

THE FUNDAMENTALS

PART

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PERSPECTIVES ON POWER AND PLENTY

LEARNING OBJECTIVES

1. Define the various stages of regional integration.
2. Explain the supranationalism perspective and summarize its variants.
3. Explain the intergovernmentalism perspective and summarize its variants.

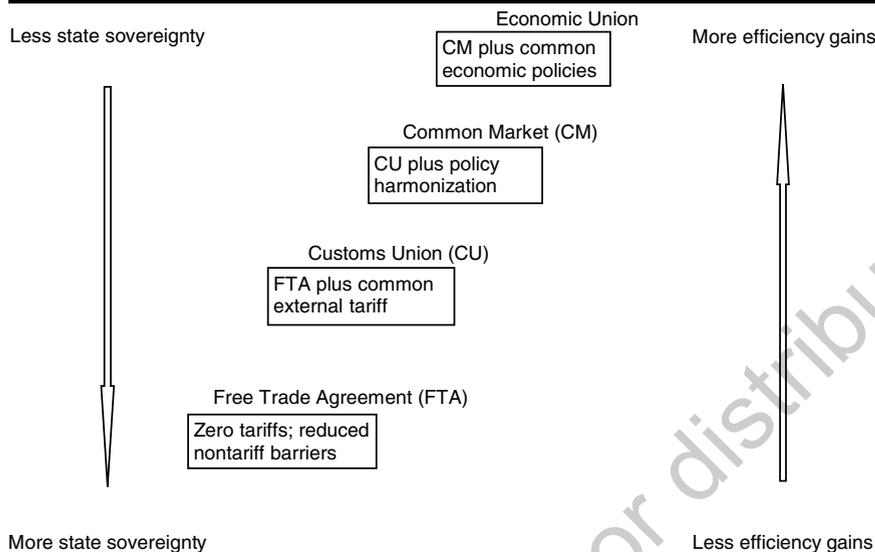
The aim of this chapter may be summarized in the following simple way: “What you see depends on what you want.” The point is that the EU represents and is capable of delivering different things to different people. Stated differently, what people get out of the EU depends on what they are seeking. What we see is colored by what is labeled as a perspective.

Perspectives are organized ways to help us find what we are looking for. But to a large extent, they also help us formulate our preferences and our objectives. The chapter presents the two perspectives, **supranationalism** and **intergovernmentalism**, and their variants, in greater theoretical detail, to highlight differences and similarities. Each perspective looks at power and plenty in very different ways. The discussion will explore how that happens and why.

The chapter will be introductory and theoretical, with empirical richness to be included in subsequent chapters. It is divided in two sections. The first section outlines the various forms of regional integration. Why do governments voluntarily seek integration, what do governments seek to achieve, and what functional form is it likely to take? The second section introduces the two perspectives. Being a creation of national governments, the EU is fundamentally a political institution. As such, the perspectives highlight the politics behind support and opposition to more or less integration, and the consequent actions and reactions to the pursuit of power and plenty.

STAGES OF INTEGRATION

Ever since Adam Smith published his *Wealth of Nations* in 1776, many economists and policy-makers have accepted the proposition that the removal of governmental impediments to trade under most circumstances enhances profits and societal economic

FIGURE 2.1 ■ Stages of Economic Integration

welfare. **Regional integration** is the process of removing such obstacles—or, stated differently, it specifies the conditions and logic whereby national governments attempt to accelerate economic prosperity. This is indeed an important dimension of the EU and part of what Schuman and other policy-makers in the 1940s and 1950s had in mind: “The movement of coal and steel between member countries will immediately be freed from all customs duty.”¹

There are four institutional types of regional integration. Starting from the premise that national governments enjoy absolute sovereignty, each type involves a bit of sovereignty being transferred or pooled at a different level of authority. These types may also be conceptualized as stages or levels in a ladder of ascent from less to more economic integration (see Figure 2.1). Each stage contains and supersedes the preceding stage(s).

Free Trade Area

A **free trade area (FTA)** consists of a group of two or more states, which agree to eliminate tariffs, quotas, and other restrictions on trade with each other but retain political autonomy in determining trade restrictions with nonmembers. **Tariffs** are taxes on imports. **Quotas** are numerical ceilings on goods entering a national border. These agreements can be limited to a few sectors or can encompass all aspects of international trade. FTAs may also include formal mechanisms to resolve trade disputes. Aside from a commitment to reciprocal trade liberalization, FTAs place few limitations on member states.

Examples of FTAs abound throughout the twentieth century, including:

- the North American Free Trade Agreement (NAFTA)—created in 1994 to include the United States, Canada, and Mexico
- NAFTA's successor in 2018, the United States, Mexico, Canada Agreement (USMCA)
- the Latin American Free Trade Association (LAFTA, now renamed the Latin American Integration Association, LAIA)—which was created in 1960 and has come to include most Latin American countries
- the European Free Trade Association (EFTA)—which was created in 1994 and includes four members, Iceland, Liechtenstein, Norway, and Switzerland
- the Association of Southeast Asian Nations (ASEAN) FTA.

Customs Union

A **customs union (CU)** consists of a group of states that not only dismantle impediments to trade among themselves but also agree to create two more institutions: a **common external tariff (CET)** and other restrictions against imports from the rest of the world and common administrative machinery to manage the union. CU members may also negotiate multilateral trade initiative (such as at the World Trade Organization) as a single bloc because members pursue the same trade policy vis-à-vis third parties. Examples of CUs include the Zollverein in the nineteenth century among German states and the Belgium–Luxemburg Economic Union.

On the positive side, CU membership results in significant administrative cost savings because the arrangement eliminates the need to create and implement rules of origin documentation. For an FTA to function properly, members must establish rules of origin for all third-party goods entering the free trade area. Goods produced within the free trade area (and subject to the agreement) may cross borders with few restrictions. However, rules of origin requirements must be met to prove that the good was in fact produced in the exporting country. Otherwise, producers in each member state have an incentive to cheat: import goods from lower-cost third party producers and resell them tariff free as their own to the entire FTA. CU membership eliminates this problem but creates two more in its place: administrative costs and some loss of sovereignty. Administrative machinery must be established to manage and supervise the CET. In other words, the cost savings from not having to create rules of origin may be diverted to creating a new bureaucracy.

The main negative dimension of a CU is the greater loss of sovereignty. Every treaty on free trade chips away from the ability of each national government to decide which products and at what price may enter its territory. FTAs involve some loss of sovereignty because states can no longer turn away or increase the price of goods from member

states. In order to gain the benefits of the customs union, members have to surrender some degree of policy autonomy, the ability to set independent trade policy. By extension, because of the increased importance of trade and economic measures as foreign policy tools, customs unions may place some limitations on the broader contours of an independent foreign policy.

Common Market

A **common market** (CM) is a customs union that establishes and regulates an internal market. It represents a major step toward more economic integration primarily because it removes barriers to the mobility of goods, people, capital, and services, as well as eliminates nontariff barriers to trade, such as the regulatory treatment of product standards. Examples of CMs are the European Economic Community (EEC), which is now part of the EU; the moribund Central American Common Market (CACM), which was created in 1960 to include most countries in Central America; Mercosur, which was established in 1991 to increase economic cooperation among Argentina, Brazil, Paraguay, and Uruguay; and others.

Establishing a CM can yield significant efficiency benefits. CMs typically require significant policy harmonization in a number of economic areas because of the impact one member's policies may have on the others. For example, free movement of people, including labor, necessitates some type of standardization in worker qualifications. Harmonization may result in a more efficient allocation of resources across countries. The main drawback is precisely the harmonization effort. It places a major burden on member states, which now have even less independence in determining trade, economic, and to a lesser extent labor and certification policies.

Economic Union

Economic union represents the highest form of economic integration. It adds to the common market the need to harmonize a number of policy areas, most notably fiscal, monetary, regional development, and industrial policies. Because all members essentially share the same economic space, it would be counterproductive to operate divergent policies in those areas. Economic union provides the requisite environment for companies to achieve economies of scale, thereby increasing production efficiency. Though not necessary, monetary union may accompany this stage of integration. Eliminating exchange rate uncertainty and currency transaction and translation losses through the creation of a common currency and monetary policy allows for the most efficient allocation of resources.

As economic integration grows deeper, members have to pool more resources to coordinate their efforts, resulting in possibly more political integration as well. Whether it is an explicit objective or an afterthought, economic union necessitates significant pooling of sovereignty. Roubini and Das may exaggerate, but they have a point: "No currency union has survived without a fiscal and political union."²

The main benefit of economic union is increased economic activity and prosperity through efficiency gains. The problem is, of course, an interlocking web of sovereignty. Governments must surrender their ability to independently set monetary and fiscal policies to a collective body of which they are part. The drawback of this arrangement is that consequences from activities in one member reverberate throughout the union, as the governments of Italy, Spain, and Portugal found out all too well after Greece's financial meltdown in 2010. In other words, the certain benefit of efficiency gains is counterbalanced by the probability of major cascading damages. Governments are no longer independent in the sense they are not only incapable of setting prudent economic policy in isolation, but they are also less capable of containing damages from their profligate counterparts. As former European Commission president Manuel Jose Barroso said, "It's quite clear that economic policies are not just a matter of national concern but European concern."³ Economic union requires significant political collaboration and trust.

Greece's dilemma illustrates vividly the benefits and drawbacks of economic union from a national perspective. Upon winning the national elections in October 2009, the incoming Socialist government announced that its conservative predecessor had tinkered with statistics, showing a much smaller budget deficit than there really was. In response to the global economic crisis, Socialists charged, the government increased public expenditures dramatically, but in order to meet its eurozone obligations—Greece adopted the euro in 2002—it hid the true extent of its budget deficit. The Socialists, therefore, revised their estimate of the deficit upward by more than 6 percent of GDP! This created a crisis of credibility not only because the Greek government now had to convince the Commission, its eurozone counterparts, and financial markets that its estimates were accurate, but also because it had to come up with a credible plan for how to reduce it within a reasonable time to a target of 3 percent.

George Provopoulos, then governor of Greece's central bank, the Bank of Greece, explained with painful clarity his country's predicament in a letter to the *Financial Times*.⁴ He argued Greece did not wish to exit from the common currency scheme that accompanied economic union because of the unfortunate consequences. Exit would imply the creation of a new currency (possibly the old drachma), which would probably have to be devalued in order to combat the deficit problem and make the economy more price competitive:

- Devaluation would increase the cost of imports, raising inflation.
- Monetary policy would lack the anchor and credibility provided by the European Central Bank, thereby raising inflationary expectations.
- Both of the above would create a vicious cycle of higher inflationary expectations, raising interest rates and the attendant cost of servicing the debt and undermining fiscal adjustment.

- The new currency would reintroduce currency uncertainty with additional transaction and translation costs, thereby raising the cost of doing business and generally deterring trade and investment.
- Greece would no longer benefit from economies of scale, including an enlarged currency market, which tends to reduce price volatility in that market.

The economic cost of going it alone far outweighed the alternative cost of taking painful adjustment measures. In other words, the central banker concluded, “it will be immensely less costly for Greece to eradicate its problems from within the eurozone. The future of its economy is unwaveringly tied to the mast of the euro.” To sustain membership in Europe’s economic union, Greece had to make some very painful political choices.

THE SUPRANATIONAL LOGIC OF THE PURSUIT OF PLENTY

While the creation of the EC has been largely framed in terms of greater prosperity, the calculus of choice is fundamentally political. Policy-makers decide to pursue closer integration not simply because they seek to unlock the potential for higher rates of economic growth, but also because they aim to aggrandize themselves and their nation’s power. Therefore, a better understanding of why and how they do so necessitates a closer look at the vision, motives, restraints, and identities of governments and their publics.

The year is 1945 and World War II has just ended. Europeans find themselves economically, politically, and emotionally devastated. European integration, as a way of moving forward, has supporters in some quarters but also strong opponents. The EU framers at the time faced a difficult dilemma: either pursue full integration and failing that risk losing momentum toward peace in Europe or accept something less now and work toward political integration in the future. They were pragmatists, much like the framers of the US Constitution. They understood politics is the art of matching the ideal to the feasible. So, the framers came up with a plan that would create solidarity among members by commencing the process toward integration in small steps. French Foreign Minister Robert Schuman, one of the architects of European integration, clearly articulated this logic when he stated in his 1950 Declaration: “Europe will not be made all at once.”⁵

The idea behind the creation of the European Coal and Steel Community (ECSC), the precursor to today’s EU, was to get the process started in the hope that when benefits became apparent, elites would continue pulling their economies, and ultimately polities, together in an “ever closer union of peoples.” In a seminal book on European integration, Ernst Haas dubbed this perspective “neofunctionalism.”⁶ It blends the economic logic of functionalism with a particular political twist. Driven by economic

incentives, national elites constantly pressure for more integration to enjoy the full range of benefits in a relentless process that will ultimately result in “a shifting of loyalties” upward—that is, away from the nation-state toward supranational authority.

Supranationalism should be viewed and will be treated here as a stream of research that has many branches. Some receive inspiration from neofunctionalism but highlight some aspects that lead in a different direction than proponents of supranational governance and multi-level governance.

Functionalism

To understand supranationalism and its core, **neofunctionalism**, we must first explore the logic of **functionalism**. Functionalism offers a strategy for peace and prosperity based on promoting international cooperation in technical, nonpolitical areas. The basic premise is that countries are more likely to cooperate, and by extension integrate, because the problems of the day—trade, finance, transport, unemployment, and ultimately economic growth—can be addressed more effectively and efficiently at the international rather than the national level. The logic is that technological advances address old issues but in the process create new problems. In light of the desire to increase standards of living, technology establishes new space for cooperation that did not exist before to address concerns and accelerate the distribution of benefits across society.

Take the invention of the steam engine and railroads. Cheap and safe land transport of people and goods across large territories is a problem that has existed for many centuries. Roman engineers solved this issue by building an extensive road network and enforcing some form of peace within the empire, but the technology was lost through the ages. More importantly, the mode of transportation remained the same: either on foot or on some form of animal-driven carriage. The steam engine solved this problem by allowing the (relatively) cheap transport of massive numbers of people or goods over very long distances.

In doing so, it created problems of collaboration. Railroads were built within the confines of individual countries. As long as they served those markets alone, standardization of tracks could be dealt with effectively by way of a national commission and the coercive power of the state. However, profits would be even higher if companies could transport goods or people across national lines. More trade meant not only higher profits for traders and transport companies but also lower prices and a wider range of goods for consumers. The implication was that in order for trains to run across national borders, there needed to be some form of standardization of technical aspects such as width of tracks, dimensions of tunnels, and the like. Technological innovation created more prosperity, but doing so also created the need for international cooperation in ways and areas that did not exist before.

In his magisterial book *The Functional Theory of Politics*, David Mitrany argues cooperation stands a greater chance to stick—that is, reduce the likelihood of national

competition and war and increase material prosperity—when integration proceeds in areas where interests are common, among countries with common interests, and to the extent to which interests are common.⁷ The nature of interests is likely to be technical and economic because these issues are the least contested among people. He argues there is no need for an overall political authority, save for general coordinating agencies that would have a global perspective. But cooperation must suit the functional nature of the problem. So, railroads are best coordinated along continental (European) lines, but aviation can be organized effectively only on a universal scale.

Neofunctionalism

Neofunctionalism accepts this logic but reverses the order and adds a few more elements of its own. The biggest problem with functionalism was not its logic but its apolitical nature. Functionalists, Haas pointed out, did not take into account the need for political will to cooperate. International cooperation will not happen automatically; politicians need to push it in that direction. Instead of expecting the free market to create these opportunities, which business or labor will recognize and somehow exploit, politicians can create these conditions for integration, but in a limited way. Consider Europe after World War II. Industry was in ruins and unemployment was high. Fear and revenge were in the air. If politicians waited for business to take advantage of technological advances and opportunities, they might wait forever. But problems were real and immediate, and they required urgent solutions.

The key question was how to do it. Neofunctionalists maintain that economics is still the most fertile area for cooperation because it creates the most tangible benefits within a reasonable timeframe. The key is to reverse the order of cooperation. Instead of trying to cooperate in areas of low politics first—primarily industries such as textiles, shoes, or machine tools where the stakes are not high—one needs to start with areas of high politics—such as defense. The idea is that if one tries to do it with low politics, it will take a long time if it ever happens. Conversely, if cooperation can be achieved in a few areas of strategic importance, then cooperation in other areas of lesser importance will be much easier. The point is to agree on the hard stuff first, letting the rest more or less fall into place.

This logic helps explain why European leaders began cooperation first in the areas of coal and steel. Coal was a very important source of energy in the late 1940s, when negotiations were taking place. Economies were still more or less coal-based. For example, coal generated some 90 percent of electricity in the UK in the 1940s. It still provided 34 percent of electricity in 2007. Oil did not become the primary source of energy for many European economies until the 1950s or even the 1960s. By the same token, steel was very important. It was the major input in the construction and, more importantly, the defense industries. Countries that maintained strong coal and steel industries were therefore likely to be highly industrialized and well armed. If only politicians could agree on cooperation in coal and steel, they would surely cooperate later in textiles.

Neofunctionalism rests on the premise of “converging expectations.” Integration will occur not because politicians coalesce around the “common good” but because they experience increasing prosperity and higher economic growth from international cooperation. Much like communication theorists, neofunctionalists argue that increasing social communication among disparate groups across national borders increases trust and empathy over time.⁸

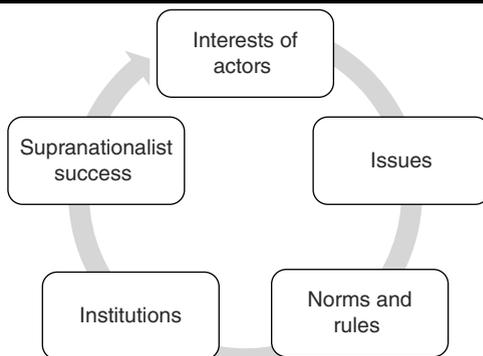
The aim is that as cooperation is cemented in some areas, elites will see the benefits from closer cooperation and seek to replicate the mechanisms of cooperation in other areas. The mechanism responsible for such cooperation is called *spillover*. Functional spillovers refer to interdependence among different economic sectors. Integration in one sector may create problems in another related sector that could be more effectively addressed through further integration in that sector. In other words, there need not be a political mandate for economic integration to occur. Groups within each economy will realize and advocate the benefits of increasing integration across sectors.

With economic integration the political aspirations of major economic and social groups are altered. Actors become aware that their interests are no longer best served by national authorities. They are likely to mobilize members and organize across national borders to lobby the new decision-making centers more efficiently and effectively. Pluralism though the fragmentation of interest groups inside states makes possible a realignment of interests across states. Because needs are likely to be more effectively satisfied at the supranational level, loyalty will shift over time upward away from the state toward the more effective supranational authority.

Supranational Governance and Historical Institutionalism

This last aspect is important partly because it has not come true and partly because the EU has gradually acquired significant policy-making capacities to create, enforce, or interpret rules and regulations, quite often as the result of unintended consequences. As actors argue about rules, they inevitably amend or reinterpret the rules, leading to a feedback loop. Modifications activate new actors and issues, leading to further modifications, and so on. Stated more formally, the process of creating and maintaining institutions, what supranationalists call dynamic institutionalization, establishes a positive feedback loop, meaning the more effectively EU institutions deal with problems, the more likely it is for them to acquire more powers in this or related areas. In other words, success begets its own success; integration creates its own dynamic and leads to further integration.

As European actors discover ambiguities or conflict in EU rules, they press for new or modified rules. The new rules entail rights that may potentially open new institutional venues or political arenas for subsequent interactions. As the number of interested actors expands and resolution of old issues becomes institutionalized, actors acquire a stake in the new system, becoming entrenched interests. As Stone Sweet, Sandholtz, and Fligstein forcefully conclude, institutionalization is cyclical in nature (Figure 2.2). The scope of supranational rules expands and gradually becomes more formal, in unexpected and unpredictable ways.⁹

FIGURE 2.2 ■ The Institutionalization Cycle

The process is helped along by creative supranational political entrepreneurs, such as the Commission. At specific points in time, supranational entrepreneurs spot diverging preferences among EU member states. They seek to mediate among national viewpoints and advance a compromise agenda at the supranational level. The more states and other actors, such as business firms, labor unions, and others, see the benefits from seeking European rather than national solutions to their problems, the more likely they are to empower the Commission (or other EU institutions, such as the European Parliament [EP] or the European Court of Justice [ECJ]) to build the capacity to pursue such options. Actors pursuing transactions across national borders will exert pro-integration pressure on their own governments, but they will also activate the Commission and the ECJ to bypass national officials. Supranational entrepreneurship, in other words, depends on divergence of national preferences as well as the intensity of (trans)national actors to demand it and the skill and ingenuity of supranational actors to supply it.

The history of European integration is replete with cases where “heroic” individuals used their skills and political acumen to push integration forward. For example, Commission President Jacques Delors was very influential in securing agreement on the Single European Act and the Treaty on European Union in the 1980s and early 1990s. The ECJ is a special agent—an institution, really—that has at times broadened significantly the scope of integration, far beyond what was envisaged in the founding treaties. Governments cannot block litigation against them, and it is virtually impossible to reverse unwanted decisions, or to reduce the Court’s powers, because unanimity is needed for treaty revision.¹⁰ For example, when the ECJ ruled in the now famous *Cassis de Dijon* case (1979), it interpreted the free trade rules included in the Treaties of Rome as fundamental principles of intra-EU trade. National rules (with some exceptions, as in firearms) that impeded or prohibited the flow of goods or services produced and sold in any EU country contravened the treaties. Such laws needed to be revised to conform to EU law.

Time plays a crucial role in politics. Institutions are sticky because their creation or operation is path dependent. Students of historical institutionalism, which is a theoretical orientation and a method closely related to supranationalism, maintain that once institutional changes are in place, actors adapt to them, investing significant resources in understanding the new rules and learning how to more profitably “play the game.”¹¹ High sunk costs, which refer to actor initial investments, prevent or make more costly any possible institutional reversal. The latter is the process of either shutting down old institutions or taking away powers from, say, the European Commission, and giving them back to member states. In this way, policy outcomes become path-dependent, i.e., they channel behavior down certain paths that make some future choices far more likely than other plausible alternatives. Consider, for example, the creation of the single European market in the 1980s. This monumental event spawned a series of processes that tore down barriers to cross-border transactions (negative integration) and pointed to the need for more European regulatory supervision (positive integration) in intended areas, such as competition or telecommunications, and in unintended areas, such as education.

Multi-Level Governance

Closely related to supranationalism is the approach of **multi-level governance** (MLG). While it is more of an approach than a theory, it stresses two key aspects of European integration that make it a valuable addition to the broad stream of supranationalism. The first element is the emphasis on governance. Rather than focusing on what the EU is, it stresses the importance of trying to understand what the EU does. The second element paints a complex and ambiguous picture of the EU. It views it as a political system that is bound by formal and informal rules where actors operate at multiple, loosely connected levels. The end result is a process that is highly complex and interactive.¹²

MLG shares many similarities with supranationalism. Multiple actors operate at different territorial levels—national, subnational, and supranational—within and across political institutions, forming coalitions and transnational networks that facilitate cross-border exchange.¹³ These levels are loosely connected but they are not nested, meaning that decisions at the subnational level do not depend solely on decisions at the EU level, and vice versa. Actors have multiple interests and shop for institutional venues, usually at the EU level, where they can satisfy those interests. Supranational entrepreneurs, but also subnational agents, often play a major role in facilitating integration. Feedback loops are very important because policies at the EU level shape actor preferences, who in turn attempt to alter EU institutions to more accurately reflect their preferences. The whole EU structure is determined by this complex interaction over several iterations, which inevitably erode the power of national governments as power disperses throughout the system in favor of regional authorities and/or supranational rules and actors.

MLG theorists argue that EU governance is characterized by task-specific, overlapping, but also mutually dependent institutions. In essence this depiction of complexity resembles somewhat Mitrany's own functional argument. He proposed the creation of international agencies, apart from or in opposition to political authority, with the task of solving important problems. Actors who share a common problem, such as computer manufacturers, are likely to realize their common ground and seek a common solution, such as a common technical standard. In essence, MLG theorists and functionalists, unlike neofunctionalists, argue institutional arrangements that diffuse political power are more likely to flourish because they are less costly to set up and maintain as functional problem-solvers. Loyalties are unlikely to shift upwards toward supranational entities, such as the EU. This is because technological advances and complex interactions among actors imply demands for supranational governance change over time and so does the cost/benefit calculus for supplying it.

Constructivism

The issue of loyalty is important not simply because it has proven elusive—Haas himself proclaimed his neofunctional theory obsolete in the 1970s partly in response to the lack of shifting loyalties—but also because it deals with an important and until recently underexplored aspect of European integration. Does more European integration foster the creation of a new, supranational identity among European citizens? The perspective developed specifically to deal with this question is **constructivism**.

Constructivists provide insights into two important supranational processes: socialization and learning. They explore the causal mechanisms by which actors (be they individual or corporate) construct their identity and the extent to which preferences remain fixed or change. The main argument is that learning takes place through repeated interactions within a specific institutional context. Identities are, therefore, likely to form and change when the context changes and depending on the intensity of the interactions. It is possible over time to develop a collective identity, such as a European identity, that is different though it coexists with a national identity under certain conditions.

Communication and discourse analysis are key mechanisms of socialization. European integration amplifies the opportunities for communication among disparate individuals and groups, leading to more opportunities for social learning. In this way integration leads to a higher degree of actor socialization, which in turn feeds back into more demands for integration. Over time, a common identity develops not because people or groups benefit from the new state of affairs but because people are socialized into forming new bonds and identities that reflect the new state of affairs.¹⁴ Social learning takes place in groups where individuals share common professional backgrounds, during times of common crisis, and in times of insulation from political pressure—that is, in low politics areas. The greater the number of communication

channels and the more intensive the messages, the more likely it is for different individuals to coalesce around the same values, which form the core of new identities.

Language is an important medium by which socialization and learning take place. Constructivists pay close attention to speech and the way words are used to communicate and persuade.¹⁵ Words convey conceptualizations that structure discourses in favor of some outcomes and not others. An entire set of terms has emerged—some call it Euro-speak—that describes issues in ways that point to particular solutions. Consider, for example, the notion of **subsidiarity**. The term refers to the principle that issues in the EU should be dealt with at the lowest possible governmental level. It was introduced in the Treaty on European Union (the Maastricht Treaty) in 1992 to defend national interests against overt centralization in the EU. Invoking this notion rarely implies advocacy in favor of more integration. Rather, national governments use it to defend their prerogatives against what they believe to be “destructive” Europeanization of issues, such as taxation. Similarly, the democratic deficit—the notion that EU institutions lack democratic accountability—paints an EU that is bureaucratic, distant, and not transparent. It is questionable whether governance in many national capitals is any more democratic or transparent, but the image has stuck. Words, therefore, structure debates over more or less European integration in ways that not only reflect dominant identities and interests but also in ways that define the opposition’s interests and identity.

All this work leads to a depiction of the EU polity not simply as constraining action (be it EU or national policies), but as a way of shaping actors’ interests and identities. Recall from Chapter 1 that the term *Europe* denotes a political as well as a cultural space. The Greeks, the Spaniards, and the Portuguese explicitly sought entry to the EU to strengthen their democracies. To the extent they have achieved this by entering the EU, their identities have also changed. The Greeks have become no less Greek, but far less national and much more European in the sense their actions and culture have converged closer to European norms. In this way, identities, not loyalties, have multiplied; there is now also a European identity, however embryonic and amorphous it may be, that informs Greek actions and interests. Over time there will be “converging expectations,” as supranationalism predicts, as identities and interests are deconstructed and reconstructed to fit the new social reality of Europe.

THE POWER OF THE STATE

There is also a more political way of viewing European integration. The main idea behind the intergovernmentalist perspective is that economic benefits are subordinate to political interests. The reason is not because of a particular love for politics but rather because of a pragmatic concern with the limits of finding common ground via economic exchange. Economic benefits are ephemeral as some organizations, firms, sometimes countries, succeed and others fail. Therefore, continuing to enjoy benefits from

greater integration depends to a large extent on support from shifting political coalitions and the power they may exert to maintain the system and multiply the opportunities for more benefits.

Rather than focusing on the outcome, that is the benefits that may (or not) come, why not focus on the politics that cements the rules which create the benefits in the first place. In other words, political power rather than economic welfare is the key engine and objective of integration. This does not mean that intergovernmentalists believe rising incomes are unimportant ingredients of integration; it simply suggests that the way to maximize those ingredients is through pursuing a politically advantageous and stable solution, whether one supports or opposes more European integration. This is a major difference between the two broad perspectives. Intergovernmentalism, and its variants, can be used to explain both the rate and limits of integration, while supranationalism is more overtly in favor of more integration. To put it in contemporary European parlance, intergovernmentalism can be both europhile and euroskeptic, while supranationalism is decidedly europhile.

Federalism

The idea of **federalism** has considerable allure in European integration. Some of the original framers were federalists, e.g., Paul-Henri Spaak, Altiero Spinelli, and Walter Hallstein. Robert Schuman very explicitly anticipated the ECSC to be “the first step in the federation of Europe [which is] indispensable to the preservation of peace.”¹⁶ However, the actual record of how this idea has influenced the rate and scope of integration is strongly contested.

Federalists justify integration on pragmatic and moral grounds. On a pragmatic level, federalists see the creation of a constitutional bond between smaller units as the best way to preserve peace and security. Driven by unfettered nationalism, European states twice fought against one another in the first half of the twentieth century with catastrophic results. The best way to abolish war in the continent, according to federalists, is to combine smaller states into a larger unit. In this way, states are able to pool resources and mobilize against a common external threat. A constitutional arrangement either in one step, as Spinelli suggested, or in small gradual steps, as Monet advocated, would diffuse power among the federal, national, and local governments, thus creating a system of “checks and balances.” On a moral level, federalism helps sovereign states see more clearly common problems and realize common solutions. The main European problem following World War II was the lack of trust among people within states but also across states. Establishing a European government on the basis of equality, autonomy, and the rule of law would go a long way toward creating social solidarity among former enemies.¹⁷

Governments are viewed as rational. They are more likely to integrate if they think it is in their benefit; what are the costs and benefits of the proposed federal solution? The US case, which has influenced many European federalists, is a good example

of why states may agree on this outcome. US states decided early that they needed a federal government to address defense and monetary issues. Each European state is too weak on its own to face down powerful enemies, such as the Soviet Union (at the time), but collectively they might stand a chance. Mobilizing troops on a continental/federal level rather than a national level also solves the free rider problem of paying for security.¹⁸ Everyone enjoys the reduced likelihood of war among European powers and the added benefit of security against powerful external enemies. Similarly, trade is facilitated as the cost of interstate transactions is reduced while the federal government provides a legitimate mechanism to mediate disputes. This mechanism may not only regulate trade among these countries—think of interstate commerce—but also within them and between them and nonmembers.

Intergovernmentalism

The biggest problem with federalism is, of course, sovereignty. Many analysts point out that it is utopian to dismiss sovereign states as the primary units of world politics. They are important providers of security and prosperity; it is therefore unreasonable to expect these governments and their citizens to voluntarily give up power to a distant authority they could not control. Besides, a federal government would be horribly inefficient as states would become entangled in struggles to ensure their voices are heard. Still rooted in the tradition of the primacy of politics, intergovernmentalists assert the dominance of states and of national interests.

Intergovernmentalism rejects a key assertion of supranationalism. Nonstate actors or supranational actors, such as the Commission, play a minor role in integration. If one wants to predict whether, when, and in which direction integration will proceed, he/she must look at national capitals. They alone determine the constellation of political coalitions, the pressure they will bear, and the bargaining tactics they will follow. Integration depends heavily on government preferences. Commissioners, for example, are appointed by member governments, and despite rhetoric to the contrary, they are beholden to them for reappointment.

The main factors limiting integration are domestic diversity and global politics.¹⁹ In contrast to the supranationalist logic of spillover, intergovernmentalists offer the logic of diversity. In areas of key importance, e.g., foreign policy or defense, states prefer the certainty of national self-reliance. Separating high from low politics, Stanley Hoffman maintains that integration is fine in technical areas of economic welfare and prosperity. Benefits are by no means certain, but the likelihood of economic benefits increases when states tear down barriers to economic exchange. However, when it comes to security, government exhibits natural suspicion and an aversion for the uncertainty that integration creates. Besides, it is by no means certain that national elites will necessarily see the universal benefits that integration presumably provides. Nationalist and ideological tendencies may produce political coalitions with different preferences in different countries at different times. As long as a united Europe

maximizes wealth, states will tolerate integration. With increasing wealth, however, states face the natural question of what to do with it. What is the end of integration? There is nothing automatic about integration. It will go only as far as member states want it to go.

External politics also shapes the propensity to integrate. Europe is no longer the center of world affairs in the way that it was in the nineteenth century. The center of power has shifted with the emergence of two superpowers, the US and the Soviet Union (Hoffman was writing in the 1960s). In the early stages, Americans welcomed the idea of integration as a way to facilitate reconstruction of European economies and as a way of providing the economic basis of security. The wealthier the Europeans became, the less likely they would be to espouse the siren song of communism. However, by the 1960s the situation had become more complicated. Many Americans came to see an integrated Europe as a potential competitor to US leadership. They were thus less enamored with the prospect of a politically more powerful Europe. Some Europeans, more notably in France, saw a united Europe precisely as the antidote to US supremacy. As long as integration served French interests, they were enthusiastically behind it. Once integration took a turn that did not coincide with their national interest, French leadership, notably through General de Gaulle's "empty chair" policy, brought the movement to a halt.

Liberal Intergovernmentalism

The liberal variant of intergovernmentalism accepts the basic tenets outlined above and adds some of its own to provide a more complete picture of integration. States are rational actors, who negotiate international agreements in pursuit of the national interest. Domestic, supranational, or transnational actors play only a minor role in the negotiations, which ultimately reflect the equilibrium of national preferences, but only in issues where states seek agreement. In other words, there is no spillover effect and neither is there any hope of "shifting allegiance upwards."

Liberal intergovernmentalism does not claim to provide a comprehensive explanation, but rather an explanation of key moments or major treaties of integration.²⁰ Adapting Putnam's "two-level games" argument, these scholars argue integration involves a series of rational choices made by national leaders in three levels: domestic, intergovernmental, and issue-regime levels.²¹ State executives do not have fixed preferences. Rather, national preferences are determined by the push and pull of mainly economic forces within each country. In true pluralist fashion, interest groups pressure governments to pursue interests at the European level that coincide with their own global and domestic interests. The ability of state executives to follow their own autonomous interests depends on the intensity of mobilized interests and the power they come to bear on national governments. The more divided or ambiguous the domestic demands, the greater discretion executives have in pursuing their own ideological or geostrategic interests.

State negotiators aggregate these preferences in some order and bargain with other state executives for the best possible outcome. Political power shapes the outcome of negotiations. The aim of European integration is policy coordination and the reduction of negative economic externalities in light of increasing economic interdependence. In other words, liberal intergovernmentalism highlights the economic benefits that accrue because of integration, in similar fashion as supranationalism, but it rejects the automaticity of integration or the informal power of supranational entrepreneurs.²² The creation of the EEC and the Single European Act (SEA), for example, are simply the result of intergovernmental bargains.²³

Finally, states create and maintain international institutions. State executives pursue international agreements to reduce transaction costs and to bolster their credibility of commitment. Reduction of transaction costs refers to the cost of economic transactions across national borders and the cost of the negotiations in terms of information, distribution of benefits, adjudication mechanisms, and the like. For example, international institutions, such as the ECJ, have been created to provide a commonly acceptable way to mediate conflicts between companies, which inevitably arise as a result of growing economic interdependence. But institutions serve one more important function: they increase the credibility that member states will comply with the negotiated agreement.

Rational Institutionalism

Credibility of commitment is a key assumption of **rational institutionalism**. Drawing liberally from economic theory, scholars who pursue this train of thought aim to explain the reasons why national governments (principals) delegate authority to supranational actors such as the Commission or the European Parliament (agents) and the instruments of principal control and agent discretion. Underlying this stream of thought are trade-offs between the twin concepts of efficiency and accountability. In their quest to bolster efficiency gains through European integration, member states design institutions that rely on a different kind of democratic accountability.

European integration is the result of interstate bargains, whereby authority is delegated to supranational institutions to maximize efficiency gains. Integration is likely to proceed in ways and issues where it is least costly. This helps explain why integration is deeper in regulatory areas, such as competition policy, rather than redistributive issues, such as social welfare policy.²⁴ Institutions, such as the ECB, provide constraints and opportunity structures for states to pursue their goals. For example, European law and ECJ rulings reflect, according to some rational institutionalists, member state desires and preferences.²⁵ Governments could either ignore rulings or amend the ECJ's legal power through treaty revisions. They refrain from doing so because rulings either serve their own interests or present efficient solutions to problems of incomplete contracting or enforcement of treaty provisions. For its part, the ECJ acts like a strategic actor

anticipating state sanctions and refrains from making controversial decisions or decisions that governments may generally not approve.

Decision-making rules distribute power in specific ways so that some states or supranational agents may shape outcomes in more substantive ways than others. For example, although the European Parliament had primarily consultative power until the adoption of the TEU (also known as the Treaty of Maastricht) in the 1990s, it wielded disproportionate influence through its conditional agenda-setting power.²⁶ Similarly, the Commission is able to exploit conflict among principals and pursue its own preferences in less technically complex policy cases where it is more costly for states to amend its proposal than adopt it.²⁷ Moreover, the European Parliament prefers less national administration discretion, and more power to the Commission, because it is more costly to control national administrations than Council ministers. This is especially true in areas such as environmental policy and labor law (discrimination and worker harassment).²⁸

But what if an agent behaves in ways that are different from the wishes of the principals? Principals have devised a host of oversight and control procedures to limit and sanction agents. These control instruments include formal participatory requirements—an instrument labeled as **comitology** in eurospeak—spending and time limits, public hearings, reporting requirements, appeals procedures and exemptions, and so on. All these issues raise important problems of democratic accountability.

How can European integration proceed in a way that promotes efficiency and democracy?²⁹ The answer rational institutionalists give is by creating accountability through outputs, not inputs. Input accountability results in participatory democracy. Much of democracy in Europe is exercised through input democracy—that is, elections where citizens hold policy-makers accountable for the decisions they make. There is another type of democracy that rational institutionalists insist is more appropriate at the EU level—output democracy, where accountability is exercised through results. As long as the decision outputs reflect preferences of principals, who are after all democratically elected, then democratic accountability is ensured. In cases where outputs diverge from the wishes of principals, principals should impose sanctions not simply to maintain efficiency gains but primarily to constrain a runaway bureaucracy and ensure democratic accountability. The trajectory of European integration is likely to reflect the push and pull forces of these trade-offs.

CONCLUSION

In this chapter I have outlined two broad perspectives on European integration. They make different assumptions, stress different aspects of integration, and predict different outcomes. Each has a particular answer on how to address the twin problem of power and plenty.

Supranationalism and its variants—neofunctionalism, supranational governance, multi-level governance, and constructivism—posit that integration is best achieved through increasing economic cooperation across borders. The process can be shepherded along by politicians, but the key is to create incentives for national elites to realize the economic benefits of integration. Functionalists advocate integration in areas of low politics first, while neofunctionalists argue for limited initial integration in areas of high politics. All supranationalists envision the process advancing in small steps and concentrate on explaining how integration in one area produces benefits that lead to a spillover effect in another area. Supranational actors such as the European Commission and transnational associations of various economic and social groups are key agents pushing for more integration.

Intergovernmentalism and its variants—federalism, liberal intergovernmentalism, and rational institutionalism—begin with a different assumption. Politics is at the heart of the integration process. Economic benefits will come only when and in areas where the right political bargain has been struck. Federalists believe the best way to proceed is to constitutionalize the process. The best way to find common ground in groups and individuals across national borders is to bind all “at the hip.” Once the process is politically cemented, ways to solve common problems can be found more easily. Prosperity will follow politics. But the majority of intergovernmentalists actually find this solution to be utopian. National governments remain the main engines of integration. Hence the project of European integration depends heavily on the preferences of ruling political coalitions within major member states. Supranational actors are important, but integration will be circumscribed and, in some instances, reversed to suit primarily national objectives.

Interestingly, supranationalists and intergovernmentalists differ significantly in the emphasis they place on power and plenty and the cause-and-effect relationship between the two. Supranationalists argue that growing economic collaboration will pave the way for more political integration under specific conditions and in limited steps. Economic benefits bring more power. Additionally, supranationalists do not question the benefits of integration. They simply assume that free economic exchange across borders will necessarily bring in most instances more benefits to all. The question is not whether to push for more integration, but when and how. Intergovernmentalists begin from a different point and reverse the sequence. Power drives plenty. Hence integration is subject to the political ideology and interests of national governments. The process will take off only in areas where member states see distinct national benefits from cooperation. When the benefits disappear, shifting coalitions within states will seek to ally with each other to undo or reconfigure international bargains in more nationally advantageous ways.

More recently, intergovernmentalists have sought to specify the trajectory of European integration in light of the economic crisis that hit Europe in the wake of the Great Recession in 2008. Postfunctionalists, a variant of the broader stream of supranationalism, argue that domestic politics has reshaped the integration debate within

member states, leading to legitimacy problems. The “permissive consensus” that propelled integration decades ago has been replaced by a “constraining dissensus” that limits possibilities of what further European integration might entail.³⁰ New intergovernmentalists accept this predicament but add a twist. Further integration will now be colored by a destructive dissensus, or what they call disequilibrium.³¹ Politicians simply try to elude domestic constraints by forging ahead in ways that further disenchant domestic publics and fuel suspicion of indifferent and corrupt elites. What makes these new variants of old theories interesting is not so much their novel explanatory power but rather their predictions. Whereas postfunctionalists aim to explain the limits of integration in light of recent economic and other crises, new intergovernmentalists predict its likely demise or at least further imbalance, tension, and contradictions. Integration in recent times has planted, according to new intergovernmentalists, the seeds of its own dysfunction.³²

I have deliberately steered away from criticizing any perspective. By definition, perspectives are limited because they are simplifications of reality. They can be easily criticized for leaving out elements that may in some circumstances be very important. For example, it is easy to characterize the process of European integration as obsolete, as Haas actually did, in times of economic stagnation or severe crisis. But such criticism is time bound; note how the perspective took on new life during the economic boom years of the late 1980s and 1990s. Whether each provides an accurate explanation is an empirical matter, which we will investigate more fully in the chapters ahead. Criticism also detracts from the main point of the book. Perspectives matter not because they are limited in some fashion, but because they highlight different aspects of integration and offer different visions of the future. Europe looks very different depending on the perspective one adopts. Understanding different perspectives helps us understand different versions of Europe, the way each version addresses questions of power and plenty, and ultimately the answer to the question Europeans have been asking for a long time: what kind of Europe do they want?

KEY TERMS

Comitology	Liberal intergovernmentalism
Common external tariff	Multi-level governance
Common market	Neofunctionalism
Constructivism	Quotas
Customs union	Rational institutionalism
Economic union	Regional integration
Federalism	Subsidiarity
Free trade area	Supranationalism
Functionalism	Tariffs
Intergovernmentalism	

SUGGESTIONS FOR FURTHER READING

Supranationalism and Its Variants

Haas, Ernst B. *The Uniting of Europe: Political, Social, and Economic Forces, 1950–1957*. Stanford University Press, 1958. The classic statement of neofunctionalism.

Hooghe, Liesbet, and Gary Marks. *Multi-Level Governance and European Integration*. Rowman & Littlefield, 2001. The book examines why power is diffusing in the EU; how this diffusion shapes patterns of conflict and cooperation in national and European political arenas.

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Risse, Thomas. *A Community of Europeans? Transnational Identities and Public Spheres*. Cornell University Press, 2010. A thoughtful, constructivist statement on the emergence of a European identity and its implications for the EU.

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Bickerton, Christopher J., Dermot Hodson, and Uwe Puetter, eds. *The New Intergovernmentalism: States and Supranational Actors in the Post Maastricht Era*. Oxford University Press, 2015. A provocative set of essays bringing state actors back into discussions of European integration and policy-making.

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Moravcsik, Andrew. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Cornell University Press, 1998. The clearest explication of liberal intergovernmentalism.

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Spinelli, Altiero. *The Eurocrats*. Johns Hopkins University Press, 1966. The author was an important proponent of federal Europe. In this book, the former European commissioner and member of the European Parliament discusses the workings and shortcomings of an integrated Europe.

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Leruth, Benjamin, Nicholas Startin, and Simon Usherwood, eds. *The Routledge Handbook of Euroscepticism*. Routledge, 2018. An elaboration of the varieties, sources, actors, and consequences of opposition toward the EU.

Vollaard, Hans. *European Disintegration: A Search for Explanations*. Palgrave Macmillan, 2018. An interesting set of arguments looking for explanations against integration.

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