
Revisiting the Debates on a Model of Integration for Post-Crisis Europe: Towards A Political Union or Just More Differentiation?

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Abstract

The Euro crisis, which has had deep economic, social and political implications for the European Union (EU), has revived the debates on the future model of European integration. In this respect, the establishment of a European political union has been advocated as a way of restoring shattered confidence in the EU. Whereas these debates recall neofunctionalist/supranationalist approaches to European political integration, the enduring crucial role of national preferences in the integration process keep intergovernmentalist arguments on the agenda as well. Furthermore, the increasing divergences within the EU endanger the unity and cohesion required by a political union, bringing forward arguments in favour of differentiated integration as an alternative model for post-crisis Europe. This paper aims to analyse the implications of the crisis for the EU on theoretical grounds, elaborating on the debates over a future model of integration for post-crisis Europe. It is mainly argued that these debates reveal the persisting complexity of reconciliation on the possibilities and means of building a European political union and stimulate conventional controversies rather than clarifying the finality politique of the EU.

Key Words

European Union, Euro crisis, political union, differentiated integration, neofunctionalism, supranationalism, intergovernmentalism.

Introduction

The controversy between supranational and intergovernmental tendencies has long influenced not only the political processes in Europe but also theoretical discussions, causing a long-lasting ambiguity regarding the *finalite politique* of European integration. This controversy has been explicitly reflected by the theoretical debate between the original and revised versions of neofunctionalism and intergovernmentalism.¹ Neofunctionalism views European integration as a self-sustaining process that will incrementally lead to further integration resulting in the formation of a new political entity, preferably a political union. This vision primarily focuses on a process through which supranational European institutions gain political autonomy and authority. On the other hand, intergovernmentalists emphasize

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the state-driven nature of European integration, prioritising national preferences and intergovernmental bargaining.² Hence, the supranationalist-intergovernmentalist debate has conventionally comprised a crucial aspect of European political integration theories although other theoretical perspectives have also periodically gained prominence over this theoretical dichotomy. In fact, each theory can only describe particular periods or pieces of European integration. Thus, as Wiener and Diez state, “each approach can be seen as a stone that adds to the picture that we gain of the EU. This picture is likely to remain unfinished, as new approaches will add new stones to change the picture”.³

At the policy level, European integration has followed a dynamic trajectory with ups and downs rather than a linear process. This dynamic process has been shaped by changing agendas and political priorities in an effort to achieve different goals in different periods. The goals of completing the internal market, introduction of the single currency Euro and the eastern enlargement have been on the top of the European agenda throughout the 1990s and 2000s. Thus, the need to face common European challenges has constantly influenced the integrationist strategies in the EU.⁴ In the post-Lisbon era, the recent crisis

stands as the greatest challenge to an enlarged EU within an ever accelerating process of globalisation. The global economic and financial crisis that started in 2007-2008 and soon became a sovereign debt crisis, a Euro crisis and eventually a social and democratic crisis in Europe, has doubtlessly marked the EU agenda, leading to a growing pessimism regarding the future of European integration in various circles.

The establishment of a European political union has been advocated as a way of restoring shattered confidence in the EU.

It is therefore the objective of this study to explore the implications of the crisis for the future of European integration, elaborating on the debates on model of integration for the post-crisis Europe. Following a brief description of the EU's response to the crisis, the paper discusses the implications of this response, revisiting the theoretical dichotomy between neofunctionalist and intergovernmentalist arguments. Afterwards, it analyses the debates on the future of European integration, particularly concentrating on the questions of European political union and differentiated integration.

The EU's Response to the Crisis: Further Integrationist Steps Instead of Stagnation

German Chancellor Angela Merkel expressed her views on the possible grave repercussions of the crisis for both the European Monetary Union (EMU) and the overall integration process by stating: "If the Euro collapses, then Europe and the idea of European Union will fail".⁵ The then European Commission President, José Manuel Barroso, emphasized the multidimensional implications of the crisis by stating that the crisis had become much more than a financial and economic one, gaining the characteristics of a social but also a political crisis of confidence as well.⁶ The crisis caused an unprecedented politicisation of European integration due to its direct negative impact on the welfare of the citizens of highly indebted member states, such as Greece, Spain and Portugal, which were subject to harsh austerity measures as part of the EU/International Monetary Fund rescue packages. This, in return, resulted in several mass protests targeting the EU and national governments, and causing government instability and early elections. Ten of the 15 parliamentary elections in the Eurozone countries between 2010 and mid-2013 were early elections (Belgium, Ireland, Portugal, Spain, Slovenia, Slovakia,

Greece, Netherlands, Italy, Malta) that were mostly triggered by the crisis. In addition, in November 2011, two governments changed in Greece and Italy without elections as crisis-driven emergency measures.⁷

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Aside from its profound economic, social and political implications, the crisis revealed the persistent divergences among the EU member states and particularly of the Eurozone. The crisis aggravated the already existing economic and social disparities between old and new member states, as well as between the northern and southern states. It also demonstrated the economic fragility of some of the older member states that were previously seen as economic models, such as Ireland. Combined with these factors, the asymmetry problem has been exacerbated in the EU, transforming it "from a club of more or less equals into a polity with significant discrepancies among its member states".⁸

Due to the increasing pessimism regarding the consequences of the crisis, one would expect that it would lead to stagnation or even a reversal in the integration process. Yet the

EU's response to the crisis resulted in further integrationist steps rather than a stagnation. The fiscal consolidation agenda and strict austerity programmes designed to cut high public debts, particularly in some southern EU member states, were supported by the institutionalisation of financial support between the Eurozone countries. The establishment of the temporary European Financial Stability Facility (2010) was followed later in 2012 by the formation of the European Stability Mechanism (ESM) as a permanent rescue mechanism for Eurozone countries.

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The “Euro-Plus Pact” was signed in March 2011 by 23 member states,⁹ committing themselves to strengthened coordination for competitiveness as well as coordination in areas of national competence such as employment, wages, tax policy issues, and banking legislation. The Pact involved commitments to foster competitiveness and employment, enhance the sustainability of public

finances, and reinforce financial stability and structured discussion on tax policy issues.¹⁰ Furthermore, some new steps were taken for the surveillance and the coordination of economic policies. The “European Semester” was developed in 2010 for an integrated multilateral economic and budgetary surveillance. For strengthened fiscal regulation and supervision, a series of legislative acts were adopted, most notably the “Six Pack” of December 2011 and Two Pack of March 2013. The “Treaty for Stability, Coordination and Governance” (also known as the Fiscal Compact) was signed by 25 member states (all but the United Kingdom [UK], Czech Republic and Croatia) in March 2012 and entered into force on 1 January 2013. The signatories committed themselves to fiscal discipline by incorporating a “balanced budget rule” into their national legal systems. The Stability and Growth Pact (SGP) was reinforced through stronger preventive and corrective action against excessive budget deficits and public debts.

Financial sector supervision was also strengthened through the establishment of European supervisory bodies, namely the European Banking Authority for bank supervision, European Securities and Markets Authority for capital market supervision and European Insurance and Occupational Pensions Authority for insurance supervision. Further integrationist steps towards a

“banking union” were also taken as a response to the crisis. On the basis of the European Commission roadmap, the member states agreed to establish a “Single Supervisory Mechanism,” founding the first pillar of the banking union. This Mechanism, comprising the European Central Bank (ECB) and the supervisory authorities of the member states, will be responsible for the supervision of major national banks in the Eurozone. Moreover, the “Single Resolution Mechanism” (SRM) aims at effective management of bank resolution through a Single Resolution Board and a Single Resolution Fund in cases of bank failures. The SRM and the Board have become operational as of 1 January 2016. The banks in the Mechanism will start to contribute to the Single Resolution Fund in 2016 while they contributed to national resolution funds in 2015.¹¹ Whereas the SRM involves all Eurozone countries, it is also optionally open to the non-Euro countries. The proposal of the Commission in November 2015 to form the Eurozone-wide European Deposit Insurance Scheme also stands as an outstanding attempt for the establishment of a full banking union.

This Scheme is aimed at securing a more solid and a rather standard insurance cover for retail depositors within the banking union.¹²

The reforms undertaken during the crisis resulted in the introduction of exceptional collective liabilities, reduced state autonomy in budgetary policy, and centralised financial market supervision. These steps strengthened the role of supranational institutions, specifically the ECB as the supervisor of the European financial system and also of the Commission in fiscal supervision.¹³ Moreover, the proposal of the Commission for the establishment of a full banking, fiscal and economic union as well as a political union in the long term is noteworthy.¹⁴

The progressive development of the EMU into a banking union and the debates on the possible establishment of a fiscal union that can pave the way for a political union, seem to correspond to the arguments of the neofunctionalists’ theory.

In this respect, the crisis produced an opportunity structure rather than an impediment to European integration, at least in the short-run.¹⁵ Such an argument also seems in conformity with the EU’s founding father Jean Monnet’s prediction that “Europe will be forged in crises and will be the sum of the solutions adopted for these crises”.¹⁶ Yet, the question whether the crisis will ultimately result in a substantial transformation in the

European political order is still far from being clear.

Theoretical Discussion of the EU's Response to the Crisis: Revenge of Neofunctionalism or Triumph of Intergovernmental Preferences?

The EU's response to the crisis triggered debates on the fate of European political integration. It appears that these debates reproduced the conventional theoretical dichotomy between supranationalism and intergovernmentalism. Thus, this section aims to discuss the EU's answer to the crisis in terms of neofunctionalist and intergovernmental perspectives. These two theories, which have different visions of European integration, have long competed with each other to describe the route and predict the future of integration. Indeed, they could only describe particular aspects and periods of integration. Nevertheless, their theoretical debate continued to be cultivated not only by the EU's peculiar hybrid structure constituting both supranational and intergovernmentalist elements but also by the persisting uncertainty of the EU's political finality. In this vein, these theories seem to regain explanatory power at least over some particular

aspects of the EU's response to the crisis that reflect both supranationalist and intergovernmentalist tendencies. Accordingly, studies analysing the crisis through theoretical lenses increasingly consider neofunctionalist and intergovernmentalist points of view. This paper aims to contribute to this scholarly debate by combining this theoretical discussion with the wider debate on the future of European integration and the questions of European political union and differentiated integration. Thus, it will initially elaborate on the aspects of the EU's response coinciding with the neofunctionalist and intergovernmentalist arguments.

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On the one hand, the progressive development of the EMU into a banking union and the debates on the possible establishment of a fiscal union that can pave the way for a political union, seem to correspond to the arguments of the neofunctionalists'

theory. The incremental developments throughout the crisis bring the expectation that centralisation in economic and financial areas will require further political integration. Such an incremental logic of integration recalls the concept of “spillover” envisaged by neofunctionalism,¹⁷ which evaluates European integration as a self-sustaining process driven by *functional spillover* and supplemented by *political* and *cultivated spillovers*.¹⁸

Functional spillover presupposes that sectoral integration in an area will unintentionally promote further integration in others because of the functional interconnectedness of policy areas. Political spillover mostly focuses on the role of sub-national actors, such as interest groups, in political integration. These actors push for further integration when they acknowledge the benefits of integration.¹⁹ The pressure exerted by these groups on the member states is further reinforced by the supporting role of supranational actors such as the European Commission, the European Parliament and the ECB, as predicted by the cultivated spillover. These actors provide a political stimulus to the process by promoting further integration.²⁰ In this respect, it is assumed by some scholars that the functioning of the EMU and the crisis created functional pressures for the spillover of integration from the centralised monetary policy to

the formerly decentralised fiscal and financial market policy.²¹ Some even evaluated the crisis as “the revenge of neofunctionalism” and regarded the demands for a fiscal union as “vindication for the first grand theory of European integration”.²²

The response of the EU to the crisis may be assessed as a consequence of the quest of the member states for joint solutions that seem strategically more suitable for the pursuit of their economic interests.

From this point of view, the integrative measures taken during the crisis essentially were aimed at alleviating the functional pressures emanating from the dissonance between supranational monetary policy and intergovernmental budgetary, and fiscal and structural policies in the Eurozone. Moreover, the increasing incompatibility of EU-level financial market integration with national financial supervision generated an additional pressure. Therefore, the crisis compelled the Eurozone members to take the required integrative steps which were avoided under favourable economic circumstances. Alternative choices such as the dissolution or break-up of the Eurozone seemed unthinkable as

these would be extremely risky due to the deep interdependencies originating from the high level of capital market integration.²³ As renationalizing monetary policy was far too costly for the member states, they rather preferred to consolidate the EMU through an institutionalised financial support system, and a more centralised fiscal and financial market policy. Therefore, preservation and the deepening of the Eurozone can be considered as the product of a functional spillover. Overall, the EU's response to the crisis resulted in a higher level of integration in fiscal and financial policy, which was opposed previously.²⁴

Moreover, the pressing role during the crisis of supranational actors such as the European Commission and the ECB, as well as the actors in the international financial markets, resembles neofunctionalist arguments. It is argued that although the pressure exerted by the financial markets is indirect and different in this sense from the pressure of the other interest groups, its actual effect is similar, as markets press for centralised solutions in line with their interests. Besides, supranational institutions and their leaders, particularly the Commission, have been active in pushing for centralised solutions, which transfer further competences to the EU level and establish stricter rules of monitoring and control for the EMU.²⁵ The role

of the ECB has been considerably strengthened in this process. On the other hand, the implementation competences of the Commission have also increased or, for some, transformed in terms of economic, budgetary surveillance and fiscal supervision.²⁶ Regarding the role of interest groups at the supranational level, the preference of European business leaders for supranational solutions should be mentioned. For instance, the initiation of a newspaper campaign in 2011 emphasizing the necessity of the Euro by a coalition of 51 German and French top representatives from major corporations, including Air France, Deutsche Bank, Michelin and Siemens is noteworthy.²⁷

On the other hand, it is not possible to neglect the continuing vigorous role of the member states, or the impact of national preference convergences and divergences on the evolution of European integration. Within this context, intergovernmentalist arguments, the longstanding rival of neofunctionalism, also provide another point of view in evaluating the current dynamics in the EU. Integration is analysed by intergovernmentalist theory as the outcome of strategies pursued by rational governments acting on the grounds of their preferences and power.²⁸ Thus, classical intergovernmentalism views the EU as an institutionalised form

of interstate cooperation under the control of the interest-driven member states. Considering the distinction between low politics and high politics, it refuses the possibility of a European political union while economic integration is not discarded. Liberal intergovernmentalism, which has a broader perspective, deals with the interface between domestic and international politics. It emphasizes that while national governments pursue state interests that reflect domestic policy preferences formed in a rather liberal domestic context, decisions at the EU level are taken strategically as a consequence of bargaining among the member states whereby governments' relative bargaining power is crucial. Hence, the member states that have stronger bargaining power inherently play a key role in the determination of policy outcomes.²⁹ The gradual process of preference convergence among the member states in the international area may result in a transfer of some degree of authority to the supranational level, but this transfer is aimed at enhancing the member states' capacity rather than limiting it and does not render superiority to supranational institutions. As this paper mainly focuses on the role of the member states and their strategic decision-making at the EU level, domestic preference formation and domestic politics within member states are beyond its scope.

Accordingly, the response of the EU to the crisis may be assessed as a consequence of the quest of the member states for joint solutions that seem strategically more suitable for the pursuit of their economic interests. In this respect, the reforms are viewed by some scholars as a sequence of strategic decisions coordinated essentially by Germany due to its apparent strong bargaining position with the support of the ECB as well. The main aim has been to prevent full scale market panic and to put pressure on the Eurozone countries to control their finances and undertake structural reforms.³⁰ Additionally, the initiation of Euro Summits among the Eurozone countries to provide a forum for discussion and concerted action strengthened the supervisory role of the member states in the field of economic governance.³¹

The preference of the member states for intergovernmental initiatives once again exposed the limits of the supranational delegation of powers in the EU.

Thus, the reforms were decided substantially within the intergovernmental framework, and the resulting complex economic governance system was essentially based on an intergovernmental logic. This logic

was used as a means of balancing the divergent national preferences as well as accelerating the decision-making process. On the other hand, it also strengthened the leadership role of member states that had stronger bargaining power in prompting the EU to the reforms. Yet, the reaction of the supranational institutions, namely the European Parliament (EP) and the European Commission, could moderate the intergovernmental tendencies to a certain extent. The EP's pressure contributed to the inclusion of a provision into the Fiscal Compact Treaty requiring the incorporation of the Treaty into the EU legal corpus within five years at most. On the other hand, the Commission is tasked with the monitoring of the excessive budget deficits of the member states.³²

Nonetheless, the preference of the member states for intergovernmental initiatives once again exposed the limits of the supranational delegation of powers in the EU. The ESM was established by an intergovernmental treaty rather than a supranational upgrade of the EMU and was later anchored to the EU's treaty framework through a "simplified treaty revision procedure," which enables amendments by the European Council without an intergovernmental conference only if a treaty change doesn't increase the EU's competence. Both the Fiscal Compact and Euro Plus are intergovernmental

agreements. Fiscal Compact, whose implementation is supervised by the Commission, involves 25 member states (all but the UK, the Czech Republic and Croatia) whereas Euro Plus Pact involves 23 member states.³³

The Lisbon Treaty reproduced the EU's hybrid polity and legal constitution cultivating the conventional theoretical dichotomy between supranationalism and intergovernmentalism.

The preference for these new intergovernmental initiatives is principally related to the goal of avoiding any referenda required by Treaty revisions and hence of reducing the impact of the politicisation of a crisis that could disrupt the reform process.³⁴ Thus, it may be seen as the outcome of the constraining role of domestic politics and also of decreasing public support for supranational solutions.³⁵ In the post-Maastricht Treaty era and particularly over the last decade, decreasing support for the EU and closer European integration has led to a shift in European public attitudes from "permissive consensus" to "constraining dissensus".³⁶ In this vein, it is argued by some scholars that integration theories, particularly neofunctionalism, tend to underestimate the EU's vulnerability to domestic politics and public support.³⁷

European citizens' considerably low trust for the EU is highlighted in various polls. The proportion of EU citizens expressing trust in the Union was only 32% according to the Eurobarometer survey in autumn 2015. Furthermore, Europeans with a positive image of the EU made up just 37%.³⁸ Thus, despite the increasing federalisation of European economic policy, a democratic legitimacy problem continues to threaten European level decisions transferring further competences to the EU.³⁹ The crucial question that comes to the forefront is whether it is possible "to make Europe without Europeans".⁴⁰ It is a fact that neither neofunctionalism nor intergovernmentalism thoroughly analyses this vital point, which stands as a vital challenge for European integration.

Debates on the Future of the EU and the Revival of an Old Dream: Finally Towards a Political Union?

The theoretical debate between neofunctionalism and intergovernmentalism has long interacted with the wider debate on the future of the EU and the possibilities of establishing a European political union. In fact, the debates at the theoretical and policy making levels have mutually promoted each other since the

beginning of European integration. Hence, one should consider the reflections of this theoretical dichotomy on the policy processes and views of the policy leaders regarding political union. Indeed, the idea of establishing a political union is not a new goal for Europe. This goal was acknowledged by both Altiero Spinelli and Jean Monnet in the 1950s in federalist, albeit different methodological, viewpoints. Spinelli's federalist strategy was grounded on "the constitutionalist method," suggesting a popularly-endorsed treaty, which would be drafted by an elected European parliamentary assembly. On the other hand, Monnet believed in a rather functionalist approach in the merits of "federalism by instalments," which would be built upon small, concrete, economic steps culminating in a federal Europe.⁴¹ The idea of establishing a political union was later elaborated on within a relatively intergovernmentalist design in the early 1960s through the Fouchet Plans, which were named after Christian Fouchet, a French diplomat. The then French President, Charles de Gaulle, proposed the Fouchet Plans as an intergovernmental design for a West European political union, which was supposed to be a union of states. Such a design would weaken the supranational executive European Commission while strengthening the role of the member states and guaranteeing their national sovereignties.⁴²

Following the failure of the Fouchet Plans, which were opposed by supranationalists, it took almost three decades until the concept of political union reappeared in the conclusions of the European Council in Rome in 1990 and Luxembourg in 1991, and the Final Act of the Maastricht negotiations. Nevertheless, this concept did not take place in the Maastricht Treaty (1993), which officially established the EU.⁴³ The call of Jacques Delors, the European Commission president, for a “federation of nation-states” in 1994 was another expression of the goal of a political union. Joschka Fischer, the then German Vice-Chancellor and Foreign Minister, re-triggered the debates on the future of the EU in the beginning of the 2000s, by proposing the formation of a European federation in his well-known speech at Humboldt University.⁴⁴

The debates on the future of the EU marked the first decade of the 2000s and ultimately led to the conclusion of the Lisbon Treaty, which entered into force in 2009 following the unsuccessful trial of a European Constitution. The Treaty involved some crucial legal amendments implying the strengthening of supranationalism. These included the dissolution of the pillar system,⁴⁵ the establishment of the EU’s legal personality, identification of the co-decision procedure as ordinary legislative procedure, the extension of

qualified majority voting to some new areas, and the creation of the positions of President of the European Council and High Representative for the Union in Foreign Affairs and Security Policy. Furthermore, the appearance of the categories of EU competences as exclusive, shared and supporting competences⁴⁶ in the Treaty was a vital step to clarifying the division of competences between the member states and EU. Nevertheless, the preservation of some core competences such as defence and taxation under the control of the member states and the continuing intergovernmental nature of the Common Foreign and Security Policy (CFSP), which is subject to unanimous voting, revealed the persistence of intergovernmental trends and resistance to spillover effects. Hence, the Lisbon Treaty reproduced the EU’s hybrid polity and legal constitution cultivating the conventional theoretical dichotomy between supranationalism and intergovernmentalism.

While the Lisbon Treaty could not bring a concrete answer to the question of the EU’s political finality, the Euro crisis has been a catalyst for the revival of the debates on the future of Europe. The previous President of the European Commission, Jose Manuel Barroso, followed the path of Delors by calling for “a federation of nation states” in his 2012 address to the EP. He expressed in his speech the need for “a political

union as a horizon” with the following words:⁴⁷

A deep and genuine economic and monetary union, a political union, with a coherent foreign and defence policy, means ultimately that the present European Union must evolve. Let’s not be afraid of the words: we will need to move towards a federation of nation states... This is our political horizon...

The quest for more Europe was also voiced by the “Future of Europe Group,” which was set up by Germany’s then Foreign Minister Guido Westerwelle as an informal dialogue forum among 11 foreign ministers⁴⁸ to discuss the future of European political integration. In a report in 2012 calling for a political debate on the European project across Europe, the Group proposed making more use of differentiated integration, strengthening the role of the Commission, transferring further responsibility to the High Representative, and majority decision taking in the areas of CFSP.⁴⁹ Despite his objection to the transformation of the Union into United States of Europe, Herman Van Rompuy, the then President of the European Council, was also among those expressing the need for more Europe.⁵⁰ In fact, besides the priority of finding a way out of the crisis, founding a stable political framework stands as another crucial goal for post-crisis Europe. Therefore, it would be fair to say that establishing a political union is viewed as a goal

closely associated with the priorities of the EMU, at least by some leading figures in Europe.

Nevertheless, the meaning of political union is still far from being clear due to an apparent lack of consensus on the concept. Indeed, the connotation of the expression of “political Europe” may vary visibly in different contexts. On the one hand, it may connote the federal ideal transcending national sovereignties in favour of a common European interest. On the other hand, it may also imply the consolidation of Europe’s world position privileging the role of the leading member states.⁵¹ The degrees of sovereignty that different EU member states are ready to transfer to the Union differ considerably. These divergences show various patterns not only across small/big, old/new, debtor/funder countries but also according to the differentiation in member states’ involvement in common policies.⁵² It is a fact that the measures taken during the crisis have considerably transformed the European economic and fiscal governance system promoting supranationalist tendencies. Nevertheless, the dominance of the member state preferences in the bargaining and policy making processes confirm the persistence of intergovernmentalist tendencies. Hence, although the EU has taken crucial integrative steps transferring further competences to the EU to

overcome the crisis in the pursuit of their economic interests, these do not seem to provide enough evidence for forming a “political union”. Indeed, huge political obstacles persist. Furthermore, the continuing debates on the appropriate model of integration leave the future of the EU unclear. Besides the unitary model of integration principally favouring the uniform implementation of the EU system in all member states, the proposals of differentiated integration are also being revisited for post-crisis Europe. Thus, although it has been more than six decades since the beginning of integration, there is still not a consensus on *finalite politique* of the EU.

Revisiting the Debates on Differentiated Integration

Differentiated integration refers to “the state in which the uniformity and simultaneity of integration of all member states is more or less restricted by temporary or permanent exceptions”.⁵³ In general terms, it raises the possibility for member states to have different rights and obligations with respect to certain common policy areas.⁵⁴ While the founding Paris and Rome Treaties were based upon the principle of equal rights and obligations for all member states, this mode of integration implies a deviation from this principle as an institutional response

to the increasing heterogeneity within the EU.⁵⁵ It allows different forms of cooperation and/or integration in which not all EU member states are involved. Naturally, the legal and political effects of such initiatives are not uniform for all members. Unlike the uniform implementation of the EU system and rules in all cases and for all countries, flexibility works as an operating principle in this integration model.⁵⁶

In fact, differentiated integration is not a new idea in EU policy making. Nevertheless, it has been long viewed as a secondary option due to the prevailing focus on achieving an ever closer union characterized by uniformity. The debate on differentiated integration was initially launched in 1974 by Willy Brandt, the German Chancellor, who introduced the idea of “multispeed Europe” following British opposition to the harmonisation of banking legislation and company law.⁵⁷ The debate was further elaborated in 1975 by the Tindemans report, which is named after the then Belgium prime minister. The report proposed that different states would achieve deeper integration at different speeds, depending on their ability.⁵⁸ Yet, neither of these two proposals had an immediate practical effect on European integration.

A paper published in 1994 by Wolfgang Schäuble and Karl Lamers,

two German Christian Democrat politicians, revitalised the debate on differentiated integration. Schäuble and Lamers argued for the creation of a hard core Europe around France and Germany that would move towards a federal political union that the others could subsequently join. France and Germany were proposed to be the joint leaders of the hard core, which would also include the Benelux countries.⁵⁹ The report became subject to several criticisms with the argument that such a structure would lead to “a sort of privileged circle” in the EU. The British Prime Minister John Major objected to the proposals of hard-core, inner and outer circles and a two-tier Europe in which “some would be more equal than others”.⁶⁰

These political discussions were accompanied by academic debates throughout the 1990s and thereafter. Various conceptual schemes and classifications were presented over the years causing a conceptual ambiguity and an excess of terminology. Two-speed or multi-speed Europe, hard core, variable geometry, multi-tier, pick-and-choose, and concentric circles of Europe are just a few of these classifications that imply overlapping or diverse forms of integration. As a nonexclusive but widely accepted categorisation, Stubb⁶¹ suggested distinguishing between three basic forms of differentiated integration according to time, space

and matter, under which he listed about 30 models. These basic forms include the multi-speed, variable geometry and à la carte models. Whereas the multi-speed model is based upon temporal differences regarding the participation of member states in integrative schemes, variable geometry envisages more permanent differentiations between core states and less integrated ones, creating spaces between them. On the other hand, the à la carte model, which is quite distant from the current EU structure as the most extreme case of differentiated integration, allows member states to pick and choose the policy areas in which they wish to take part in an entirely intergovernmental decision-making.

The timing of these debates was not coincidental given that some core EU policies underwent differentiation by the 1990s. Actually, differentiation was originally developed as a last resort mechanism where integrative steps could not be taken concurrently with all member states. Thus, it was rather used as a functional-pragmatic strategy aimed at coping with blockades of certain member states in specific policy areas and tackling crisis conditions.⁶² The development of the Schengen regime first outside and then inside the treaty framework, but not including all member states, and also the British and Danish opt-outs from the EMU have steadily

brought a differentiated approach to European integration from the late 1980s onwards. The development of an “enhanced cooperation” mechanism in the Amsterdam (1999), Nice (2003) and Lisbon (2009) Treaties further developed the legal basis of this integration model in the EU. This cooperation enables multispeed integration without undermining the single market and the EU’s cohesion. It provides the possibility for at least nine member states to make deeper cooperation than that initially provided for by the Treaties in different sectors, provided that they do not belong to areas of the EU’s exclusive competence. The remaining states also have the option of joining the cooperation later. The Lisbon Treaty extended enhanced cooperation to include matters of defence, offering possibilities of establishing permanent structured cooperation thereby enabling member states to participate in European military equipment programmes and provide combat units for EU missions; join certain missions relating to the CFSP; and cooperate to increase military capability under the framework of the European Defence Agency.⁶³

Enhanced cooperation can be utilized when the EU as a whole cannot agree on the desired objectives within a reasonable period of time. The EU institutions continue to perform their usual functions in the respective

policy areas. The mechanism was initially used following the entry into force of the Lisbon Treaty on divorce law and patents in 2010. In 2013 the establishment of enhanced cooperation on a common Financial Transaction Tax was authorised by the Council. The Commission also proposed enhanced cooperation for establishing a European public prosecutor office.⁶⁴

As another case of differentiation, the UK, Ireland and Denmark have opted out of being covered by any legislation adopted under the Area of Freedom, Security and Justice under the Lisbon Treaty. However, it is also possible for these states to leave this system at any time and choose an opt-in system on a case-by-case basis, or completely leave any opt-ins/opt-outs, preferring the same approach as the other member states. This possibility, which allows over-flexible participation in criminal justice issues, has been evaluated as a severe challenge to a common justice area in the EU.⁶⁵ Additionally, the UK, Poland and the Czech Republic benefit from special arrangements regarding the application of the Charter of Fundamental Rights that was introduced by the Lisbon Treaty into European primary law. Due to their opt-out status, the rights of EU citizens in these member states are not protected under the Charter.

The multiple layers of policy coordination that emerged throughout

the crisis further expanded the use of differentiated integration particularly outside the EU Treaties. Such intergovernmental policy cooperation allowing the partial integration of member states in specific areas was already experienced through the 1985 Schengen Agreement and the 2005 Prüm Treaty. These were later incorporated into the EU's legal framework in 1999 and 2008 respectively.⁶⁶ However, the economic governance reforms carried out since 2010 differ from the traditional type of intergovernmental cooperation as they construct a hybrid structure outside the EU Treaties but still using the EU institutions. For instance, the European Commission is assigned to supervise the implementation of the Fiscal Compact. When Compact rules are violated, member states can pursue legal action in the European Court of Justice (ECJ). This can be viewed as a trend towards “a governance model with multitier and multispeed characteristics involving different member states in different sectoral cooperations”.⁶⁷ It is argued by some scholars that this kind of differentiation can permanently change the governance, balance of power and cohesion in the EU.⁶⁸

Thus, the divisions between debtor and creditor states, between “ins”, “outs”, “preins” of different cooperative frames concerning the EMU and new economic governance add up

to the divergences within the EU-28.⁶⁹ It appears that the crisis has created a periphery group within the Eurozone comprised predominantly of Southern European countries that became dependent on external financial support from the creditor Eurozone members. On the other hand, the Eurozone is argued to have been taking gradual steps towards a quasi-federation. Hence, the Union is split into multiple layers involving the Eurozone core and its differentiated peripheries, depending on their level of integration with the Eurozone in different spheres.⁷⁰ For instance Bulgaria, Lithuania, Poland, Romania and Denmark signed the Euro Plus Pact and the Fiscal Compact whereas Sweden and Hungary preferred to sign the Fiscal Compact but not the European Plus Pact. The UK and Czech Republic remained outside of both agreements.

Considering the increasing heterogeneity, it is asserted that flexibility is now not only a reality in the EU but also likely to increase further in the future.⁷¹ The expanded use of differentiated integration triggered the discussions on whether this integration model is turning out to be a *modus operandi* rather than a mechanism of last resort. This model is seen by some prominent political figures as a means to bridge different levels of capacities as well as diverse preferences of member

states regarding further political integration. Given the fact that not all member states are willing to transfer more competences to the EU level, differentiated integration is believed to be the most appropriate mechanism that will enable the building of a political union. Thus, it is proposed as a way of reconciling supranationalism and intergovernmentalism.

Nevertheless, the views on the possible implications of adopting differentiation as an integration model diverge to a great extent. From the pro-differentiation perspective, this model is viewed as a “soft alternative to unanimity” and “compromise solution” in the functioning of the EU. Hence, differentiation saves integration from stagnation and ineffectiveness. In this respect, differentiated integration not only allows a group of willing and capable members states to proceed to integrate, but also reduces the political pressure on the non-participating member states. Furthermore, provided that the initiative unleashes centripetal forces from the more integrated core by attracting the outsiders, it may also function as a catalyst for integration such as in the cases of the Schengen and Prüm agreements. Similarly, the Fiscal Compact envisages the incorporation of this intergovernmental agreement into the EU treaties within five years. Nevertheless, the requirement of a Treaty revision for

such incorporation increases the salience of hurdles caused by domestic politics and national ratification processes in the member states. Besides, the possible incorporation of intergovernmental agreements into the *acquis communautaire* does not always necessarily mean the “reunification” of all member states in the initiative. Such reunification occurred only once so far for the Agreement on the Social Policy of the Maastricht Treaty, which was initially rejected by the conservative British government and then supported by the new labour government in 1997. It was then incorporated into the Amsterdam Treaty. But still, the incorporation of the Schengen Agreement and the Prüm Convention into EU law, albeit at the cost of opt-outs, can be evaluated as an indicator of the tendency towards more inclusive integration.⁷²

From an anti-differentiation perspective, this integration model will undermine the EU’s constitutional principles including unity, equality and solidarity. Hence, it bears the risk of fragmentation for the EU, and challenging of the unity vision. The main concern here is that such integration may cause further heterogeneity and even disintegration, by weakening the already fragile sense of European identity. The core dilemma appears therefore, to be between flexibility and unity.⁷³ It is further

claimed by the critics that this mode of integration masks the hegemonic aspirations of the larger states to gain power over the others and thus is likely to cause discrimination among the members as first and second class states.⁷⁴ If it is used as a mechanism beyond a compromise solution--that means as an instrument for deliberate exclusion of some member states from certain areas of cooperation--this can lead to severe confrontations within the Union. Especially, the conduct of cooperation on a permanent basis outside the EU framework would elevate these challenges. Therefore, critics are concerned with its potentially harmful impact on cohesion and solidarity in the EU. From this point of view, differentiated integration may result in a "two-class EU" composed of an integrated core group actively excluding the others to protect itself from the negative effects of increasing diversity within the Union.⁷⁵ The institutionalisation of an exclusive mode of differentiated integration can harm not only the very essence of European integration but also the sense of community within the EU.

Conclusion

The Euro crisis has had multidimensional economic, social and political implications for the European Union, not only causing the

politicisation of European integration but also shattering confidence in the EU. Nevertheless, the crisis resulted in further integrationist steps rather than stagnation in integration. The institutionalisation of financial support among the Eurozone member states, the commitment of these states and some non-Euro states to strengthened fiscal regulation and supervision and to incorporation of a balanced budget rule into national legislation and the steps taken towards a banking union are just some of the remarkable reforms in this account. The calls for a full banking and fiscal union that will be complemented by further political integration have once again brought forward the debates on the possibility of transforming the EU into a political union reproducing the conventional theoretical controversy between supranationalism and intergovernmentalism. On the one hand, the progressive development of a monetary union promoting further integration in fiscal and financial market policies and the pressing role of the supranational actors in this development are reminders of the concept of spillover introduced by the neofunctionalists. On the other hand, the continuing key role of the member states, particularly those possessing stronger bargaining power such as Germany, and the determining impact of national preferences on the policy choices, support the intergovernmentalist point of view.

The long-established goal of founding a European political union has retaken its place on the agenda as further political integration is viewed in various circles as a means of setting up a stable political framework for post-crisis Europe. Furthermore, it is expected that the steps taken towards a banking union are likely to pave the way incrementally for fiscal and political unions. Yet, the lack of a shared vision of the appropriate model of integration complicates the task of clarifying the meaning and scope of this goal. Whereas some support unitary model of integration, others are in favour of differentiated integration considering the increasing divergences and heterogeneity within the Union. The proponents of differentiation view this model as a way of reconciling supranationalists and

intergovernmentalists, enabling the building of a political union, at least among some member states. In fact, the multiple layers of policy coordination that have emerged throughout the crisis have further expanded the sphere of differentiation in the EU. Although it is evident that realizing the uniform model is steadily becoming harder, the permanent adoption of differentiated integration bears the risk of harming the sense of community, potentially leading to a fragmentation in the Union. All in all, the debates on the future model of integration and differentiated integration once again reveal the difficulty of reconciliation on the possibilities and means of forming a European political union. In fact, the debates are stimulating the traditional controversies rather than clarifying the *finality politique* of the EU.

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