



# Integration and Differentiation in the European Union

Theory and Policies

Dirk Leuffen · Berthold Rittberger  
Frank Schimmelfennig

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Dirk Leuffen  
Department of Politics  
and Public Administration  
University of Konstanz  
Konstanz, Germany

Frank Schimmelfennig  
Center for Comparative  
and International Studies  
ETH Zurich  
Zurich, Switzerland

Berthold Rittberger  
Department of Political Science  
Ludwig-Maximilians-University  
Munich, Germany

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## PREFACE TO THE 2<sup>ND</sup> 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

Dirk Leuffen  
Berthold Rittberger  
Frank Schimmelfennig

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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 2

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

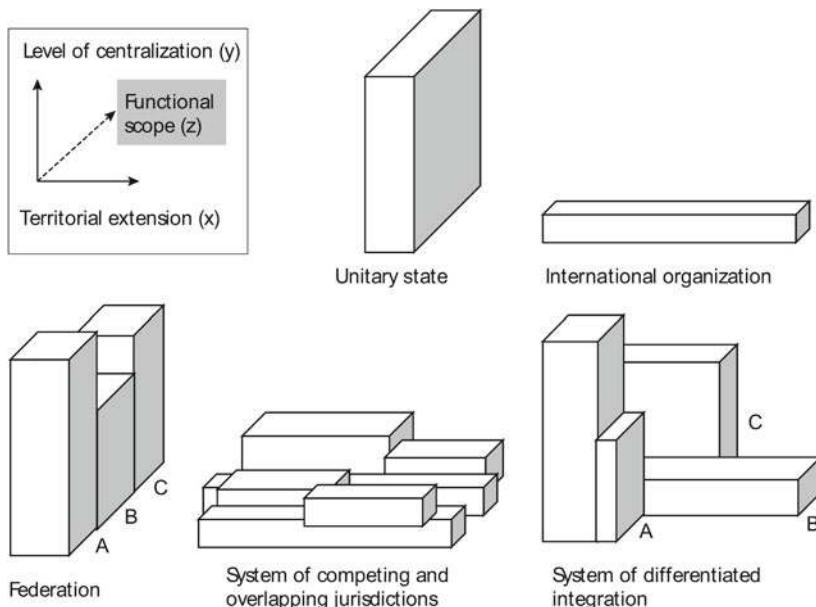


Fig. 2.2 A three-dimensional representation of polity-types

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	Horizontal integration (Count)
0	<i>Coordination</i> No EU-level policy coordination	<i>Delegation</i> None
1	Intergovernmental coordination	None
2	Intergovernmental cooperation	Minimal
3	Joint decision-making I	'Community method'
4	Joint decision-making II	Limited pooling 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

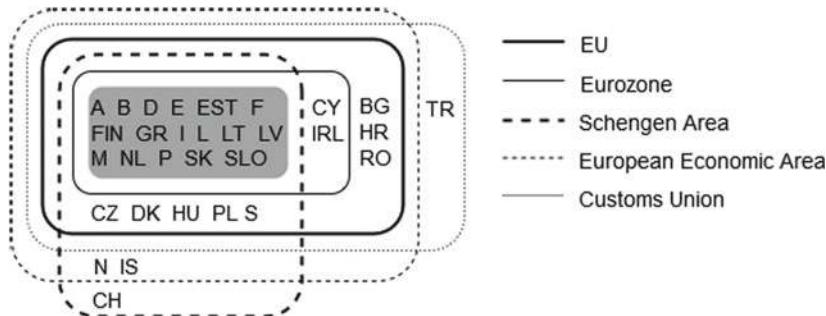
[a]	No horizontal differentiation (uniform application)
[b]	External differentiation
[c]	Internal differentiation
[d]	Internal and external differentiation

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

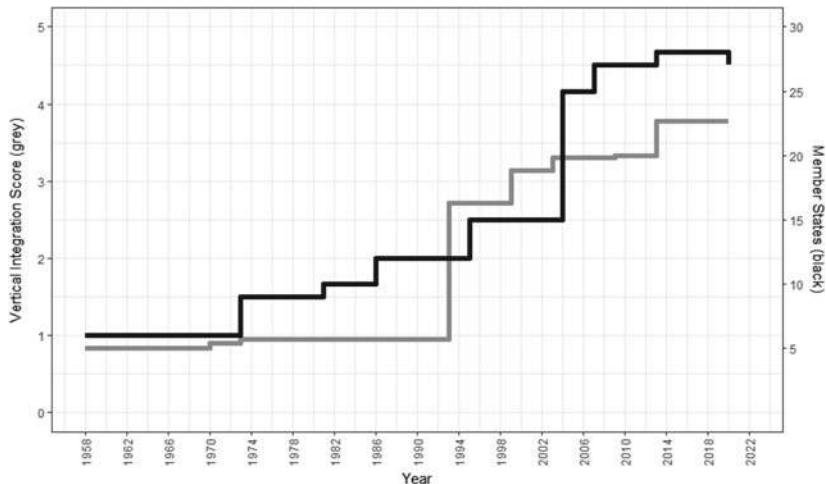


Fig. 2.4 Vertical (all policies, 1950–2020) and horizontal integration

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.

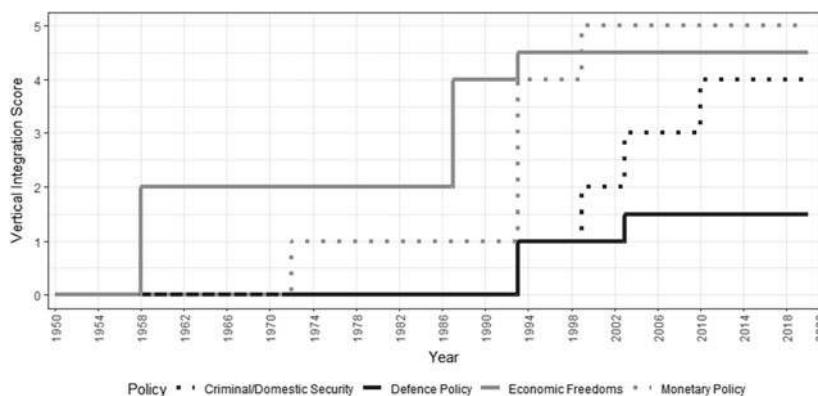
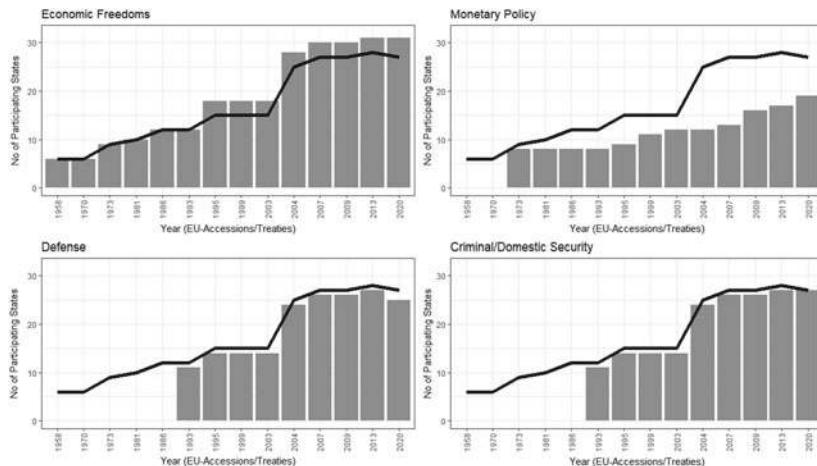


Fig. 2.5 Vertical differentiation (selected policies, 1950–2020)

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.

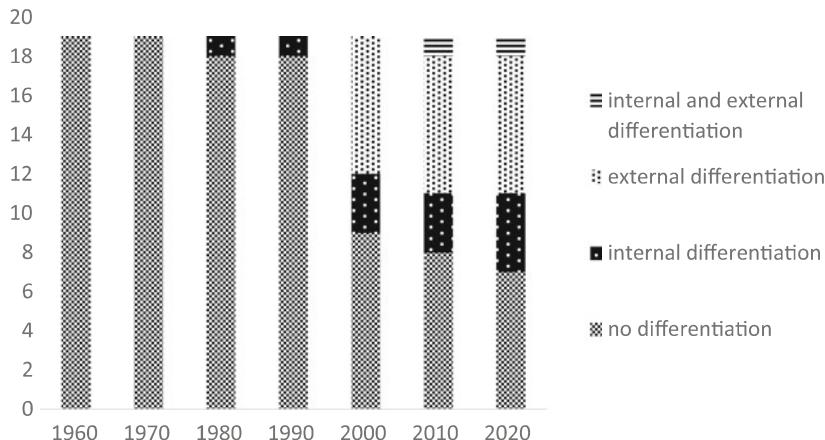
Similarly, both horizontal integration and horizontal differentiation have also increased over time. From the 1970s onwards, we see a rising number of states participating in European integration over the different accession rounds (black line in Fig. 2.6). Eastern enlargement has led to a visible increase 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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