent preferences on the rescue instruments and the design of enhanced macroeconomic policy integration, which reflected their financial market and fiscal positions and intergovernmental conflict about the distribution of rescue and reform costs (Armington and Cranmer 2018; Lehner and Wasserfallen 2019; Schimmelfennig 2015; Tarlea et al. 2019). A northern coalition of fiscally healthy surplus countries led by Germany propagated domestic austerity, fiscal discipline, stricter European surveillance of national budgets and credit- as well as conditionality-based financial support. These measures would put the bulk of the adjustment burdens on the deficit countries and limit the financial engagement of the north to the minimum necessary to safeguard the euro. By contrast, the southern coalition led by France sought to shift the rescue costs to the surplus countries. They favoured European risk sharing, budget expansion and transfers as the way out of the crisis: e.g. in the form of eurobonds or unlimited purchases of debt by the ECB.

Third, this conflict has been resolved in a process of hard intergovernmental bargaining, in which the less affected and more powerful northern coalition prevailed, just as it did in the original EMU negotiations (Finke

and Bailer 2019; Schimmelfennig 2015). While eurozone interdependence was strong, it was also asymmetrical. The immediate consequences of the crisis and potential disintegration were significantly more painful for the deficit countries in dire need of financial support. As a result, the creditors were in a better bargaining position to realize their preferences. At each stage of crisis decision-making, Germany and its allies shaped the terms of integration in return for ending their opposition to bailouts. Germany prevented the introduction of eurobonds or any other formally mutualized sovereign debt. In addition, Germany was able to link the bailouts to strict austerity conditionality and the strengthening of EU monitoring and sanctioning of national budgets.

Finally, the eurozone crisis revealed important enforcement problems in EMU. For one, the SGP had already failed to commit countries to fiscal discipline ahead of the financial crisis. In addition, the crisis demonstrated that exogenous shocks and sudden stops could even hit countries without excessive budget deficits (such Ireland or Spain). Moreover, the bailout ban proved too rigid to keep the eurozone together in times of crisis. Finally, the crisis highlighted the inadequacies of national banking supervision and resolution: lax supervision, regulatory arbitrage across member states, burden- as well as blame-shifting among national regulators when transnationally operating banks ran into trouble, and the inability of many member states to rescue national banks without risking sovereign default. The major institutional reforms—the Fiscal Compact, the ESM, and the banking union—responded to these commitment problems. Yet, the design of these common institutions largely followed the interest of northern countries to limit their financial engagement and impose fiscal discipline on the south. Therefore, the ESM featured conditional loans and a fixed limit on lending capacity, and the banking union combined supranationally centralized banking supervision with a more intergovernmental management of banking resolution (which may involve international transfers) and the failure of the transnational deposit insurance.

That the far-reaching reforms were generally limited to the eurozone countries and increased the horizontal differentiation between the eurozone and the rest of the EU, is also compatible with liberal-intergovernmentalist expectations: the crisis heightened interdependence among the eurozone countries but not between eurozone insiders and outsiders. Whereas it forced the insiders to reinforce eurozone institutions

to avoid the costs of breakup, the crisis rather confirmed the outsiders' opposition against the euro.

In sum, liberal-intergovernmentalist assumptions about macroeconomic state preferences, constellations of interdependence and bargaining power, and commitment-enhancing institution-building account plausibly for the main features of the establishment, design and reform of EMU. However, intergovernmentalism does not provide a convincing account of the horizontal differentiation of EMU.

SUPRANATIONALISM

In general, supranationalism attributes the establishment and development of EMU to spillover and institutionalization processes. For the specific mix of integration and differentiation in macroeconomic policy, we can translate the supranationalist assumptions and hypotheses about transnational exchange, and the preferences and capacities of supranational actors into the following expectations:

- From the supranationalist perspective, the decision at the end of the 1980s to move from intergovernmental to *supranational centralization* in monetary policy may be explained as the functional spillover of integration in a related policy area, possibly transmitted through the activities of transnational actors. Alternatively, it may have resulted from institutional spillover of earlier integration steps in monetary policy driven by the interests and capacities of supranational actors. We should observe an influential role of transnational interest groups and networks, as well as effective policy entrepreneurship of supranational actors. In addition, the substantive terms of monetary integration should mirror the interests and capacities of transnational groups and supranational actors. Supranationalists would further explain the *crisis*-driven progress in EMU vertical integration to functional and institutional spillover from monetary integration to fiscal and financial market integration. Moreover, transnational and supranational actors should have played a decisive role in the process of deepening the eurozone.
- Supranationalism attributes *horizontal differentiation* to the unequal distribution of transnational exchange, or to the uneven preferences or capacities of supranational actors to integrate states. States

remaining outside the eurozone should thus be less involved in transnational exchange and policy networks than those inside.

- The *vertical differentiation* of monetary and fiscal policy would have to be explained by a lower level of transnational exchange and supranational actor capacity in the area of fiscal policy.

EMU: Spillover and Transnational Networks

Supranationalism expects two kinds of spillover to have produced the leap from intergovernmental coordination to supranational centralization in monetary integration: functional spillover from other policies and institutional spillover from previous integration steps in monetary policy.

Pressures for monetary integration may have resulted from previous market and policy integration in other areas. It is certainly true that the coexistence of different currencies in a Common Market creates risks and transaction costs that reduce the efficiency of the market. In addition, changes in exchange rates have complicated the working of the CAP from its beginnings and required the introduction of compensation schemes. Monetary integration had therefore been on the agenda of the Community for a long time. For the same reason, however, functional spillovers from other policies cannot explain the timing of EMU. If functional pressures had existed for some time, why was the decision to establish EMU only taken at the end of the 1980s—in particular, as the EMS had achieved unprecedented monetary stability?

To explain the timing of EMU as a result of functional spillover, we need to turn to anticipated and cultivated spillover. Anticipated spillover can be attributed to the internal market programme agreed in the SEA (1986), which promised to boost market transactions and transnational exchanges in Europe, thereby increasing the relevance of transaction costs of currency exchange for firms. In addition, the removal of barriers to the free movement of capital envisaged in the SEA threatened to increase the risk of currency speculation and undermine the stability achieved in the EMS (Dyson and Featherstone 1999: 3). EMU can thus be seen as a precautionary policy to counter these anticipated costs and risks. Cultivated spillover can be found in the German foreign minister's 1988 initiative for monetary union, as well as in the Commission's report 'One Market, One Money', published in October 1990. In this report, a group of economists working for, or advising, the Commission argued that a single currency would add microeconomic efficiency and macroeconomic

stability to the internal market and showed that industrialists shared this perception. In their view, ‘complete capital liberalization requires virtually a unified monetary policy if exchange rates are to be stable’. In sum, ‘one market needs one money’ (Commission of the European Communities 1990).

Turning to institutional spillover, the Werner Plan of 1970 provided an institutional template that the plan for EMU followed in many ways. In particular, the single currency, the institution of a European system of central banks, and the three-stage process strongly resembled the predecessor project. This can be regarded as an instance of institutional spillover or path dependency. However, the fiscal union also proposed in the Werner Plan did not make it into EMU. And the mere existence of the template, again, does not explain why it was taken up in the late 1980s, rather than sooner or later. The timing of EMU may, however, be explained by the existence and success of the EMS. The increasing stability of the EMS in the 1980s strengthened the member states’ confidence that EMU could work; the ERM and ECU laid important institutional groundwork for the first stages of EMU; and the management of EMS provided ample experience that could be used for the design of EMU.

To sum up, whereas the Common Market and distributive policies exercised general functional pressure, and the Werner Plan provided a general institutional template for a supranational monetary policy, it was the anticipated (or cultivated) effects of the Internal Market programme and the institutional experience of the EMS that triggered the specific EMU project in a supranationalist perspective. Note that—as supranationalism expects—both triggers are endogenous: they result from previous decisions and policies in European integration.

There is, furthermore, rich evidence that transnational and supranational actors were active and influential in the run-up to EMU (Cameron 1995). For example, the Association for the Monetary Union of Europe, founded in 1987 by large European multinational companies, lobbied for monetary integration. In the area of macroeconomic policy-making, the most relevant transnational actors are, however, not private firms but transnational networks of public officials and academic experts: mainly central bank officials and economists. To the extent that central banks are independent agencies, central bank officials can also be categorized as (public) non-governmental actors. These groups had established institutionalized links long ago: the Monetary Committee (in which the national

finance ministries are represented, too) and the Committee of Governors of the Central Banks had been meeting since the early days of the EEC. The Werner Committee and the Delors Committee were likewise composed of independent experts and public officials, most of them taken from the ranks of the regular Committees. In the Delors Committee, 12 out 17 members were central bank governors; the others were experts and members of the Commission. They proposed the main parameters of what was later endorsed by the European Council and written into the Treaty of Maastricht. The rules of the SGP were prepared by the Monetary Committee, too. Finally, the Commission was not only represented in the Monetary Committee and the Delors Committee, but also produced its own expertise—such as the ‘One Market, One Money’ study.

Both supranationalist conditions for progress in vertical integration were thus present. First, regular committee meetings of a transnational network of experts produced frequent transnational exchanges. The co-ordinative management of the EMS had further increased the relevance and intensity of these exchanges. Second, this transnational network had high capacity—the power of expertise. Whereas the formal powers of transnational or supranational actors were weak in the run-up to EMU, the expert committees possessed the knowledge and knowledge-based authority that governments were lacking. Whereas supranational actors were arguably less influential than this transnational network, the Commission participated in the committee work and helped in its co-ordination, channelled its expertise into the political arena, and provided expertise of its own.

Horizontal and Vertical Differentiation

If anticipated functional spillovers, institutional templates, and transnational networks explain the leap from intergovernmental cooperation to supranational centralization, how could horizontal differentiation have occurred? After all, every member state participated in the Internal Market programme and had been part of the committee-based expert network. Yet, there is both functional and institutional variation among the member states that could provide the basis for differentiation. First, member states are differentially involved in transnational exchange. Some are more trade-dependent than others. Second, member states have been differentially involved in institutionalization. Some had not been

members when the Werner Plan was made, and some had not participated in the EMS. The question is whether the differential involvement in transnational exchanges and institutionalization matches the pattern of membership in the eurozone.

With regard to transnational exchange, the supranationalist explanation is similar to the intergovernmentalist explanation based on economic interdependence—and suffers from the same limitations. Differential institutionalization does not account for horizontal differentiation either. All opt-out countries had been represented in the specialized committees of the EU on the same footing as the eurozone countries. The British central bank governor Leigh-Pemberton, who participated in the Delors Committee, is even on the record for having supported both a single currency and an independent ECB. Whereas the UK had not participated in the ERM (before 1990), Denmark had. Spain, Portugal, and Greece, which joined the ERM late, nevertheless strove to become members of the eurozone. The newer member states have, in general, been subject to equal institutional effects: there is no variation in institutional exposure that could explain why some new member states strived to adopt the euro quickly while others drag their feet. In sum, supranationalism cannot explain horizontal differentiation in monetary policy any better than intergovernmentalism.

From a supranationalist perspective, the vertical differentiation between monetary and fiscal policy should, again, reflect different levels of transnational exchange and institutionalization. This seems to be the case. For one, as a result of the shift from the gold-dollar standard to floating exchange rates and increasing capital mobility, monetary policy had become highly market-driven. Moreover, there had been a qualitative difference with regard to institutionalization before EMU. Whereas specialized expert and governmental committees had existed in monetary policy since the 1950s, this was not the case in fiscal policy. It is also noteworthy that the monetary policy committees and experts that advocated the currency union in the second half of the 1980s did not speak out in favour of fiscal union (see, e.g., the Commission's 'One Market, One Money' report, cited above). Vertical differentiated integration could thus be partly attributed to the lack of transnational pressures and supranational institutional support for fiscal integration.

From Differentiation to Uniformity?

Supranationalism assumes that differentiation will become more difficult and less likely as transnational interconnections and supranational institutionalization increase. There is, indeed, partial evidence for such effects in macroeconomic policy integration.

First, the Snake and the EMS were only weakly institutionalized. From the supranationalist perspective, these monetary regimes did not create costly institutional hurdles that would prevent countries from leaving or prevent the regimes from collapsing altogether. This changed when EMU introduced supranational monetary integration. In 1992 and 1993, currency speculation and financial market turmoil had brought the ERM to the verge of collapse; it could only be saved by giving up the narrow bands of fluctuation. Having just signed the Treaty of Maastricht and made the commitment to establish a currency union, the member states nevertheless decided to move to Stage II of EMU. This stands in marked contrast to the early 1970s, when the Werner Plan faltered quickly.

Second, the initial intergovernmental cooperation in fiscal policy was inextricably linked to the prior decision to create a currency union and to transfer national monetary policy competences to the ECB. The excessive deficit procedure of EMU and, even more so, the SGP of 1997 reflected the perceived need to discipline member states tied together in a monetary union. On the one hand, members may have an incentive to stimulate their economies through excessive borrowing facilitated by an interest rate that is ‘subsidized’ by the most creditworthy members. On the other hand, in an economic and fiscal crisis, the same countries cannot devalue their currency unilaterally to ease their fiscal burden and to boost their exports. In anticipation of such problems, the eurozone countries agreed on the SGP in 1997—in particular, because it became clear at this time that some of the economically and financially weaker southern member states would adopt the euro from the start (Heipertz and Verdun 2010: 83). Whereas supranationalism explains that and why fiscal integration follows monetary integration, it is, however, indeterminate regarding the precise level and kind of fiscal integration. That fiscal integration focused on the surveillance of national budgets and did not include international risk sharing and transfers reflected the preferences of the most powerful member states rather than functional necessity.

Finally, the fact that initial horizontal differentiation has been narrowing appears to support supranational expectations. By 2015, the

eurozone had grown to 19 members. Yet, it is problematic to attribute this development to spillover processes. According to supranationalism, we should observe that non-members join the eurozone against their initial preference when they realize that it is costly to be an outsider. By contrast, the countries that joined the eurozone after 1999 had always wanted to join, whereas none of the countries that refused the euro initially has changed its position. This is in line with the intergovernmentalist analysis that interdependencies or externalities between the eurozone and the rest of the EU were moderate.

Transnational Interdependence and Supranational Capacity in the Eurozone Crisis

The eurozone crisis displayed several core integration mechanisms stipulated by supranationalism: spillovers and path-dependencies of earlier integration steps and the relevance of powerful transnational and supranational actors.

Supranationalism does not disagree with the intergovernmentalist analysis of an exogenous economic shock that heightened international interdependence in the crisis and elicited a mix of consensual (rescue of the eurozone) and conflicting government reactions (distribution of rescue costs). It highlights, however, that the shock was amplified by endogenous shortcomings and that the consensual preferences resulted from effects of prior monetary integration.

Whereas the crisis originated outside the eurozone, it was the eurozone's construction deficits that turned a global financial crisis into a European integration crisis. The absence of supranational financial risk-sharing and support instruments, complementing the supranational centralization of monetary policy, made the eurozone highly vulnerable to asymmetrical economic shocks. In the supranationalist perspective, the crisis exposed the dysfunctionality of vertical differentiation between monetary and fiscal policy integration. The eurozone lacked a common fiscal backstop or lender of last resort to absorb shocks, a system of transfers to mitigate adjustment, and a regime of centralized fiscal supervision or an institutionalized procedure of state insolvency to enforce fiscal discipline. It is not clear that these functional deficits were entirely *unanticipated*: a chorus of expert warnings that partial macroeconomic integration was unsustainable had accompanied the establishment of

EMU in the 1990s. But the member states did not expect to be hit by an economic crisis as deep as the Great Recession.

Had they foreseen in 1999 the situation they would face in 2010, it is doubtful that the member states would have designed EMU the way they did—or adopted the euro at all. In 2010, however, they realized that going back to the *status quo ante* (national currencies) had become prohibitively costly. In the meantime, they had incurred the ‘sunk costs’ of introducing a new currency and adapting to a new monetary regime. Moreover, monetary union had strengthened transnational capital movement and interlocking among financial services in the eurozone. In particular, northern European banks were heavily exposed to the increasing default risks in southern Europe. Monetary union thus created additional, endogenous interdependence, which increased the incentives to preserve the eurozone. Most importantly, however, the eurozone members faced massive breakup costs that went far beyond the recession costs of non-eurozone countries. Eurozone membership had allowed the south to accumulate more debt and the export-oriented north to benefit from more favourable exchange rates than would otherwise have been possible. In the case of exit from the eurozone, southern countries would not have been able to service their euro-denominated debt and export products from the northern countries would have become considerably more expensive. And that does not even factor in the damage that a breakup or breakdown of the eurozone would have done to the European integration project as a whole.

As a result, the eurozone countries concluded that remaining in and further integrating the eurozone was preferable to the renationalization of monetary policy. For these reasons, the deficit countries accepted austerity and budget control measures, and the surplus countries agreed to financial support instruments they would otherwise have refused. It is hard to conceive that the member states would have introduced the ESM, the Fiscal Compact, and a supranational banking union had they not been bound by a common currency. It is telling in this respect that the EU member states outside the eurozone did not join the eurozone in these far-reaching integration steps. In the supranationalist perspective, this is a clear example of endogenous, path-dependent interdependence and preference formation in European integration. The decisions on further fiscal policy integration are also a typical case of functional spillover. Politically, desired partial integration created negative externalities in the crisis, and because dismantling the more integrated policy (monetary policy, in this

case) would have been prohibitively costly, states were compelled to move ahead with the supranational integration of the less integrated adjacent policy (fiscal policy, in this case). In other words, the eurozone has ‘failed forward’ in response to the crisis (Jones et al. 2016).

Furthermore, supranationalism points to the important role of transnational and supranational actors in the process of integration during the eurozone crisis. Whereas governments took the major bailout and reform decisions, they were under repeated pressure by financial market actors to act whenever unsustainable interest rates for government bonds signalled that lenders had lost confidence in the deficit countries and the eurozone’s limited countermeasures. Financial markets only ceased to test the credibility of the member states’ commitment to monetary union when the ECB stepped in with the promise to do ‘whatever it takes’ to defend the euro.

That the ECB, a supranational actor with high and independent legal competence and financial resources, played a probably indispensable role in overcoming the eurozone crisis, further supports supranationalist assumptions about the relevance of non-governmental actors in the integration process. What is more, the ECB used its decision-making and financial capacity to stretch its delegated mandate as far as necessary to preserve the eurozone. Whereas intergovernmentalism rightly points out that the German government was able to use its bargaining power to design the ECB as an independent central bank committed to price stability and prohibited from bailing out indebted countries, Germany’s influence decreased significantly after the ECB had started working. In the eurozone crisis, it could use its independence to develop new policies and its majority voting procedures to outvote the defenders of the orthodoxy: it is telling that two prominent German officials of the ECB resigned in the process.

Finally, path-dependence and spillover also characterized horizontal differentiation in EMU. The original decision to join or remain outside of the eurozone put the member states of the EU on two different integration trajectories that diverged further in the crisis. As pointed out above, the membership of the eurozone remained stable in the crisis. Except for the Baltic countries that had been committed to joining before the crisis, no member state switched groups. Major reforms, such as the banking union and the Fiscal Compact, which were open to non-euro area member states in principle, remained limited de facto to the eurozone countries. Furthermore, in the case of the banking union, the crisis

resulted in horizontally differentiated monetary policy spilling over into the internal market.

In sum, supranationalism puts the liberal-intergovernmentalist account of macroeconomic policy in a dynamic perspective. Whereas it does not improve on liberal intergovernmentalism in explaining the original establishment of monetary union, it highlights how monetary integration subsequently altered the relevant actor constellation, structure of interdependence and ordering of state preferences. These changes, which intergovernmentalism acknowledges but does not account for, were a prerequisite not only for the preservation of the eurozone, but also for the additional steps of fiscal policy integration that went beyond the initial intergovernmental preference and power constellation.

CONSTRUCTIVISM

Constructivism explains integration and differentiation in macroeconomic policy by the degree to which policy ideas are consensual, legitimate, and institutionalized across the member states. A constructivist approach to European integration generates the following specific propositions on EMU:

- The decision at the end of the 1980s to move from intergovernmental to supranational centralization in monetary policy reflects the convergence of monetary policy ideas among the member states. The pro-integration consensus may have been promoted further by the institutionalization of the relevant policy ideas at the European level. The substantive terms of monetary integration fit with these policy ideas.
- Horizontal differentiation results from the contestation of policy ideas. The opt-out countries do not share the policy ideas underlying supranational monetary integration, dispute their legitimacy, or do not participate in institutions operating on their basis.
- Vertical differentiation results from a lower level of (institutionalized) ideational consensus, or a higher degree of ideational contestation and relevance, in fiscal policy.
- Constructivist integration theory would explain the progress in integration during the eurozone crisis by socialization and institutionalization processes leading to a higher consensus and legitimacy of fiscal and financial policy ideas.

EMU: Macroeconomic Policy Consensus

Constructivism explains the establishment, the timing, and the design of EMU by ideational convergence on monetary policy ideas. Along these lines, Kathleen McNamara (1999) claims that the previously dominant Keynesian macroeconomic policy paradigm was replaced by a neoliberal or monetarist consensus in the course of the 1980s. In the 1960s and 1970s, most European governments followed Keynesian policy beliefs. In times of economic downturn, they tried to stimulate the economy through loose monetary policy and increased government spending—even if that meant higher inflation. In the 1970s, however, Keynesian policies had created ‘stagflation’ in many European countries, i.e. high inflation without growth. In response, the neoliberal paradigm gained ground. It demanded tight monetary policy and budget discipline. More specifically, the member states emulated the German model of macroeconomic policy, which had proven highly successful in combating inflation and thus acquired high legitimacy throughout Europe.

There are limits, however, as to what the neoliberal paradigm, the policy consensus on ‘sound money and public finances’ (Dyson and Featherstone 1999: 3), or the legitimacy of the German model can explain (Sandholtz 1993: 11). Monetarist economic theory generally prefers a system of flexible exchange rates to a system of fixed exchange rates, let alone an international currency. In line with this belief, the vanguard countries of monetarism, the USA and the UK, have been highly sceptical of EMU. Moreover, whereas the paradigm shift underpinned Franco-German preference convergence on monetary policy, it did not overcome conflict about the design of monetary union. In other words, whereas the neoliberal paradigm may have generated the ideational convergence that facilitated a common monetary policy based on neoliberal or German ordoliberal ideas, it does not explain supranational centralization or its institutional design.

A full ideational account of *supranational* monetary integration therefore needs to combine macroeconomic policy consensus with shared pro-integration attitudes. Constructivist explanations highlighting the emergence of an ‘epistemic community’ provide such a combination. An ‘epistemic community’ is a network of experts with common principled and causal beliefs about an issue, together with a common policy project based on these beliefs (Haas 1992). These characteristics fit the network of monetary experts who designed the basic principles and rules of EMU

in the Delors Committee, which were later adopted without major modifications by the heads of state and government (Verdun 1999; see also Dyson and Featherstone 1999: 27). At the level of principled ideas, they were in favour of economic and monetary integration. Amy Verdun further detects several common causal beliefs: ‘inflation was detrimental to growth’; an independent central bank was necessary to achieve low inflation; ‘stable exchange rates were necessary to ensure the proper operation of the internal market’; the ‘dominance of the Deutschmark’ was ‘politically unsatisfactory’; and national governments should remain fully responsible for other national macroeconomic and fiscal policies—albeit with ‘binding rules … to contain budget deficits’. Finally, the common policy project of this epistemic community was an EMU with an independent European central bank and the primary objective of price stability (Verdun 1999: 320).

Constructivism thus offers an explanation both for the timing and the substance of the preference convergence that made EMU possible at the end of the 1980s. In contrast to intergovernmentalism, it does not simply take preference convergence as exogenously given but explains it as the result of an ideational shift in the dominant macroeconomic policy paradigms. Moreover, it attributes the fact that EMU followed German preferences not to German bargaining power but to the legitimacy of the German model. Constructivism also attributes the initiative of the German government in favour of EMU to its traditional pro-integration ('federalist') attitude, rather than to calculations of economic benefit (Dyson and Featherstone 1999: 771). Finally, Germany did not need to coerce the other member states into accommodating its preferences for EMU because they had been persuaded of the superior performance of the German model during the 1980s.

With regard to supranationalism, the constructivist explanation is more complementary than competing. However, it relies on learning and persuasion, rather than institutional spillover and capacity. From the constructivist perspective, transgovernmental exchange and cooperation in the EC committees and the EMS may have facilitated the formation of a network, and having an expert committee isolated from domestic politics and government interference certainly helped the elaboration of a blueprint for EMU (Dyson and Featherstone 1999: 755–756). But the intensity of exchange and the institutional context did not cause the learning process and the emergence of a policy consensus.

Differentiated Integration

Neither intergovernmentalism nor supranationalism provide convincing reasons for the opt-out and non-participation of a third of the member states. The major constructivist explanation for EMU, i.e. the emergence of a neoliberal macroeconomic policy consensus on sound money and public finances backed by an epistemic community of monetary experts, does not either. After all, the governments and national experts of Britain, Denmark, and Sweden shared the neoliberal policy consensus. Among the newer member states, in the Czech Republic, the most avowedly neoliberal party voiced the strongest opposition to monetary union. Yet, the non-Eurozone countries did not subscribe to the programme of *supranational* monetary integration advanced by the ‘federalist’ proponents of EMU and the monetary epistemic community meeting in the Delors Committee. Furthermore, the rejection of supranational monetary integration did not follow a policy-specific rationale but, rather, reflected deeply rooted scepticism against wide-ranging transfers of national sovereignty to the European level. In sum, whereas the horizontal differentiation of monetary policy integration does not reflect the contestation of policy ideas or the participation in institutions across the member states, it represents international contestation and ideational divergence regarding the legitimacy of federalist (i.e. centralizing) solutions to policy problems more generally. Their opposition against supranational centralization led Denmark and the UK to opt out of vertical integration in other policies beyond monetary integration and made them the champions of differentiated integration in the EU more generally. Among the newer member states, the Czech Republic, Hungary, and Poland also distinguish themselves by their quest to preserve national sovereignty.

If focused on polity rather than policy ideas (Jachtenfuchs et al. 1998), monetary integration thus supports the constructivist explanation of ideas-driven horizontal differentiation. On the other hand, however, the persistence of this differentiation does not lend any support to the constructivist expectation of socialization effects building and strengthening European policy consensus and thereby working to overcome differentiated integration. The growth of the eurozone has mainly been an effect of countries with a clear support for the euro meeting the convergence criteria, rather than the persuasion of initially sceptical countries.

Can constructivism also explain the vertical differentiation between supranational monetary integration and intergovernmental fiscal policy coordination? As for the convergence of policy ideas, the paradigm shift from Keynesianism to Monetarism covered macroeconomic policy in general and not just monetary policy—it therefore cannot explain vertical differentiation. The epistemic community approach is more helpful again. As shown above, the beliefs of the monetary expert community differed for monetary and fiscal integration. Whereas the central bankers and other like-minded experts believed in an independent European central bank and binding European rules to constrain national budget deficits, they did not support transferring other macroeconomic policies or fiscal sovereignty to the European level. This comes out of the Delors Report and also the Commission's 'One Market, One Money' study. According to constructivism, the difference in vertical integration is reflective of a difference in expert beliefs.

Vertical Integration in the Eurozone Crisis: Socialization and Learning?

From a constructivist vantage point, the progress in fiscal and financial integration in the eurozone crisis should be a result of institutional socialization ahead of the crisis or the diffusion of new policy ideas during the crisis. The joint experience of using and managing a common currency may have produced a further convergence of policy ideas as well as a stronger we-feeling among the eurozone countries. And the joint experience of deep crisis may have produced another policy paradigm shift among experts and policy-makers—away from neo- or ordoliberalism.

Ahead of the eurozone crisis, there is little evidence for such a socialization effect. When the crisis erupted in 2010, the preference constellations and member-state coalitions were the same as in the 1980s and 1990s when EMU was established. A northern coalition led by Germany first refused bailouts and then opposed transfers and the mutualization of risks, e.g. through eurobonds. Instead, it advocated the tightening of fiscal discipline. By contrast, a southern coalition led by France promoted looser fiscal constraints and more risk sharing. France also reiterated its earlier ideas for a political governance of the eurozone. Moreover, the reaction to the crisis emphasized divisions between north and south rather than the community and solidarity of the Eurozone.

In the constructivist perspective, entrenched national policy beliefs dominated any potential socialization effects. The conflicting preferences reflected the continuing relevance of German ordoliberal and French state-interventionist traditions. Moreover, the distributional outcome of the rescue of the eurozone—loans based on austerity conditionality to the deficit countries—is attributed to a dominant narrative that blamed the crisis on state profligacy and constructed the conflict as one between ‘Northern saints and Southern sinners’ (Matthijs and McNamara 2015). Incidentally, the ideational clash in the eurozone crisis casts doubt on constructivist explanations of EMU as reflecting ideational policy consensus.

When, as in this case, material interests and dominant policy ideas lead us to expect the same preference constellation, it is difficult to adjudicate empirically between intergovernmentalist and constructivist accounts. Whereas constructivism regards preferences as shaped by underlying principled and epistemic beliefs and discourses, intergovernmentalism attributes the same preferences to conflict in fiscal and financial positions and tends to dismiss ideas and narratives as mere rationalizations and motivated justifications. The constructivist account faces two puzzles, however. First, to the extent that ordoliberalism is a German belief system, why did the other fiscally healthy surplus countries of the eurozone share the German policy preferences even if they did not share the ordoliberal paradigm? Second, and more importantly, whereas ordoliberalism does explain German opposition against risk-sharing and transfers, it does not explain why the German government ended up accepting bailouts and—albeit limited—EU-level financial support in the ESM and banking union.

This puzzle brings up another debate between intergovernmentalism and supranationalism, on the one hand, and constructivism, on the other: were the changes in the German and northern positions the result of an (endogenous) shift in the material cost–benefit calculations of the eurozone member states or did they reflect a change in policy ideas? In this debate, David Schäfer (2016) makes two constructivist arguments. First, he states that the preferences of the German government are difficult to explain by the interests of the internally divided domestic banking sector, but followed ordoliberal principles. Second, Schäfer not only disputes the claim that the banking union followed German preferences, but also makes the point that German concessions resulted from an argumentative process of rhetorical action rather than the updating of cost–benefit

calculations. In his analysis, having accepted the causal analysis of the ‘doom loop’ between states and banks as a major explanation for the southern countries’ financial troubles, the German government could then not legitimately refuse the policy instruments required to break the loop. It therefore made concessions on the coverage of the banking union (all banks were to be supranationally supervised), the bail-in of private investors in bank resolution (less than initially demanded by the German government), the joint resolution fund (initially rejected), and the decision-making process for resolution (less intergovernmental).

In sum, constructivist accounts of monetary integration partly complement, partly contest and partly fill gaps of the intergovernmentalist and supranationalist accounts. First, they point at the changes in transnational policy ideas that informed intergovernmental preference convergence, and at the epistemic communities that underpinned transgovernmental and supranational policy networks, in the process of monetary integration. Second, they claim that deeply rooted conflicting policy beliefs rather than structural economic conditions inform the persistent differences in preferences on the policy and design of EMU and that the reform of EMU reflected a change in causal beliefs rather than the updating of government preferences (under conditions of endogenous interdependence) and German/northern bargaining power. Finally, constructivism offers an explanation based on the international contestation of supranational centralization for the horizontal differentiation that neither intergovernmentalism nor supranationalism can explain.

POSTFUNCTIONALISM

Postfunctionalism focuses on the obstacles and backlashes of European integration resulting from self-determination concerns and domestic politicization. Its assumptions and hypotheses suggest the following specific propositions on EMU:

- The decision to integrate macroeconomic policy came late in the European integration process because it affects core state powers. In the postfunctionalist perspective, it would have required the Europeanization of national identities, the strengthening of pro-integration parties, or the weakening of referendum opportunities.

The same conditions apply to the reform of EMU in the eurozone crisis.

- Horizontal differentiation results from variation in national identities, party Euroscepticism, the quality of national governance and referendum opportunities between the eurozone countries and the other member states. Non-eurozone countries have a more exclusive national identity, more or stronger Eurosceptic parties, better-performing national institutions, and more referendum opportunities.
- Vertical differentiation between monetary and fiscal policy should be attributable to lower sovereignty and identity concerns and costs, and thus less politicization, of monetary integration.

Integration and Differentiation in Macroeconomic Policies

Macroeconomic policies belong to the domain of core state powers. Issuing money, taxation, and redistribution are traditional monopolies and central activities of the modern state, key attributes of national self-determination and—welfare state policies in particular—important ingredients of national community-building and state legitimization. For all these reasons, postfunctionalism expects that states are reluctant to move beyond intergovernmental coordination and cooperation in the integration of macroeconomic policies. That these policies were not part of the initial domains of supranational integration is therefore in line with postfunctionalist assumptions.

Conversely, postfunctionalism has difficulties explaining why member states agreed on the supranational centralization of monetary policy at the end of the 1980s. It is hard to find any changes at the level of domestic, mass politics in the member states that created momentum for monetary union. EMU was not the result of a surge in European identity or a Europe-wide political shift in favour of integration-friendly parties. At best, postfunctionalism contributes to our understanding of why the decision was *possible*: at the end of the 1980s, member-state governments still benefited from the ‘permissive consensus’ on European integration. European integration was not yet highly politicized. The political space was still dominated by mainstream centre-right and centre-left parties that shared integration-friendly attitudes. In the vast majority of member

states, the Maastricht Treaty was ratified by national parliaments (rather than by popular vote).

Moreover, these factors shed light on the horizontal differentiation of monetary union. As shown in the series of *Eurobarometer* surveys, Britain had a consistent and long-standing record of being the country with the strongest exclusive national identity and the lowest support for (supranational) European unification. According to a poll in 1992 (*Eurobarometer* 38), UK, Danish, and Irish citizens most strongly expressed fear of the loss of national identity in European integration. Denmark and the UK were the only two countries in which both the Treaty of Maastricht and the single currency were opposed by majorities. Sweden joined in 1995, following a close accession referendum. From the outset, Swedish Euroscepticism has been similar to that of the British and the Danes. In 1995 (*Eurobarometer* 43), support for European unification was lowest in the UK, Sweden, and Denmark; and the share of respondents with exclusive national identities was even higher in Sweden than in the UK. Weak support for further European integration, a comparatively negative image of the EU, and extremely low support for the euro have remained consistent features of the public opinion in these three countries. Stable national identities explain not only why these countries stayed out of monetary union at the beginning, but also remained immune to spillover and socialization effects.

Also in line with postfunctionalist expectations, monetary integration revealed an elite-mass gap in Denmark and Sweden. The Danish and Swedish governments were in favour of adopting the euro, but were stopped by negative referendums in 1992, 2000, and 2003. By contrast, the German constitution does not provide for treaty ratification by popular referendum. As a result, popular majorities against the euro have never been able to assert themselves against the pro-euro mainstream parties. These observations further support the postfunctionalist hypothesis that referendums on European integration are an important venue for horizontal differentiation. The picture for the new member states is less clear-cut. According to the *Eurobarometer*, however, public opinion in favour of the euro was (on average) lower in the laggards, ahead of the eurozone crisis, than in the countries that joined early. Yet, public opinion in Latvia and Lithuania was as sceptical as in the Czech Republic and Poland, and it was more favourable in Hungary than in all of the Baltic countries. Yet in Hungary, as well as in the Czech Republic and Poland,

Eurosceptic governments have opposed the euro. In sum, whereas postfunctionalism cannot tell us why the member states decided to introduce the euro at the turn of the 1980s and 1990s, it offers a plausible explanation of the domestic resistance in several member states and the conditions under which they opted out of or did not decide to join the eurozone.

What about vertical differentiation between monetary and fiscal policy? The supranational integration of fiscal policy was not even part of the original proposal; correspondingly, vertical differentiation did not respond to domestic political constraints. It is also difficult to argue that monetary policy is less of a core state power than fiscal policy. However, monetary policy is generally less politicized than fiscal policy. For one, it is delegated to central banks—expert, non-majoritarian institutions—whereas decisions on taxation and spending typically require the approval of parliaments. In addition, monetary policy is a highly technical domain, and while citizens' savings and credits are directly affected by monetary policy, the impact of taxes and state gratifications is both bigger and more easily understood. Finally, transnational transfers caused by payments to and expenditures from the EU budget are more visible and politicized than redistributive effects of monetary policy. From a postfunctionalist vantage point, it is therefore conceivable that governments refrained from deeper fiscal policy integration because they perceived it to be a harder sell domestically than monetary policy integration.

Postfunctionalism and Integration in the Eurozone Crisis

The eurozone crisis presents postfunctionalism with a major puzzle. On the one hand, it is a clear case of popular and Eurosceptic backlash against supranational integration. On the other hand, however, this backlash has not led to paralysis and disintegration, let alone prevented the eurozone from deepening its macroeconomic integration.

Never before the eurozone crisis has EU integration had such a directly attributable, visible and negative effect on member state citizens as in the austerity measures imposed on the deficit countries as part of the rescue packages organized by the EU and the International Monetary Fund (IMF). These measures triggered unprecedented mass protest against the EU, Germany, and the implementing national governments. Public support for and trust in the EU plunged towards historic lows. Attitudes towards the EU have soured most dramatically in the southern European countries hit hardest by the crisis, bringing these traditionally Europhile

countries to levels of Eurosceptic public opinion formerly reserved for the UK and the Nordic countries (Debomy 2013; Hobolt 2014). Like no other European issue, the eurozone crisis dominated the foreign and domestic political agendas of the euro area countries. Almost everywhere in the eurozone, the crisis produced early elections, the fall of incumbent governments and reinvigorated populist and Eurosceptic parties both on the left and the right.

In sum, the crisis produced all ingredients for a ‘postfunctionalist moment’ in European integration (Schimmelfennig 2014, 2015). According to the postfunctionalist scenario, we should thus have observed strong dissensus constraining governments in EU decision-making, stagnation, and even setbacks in integration, and a further differentiation of integration. And yet, the EU has embarked on a far-reaching reconstruction of EMU, resulting not only in the preservation of the eurozone and its membership, but also in a major leap of supranational and technocratic integration in fiscal and financial policy.

The postfunctionalist puzzle raises the question how more integration was possible in spite of more politicization. The two most important mechanisms to isolate eurozone crisis management were the formation of mainstream governments and the avoidance of referendums. First, until the end of 2014, all eurozone governments formed during the crisis were composed of parties supporting the euro and further European integration. Whereas the euro crisis period was characterized by high government instability, new governments were generally supportive of eurozone cooperation and deepening. Often, they consisted of formal or informal grand coalitions uniting the mainstream parties against Eurosceptics from the left and right. Second, the eurozone made a strong effort to prevent its reforms from being put to and risking to fail in national referendums. For instance, at the height of the crisis, the eurozone governments put tremendous pressure on Greek Prime Minister Papandreu to call off a referendum. More generally, eurozone governments designed treaty revisions or new treaties in a way that minimized the need to hold referendums. Generally, they tried to work around formal treaty changes. When treaties, such as the ESM Treaty, the Fiscal Compact, and the intergovernmental agreement on banking resolution were deemed necessary, they did not require unanimous ratification to enter into force. Thus, the veto power of treaty referendums was reduced.

Even when both mechanisms failed in Greece in 2015—a populist, Eurosceptic coalition came to power and held a referendum that rejected

the Troika's bailout conditions—the Greek government still accepted a new bailout package with even harsher austerity conditions (pension cuts and tax increases). This episode provides strong evidence that international constraints of dependence trumped domestic constraints of politicization in the eurozone crisis. Yet, the Greek case also suggests that politicization has arguably worsened the crisis and prevented a more ambitious and effective solution. In several deficit countries, domestic opposition against austerity conditions caused delays in accepting bailouts. And in Germany, upcoming elections and uncertain parliamentary support either postponed or limited quick and effective support for the deficit countries (Schneider 2019). In both cases, domestic political constraints only deepened the crisis and made the rescue more costly.

To conclude, postfunctionalism best explains the limits to uniform and far-reaching integration in the domain of macroeconomic policies. It provides plausible accounts of why several countries decided not to participate in the monetary union, why fiscal policy integration has lagged behind monetary policy integration, and why the intergovernmental response to the eurozone crisis was ‘too little, too late’ in the eyes of many observers. By contrast, postfunctionalism fails to explain why macroeconomic policy integration happened in the first place and why it deepened at a time of massive adverse politicization.

CONCLUSION

Macroeconomic policy integration is a highly relevant area for understanding the driving forces and obstacles of integration and differentiation in the EU, and for testing theories of European integration. Monetary policy is not only the most vertically integrated policy of the EU, but also shows the most pronounced horizontal differentiation. In addition, macroeconomic policy integration has been characterized by a marked initial gap between the supranational centralization of monetary policy and intergovernmental cooperation in fiscal policy. And it was affected by the EU's deepest crisis of integration to date. In this chapter, we therefore applied the integration theories to explain not only monetary policy integration, but also the horizontal and vertical differentiation in macroeconomic policy and their development over time. Table 8.1 gives an overview of the contributions that each theory makes to the explanation of EMU.

Table 8.1 Integration theories and explanations of EMU

	<i>Intergovernmentalism</i>	<i>Supranationalism</i>	<i>Constructivism</i>	<i>Postfunctionalism</i>
<i>Vertical integration: EMU</i>	Preference convergence, German bargaining power, commitment problems	Anticipated and cultivated spillover, transnational and supranational activism	Neo- or ordoliberal consensus, epistemic community	
<i>Horizontal differentiation</i>			Polity ideas	National identity, Euroscepticism
<i>Vertical differentiation</i>	Less autonomy, more preference convergence in monetary policy	More institutionalization, transnational interdependence, and supranational activism in monetary policy	Epistemic community favours monetary policy integration	Monetary policy less politicized
<i>Vertical integration: eurozone reform</i>	Exogenous shock, common economic preferences, German bargaining power, commitment problems	Endogenous interdependence, spillover, path-dependency, transnational pressure, supranational capacity	Ordoliberalism, change in financial and fiscal policy beliefs	

Intergovernmentalism explains the design and development of EMU by a combination of international interdependence, preference and power constellations as well as commitment problems. In the 1980s, EMU was made possible by the convergence of national monetary preferences and policies; its design and substance reflected both superior German bargaining power and the severe enforcement problems of monetary policy. An exogenous shock increasing interdependence, a common economic preference to preserve the eurozone, German/northern bargaining power and massive commitment problems also explain further integration in the eurozone crisis. Whereas intergovernmentalism attributes the vertical differentiation of EMU to weaker state autonomy and higher preference convergence in monetary policy, it does not offer a convincing account of horizontal differentiation.

According to supranationalism, the driving force behind supranational monetary integration was a transnational network of monetary experts and central bankers, which had been formed and become influential in the institutional (committee-based) system of the European Community. They elaborated the blueprint for EMU against the background of anticipated functional spillover from the internal market, the institutional template of the Werner Plan, and the experience of EMS. Vertical differentiation in EMU reflected higher existing institutionalization and transnational interdependence as well as supranational support for monetary policy integration. The EU response to the eurozone crisis was characterized by endogenous interdependence, functional deficits, and path-dependence. The institutional consolidation and elaboration of the eurozone was driven by transnational financial market pressures and enabled by the supranational capacity of the ECB. Supranationalism does not capture horizontal differentiation, however.

Constructivism offers an explanation of EMU based on dominant ideas. The establishment of EMU was in line with the shift in macroeconomic policy paradigms from Keynesianism to neoliberalism or monetarism and the legitimacy of the ordoliberal German model of monetary policy. It was reinforced and converted into a blueprint for EMU by an epistemic community of monetary experts organized in EU-level committees. This epistemic community also promoted supranational monetary integration without supranational fiscal policy. Countries that shared the monetary policy beliefs but not the supranationalist or federalist polity beliefs connected with EMU, opted out of monetary union. In the eurozone crisis, the policy response continued to be shaped by the dominant ordoliberal paradigm, but also reflected the acceptance of the ‘doom loop’-theory of the crisis, which generated support for institutional reform.

Finally, postfunctionalism explains horizontal differentiation by variation in national identities and the strength of Eurosceptic attitudes and parties, and vertical differentiation by the higher politicization of fiscal policy in comparison with monetary policy. By contrast, postfunctionalism has little to say on the original establishment of EMU (except that it still took place under the favourable conditions of the ‘permissive consensus’), and it fails to explain the progress in integration in a period of unprecedented politicization during the eurozone crisis.

Table 8.1 shows that all four theories contribute important building blocks to the explanation of EMU. Let us quickly revisit the four main

integration outcomes. Regarding the *establishment of monetary union*, postfunctionalism only provides enabling (the permissive consensus) but no effective conditions; it is therefore the weakest theoretical account. Constructivism offers a partial account: the change in policy paradigms, supported by an epistemic community, explains the convergence of preferences and generated ideational support for monetary union. However, it does not explain the persistent conflicts on the prerequisites, institutional design and goals of monetary union, and how they were overcome. This is also a weakness of supranationalism. This leaves liberal intergovernmentalism as the most complete and compelling explanation of the establishment of EMU. It stresses the asymmetrical nature of interdependence and the mix of convergent and conflictual national preferences—and it focuses on intergovernmental bargaining power and commitment problems, which explain the substantive and institutional integration outcome.

Whereas intergovernmentalism and supranationalism cannot explain the *horizontal differentiation* of monetary policy integration, the constructivist and postfunctionalist explanation are quite similar. Indeed, a member states' polity ideas are likely to be shaped and informed by national identities and attitudes towards integration (Risse et al. 1999). For this reason, postfunctionalism provides more causal depth to the explanation of horizontal differentiation in EMU.

All four theories put forward plausible and complementary explanations for *vertical differentiation* in EMU. They consensually point out that monetary policy integration was less contested than fiscal policy integration, because monetary policy had been more internationally interdependent and institutionalized as well as more depoliticized than fiscal policy. Its supranational integration therefore caused less autonomy costs and domestic resistance—as well as more support by transgovernmental policy networks—than the centralization of fiscal policies.

In the case of *further vertical integration* and the narrowing of vertical differentiation in the eurozone crisis, liberal intergovernmentalism again offers a convincing account of interdependence, a mix of common and conflictual preferences, bargaining power and commitment problems. Yet, this account neglects the endogenous drivers and constraints of integration as well as the crucial role of transnational and supranational actors. The liberal-intergovernmentalist explanation therefore needs to be embedded in a dynamic, supranationalist account of path-dependence and

spillover. It shows that intergovernmental preference convergence, financial commitments, the preservation and consolidation of the eurozone were shaped by endogenous interdependence, transnational (financial market) pressures and the supranational competences and resources of the ECB (Jones et al. 2016; Schimmelfennig 2015). Constructivism further complements this account by pointing to ideational contestation that exacerbated intergovernmental conflict and to change in policy ideas that facilitated reforms. Overall, however, the constructivist explanation is secondary to the combined intergovernmentalist-supranationalist explanation of crisis-induced EMU reform.

The EU's response to the economic consequences of the Covid-19 pandemic is the latest major development in EMU in search of theory-guided explanation. While it is an open question how much the pandemic will change the EU in the longer run, the Franco-German initiative, and the EU agreement on a redistributive recovery fund already present the integration theories with new challenges. For liberal intergovernmentalism and constructivism, the major puzzle is the shift away from Germany's traditional fiscally conservative and ordoliberal positions on the size and modalities of financial assistance. In a postfunctionalist perspective, it seems surprising that the EU-27 were able to agree on a significant step towards more European financial solidarity during the most dramatic recession that the member states have experienced since World War II. By contrast, the new developments appear to vindicate the supranationalist expectation that existential threats prompt governments to change their positions in order to preserve the achievements of European integration.

SELF-TEST AND DISCUSSION QUESTIONS

1. Describe the main features of integration and differentiation in EMU. What makes EMU special in comparison with other policy areas of European integration?
2. Which are the most important strengths and weakness of the integration theories in explaining monetary integration in your view?
3. Economists often describe the eurozone as a ‘non-optimal currency area’. From a political point of view, which features of monetary integration in the EU would you consider ‘non-optimal’? How do integration theories explain this ‘non-optimality’? And why has the eurozone survived in spite of its ‘non-optimality’?

4. The Covid-19 pandemic has again tested EMU. How has the EU reacted to the economic consequences of the pandemic? How would the integration theories explain these consequences? In your opinion, which integration theory explains the reactions best?
5. Does the euro unite or divide Europeans? Discuss from the vantage point of integration theories.

FURTHER READING

For further reading, we recommend three special journal issues that collect articles on the eurozone crisis and provide theoretical and empirical analyses of the causes, processes, and outcomes of the crisis.

European Integration in Times of Crisis: Theoretical Perspectives (*Journal of European Public Policy* 22: 2, 2015), ed. Demosthenes Ioannou, Patrick Leblond, and Arne Niemann, brings together intergovernmentalist, supranationalist and constructivist analyses as well as papers on political theory and public opinion.

The Political Economy of the Euro Crisis (*Comparative Political Studies* 49: 7, 2016), ed. Mark Copelovitch, Jeffry Frieden and Stefanie Walter, collects political economy analyses of the eurozone crisis and an article (Jones et al. 2016), which proposes a synthesis of intergovernmentalism and supranationalism.

Decision-making During the Eurozone Crisis (*European Union Politics* 20: 1, 2019), ed. Fabio Wasserfallen, Dirk Leuffen, Zdenek Kudrna, and Hanno Degner presents a set of articles based on the most systematic mapping of actor preferences, negotiations, and decisions in the eurozone crisis to date.

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CHAPTER 9

Security and Defence

The areas of security and defence are commonly referred to as an issue of ‘high politics’ and, as such, they are characteristic of policies that are deemed vital in determining the autonomy, integrity—and hence the survival—of nation-states (Hoffmann 1966). The development of defence capabilities and the capacity of rulers to deploy armies is a significant milestone in the history of modern statehood. Maintaining external security is thus a ‘core state power’ (Genschel and Jachtenfuchs 2014) *par excellence*. War, as Charles Tilly (1975) famously phrased, made states and states have waged wars to secure their position in the international system. While war and the process of state-building are inextricably linked, international institutionalized cooperation, or even integration in matters of security and defence policy should not be overly forthcoming. According to realists, the anarchical structure of international politics offers no reliable protection to the security and integrity of states. Governments have to invest in capabilities and forge temporary alliances to defend themselves against potential competitors. This perspective on international politics seems rather far removed from the present-day realities of EU integration. Who could plausibly posit that France sees Spain or Germany as a potential security threat? To the avid observer, the place for responding to external security challenges has long been occupied by NATO. So why did the EU develop its own security and defence policy and concomitant institutional apparatus? Is it that the EU bands together in the area of external

security and defence to collectively fend off external security threats? Why would the EU contemplate to deploy multi-national military forces and create joint military decision-making structures, as has been evidenced by dozens of civilian and military missions under EU command in the past decades? And why is this policy area, until recently, characterized by weak horizontal differentiation? The ensuing sections will offer theory-guided answers to these questions.

THE DEVELOPMENT OF SECURITY AND DEFENCE POLICY IN THE EU

While security and defence policy are among the least integrated policy areas in the EU, the origins of European integration in the 1950s are intimately linked to security concerns among the founding member states. The history of European integration would be incomplete without appreciating that post-war Germany was perceived to pose a considerable security threat to its former wartime enemies. The Schuman Plan to create the ECSC—and thereby pool German and French coal and steel resources, and submit investment, production, and supply-related decisions in these sectors to a supranational High Authority—can be rightfully considered a ‘break with the past’ (Duchêne 1994: 205). Not only did the institutional structure of the ECSC possess supranational quality—a novelty in the orbit of inter-state cooperation—the ECSC also marks a decisive break with the past by proposing a solution to the eminent economic and security concerns that France entertained *vis-à-vis* Germany (see Box 9.1 for further details.)

The ultimate objective of the Schuman Plan, culminating in the adoption of the ECSC treaty in 1951, was to alleviate French concerns that post-war Germany would employ its regained industrial strength as a threat to French security. These concerns arose, in particular, against the backdrop of a rebounding German economy and the prospect that Germany would be released from Allied oversight and thus regain political autonomy. The initial route to bind Germany firmly to the West was based on closer economic cooperation in the coal and steel sectors. According to the hopes of many French politicians at the time, closer economic cooperation would back up France’s economic modernization plan. Moreover, economic cooperation would generate security externalities by ensuring that former wartime industries were placed under the control of an independent High Authority. Thus, security concerns

also motivated plans among the Western allies to accelerate European integration. With the Cold War looming and the status of Germany in question, security concerns were addressed head on in the proposal to create a European army as integral part of the envisaged European Defence Community (EDC).

Box 9.1 Timeline: Security and defence integration

1950	Pleven Plan
1952–1954	European Defence Community
1961–1962	Fouchet Plans
1970	Davignon Report and European Political cooperation
1986	Single European Act (treaty base for EPC)
1992	Maastricht Treaty (CFSP as 'second pillar' of the EU)
1992	Danish opt-out from defence policy
1997	Amsterdam Treaty introduces High Representative
1998–1999	St Malo Declaration; Cologne & Helsinki European Councils
2001	Nice Treaty (treaty base for security and defence policy; enhanced cooperation)
2003	First EU crisis management operations
2009	Treaty of Lisbon (CSDP)
2016	EU Global Strategy
2017	De facto launch of PESCO

A Bold Move: The Pleven Plan and the EDC

The outbreak of the Korean War in 1950 infused the Cold War with new heat, and triggered activities to adjust security strategies and policies among the former wartime allies. The governments of the USA and Great Britain brought up the prospect of rearming West Germany under a framework of equal partners. At the same time, the ongoing security concerns France harboured *vis-à-vis* Germany would have had to be alleviated by launching 'a broader Schuman Plan' (Pastor-Castro 2006: 389), which included an explicit military component. The resulting Pleven Plan, named after the French Prime Minister René Pleven, was presented on

24 October 1950. With regard to German rearmament, the plan envisaged a joint supranational framework preventing unilateral military action by denying West Germany prospects for an independent army or general staff. On 15 February 1951, France, West Germany, Italy, Belgium, and Luxembourg entered into negotiations on what was to become the ill-fated Treaty establishing the EDC. On 27 May 1952, the six founding members of the ECSC signed the Treaty establishing a European Defence Community.

The EDC treaty stipulated that the participating states ought to delegate control over their armed forces to the European level (Ruane 2000: 15). However, the prospective member states were permitted to run and command nationally organized military forces for deployment in non-European areas, which was an important condition for states with colonies. Moreover, the EDC member states also committed to the drawing up of a common armament programme. The EDC treaty thus envisaged a relatively strong set of competencies in the area of defence with national governments merely exercising residual competencies for procurement of armaments, and the organization and command of their own armed forces. Institutionally, the ECSC largely served as blueprint for the institutional structure of the EDC. The EDC was to comprise a Court, a parliamentary assembly, a supranational Commissariat and a Council, representing the governments of the member states. Akin to the High Authority of the ECSC, the EDC's Commissariat was to become the centrepiece of the new organization, initiating and carrying out a broad set of policies ranging from procurement to deploying military resources and troops. Decisions were to be taken mainly by (qualified) majority in the Council, with the assembly playing a particularly important role in controlling the Commissariat and in co-deciding on the EDC's budget. The prominent part accorded to supranational organizations in making, monitoring, and adjudicating decisions, as well as the introduction of 'pooled' decision-making rules, would have amounted to a level of *vertical* integration reflecting 'joint decision-making II'.

Turning to *horizontal* integration, the provisions of the EDC treaty left no room for external or internal differentiation, but envisaged a uniform application of the treaty rules. At first sight, it is hardly surprising that only a small number of European states decided to sign the EDC treaty: Even prior to the formation of the Warsaw Pact in 1955, the world witnessed the formation of an 'Eastern Bloc'. This bloc was characterized by politico-military dominance of the Soviet Union over most central

and eastern European states, and by the installation of autocratic or totalitarian ‘satellite’ regimes and command economies in these states. During the decades of the Cold War, the ‘Eastern Bloc’ remained outside the group of states for which European integration was a political option. Both, the creation of the ECSC and EDC have to be seen in context of heightened confrontation between ‘East’ and ‘West’. Binding Germany into a system of European cooperation and integration promised to alleviate French security concerns; subsequent US administrations considered binding West Germany to the ‘Western’ bloc as politically, militarily, and economically opportune. Moreover, with a view to horizontal integration, subsequent decisions of the British government to stay outside the EDC (a decision that had its precursor in the case of ECSC membership and was replicated in the case of the EEC) are of interest, as they foreshadow the often difficult relationship between Britain and the EU—an issue to which we will return in the second part of this chapter.

The highly ambitious EDC treaty was successfully ratified in all but one member state: France; Italy was waiting for the French parliamentary vote before the Italians cast theirs. The French National Assembly rejected the treaty on a procedural motion on 30 August 1954. Even though the EDC treaty was abandoned as a result, this did not mean that security and defence cooperation was dropped from the political agenda. Instead of integrating the former wartime enemies Germany and Italy into the EDC framework, both countries became members of the Western European Union (WEU) in 1954, which emerged from the military assistance treaties of Dunkirk und Brussels signed in 1947 and 1948, respectively—both of which were initially elaborated against fears of German aggression. As an organization with a mission to provide military assistance to its members, the WEU recognized its subordinate status *vis-à-vis* NATO, since the WEU member states passed the responsibility for planning and carrying out military tasks on to NATO ‘with West Germany thus being militarily integrated into NATO through a back door opened by WEU’, thereby stripping the Europeans of ‘the opportunity to use their own military capabilities to pursue their own foreign policy choices’ (Keukeleire and MacNaughtan 2008). As a consequence, NATO became the focal point for cooperation in security and defence matters in Western Europe for decades to come. But instead of setting up a supranational European framework, NATO provides a transatlantic inter-governmental decision-making structure and mutual military assistance through nationally contained armies.

De Gaulle's 'certaine Idée' and the Fouchet Plans

De Gaulle's rise to power in France in 1958 had a lasting impact; not only on French domestic politics—effectively putting an end to the crisis-ridden Fourth Republic by installing a semi-presidential system with the Fifth Republic—it also had important repercussions for the future course of European integration. Not only was the newly-founded EEC considered to be instrumental to the achievement of key French economic objectives—most notably, the subsidization of agricultural production and industrial modernization, de Gaulle also saw the chance to promote European political union by challenging the role of the transatlantic alliance and, hence, NATO. De Gaulle's aim was to deepen foreign policy cooperation among the member states of the newly-founded EEC on the basis of an intergovernmental framework that was to be independent of NATO and the USA (Dinan 2004: 83, 99). Following-up on an initiative by de Gaulle, a committee headed by French Ambassador Christian Fouchet worked on a proposal for closer cooperation among the EEC member states in areas ranging from foreign and defence policy to cultural policy, human rights, and democracy. The Fouchet Plan, issued in 1961, called for a new international organization structured on strictly intergovernmental lines and so included proposals for an institutional set-up that was to differ fundamentally from the institutions and decision-making procedures of the EEC (not to mention the even more supranationally designed ECSC and EDC).

Commentators argue that the Fouchet Plan was a reflection of de Gaulle's '*certaine idée*' of France in the world, which rested on the primacy of the nation-state (as the only legitimate actor in world politics), French independence and '*grandeur*', as well as military strength to promote French power status in world politics (Moravcsik 2000). As a corollary of this '*certain idea*', de Gaulle was said to consider an independent European foreign and defence policy not only to control Germany, but also to establish Europe as a 'third force' in international politics—and thus as a counterweight to the two existing superpowers (Hill and Smith 2000: 47). Moreover, de Gaulle envisaged that France would play the dominant role within a European political union, given the French president's ambition to establish France as the most potent military power in Europe. A Council composed of the heads of state or government would dominate the organization the Fouchet Plan wanted to establish. The plan did not accord any role to institutions such as the supranational

Commission or the Court; a European Parliament would be permitted to table questions and make recommendations to the Council, which would decide by unanimous vote (Reynolds 2010: 121–122). The Fouchet Plan thus represents the very counter-image of the EDC. The intergovernmental nature of its decision-making structure is reflected in the absence of both pooling or delegation of decision-making authority. The level of *vertical* integration thus meets what we have labelled ‘intergovernmental coordination’. Following the criticisms of the other Community member states, a second Fouchet Plan was issued in January 1962, which did not reflect concessions demanded by the other parties, but ‘hardened up the commitment to intergovernmentalism and to French leadership’ (Hill and Smith 2000: 47).

The failure of the Fouchet Plan(s) can, among other factors, be traced back to the issue of *horizontal* integration; more specifically, the question of British membership. The Dutch and Belgian governments insisted on the participation of Britain in the political union envisaged by the Fouchet Plan (as well as in the Common Market of the EEC), partially to counter the possibility of Franco-German dominance within the union (Reynolds 2010: 123). De Gaulle finally dropped the plan to coordinate European defence under France’s leadership when he realized that the Belgian and Dutch governments essentially preferred NATO to the Fouchet Plan.

One decade after the entry into force of the ECSC, integration in the area of defence had thus experienced a double failure. While the Pleven Plan failed in its attempt to establish supranational integration of security and defence policy, the Fouchet Plan did not succeed in imposing an intergovernmental structure on the existing Community institutions. Moreover, these two episodes foreshadow two cleavages that came to dominate debates on security and defence cooperation. Should cooperation follow a more intergovernmental or more supranational institutional set-up? Should the cooperative arrangement be more ‘Atlanticist’ or more ‘European’ in outlook (see Reynolds 2010: 124–125)? Today, the first cleavage continues to structure conflict over EU integration in security and defence matters. The question about a ‘European’ or ‘Atlanticist’ outlook has become somewhat muted because of Brexit, the US government’s gradual shift in focus from the Atlantic to the Pacific, and the wavering commitment to the transatlantic alliance on the part of the USA, especially under the presidency of Donald Trump.

Informal Intergovernmental Coordination: The EPC

Following de Gaulle's departure from the political scene in 1969, the ensuing years saw the first successful attempts of the six founding members to coordinate their foreign policies. Following the experiences with the EDC and the Fouchet Plans, the heads of government decided at the summit meeting of The Hague in 1969 to return to foreign policy coordination, putting a committee headed by Etienne Davignon, political director in the Ministry of Foreign Affairs of Belgium, in charge with the elaboration of proposals for the member states to progress towards foreign policy cooperation. To avoid 'doctrinal debates' on the methods and 'finality' of the European integration project, the report (also referred to as the Luxembourg Report) tabled by Davignon in 1970 'provided for light, non-binding consultations rather than a treaty [...]. The institutional architecture was also expressly kept separate to that of the Community, apparently for fear of supranational contamination' (Reynolds 2010: 127). To avoid the latent conflict between 'Europeanists' and 'Atlanticists' over the role of NATO, foreign policy cooperation excluded issues with direct security and defence implications.

According to the Davignon Report, the aim of European Political Cooperation (EPC) was to coordinate—and, eventually, to 'harmonize'—views on matters of common concern, yet the formal competencies to conduct foreign policy were to firmly remain at the national level. In the years to come, EPC did undergo a transformation, by allowing foreign policy coordination to encroach upon issues with security implications. This shift is reflected in a series of official Community documents, such as the London Report of 1981 or the Solemn Declaration of Stuttgart of 1983, which made explicit that many foreign policy issues inevitably touch upon security matters and, hence, cannot be categorically excluded from discussion of common foreign policy objectives (Hill and Smith 2000: 114, 125). In the face of global political events and crises in the 1970s and early 1980s, ranging from the Arab–Israeli War in 1973, the Soviet invasion of Afghanistan, the coup in Poland or the revolution in Iran, disputes among European states as well as between European states and the USA arose over coordinated foreign policy responses. Yet, these crises also encouraged the member states to renew efforts promoting cooperation and broadening the political agenda of EPC to include foreign policy questions with security implications (Giegerich and Wallace 2010: 433–434; Keukeleire and MacNaughtan 2008: 47).

Initially, EPC did not contain any provisions for an institutional structure or proper resources, such as a secretariat, permanent staff, or a budget. In M.E. Smith's words, EPC 'was little more than an exclusive "gentlemen's club", run by diplomats for diplomats, subject to the goodwill of its members and closed to outside scrutiny' (Smith 1998: 307–308). Member state governments were to be assisted by high-level diplomats forming the 'Political Committee' to prepare the ministerial meetings and coordinate policy positions. The intergovernmental format implied that any form of pooling or delegation—i.e. supranational actor involvement—was anathema, or reduced to a minimum. Should the competencies of the Commission be touched upon, the Commission would be 'invited to make known its views' (Part II, section V, Davignon Report). Even though the provisions of EPC were not formally linked to the Community and hence did not have a treaty base, EPC represents the earliest form of (informal) intergovernmental foreign policy coordination.

European cooperation in the area of foreign policy was accorded treaty status for the first time with the entry into force of the SEA in 1987. Akin to the rules and practices developed in the context of EPC since the 1970s, the SEA formalized EPC practices ('intergovernmental coordination'): Title III, Article 30, paragraph 6, of the SEA stipulates that member states should be 'ready to coordinate their positions more closely on the political and economic aspects of security'. Moreover, it was reaffirmed in the SEA that the cooperation within the framework of the Community was not to 'impede closer cooperation in the field of security between certain High Contracting Parties within the Western European Union or Atlantic Alliance'. These two statements already point towards the trajectory future cooperation in the area of foreign (and security) policy was about to take. Even before the Cold War came to an end, Community member states were outspoken in their ambitions in the medium to long run: European integration remained incomplete unless closer cooperation in the areas of security and defence were to be taken (Reynolds 2010: 134). When the Iron Curtain finally fell and German unification was imminent, 'questions about the delicate balance between France and Germany and about American security leadership through NATO' (Giegerich and Wallace 2010: 434) were reopened.

Picking up Speed: Maastricht, Amsterdam, and the CFSP

The end of the Cold War and German unification acted as a catalyst in bringing about the Maastricht Treaty. In 1990, the French and German governments, under the respective leadership of President Mitterrand and Chancellor Kohl, proposed to convene an intergovernmental conference (IGC) on political union (alongside the IGC on economic and monetary union), with the objective of establishing and advancing the EU's common foreign and security policy. The Maastricht Treaty, which was signed in 1992 and entered into force in 1993, replaced EPC with the Common Foreign and Security Policy (CFSP), constituting the 'second pillar' of the new three-pillar structure. The provisions for CFSP were laid down in Title V, Article J of the Maastricht Treaty. The relevant treaty provisions state explicitly that questions related to the security of the EU also include defence-related issues, which 'might in time lead to a common defence' (Article J.4). For the time being, the elaboration and implementation of defence-related policies and actions was restricted to the WEU, which was considered the appropriate forum and the respective 'defence arm' (Reynolds 2010: 138) of the EU. The WEU was, at the same time, considered the 'bridge' between CFSP and NATO (Hill and Smith 2000: 152). In contrast to the EPC, which basically established a forum for consultation and coordination of different foreign policy positions, the CFSP provided concrete tools, for instance, by introducing the instrument of 'Joint Action' (Article J.3), which had to be adopted unanimously by the member state governments in the Council, based on guidelines adopted by the European Council. In cases where a Joint Action constitutes an implementing measure of a Joint Strategy adopted by the Council, member states could choose to move to qualified majority voting (QMV) instead of unanimity (the same applies for procedural issues). With a view to decision-making procedures, the Maastricht Treaty thus contains some cautious steps towards 'intergovernmental cooperation' with limited pooling (vertical integration). Even though falling short of joint decision-making, the Commission and the European Parliament (EP) are more closely associated with CFSP than EPC. Article J.8 states that the Commission may submit proposals to the Council, thereby exercising a right of (joint) initiative (Hill and Smith: 152). Moreover, the EP shall be consulted 'on the main aspects and basic choices' (Article J.7) of CFSP. The decision to fund CFSP from the EU's common budget gave the Commission and Parliament a potential lever on CFSP measures. It is

also noteworthy that the member state governments decided to exclude the CFSP from the jurisdiction of the ECJ.

The Maastricht Treaty also marks a break with the past with regard to *horizontal* integration. At the 1992 European Council meeting in Edinburgh, Denmark was granted an opt-out from all common foreign policy initiatives that carry defence implications. This first step away from the uniform application of the *acquis* in the area of CFSP towards ‘internal differentiation’ set the scene for more comprehensive, albeit treaty-based forms of internal differentiation in ensuing treaty reforms. The Maastricht Treaty contained an in-built review mechanism, which stipulated that the member states should revisit the Treaty at a subsequent IGC, starting in 1996. Against the widely-perceived failure of the EU to find a joint and adequate response to the wars and atrocities in the Balkans, and with a clear definition of defence-related tasks for which the member states would deploy troops under shared WEU and EU responsibility still pending, a revision of CFSP provisions appeared to be overdue only shortly after the Maastricht Treaty had entered into force. The Amsterdam Treaty, which was signed in 1997 and entered into force in 1999, modestly extended the space for QMV. Yet, ‘pooling’ remained restricted to matters of implementation, where joint strategies, joint actions, or common standpoints had already been agreed upon (by unanimity). The Treaty also provided for the post of a High Representative for CFSP, a function to be exercised by the Secretary General of the Council. The post was established not to provide CFSP with a ‘supranational’ impetus, but to instil a certain degree of continuity into the EU’s foreign policy operations against accusations that the rotating Council Presidency generated too much confusion and inconsistency (Reynolds 2010: 146). The fact that the High Representative was based in the Council Secretariat reflects the intergovernmental quality of the position. The High Representative was to be assisted by a new institutional infrastructure, the Policy Planning and Early Warning Unit. The Policy Unit, as it is most often called, had its staff drawn from EU institutions (mainly from the Council Secretariat and the Commission), the member states, and the WEU (Hill and Smith 2000: 169), and was to provide the CFSP with a ‘forward-planning capability’ (Reynolds 2010: 147). Moreover, the Amsterdam Treaty further formalizes the link between the EU and WEU by incorporating the so-called Petersberg tasks into the Treaty (Hill and Smith 2000: 169). Defined in 1992 at a WEU summit meeting at Petersberg, near Bonn, they comprise mainly peacekeeping, humanitarian, and

rescue tasks. In terms of vertical integration, the Amsterdam Treaty thus continues the trend towards establishing a system of ‘intergovernmental cooperation’ with modest levels of supranational delegation and pooling.

Against the backdrop of the 1995 enlargement round, where formerly neutral or ‘non-aligned’ states (Austria, Finland, and Sweden) acceded to the EU, a mechanism was introduced in the Treaty to prevent potential paralyses by enabling selective opt-outs for states unwilling to adopt a particular joint foreign policy initiative. ‘Constructive abstention’ created the opportunity for recalcitrant states to opt out from a common position without stopping the other governments from moving ahead. In the light of our conceptualization of *horizontal integration*, constructive abstention constitutes a major innovation in the area of foreign, security, and defence policy as it explicitly allows for internal differentiation. More generally, the Treaties of Amsterdam and Nice, as well as the Lisbon Treaty, formally enshrined and extended the possibility for internal differentiation in matters of security and defence policy. While the Amsterdam Treaty made the start with ‘constructive abstention’, ‘enhanced cooperation’, which was also introduced at Amsterdam but extended to CFSP only at Nice, should make it easier for subgroups of EU member states to march ahead in security—(but not defence!) related policy issues. The Lisbon Treaty continues to highlight the formal possibility of forming subgroups of the ‘willing’.

Change of Tide: St Malo, ESDP, and CSDP

With the Treaty of Amsterdam barely ratified, the eruption of the Kosovo War in March 1998 prompted the EU member states to define the EU’s role in the Balkans. The newly formed German government of Social Democrats and Greens decided—defying the latter’s strong pacifist tradition—that it would not stand aside in case of a military operation. The new British Prime Minister, Tony Blair, declared that the EU needed to enhance its military capabilities, thereby displaying a more pro-European attitude than any previous British government. Finally, the French government under President Jacques Chirac demonstrated a conciliatory and cooperative stance towards NATO (Keukeleire and MacNaughtan 2008: 56). This ‘rapprochement’ of national positions resulted in the Franco-British St Malo Declaration of December 1998. This declaration calls for the EU to ‘make its voice heard in world affairs’ and to ‘have the capacity for autonomous action, backed up by credible military forces, the means to decide to use them and a readiness to do so, in order to respond to

international crises'. At the same time, the declaration also makes clear that enhancing the EU's defence capabilities does not imply a challenge to NATO. On the one hand, it pledges 'conformity with our respective obligations' and points out that NATO continues to be the focal point for the collective defence of its members; on the other hand, it calls for the creation and deployment of institutional and military infrastructures to enable EU actions in cases when NATO, as a whole, is not engaged.

The major tenets of the bilateral St Malo Declaration were rendered more specific in the Presidency Conclusions of the Cologne and Helsinki European Council meetings in June and December 1999. The governments pledged to create the appropriate institutional and military infrastructure for the European Security and Defence Policy (EDSP). A permanent body in Brussels, the Political and Security Committee (PSC), consisting of national representatives of ambassadorial rank, was to become the linchpin of the new institutional structure of the EDSP. Its task lies in monitoring the international situation, and in contributing to the definition of the EU's foreign and security policies. Moreover, it was tasked with monitoring the implementation of the Council's decisions. The PSC plays an important role in defining the strategic direction of crisis management operations and may, in this context, be authorized by the Council to take decisions on the management of a crisis. The PSC is assisted by an EU Military Committee (EUMC), composed of Chiefs of Defence or their military representatives, and provides the PSC with advice on all military matters. Moreover, an EU Military Staff (EUMS) is installed in the Council Secretariat—consisting of seconded officials from member states, the Council Secretariat, or the Commission—to assist and work under the direction of EUMC (Reynolds 2010: 164–168). With a view to enhancing the EU's military capabilities, the member state governments decided on the so-called Helsinki Headline Goals (HHG), which set specific force targets to ensure successful EU-led operations. The Presidency Conclusions to the summit underline that the member states 'must be able, by 2003, to deploy within 60 days and sustain for at least one year military forces of up to 50,000–60,000 persons capable of the full range of Petersberg tasks'. Amidst problems in meeting these objectives and a growing demand for addressing a broader range of defence challenges—ranging from 'war on terrorism' to campaigns involving ground troops on a larger scale—the HHG were revised in 2004 and the new Headline Goal 2010 was adopted. The HG 2010 focused on 'small, rapidly deployable units capable of high

intensity warfare', thereby shifting the objective from 'quantity to quality' (Howorth 2005: 192). The Nice Treaty incorporated and formalized the existence of the new institutional structure developed in between the Amsterdam and Nice Treaties. But even before the actual ratification of the Nice Treaty, the ESDP institutions were all up and running. Moreover, in 2003, the EU launched its first military operation, a peacekeeping operation in the Former Yugoslav Republic of Macedonia, which it took over from NATO (Operation Concordia). Since then, 19 civilian missions and military operations have been completed. As of 2020, 17 missions and operations are ongoing, including several operations in Africa, the Balkans, and the Middle East.

The Treaty of Lisbon, which entered into force in 2009, took onboard most of the changes proposed in the ill-fated Constitutional Treaty. While the 'pillar' structure introduced by the Maastricht Treaty was formally abolished, the differences in the decision-making methods were maintained, with the 'intergovernmental method' still dominating decision-making in the area now re-labelled 'Common Security and Defence Policy' (CSDP) (Title V, chapter 2, Sect. 9.2 of the Consolidated Version of the TEU). Under the new treaty, the High Representative wears a 'double hat' as Vice-President of the Commission and as High Representative of the Union for Foreign and Security Policy presiding over the Foreign Affairs Council. Moreover, the High Representative is assisted by a European External Action Service (EEAS), which is composed of seconded diplomats from the member states, Commission, and Council officials. The EEAS was inaugurated in December 2010.

The trajectory of the EU's security and defence policy since St Malo shows some clear trends with regard to *vertical* and *horizontal integration*. There continues to be a strong tendency on behalf of EU member states to resist the centralization of decision-making competences. Yet, the fact that some of the institutional innovations, such as the PSC and the EEAS, are composed of officials from national governments and supranational actors (the Commission) suggests that decision-making may depart from its purely intergovernmental premises. And, in fact, tensions between more 'intergovernmentally' and 'supranationally' oriented actors surfaced, for instance, when the Council, the Commission, and the EP were at odds over the organization of the EEAS. Nevertheless, observers remain mostly cautious in their assessments of *vertical integration*: The institutional set-up of CSDP 'shows a growing trend towards more coordination at the EU level [...] and thus represents a marginal shift from

the original wholly intergovernmental model of EPC towards closer association with the established Brussels institutions' (Giegerich and Wallace 2010: 444).

Turning to *horizontal integration*, Article 42(6) of the Consolidated Version of the TEU introduces the instrument of 'permanent structured cooperation' (PESCO), which envisages that member states 'whose military capabilities fulfil higher criteria and which have made more binding commitments to one another in this area with a view to the most demanding missions shall establish permanent structured cooperation within the Union framework'. PESCO allows a core group of states meeting certain criteria—ranging from budgetary commitments to military investments, deployability targets, coordinating defence means and logistics—to enter into closer cooperation to enhance European defence capabilities. To launch this form of differentiated horizontal integration, the Council can adopt (by qualified majority) a decision establishing permanent structured cooperation and determine the list of participating member states. Until 2017, however, PESCO was a non-starter.

The 2010s: Times of External and Internal Turbulence

Conflicts in Libya and Syria, fuelled by civil war in the wake of the so-called Arab spring, exposed the EU's internal divisions and a lack of common strategy. As the conflicts in Libya and Syria escalated, and with them humanitarian crises and migratory movements, the EU was unprepared and not more than a bystander, eclipsed by the actions and inactions of great and middle powers. It was not the EU that came to develop a common strategy, but individual EU member states—France and the UK—chose to intervene in Libya through NATO. The humanitarian catastrophe that unfolded during the civil war in Syria did not even generate a joint NATO, let alone EU response, while Russia, Turkey, and Iran sought to promote their regional interests by actively engaging in the conflict. Uncoordinated proposals to stop the fighting and suffering by creating a security zone along the border between Syria and Turkey also came to naught. When the EU was finally forced to act, upon the arrival of hundreds of thousands of refugees fleeing their war-torn homes, member states failed to overcome internal disunity to fix the ill-suited Dublin system and devise a functioning policy (see Chapter 10 on AFSJ) and, instead, struck questionable deals with Turkey and Libya to keep refugees off the EU's borders and shores.

With the Russian annexation of Crimea in 2014, the EU painfully realized that its pledge to bind the Ukraine to the West met fierce resistance. The deployment of unmarked Russian troops and Russia's support of separatist paramilitary forces in Eastern Ukraine caught the EU's decision-making apparatus off guard. In seeking to expand its economic and regulatory reach eastwards, the EU found itself unprepared and incapacitated when confronted with Russia, which conceived of the EU's advances as a security threat that had to be countered (Gehring et al. 2017). The Ukraine crisis has popularized the concept of 'hybrid warfare', which was widely used to describe the unconventional nature of the conflict—not quite war, but also no longer peace. Hybrid tactics include the deployment of irregular armed groups, as well as the use of non-military means, such as disinformation campaigns, cyber-attacks, or economic pressure. Russia's use and sponsoring of hybrid tactics has prompted intense debates among and within EU member states about appropriate responses at the domestic and the EU level, as well as within NATO.

Crises that are internal to the Western security alliance have equally prompted a re-thinking of the state of CSDP. The Trump presidency has strained the relationship between the United States and its NATO partners and Donald Trump himself has expressed open disdain towards multilateral organizations and traditional allies, including the EU. All in all, the Trump presidency has led to a weakening of the transatlantic bond and called taken-for-granted security guarantees into question. With the European commitment of the US questioned by the 'America First' doctrine, the EU has had to accelerate its efforts for a re-definition of its own security objectives and trajectory. Brexit is yet an additional factor, which adds to mounting uncertainty about the future of the transatlantic relationship in general, and the EU's role within NATO in particular. Against this backdrop, French president Emanuel Macron has repeatedly called upon his EU counterparts to become less reliant on a 'brain-dead' NATO, and step-up EU security and defence efforts. While the Biden administration will strike a more conciliatory and cooperative tone in the transatlantic relationship, the EU will have to confront the reality that the US will demand a stronger commitment from its European partners to cater for their own security.

In sum, the 2010s have been a decade of uncertainty and turbulence, confronting the EU with a panoply of security challenges: A weakening US commitment to security in Europe and an increasingly assertive Russia

sowing discord among the EU's member states and societies. Moreover, the EU's multiple crises have left their mark on EU security and defence policy. While domestic defence budgets had already been under considerable pressure before the onset of the euro crisis, the crisis accelerated and intensified the demand for stepping up multilateral cooperation: to promote a more cost-effective procurement of defence capabilities through 'pooling and sharing' and to increasing EU-funded research and development of military technology and capabilities. Moreover, the migration crisis has left its mark on the EU's security and defence policy. The protection of the EU's external borders has become a focal point in the political debate during the migration crisis. To prevent illegal migration, the EU has taken recourse to military means, employing a military mission to assist a third country, Libya, holding back migrants before they arrive on the EU's shores.

On a programmatic level, the EU has reacted to these 'times of existential crises' (EU VR/HR 2016: 7) by issuing the EU Global Strategy of Foreign and Security Policy in 2016 (EUGS). Rather than juxtaposing value- and interest-driven security policies, the EUGS heralds a pragmatic approach to EU security, moving 'away from the outwards looking idealism of the early 2000s, without swinging all the way to the opposite end of realpolitik' (Tocci 2017: 55). The EUGS prizes 'strategic autonomy' and harbours less transformative ambitions vis-à-vis its external environment (as a norm promoter) and, instead, calls for 'resilience', stabilizing not only its external environment, but also seeking internal stability (Juncos 2017). How did the EUGS translate programmatic ideas into policy? EUGS brought PESCO, which was introduced by the Lisbon Treaty, finally to life. It allows for those member states willing to take on greater commitments to security and defence to work more closely together, thereby formalizing horizontal differentiation in this area. Most notably it allows to pool resources, close capability gaps, and reduce institutional and bureaucratic duplication. Since 2017, dozens of projects have been launched and 25 EU member states have participated in PESCO projects, ranging from military training programmes, the development of cyber security instruments to the advancement of helicopter and drone technology. PESCO projects can draw on the European Defense Fund, which was established in 2017 to foster cooperation among states, private entities, and research centres to promote defence R&D.

Assessing CSDP in the post-Lisbon era in terms of treaty-based differentiation is straightforward. Since formal treaty competences have

remained unaltered, we observe no change in vertical or horizontal integration. In its day-to-day operation, however, *horizontal differentiation* can be considered a trademark of the CSDP. Participation in the EU's civil and military operations is characterized by varying participation of EU member states (internal differentiation), and at times even non-EU member states participate in EU missions (external differentiation). For instance, Operation Atalanta (EUNAVFOR), a counter-piracy operation launched in 2008 off the Horn of Africa, counts a subset of EU member states as well as several non-EU states (*inter alia*, Norway, New Zealand) as contributing parties. But it was PESCO's launch in 2017, which has brought to life a quintessential mechanism for horizontal differentiation, enabling sub-groups of member states to forge ahead in matters of procurement, training, research and development, to name only a few areas of joint interest. While Denmark has a permanent opt-out from CSDP and hence also PESCO, Malta has adopted a wait-and-see approach, citing constitutional concerns. The number of participants in PESCO-mandated projects varies considerably (internal differentiation) and it is envisaged that non-EU members will be allowed to participate in the future (external differentiation).

Similarly, focusing exclusively on formal treaty-based *vertical* integration risks missing important nuance in how CSDP developed over the past decades. Scholarship on CSDP stipulates that intergovernmental decision-making has increasingly given way to a 'hybrid policymaking mode' (Hoeffler 2019: 59). While the intergovernmental mode dominates in military matters, the Commission has played an active and entrepreneurial role in forging a common defence market by successfully employing the threat of legal action (Blauberger and Weiss 2013). Studies also show that in the main CSDP institutions, ambassadors and national military representatives have become socialized into a 'knowledge-based network' with a common outlook, a shared professional culture and common values, which has helped to speed up decisions and seek consensus (Davis Cross 2013). For others, 'intergovernmental supranationalism' (Howorth 2012) seems to be a more apt description of decision-making in CSDP than what is laid down in the treaties. Be that as it may, a glance at the most pressing security crises of the 2010s—Libya, Syria, Ukraine—shows that divisions among EU governments and lacking capabilities render joint EU responses difficult, providing only very limited scope of action for supranational institutions (Menon 2011).

Conclusion

Since the mid to late 1980s, foreign policy cooperation took place outside the formal treaty structures and expressly excluded security and defence related issues. This is also reflected in the predominance of NATO in providing for Western Europe's collective security and defence. Despite its informal quality, the level of integration is one of 'intergovernmental coordination'. Since the 1990s we can witness some cautious moves towards more 'intergovernmental cooperation', albeit with very limited pooling. Hence, we chose an intermediate category—between intergovernmental coordination and cooperation—to refer to the changes in the Maastricht Treaty (see Fig. 2.5 in Chapter 2). Following the Treaty of Nice and subsequent plans to develop EU-wide defence capabilities, vertical integration moves towards 'intergovernmental cooperation'. As a result of the latest treaty reform, security and defence policy are now firmly enshrined in CSDP. Moreover, we can witness a mounting tension between the hitherto intergovernmental decision-making structures and attempts to empower actors, such as the High Representative and the staff in the EEAS and the other permanent organizations, who may hold a more 'supranational' outlook.

With regard to horizontal integration, we witness very little treaty-based internal differentiation. The only EU member state to have demanded and been granted an opt-out in the area of security and defence was Denmark in 1992. The opt-out implies that Denmark does not participate in the EU's foreign and security policy when the relevant activities carry defence implications. It also implies that Denmark does not participate in the European Defence Agency. Moreover, Brexit marks an instance of disintegration, and it is yet unclear if and how the UK will engage in external differentiation in the security and defence realm. At the same time, the introduction of opportunities for the member states to engage in 'enhanced cooperation'—most notably PESCO—demonstrates that member states actively encourage moves towards promoting internal differentiation.

The above-sketched development of security and defence integration calls for the following explanations:

- First, why and how did integration in this policy area come about? What explains the initial failure to integrate security and defence policies in Western Europe (most notably the EDC)? And compared

with the other policy areas we discuss in this book, why did it take the EU member states a relatively long time to achieve fairly modest levels of vertical integration in security and defence policy cooperation in the ensuing decades? Despite the ongoing dominance of the ‘intergovernmental method’, how can we explain the more recent shifts towards further cooperation in defence matters?

- Second, with regard to horizontal integration, it is worthwhile exploring why internal differentiation has been so modest for most of the CSDP’s existence (with Denmark having negotiated the only opt out from foreign policy initiatives carrying defence implications). Yet, with the launch of PESCO, internal differentiation has instantaneously experienced a boost. Why?

How do the integration theories introduced in the first part of this book help us to better comprehend the pattern of integration in the area of defence policy? We will focus on two important episodes in the construction of a common security and defence policy. First, we explore, theoretically, the initial success that led to the signing of the EDC treaty in 1952, followed by the Treaty’s prominent ratification failure in 1954. Second, we will scrutinize the answers integration theories have on offer to address the puzzle as to why, once the EDC was declared dead, it took four decades for defence to be placed on the agenda of EU policy-makers in the 1990s, and why, since 1998, there has been quite remarkable progress in institutionalizing defence cooperation in the EU.

EXPLAINING THE EUROPEAN DEFENCE COMMUNITY AND ITS FAILURE

In this section, we will shed light on the initial success and subsequent ratification failure of the EDC against the backdrop of our three integration theories. We begin with intergovernmentalism, before turning to supranationalist, constructivist, and postfunctionalist hypotheses. The ensuing sections are structured as follows. First, we generate the observable implications of each theory, which means that we derive expectations from the theory for our empirical cases at hand. Second, we confront these theoretically derived expectations with the empirical record offered by the literature and assess the plausibility of the different integration theories.

Intergovernmentalism

In the case of the EDC, what should we observe if intergovernmentalism offered a convincing explanation for integration (and its failure), as well as differentiation?

- The decision of the founding members of the ECSC to press for a common European army would need to be accounted for by a critical increase in interdependence among the ‘Six’ and the convergence of their welfare- or security-related preferences in the early 1950s. Supranational centralization and the concomitant waiving of unilateral defence policy options should be considered by governments if they expect that defence cooperation will be beneficial to them, and if unilateral incentives to defect were high.
- An intergovernmentalist explanation for the rejection of the EDC Treaty by France would be based on the following considerations: changes in the geopolitical or economic environment that would have adverse effects on the expected gains of integration and reduce the positive economic or security externalities, thereby rendering the creation of a European military force less beneficial.
- Intergovernmentalists would also argue that the reluctance of the British government to join the EDC is due to an insufficient level of international interdependence. Britain’s size as an economically and militarily potent European country would lead intergovernmentalists to expect that the autonomy and sovereignty costs incurred from integration in the security and defence field would prove prohibitively high and, hence, work against renouncing unilateral military and defence options.

Realist intergovernmentalism. As we have argued in the case of monetary policy, realist intergovernmentalists consider it highly unlikely that states give up sovereignty in an area that symbolizes ‘high politics’ like no other: the ability of a state to defend itself against outside threats. In the ensuing section, we discuss the realist intergovernmentalist argument that the initial ‘success’ of the EDC can be accounted for by *internal* as well as *external balancing*.

According to realist intergovernmentalism, the success (and failure) of the EDC can be explained by balance of power politics, which encompass both external and internal balancing. Turning to *external balancing*

first, Western Europe faced an ‘overwhelming competitor’ (Rosato 2011: 105) in terms of the global distribution of military power and resources—the Soviet Union. Only when Western European states stood together, would they have the capacity to establish an effective balancing coalition *vis-à-vis* the Soviet Union (Rosato 2011: 105). With mounting fears that a Soviet attack were to leave Western Europe more or less defenceless, the US government shifted its policy from focusing on promoting economic recovery in Western Europe to planning European (including German) rearmament. The Prague coup in 1948, the Berlin blockade in 1948–1949, the successful test of a Soviet nuclear bomb in 1949, and—ultimately—the outbreak of the Korean War in 1950, prompted the US government to put the issue of German rearmament on top of the security policy agenda. The external threat emanating from the Soviet Union and its high military capabilities thus fuelled attempts to balance externally—which implied, among other things, that West Germany had to be a part of the balancing coalition.

These dynamics, and the US government’s decision to move forward with German rearmament in particular, triggered moves towards *internal balancing*, primarily to address French security concerns. Establishing a favourable balance of power—not only *vis-à-vis* the Soviet Union (external balancing), but also with a view to West Germany (internal balancing)—was a core objective of French post-war foreign policy (Rosato 2011: 124). Historians have underlined that the prospect of German rearmament ‘gripped the Quai d’Orsay’ (Hitchcock 1997: 610). Once the US government shifted its attention to German rearmament, the French government’s objective, to maximize France’s autonomy by keeping Germany’s economic and political development under allied control, was no longer a viable option. The Pleven Plan was introduced against the background of a rapidly shifting geopolitical context, and the acknowledgement that Germany would ultimately regain its sovereignty and military forces. The slogan ‘EDC or Wehrmacht?’ espoused the notion that France could only meet its security needs *vis-à-vis* Germany by creating a European army under the command of a supranational defence authority, which would allow for a joint control of German military forces (Hitchcock 1998). To reduce the perceived uncertainty that emanated from the prospect of a rearmed Germany, the French government pressed for co-binding ECSC-like institutions and, hence, for far-reaching levels of *vertical* integration: the creation of a multinational army under European command, which—at the same time—offered

sufficient controls to delimit independent military action on behalf of Germany.

The internal balancing argument also offers a plausible explanation for the decision by the German government to sign up to the EDC. For the German government under Chancellor Konrad Adenauer, the most important foreign policy objective was to achieve political equality by a revision, and eventual termination, of the Occupation Statute to end allied control over Germany's internal and external policy-making (Rosato 2011: 123). The ECSC treaty negotiations, which were up and running by the time the Pleven Plan was tabled, marked a crucial step towards this objective. Germany was accepted as equal partner in the concert of European states, which jointly agreed to delimit their sovereignty in all matters relating to coal and steel. Even though it may appear counterintuitive, the prospect of relinquishing sovereignty in the area of coal and steel and, subsequently, in the military field was the precondition to obtain sovereignty in external—foreign and security—policy matters. The partial delegation of sovereignty alongside other states' commitment to do likewise constituted a promising avenue for Germany to gain self-government over its external affairs. For France, given the external Soviet threat and uncertainty about the US commitment to defend Western Europe in case of a Soviet attack, surrendering military independence seemed to lower the security threat emanating from Germany. For Germany, there was no military independence to surrender, but—ultimately—an army and autonomy over its external policy to gain (Hitchcock 1998: 168).

Turning to horizontal integration, why did the UK not join the EDC? For the British government, the realization of the EDC did not imply a challenge to its security, rather the contrary. Britain, as well as the US government, came to endorse the EDC as 'a method of safely arming the Federal Republic' and 'also [as] a vitally necessary means of cementing the Bonn Republic's full political and military alignment with the West' (Ruane 2000: 10). Against this background, the EDC was not perceived as a competitor or threat to the transatlantic alliance (NATO), of which all EDC signatories—with the exception of Germany—were members. According to the EDC Treaty, the deployment of troops under the banner of the EDC had to take place in accordance with NATO strategy and under the responsibility of the Supreme Allied Commander in Europe (SACEUR). While it is often argued that the British government's suspicion regarding any cooperative arrangement carrying 'federalist' or 'supranational' features was an anathema, the government's calculus when

evaluating the proposals for joining the ECSC and EDC was strongly affected by security considerations. Throughout 1951–1952, the British Foreign Office argued that, for ‘strategic’ reasons, both economic- and security-related, joining EDC was out of question. The Schuman and Pleven Plans were seen as means to strengthen the continent’s economy and provide for its defence, both of which were in the economic and security interest of Britain. Rosato argues that the British government ‘took comfort in the knowledge that in the event of a Soviet attack the United States would return in force and rescue them at acceptable cost’ (Rosato 2011: 155). Even though this did not mean that the UK was invulnerable, the British government considered itself to be more secure than France and Germany (Rosato 2011: 155). Moreover, a common European defence scheme of which Britain was not a member was seen to generate no negative externalities. The Labour government under Clement Attlee, and later the Conservative government under Sir Winston Churchill, endorsed the non-membership policy (Ruane 2000: 27–28). Yet, the EDC signatories and the British government agreed that Britain should be closely associated with the EDC. An ‘association-not-membership’ formula was developed and foresaw joint security guarantees by NATO and EDC as implying that ‘an attack on one grouping would be considered an attack on the other. This would mean that ... German aggression against France could not be dismissed as an intra-EDC issue from which Britain and the United States ... could remain aloof’ (Ruane 2000: 31). The British government thus agreed to the signing of an Anglo-EDC treaty, which envisaged the provision of automatic military assistance. ‘Anything more’, Foreign Secretary Anthony Eden warned, ‘risked de facto membership of a federal Europe’ (Ruane 2000: 34). This episode supports our intergovernmentalist conjecture for *horizontal* integration: Britain neither opted for membership in the EDC, nor openly opposed the EDC since no sizable negative externalities were expected to incur once the EDC was in place.

Finally, we have to answer the following question: Why was the EDC not ratified by the French National Assembly? Following realist intergovernmentalist reasoning and its corollary, balance of power politics, we argue that the French government preferred military integration (and hence the EDC) over the creation of an independent West German military force (Rosato 2011: 138). Yet, reservations about the EDC Treaty had been voiced in French political quarters even before the ink was dry. From an internal balancing perspective, the EDC could not provide a

guarantee to French policy-makers that Germany would not defect from the agreement. If it did, it would have gained a military that could pose an immediate security threat to France (Rosato 2011: 138–140). From a balancing perspective, then, the most favourable alternative to the EDC for France ‘was to secure a strong American presence on the continent and rearm Germany within the Atlantic alliance system’ (Rosato 2011, 145), implying that both Britain and the USA carried the potential to counter-balance Germany effectively. Moreover, the NATO option implied that France would not have to surrender its sovereignty in military matters. Hitchcock argues that, during the course of only two years, a majority of French legislators and policy-makers came to the assessment that the EDC gave away too much of France’s sovereignty in security and defence affairs (Hitchcock 1998: 5). The French government under Prime Minister Pierre Mendès France thus decided to change track. It sacrificed the EDC by submitting it to a vote it knew would fail, and then presented a solution to the ‘German question’ bringing Germany into NATO while maintaining restrictions and German military capacity and general staff through the extension of the Brussels Treaty Organisation, which subsequently became the WEU. At the same time, this arrangement freed France from the constraints on its military sovereignty that the implementation of EDC would have entailed (Hitchcock 1998: 170; Rosato 2011: 146–147).

Why did the French government alter its assessment of the costs and benefits of supranational integration? Hitchcock emphasizes the importance of geopolitical events in the period between 1952 and 1954. The death of Stalin in 1953 led to hopes about an improvement of East-West relations and ‘slowed progress on the EDC’ (Hitchcock 1998: 182). Another geopolitical development that stalled the EDC and occupied French domestic politics for most of the latter half of 1953 was the rapidly deteriorating military situation of French troops in Indochina, which also led to fears that a new *Dien Bien Phu*, which became emblematic for the French military disaster in Vietnam, could arise in Europe, leaving France defenceless (Hitchcock 1998: 191). As a result, the belief that the EDC was the only viable alternative against a resurging German *Wehrmacht* lost appeal and momentum. Prime Minister Mendès France, supported by the British government under Winston Churchill, developed an alternative to the EDC that involved integrating Germany into NATO via the WEU—the fate for the EDC was finally sealed (see Rosato 2011: 142–151).

Liberal intergovernmentalism. According to liberal intergovernmentalism, governments opt for policy coordination when economic interdependence reaches critical levels such that, for example, internationally competitive producer groups push governments to liberalize trade. Following this line of argumentation, domestic interest groups representing the armament industry would push for defence integration if this furthered their economic interest. The empirical record suggests that armament producers played a negligible role, favouring German rearmament and Franco-German cooperation over a supranational defence community, since French industry would lack competitiveness in a supranational arrangement, including a common procurement policy (Rosato 2011: 164–165). This suggests, furthermore, that, in the phase prior to the signing of the EDC Treaty, governments were pressing for defence integration while domestic interest groups were hesitant, which does not permit concluding that they were driving the process of integration. If we extend the interest group argument to a broader domestic politics argument, including key actors in the politico-administrative realm to explain government preferences for security and defence integration, liberal intergovernmentalists would argue that top-level military staff and executive actors in the defence ministries should react to heightened levels of security interdependence in the light of an overwhelming external or internal security threat by supporting EDC. However, it is argued that top-level French military staff did not endorse the supranational EDC solution (Milner 1997).

Turning to ratification failure, the lack of support from the French military is also considered crucial to explain this outcome. Helen Milner argues that ratification depends on the ‘presence or absence of endorsement from important domestic actors’ (Milner 1997: 200) such as well-organized interest groups. In the case of the EDC, domestic actors failed to endorse the Treaty; the French military in particular was ferociously in opposition to the EDC Treaty. This lack of endorsement is considered to be the result of successive French governments’ lack of willingness to make side payments to these actors in an attempt to win the military over to supporting the EDC. Furthermore, mounting divisions inside the French government in the period preceding Premier Mendès France’s lacklustre attempt to ratify the EDC treaty constituted a growing obstacle for successful ratification. In the period 1953–1954, the centre of gravity of the governing coalitions shifted to the right, thereby undermining the parliamentary majority in the National Assembly in support

of ratification (see Milner 1997: 197–200). In sum, neither domestic interest groups nor critical levels of security interdependence were decisive in explaining the French government's push towards EDC. When it comes to explaining why the Treaty failed to be ratified in France, Milner cites, *inter alia*, the lack of interest group support and the importance of coalitional shifts, which made the ratification outcome less likely. These arguments offer support for a liberal intergovernmentalist interpretation of ratification failure.

Supranationalism

Supranationalists argue that the main factors driving European integration are the scope and intensity of transnational exchanges, as well as the preferences and capacity of supranational actors to advance an integrationist agenda in a given policy area.

- Supranationalists expect that the push for security and defence integration originates from transnationally operating defence industry actors who see benefits in the creation of a common market for armaments production by exploiting economies of scale and enhancing their profitability.
- Furthermore, the logic of functional spillover leads supranationalists to expect that there will be a demand for further integration if the gains resulting from integration in a particular policy sector remain sub-optimal, unless adjacent policy sectors will also be integrated. This logic implies that integration of the coal and steel sectors, which had been launched only a few months prior to the presentation of the Pleven Plan, should have had a formative impact (spillover) on the debate to integrate national defence policies and forces.
- Moreover, supranationalists expect that the pro-integration preferences, decision-making capacity, and the discretion of supranational actors promote security and defence cooperation.

The empirical record suggests that none of these factors has been decisive in explaining the success and failure of the EDC. First, in the decades following World War II, market liberalization in the area of defence was an anathema, since defence firms were state-owned and, hence, dependent on their governments to build up and support national armaments

programmes. Lacking opportunities for, and incentives to engage in transnational exchange, the defence industry did not press domestic or supranational policy-makers to promote European-wide market-making measures (institutional spillover). As we will show, this situation began to change once the Cold War came to an end (Fligstein 2008; Mörtz and Britz 2004). Second, the logic of functional spillover is not instructive in accounting for the rapid move from integration in the coal and steel sectors to a common defence policy and army. It is not clear, theoretically, why and how the benefits from integrating national coal and steel markets would remain suboptimal unless the member state governments of the prospective ECSC created a common multinational military force. Empirically, we have illustrated above that the French government was pressing for the EDC once German rearment became imminent following the outbreak of the Korean War in June 1950. The French government was at pains to define an initiative that would be in sync with its security concerns. The parallel discussions on the ECSC did not affect the initial decision to launch the Pleven Plan. Third, given that the ECSC organs had not even been decided upon when the Pleven Plan was issued (let alone operational), supranational actors, such as the High Authority and Common Assembly, could not take any initiative to press for further integration in new policy sectors.

Constructivism

In contrast to intergovernmentalism and supranationalism, constructivism stresses the primacy of ideational structures over material (economic and geopolitical) structures and emphasizes that social action follows a ‘logic of appropriateness’, based on shared ideas, values, and identities, rather than a utility-maximizing ‘logic of consequences’. Unlike intergovernmentalism and supranationalism, constructivists argue that social interactions can have a transformative impact on actors’ ideas, preferences, and identities through learning, persuasion, and socialization. What expectations can we derive from constructivism with regard to the success and failure of the EDC?

- The initial success of the EDC should reflect an ideational consensus of pro-European ideas for a common defence policy among the governments negotiating the EDC Treaty. This consensus is based

on the notion that a European approach—the creation of a multi-national military force with a supranational decision-making structure—is the most appropriate way to cater for collective security in Western Europe.

- Conversely, the failure to ratify the EDC is the result of a weakening of this consensus, which is due to weak supranational institutionalization of ideas promoting a common European approach to defence.
- The incompatibility between domestic and community ideas accounts for the British government's reluctance to subscribe to the supranational defence arrangement in the first place.

Whereas realist intergovernmentalists see the initial move towards EDC as a response of policy-makers to shifts in the geopolitical environment and heightened levels of security interdependence, constructivists conceptualize elite agreement on the EDC as the expression of an ideational consensus among key policy-makers. Even though a ‘community environment’ with supranational decision-making structures was absent prior to the setting up of the ECSC, informal transnational policy networks have played an important role in promoting an ideational consensus on the quality and substantive form of European integration (Kaiser 2007; Fleischer 2015). Crucial for the success of the integration process in its formative years were the leaders of political parties in Europe, who operated transnationally and shared the same ideological affiliation: ‘Only they could use the various channels to translate transnationally deliberated and negotiated ideas and policies into national governmental policy-making and European-level decision-making’ (Kaiser 2007: 8–9). According to Kaiser, Christian democratic parties assumed a ‘hegemonic’ position in shaping the European integration agenda, and in forming a consensus on the nature and form of European integration in the post-war era (Kaiser 2007). In the early 1950s, Christian democrats were the dominant political party in the ECSC founding states—with the exception of France, where the electoral support of the *Mouvement Républicain Populaire* (MRP) was in steady decline. Congruent with our constructivist expectations, Kaiser argues that the glue for transnational cooperation between Christian democrats was a shared ‘ideological predisposition’ (Kaiser 2001; Fleischer 2015) that helped spur supranational integration in Europe. Post-war Christian democrats throughout Western Europe shared a set of beliefs, most notably the perceived necessity to contain

the destructive power competition among nation-states, that sat well with the notion of European integration. Via the informal Christian democratic transnational party network, which regularly assembled top-level politicians, the Christian democratic political leadership—dominated by Konrad Adenauer, Robert Schuman, and Alcide De Gasperi—was in a position to set the policy agenda on matters of European integration (Kaiser 2007; Kaiser and Leucht 2008: 39–42). The transnational network of party officials, which transcended the Christian democratic party family, effectively functioned as a site of transnational socialization, pushing the European project down a federalist route: ‘The EDC project had brought together transnational Christian Democrats, Social Democrats, Federalists, and ... had produced a nascent federalist moment that sought ... [to] create a European constitution ...’ (Fleischer 2015: 332). With some of the major actors in this transnational network occupying government positions, the six ECSC founding members signed the EDC Treaty in 1952, only to shelve it two years later after it had failed to be ratified by France. Why?

To explain the failure of the EDC from the purview of constructivism, the federalist ideas promoted by the transnational network of party officials failed to resonate with the ideas of powerful French domestic actors, which were able to block the route to integration. According to Craig Parsons, there was no domestic consensus on how France’s security concerns should be best addressed: ‘Take two French diplomats, with similar social backgrounds and party sympathies, in the same office of the foreign ministry in 1950. One insists on French interests in a new “supranational” Franco-German federation; the other sees French interests in policies based on an informal partnership with Britain. These similarly placed individuals face *all* the same objective pressures but seem to interpret them differently’ (Parsons 2002: 51, emphasis in the original). Different ideas about European institution building were all viable in the domestic political debate in France (Parsons 2002: 57–58; Ruane 2000: 19). Forming a supranational military force was by no means the ‘natural’ response to this challenge: ‘All else equal, the French were selecting between outcomes as divergent as a European Army and simple German entry into NATO’ (Parsons 2002: 63). Consequently, the lack of domestic consensus in France in favour of the ‘community’ solution, combined with endemic government instability and the electoral resurgence of Communists and Gaullists, which rejected the EDC outright,

Prime Minister Mendès France pulled the plug on ratification in August 1954.

How do constructivists approach the question of *horizontal* integration, i.e. British reluctance to sign up to the EDC? The situation in the UK was characterized by the existence of a strong domestic consensus, which was sceptical of supranational or even ‘federalist’ experiments (mirroring the British domestic debate on the ECSC) and which touched upon key tenets of what policy-makers came to construe as British political identity. The federal conception of European cooperation and integration, the fusing of domestic sovereignty, the autonomous decision-making capacity of supranational organs—all of these notions were an anathema to the vast majority of British policy-makers and public opinion alike. As Anthony Eden (Foreign Secretary under Prime Minister Winston Churchill) was reported to have said, even though Britain supported the continental states in their efforts to bring the EDC to life, joining the EDC was ‘something we know, in our bones, we cannot do’ (cited in Ruane 2000: 22). The principled objection against supranational integration is often cited as a sufficient cause for the government to reject EDC membership (Ruane 2000: 22). Other factors, as we have seen in the previous section, are more in line with intergovernmentalist expectations, as they link the government’s security interests with ‘Britain’s position as a world power with extensive overseas commitments to uphold, an important relationship with the Commonwealth to maintain and a central position in the Sterling Area to protect’ (Ruane 2000: 22). Hence, constructivism and intergovernmentalism both offer plausible conjectures about Britain’s reluctance to join the EDC: a strong and principled ideational consensus among domestic elites and the public alike against subscribing to a federal Europe, buttressed by geostrategic (and economic) factors that stood against joining the supranational project. A close association in security and defence matters with the prospective EDC signatories, which eventually resulted in Britain joining the WEU, enabled the British government to maintain its sovereignty for both principled and instrumental rationales.

Postfunctionalism

Postfunctionalism is a theory that highlights obstacles to integration. It should therefore offer insights to the failure of the EDC rather than its

initial success. Postfunctionalists argue that policies with strong connections to notions of national identity and self-determination are most likely to be politicized and thus domestically contested. As a result of domestic politicization, national governments are increasingly constrained to negotiate pro-integration policies. What expectations can be derived from postfunctionalism about the fate of the EDC?

- Since defence is a policy that is at the heart of national self-determination, it became politicized and political parties sceptical of European federalism framed EDC as a threat to national identity. As integration-sceptic parties make electoral inroads, governments are increasingly constrained, which renders non-agreements on the European level more likely.
- The initial success of the EDC follows the constructivist expectation that the existence of a consensus among political elites on supranational defence integration, who managed to insulate their deliberations from domestic debate and contestation, led to the adoption of the EDC Treaty.

While the literature holds that the politicization of European integration is a phenomenon that took off with the major integration advances of the 1990s, we should not forget that the early years of the integration process exhibited strong politicization, too. The question of a common European army should be a politicization catalyst *par excellence* for it can be easily construed as a threat to national identity and self-determination. As such, this issue should place integration sceptical parties in a favourable position to increase the salience of the issue and mobilize popular opposition. This is what happened in France and gave the EDC's its final blow. We have already seen in the previous section on constructivism that domestic contestation over the appropriateness of a European solution in defence matters characterized the political debate in France. What is more, activists from political parties rejecting federal solutions at the European level framed the EDC as an 'identity issue' by appealing to fundamental domestic (instead of European) community values, and by depicting the autonomy of the French army as symbol of national independence. This raised the salience of European defence integration in domestic politics, arousing hefty and passionate debates in the political and public arenas. Pro-European and anti-European camps formed

and confronted each other. While the former pleaded for the formation of a European state to overcome national idiosyncrasies and lay the foundation for a European identity, the latter continued to see the nation-state as focal point for identity constructions and the sole legitimate carrier of national sovereignty (see Parsons 2003: 82–83). These findings lend support to the expectation that policies construed as identity issues mobilize domestic opposition to European integration. Maurice Faure, a pro-EDC politician, illustrated this point vividly: '[W]ith the EDC we were stirring up sacred things: the flag, the blood' (cited in Parsons 2003: 82). The final vote in the National Assembly, which brought the EDC to its fall, was even characterized to have taken place 'in a near-hysterical atmosphere' (Parsons 2003: 80). It is thus 'unwise to speak of an early "permissive" consensus about the institutional organization of Europe' (Fleischer 2015: 5) in the early post-war period. The 'constraining dissensus' finds symbolic expression in the National Assembly 'when a large portion of the French deputies – Gaullists and Communists alike – [...] proceeded to proudly chant the Marseillaise after the EDC Treaty had been voted off the agenda in August 1954' (Fleischer 2015: 4).

The EDC episode thus shows that postfunctionalism can shed light on one of the major integration projects from the 1950s that ultimately failed. At the time, EU integration did not reflect a 'permissive consensus', but stirred domestic debate and contestation on the role of nation-state in a post-war European political order. The failure of the EDC and federalist ambitions that accompanied it gave way to an integration trajectory that steered free of the potential for electoral mobilization fuelled by concerns about national identity: economic integration exhibited a very different dynamic, characterized by interest group politics and driven by economic and political elites in national capitals but also in Brussels and Luxembourg. Security and defence largely disappeared from the integration agenda, thanks to the integration of Germany into the WEU and, subsequently, NATO. It took several decades for EU security and defence policy to resurface prominently on the agenda of EU leaders.

THE RETURN OF DEFENCE POLICY

Since the failure of the EDC, defence cooperation in the EU context was a non-issue until the 1990s. While NATO dominated the defence plane in Western Europe during the Cold War, the EC member states made

some very cautious moves towards foreign policy coordination and cooperation since the 1970s. The end of the Cold War and the wars in the Balkans were catalysts for the establishment of the CFSP in Maastricht. At that point, defence cooperation and collective crisis management were still considered NATO's *domaine réservé*. Yet, this notion was gradually fading. The Franco-British St Malo summit declaration of 1998 is often considered a breakthrough, since it reversed the hitherto very cautious approach of the EU towards defence policy by calling for the establishment of military capabilities for autonomous action. Since St Malo, the EU has forged an institutional apparatus to engage in effective crisis management, installed rapidly deployable EU battlegroups, and supports defence capacity building by cultivating an infrastructure for defence research and development. How can we explain this gradual shift, which is reflected in cautious moves towards enhanced *vertical integration*? The move towards closer defence cooperation has produced only one case of an EU member state deciding to opt out from the treaty provisions pertaining to security and defence: Denmark does not partake financially or operationally in any EU-sponsored actions and missions that carry defence implications. Despite the St Malo breakthrough, the UK has proven reluctant to play an active role in EU missions and in developing EU capabilities since then. What impact is Brexit likely to have on CSDP?

Intergovernmentalism

What expectations can we derive from intergovernmentalism to account for the St Malo initiative and the subsequent advances in defence integration?

- According to intergovernmentalism, the French and British governments expected positive economic or security externalities to accrue from extending integration to the defence field. More concretely, intergovernmentalists expect governments to alter their stance towards defence cooperation as a result of external events or geopolitical shifts that threaten to undermine domestic security or autonomy.
- With regard to *vertical integration*, why did decision-making remain predominantly intergovernmental? Intergovernmentalists argue that the preferred level of pooling and delegation depends on the value

governments place on the issues and substantive outcomes in question, and on their uncertainty about the future behaviour of other governments. If concerns about other governments' opportunism are limited, and if governments can conceive of beneficial alternatives, the willingness to cede competences to the EU-level diminishes.

- With regard to *horizontal* integration, intergovernmentalists argue that opt-outs or arrangements for 'enhanced cooperation', such as PESCO, can be accounted for by variation in state preferences and to their level of interdependence. Differentiation can be easier agreed upon if it produces no, or only very few, negative externalities.

Realist intergovernmentalism. Barry Posen (2006) and Seth Jones (2007) address these questions from the perspective of realist intergovernmentalism. Both argue that the EU's choice to enhance integration in the area of defence is a response to the demise of 'bipolarity' after the end of the Cold War and the emergence of a 'unipolar' system dominated by the USA. Even though Europe's power position improved following the political transformations in the Soviet Union and its former satellite states, the power position of the USA improved even more: 'Europe is collectively much stronger relative to Russia now than it was; it is weaker relative to the United States than it was' (Posen 2006: 153). Changes in relative power positions generate uncertainty among the weaker states on how the stronger states will deploy (or not deploy) their superior capabilities. This does not necessarily imply that the greatest power will pose a direct military threat to the weaker states: it may simply mean that the weaker states are increasingly uncertain about the intentions and plans of the stronger states as the latter's options increase with superior power capabilities. Posen (2006) and Jones (2007) claim that the status of the USA as leading world power makes it 'an unreliable partner' for European states and their ambitions in the field of security and defence. This is not because Europeans fear that the US government garners malign intentions towards them. Rather, European states are motivated to improve their military capabilities in ways that make them less security dependent on the USA to meet their imminent security threats, i.e. political instabilities in its immediate neighbourhood, such as the recurrent crises in the Balkans or the prospect for crises in North Africa (Jones 2007: 182, 197).

The response realist intergovernmentalists thus expect from European states is one of ‘soft’ or ‘weak’ *external balancing* against the stronger state, the USA, by building up capabilities and by forming a balancing alliance (Posen 2006: 184; Jones 2007: 198–200). To overcome security dependence on the USA, ‘unilateralism’—i.e. relying on, or building up, national military forces—is not seen as an option, as this would perpetuate the security dependence on the United States of the major European powers. The same holds for exclusive reliance on NATO. And, indeed, with the USA shifting its focus on other regions in the world, such as Asia and the Middle East, and given its increasing reluctance to deploy troops to ‘small-scale problems in Europe’ (Jones 2007: 198), continued reliance on the USA through NATO was a worrisome prospect in the eyes of European governments. In fact, NATO operations in Bosnia and Kosovo have highlighted a rift in security interests between the USA and European powers. While the former did not consider the Balkans to be of strategic importance, which was reflected in US unwillingness to commit ground troops, European states were ill-equipped in military terms and politically not in a position to go it alone. This left a third, *European*, option to lessen security dependence on the United States. Realist intergovernmentalists see the EU’s ‘return to defence’ in this light. The Franco-British St Malo summit meeting ‘jumpstarted the construction of European Union military forces that could act independently of NATO and the United States’ (Jones 2007: 200). The rise of China and the growing assertiveness of Russia have accelerated these developments. Even before Trump was elected president, the US’ commitment to Europe has gradually waned. The US’ entanglement in the Middle East had already put a wedge between the US (as well as the UK) and several European NATO members. Under the Obama administration, Asia has become a focal point of US security interests. St Malo was a response to the realization that strategic objectives of the US and EU member states were parting ways. The changes of the EU’s security environment since then have buttressed the trajectory that the EU has little choice but to assume more responsibility to meet its own security interests (Walt 2017). The result has been, *inter alia*, the gradual build-up of ‘low-end’ military capacity to respond to the threats faced by European states: humanitarian disasters and conflicts in Europe’s immediate vicinity. European states decided to create a rapid reaction force and rapidly deployable battle groups, together with a political-military structure to decide on, implement, and command peace-keeping and humanitarian operations headed

by the EU. More recent initiatives, such as the European Defence Fund and the ‘awakening’ of PESCO, tie in with these capacity building developments, which mark cautious steps towards more strategic self-reliance on the part of the EU (see Box 9.2 for more details on PESCO).

This move towards capacity building seems to stand in stark contrast to the EU’s military (non-)reaction to Russia’s assertiveness and aggression towards the Ukraine. For realist intergovernmentalism, the Russian attack on the Ukraine should have prompted a counterbalancing response on the part of the EU. While the Ukraine crisis had some effect on the building up of military capabilities in the EU (Schilde 2017), it was both the lack of a coherent EU strategy towards the Ukraine as well as Russia’s ability to feed off disagreements among EU member states, which thwarted an effective counterbalancing response and thus a move to go beyond economic sanctions (Howorth 2017). As result of its inability to act strategically, the EU inadvertently had to take recourse to bandwagoning, placing the onus to come up with a military strategy and response on its alliance partners in NATO and hence predominantly on the US.

Box 9.2 Permanent Structured Cooperation (PESCO)

The instrument referred to as “permanent structured cooperation” (PESCO) was introduced in Article 42(6) of the Lisbon Treaty, which entered into force in 2009. The objective of PESCO is to allow a subset of EU member states to forge ahead in those aspects of defence cooperation, which are geared towards joint planning, investment, development, and operation of defence capabilities in the EU. The capabilities developed through PESCO projects shall be put to effective use in missions and operations directed by the EU, but also by other multinational organizations, such as NATO or the UN, in which EU member states participate. PESCO is open to all EU member states willing to sign up to binding commitments, which include pledges to increase defence spending, to enhance the interoperability of their respective forces, to promote military specialization to avoid redundancies, a commitment to partake in the development of joint equipment programs, and to prioritize a multinational approach to defence over unilateral operations. Every year, each participating PESCO member draws up

and presents a National Implementation Plan, which details how these commitments ought to be met. Since PESCO self-describes as “member states driven” (<https://pesco.europa.eu>), the review process is predominantly inter-governmental, since only the Council can ultimately decide on the suspension of a PESCO member state. Following the entry into force of the Lisbon Treaty, PESCO laid dormant until the adoption of the EU Global Strategy in 2016, which provided newfound momentum. In 2017, France and Germany were among a small group of EU governments pressing for the launch of an “inclusive and ambitious” PESCO. 25 member states heeded to this call and established PESCO through a Council decision in 2017. Denmark, Malta, and – prior to Brexit – the UK decided not to participate. PESCO is not only member state driven, but also project driven. Since its launch, the Council, in its configuration of PESCO member states, has adopted dozens of capability-driven projects, e.g. to develop joint military equipment, and operational projects to improve the EU’s intervention capacity, which includes projects for joint training, and the provision of information and logistic hubs. One area of increased activism relates to countering cyber threats. For instance, the EU Cyber Academia and Innovation Hub is a PESCO project to install a center for training and education in cyber defence and cyber security.

Liberal intergovernmentalism. To account for advances in integration, liberal intergovernmentalism points at the importance of heightened levels of interdependence and preference convergence among member state governments. Contrary to the realist intergovernmentalist argument, European security dependence on the US did not trigger an external balancing strategy, since the US neither constituted a security threat nor was it a security competitor to the EU. Instead, the US gradual military disengagement from Europe and the reorientation of the US’ strategic objectives generated negative security externalities for EU member states. Security dependency on the US was simply no longer an option. German Chancellor Angela Merkel and French President Emmanuel Macron have thus repeatedly demanded that Europe be the master of its own security fate and acknowledge the change in strategic objectives on both

sides of the Atlantic. Advances in military capacity building, the rationalization of military procurement, as well as possibilities for ‘enhanced cooperation’ through PESCO are a form of internal differentiation within NATO, which are neither directed against the USA nor NATO, but are responses to negative security externalities that result from negative interdependence: a widely shared worry among EU member states about US abandonment. Conversely, unless the move towards more defence integration in the EU creates negative security externalities on the part of the US, it should welcome these developments.

From an intra-EU perspective, the UK’s limited commitment to the ESDP in the years since St Malo highlights, from a liberal intergovernmentalist perspective, that preference heterogeneity among EU member state governments stood in the way of deeper EU integration in the field of security and defence. Brexit, according to some observers, could thus help unleash previously blocked attempts at cooperation: The creation of an EU Military Headquarters to command non-executive military missions, the European Defence Fund (EDF), PESCO, an annual review of national defence spending, have previously met with UK resistance, and have all been launched in the wake of Brexit (Martill and Sus 2018).

Despite these advances, security and defence policies continue to be characterized by low levels of vertical integration, i.e. intergovernmental decision-making. According to liberal intergovernmentalism, decision-making structures tend to remain intergovernmental when governments place a moderate value on substantive cooperation, and do not have to fear non-compliance by other governments. When debating the EU’s security and defence policy in the late 1990s, EU governments were less concerned with the potential for opportunism or non-compliance of their European partners than with the potential governance costs associated with establishing and running new institutions, and deploying EU-specific military assets (Weiss 2011). France, for instance, ‘was faced with a low level of opportunistic risks’ emanating from either Germany or the UK (Weiss 2011: 160). A low risk of opportunism implied that France did not wish to bind Germany and the UK more strongly in institutional terms (which would have implied relinquishing unilateral control of security and defence policy-related decisions). However, when the ESDP was actually established in the period between 1998–1999, the French government harboured some concerns ‘about potential exploitation by Germany and sudden abandonment by a Britain that would in the end side with the Americans rather than Europe’ (Weiss 2011:

166). This prompted the French government to demand more binding commitments and agreements with its partners.

With Brexit, concerns about abandonment have largely abated, and concerns about opportunism and free-riding can be potentially better met through instruments that allow for internal differentiation, such as PESCO. While putative free-riders cannot be excluded indiscriminately, several member states, including France and Germany, have insisted on defining a list of commitments which all participating countries need to sign up to. These relate to, among others, overall levels of defence spending or regular support of collaborative projects to enhance the EU's defence capabilities. Moreover, each participating state's commitment is being regularly reviewed and evaluated—what amounts to weak supranational monitoring. PESCO is thus not only an example of moderate vertical integration, but of internal (horizontal) differentiation: Its launch in 2017 is partially as a response to Brexit, whereby preference heterogeneity among EU member states in security and defence matters diminished. In security and defence, internal differentiation is not a novelty, however. As we have already seen, Denmark has opted-out from policies with security and defence implications. For liberal intergovernmentalism, internal (horizontal) differentiation should be easy to negotiate, absent negative security externalities. This offers a plausible explanation for the Danish opt-out, since EU defence policies have no negative effects on Denmark, and Denmark's opt-out equally does not generate negative externalities for the EU. Even if the Danish opt-out would be conceived of as free riding, since the EU provides the collective good 'security', institutional factors can affect the bargaining power of the 'free rider' making differentiation easier to negotiate: For example, high ratification constraints, such as the credible threat of holding (and losing) a referendum may compel the other EU member states to consent to differentiation, rather than jeopardizing defence integration altogether. The Danish opt-out, which it obtained following a failed referendum campaign, can be accounted for in these terms.

Supranationalism

Supranationalists attribute importance to transnational and supranational actors in advancing integration. Against the backdrop of the prevalence of intergovernmental decision-making in security and defence, what

expectations for the development of the ESDP can we derive from supranationalist integration theory?

- Given the limited decision-making capacity and discretion of the Commission, the European Parliament, and the Court in the area of security and defence, we expect the impact of supranational actors on advancing integration and exploiting spillover potentials to be rather modest.
- Integration can also be spurred if transnationally operating defence firms have an interest in expanding the reach of supranational rules. Transnational actors, such as business corporations in the defence industry sector, tend to push for further integration if they expect to benefit from the creation of common European forces and an EU-level policy for military procurement.

What is the contribution of supranationalism in explaining the establishment of a European defence policy at the turn of the century? Does it shed light on more recent developments in the wake of Brexit? The literature suggests that some of the factors crucial for European integration to unfold its transformative impact, while absent in the 1950s, are more prominent some fifty years later. For example, supranational actors, such as the European Commission, have begun to press more strongly for integration in the field of security and defence policy. The Commission has been actively exploiting its competences ‘in the slice of defence that is linked to the common market, trade, procurement and co-operation within the armaments industry’ (Ojanen 2006: 65). To the degree that the Commission can exploit existing treaty prerogatives, it will push for expanding its competencies in adjacent areas (institutional spillover). The Commission has been active in activating its competencies pertaining to the realization of a common market to make inroads in the area of defence procurement, an area shielded from international competition, given distinct national security concerns and agendas. According to Ulrika Mört (2003), the creation of a common market for armaments was precisely what the Commission had planned and pushed for since the mid-1990s. Politically and discursively, the Commission attempted to impose a ‘market frame’ onto defence policy to exercise influence in an area that has ‘traditionally been framed as a ... security issue’ (Mört 2003: 84). Akin to the Commission’s role in promoting the SEA, the

objective pursued by the Commission in the area of armaments is to establish a common set of rules and standards within the defence industrial sector, and to establish a more coordinated European industry policy in this area.

Blauberger and Weiss (2013) have shown that the Commission has been able to push through a directive on EU defence procurement against strong member state opposition. The Commission was able to overcome member state opposition by invoking the threat that the regulation of defence procurement would be left to the ECJ and its case-by-case jurisdiction, and promised legal certainty and modicum of member state control if EU legislation was passed. By exploiting its competencies in the realm of market integration, the Commission was thus able to make inroads in the EU-wide regulation of the defence sector, a strategy that the Commission also applied in challenging of national defence offsets (Blauberger and Weiss 2015). In the area of defence funding, it was also the Commission's political entrepreneurship, which offered a solution to member states' underinvestment in collaborative defence research and development (Haroche 2020). The creation of the multi-billion EDF was proposed by the Commission with the objective to fund defence research and assist member states in co-financing cooperative ventures in the field of military technology. Using budgetary competencies as a source of investment, the Commission (and the European Parliament) were able to expand their competencies to an area from which they are otherwise excluded.

Closer cooperation and integration in the area of military procurement as well as defence research and development can be seen as a response to the rising demand for multinational and multi-functional military forces, which has been triggered by the changing geopolitical context after the end of the Cold War. Recent crises in the EU's neighbourhood (such as in Libya, Syria, the Ukraine) and uncertainty about US commitment to NATO have acted as catalysts, which the Commission instrumentalized to push cooperation on defence matters by employing its common market and budgetary prerogatives. The Commission was skilful in depicting cooperation among national defence industries as a necessity, given under-investment due to constrained defence budgets, and the demand for interoperability and standardization to act effectively in a military context. Fifty years after the failure of the EDC, the renewed emphasis on defence capacity building and common rules for procurement has been received very favourably by the defence industry, which has supported the creation

of the EDA, the EDF and is a strong supporter of ESDP and a staunch ally of the Commission in its intent to promote multinational projects for military procurement—such as the transport aircraft A400M, or the Galileo positioning system (the European response to the US-developed GPS) (see Mérard 2008: 142–143, 146; see also Fligstein 2008).

Constructivism

The expectations that can be derived from constructivism to account for the development of the ESDP can be summarized as follows:

- Advances in defence integration result from the emergence of an ideational consensus among the member states governments pressing most vehemently for enhanced defence cooperation in the EU. The emerging ideational consensus is, *inter alia*, the result of socialization among the actors involved most closely and frequently in EU foreign and security policy cooperation. Successful integration contributes to the further institutionalization of shared ideas on the desirability and institutional design of a common European defence policy.
- Opt-outs from individual countries in defence cooperation reflect the strength of these countries' (exclusive) national identity and a lack of commonality and compatibility of domestic with European policy ideas. Similarly, constructivists see the establishment of the opportunity for enhanced cooperation, such as PESCO, as a consequence of an increase in the variation of the strength of national identities and strategic cultures.

For constructivists, progress of integration in the area of defence should be driven by an ideational consensus on common security and defence ends and means. The low level of vertical integration in the realm of security and defence is thus due to variation in domestic ideas or belief systems. Christoph Meyer's work focuses on differences in domestic 'strategic cultures' and argues that 'national security and defence policies rest on deep-seated norms, beliefs and ideas about the appropriate use of force' (Meyer 2005: 523). Scholarship has explored whether, and under what conditions, differences in national strategic cultures persist, or converge, towards a *European* strategic culture (Meyer 2005), or the

formation of a European ‘defence field’ (Mérand 2006, 2008) replacing or complementing different national defence fields. European defence policy continues to represent a ‘conflict of visions’ and ‘state traditions’: ‘For the French, ESDP must lead to European *defence*; for the Germans, it serves to further European *integration*; for the British, it must remain a *policy*’ (Mérand 2008: 141; emphasis in the original). Similarly, Stephanie Hofmann (2013) argues that the ideologies of political parties are of central importance to analyse the beliefs and values that governments hold and pursue with regard to a *European* security and defence policy.

Given differences in domestically-held ideas, how can the move towards ESDP and the moderate deepening of integration be explained? Since the ideas that underwrite national security cultures tend to be relatively stable by definition, how likely is their convergence? And, once we observe convergence, what are the mechanisms underpinning this process of convergence? In her work, Stephanie Hofmann focuses on three important intergovernmental bargains, which capture the development of the EU’s security and defence policy: including the creation of a weak CSFP at Maastricht until the creation of ‘robust European security institutions autonomous of NATO’ at the turn of the millennium (Hofmann 2013: 11). The main driver of vertical integration, for Hofmann, was the congruence of the ideologies of parties in government, most notably in France, Germany and the UK. The creation of ESDP thus ‘reflected values shared by Labour, the RPR, and the SPD around the role of multilateralism in security policy, the place of their respective states within Europe, and intergovernmental rather than supranational institutions’ (Hofmann 2013: 6).

Other scholars have zoomed into the workings of EU institutions in the security and defence field to explore processes of socialization and the institutionalization of pro-European ideas. The high frequency and density of interactions of defence officials and diplomats, with decades of experience in NATO and the European foreign and security policy context, has been prompted socialization dynamics, fostering a common European strategic outlook. Several scholars underline that there is a ‘growing acceptance for the EU as a framework for defence cooperation at the level of high officials’ and emphasizes ‘the power of such committees to exert conformity pressures on newcomers to support the overall thrust of ESDP’ (Meyer 2005: 536.) Mérand, for instance, argues that a small group of defence officials from the different EU member states formed an ‘epistemic community’, sharing a common set of objectives

and views about European defence, i.e. on the type and nature of security challenges, and the role of the state in matching these challenges (see Mérard 2008: 143–144). This assessment is echoed by Davis Cross (2011, 2013) who shows that integration in the area of security policies results from the formation and influence of knowledge-based networks composed of ambassadors, military officials, scientists and defence experts, who are socialized in a common professional culture and possess the ability to arrive at a reasoned consensus. Howorth (2012) comes to a similar conclusion when he stipulates many decisions in the EU's security and defence institutional apparatus involve relatively small groups of highly socialized national government and military officials with a demonstrated sense of consensus-seeking, a mode he describes as 'supra-national intergovernmentalism'. Analysing the wide range of civilian and military operations that are part of the EU's crisis management, Michael E. Smith shows that the officials engaged in crisis operations engage in 'circular learning-by-doing processes' (Smith 2017: 21), whereby particular experiences emerging from individual operations are reflected and practices gradually institutionalized, which, in turn, enhances the EU's overall capacity in the area of security and defence. In sum, there is wide and detailed evidence that domestic military and defence officials, through their frequent interactions with their counterparts from other EU member states, have become heavily socialized and their outlook on matters of security and defence decidedly Europeanized. Even though decision-making remains heavily intergovernmental, the outlook of domestic officials working in the EU's security and defence apparatus exceeds the smallest common denominator, in spite of formal consensus requirements.

Constructivist explanations for internal (horizontal) differentiation point to variations in national security identities in general, and the incompatibility between domestic and European ideas and identities in particular. Analysing the Danish opt-out from a constructivist perspective suggests that it has to be traced back to ideas that are sceptical of EU integration in general, and EU defence integration in particular (Olsen 2007). The domestic discourse on European security and defence cooperation in Denmark highlighted the incompatibility between the domestically held (majority) view that the integration project is, first and foremost, an economic enterprise, and the EU's attempt to develop a common security and defence-strategic outlook. From a constructivist perspective, providing for the possibility of 'enhanced cooperation'

acknowledges both the differences in national identities, which stand in the way of developing a common strategic outlook, while—at the same time—emphasising that some EU member states want to pursue closer ties based on shared identities (see Hofmann and Mérard 2020).

Postfunctionalism

From a postfunctionalist perspective, the ‘relaunch’ of defence policy at the turn of the millennium and its trajectory towards increased internal differentiation with continuing low levels of vertical integration should be reflected, first and foremost, in the politicization of security and defence policy.

- Since defence is a policy that is a core state power at the heart of national sovereignty, it has the potential to become politicized and its integration portrayed as a threat to sovereignty and national identity.
- Low levels of vertical integration imply that the potential for politicization remains limited. In turn, more ambitious defence projects increase the possibility for politicization in member states where Eurosceptic attitudes are strong and where challenger parties can successfully mobilize Eurosceptic voters.

Compared to the integration of other core state powers analysed in this book, such as monetary policy and internal security policies, (external) security and defence policy has been strikingly ‘low profile’. The common professional outlook of security and defence officials, described in the previous paragraphs, appears to align well with broader socio-political developments that helped construe defence as an area of ‘low politics’. Many countries have abandoned the era of conscription and declared the era of territorial defence as terminated (see Ojanen 2006, 63). Studies in public opinion have also underwritten the claim that defence has come to be less perceived as a key part of national identity, and is compatible with a European vocation (Schön 2008). Moreover, the low level of vertical integration—the intergovernmental quality of CSDP decision-making—shields security and defence policy issues effectively from politicization, since every member state can protect its idiosyncratic interest and objectives. Yet, the EU’s intensification of security and defence policy in the wake external security challenges and internal crisis,

such as Brexit, also begs a potential for increased politicization. Some of the EU's crisis management operations in the context of the 'refugee crisis', its (non-)response to the conflicts in the Ukraine, Libya, Syria, or the more recent launch of PESCO have produced public reactions and, at times, considerable backlash. Barbé and Morillas (2019: 759) posit that 'the contestation of foreign policy issues and an adverse international environment signal an emerging politicization of EU's foreign and security policy. The contours of EU foreign policy are rapidly changing and, with them, the emerging politicization of this area of EU integration.'

What are the implications of the politicization-potential of the CSDP for vertical and horizontal integration? Even though the adoption and implementation of the EUGS was highly politicized, since it touched upon controversial issues such as migration, this did not prevent EU member states from welcoming and adopting various initiatives, such as the EDF, the re-enforcing coordination of the EU's crisis management missions, or more flexible, project-oriented cooperation through PESCO. From this purview, the politicization of security and defence policy did not stand in the way of a renewed institutional dynamic in this area (Barbé and Morillas 2019).

Research on political parties' stance on issues pertaining to the EU's security and defence policy highlights the potential for political contestation of security and defence policy issues in general (Hofmann 2013) or of military missions in particular (Wagner et al. 2018). Exploring the conflict structure of security and defence policy, Angelucci and Isernia (2020) find that the political conflict lines between political elites and the public are disjointed. On the elite level, the main cleavage is between left and right; on the mass level, positions on CSDP do not neatly map on the left-right or pro-anti EU cleavages, yet they are more polarized, a situation which could be exploited by political entrepreneurs critical of the CSDP. At the same time, Angelucci and Isernia (2020) also find that radical, Eurosceptic voters are not necessarily following the lead of Eurosceptic parties on matters pertaining to CSDP, opening 'an intriguing possibility that politicization does not inevitably take always an anti-European sentiment' (Angelucci and Isernia 2020: 82).

While research on politicization and integration in CSDP is still in its infancy, we can conceive of postfunctionalist explanations for horizontal differentiation, such as PESCO. The activation of PESCO can be seen as a response to the heightened politicization of security and defence policy issues, which could be fuelled by Eurosceptic parties. It allows

member state governments to participate on a project-by-project basis, thereby avoiding projects with a high prospect of domestic contestation and backlash.

CONCLUSION

This chapter has offered a detailed overview of the differentiated character of European integration in the area of security and defence policy. It also explored the explanatory leverage of different integration theories and hypotheses to explain two important episodes and attempts to form a European defence policy: the EDC, which eventually failed, and the establishment of the ESDP and CSDP, which has led to the establishment of joint security institutions and moderate military capabilities independent of NATO. Table 9.1 provides a summary overview of the main findings of the theoretical analysis of this chapter.

Our analysis has shown that intergovernmentalism, in the form of its realist variant and its emphasis on autonomy concerns and ‘exogenous shocks’, offers a good assessment for the timing of change: The move towards a common army in the 1950s followed the prospect of German rearmament in the wake of the Korean War (internal balancing), and the realization that the Soviet Union was an overwhelming power that necessitated an external balancing strategy. The end of the Cold War also prompted changes in the way EU governments assessed security threats. This led to the creation of a common foreign and defence policy and, following the US government’s shift of attention (away from Europe), left EU states to ponder the development of EU defence capabilities to reduce dependency on the USA and NATO. Yet, intergovernmentalism has a problem in explaining the timing of the St Malo initiative and the concomitant creation and strengthening of EU security institutions. EU member state governments realized in the mid-1990s that they could no longer rely on US commitment, which effectively enabled the EU partially to free ride on the USA deploying troops in the EU’s ‘backyard’. This is where the constructivist emphasis on socialization processes offers explanatory leverage. While intergovernmentalists focus on the material sources of national preferences, constructivists emphasize their ideational foundations. Constructivists have shown that, differences in strategic cultures and security ideologies rendered further integration impossible, as in the case of the EDC, and that it required ideological alignment among the major member states to establish the ESDP at the

Table 9.1 Integration theories and explanations of ESDP

	<i>Intergovernmentalism</i>	<i>Supranationalism</i>	<i>Constructivism</i>	<i>Postfunctionalism</i>
<i>Vertical integration/differentiation: EDC</i>	External balancing (RI) (EDC adoption)		Brittle ideational consensus (EDC failure)	Politicization of EDC in France (EDC failure)
<i>Vertical integration/differentiation: CSDP</i>	Negative security externalities (US abandonment); limited commitment problems (LI)	Supranational activism, spillover only in the area of defence procurement	Ideational consensus; epistemic community of defence officials	Untapped politicization
<i>Horizontal integration/differentiation: Opt-outs; PESCO</i>	More preference convergence; limited security externalities		Domestic ideas and identities	Eurosepticism

turn of the millennium. Once common security institutions are established, constructivists allude to processes of learning (Smith 2017) and socialization through which domestic security and defence officials come to see the EU as the ‘natural solution to their concerns’ (Mérand 2008: 5; see also Davis Cross 2011). Intergovernmentalists and constructivists have also alluded to the factors that help us to explain internal differentiation, for instance, why certain member states choose to opt out from European security and defence policies (Denmark on all defence related matters). Postfunctionalism, in turn, alludes to the potential of politicization of security and defence policies and the impact this may have on vertical and horizontal integration. In France, the EDC was so heavily politicized and led to polarization within and across parties, which ultimately sealed its failure. While politicization of the CSDP is still rather muted, scholars argue that it has politicization potential. PESCO, which is essentially an institutional mechanism to allow for internal (horizontal) differentiation, can be considered an acknowledgement to the forces of politicization, while at the same time, avoiding policy gridlock owing to the unanimity principle. Supranationalists, by contrast, focus on the preferences and capacities of supranational actors to explain integration. While supranationalist actors that could have fuelled change were literally absent until the 1990s, the Commission has gradually and with notable success depoliticized security and defence questions by linking them to ‘low politics’, i.e. market integration, thereby communitizing defence procurement.

SELF-TEST AND DISCUSSION QUESTIONS

1. Defence policy is a ‘core state power’. Why would states contemplate to institutionalize cooperation in matters of defence policy?
2. Why did the original six member states sign the treaty to create the EDC in the 1950s? Why did the EDC ultimately fail?
3. Why is defence policy only weakly integrated (vertically) today?
4. Compare the integration dynamics of internal security policy (AFSJ) and external security policy (CSDP): Why is internal security policy more vertically integrated than external security policy (EDSP)?
5. How does internal differentiation manifest itself in the CSDP?
6. In your view, is horizontal differentiation a workable solution to address the increasing politicization of security and defence policy in the EU?

7. Are the prospects for a joint European army better or worse today than they were in the 1950s?

FURTHER READING

- Angelucci, Davide, and Isernia, Pierangelo. 2020. Politicization and Security Policy: Parties, Voters and the European Common Security and Defense Policy. *European Union Politics* 21 (1): 64–86, is the first study to systematically test postfunctionalist hypotheses to analyze the putative impact of politicization on the integration trajectory of CSDP.
- Blauberger, Michael, and Weiss, Moritz. 2013. ‘If you can’t beat me, join me!’ How the Commission Pushed and Pulled Member States into Legislating Defence Procurement. *Journal of European Public Policy* 20 (8): 1120–1138, adopts a supranationalist perspective to show how the Commission—against the resistance of EU member state governments—used the threat of ECJ litigation to broker a deal on EU defense procurement legislation.
- Hofmann, Stephanie C. 2013. *European Security in NATO’s Shadow: Party Ideologies and Institution Building*. Cambridge: Cambridge University Press, employs a constructivist account to explain the process of integration in security and defense policy from Maastricht to the creation of the ESDP at the turn of the millennium. The key to explain stagnation and advances in vertical integration is the congruence of the party ideologies of the governing parties in France, Germany and the UK.
- Jones, Seth G. 2007. *The Rise of European Security Cooperation*. Cambridge: Cambridge University Press, analyses EU security cooperation from a realist intergovernmentalist perspective, arguing that changes in the international and regional distribution of power against the backdrop of the end of the Cold War have precipitated changes towards deeper security cooperation in Europe.
- Parsons, Craig. 2002. Showing Ideas as Causes: The Origins of the European Union. *International Organization* 56 (1): 47–84 offers a constructivist account, which outlines how competition over different conceptions of Europe structured the domestic debate about EU integration in France in the 1950s.

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CHAPTER 10

The Area of Freedom, Security and Justice

Hardly on the official agenda before the 1990s, the Area of Freedom, Security and Justice (AFSJ)—formerly called Justice and Home Affairs—has since then experienced a rapid integration in vertical and horizontal terms. Formally integrated as the Treaty of Maastricht's intergovernmental third pillar, the AFSJ has, in the meantime, formally reached a level of 4 ('joint decision-making II') on our scale of vertical integration, signalling an important shift from a purely intergovernmental to a community-related mode of decision-making. However, the so-called refugee crisis, after reaching a peak in 2015, has led to a temporal collapse of the system. The key challenges, namely a functioning common asylum system, a safe border control and a fair relocation scheme are still not resolved today. Moreover, the sudden and uncoordinated closure of borders inside the Schengen group during the early phases of the Corona crisis in 2020 has highlighted the system's fragility.

The AFSJ poses intriguing questions for integration theories. Despite relating to core features of state sovereignty, the area since its entry into the treaty framework has exposed some dazzling integration dynamics, including formal and informal (Andersen and Sitter 2006) vertical and horizontal differentiation. In this chapter, we will first outline the development of the AFSJ over time. Given the complexity and diversity of this policy area, we will then concentrate our theoretical analysis on a selection of issues and events relating to the AFSJ. A particular focus of this chapter

will be on the Schengen border regime. For the purposes of this book, ‘Schengen’ is of major interest, since it can be considered a paradigmatic example of external and internal differentiation. Non-EU member states participate in it, while some EU member states have preferred not to join. The UK—when it was still an EU member state—and Ireland have opted out of Schengen, Cyprus has not yet implemented it, and Bulgaria and Romania still have to fulfil the necessary criteria for joining the Schengen group; their interest to join though has diminished over time. At the same time, selected non-EU members, Iceland, Norway, Switzerland, and Liechtenstein have signed and implemented the Schengen agreement. Monaco, San Marino, and Vatican City are de facto participants of the Schengen area. In the following, we will first describe important historical turning points of vertical and horizontal integration as well as differentiation in the AFSJ. We will then turn to the four integration theories and apply them to selected (dis)integration steps related to this area.

THE DEVELOPMENT OF THE AREA OF FREEDOM, SECURITY, AND JUSTICE

According to the Treaty on the Functioning of the European Union, the AFSJ encompasses policies on asylum and immigration, border checks and police cooperation, judicial cooperation in civil matters, and judicial cooperation in criminal matters. Traditionally, such matters were treated as ‘core state powers’ (Genschel and Jachtenfuchs 2014), as they constitute core components of state sovereignty. Providing internal and external security is considered a state’s *raison d’être* at least since the time of Thomas Hobbes. For Max Weber, states possess the monopoly of the legitimate use of violence within their territory. However, with the abolishment of border controls through the Schengen regime, territorial delimitations have become less visible between the (participating) states inside and outside of the EU. While the EU does not contest the role of national police services, there has undoubtedly been a trend towards closer cooperation in internal security matters. By creating the so-called third pillar of Justice and Home Affairs, the Treaty of Maastricht marked an important turning point. Before Maastricht, the policies falling under this heading were only loosely coordinated between the member states and were not formally included in the Treaty framework. Since then formal integration has proceeded from Amsterdam to Lisbon. However, informally the AFSJ has come under heavy attack since the outbreak of

the migration crisis. Today few observers contest that the system is in demand of substantive reforms, while the direction of change remains far from clear. In our historical overview, we will first review the early beginnings of cooperation in matters relating to justice and home affairs. We will then trace the trajectories of vertical and horizontal integration of this policy area from the 1980s onwards.

Early Intergovernmental Beginnings

By 1971, an intergovernmental ‘Co-operation Group to Combat Drug Abuse and Illicit Drug Trafficking’ had been established at the initiative of French President Georges Pompidou. At its beginning, the so-called Pompidou Group united experts from the six EC member states and the UK. Later, it was extended to include more countries and was incorporated into the institutional framework of the Council of Europe in 1980 (note that, because the Council of Europe is a different organization than the EU, the Pompidou group, which currently comprises 41 member states, is not part of the AFSJ). In 1976, the so-called Trevi group was set up by the Interior Ministers of the EC member states as a network of senior police and security officials for coordinating the fight against terrorism. Similar informal groups—such as, for example, the Customs Mutual Assistance Group or the Judicial Cooperation Group—were founded later and paved the way for closer cooperation between national experts.

A significant step towards the establishment of the AFSJ was the signing of an agreement on the gradual abolition of checks at their common borders by the representatives of the three Benelux countries, France, and Germany in the small Luxembourgish town of Schengen in 1985. The European Commission had for some time promoted the establishment of a European passport union but had faced sturdy opposition, especially from the UK and Denmark. Because agreement on an EC-based border system seemed impossible to French President François Mitterrand and German Chancellor Helmut Kohl, they decided bilaterally to facilitate border proceedings between France and Germany in the Saarbrücken Agreement of July 1984. In response to this agreement, the three Benelux countries, which had already removed checks at their common borders in the 1960s, addressed a memorandum to France and Germany demanding the establishment of a common travel area without internal borders. This

was to become the Schengen Agreement (see Gehring 1998). As an international legal agreement, ‘Schengen’ at its inception did not fall under the EC’s competence. In fact, it explicitly sidelined the EC framework.

The implementation of the Schengen Agreement proved more complex than initially anticipated by the signatories, and the Convention on the implementation of the Schengen Agreement was only signed in 1990, entering into force in 1995. In the Schengen Convention, the signatory states decided to abolish the border controls between the members of the Schengen Area, to establish common rules on visas and police cooperation, and to set up the Schengen Information System. In 1997, Austria, Italy, Portugal, and Spain joined the pioneers, to be followed by Greece in 2000 and the members of the Nordic Passport Union (Denmark, Finland, Sweden, Iceland, and Norway) in 2001. In 2007, all accession states from the first round of Eastern enlargement (with the exception of Cyprus) joined the Schengen Area. Switzerland became a member in 2008, Liechtenstein in 2011. Bulgaria and Romania still officially want to join ‘Schengen’, but their access so far has been denied. The UK and Ireland preferred to remain outsiders. Thus, internal differentiation can be due to lack of capacity (with respect to meeting the criteria on the supply side, as highlighted by the cases of Bulgaria and Romania) or lack of willingness (as highlighted, for instance, by the case of the UK).

For Schengen, internal differentiation decreased over time, and the regime even attracted states from beyond the EC. In addition, the Schengen *acquis* was formally incorporated into the EU framework through a protocol annexed to the Amsterdam Treaty. The legal basis for integrating Schengen was established through Art. 2.15 of this Treaty, creating a title on ‘visas, asylum, immigration and other policies related to free movement of persons’. With the entry into force of the Treaty of Amsterdam, in terms of the organizational structure, the Council Secretariat replaced the Schengen Agreement’s Executive Committee. Moreover, the Treaty of Amsterdam granted an opt-out to the UK and Ireland. At the same time, the treaty allowed these countries to opt-in in the future, i.e. to take part in some or all of the arrangements of the Schengen *acquis* after unanimous agreement in the Council by the Schengen member states. Since then complex patterns of integration have developed in this area, analyzed in detail by Tekin (2012) and Adler-Nissen (2014).

Closely linked to Schengen, the Dublin Convention on asylum was signed in 1990, and entered into force in 1997. Dublin represented a decisive, albeit—as we know now—insufficient breakthrough towards the establishment of a common asylum policy. By determining which member state is responsible for processing an asylum claim, the Dublin system is designed as a mechanism to prevent asylum seekers from applying for asylum in various states—so-called asylum shopping. The original Dublin Convention was replaced by the amended Dublin Regulation in 2003, which was replaced by EU Regulation No 604/2013 in 2014, ‘establishing the criteria and mechanisms for determining the Member State responsible for examining an application for international protection lodged in one of the Member States by a third-country national or a stateless person’, also dubbed ‘Dublin III’.

Integration of Justice and Home Affairs into the EU: Maastricht and Beyond

The ‘third pillar’ of the Treaty of Maastricht established the official foundations for the integration of justice and home affairs (JHA). Initially, JHA was designed as a purely intergovernmental policy area. However, by including a so-called *rendez-vous* provision in the Maastricht Treaty, the heads of state and government, at that time, ensured that the institutional framework was to be revisited at the next IGC. In addition, *passerelle* clauses allowed the Council to unanimously shift areas of common interest to the ‘supranational’ first pillar (Title IV EC Treaty). This paved the way for future vertical integration. And, indeed, the provision was used during the Amsterdam IGC when migration, asylum, rights of third-country nationals, external border controls, and judicial civil cooperation were transferred to the first pillar. At the same time, police and judicial cooperation in criminal matters remained in the third, intergovernmental pillar. As already highlighted, in the Treaty of Amsterdam the Schengen Convention and *acquis* were incorporated into the Treaty through a protocol. Further steps towards the creation of the Area of Freedom, Security, and Justice were taken at a special meeting held by the European Council in Tampere in October 1999. In its conclusions to this summit, the Finnish Council presidency identified as the main goals for the development of the AFSJ: the creation of a common EU asylum and migration policy, a genuine European area of justice, and a union-wide fight against crime. The Treaty of Nice further extended the

use of the co-decision procedure in judicial cooperation in civil matters (with the exception of family law) and in issues relating to asylum and the temporary protection of refugees.

In addition, terrorism has become a more pertinent issue for EU cooperation, following the terrorist attacks of New York, Madrid, and London. In 2002, the Council of the EU passed a framework decision on combating terrorism (cf. Kostakopoulou 2006: 245–6). In 2005, in the German town of Prüm, seven member states decided to enhance cross-border police cooperation in order to combat terrorism, cross-border crime, and illegal immigration. The Prüm Convention was modelled on the Schengen experience and constitutes an intergovernmental agreement outside the EU's jurisdiction. Its supporters hoped that the matters falling under the Convention would be incorporated into the EU's institutional framework in the future. The first parts of the Prüm Convention—e.g. information exchange on DNA profiles, fingerprints, and vehicle number plates—became part of the legislative framework of the European Union in 2007, (see Box 10.1 on selected integration steps in the AFSJ).

Box 10.1 Timeline: Integration in the AFSJ

1972	Pompidou Group
1976	Trevi Group
1985	Schengen Agreement
1990	Schengen implementation convention
1990	Dublin convention on asylum
1993	Treaty on European Union: third pillar—Justice and Home Affairs
1999a	Treaty of Amsterdam
1999b	Tampere European Council ('ten 1985 mile stones' towards the Area of Freedom, Security and Justice)
2002	Framework Decision on Combating Terrorism
2003	Treaty of Nice
2004	Hague Programme
2005	Treaty of Prüm
2009a	Treaty of Lisbon
2009b	Stockholm Programme

The European Council's multi-annual Hague Programme (2004) and Stockholm Programme (2009) formulate more concrete goals concerning fundamental rights and citizenship, the fight against terrorism, migration management, (internal and external) borders, asylum policy, data protection, the combat against organized crime, and a European area of justice (cf. Buono 2009). With its focus on cross-border problems, the Hague Programme also upgraded the status of Europol—at that time, still an international organization. First referred to in the Maastricht Treaty and implemented by the Europol Convention of 1995, Europol is the European law enforcement agency based in The Hague, Netherlands. Its role is to support the member states in preventing and combating serious international crimes and terrorism. The 170 initiatives of the Stockholm Programme aimed at an ‘open and secure Europe serving and protecting the citizen’ were endorsed by European leaders in December 2009. With the Lisbon Treaty entering into force, the AFSJ has become Title V of the Treaty on the Functioning of the European Union. Lisbon has further extended the usage of the ordinary legislative procedure in this area; only few exceptions remain with respect to the judicial cooperation in criminal matters. It also incorporated the Charter of Fundamental Rights into the EU’s legal framework. On paper, the AFSJ is a success story with increasing levels of formal vertical integration from Maastricht to Lisbon. However, the shock of the migration crisis and the EU’s ongoing incapacity to deal with the massive inflows of refugees in a well-organized manner has revealed some serious structural shortcomings of the existing system.

The Refugee Crisis as a Turning Point

Migration is a consequence of political violence, unaddressed grievances and global inequality, and it has become one of the largest challenges of today’s world. According to data provided by UNHCR (<https://www.unhcr.org/figures-at-a-glance.html>), there were about 80 million persons forcibly displaced worldwide at the end of 2019. In Europe, following the uprisings of the ‘Arab spring’, the number of refugees seeking shelter in the EU has tremendously increased during the early 2010s, reaching a peak in 2015 with about 1.3 million registered asylum seekers (https://ec.europa.eu/eurostat/statistics-explained/index.php/Asylum_statistics).

A large number of refugees fled the atrocities of the Syrian war; moreover, the conflicts in Northern Africa and the Middle East opened new routes into Europe for refugees from Sub-Saharan Africa and South Asia. The destabilization of Libya facilitated the activities of smugglers and traffickers of human beings on the Mediterranean route, leading to countless humanitarian disasters; according to www.infomigrants.net approximately 19,000 migrants have been reported dead or missing in the Mediterranean Sea between October 2013 and October 2019. Other refugees used the so-called Balkan route from Turkey via Greece and South-East Europe to reach Europe's North.

In response to mounting numbers of refugees, the European Commission adopted a 'European agenda on migration' in May 2015. Underlining the need for better management of migration and stressing the EU's shared responsibility, the agenda covers various aspects of migration management including the financing of joint border control operations such as Triton and Poseidon. Moreover, the Commission initiated the establishment of so-called Hotspots to identify and register arriving refugees at selected locations at the EU's Southern borders.

To disrupt human smugglers and traffickers in the Mediterranean, the Council launched an EU naval operation 'EUNAVFOR Med' (later renamed 'Operation Sophia'). Its mission was to identify, capture, and dispose of vessels and the infrastructure used by migrant smugglers or traffickers. The operation de facto ended in 2019, after there still was no consensus reached on how to distribute the refugees across the EU member states.

In 2015, the images of endless refugee marches reaching the EU's borders and of camps with disastrous humanitarian conditions led to a strong politicization of the issue in European publics, divided along societal but also national lines. Germany is a paradigmatic case for societal division on the refugee question. In early September 2015, the German authorities, together with their Austrian counterparts, decided to open its borders to the ever-growing number of refugees camping around Budapest's main Keleti train station, in order to avoid a humanitarian disaster (cf. Zaun 2018: 49–50). At their arrival in Munich and other cities, the refugees were welcomed cordially by citizens and state representatives. Germany—at that time still including its leading tabloid 'BILD'—displayed a 'welcoming culture' ('Willkommenskultur'), following Chancellor Angela Merkel's dictum 'we will manage' ('wir schaffen das'). At the same time, a large number of citizens considered

the ‘uncontrolled mass immigration’ as a threat to societal peace and the welfare state. Xeno- and islamophobic rhetoric mounted, as prominently highlighted by demonstrations under the label ‘Pegida’ (‘European Patriots against the Islamization of the Occident’). With an ever-growing influx of refugees and rising domestic critiques against its open-door policy, Germany unilaterally closed its borders to Austria on 13 September 2015. In fact, the Schengen Border Code provides Member States with the possibility to temporarily reintroduce controls at internal borders under (un)foreseen circumstances presenting a serious threat to public policy or internal security; controls for foreseen circumstances may last for an initial period of 30 days, renewable up to a maximum of 6 months. However, according to some observers, Germany acted twice against the spirit of the Schengen agreement in less than a fortnight. First by allowing the refugees in (because EU law foresees that asylum demands are administered by the state of first entry into the EU), second by reinstating border controls to a Schengen member (cf. [Traynor 2015](#)). Germany’s behaviour was considered a blow to the Schengen system, in particular, because the decision was imitated by other states, including Austria, Denmark, Sweden, and Norway.

After the Paris terrorist attacks of 13 November 2015, hitting a number of locations such as the Stade de France and the concert hall Bataclan, France reinstated its border controls for security reasons. The attacks, in addition to the stalemate at the EU level to arrive at a workable relocation scheme of refugees, led additional member states such as Hungary, Slovenia, and Croatia, but also outside states such as Serbia or North Macedonia to close their borders by February 2016. De facto, Schengen was moribund at this moment.

In response, the pressures on local authorities in Southern Europe rose tremendously. Since the influx of refugees did not stop, but in fact, increased because the threat of closed borders incentivized others to reach ‘fortress Europe’ in time, Greek islands such as Lesbos were packed with refugees under miserable sanitary and humanitarian conditions.

In response, the European Commission and the member states devised a joint action plan with Turkey that was finally concluded in March 2016. For improving the living conditions of refugees in Turkey and for strengthening Turkish border management, i.e. to prohibit the refugees from travelling to Europe, Turkey was promised 3 plus 3 billion Euro (cf. [Börzel and Risse 2018: 91](#)). In addition, the deal foresaw the introduction of a visa-free entry of Turkish passport holders into the Schengen

area (not implemented so far). The fragility of the deal became apparent in the spring of 2020, when Turkey unilaterally threatened to encourage refugees to travel on to Europe. The closing of the Balkan route, moreover, led to a revival of the Mediterranean route with its well-known and deplorable humanitarian risks.

At the EU level, the migration crisis revealed some important and seemingly irreconcilable differences between four groups of countries, (i) the ‘frontline’, (ii) the ‘destination’, (iii) the ‘transit’, and (iv) the ‘bystander’ states (cf. Schimmelfennig 2018: 978). We will elaborate on their roles below. The most fervent opponents of a relocation scheme were the Viségrad states, i.e. Hungary, Poland, Slovakia, and the Czech Republic. Those states were heavily opposed to the imposition of binding quotas and a mandatory system, as demanded by the Commission and the ‘affected’ member states. On September 14th the Council decided to relocate 40,000 refugees, in addition, in an extraordinary meeting of September 22th the Council decided by qualified majority to relocate another 120,000 refugees, with Finland abstaining, and the Czech Republic, Hungary, Slovakia, and Romania voting against the proposal. A formal complaint against the decision was dismissed by the CJEU in September 2017. Already in June 2017, the European Commission under the lead of Commissioner Dimitri Avramopoulos had issued an infringement procedure against Poland, Hungary, and the Czech Republic for not having implemented the relocation agreement (<https://www.theguardian.com/world/2017/jun/13/eu-takes-action-against-eastern-states-for-refusing-to-take-refugees>). At that time, only 20,869 of the envisaged 160,000 refugees had been relocated.

One obvious way to overcome a gridlock consists in engaging in differentiated integration. And, indeed, despite the structural challenges of forming a ‘coalition of the willing’ in the area of refugee relocation, a question to which we must return below, a number of attempts have been made. In mid-September 2019 in the Maltese capital Valletta, the Interior ministers of France, Germany, Italy, and Malta reached a compromise by agreeing on a scheme to redistribute migrants arriving by rescue boats (Barigazzi 2019). A number of other countries such as Croatia, Finland, Ireland, Lithuania, Luxembourg, and Portugal have signalled their readiness to join the initiative. In contrast, others remained more tentative, arguing that quotas as expressed by Germany that had publicly declared to be prepared to take in 25% of migrants arriving in Italy after sea rescue

(von Bullion et al. 2019), would set the wrong incentives, by encouraging refugees to leave their home countries.

While so far failing with respect to the relocation scheme, the EU has been more successful in enhancing its external border security capacities (cf. e.g. Regulation 2016/1624). For instance, in 2016 the member states reached an agreement to strengthen the European Border and Coast Guard Agency, formerly Frontex. Thus, the more restrictive approach to refugee politics, including a strengthening of border controls and limiting migration, was more successful than agreeing on a truly European asylum system.

In sum, the migration crisis revealed important construction errors of the European border and asylum system. An unresolved tension exists between the abolishment of internal border controls and the establishment of a common external border, on the one hand, and the persistence of national asylum rules, on the other (cf. also Biermann et al. 2019). In fact, despite calls for a ‘common policy on asylum’, which had been voiced since the European Council of Tampere in 1999 and are even part of TFEU (Art. 78(1)), asylum practices continue to differ substantially from country to country (cf. Toshkov and de Haan 2013). For Zaun (2018: 44) ‘the Dublin III Regulation clearly failed’, and Trauner (2016) speaks of a ‘looming policy regime failure’.

How can the trajectory of the AFSJ be translated into the terms of our vertical integration scale? When combining the different policies contained in the AFSJ, we can say that there was no EU-level policy coordination before the 1970s. Purely intergovernmental groups, such as the Trevi group, indicate a development towards intergovernmental coordination, but without establishing an explicit link to the EC framework. Government representatives coordinated their activities, albeit only loosely. The Treaty of Maastricht established the third pillar, which has transformed justice and home affairs into a matter of intergovernmental cooperation. The Treaty of Amsterdam transferred a range of policies from the third to the first pillar, and thus we witness a noticeable shift towards joint decision-making. After the Treaty of Amsterdam, the Commission, together with a specified number of member states, was given the right to propose new pieces of legislation; also, the ECJ began to exercise its jurisdiction in this area. Finally, the Lisbon Treaty abolished the intergovernmental third pillar altogether, and the community method has broadly become the rule. The European Parliament is a key player in the ordinary legislative procedure, and most matters relating to

the AFSJ are decided by QMV in the Council. Even in selected issues of judicial cooperation in criminal matters and police cooperation, the ordinary legislative procedure has been used following the Lisbon Treaty.

The AFSJ has become a productive field of EU policy-making. Besides the member states and the EU organs, a multitude of ‘semi-autonomous’ agencies and bodies are active in this area (cf. Lavenex 2010). A prominent example of such an agency is the already mentioned Warsaw-based European border security agency, Frontex. Because of its focus on protecting the EU’s borders—partly at the expense of the human rights of refugees—Frontex has since its beginnings been criticized by human rights activist groups. In fact, the tension between the guaranteeing of civil liberties and protecting of security of the EU’s citizens makes the AFSJ one of the most divisive areas of EU policy-making (see also Lavenex 2010).

Horizontal Integration

The AFSJ also raises some interesting questions from the perspective of (differentiated) horizontal integration. The Schengen Agreement and the Prüm Convention introduced closer cooperation among a subset of member states. Both of these agreements started outside the framework provided by EU institutions, but were fully (Schengen) or partly (Prüm) incorporated into the *acquis* at a later point. In addition, in the third pillar, a ‘rolling ratification’ mechanism was introduced that allowed conventions that were adopted by at least half of the participating member states to enter into force in those member states (Art. 34.2(d) TEU). This is a fine example of a (temporal) horizontal differentiation. A more pick-and-choose or *à la carte* integration is illustrated by the combinations of the opt-ins and opt-outs of Ireland, the UK, and Denmark (cf. Peers 2007: 55–64). After the Maastricht Treaty was rejected by referendum in Denmark in 1992, this country was subsequently granted a number of opt-outs. Denmark negotiated an opt-out from supranational decision-making in the third pillar. In addition, the newly designed EU citizenship was not to be applied to Danish citizens. A ‘national compromise’ adopted by seven of the eight parties in the Danish parliament, the *Folketing*, stipulates: ‘Denmark cannot agree to transfer sovereignty in the area of justice and policy affairs, but can take part in the intergovernmental cooperation which has existed to-date. This

means that Denmark cannot agree to parts of the third pillar being transferred to the area of supranational cooperation in the first pillar'. In the Treaty of Amsterdam, Denmark obtained opt-outs for first pillar provisions through protocols attached to the Treaty. However, it participates in the free movement area and may adopt relevant European provisions as international law (in order to avoid the direct effect of EU law and being submitted to the European Court of Justice's rulings). It thus only participates in EU judicial cooperation in intergovernmental terms. A Danish referendum in 2015 confirmed this policy against the wish of the government to shift to a more flexible opt-in system, which would have allowed Denmark to participate in supranational integration—such as Europol—on a case-by-case basis.

While the non-EU member states Iceland, Norway, and Switzerland are part of the Schengen area, Ireland does not participate in the common border policy. Moreover, Cyprus, Bulgaria, Romania, and Croatia are no members of Schengen. We thus have a case of internal combined with external differentiation. In practice, differentiated horizontal integration in the case of Schengen is even more complicated, since the UK and Ireland in the Treaty of Amsterdam obtained the opportunity for opt-ins in asylum, immigration, and judicial cooperation in civil matters. Opt-in protocols are case-by-case exemptions and they allow member states to select from the 'menu of new EU proposals' (Adler-Nissen 2009: 66). This puts countries such as Ireland—and the UK before Brexit—in a very favourable position, since they can decide on a case-by-case basis whether a particular policy suits their domestic interests. The UK had opted into most civil law measures, all asylum affairs, and most issues concerning illegal migration, but had barely adopted protective measures concerning legal migration, visas, and border controls (Adler-Nissen 2009: 69). In the Schengen Agreement, they chose to opt-in with regard to the Schengen Information System II, a database containing detailed information related to visa questions. Denmark has a 'bizarre position' in the context of the Schengen Agreement (Adler-Nissen 2009: 75). While it signed the Schengen Agreement in 1996, it negotiated an opt-out from 'supranationality' in the Treaty of Amsterdam. Article 5 of the protocol on the position of Denmark attached to the Treaty of Amsterdam provides Denmark with a choice to implement new Schengen proposals or initiatives in its national law. Opt-outs also exist concerning the ECJ's role in the European law enforcement agency Europol. A protocol to the

Europol Convention gives member states wide discretion to opt-out of the ECJ's preliminary rulings for the interpretation of this Convention.

Finally, the refugee crisis so far has only led to de facto or informal differentiation. While negotiations on forming a coalition of the willing have begun with respect to a refugee relocation scheme, the aim at least of the affected countries is still to reach a uniform solution covering all EU member states.

Conclusion

Since the 1990s, the AFSJ has turned from a non-integrated to a quite deeply integrated policy area. In terms of vertical integration, it moved from Maastricht via Amsterdam to Lisbon to the level of Joint Decision Making II, i.e. the Community Method, as highlighted in Figs. 2.4 and 2.5. At the same time, the AFSJ has recently experienced some important setbacks in practice. In particular, the migration crisis with its peak in 2015 has hampered integration dynamics and has revealed serious structural shortcomings, which so far have not been resolved. In terms of horizontal integration, the AFSJ and, in particular, the Schengen area display a combination of internal and external differentiation. The internal differentiation reflects both a perceived incapacity (e.g. Romania and Bulgaria) and an unwillingness to join Schengen. The external differentiation, i.e. the integration of countries such as Norway or Switzerland, is best understood in combination with the four freedoms of the Single Market.

In the ensuing section, we will investigate what intergovernmentalism, supranationalism, constructivism, and postfunctionalism have to say on these and a number of related questions concerning the AFSJ:

- Why are justice and home affairs 'latecomers' of integration, and how can we explain that member states were willing to give up sovereignty in this important and politically sensitive area in the first place? Why did vertical integration unfold in such a dynamic way in the AFSJ, once the first formal integration steps had been taken with the Treaty of Maastricht?
- Why were some states—e.g. the UK, Ireland, and Denmark—more reluctant to integrate than most of their partners? Furthermore, why do some non-EU member states participate in selected parts of the AFSJ?

- How can we explain the meagre response of the EU to the migration crisis? Why did the plan for a relocation of refugees lead to a dead-end, almost representing a non-decision? And why, in contrast, did the member states find it easier to establish a European Border and Coast Guard Agency?

INTERGOVERNMENTALISM

How does intergovernmentalism explain integration and differentiation in the AFSJ? We will first formulate a set of expectations derived from intergovernmentalism, and will then submit these claims to an empirical evaluation. What should we observe if intergovernmentalism were able to explain integration and differentiation in the AFSJ?

- Given that issues of internal security are a core attribute of statehood, intergovernmentalism would expect a general reluctance towards integration in this area. If at all, integration should be driven by strong interdependence, conducting to a convergence of national preferences. Common threats to national autonomy, security, or welfare could thus motivate state actors to agree to work together more closely. From an intergovernmentalist perspective, a shifting of competences to the European level would be a means of assuring the enforcement of such sensitive policies, but governments should still seek to remain in control of these policies and limit delegation to supranational organizations. In substantive terms, the outcomes of the AFSJ should mirror the preferences of the most powerful state or groups of states.
- For intergovernmentalism, state preferences and bargaining power determine the horizontal patterns of integration. Differing preferences can either be attributed to varying structural incentives—uneven interdependence is a key explanatory variable—or to different domestic conditions. For instance, high ratification hurdles can constrain the participation of states in the AFSJ.
- According to an intergovernmentalist perspective, vertical differentiation of different policies falling under the umbrella of the AFSJ can be attributed to varying levels of interdependence, preference homogeneity, compliance problems, uncertainty, and domestic support.

Formation and Development of the AFSJ: Sovereignty, Interdependence, Member State Preferences, and Bargaining

Since justice and home affairs can be classified as ‘high politics’, realist intergovernmentalists should be rather sceptic about the integration of this policy area. Until the 1990s, their scepticism seems well-founded. We hardly find any cooperation in this field or, if so, only under intergovernmental auspices. The first tentative steps towards cooperation were taken by administrative actors from national interior ministries during the 1970s and 1980s. Realizing that transnational criminals undermined the states’ capacity to provide internal security to its citizens, these actors agreed to accept more coordination for the sake of securing the fulfilment of the states’ obligations *vis-à-vis* their citizens. Explaining the development of justice and home affairs until the Maastricht Treaty therefore seems like a walk in the park from a realist intergovernmentalist perspective. And even the institutionalization of the third pillar at Maastricht is in line with intergovernmentalist logic, given that the third pillar was intergovernmental in nature and supranational agents were kept out of the game. By contrast, the subsequent ‘communitarization’ of the AFSJ at Amsterdam is hard to explain for realist intergovernmentalism. Why would autonomy-maximizing member states be willing to give up sovereignty in core areas of statehood by granting more rights to the Commission, the ECJ, and other member states?

Liberal intergovernmentalism is better suited for this task. First, liberal intergovernmentalism explains the relative insignificance of societal actors by the nature of the issue area. According to Moravcsik (1993: 483), the AFSJ falls into the category of non-economic, political, and institutional policies. For such policies, Moravcsik (1993: 495) finds that ‘[e]xcept where implications are calculable, governments and parliamentary elites enjoy relatively broad autonomy to pursue symbolic goals or side payments’. Since gains and losses per capita are difficult to calculate in the AFSJ, the interests of social groups are limited; therefore, politicians and the administration possess a high level of discretion. This argument conforms to the impact the interior ministries had in the process.

Second, liberal intergovernmentalism explains the increase in vertical integration by increased interdependence (cf. Moravcsik 1998: 452). The fall of the Iron Curtain led to a substantive inflow of immigrants and asylum seekers. With the prospect of Eastern enlargement—declared to

be one of the main driving forces behind the Treaty of Amsterdam—the salience of such issues was likely to rise. By further communitarizing JHA, the commitments could more easily be enforced. In addition, more institutionalized cooperation could reduce uncertainty and transaction costs.

In the intergovernmentalist perspective, the institutional gridlock of non-agreement that became apparent in the refugee crisis reflects the heterogeneity of member state preferences. The differentiation between (i) the ‘frontline’, (ii) the ‘destination’, (iii) the ‘transit’, and (iv) the ‘bystander’ states is helpful in this respect. First, there are the ‘frontline’ states. The Dublin system had foreseen that asylum seekers should demand asylum in the country, where they first arrived in the EU. Geography thus determined that countries such as Greece or Italy were put under great strains and their administrative capacities were overburdened. When incapable of processing all asylum demands and hosting such large numbers of refugees, they had two options. Either they could return the refugees to their home countries, in case stopping them directly at the border seemed unfeasible. Alternatively, they could close their eyes to a clandestine arrival of refugees and allow them to find their ways up North and self-relocate in the destination countries. This is, in fact, what happened during the migration crisis. The third and fourth groups are the ‘transit’ and the ‘bystander’ countries (cf. Schimmelfennig 2018: 978). The latter groups are less affected by migratory pressures, which is why they can also be called the ‘non-host states’ (Zaun 2018) or the ‘non-affected states’ (Biermann et al. 2019: 255). Clearly, the incentives of these groups to find common solutions to the crisis differ. Whereas the frontline and destination states call for common European solutions, including relocation schemes, the transit and bystander countries, are less affected and therefore less in favour of ‘burden sharing’; given the large domestic costs of migration in Europe, most literature considers it—like it or not—a burden.

In fact, a unified solution on the relocation of refugees was blocked most fervently by the ‘transit’ and ‘bystander’ Eastern member states. They had few incentives to contribute to the relocation scheme (cf. Biermann et al. 2019), and as they possessed a better alternative to the negotiated agreement, they blocked the introduction of a refugee quota system (cf. Zaun 2018; Biermann et al. 2019). The attempt of the ‘affected states’ to link the payment of structural funds to cooperation in migration policy can be understood as an attempt to raise the costs of

defection for these states. From an intergovernmentalist perspective, the incapacity of supranational organs to ‘discipline’ the integration-sceptic member states highlights these organs weakness, once ‘national interest’ are negatively affected.

The EU-Turkey deal, while negotiated at least in parts by the European Commission on the EU’s side, highlights the importance of intergovernmental politics and encounters. The deal has led to an important drop of the number of refugees arriving on Greek island, at the price of dubious concessions in the fields of human rights and European values. Moreover, the strengthening of the European Border and Coast Guard and a growing attention to repatriation schemes also conform to an intergovernmentalist account, however, with a postfunctionalist spin as will be highlighted below.

Differentiated Horizontal Integration

Heterogeneity of state preferences and bargaining power are core factors in explaining differentiated horizontal integration from an intergovernmentalist perspective. According to liberal intergovernmentalism, national preferences are determined by interdependence, domestic interest groups, and institutions. How does this relate to the patterns of internal and external differentiation that we find in the Schengen regime? In a liberal intergovernmentalist perspective the unwillingness of Greece, Ireland, and the UK to align themselves with their EC partners can be attributed to their isolated geographic position, which limits interdependence. In addition, Denmark initially declined Schengen membership in order to keep up its ties with an alternative (Nordic) grouping. Given the unanimity requirement of treaty changes, the drivers had no other option of reaching their goal than by forming a regime outside the EC legal framework (remember that, at that time, enhanced cooperation did not formally exist). The step was further facilitated by the fact that differentiation did not impose extra costs or negative externalities on the Schengen countries: they did not need the non-members to realize the free-travel zone; neither could the non-members free ride on Schengen.

Over time, more and more countries joined the Schengen area and, in the mid-1990s, the ratio of drivers versus brakemen had changed in favour of the drivers. When Sweden and Finland became EU members, and Norway and Iceland were invited to become members of the Schengen area, the obstacle of the Nordic Passport Union was removed. Denmark,

however, maintained its ‘bizarre position’ in the Schengen cooperation scheme. While it signed the Schengen Agreement in 1996, in the Treaty of Amsterdam it negotiated an opt-out from ‘supranationality’. Article 5 of the protocol on the position of Denmark attached to the Treaty of Amsterdam provides it with a choice of implementing in its national law new proposals or initiatives building upon the Schengen *acquis*. Again, bargaining power can explain why the Schengen states were willing to accept the Danish exception; the reasons for the Danish reservation, however, are most often explained by identity-related factors in combination with high ratification hurdles, an argument we will return to in the section of constructivist explanations for integration in the AFSJ. Thus, it should be underlined that, in our view, purely economic reasons cannot satisfactorily account for the Danish preferences in the AFSJ.

As already highlighted, a combination of weak interdependence and strong bargaining power can explain the pattern of opt-outs. In addition, due to the fact that the Schengen Agreement entails some positive externalities for the laggards, they have little incentive to stop the others moving ahead (cf. Kölliker 2001). For example, the Schengen Agreement also expedites the transport of Irish goods on the continent and facilitates the movement of citizens of non-Schengen countries once they have entered into the Schengen area.

The new Eastern European member states had to accept the *acquis* of the AFSJ as a part of the accession package (Vachudova 2000). Due to their geographic location, they bear a non-negligible amount of the costs of the Schengen and the Dublin Convention since, for instance, the common visa policy makes exchanges with their Eastern neighbours more cumbersome (cf. Jileva 2002). At the same time, Schengen facilitates contacts with the other EU member states. Currently, Bulgaria’s, Romania’s and Croatia’s bid for membership of the Schengen Area is still pending. Cyprus, finally, remains an exception. Since 1974, this island de facto has been partitioned into the Republic of Cyprus in the South and a Turkish controlled area in the North. A complete implementation of Schengen would demand setting up an EU external border on the middle of this island, entailing strong negative effects for Turkish Cypriots. Therefore, Cyprus is unlikely to become a full member of the Schengen Area before the resolution of the Cyprus dispute.

As to external differentiation, interdependence once again can explain why Norway, Iceland, Switzerland, and Liechtenstein wanted to join the

Schengen Area. The Dublin asylum system would entail negative externalities in the form of increased demands for asylum in these states. The reason is that asylum seekers whose pleas are declined by Dublin Convention states would have to apply for asylum in other European states; remember that the Dublin Convention aimed at preventing ‘asylum shopping’ in the member states. In economic parlance, the Convention represents a narrowing of the supply of asylum, increasing the demand for asylum for the other suppliers. In response, those states had incentives to join the regime.

In line with liberal intergovernmentalism, the outcomes of the Schengen negotiations also reflect the weak bargaining power of non-EU member states. Non-EU Schengen states are only associated with the decision-making procedures. Representatives of these countries participate in mixed committees that meet alongside the working parties of the EU Council. They can contribute to informal consultations, but they do not have a formal right to vote. Therefore, their influence is effectively limited. Especially for Switzerland, this procedure seems like a bitter pill, given the dynamic character of the Schengen Agreement and Switzerland’s traditional reluctance *vis-à-vis* dynamic international treaties (cf. Wichmann 2009: 653).

Finally, we must address the question why no differentiated relocation scheme has resulted from the refugee crisis. Liberal intergovernmentalism with its rationalist approach to member state preferences has an easy answer. Following Kölliker (2001) one could argue, that relocating refugees only among the ‘affected countries’ would create positive external effects for the non-participating states. Their free riding, however, reduces the incentives to set up the public good in the first place.

SUPRANATIONALISM

For supranationalists, transnational exchanges are the main driving force of integration. Governmental actors respond to demands from ‘below’—(transnational) society—and from ‘above’—the supranational actors. Once integration is put into action in a policy area, rule density can fuel further integration dynamics. In addition, functional linkages between different policy areas can lead to spillovers into related fields, an argument initially put forward by neofunctionalism. The following expectations relate the AFSJ to supranationalism.

- According to supranationalism, advances in integration in justice and home affairs during the 1980s and 1990s are a functional consequence of previous integration in other sectors (functional spillover). Transnational interest groups and policy networks, together with effective policy entrepreneurship of supranational actors, should play an important role in the process of integration. In addition, the substantive policies of justice and home affairs should mirror the interests and capacities of transnational socio-economic groups and supranational actors.
- For supranationalists, horizontal and vertical differentiation should reflect variation in the transnational exchanges across countries and across policies. Incentives for cooperation and integration should vary between different states and policies accordingly. Moreover, variance in terms of supranational capacity should impact on differentiation. The de facto quite intergovernmental setup of the AFSJ makes falling back into nationalist paradigms likely, whenever crises erupt.
- Supranationalism predicts horizontal and vertical differentiation to decrease over time. Outsiders should be driven towards closer participation, and belated integration in criminal matters should follow the integrative patterns of functionally and institutionally neighbouring policies.

Formation and Development of the AFSJ: Transnational Networks and Spillover

Historically, different actors have promoted a more coordinated European approach to justice and home affairs. With the rise of terrorism and trans-border criminal activity in the 1970s, national experts from the different interior ministries were eager to coordinate their efforts to combat crime more closely. Functional reasons thus induced early cooperation in this area; drug traffic or terrorism does not stop at a state's border, but national persecution often lagged behind the criminals' mobility. Over time, after first informal contacts had been established, members of police and interior security forces formed transnational networks of security experts. In justice and home affairs, public and governmental rather than private actors pressed for more European-wide coordination. Inside these transgovernmental networks of experts, the different actors became increasingly familiar with their international partners and their practices.

One can imagine that trust increased and socialization occurred accordingly. At the same time, it is noteworthy that such transgovernmental networks may also bring about a policy bias, since the experts forming these epistemic communities are likely to share common ideas and worldviews. In the AFSJ, this is criticized by liberal activists—who argue that security issues often dominate human rights questions. For instance, Guiraudon (2003) argues that migration control experts used the European level strategically in order to foster their domestic goals. European cooperation, in fact, emphasized the kind of technical solutions that required their expertise, and therefore experts in the interior ministries had good reasons to ‘venue shop’ at the international level. Accordingly, in substantive terms, cooperation in the AFSJ is often argued to correspond relatively closely to the preferences of these transgovernmental security networks.

On the other hand, we find less support for the supranationalist expectation that supranational actors played a central role in the early integration process of the AFSJ. While the EC agreed on the desirability of promoting integration in justice and home affairs, its capacity to shape integration actively in this area was clearly limited before the late 1990s. Since the policy area was not included in the treaties before Maastricht and, once justice and home affairs were part of the Treaty, they remained in the ‘intergovernmental’ third pillar. As a consequence, the Commission’s power was severely restricted and its role in this policy area strongly depended on the member states’ will. For instance, in the early 1980s five member states had successfully called on the ECJ to challenge a Commission decision on immigration coordination in the EC, denying the legal grounds for activities in this area (Baldwin-Edwards 1997: 498). Its capacity to push the policy agenda ahead autonomously was thus clearly limited in this area. Similarly, since the Schengen Agreement was initially created under international and not EC law, the Commission hardly possessed any influence apart from symbolic support of the regime.

Since the early 1990s, the Commission—supported by the Council—has started to intensify its JHA activities. In particular, with the transfer of policies to the first pillar, the Commission was authorized to propose new pieces of legislation and it duly made use of its newly acquired rights. Data from the Commission (EUR-Lex) shows that from 1999 to June 2009, the Commission’s Directorate General (DG) Justice and Home Affairs and the DG Freedom, Security and Justice issued more than 500 proposals. The European Council also mandated the Commission to

implement the Hague Programme (cf. Craig and de Búrca 2008: 247). Over time, the Commission has thus gained stronger means to shape the policy agenda in matters relating to justice and home affairs.

The development of justice and home affairs broadly corresponds to the supranationalist expectation that transnational activity is a driving force of cooperation and integration. Given the enormous swell of immigration that followed the fall of the Iron Curtain in the late 1980s, migration questions became pressing for European publics and politicians seeking election or re-election (cf. Monar 2001: 753). Especially in Germany, the issue of immigration was high on the public agenda in the early 1990s; surveys underline that European publics supported—and, indeed, continue to support—more cooperation in this area (cf. Lavenex 2010: 475).

The Schengen Agreement can be considered an example of how economic motivations can drive integration in the area of justice and home affairs. In fact, business criticized the tedious and time-consuming border controls—which, it was argued, hindered the movement of persons and goods (cf. Lavenex and Wallace 2005: 460). We thus see a linkage between policy areas in this case of justice and home affairs, and the freedoms of the single market—and, in particular, with the goal of reaching a ‘Europe without frontiers’. By delaying transport, border controls impeded transnational trade. In line with this liberalization logic, the Schengen Convention explicitly expressed its goal to ‘facilitate the transport and movement of goods’ at the common borders between the ‘contracting parties’. This supports the supranationalist expectation that spillover dynamics did, indeed, bring the issue of Schengen on the integrationist agenda.

Supranationalism argues that the integration of one policy area often has effects on related policy areas, inciting political actors to change their original preferences. In fact, there are even more examples for such spillover dynamics in the AFSJ. For instance, there is a close issue-specific linkage between the free movement of persons fostered by the Schengen regime and internal security questions. By abolishing border controls between the signatory states, the members of the Schengen regime gave up their capacity to control immigration and to limit transnational (organized) crime at their borders. From such a perspective, the Schengen Agreement created a security gap. In turn, the possible negative effects of market integration raised societal and administrative demands for a closer

cooperation in interior security policies (cf. Kaunert 2005: 464; Vachudova 2000). Gehrung (1998) sees Schengen as an example of ‘negative integration’ that entails ‘positive integration’ in related issue areas—such as, for example, asylum policy. The Dublin Convention is thus a functional response to Schengen. In our view, the functionalist logic that links market integration via the Schengen Agreement to the Dublin Convention fits nicely into the framework of supranationalism and corresponds to the temporal ordering of integration that this theory would predict.

Moreover, it should be noted that, besides raising security concerns, an increase in transnational exchange also brings transnational judicial questions to the fore. According to Art. 81 of the Lisbon Treaty, the ‘Union shall develop judicial cooperation in civil matters having cross-border implications, based on the principle of mutual recognition of judgments and of decisions in extrajudicial cases’. Judicial cooperation in civil matters aims at establishing closer cooperation between the authorities of member states and to eliminate obstacles derived from incompatibilities between the various legal and administrative systems. An important example of such conflicts related to an increase of transnational exchanges is the issue of international divorces (cf. Box 10.2 for more details on this issue).

The shock of the refugee crisis has revealed some important structural shortcomings in the AFSJ. For supranationalists the failure to generate more positive integration outcomes is a result of limited interdependence (at least with respect to the ‘non-affected’ states) and low supranational capacity (cf. Schimmelfennig 2018: 982; Scipioni 2018). For instance, the competences of the European Asylum Support Office are in no way comparable to the European Central Bank. However, we must also ask why the competences of the supranational level are so limited. Intergovernmentalism has the answer: because member states were more reluctant to give away their prerogatives in this area. Their ‘obstinacy’ was, in fact, proven in the Viségrad’s states reluctance to obey the qualified majority decision in the Council to relocate refugees and also to follow an CJEU ruling on this matter. The obstruction displayed by these states in the wake of the refugee crisis, certainly must be interpreted as a drawback to supranationalism.

Box 10.2 Enhanced Cooperation in Practice: Divorce Rules

According to the Commission, each year about a 170,000 divorces in the EU involve international couples. This raises the question of which national law applies in international divorces. Great differences between conservative and liberal states and the complexity of national conflict-of-law rules make it very hard for international couples to predict which law will apply to their divorce or legal separation proceeding. Take the example of an Austrian woman marrying a Belgian man in Belgium. The couple lives in Austria with their son. The husband then returns to Belgium and the wife demands a divorce. However, because there is no uniform rule, she does not know which law applies to her divorce. Can she obtain a divorce under Austrian law, or does Belgian law apply? The objective of the Commission's initial proposal of EU-wide rules on divorce (Rome III regulation) in 2006 was to introduce uniform divorce rules to strengthen legal certainty and predictability and to prevent 'litigation shopping'. International couples should be enabled to agree in advance which law would be applied in case of divorce, or if they cannot agree, a common formula should be determined to decide the law of which country is applied. After no consensus was reached among all 27 member states, 10 member states decided to move ahead and asked the Commission to make use of the 'enhanced cooperation' procedure. Correspondingly, the European Commissioner for justice, fundamental rights, and citizenship, at that time Viviane Reding, issued a proposal for enhanced cooperation in divorce rules in March 2010; the first time the Commission ever made use of the enhanced cooperation procedure since its introduction in the Treaty of Amsterdam. The authorizing decision was adopted on 12 July 2010 with 14 MS participating and the implementing proposal was adopted in December 2010. Over time, Greece, Estonia and Lithuania joined the enhanced cooperation group, that at the time of writing, August 2020, consists of 17 member states.

Horizontal and Vertical Differentiation

How does supranationalism account for internal and external differentiation in the Schengen border regime? In general, from a supranationalist perspective, horizontal integration is promoted by dense transnational exchanges. If the density between transnational exchanges varies between different European countries, supranationalism expects horizontal differentiation. Transnational exchanges should thus be stronger between members of the Schengen group than between Schengen insiders and outsiders. In our view, the argument partly holds for the UK, Ireland, and Greece in the 1980s.

During the 1980s, Greece had no land borders with EC member states and, accordingly, the implementation of the Schengen regime in Greece would have been restricted to harbours and airports, and passengers holding EC member state passports. From a Greek perspective, the Schengen Agreement would therefore not have contributed to facilitating transnational exchanges to any appreciable degree. The case of the UK is similar. Since travelling to this island state was more complex than crossing borders on the continent, the costs of maintaining border controls were not conceived as a particular hindrance for transnational exchanges. The Irish were less concerned about the security effects of the Schengen Agreement, but they wanted to maintain the Common Travel Area with the UK. Since the UK is Ireland's closest economic partner, this would have entailed costs that the Irish were not willing to accept. One could thus argue that transnational exchanges can, at least partly, explain the reluctance of Greece, Ireland, and the UK. The explanation, however, does not consistently fit the case of Denmark. In the 1980s, the Schengen Area threatened Danish membership of the Nordic Passport Union. In order to scrap its borders to the south, Denmark would have needed to establish new borders to the north (cf. Zaiotti 2011: 106). However, in the meantime, the other former members of the Nordic Passport Union have all become parts of the Schengen Area, and this argument therefore no longer holds. Thus, it is difficult to explain Danish reluctance primarily with a different structure of transnational exchanges.

At the same time, the transnational exchange explanation again fits the patterns of external differentiation in the Schengen regime rather well. Iceland, Norway and, Switzerland are closely linked to the European Communities; they participate to a very large degree in the EU's internal

market; and there is an enormous amount of transnational exchange between the EU member states and these countries.

The AFSJ, finally, is also characterized by vertical differentiation. While the sector at large has been a latecomer, there still remain some noticeable differences of vertical integration between its policies. Supranationalists would expect a deeper integration of those policies that are more closely linked to transnational exchanges. Arguably, the selection of policies transferred from the third to the first pillar at Amsterdam roughly match these expectations, but more in-depth research would be needed to better understand the different trajectories of, for instance, judicial cooperation in civil matters as compared with police and judicial cooperation in criminal matters.

From Differentiation to Uniformity?

Supranationalism expects differentiation to decrease over time. This expectation can partly be corroborated. With a view to vertical integration, we find that most policies relating to this area have fallen under the ordinary legislative procedure since the Treaty of Lisbon. At the same time, it is important to stress that matters relating to internal security and interior policies are much more likely to be communitarized if they relate to transnational issues. For the time being, there is no question of setting up a common EU police, although Europol already provides some common infrastructure and the border agency Frontex is executing operational tasks in the field of border security.

In terms of horizontal integration, external differentiation is likely to remain, since the probability of Norway, Switzerland, and Iceland becoming EU members is low, for the time being. Internal differentiation has decreased when comparing the 1980s with the first decade of the new millennium. Comprising five states at its inception, the Schengen Area now includes all member states, with the exception of the Bulgaria, Croatia, Cyprus, Ireland, and Romania (leaving aside Denmark's special status); however, the refugee crisis has revealed some important fractures in the system, pitting the 'affected' against the 'non-affected' states.

All in all, the supranationalist record in explaining vertical and horizontal integration in the AFSJ is mixed. In this sector, the impact of supranational actors has been negligible until recently. Instead, governmental actors were more decisive. The comparatively late beginnings of

integration of this sector are broadly in line with supranationalist expectations. As compared with other sectors—e.g. the Single Market—the AFSJ raises fewer demands for integration from transnational societal actors. At the same time, supranationalists had few difficulties in explaining the dynamics of vertical integration of this sector once it had been formally incorporated into the institutional corpus of the EU. From a supranationalist perspective, institutional ties can reinforce cooperation, and the merits of working together become more obvious to the actors. However, the refugee crisis has put a large question mark behind this account. Moreover, from a supranationalist perspective it is less clear why Ireland persistently remains an outsider of ‘Schengenland’, and why Denmark holds on to its particular status in the AFSJ.

CONSTRUCTIVISM

Constructivism offers theoretical alternatives to the rationalist explanations put forward by supranationalism and intergovernmentalism. It introduces a broader perspective on what motivates actors; most importantly, constructivists question the importance of utility-maximization and, instead, emphasize the significance of values, ideas, and identities for explaining social behaviour. Second, for constructivists social interactions can have a transformative impact on actors’ ideas, preferences, and identities through learning, persuasion, and socialization. From a constructivist perspective, we can derive the following propositions on the development of the AFSJ:

- The emergence and development of justice and home affairs is driven by inter-subjectively shared ideas and identities. At first, internal security-oriented epistemic communities formulated ideas on how best to combat transnational crime. Later, the idea of a European identity and the goal of a united Europe incited pro-Europeans to accompany the four freedoms with the abolishment of border controls. Finally, a discourse of securitization and an institutionalization of these policies over time promoted deeper integration.
- Horizontal and vertical differentiation results from different degrees of ideational support for different European policies. Policies with stronger links to national identities should lag behind those policies that are more functional in character.
- For constructivists, differentiation in the AFSJ should decline over time because of socialization and learning.

Formation and Development of the AFSJ: Shared Ideas and Inclusive Identities

According to constructivists, an ideational consensus emerged between national experts from the interior ministries in the 1970s. These experts shared the causal idea that the fight against crime demanded closer cooperation between the different European state administrations. Initially, however, these actors did not envisage a communitarization of justice and home affairs. At the same time, the Trevi and the Pompidou groups offered arenas for the exchange of information and policy ideas. Over time, security-oriented transnational epistemic communities emerged that ultimately opened the road to further integration. Monar (2001) calls these groups early ‘laboratories’ for integration.

During the 1980s, a quaint coalition between pro-Europeanists and security experts emerged. We have already depicted the removal of border controls as an instance of negative integration supported by pro-Europeanists. As a consequence, interior ministries demanded European measures in order to compensate for emerging security gaps. As already mentioned, these experts are sometimes said to have used the European level to circumvent the more restrictive national institutions and to establish their ideas on how best to fight crime on a European level. Security experts managed to frame the AFSJ as a highly technical sector and embed it in a broader discourse of securitization. A whole range of different agencies—such as Frontex or Europol—fulfils executive tasks in the AFSJ. Large technical systems such as the Schengen Information System or the Eurodac fingerprint database are used to coordinate the actions on the control of visas and border-crossings. For non-experts, such technical and administrative measures are often hard to understand and disentangle.

Constructivists also draw our attention on the discourses used to promote the AFSJ. For example, the renaming of the policy area from ‘justice and home affairs’ in the Maastricht Treaty to the AFSJ underlines that European security proponents were increasingly seeking legitimacy and support for their actions. In European negotiations, supporters of deeper integration made use of European principles such as ‘burden-sharing’ or the ‘policy of solidarity’ (cf. Jileva 2002: 83–4) in order to persuade their more reluctant partners to support their demands. Similarly, a discourse of a ‘European public order’ or a ‘single space’ aims at institutionalizing security ideas on the European level (cf. Kaunert 2005; Monar 2006: 497). Zaiotti (2011) speaks of a new ‘culture of border

control' to underline the importance of a new understanding and practice of frontier relations in Europe.

However, the refugee crisis with its lasting negative impact on the Schengen system has put this new culture of border controls in question. While the supporters of common European solutions to the crisis refer to solidarity and burden sharing as community norms (cf. Thielemann and Dewan 2006), opposition is justified with reference to communitarian or nativist identities (cf. Pytlas, forthcoming). For example, Hungarian Prime Minister Viktor Orbán, as one of the most prominent opponents to migration, claims to be 'defending European Christianity against a Muslim influx' (as cited by Traynor et al. 2015). The mobilization of collective identities thus is an important instrument in the toolbox of anti-immigration politics (cf. Börzel and Risse 2018). On an ideational level, Orbán and others, such as Polish former interior minister Mariusz Błaszczałk, believe that mandatory relocation schemes 'attract more waves of immigration to Europe; they are ineffective' (as cited by Wintour 2017). Such debates correspond to constructivism's focus on ideas and their impact on European integration.

Differentiated Horizontal Integration

Another important question we need to answer is why some states participate in the AFSJ, and why others have decided to opt-out. On the domestic level, constructivism has identified national identities, values, and norms as important factors for understanding whether countries participate in European integration. A lack of ideational consensus impedes integration. Take, for instance, the introduction of EU citizenship in Maastricht. This symbolic step, adding a European dimension to national citizenship, was not uniformly applauded by all actors. After the negative Maastricht referendum, the Danish government demanded that European citizenship should not apply to Danish citizens. While this matter was later resolved at Amsterdam, some authors have explained the Danish opt-out from Maastricht by referring to a conflict between Danish and EU citizenship (cf. Hansen 2002). Given the strong linkage between the nation and the state in Denmark, the idea of holding an EU citizenship in this regard can be conceived as endangering national and cultural identity. Similar, ideational concerns time and again became apparent in the British debate.

In contrast to the negative reception of justice and home affairs in Denmark and the UK, this policy area generally enjoys strong public support in most other member states. For instance, in a 2004 *Eurobarometer* survey 71% of respondents affirmatively answered the question of whether the policy on the prevention and fight against crime would be more effective if it were decided jointly at the European Union level, rather than at the level of individual member states. On the question of whether rules for asylum seekers should be the same throughout the European Union, 85% affirmed their agreement (*Flash Eurobarometer 2004*). Thus, while such policies might restrict national independence on the one hand, immigration and organized crime are sensitive issues in national political debates and electoral campaigns, on the other. This underlines that the resonance of European policy proposals with national identities and ideas on security can determine a country's participation in the AFSJ.

While constructivism is well-equipped for explaining internal differentiation in the AFSJ, it has greater difficulty in explaining the demand of non-EU member states for cooperation in the AFSJ. For instance, we find little evidence for identity-related reasons for Norway, Iceland, Switzerland, and Liechtenstein to wish to join the Schengen Area. Traditionally, these countries are conceived to be rather Eurosceptic, and rationalist explanations linked to previous agreements on the free movement of persons between those states and the EU in our view can better explain their desire for participation. Their accession to the Schengen Area seems far from a love match.

Finally, according to constructivism we should expect the number of opt-outs to decrease over time. This is not corroborated by recent developments, and the scenario that the Schengen 'laggards' engage in closer cooperation seems less likely than ever. The rise in migration from Northern Africa, following the Arab spring of 2011 has put border controls high on the EU's agenda. In spring 2011, France had controlled borders with Italy; Denmark returned to using systematic customs controls at its borders with Germany. There is thus an ongoing tension between the two constructivist logics of, on the one hand, policy learning and socialization and, on the other hand, persistent policy-related differences in ideas about integration. At the time of writing, the trend seems to point towards increasing anti-integrationist concerns. In general, the described tension impedes a clear formulation of constructivist predictions on the future of the AFSJ.

POSTFUNCTIONALISM

Postfunctionalism generates a number of expectations on the development of the AFSJ.

- First, postfunctionalist resistance did not prevent the establishment of the Third Pillar of the Maastricht treaty. This is mainly because of this pillar's intergovernmental setup. However, with growing integration, popular resistance mounted.
- Policies with stronger links to national identities should be harder to integrate than those with a purely functional character because politicization of and mobilization on such issues is easier.
- Countries with stronger exclusive national identities should display more reluctance towards integration in the AFSJ.
- The high salience of the refugee crisis should increase the politicization, making non-agreement more likely.

Postfunctionalism has a ‘negativity bias’: it is stronger at explaining resistance to, rather than demand for integration. Resistance is more likely to emerge in policy areas that relate to ‘core state powers’ as compared to ‘non-core state powers’. If such policies, in addition, are characterized by only limited interdependence and supranational capacity, postfunctionalist dynamics can unfold. Against this backdrop, it may seem surprising that the AFSJ was established in the first place. However, the Treaty of Maastricht represents a soft integration entry for Justice and Home Affairs. Because the Third Pillar was intergovernmentally organized, on paper, the treaty granted the member states a high degree of sovereignty. However, this did not persuade the more cautious countries, which in consequence called for exemptions. The case of Denmark is informative in this respect. Denmark, for long, ranked among the most Eurosceptic states in *Eurobarometer* surveys. Moreover, institutional ratification hurdles in Denmark are high. Given that referendums tend to empower a (Eurosceptic) public *vis-à-vis* the (more Europhile) elites, the negative referendum outcome—at least in hindsight—came as no surprise. In the referendum campaign, the opponents of the Maastricht treaty emphatically invoked threats to the cultural concept of the Danish nation state and Danish identity (Hansen 2002: 69). Likewise, in the UK the abolition of border controls clashed with the UK’s ideal of sovereignty and independence and was depicted as a threat to the UK’s identity as

an ‘island nation’ (cf. Wiener 1999). Thus, in line with postfunctionalist expectations, countries with strong ‘exclusive national identities’—and referendum capacities—were careful not to give up too much sovereignty in this sensitive area.

Apparently, the deeper vertical integration of the AFSJ caused less concerns among European publics during the late 1990s and the 2000s and polls revealed that many citizens actually supported the functional reasons for promoting integration in this area. In retrospect, this can be considered a ‘fair weather period’, during which elites and experts negotiated and administered further integration without being strongly constrained by reluctant citizens. However, things changed tremendously with the refugee crisis. The refugee crisis was a true crisis, displaying high levels of threat, urgency, and saliency (cf. Degner 2019). The almost dystopian images of hundreds of thousands of people on the move towards Europe awakened concerns among large parts of European publics, fearing threats to their identity as well as to their social welfare. In line with postfunctionalism, Börzel and Risse (2018: 101) detect a dominance of culturalist frames, ‘self-other’ and ‘in- and outgroup’ distinctions in the opposition discourse to migration, oftentimes enflamed by anti-establishment parties. The strong opposition displayed by right-wing politicians like Victor Orbán is perfectly in line with de Vries and Edwards’ (2009: 9) expectation that ‘extremist parties on the right tap into feelings of cultural insecurity to reject further integration and to defend national sovereignty from control from Brussels. These parties mobilize national identity considerations against the EU’. Likewise, Zaun (2018) argues that the mobilization on such frames was easy, given that latent anti-immigrant attitudes were—and still are—common among European electorates. In contrast to the establishment of common European refugee relocation scheme, the strengthening of the EU’s external border control system was less contested in and between Europe’s nation states. This is in line with postfunctionalist expectations, as the measure does not affect nativist identities but tends towards a protection of ‘Fortress Europe’.

CONCLUSION

In this chapter, we analyzed the integration of different policies relating to the AFSJ. The AFSJ is one of the most complex policy areas of the EU. Integration in this policy area started belatedly but displayed a dynamic

development since the 1990s. In the meanwhile, most issues of the EU's former third pillar have been communitarized, and only police and judicial cooperation in criminal matters do not in total fall under the ordinary legislative procedure. However, even in this least-integrated field, the Treaty of Lisbon granted the Commission the right to issue legislative proposals. In addition, measures relating to these policies have become subject to the judicial review of the CJEU. All this underlines the deep degree of integration of the AFSJ. In the words of Rebecca Adler-Nissen (2011: 1104): 'cooperation in justice and home affairs has shifted from taboo to totem'. However, that was before the refugee crisis shook up the system and revealed its serious structural shortcomings.

Echoing findings of the previous chapters, our evaluation of the explanatory and predictive capabilities of intergovernmentalism, supranationalism, constructivism, and postfunctionalism again produces balanced results (cf. Table 10.1).

All four accounts contribute to explaining the patterns of vertical integration in this sector. We identified transnational exchanges and interdependence as important drivers for integration. Supranationalism has taught us the importance of establishing links between different policies and understanding endogenous dynamics of integration. In line with the functional spillover argument, the free movement of persons has triggered demands for integration in justice and home affairs. Liberal intergovernmentalism, on the other hand, draws our attention to the importance of bargaining power for understanding the outcomes in the AFSJ. The comparatively comfortable position of Denmark, the UK, and Ireland in a context of unanimous decision-making allowed them opt-outs and opt-ins in this policy area. Liberal intergovernmentalism can also explain why non-EU member states such as Norway or Switzerland have joined the Schengen Agreement and the Dublin Convention. These regimes imposed external costs on the neighbouring states—for instance, by making 'asylum shopping' more difficult—and rationalist explanations can satisfactorily account for the integration demands of these otherwise rather reluctant partners. Finally, constructivism and postfunctionalism can add to our understanding of the patterns of internal differentiation. Reluctance in the AFSJ is often due to heterogeneity of identities and ideas among EU member states and their populations. For instance, economic considerations alone can hardly explain the hesitant position of Denmark. And the drawbacks highlighted by the refugee crisis, hardly conform to a neofunctionalist narrative of an 'ever closer union'.

Table 10.1 Integration theories and the AFSJ

	<i>Intergovernmentalism</i>	<i>Supranationalism</i>	<i>Constructivism</i>	<i>Postfunctionalism</i>
<i>Vertical integration/differentiation AFSJ</i>	Economic incentives meet governmental demands for closer cooperation	Spillovers from market integration, and then from Schengen to closer cooperation in internal security	Idealational consensus/contestation; European norms	Identity constraints; anti-immigration publics
<i>Horizontal integration/ differentiation</i>	Bargaining power and state capacities	Geographic spillover (Schengen), limited supranational capacities	Idealational consensus/contestation	Identity constraints; heterogeneity of public attitudes

On the downside, supranationalism has difficulties in explaining the opting-out of some member states from the AFSJ, and there is not much support for strong Commission activity in this area. Liberal intergovernmentalism, on the other hand, does not offer a dynamic story of integration by establishing functional linkages between different policies. In addition, it does not clearly specify the positions we could expect of different member states. It cannot satisfactorily account for why certain states decided to opt-out from parts of the AFSJ's policy portfolio. Constructivism and postfunctionalism, finally, have difficulties in formulating clear predictions on cooperation in this issue area. While these theories can explain why some countries behave more reluctantly than others do, they remain more silent about the conditions of vertical integration.

SELF-TEST AND DISCUSSION QUESTIONS

1. The AFSJ touches upon ‘core state powers’. Why would states be willing to transfer such policies to the EU level at all?
2. Who were the main drivers of integration in the AFSJ?
3. Why do we find internal differentiation in combination with external differentiation in the AFSJ?
4. Compare the integration dynamics after the eurozone and the refugee crisis. Why—from an integration theoretical perspective—has there been deeper integration in EMU, while we observe less integration in the wake of the refugee crisis?
5. In your view, is horizontal differentiation a workable solution concerning the relocation of refugees in the EU? Discuss!
6. In your view, should reluctant EU member states be forced to participate in a common relocation scheme?

FURTHER READING

- Adler-Nissen, Rebecca. 2014. *Opting Out of the European Union: Diplomacy, Sovereignty and European Integration*. Cambridge: Cambridge University Press, is a theoretically and empirically rich, masterly crafted analysis of differentiated integration with a particular focus on the interactions between the in- and outsiders of differentiated integration in EMU and the AFSJ.

Tekin, Funda. 2012. *Differentiated Integration at Work: The Institution-alisation and Implementation of Opt-Outs from European Integration in the Area of Freedom, Security and Justice*. Baden-Baden: Nomos, offers a careful stocktaking of the DI and its workings the AFSJ.

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CHAPTER 11

Conclusion: Integration and Differentiation in the European Union

In the 1950s, the European integration project started with six European states creating a community to coordinate the production and distribution of coal and steel and, a few years later, to set up a common market. Since then the European Union has increased to include 28 member states by 2013—to shrink to 27 after Brexit—and to cover most areas of modern governance more or less tightly. At first, most policies were only loosely coordinated but, over time, have become progressively more centralized. The powers of supranational actors such as the European Commission, the EP, and the CJEU have increased and the grip of individual member states on policy decisions has been loosened. In this book, we named the two institutional dynamics that characterize the EU integration process ‘horizontal’ and ‘vertical integration’. Horizontal integration refers to the territorial extension of the EU’s policy regimes; vertical integration captures the depth or centralization of supranational decision-making in different policy areas.

The patterns of vertical and horizontal integration generally show a development towards an ‘ever closer’ and an ‘ever wider’ Union. At the same time, Brexit and the restrictions on the free movement of persons in the refugee crisis have prominently highlighted the possibility of horizontal and vertical disintegration. Moreover, our survey of policy areas has revealed that European integration is not uniform. Rather, it is characterized by strong differentiation across policy areas and space. The EU,

as a system of differentiated integration, exhibits both vertical and horizontal differentiation. On the one hand, vertical differentiation means that policy areas display different temporal patterns and degrees of integration. For instance, while market issues have been communitarized since the founding of the EEC, the area of AFSJ has lagged behind and has only begun to achieve a similar depth of integration in the 1990s. While the member states of the eurozone have delegated all their monetary responsibilities to the ECB in Frankfurt, in questions relating to common defence, the supranational actors for the most part remain sidelined.

Horizontal differentiation, on the other hand, challenges the ideal of ‘ever closer union’, which emphasizes complete and exclusive participation of EU member states in each individual policy area. As to the horizontal dimension, we have distinguished external from internal differentiation. External horizontal differentiation is present if at least one state that is not a member of the EU participates in an integrated EU policy. Internal differentiation means that one or more EU member states do not participate in an integrated policy area. If non-member states ‘opt in’ and EU member states ‘opt out’, we have a combination of external and internal horizontal differentiation in the policy area concerned.

Why is a perspective of differentiated integration helpful for studying the EU? In order to analyze the EU’s policies and politics, it is useful to have a solid understanding of the nature of the beast. Differentiation is sometimes used in federal states—for example, nullification is a corresponding idea in US constitutional history; in Germany, there have been debates about a so-called *Abweichungsrecht* (divergent legislation) that allows exceptions for some German *Länder*, and in Canada the ‘notwithstanding clause’ of the Canadian Charter of Rights and Freedoms grants provinces temporal opt-outs from the application of this very Charter. In Spain and the UK, powers are devolved asymmetrically across the regions of the country. Yet, uniformity is still generally the rule in nation states, and the units of federal states typically have symmetrical competences.

At the same time, the EU has a far more centralized political system and covers far more policy areas than any other international organization (see Fig. 2.1). Since the literature traditionally uses different conceptual and theoretical tools and instruments to study states and international organizations, this long-standing conceptual tension between state and international organization has given rise to some important debates on how best to approach the EU and its history. In our view, the concept of differentiated integration can help to relax this tension by shifting the

analytical focus to policy areas as core units of analysis. Focusing on policy areas, their level of centralization and their horizontal extension allow us analytically to disentangle some important theoretical integration puzzles. Technically speaking, a perspective of differentiated integration invites us to systematically exploit variation in the EU for the sake of improving explanation. Differentiated integration should therefore allow us to obtain a better analytical grip on the integration history of the EU. By analyzing integration advances together with resistances or drawbacks, we hope to improve our knowledge of the mechanisms of integration.

In this concluding chapter, we will first systematically review and compare the findings of our empirical chapters on the single market, the EMU, defence policy, and the AFSJ. We will use the empirical material to compare and discuss the performance of different integration theories. We will argue that none of the integration theories can fully account for the complex empirical reality that we find in the empirical chapters. In fact, despite their competitive claims, there is no clear ‘winner’ emerging from our analysis of the policy areas. We therefore distil and discuss the strengths and weaknesses of the different theories, but also identify common ground between the different approaches. Finally, we will formulate some suggestions for a possible synthesis of integration theories.

Theoretical synthesis is often considered to be an opportunity to make theoretical progress possible. While there is an ongoing debate on the practicability and usefulness of theoretical synthesis (see Fearon and Wendt 2002; Sil and Katzenstein 2010), we advance some ideas on how to synthesize EU integration theories. Among other things, we highlight possibilities for the combination of constructivist and rationalist approaches. In addition, we tentatively define possible scope conditions under which specific theories should perform best. Scope conditions are those conditions that specify when the different assumptions and hypotheses about integration preferences and negotiations are most likely to hold. They tell us, for instance, under which conditions supranational actors are most relevant and when ideational preferences matter most. We suggest that both institutional path-dependencies at the supranational level and identity politics at the domestic level can be understood as extensions of an intergovernmentalist baseline model that plays out over time and under specific scope conditions.

DIFFERENTIATED INTEGRATION IN THE EUROPEAN UNION

Our empirical chapters on the single market, the EMU, defence policy, and the AFSJ revealed some noteworthy patterns of integration (Table 11.1). First, the policy areas vary with regard to the timing of supranational integration. European integration started with the common market in the 1950s and 1960s. The decision to create a supranational monetary policy followed in the early 1990s and by AFSJ a few years later. In the case of defence policy, however, it is an open question whether member states will ever agree to supranational rather than intergovernmental integration.

In terms of vertical integration, EMU is the most centralized policy area, with all major monetary policy competencies delegated to the autonomous European system of central banks, while fiscal policy has remained mainly at the level of intergovernmental cooperation. Single market issues are decided by joint decision-making, which also makes it a fairly centralized policy area.

Since the late 1990s, the AFSJ has gradually shifted from an intergovernmental mode of decision-making towards the ‘community method’. Only issues relating to policing and judicial cooperation in criminal matters are still decided unanimously, with limited powers granted to the EP. Defence policy remains, for most aspects, firmly intergovernmental and thus lags behind the other policy areas; yet, member state governments are gradually stepping up joint defence and institutional capacities. Turning to horizontal integration, the single market assumes the top spot: it unites all 27 member states with the three members of the EEA. At the

Table 11.1 Ordering integration and differentiation across policy areas (ranging from ‘1’ as ‘early or high’ to ‘4’ as ‘late or low’)

	<i>Timing of supranational integration</i>	<i>Vertical integration</i>	<i>Horizontal integration</i>	<i>Horizontal differentiation</i>
Internal market	1	2	1	External
Monetary union	2	1	4	Internal
Defence	3	4	3	Weak internal
AFSJ	4	3	2	External and internal

other end of the spectrum, only 19 states participate in the eurozone. The AFSJ and defence fall between these two poles.

Finally, all our policies display different forms of horizontal differentiation. The single market is externally differentiated, with the EEA states participating in addition to all EU member states. Switzerland participates more selectively in the single market using bilateral treaties, and Turkey through the Customs Union. At the same time, there is little treaty-based internal differentiation in the Internal Market. In contrast, monetary union is internally differentiated with some EU member states unwilling, and others not permitted or unable, to join the eurozone. Defence is the least differentiated policy area in our sample because only Denmark has opted out whereas non-members have not opted informally, notwithstanding the participation of non-EU states in EU crisis management missions. These findings suggest that differentiation necessitates some degree of vertical integration (cf. Rittberger et al. 2013). For example, in the single market external differentiation in the form of the EEA followed the deepening of the market enacted by the ‘1992’ programme. In fact, the EFTA states increasingly feared exclusion from the single market after the SEA. The AFSJ, finally, shows a unique pattern of internal and external horizontal differentiation, in that some non-EU member states participate in the Schengen and Dublin regimes of border control and asylum policy, whereas certain EU member states have opted out (and opt in selectively).

In sum, we find substantive variation in horizontal and vertical integration and differentiation across our four policy areas. We will now turn to our integration theories to explain this variation.

EVALUATING THE THEORIES

In the empirical chapters, we applied different integration theories to individual policy areas. We will now assess their relative performance in these different policy areas. In order to do so, we take up a slightly extended version of the framework presented in the introduction to Part I. We first distinguish a demand side of integration from a supply side. Whereas ‘demand’ is about the actors’ preferences regarding integration, ‘supply’ refers to how negotiations translate the constellation of preferences into an integration outcome—the extent to which a policy area is integrated vertically and horizontally. We will first briefly recall the theoretical predictions for our different theoretical dimensions before scrutinizing the fit of the integration theories to the empirical outcomes. As always, such

a comparative exercise demands some degree of simplification, and we sacrifice specificity for the sake of generalization.

Assumptions and Expectations

Our framework prompts us to ask the following questions:

- Who are the actors that demand integration? And who are the key actors on the supply side?
- What kinds of preferences do these actors hold? Are these preferences material or ideational? Are they exogenous or endogenous to previous integration outcomes?
- How do the actors interact? Are their interactions primarily about bargaining and the exchange of threats and promises, or do the actors exchange arguments and try to persuade one another?
- What roles do resources—and, in particular, power—play, and which constraints matter for explaining integration processes?

Table 11.2 summarizes the core tenets of the integration theories.

Intergovernmentalism attributes integration to the interests of governments and powerful societal interests to preserve and increase their autonomy and efficiency in the face of international interdependence. Correspondingly, variation in vertical and horizontal integration results from variation in international interdependence, the compatibility of

Table 11.2 Analytical framework of integration theories (see also Table PI.1)

	<i>Intergovernmentalism</i>	<i>Supranationalism</i>	<i>Constructivism</i>	<i>Postfunctionalism</i>
Actors (demand)	Governments (and domestic society)	Transnational society & supranational actors	Not specified	National parties and governments
Actors (supply)	Governments	Supranational actors, gov.	Supranational actors, gov., publics	Publics, governments
Preferences	Material (exogenous)	Material (endogenous)	Ideational (endogenous)	Ideational (exogenous)
Interactions	Hard bargaining	Soft bargaining	Arguing	Domestic bargaining
Power/constraints	Bargaining power	International institutions	Ideas and norms	Domestic institutions

governments' preferences, and in interstate relations across policies and countries. *Supranationalism* explains integration as a response to rising transnational exchanges and demands supported by supranational organizations. Variation in vertical and horizontal integration reflects variation in the intensity of transnational exchanges and in the capacity of the EU's supranational organizations across policies and countries. *Constructivism* regards integration as a response to international ideational consensus and a reflection of international community. It accounts for variation in vertical and horizontal integration by variation in the strength of community ideas (international ideational consensus and the institutionalization of ideas) across policies and countries. Finally, *postfunctionalism* has its focus on the brakes to integration. For the post-Maastricht period, it diagnoses the awakening of the 'sleeping giant' of 'political mobilization of disaffection' (van der Eijk and Franklin 2007) against European integration, largely motivated on national identity-related grounds and triggered by challenger parties (cf. De Vries and Hobolt 2020). In this perspective, variation in vertical and horizontal integration is mostly a result of differentiated politicization.

Table 11.3 summarizes the expectations of the integration theories regarding the timing and extent of vertical integration, as well as horizontal integration and differentiation.

In order to evaluate the theories we will now compare their predictions with the empirical patterns that we find in our case studies. We will turn to the timing and trajectory of vertical integration and differentiation, before summarizing the results from our analyses on horizontal integration and differentiation.

Vertical Integration and Differentiation

In the case of the single market, supranationalist analyses of integration demonstrated that transnationally operating businesses and economic interest groups were the main *demandeurs* of integration. Their objective was to remove domestic rules and regulations hindering the free exchange of goods and services in order to reap (material) gains from integration. Supranational actors—most notably the Commission and the ECJ—readily provided supranational rules for self-interested reasons, and played a crucial role in advancing both 'negative' and 'positive' integration. According to liberal intergovernmentalism, economic interest groups are also accorded a central role on the demand side of integration,

Table 11.3 Expectations of integration theories (see Table PII.1 for more detail)

	<i>Intergovernmentalism</i>	<i>Supranationalism</i>	<i>Constructivism</i>	<i>Postfunctionalism</i>
<i>More vertical and horizontal integration depends on ...</i>	stronger/wider international interdependence	stronger/wider transnational interactions	stronger/wider legitimacy and consensus	more inclusive national identities

stronger/wider preference compatibility actors

lower autonomy costs

but—contrary to supranationalism—they direct their demands primarily to national governments, which are then also the main suppliers of supranational rules in the intergovernmental negotiations preceding the SEA. Yet, interest group pressure alone did not suffice to trigger demand for integration; it took the convergence of the economic policy preferences of the governments in France, Germany, and the UK in the mid-1980s that preceded the adoption of the single market programme. In sum, those actors that expected to benefit most from liberalization lobbied either their respective governments or supranational actors, such as the Commission, to support their demands.

Even though economic interest groups also voiced demand for monetary integration to reap material benefits from the absence of exchange rate risks and capital controls, the demand for monetary integration was less pronounced than the demand for market integration. This was due mainly to two factors. First, monetary policy was initially (until the early 1970s) embedded in a global policy regime. Second, the macroeconomic preferences of governments diverged sharply. As a result, the demand for integration within the Community framework remained rather low. Other than in the case of market integration, which was negotiated in the context of a ‘permissive consensus’ and relatively low autonomy costs, monetary integration is constrained by politicization, as it entails autonomy as well as identity costs to states and governments. For example, the Deutsche Mark was considered a national symbol of successful post-war economic recovery and stability in West Germany and, hence, a cornerstone of Germany’s post-war national identity. With regard to autonomy costs, the delegation of monetary policy to an independent central bank threatened to restrict the macroeconomic toolkits of national governments.

At the turn of the 1980s and 1990s, the decision to establish EMU resulted from the convergence of French and German monetary policy preferences, which was in turn facilitated by global ideational change towards neoliberal economic policy ideas, and from the prior decision to establish the Single Market including the liberalization of capital movements. Moreover, thanks to its strong bargaining power, Germany was able to realize its preferences regarding the institutional form and objectives of EMU. Liberal intergovernmentalism thus provides the best overall explanation of EMU, whereas supranationalism and constructivism point to institutional and ideational context factors that facilitated intergovernmental consensus. Similarly, institutional innovations and reforms in

the Eurozone crisis corresponded with the consensual material interest of governments to preserve and consolidate EMU, and again Germany had the strongest impact on the substantive crisis response thanks to its bargaining power. Yet intergovernmental negotiations took place against the background of strong endogenous interdependence generated by the previous decision to establish EMU, constant pressure by transnational financial markets, and crucial support by the supranational ECB. These factors highlight the explanatory contribution of supranationalism.

In defence matters, interest groups and supranational actors play a much less pronounced role (the field of defence procurement being an exception). Since societal interests are generally less important in this policy area, governments have more leverage to push ahead or—even more common in this policy area—to step on the brakes. After the early failure of the EDC, defence policy did not reach the level of intergovernmental cooperation until the turn of the millennium, and we are doubtful whether it will move to higher levels of vertical integration in the near future. Since European interdependence in the area of security and defence has remained relatively low, socio-economic interest groups do not voice demand for integration in security and defence matters. European governments have depended—and, despite the Trump presidency's disdain for NATO, still do—less on each other for achieving security and military effectiveness than on the United States. Transgovernmental exchanges have taken place in the context of NATO, rather than Europe. Moreover, defence policy is arguably a policy area where identity and autonomy costs are considered particularly pronounced. Given the potential for politicization, even under conditions of high interdependence during the Cold War, it has always remained an intergovernmental policy. In turn, supranational actors, such as the Commission and the EP, have only very limited capacities to advance integration in this field. Yet, we have also seen that, in past decades, close contacts and interactions among security and defence officials have fostered the development of a common European outlook in matters of common security and defence issues.

The AFSJ falls between the poles of the single market and defence. Demand for integration was voiced by governments, as well as by non-governmental actors. The first actors to demand integration were domestic bureaucrats in the interior ministries of the EU member states. In the 1980s, businesses that operated transnationally criticized the tedious and time-consuming border controls that were considered to obstruct the smooth movement of persons and goods. The Schengen

border regime explicitly addressed these obstacles. Responding to the demands from private interest groups, governments also supported integration in order to reap the joint gains from fully realizing the ‘four freedoms’. Supranational actors, the Commission, the EP, and the ECJ had relatively limited capacities to affect the course of integration initially: Schengen was not formally part of the treaties before Amsterdam, and when justice and home affairs were introduced as the ‘third pillar’ of the Maastricht Treaty, decision-making remained intergovernmental. With the transfer of certain JHA policies to the ‘first pillar’, the Commission was authorized to propose new pieces of legislation and it made use of its newly acquired rights. At the same time, we diagnosed some important setbacks to the AFSJ in the wake of the refugee crisis. National reflexes of going it alone were oftentimes driven by electoral concerns of politicians about the politicization of this core state area, highlighting the postfunctionalist logic of disintegration.

Our results are thus generally in line with the expectations that more interdependence, transnational interactions, and preference compatibility, together with lower autonomy costs and politicization, produce earlier and higher vertical integration. In market integration, the conditions for early integration were very conducive. Trade is the area of high transnational exchange and international interdependence *par excellence*. It is also an area of low autonomy and identity costs for liberal democracies. It is a hallmark of liberal democracies that the state does not control the market directly. It regulates the market, but state ownership of economic enterprises is very limited. Trade has traditionally been the most liberalized and open kind of cross-border activity and transnational exchange. By integrating the market, governments therefore lose relatively little autonomy. Moreover, markets do not qualify as strong symbols of national identity. Finally, the founding members of the EEC were similar in terms of their economic structure and wealth. This similarity facilitated preference convergence. These characteristics of market integration contrast starkly with the policy areas that were integrated at a later stage. Macroeconomic policies and policies of border control, immigration, internal security, and defence have traditionally been exclusive domains of the state, and transnational exchanges and interactions in these areas have been more limited than in trade. The supranational integration of these policies causes a substantial loss of autonomy for the participating states. Giving up the national currency, control of borders and migration, and

the national army are also likely to create strong concerns about the preservation of national identities.

If these characteristics explain why these policies were integrated later than the market, why were they integrated at all? In our empirical analyses, we found strong linkages between different policy areas. Integration of one policy area creates a new institutional environment to which actors adapt. We thus find that, in order to understand demand for integration, previous integration needs to be considered. Several ‘waves of spillover’ have emanated from initial market integration.

First, the deepening of market integration through the internal market programme of the SEA resulted from increased interdependence generated by economic relations in the common market, the harmonization policies of the Commission, the jurisdiction of the ECJ, and the convergence of economic preferences in the major member states of the Community. In a second step, monetary union received a boost from the abolition of capital controls that was part of the internal market programme and was facilitated by the convergence of macroeconomic preferences, which had partly been the result of networking and learning at the European level. Whereas the member states had preserved formal sovereignty over monetary policy, monetary integration was helped by the fact that the *de facto* autonomy of the member states in monetary affairs had long been severely damaged. Similarly, national control over borders and migration came under pressure by the freedom of movement of workers, agreed on in the context of the internal market programme.

Further policies became subject to a third wave of spillover produced by monetary integration and the liberalization of border controls. The fact that fiscal policy was not supranationally integrated alongside monetary policy can be explained in line with our framework by weaker interdependence, weaker preference convergence, and higher autonomy costs. The same can be said about the reason why the liberalization of border controls was not accompanied by supranational police and justice competences. The eurozone crisis has, however, exposed the incompatibility of strong monetary integration with weak fiscal integration and exposed the financial and fiscal interdependence between the eurozone countries. Moreover, it revealed the need for European fiscal support (the ESM), improved supranational capacities in the area of budget surveillance and the supranational integration of financial market regulation (banking union). The COVID-19 pandemic has pushed the member states even further in the direction of an EU fiscal policy.

The logic of functional linkages or spillover is at the heart of supranationalist theory. Spillover occurs, when the integration of one policy area produces externalities that affect neighbouring policy areas, thereby creating new demands for integration. While supranationalism accounts well for such endogenous preferences and the dynamics of the integration process, liberal intergovernmentalism is less well suited to capture this dynamic process and, hence, the trajectory of integration. This is largely due to its focus on specific intergovernmental conferences. On this issue, we broadly side with Pierson (1996). As a historical institutionalist, he argues that ‘snapshots’ of social processes at a single point in time can lead to distortions, in that they overlook the feedback processes linking integration attempts and outcomes over time, and he therefore recommends conceptualizing European integration as a ‘moving picture’. While constructivist integration theory, too, assumes that actors’ preferences are endogenous to their interactions, our analysis finds limited evidence for socialization or internalization. They are ‘constrained’ rather than ‘converted’ (Parsons 2003:18) by previous integration outcomes and their effects. On the issue of whether integration preferences are endogenous or exogenous, and whether endogenous preferences are created by institutional constraints or socialization, we thus find that supranationalism outperforms the other integration theories.

As the EU’s response to the refugee crisis reveals, however, functional pressures and spillovers are not sufficient to produce more vertical or horizontal integration. The crisis exposed significant shortcomings of the Schengen/Dublin regime, calling for a strengthening of the EU’s border control capacities and a reform of the EU asylum system to provide a harmonization of asylum standards and an efficient and fair allocation of asylum seekers and procedures across the member states. Yet, the reform of the common asylum policy has failed, and while border control resources have increased significantly, the member states were loath to cede sovereignty over their borders. Supranationalism would explain this outcome with weaker endogenous interdependence, transnational pressures, and EU institutions in the AFSJ: national governments were able to manage the refugee flows with national means (Schimmelfennig 2018b). The refugee crisis also fuelled concerns over border sovereignty and national identity, which boosted the electoral fortunes of anti-immigrant and Eurosceptic parties. In this context of Eurosceptic politicization, postfunctionalism correctly points to the limits of a functional spillover logic.

Horizontal Integration and Differentiation

How do our theories perform to account for horizontal differentiation? The internal market is a case of particularly early and high vertical integration; and it is a case of particularly wide horizontal integration, too. Transnational economic exchanges not only tend to be more intense and dense than other transnational exchanges; they also tend to cover a wider geographical space. ‘Globalization’ is most pronounced in international trade and capital flows. Market integration generates negative externalities for EU outsiders and produces ‘geographical spillover’. The desire to obtain full access to the Internal Market in order to avoid trade diversion and discrimination has been one of the most important reasons for non-member countries to seek accession to the EU, and for the EU to increase from six to 28 members (before Brexit). Short of enlargement, market integration has led to external differentiation, of which the establishment of the EEA, which incorporates the EFTA countries into the EU’s Internal Market, is an important example. Akin to EU candidate countries, EFTA states faced negative externalities from the Single Market project, fearing discrimination through diversions in trade and investments. They took up the Commission’s idea of negotiating a global agreement that would ensure access to the Single Market resulting in the EEA agreement, which coincides—with a small time-lag—with the deepening of the European integration project through the single market programme.

The lack of internal differentiation can be attributed to the low level of political contestation of issues pertaining to market integration. As the autonomy and identity costs of market integration are relatively low, there is no reason for governments to forego the benefits of market integration and seek opt-outs. For the same reason, the high-level capacities of supranational actors in this policy area have been accompanied by a ‘permissive consensus’ and have not created identity-driven popular backlash. As the case of the EEA illustrates, high interdependence with the EU leads to demand for external differentiation. Yet, two situations of external differentiation need to be distinguished where high levels of demand meet different supply conditions. In the first case, high interdependence coincides with eurosceptic majorities in non-EU member states, such as in Norway or in Switzerland. In these countries, the accession of their country to the EU has been repeatedly rejected by popular referendums. At the same time, however, they have adopted a large majority

of Internal Market rules in order to gain unrestricted access to the vast market in their neighbourhood on which they depend for most of their exports and imports. In the second case, countries such as Turkey or Serbia have not been admitted by the EU member states because their governments have long been—and still are, to some extent—unwilling to meet the EU's value- and identity-based political conditions for membership, which has stirred domestic opposition in the EU member states. Nevertheless, they have been associated with the Internal Market because of their strong economic interdependence with the EU and because the EU regards association as a way to socialize these countries. In sum, whereas the absence of internal differentiation in the Internal Market is an effect of high interdependence and low levels of political contestation, external differentiation is a way to deal with high interdependence in spite of high levels of political contestation over a membership perspective.

Brexit represents a major shock to market integration in Europe. While the UK was avid to retain the free movement of goods, services, and capital, it was less enthusiastic about the free movement of persons, an issue that contributed to the success of the Leave campaign, and about the adoption of Brussels-made regulatory standards that the EU demands from market participants in order to create a level playing field. The inseparability of the four freedoms and the dynamic adoption of EU regulation already in the past has constituted a challenge with respect to the EU's relations to its partners in the EEA and Switzerland and it certainly is one of the main challenges of shaping the future EU-UK relations. In line with postfunctionalist expectations, the free movement of persons and external restrictions to sovereignty produce a high politicization potential—given their links to national identity and self-determination concerns.

What explains internal differentiation and the lack of uniform integration in EMU? In the case of the common currency, we have shown that internal differentiation comes in two forms: whereas some member states refuse the euro, others are prevented from adopting the common currency. In the case of Denmark, Sweden, and the UK, explanations based on levels of economic interdependence and macroeconomic preferences are not convincing. Rather, autonomy and identity concerns associated with giving up national currencies explain internal differentiation. High levels of vertical integration in areas of core state powers generate heightened opposition in countries where concerns about national autonomy and identity tend to be particularly prevalent. Politicization or the ‘constraining dissensus’ expressed *vis-à-vis* EMU triggered

opt-outs in Denmark, the UK, and Sweden—countries with eurosceptic populations that had joined the EU mostly out of economic necessity and not out of ideational commitment to supranational integration. This explanation also applies to the Czech Republic, Hungary, Poland—new member states were initially excluded from the euro, but are currently unwilling to prepare for eurozone membership. By contrast, Bulgaria, Croatia, and Romania have expressed their desire to adopt the common currency but do not meet the economic and institutional requirements according to the ECB and the current eurozone member states.

If internal differentiation is typical of the integration of core state powers, why do we find little of it in security and defence policy? On the one hand, the low level of vertical integration imposes only limited autonomy or identity costs on partaking governments. Counterfactually speaking, we would expect to see more internal differentiation if there were an initiative to form a European army. The Danish opt-out reflects a strong popular resentment towards non-market EU integration in general. Moreover, the domestic discourse on European security and defence cooperation was not compatible with the domestically held (majority) view that the integration project is, first and foremost, an economic enterprise.

Last, how can we account for the curious pattern of internal *cum* external differentiation in the case of the Schengen Area? We argued that variation in interdependence and domestic identity concerns (euroscepticism) are responsible for differentiation. In questions that touch upon domestic security issues, integration is likely to be affected by a ‘constraining dissensus’, whereby attempted integrative measures may trigger eurosceptic responses among domestic constituents (most notably in Denmark and the UK). Just as in the case of the Internal Market, external differentiation is a response to interdependence in the face of identity-based accession constraints. Norway and Iceland are members of the Schengen Area because of their traditional passport union with Denmark, Sweden, and Finland; and Switzerland and Liechtenstein have joined the Schengen Area because they are surrounded by Schengen member countries. For these two countries, the market logic also applies, since Liechtenstein is a member state of the EEA and Switzerland has enacted the free movement of persons with the EU in the bilateral treaties. In the case of Switzerland, membership in the Schengen border control ‘regime’ (as well as in the Dublin asylum ‘regime’) can also be explained by negative externalities due to the closer cooperation of other European

states in these policy areas. For example, due to the Dublin Convention limiting the possible locations in which to apply for asylum, Switzerland has increasingly become a place for so-called asylum shopping. Arguably, the EU's bargaining power may have also contributed to making Switzerland a member of the Schengen zone. Finally, the more recent horizontal differentiation that have become apparent in the patterns of contestation against setting up a common European asylum system can be linked to the postfunctionalist account by pitting nativist concerns against cosmopolitan understandings of fairness and EU cooperation.

The pattern and variation of horizontal integration and differentiation we found in our analysis of core policy areas thus point to a mix of explanatory factors proposed by the integration theories. With regard to external differentiation, intergovernmentalism and supranationalism point to the externalities that integration produces and the effects they have on 'outsiders'. In addition, and linked to the externality structure, the EU possesses strong bargaining power vis-à-vis its neighbouring states. The externalities create incentives for non-EU member states to be selective when considering integration in individual policy areas, such as the Internal Market or the Schengen Area; the EU's bargaining power usually corrects for an all too blatant cherry-picking behaviour on the side of the reluctant outsiders. The fact that the existence of strong externalities does not automatically lead non-member countries to join or to be admitted to the EU has, however, often to do with high identity and autonomy costs and the concomitant politicization highlighted by (realist) intergovernmentalism, constructivism, and postfunctionalism. Whereas some countries are not admitted because they do not fulfil the EU's normative requirements of liberal democracy, others reject membership in a supranational organization because of popular concerns about national identity and sovereignty. These concerns are also the main factors of internal differentiation.

Our analysis of horizontal differentiation has, furthermore, demonstrated the importance of domestic ratification procedures—especially in those countries that make use of referendums to ratify EU treaties. Referendums have been a major source of both external differentiation (when electorates rejected accession treaties, as in Norway) and internal differentiation (e.g. when the Danish voters rejected the Maastricht Treaty). The importance of ratification is implicitly acknowledged by liberal intergovernmentalism, since utility-maximizing politicians should take the positions of their constituency into account. It certainly is at the heart

of postfunctionalist theories of European integration. As, for example, Hooghe and Marks (2009) have argued, there is a gap between a more functionalist understanding of integration of political elites—which is at the focus of supranationalism—and a more identity-related approach of the public that increasingly is becoming aware of European matters. The preferences that matter thus can vary along institutional contexts, but also over time, as we will show in more detail. While material cost–benefit calculations were decisive for many years in most of the Western European countries, there is an increasing reluctance towards integration that is often based on identity concerns. This is the constructivist and postfunctionalist message that has long been neglected by the traditional intergovernmentalist and supranationalist theories of European integration. Both material as well as ideational factors determine integration.

In summary, we find partial support for all integration theories in the empirical chapters. There is not a single ‘winner’ emerging from this overview that can best explain vertical and horizontal integration and differentiation in all the policy areas that we analyzed. All theories contribute to understanding some parts of the complex puzzle of European integration, but are less convincing in explaining others. Based on this assessment, we will now suggest a synthesis of the integration theories.

A SYNTHETIC FRAMEWORK

In our empirical analysis, we found that no single theory offers an exclusively valid, complete, or completely convincing explanation of integration and differentiation in all four policy areas. First, the factors and explanations overlapped partly so that it proved difficult to attribute the evidence to a single theory. Second, each theory revealed strengths and weaknesses. These comparative advantages and disadvantages, however, seem to be of a systematic nature and showed themselves in similar fashion across the policy case studies. In this final chapter, we therefore make an attempt to draw on the theories’ respective strengths to propose a synthetic integration theory framework and provide a comprehensive explanation of integration and differentiation in the EU. The synthetic framework we propose consists of common ground and scope conditions. *Common ground* refers to those assumptions and hypotheses that are shared or at least not explicitly contested by the four theories. *Scope*

conditions are those conditions that specify when the different assumptions and hypotheses about integration preferences and negotiations are most likely to hold.

Common Ground

Beyond the analytical framework based on demand and supply conditions of integration, we see common ground in an *intergovernmental core* that is explicitly or implicitly shared by all theories. Governments are the key actors. Whereas it is debated who else is relevant for European integration, the theories agree that governments cannot be left out of the picture. Notwithstanding how they may be formed and informed, the integration preferences of governments and their constellation play a central role in explanations of integration and differentiation. Ultimately, it is the governments that negotiate and make decisions to transfer formal competencies from the nation-state to the EU, to admit new member states, or make agreements with non-member countries, and to differentiate integration across countries and policies. This claim is intuitive, since formal steps of European integration are based on international treaties that require the consent of all participating states. This implies that explanations for integration need to be based on the preferences, negotiations, and decisions of governments.

This *formally intergovernmental* framework does not, however, necessarily entail support for *intergovernmentalism in substance*. To say that government preferences matter does not mean that governments define their preferences autonomously and unconstrained by previous integration outcomes, as intergovernmentalism assumes. Neither does a focus on intergovernmental negotiations and decisions imply that these negotiations and decisions are by other actors or the institutional context of the negotiations. The assumption that governments are formally the key actors of European integration is compatible with the assumption that the same governments are heavily influenced and constrained by domestic or supranational actors, as well as their ideational and institutional environment. A formally intergovernmental framework therefore does not automatically invalidate supranationalist, constructivist, or post-functionalist integration theories. However, it does allow us to formulate supranationalist, constructivist, and postfunctionalist hypotheses in terms of what governments want and do.

There is substantive common ground, too. Several conditions of integration are either stipulated explicitly or accepted implicitly by intergovernmentalism, supranationalism, and constructivism. Postfunctionalism also builds on—and partly departs—from an integration theoretic baseline model.

For intergovernmentalism, *international interdependence* is the fundamental cause of integration. As governments realize that unilateral policy options do not yield desired results, they engage in multilateral cooperation and integration to obtain economic and security benefits they could not achieve otherwise. According to supranationalism, transnational exchanges and transactions are a major driving force of integration, generating demand for international rules. To the extent that transnational exchanges are both a cause and a manifestation of international interdependence, the two factors can be equated with each other. This is most obvious in the case of transnational economic exchanges, which result from welfare benefits that countries derive from foreign trade and investment, and which increase their sensitivity and vulnerability to their international environment. Both intergovernmentalism and supranationalism stipulate that interdependence generates demand and support for integration. Constructivism theorizes interdependence somewhat differently, as a form of transnational social exchanges and interactions among community actors, but this notion is compatible with the idea that interdependence produces demand for integration. The same holds for postfunctionalism that explicitly acknowledges the functionalist pull towards integration.

Both intergovernmentalism and supranationalism stipulate that interdependence promotes vertical and horizontal integration. Differences in interdependence, then, promote vertical and horizontal differentiation: different degrees of interdependence across policy sectors produce different levels of integration, and different degrees of interdependence across countries explain the variation in demand for opt-outs. At the same time, however, all theories agree that interdependence is not sufficient to bring about integration.

One factor that conditions the relationship between interdependence and integration is the constellation of governmental preferences. Interdependence does not automatically lead to common interests. For intergovernmentalism, the *convergence of national preferences* is therefore a key condition of integration. Constructivists agree that common preferences are relevant, but focus on international ideational consensus as a

necessary condition for interdependence to produce integration. Supranationalists would not object to the key role of common or compatible preferences, but emphasize that transnational interest groups, supranational organizations, and the spillovers of earlier integration steps create this convergence. Vertical and horizontal integration thus depend on the extent of preference convergence among governments and societies. Vertical differentiation is the result of differences in the level of convergence across policies. The propensity of a country to steer clear of or opt-out from integration is a function of the distance of its material or ideational preferences from the mainstream: preference outliers are most likely to stay out or opt-out. The result is horizontally differentiated integration.

Whereas the convergence of preferences facilitates integration, *politicization* creates obstacles. For (realist) intergovernmentalism, the autonomy costs of integration produce reluctance among governments to support further integration. For constructivists and postfunctionalists, the identity costs of integration stand in the way of further integration. Public concerns—often spurred by challenger parties—that integration dilutes or dissolves national identity and the institutions that symbolize it, directly or indirectly—through the electoral link to governments—put a brake on integration initiatives. Although politicization does not feature prominently in supranationalist theory, neofunctionalists assumed that integration would start with non-politicized technical, low-politics issues. All theories hypothesize that politicized policies are integrated later and at a lower level than non-politicized policies. They also produce greater horizontal differentiation. Countries with stronger autonomy or identity concerns are more likely to be constrained by politicization, seek opt-outs from integration, or remain outside the EU altogether.

In simple terms, the common ground in integration theory can be formulated as follows: *conditional on preference convergence and low politicization, interdependence promotes integration*. In other words, in highly politicized policy areas, it requires higher interdependence and a higher degree of preference convergence to produce integration. This common ground, however, masks disagreement about the nature of preferences, the causes of politicization, and the origins of interdependence. Moreover, a major issue remains highly contested: the relevance of supranational actors and institutions for explaining integration negotiations and outcomes.

Scope Conditions

Scope conditions can make such contested causal claims compatible. We distinguish two sets of scope conditions. The first set refers to competing claims regarding *integration preferences* (demand), the second to different assumptions and hypotheses about *integration negotiations* (supply). For the scope conditions of demand, we ask under which conditions the preferences of governments are more likely to be exogenous or endogenous, material or ideational, and rooted in the government itself or based on the preferences of other actors.

In general terms, we stipulate that *governmental preferences are influenced by the preferences of those actors who are both most affected and most powerful*. Governments are the relevant actors, and governmental preferences are most relevant where integration primarily affects the autonomy, competences, or resources of the state or state bureaucracies. Societal actors are the relevant actors, and societal preferences are most relevant where integration affects interests of powerful societal actors. In line with this argument, we find that interest groups are more active in market issues than in justice or home affairs. Whether the preferences of national or transnational society are more relevant depends on the degree to which social or interest groups in different countries are similarly affected, have compatible interests, and are organized in transnational interest groups. If we assume, finally, that supranational actors are generally highly affected by integration, their influence on governmental preferences depends mainly on their expertise and administrative resources.

Integration preferences become more endogenous as integration progresses. Exogenous preferences are defined as preferences that are not influenced by previous integration steps and supranational institutions. Conversely, endogenous preferences are those that have been changed as a result of prior integration steps and their effects. Logically, governmental preferences are exogenous at the beginning of the integration process because there is no organization or prior step of integration from which endogenous preferences could result. As integration progresses, however, competences are transferred to the European level, supranational actors are created and empowered, policies are removed from the exclusive purview of national governments, and additional countries become part of the integration process. These developments make it more likely that the preferences of governments are shaped and constrained by integration.

Ceteris paribus, governments become more affected by the integration process and relatively less affected by purely domestic developments, or events in the larger international sphere: their preference become path-dependent. This scope condition does not mean that governments' preferences will at some point become exclusively, or even predominantly, endogenous; neither does it mean that preferences will become increasingly integration-friendly. It only implies that the balance shifts in favour of integration-induced options and preferences.

Material preferences are the more relevant, the higher and the more certain the material costs and benefits of integration are. This argument concerns both the security and autonomy implications of integration (realist intergovernmentalism) and the consequences for national welfare (liberal intergovernmentalism). Conversely, ideational preferences gain ground if integration has no implications for national welfare or security, or if these implications are weak, indirect, remote, or unclear. In addition, however, *ideational preferences also become the more prominent, the more integration affects core symbols, institutions, and ideas that constitute collective identities.* This scope condition follows from constructivist and postfunctionalist integration theory. As a consequence, it is difficult to predict whether material or ideational preferences prevail if integration affects both. It is also difficult to predict preferences where material interests call for more integration, whereas ideas produce opposition, or the reverse. If we assume, however, that governments are loss-averse, we may still conclude that governments will be reluctant to accept material losses of integration in return for ideational gains, and vice versa.

Another set of scope conditions concerns integration negotiations. Under which conditions are these negotiations more or less intergovernmental, characterized by hard and soft bargaining or arguing? Under which conditions is intergovernmental bargaining power constrained by the normative and institutional context of negotiations? We suggest that the actors, modes, and constraints of integration negotiations depend on the stage and level of integration, as well as on the extent of politicization.

Purely intergovernmental negotiations and unconstrained bargaining are most relevant at the beginning of the integration process and at low levels of centralization. Under these conditions, supranational institutions either do not exist, are too weak to play an important role in the negotiations or to constrain the bargaining behaviour or bargaining power of

the governments. In addition, the ‘permissive consensus’ of citizens gives governments a high level of discretion in integration negotiations. This changes once integration reaches a significant level of centralization. At this point, supranational organizations have acquired sufficient capacities and expertise to become important (if mainly informal) players in integration negotiations; and intergovernmental bargaining is constrained by existing (status quo) rules, increasing costs of exit, and institutionalized norms.

Yet, supranational institutionalization and bargaining constraints work most strongly in areas of low politicization, in which the ‘permissive consensus’ remains intact and governments can negotiate and make agreements in the absence of domestic public attention and scrutiny. In areas of high politicization, however, European policies become contentious and citizens are mobilized. Under this condition, governments are constrained by the threat of non-ratification and by actors who are not part of the EU policy-making process and do not follow European norms and habits of negotiating behaviour. We thus add two further scope conditions. On the one hand, *integration negotiations become more supranationally institutionalized and constrained as integration progresses in areas of low politicization*. On the other hand, *integration negotiations become more domestically contested and constrained as integration progresses in areas of high politicization*.

Which conclusions can we draw from these scope conditions for the explanation of integration and differentiation? Supranationalism and intergovernmentalism disagree on the causal relevance of prior steps of integration and the capacity of supranational actors. If we use the state or level of integration as a scope condition, this disagreement can be solved.

At the initial stage of integration in a policy area, or at low levels of centralization, the capacity of supranational organizations and the endogenous effects of integration are weak. Therefore, integration depends on exogenous interdependence, intergovernmental preference constellations, and bargaining power as expected by intergovernmentalism. The dynamic shifts, however, once a critical state of integration is reached. Supranational organizations are established and acquire considerable capacity; and the rules of integration begin to constrain or shape governmental preferences and bargaining behaviour. At this stage, the spillover and community-building mechanisms proposed by supranationalism and postfunctionalism gain in strength; expand integration to new

policy areas, new countries, and higher levels of centralization; and reduce or avoid differentiation. The more powerful the Commission, the Parliament, the Court, and other supranational organizations, the better they are capable of centralizing issue areas, preventing opt-outs, and overcoming differentiated integration where it exists. If that were the only scope condition, we would see the inexorable drive towards centralization and supranational state-building that is associated with early supranationalist theory.

There is, however, an alternative second logic highlighted by both realist intergovernmentalists and postfunctionalism: the logic of politicization. As integration progresses, it becomes increasingly intrusive, expands into core areas of state autonomy and national identity, and triggers adverse reactions by actors that value autonomy and identity. Politicization shifts the locus of integration negotiations from the international to the domestic level. Negotiations become domestically embedded and constrained. As a result, we expect to see more horizontal differentiation in highly politicized areas, more vertical differentiation between policies of high and low politicization, and a reduced pace of vertical integration overall.

Summary

We found the *common ground* of the four integration theories in the proposition that, conditional on preference convergence and low politicization, interdependence promotes integration. On the basis of our discussion of *scope conditions*, we added that, once integration reaches a critical level of centralization, the further path of integration bifurcates. If politicization remains low, i.e. in areas of weak autonomy and identity relevance, integration is stabilized as a result of supranational enforcement capacities and supranational constraints on intergovernmental bargaining. Moreover, various spillover processes promote endogenous interdependence and preference convergence, and thus further integration. By contrast, in those policy areas or countries that are particularly sensitive to autonomy and identity concerns, integration heightens sensitivity, generates opposition to (further) integration, and leads to divergence in governmental preferences. Under these circumstances, integration either stagnates, or further integration is accompanied by further differentiation.

Figure 11.1 illustrates the synthetic and dynamic model of integration. The first part of the diagram shows the common ground at the initial stage of integration (T1). Interdependence generates demand

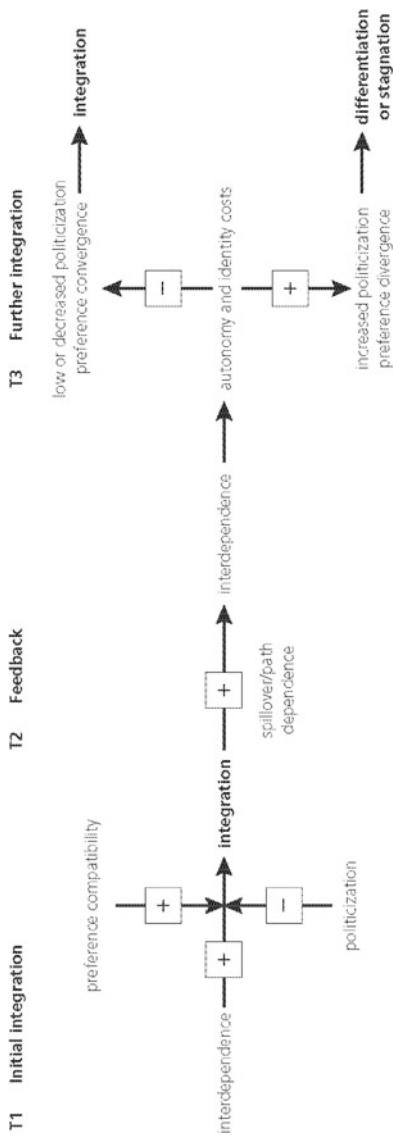


Fig. 11.1 A synthetic model of integration

for integration, particularly if government preferences are compatible and politicization remains weak. The initial integration outcome creates spillover and institutionalization effects that generate additional interdependence, calling for more integration at time T2. Depending on the autonomy and identity costs that governments and citizens perceive to result from the spillover effects, the integration path bifurcates at time T3. Under the condition that the perceived autonomy and identity costs of further integration steps are low, preferences remain compatible or converge, and politicization remains weak or even decreases, we are likely to see further integration in order to deal with spillover and institutionalization effects. If, however, the perceived autonomy and identity costs are high, preferences are likely to diverge and politicization increases, integration either stagnates at the status quo level or becomes more differentiated as it progresses.

WHERE DO WE GO FROM HERE?

The Treaty of Lisbon was poised to conclude a decade-long and difficult search for a constitutional foundation for the enlarged Union, and despite repeated claims that European integration has run its course and reached a ‘constitutional equilibrium’ (Moravcsik 2005), the EU remains a vibrant political system that is in constant flux. A series of crises put the EU to a stress test—and found many of its rules and institutions wanting. The shock of the most recent Corona crisis and its social, economic, and political repercussions are likely to impact the debates on how Europeans want to organize their common fate in the decades to come.

In this book, we surveyed the theoretical literature on regional integration and applied integration theories to different policy areas in the EU. Our special focus has been on differentiation: The combination of vertical and horizontal differentiation has become a core feature of the EU that is likely to persist. Brexit has highlighted that integration is constantly at a risk. With 27 member states today and the likelihood of even more states joining the EU in the future, heterogeneity is likely to grow. So are the pressures for further deepening as highlighted, for instance, in the continuing debates on the future design of the eurozone. Against this backdrop, differentiation will be one possibility to reconcile the tension created by deepening and widening.

At the time of writing, European integration seems an ambiguous affair. Whereas the EU has attained an unprecedented level of regional integration, many of its policies represent a fragile intergovernmental

consensus and fair-weather arrangements. The EU's crises have exposed the lack of effective decision-making, operational capacity, solidarity and, in turn, created functional incentives for even deeper integration. At the same time, European publics have become increasingly sensitive to, and reluctant about, integration. Over time, the politicization of integration has moved from the geographical peripheries to the centre of the EU. These challenges were paradigmatically illustrated at the early phases of the Corona crisis.

The Corona pandemic underlines the inescapable interdependence between the member states and the functional imperatives of working together even in sectors such as health. On the other hand, citizens seem reluctant to pay the price for integration. Citizens in the wealthier—mostly Northern—member states worry about the fate of their financial contributions; citizens in the South fear the loss of their national autonomy. Likewise, already the eurozone crisis underlined that solidarity among the citizens of the EU is much weaker than in the national context, and even seemingly outdated national clichés survive and resurface. Interestingly, regional cleavages also become apparent in the evaluation of differentiated integration with citizens in the South substantively more opposed to horizontal differentiated integration than in the North and the East. One reason for this pattern may consist in fears of growing discriminations inside the EU (cf. Leuffen, Schüssler, Gómez Díaz, 2020).

At the same time, by unsettling the EU's institutional architecture, routine policy-making, and established policies, the EU's polycrises have amply demonstrated the relevance of integration theory. As long as the EU remains a dynamic and unstable polity, with a changing membership base, partially dysfunctional policies, and constitutional conflict among and within member states as well as EU-level actors, we need theories to explain the driving forces and constraints for understanding European integration. For students of European integration, knowledge about the drivers of and obstacles to European integration throughout its history is not simply *art pour l'art*, but a window to the art of the possible.

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