RETHINKING EUROPEAN INTEGRATION AFTER THE DEBT CRISIS

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1. Introduction: learning the lesson

The growing solidity of transnational structures in western Europe – if the process of consolidation continues for another generation or longer – may create a power centre comprising the French, British, German, and Italian nations, together with a fringe of others, whose strength would compare favourably with that of any in the world.

(McNeill 1974: 176)

With these optimistic words an American historian concluded his brilliant survey of the history of Europe during the last three thousand years. McNeill’s *The Shape Of European History* was published at about the same time as the first enlargement of the European Economic Community, with the addition of the UK, Ireland and Denmark to the six founding member states. Since then the membership of the EC/EU has trebled (with ten or so new members to join in the next decade), the competences of the Union have expanded to affect almost any aspect of the economics and politics of our continent, and the development of the supranational structures has paralleled—even in the terminology being used—the institutional development of the modern nation state. Yet, the apparent “growing solidity of transnational structures” at the European level, far from creating a new power centre on the world scale, has been accompanied by a steady decline of the international status of Europe. What is even worse, continuous institutional development has not prevented but, if anything, stimulated a growing disaffection of Europeans towards the supranational polity whose citizens they are supposed to be. According to a poll conducted by Pew Research Centre, Germany is the only member of the EU in which most people (59%) think their country has been helped by European integration. The most negative were the Greeks, with 70 per cent saying that European integration has hurt them, followed by the French with 63 per cent. The survey, entitled “European Unity on the Rocks, Greeks and Germans at Polar Opposites” was conducted in eight EU countries and the US, and queried 9,108 people between March 17 and April 16, 2012 (*Spiegel Online International* of May 29, 2012).

This is the situation we are facing today, but the problems revealed by the crisis of monetary union, and the crisis itself, have deep roots, being closely connected with the integration methods followed for more than half a century. This crisis, serious as it is, has at least the advantage of revealing fundamental structural flaws in the entire European construction – flaws concealed in the past by the prevailing “political culture of total optimism” (Majone 2011). In this sense, the crisis may turn out to be a blessing in disguise – provided all the important lessons are learned. A number of reform proposals have been advanced in the last year or so; given the severity of the crisis, it could not be otherwise. What is most striking about many of these proposals, however, is their commitment to the preservation of the
status quo, including the dogma of monetary union as part of the *acquis communautaire*. This implies the obligation for all the member states that are not yet in the euro zone (or have not been granted a formal opt-out) to adopt the common currency as soon as they satisfy the Maastricht criteria – in spite of the fact that an increasing number of opinion makers, experts, and even a few EU leaders, acknowledge that European monetary union, as designed at Maastricht, was a mistake; even a “fatal mistake”, according to Nobel laureate Paul Krugman (*Spiegel Oline*, 23 April 2012).

The European Commission’s slogan “One Market, One Money” (Commission 1990) was meant to convince public opinion that monetary union was the necessary complement of the Single Market. Even assuming the validity of this argument – which most experts reject on theoretical and empirical grounds, but which reveals a persistent vision of the future Union as a territorial state “writ large” – the way in which the project was carried out was such as to cause serious problems, sooner or later. A good example is what Charles Wyplosz (2000) has called the “dark secret” of European monetary union: the fact that nobody is clearly in charge of exchange-rate policymaking. As Wyplosz points out, the ambiguity of Article 111(2) of the EU Treaty, dealing with an exchange rate system in relation to non-EU currencies, was intentional. The drafters of this text knew that they were dealing with a politically sensitive issue. Many countries were reluctant to give up control over monetary policy, and by denying the ECB sole responsibility for the exchange rate they intended to limit its powers. The solution was to produce a treaty article open to a variety of interpretations: ambiguity was the price of the political compromise between different views concerning the nature and purpose of EMU Central bankers and economists were shocked, however, because exchange-rate policy is the other face of the coin of monetary policy. True, EMU was a political, not an economic project; thus, the fact that the project was not abandoned because of the critique of some of the world’s top economic experts – from Milton Friedman and Martin Feldstein to Kenneth Rogoff and Krugman – is not in itself surprising.

What *is* surprising is the total absence of contingency plans in case of internal or external shocks. A consequence of this failure of crisis management has been, first the refusal to admit the seriousness of the problem, and then the sudden shift from the total optimism of the past to a mood of catastrophism. On the occasion of the Bundestag debate on financial help to Greece of 7 May 2010, Chancellor Angela Merkel went as far as saying that the crisis of the euro was nothing less than an existential threat for Germany and for Europe. The monetary union, she concluded, is a “community of destiny” (*Schicksalsgemeinschaft*): “if the euro fails then Europe fails”. And Wolfgang Schäuble, her finance minister, added: “We must defend this common European currency as a whole…By defending it we defend at the same
time the European project” (citations in Der Spiegel of 17 May 2010: 80; my translation). But there is no political or economic reason why the failure of monetary union, in its present form, should entail the failure of “Europe”. Rather, the crisis should be used to identify the structural flaws of what has been called the “Community Method”, broadly understood, and to see how the integration process could continue – if necessary along different lines.

Let me conclude these introductory remarks by stressing something that should never be forgotten in any discussion of the debt crisis of the euro zone: namely, that all member states, but especially the larger ones, bear their share of responsibility for the present situation. Thus, Greece was admitted as the 12th member of monetary union in 2001 in spite of the fact that all governments knew that Greek financial statistics were unreliable. The joint responsibility of all the member states has been emphasized by the Director General of Eurostat, Walter Rademacher, in an interview published by the Süddeutsche Zeitung in February, 2010. Rademacher recalled that doubts about the reliability of the information provided by Athens had become a near certainty by 2003. For this reason Eurostat had asked for more powers to control the way the data were produced. However, the member states rejected the Commission proposal that the competences of Eurostat be expanded to make a serious quality control possible. The head statistician of the Union concluded his interview with the words: “The member states did not give us the instruments with which we could have prevented the crisis” (Spiegel Online of 27 February 2010; my translation).

Speaking about collective responsibility for the present situation, one should also recall that in November 2003 a majority of the members of the Council of Economic and Financial Affairs decided to suspend the procedures for excessive deficit initiated by the Commission against France and Germany. Instead, the Council recommended reductions of the structural deficit of the two countries sufficient to bring the deficit below 3 per cent of GDP by the end of 2005. France and Germany promised to do their best to achieve these goals, but this was a political, not a legally binding, commitment. In January 2004 a badly divided Commission decided to bring the decision of the Council before the European Court of Justice. In July of that year the ECJ overturned the decision of the finance ministers to suspend the sanctions procedure against France and Germany. While the ruling partially vindicated the Commission’s challenge before the Court to defend the 1997 Stability and Growth Pact, the Brussels executive lost in the second, and more important, part of its case, where it claimed that Ecofin had a duty to adopt the Commission’s recommendations. The reform of the Pact in June 2005 in the end eliminated the elements of automatism in the original agreement and introduced considerable room for intergovernmental margins of manoeuvre.
2. Process vs. outcomes: evaluating the benefits and costs of European integration

The first lesson to be learned from the crisis of monetary union is the importance of distinguishing between two basic criteria used to evaluate any activity, including policymaking: by process and/or by results. Obvious and significant as this distinction is, it is seldom clearly made, either in teaching or in research about European integration. Hence it is seldom pointed out, or perhaps even noticed, that decisions and policymaking at the European level have always been evaluated primarily in terms of process—institutional developments, volume of legislation, expansion of competences, scale of operations, decision-making procedures, “governance”, and so on—rather than by actual results. In the Commission’s White Paper on *European Governance*, for example, the good governance principles are largely concerned, not with the ultimate decision/policy to be adopted, but with the way in which decisions are reached (Smith 2012: 276; Shore 2006: 719). The primacy assigned to process has enabled political leaders and Eurocrats, but also many scholars, to depict European integration as a positive-sum game for everybody concerned. Thus the 2001 White Paper on governance opens with the apodictic statement that “European integration has delivered 50 years of stability, peace and economic prosperity. It has helped to raise standards of living, built an internal market and strengthened the Union’s voice in the world” (European Commission 2001: 9). In terms of such concrete outcomes as faster growth, higher productivity, rising employment levels, or greater technological innovation, however, the picture was then, and still is today, much less rosy.

Indeed, in most member states growth has stagnated or even regressed since the launch of the two most important economic projects: the Single Market Programme and EMU. After the phase of very rapid catch-up with the United States in the immediate post-war period—i.e., even before the European Economic Community was established—convergence in the levels of per capita income stopped at the beginning of the 1980s and has remained unchanged since, at around 70 per cent of the U.S. level. A common trade policy, the customs union, a supranational competition policy, extensive harmonization of national laws and regulations, the Single Market, and finally a centralized monetary policy, apparently made no difference as far as the economic performance of the EC/EU, relative to its major competitors, was concerned. While the American economy was generating employment as well as maintaining working hours, Europe’s employment performance was weak and working hours fell consistently (Sapir et al. 2004: 22). During the 1990s growth of EU GDP was disappointing both in absolute terms and with regard to the U.S.: “Overall growth slowed
from the 1980s, which itself had slowed from the 1970s, in spite of the implementation of far-reaching reforms in both the macro-environment (consolidation of public finances and lower inflation, EMU) and micro-environment (Single Market Programme, Uruguay Round and to a certain extent labour market reform)” (ibid.: 25). As a matter of fact, not only are we still quite far from having a single market, but the EU market is today even more segmented along national lines than it was a couple of decades ago. The main reason of this paradoxical state of affairs is that in all advanced economies the services sector has been continuously growing in terms of share of GDP. Today it represents about 72 per cent of the GDP of the old EU-15, while services are still largely regulated at the national level.

Also monetary union has been assessed, at least in its early stages, in terms of process. The launch of the common currency in 1999, and the smooth introduction of euro notes and coins and phasing out of the national currencies in 2002 were taken – even by some experts – as more or less conclusive evidence of the success of one of the most risky projects in the history of European integration. Shortly after the introduction of the common currency a well-known monetary economist asserted: “The success of the launch of the euro is not only technical and economic, it is also and foremost political. The euro is now the most visible and practical symbol of the progress towards a political union in Europe” (de Grauwe 2004: 363). Some years later, Otmar Issing – a member of the executive board of the ECB from 1998 to 2006, who later became a severe critic of the Trichet presidency – would still write that “the common currency has become an irreversible reality…Over the nine years that have passed since its birthday on 1 January 1999, the euro has been a striking success” (Issing 2008:1-2). Apparently, even distinguished experts forget that evaluation by process is quite different from evaluation by results; and that these two modes of policy evaluation serve different purposes and appeal to different publics (Majone 1989: 170-5).

The main reason why the gap between evaluations based on process criteria and actual results – such as poor economic and productivity growth – was largely unnoticed for so long is that most EU policies were too remote from the daily problems of the people to seriously concern public opinion. Moreover, it was difficult for ordinary citizens, and sometimes even for the experts, to allocate responsibility for unsatisfactory outcomes as between “Brussels” and the national governments. Occasional complaints about the disappointing economic performance of the EU could be answered by reminding the critics that Community competences did not include macroeconomic policymaking. What makes the crisis of the euro zone potentially so important from the point of view of policy evaluation and learning is the fact that the actual consequences of decisions taken at the European level are now so much more visible than they were in earlier stages of the integration process. Buyers are
typically interested in the quality and price of a finished product, not in the way it is produced, or in the internal organization of the firm that produced it. Similarly, the “buyers” of public policy, voters and the citizens at large, are interested in the quality and tax-prices of specific policy outputs, not in administrative procedures and decision-making processes. Thus, an important consequence of monetary union has been to make possible for everybody to question the effectiveness of European policies. Unlike most policy decisions taken in Brussels, the decisions taken by the ECB are widely advertised, and their consequences – whether on home mortgages, on consumer credit, or on the availability of publicly-financed services – have a direct impact on the welfare of all inhabitants of the euro zone, indeed of the entire EU. Also the Bank’s non-decisions, e.g., concerning variations in the discount rate, are often discussed in the media. Since the beginning of the crisis of the euro zone, moreover, everybody realizes that integration entails costs as well as benefits, and that a positive net balance of benefits over costs can no longer be taken for granted. This new realism may or may not explain the shocking results of the recent poll mentioned in the Introduction; at any rate, it is likely to generate a much stronger demand of accountability by results – precisely what is foreign to the political culture of total optimism of EU leaders. In the concluding section of this paper I shall discuss the implications of this new awareness of the costs of European integration for research and teaching in this area. Here I shall briefly mention the normative consequences of a repeated failure to deliver the goods.

Legitimacy, writes Martin Lipset, involves the capacity of a political system to engender and maintain the belief that its institutions are capable of resolving the major problems facing society. He goes on to explain that while effectiveness is primarily instrumental, legitimacy is evaluative. Nevertheless, the two concepts are linked:

After a new social structure is established, if the new system is unable to sustain the expectations of major groups (on the ground of “effectiveness”) for a long enough period to develop legitimacy upon the new basis, a new crisis may develop…On the other hand, a breakdown of effectiveness, repeatedly or for a long period, will endanger even a legitimate systems stability.

(Lipset 1963: 65; 67-8)

It is this connection between effectiveness, legitimacy, and systemic stability which makes so worrisome the unsatisfactory economic performance of the last decades, and the present crisis of the euro zone. Indeed, the basic reason why today public debate and hostile public reactions have replaced the permissive consensus of the past – when the integration project was seemingly taken for granted by European voters as part of the political landscape – is
precisely the fact that monetary union has put an end to the primacy of process as the criterion of policy evaluation on the EU. As long as the permissive consensus lasted, the issue of the democratic deficit did not arise. The consensus began to erode as the EC enlarged and acquired more powers, first with the Single European Act and later with the Treaty on European Union. Indeed, the TEU ratification crisis – which led to the opt-outs of Great Britain and of Denmark from monetary union – showed that by the early 1990s a permissive consensus no longer existed. This was the time when the democratic deficit became a serious issue.

3. The limits of one-size-fits-all policymaking

A second, important lesson concerns the limits of the one-size-fits-all approach to integration. Monetary union is the most significant application of this approach, but to see that the problem is more general it may be helpful to view monetary union as a kind of (total) policy harmonization. Harmonization of the laws and policies of the member states is one of the three legal techniques which the Treaty of Rome (Article 100) made available to the European Commission for establishing and maintaining a common European market – the other two techniques being liberalization and the control of anti-competitive behavior. The legal literature distinguishes three main modes of harmonization: total, optional, and minimum harmonization. From the early 1960s to the early 1970s the Commission’s approach was characterized by a distinct preference for total harmonization: detailed measures designed to regulate exhaustively the problems in question, to the exclusion of previously existing national policies. Under total harmonization once European rules have been put in place, a member state’s capacity to apply stricter rules – for example, by appealing to the values referred to in Article 36 of the Treaty, such as the protection of the health and life of humans, animals, and plants – is excluded. The European Court of Justice initially supported this exclusive Community competence, judging it to be necessary to the construction of the common market and, more generally, to the autonomy of the Community system; and against the tendency of the member states to reduce European law to a branch of international law. Already by the mid-1970s, however, the limits of total harmonization had become visible. The idea of a common market structured by one body of uniform European rules had to be given up once it was realized that total harmonization confers on the Community an exclusive competence which it is ill-equipped to discharge (Weatherill 1995). The emphasis shifted from total to optional and to minimum harmonization – and to mutual recognition. Optional harmonization aims to guarantee the free movement of goods, while permitting the member states to retain their traditional forms of regulation for goods produced
for the domestic market. Under minimum harmonization, the national governments must secure the level of regulation set out in a directive but are permitted to set higher standards, provided that the stricter national rules do not violate Community law.

Incidentally, the idea that economic integration requires extensive harmonization of national laws and regulations has been criticized by well-known economists since the early years of the European Community. As Harry Johnson – a Distinguished Service Professor of Economics at the University of Chicago, as well as professor at the Graduate Institute of International Studies at Geneva – wrote in the early 1970s: “The need for harmonization additional to what is already required of countries extensively engaged in world trade is relatively slight...The problems of harmonization are such as can be handled by negotiation and consultation according to well-established procedures among the governments concerned, rather than such as to require elaborate international agreements” (Johnson 1972, cited in Kahler 1995: 12). In opposing the harmonization bias of the early literature on economic integration, Johnson emphasized a point that was hardly mentioned then, and even later, in Europe; namely, that the eventual gains from harmonization should be weighed against the welfare losses produced by harmonized rules that are not tailored to national preferences except in a rough, average sense. The welfare losses entailed by centralized harmonization have become a major theme in the more recent literature on free trade and harmonization (Bhagwati and Hudec 1996).

Concerns about what already in the 1970s some member states considered excessive centralization became more intense after the Single European Act, by way of derogation from Article 100 of the Rome Treaty, introduced qualified majority voting for harmonization measures having the internal market as their object. In an attempt to allay such fears, the Treaty of Maastricht defined, for the first time, new European competences in a way that actually limits the exercise of Community powers, and explicitly excludes any harmonization of national laws. Already in the early 1980s Alan Dashwood had observed that harmonization tended to be pursued not so much to resolve concrete problems encountered in the course of constructing the common market as to drive forward the general process of integration. This...was bound to affect the judgment of the Commission, inclining it towards maximum exercise of the powers available under Article 100 and towards solutions involving a high degree of uniformity between national laws (Dashwood 1983: 194).

The most serious difficulty for centralized harmonization today is created by the level of socioeconomic heterogeneity in the enlarged Union. Income disparities between the new member states from Central and Eastern Europe and the old EU-15 are considerably larger
than in the case of previous enlargements. For example, the income levels of the three Mediterranean countries (Greece, Spain, and Portugal) when they joined the Union in the 1980s, were around 65 per cent of the EU-10 average income, while the average income of the new Eastern members was only about 40 per cent of the EU-15 average. As a result, income inequality is today much greater in the (supposedly) socially-minded EU than in the capitalist USA: while the average household income in New Jersey is about twice as large as the corresponding indicator in Mississippi, average per capita income in Luxembourg is more than ten times as large as in Romania. When socioeconomic conditions differ so much, it is not only politically difficult but also inefficient (in the Pareto sense) to harmonize national laws and policies: if countries have significantly different needs and hence different national priorities, the policies that maximize aggregate welfare ought to be different rather than harmonized. This is true even in the case of minimum harmonization—unless the minimum standard is so low as to be exceeded by all national standards, in which case it is simply irrelevant.

The shifts from total to less stringent forms of policy harmonization were “the inevitable adjustments to the notion of uniformity demanded by a Community structure that is supporting an ever-increasing number of Member States and an ever-increasing range of functions” (Weatherill 1995: 148). Since these lines were written the number of member states has almost doubled, the range of EU competences greatly expanded, and socioeconomic diversity increased exponentially. In spite of all these changes, the boldest experiment in total harmonization was launched on 1 January 1999, when the final stage of monetary union entered into force with the irrevocable fixing of the exchange rates of the currencies of 11 (soon to become 12, and eventually 17) members of the euro zone, and the pre-emption of national action in the monetary area. What is most striking about this somewhat paradoxical return to total harmonization is the contradiction between the centralization required by monetary union and the mutation of the fairly homogeneous EU-15 into a highly heterogeneous bloc of 27 states—a contradiction which, in itself, tends to reduce the benefits of a common monetary policy, as already noted.

Even before the latest enlargement of the EU two distinguished American scholars, generally supportive of European integration, had questioned the economic logic of monetary union in the EU:

> Given the risks and uncertainties that pervade the process [of monetary integration] there would have to be a clear margin of benefits over costs for economic considerations, narrowly defined, to provide a justification for such a
radical departure in policy. The absence of such a margin implies that the momentum for monetary union must therefore derive from other, primarily political, factors.

(Eichengreen and Frieden 1995: 274)

Unfortunately, the political benefits of monetary union have been even more doubtful than the economic ones. This is particularly true in the case of Germany. German leaders worked hard to convince their voters that the sacrifice of their beloved D-Mark was justified by the prospect of a decisive advance towards political union. In fact, the introduction of the common currency has hardly increased the credibility of the commitment of Germany’s partners to political union. In Germany itself popular support for the political integration of Europe has significantly decreased in recent years. After the reunification of the country, the disappearance of the Soviet menace, and a fading memory of the horrors of World War II, Germany is no longer so dependent on the political support of its European partners.

Also the new members from Central and Eastern Europe do not seem to be too interested in the political integration of the continent. The loss of national sovereignty during the period of Soviet domination explains the importance these countries attach to national values. Hence, it is hardly to be expected that the new member states will support wholeheartedly the cause of political union, even after joining the euro zone. In this connection it should be kept in mind that, as mentioned in the introduction, all the new (and the future) member states must join EMU once they satisfy the convergence criteria: they are not allowed to opt out of monetary union as some older member states did. However, it seems likely that after the current debt crisis also the new member states will carefully reassess the benefits and costs of monetary union. A few years ago Sławomir Skrzypek, the late president of the National Bank of Poland suggested precisely such a reassessment. Shortly before dying in the Smolensk air crash in which the President of Poland and numerous other personalities lost their life, Mr. Skrzypek published an article in the Financial Times, titled “Poland should not rush to sign up to the euro”. In this article, the central banker pointed out that in 2010, when Europe was plagued by concerns over excessive public debt in Greece and elsewhere, the Polish economy was projected to grow 2.7 per cent, accelerating to 3 per cent in 2011. One important reason for this, he wrote,

is that as a non-member of the euro, Poland has been able to profit from the flexibility of the zloty exchange rate in a way that has helped growth and lowered the current account deficit without importing inflation...Because Poland’s
currency is not bound by the Exchange Rate Mechanism II, we have been able to adjust the value of the zloty in line with domestic requirements.

(Skrzypek 2010: 11)

The decade-long story of peripheral euro members drastically losing competitiveness, Mr. Skrzypek continued, has been a salutary lesson. The “Greek imbroglio” (as he called it) shows that there is no substitute for countries’ own efforts to improve competitiveness, boost fiscal discipline and increase labour and product market flexibility – whether or not they are in the euro zone. This banker’s advice to his fellow citizens:

[W]e must temper the wish to adopt the euro with necessary prudence. We should not tie ourselves to timetables that may be counterproductive. Solid economic growth and sensible policies are possible both within and outside the euro zone. Nations in a hurry to join the euro may end up missing their overriding objectives.

(ibid.)

A cautious approach similar to the one advocated by the Polish banker has been followed by Sweden since it joined the EU in 1995. This country, not a member of the EU when the Maastricht Treaty was ratified, could not obtain a *de jure* opt out from EMU, as in the case of the United Kingdom and Denmark. It did however ask, and was granted, a derogation – in practice, a *de facto* opt out – when it became a member of the Union. Swedish leaders have decided that future membership of their country in the euro zone shall depend, not on EU prescriptions but on the approval of the voters in a popular referendum. Since the beginning of the sovereign debt crisis opinion polls show growing popular opposition to joining monetary union, so that the prospect of Swedish membership in the euro zone keeps receding into the future. According to a survey conducted in July 2010, 61 per cent of the Swedes were against joining monetary union; one year earlier the negative votes were only 44 per cent. One important reason for the growing opposition to the euro is the fact that Sweden, like Poland, has weathered the financial crisis rather well, also thanks to its independent monetary policy. The Swedish economy, which is heavily dependent on exports, has profited significantly from the weakness of the Krone. Recently, Sweden had the lowest budget deficit of all EU member states and one of the highest rates of economic growth, providing additional evidence in support of Mr. Skrzypek’s assessment of the advantages of an independent monetary policy.
It is quite possible that a number of countries from Central and Eastern Europe may decide to follow Mr. Skrzypek’s advice and join Sweden in the camp of the *de facto* opt-outs. The Czech Republic and Hungary have already linked their membership in the euro zone to approval by popular referendum or by a supermajority in the national parliament. Moreover, in a greatly enlarged and increasingly heterogeneous monetary union even the original members of the euro zone may conclude that the policies of the ECB no longer correspond to their national conditions as well as they did before the enlargement. This is because the older members will more often than today be outliers, in terms of inflation and output, compared to the average that the ECB will have to focus on. As a consequence, some older members may realize that the calculus of the benefits and costs of monetary union has become less favourable (de Grauwe 2007:97-101). In sum, while the whole philosophy of EMU was based on the notion that all member states should accept the total harmonization of national monetary policies as a pre-condition of political union, the paradoxical result seems to be the final breakdown of the one-size-fits-all approach to policymaking. But here another paradox arises: while the Lisbon Treaty admits the possibility that a member state may wish to drop out of the EU, even if only on a temporary basis, membership in the euro zone continues to be considered irreversible. “The euro is forever” used to be the official slogan; forcing, or bribing, Greece into leaving monetary union would amount to a repudiation of the original philosophy of the EMU project.

4. The separability of politics and economics

A third important lesson of the debt crisis concerns the limits of the separability of politics and economics. As I have argued elsewhere (Majone 1996) a certain separation of politics and economics is possible, even beneficial, at the level of microeconomic, in particular regulatory, policies. Such a separation is much more difficult, not to say impossible, at the level of macroeconomic policymaking. This is because so much of what the modern welfare state does depends crucially on the way macroeconomic policies are designed and implemented. The possibility of separating economics and politics – without making any distinction between the micro and the macro levels – was, however, a key assumption of the founders of the EEC, and also of the first social-scientific analyses of European integration by Ernest Haas and his neofunctionalist school. The assumption of the founding fathers was not unreasonable as long as the objective of the Community was limited to a common market to be achieved mostly by negative integration, that is, by removing national restrictions to the free movement of the factors of production (Majone 2005: 144-56).
Neofunctionalism, however, was meant to be a theory of regional political integration, but its practitioners badly underestimated the importance of popular support for the viability of a project involving not only negative but also positive integration on a large scale. According to Haas, the bureaucratized nature of European states entailed that all crucial decisions are made by elites: public policymakers, as well as economic elites, trade unions, professional associations, business lobbies, etc. Public opinion at large, on the other hand, was deemed to be unimportant (Haas 1958). Andrew Moravcsik has aptly summarized this elitist stance: “Elite groups most intensely concerned with an issue, Haas asserts, have the greatest impact on national decision-making, which is why a majority, in the strict sense, is not required to make policy” (Moravcsik 2005: 352). Like Jean Monnet, but unlike the post-war generation of federalists, Haas and his school thought that the basic problem was not how to “Europeanize the masses”; rather, the problem was how to make “Europe without Europeans” (Schmitter 2005).

At the same time, the superior problem-solving capacity of the supranational institutions was supposed to induce the progressive transfer of the loyalties and political demands of social groups from the national to the European level. Unfortunately, the effectiveness of the EU institutions is increasingly questioned today: rightly or wrongly “Brussels,” and now also “Frankfurt,” are perceived less as potential sources of solutions for problems that cannot be solved at the national level, than as causes of many of those very problems. Thus, the mounting awareness that an ever-widening and deepening integration process has proved impotent to arrest the decline of Europe’s economy and international influence relative to its major international competitors, contributed to the dissatisfaction that found dramatic expression in the French and Dutch rejections of the draft Constitutional Treaty, and in the Irish No to the Lisbon Treaty. The uncertainties and delays in tackling the sovereign-debt crisis have further increased an already high level of dissatisfaction with the EU and its institutions. They have also caused a dramatic loss of credibility in the eyes of international public opinion, and even of Europe’s traditional allies.

The basic fallacy of neofunctionalism was the assumption that political integration could be achieved through economic integration. This mistaken assumption was further aggravated by later attempts to force the pace of integration, EMU being the most significant instance of such forcing. The mistakes of the neofunctionalists are being repeated today by integrationist leaders, such as German finance minister Schäuble, who see the crisis of a premature and ill-designed monetary integration as an opportunity to achieve the political unification of Europe—a good excuse for harmonizing not only monetary but also fiscal policy and key aspects of social policy, such as pension regimes. As mentioned above, Haas and his
followers took the effectiveness of the supranational institutions for granted. Not the least important consequence of the present crisis, however, is the demonstration of the fragility of the European institutions and of their normative foundations. A comparison of the ECB with the old, pre-EMU Bundesbank provides the clearest proof of the inherent weakness of supranational institutions compared to their national counterparts, and reveals the basic reason of their weakness.

5. The fragility of the supranational institutions

Germany’s central bank, as it operated before monetary union, was considered not only the most powerful but also the most politically independent central bank in Europe. Yet, this independence had only a statutory basis--a law which the German parliament could have changed overnight if it felt that the policies of the “Buba” were contrary to the public interest or to the policy preferences of the current majority. Thus, in 1978 chancellor Helmut Schmidt threatened to have the federal parliament limit the independence of the Bundesbank by modifying the 1957 law (Bundesbankgesetz) should the Bank continue to oppose the establishment of the European Monetary System (Marsh 1992). The fact that the independence of the Bank has never been limited, despite repeated frictions with both conservative and social-democratic governments, shows that the real foundation of the Bank’s legitimacy, and the source of its strength, was not its statute-based independence, but rather the support of a public opinion traditionally averse to inflation. At the same time, Germany’s central bankers were well aware that to lose contact with the national government meant to lose the possibility of exerting a significant influence on the economic governance of the country. Despite frequently repeated assertions that the Bundesbank has served as the model for the European Central Bank, the differences between the two institutions are much more significant than the similarities. The main difference may be expressed by saying that the German central bank was not only politically independent, but also socially embedded; while the ECB enjoys, on paper, ever greater independence than its German counterpart, but in fact its performance is compromised by the fact that it has to operate in a political and social vacuum. The ECB is politically and socially “disembedded” because it cannot interact with a fully fledged European government, or even with a European finance minister, not to say an inexistent European public opinion. Moreover, the absence of a European government with which to interact affects not only the legitimacy of the ECB but also its effectiveness.
The delegation of powers to a politically independent central bank is meant to restrain the temptation of democratic politicians to assign greater weight to short-run considerations and thus to default on long-term commitments. In the area of monetary policy, where credibility is essential to success, delegation of policymaking powers to an independent central bank can thus be an effective way of achieving a credible long-term commitment to monetary stability. However, it is now recognized that from the point of view of aggregate welfare the government should have the option of overriding the central bank’s decisions—under particular conditions and following well-defined procedures. This means that the “optimal” central banker should strike a balance between credibility and flexibility, for example by following a non-linear decision rule according to which in case of large disturbances the bank would follow the government’s preferences. As a distinguished Princeton economist has argued: “if the government is not free to respond to adverse future conditions flexibly, that can create its own cost in terms of future economic performance” (Dixit 1996: 66). Hence the solution suggested by Avinash Dixit and by other experts combines some of the advantages of both commitment and flexibility. It consists in using an unconditional rule at some times, keeping flexibility at others, and defining threshold levels of contingencies at which policy would switch from one regime to the other:

A switch from the commitment regime to the flexible regime should be made when the disequilibrium becomes so large, and the net advantage of flexibility over commitment grows so large, that it provides a sufficient rate of return on the sunk lump-sum cost of switching. The reverse switch should be made when the disequilibrium is small enough to justify that move using a similar calculation”.

(ibid.: 67-8)

Of course, the solution suggested by the experts presupposes a close cooperation between the central bank and a full-fledged, democratically accountable government. But this is precisely what cannot take place at the European level. At most, one country can attempt to control the situation by imposing its own policy in all the other member states, at the cost of transforming the democratic deficit of the EU into a democratic default, see the following section.

In an article published in Spiegel Online (15 February 2012) Wolfgang Münchau discusses the main differences between the ECB and the pre-EMU Bundesbank, adding some important elements to the arguments developed above and in a previous paper (Majone 2011). The Associate Editor and columnist of the Financial Times starts by rejecting what may be called the Clausewitzian view of the ECB as the continuation of the old Bundesbank
by other means. The crisis of the euro zone, Münchau argues, has definitely shown that the ECB is not a clone of the German central bank. In fact, it should have been clear all along that the Bundesbank model could not have been replicated at the European level, for at least three reasons. First, the broad domestic consensus concerning the importance of price stability, budgetary discipline and international competitiveness—the pillars of the *Ordnungspolitik* embraced by most German economists and policymakers, and supported by large sections of public opinion—does not exists in other countries of the euro zone with different traditions and political cultures. The second reason is the economic, social, and political homogeneity of Germany, which contrasts with the great heterogeneity of the euro zone. The third, and according to Münchau most important, difference between the ECB and the Bundesbank is that the German economy is rather small relative to the world economy. This means that the old Bundesbank did not have to worry too much about the impact of its decisions outside Germany. By contrast, the ECB cannot overlook the impact of its policies on the world economy because of the size of the euro zone. Recent comments by President Obama about the negative consequences, for America and the rest of the world, of the mismanagement of the euro crisis by EU leaders, confirm Münchau’s point. Further confirmation is provided by the frequently expressed concerns of the leaders of China and of other BRIC countries, about economic developments in Europe, and particularly about the risk of sovereign default in the euro zone. Thus, none of the three conditions which made it possible for the Bundesbank to operate successfully at the national level, are satisfied at the European level.

But the ECB is also different from the Federal Reserve which, according to its statute, must pursue not one but two objectives: price stability and full employment. Thus in early 2011, the ECB raised the interest rate because of the risk of higher inflation, while the Fed was easing monetary policy because of a rise in unemployment. The main difference between the two institutions, however, is that the governor of the Fed has a political counterpart in the secretary of the Treasury and even the president of the United States, while the political counterparts of the president of the ECB are 17 heads of state or government, 17 finance ministers, the president of the European Commission, and the Commissioner responsible for economic and monetary affairs. It follows that the president of the ECB will never be able to play a role with respect to the multi-headed governance of the euro zone comparable to that of the governor of the Federal Reserve vis-à-vis the US Federal Government. Münchau concludes that as an institutional “hermaphrodite” (*Zwitter*) the ECB can only play a secondary role in the current crisis (Münchau 2012).
What has been said of the ECB’s political and social disembeddedness applies, *mutatis mutandis*, to the other "non-majoritarian" institutions of the EU, such as the Commission and the ECJ. Different democratic countries have found different solutions for the legitimacy problem of non-elected institutions operating at the national level. Common features of all these solutions, however, are the crucial role of public opinion, and an intense interaction between non-majoritarian institutions and the branches of the democratically legitimated government. As we saw in the case of the ECB, the absence of a European public opinion and of a full-fledged European government implies that the behaviour of non-elected institutions at the European level is quite different from that of the national counterparts. Absent the risk of being subject to direct democratic control and unconcerned about a weakly developed European public opinion, such EU institutions have few incentives to exercise the self-restraint observed, for example, in the case of the U.S. Supreme Court. As Robert Dahl noted many years ago:

> The more the [Supreme] Court exercises self-restraint and the less it challenges the policies of law-making majorities, the less the need or impulse to subject it to popular controls. The more active the Court is in contesting the policies of law-making majorities, the more visible becomes the slender basis of its legitimacy by democratic standards, and the greater the efforts to bring the Court’s policies into conformity with those enacted by law-making majorities.

(Dahl 1972.: 209)

In fact, the Supreme Court justices are acutely aware of the limitations of the court’s powers and its dependence on voluntary acquiescence to its decisions. Hence, the Court’s concern with its authority makes it reluctant to depart too far or for too long in its decisions from prevailing public opinion. A sophisticated statistical analysis of Supreme Court’s decisions for the period 1956-1989 indicates that for most of this period, “the Court has been highly responsive to majority opinion. Its decisions not only have conformed closely to the aggregate policy opinions of the American public but have thereby reinforced and helped legitimate emergent majoritarian concerns” (Mishler and Sheehan 1993: 97). Compare the behaviour of the American Court with the lack of self-restraint of the ECJ in such recent cases as *Viking, Laval*, and *Rüffert*, where the supranational Court asserted the supremacy of the right of free access to the European single market over national labour laws and constitutionally protected social rights.

Coming back to the ECB, it should be added that the ambiguity of the supranational central bank, noted by Münchau, mirrors the institutional and political ambiguity of the EU: more than
an international organization but less than a full-fledged state; a union of democratic states that suffers from a serious, and growing, democratic deficit; member states which are neither sovereign states nor components of a federation. The latter is the basic ambiguity that should be resolved, but given the state of public opinion today—as revealed by electoral results and opinion surveys, from Finland to Hungary and from Sweden to Greece—a federal solution is politically impossible in the foreseeable future. Does this mean, asks Martin Wolf in an article in the *Financial Times* of 3 May, 2011, that the members of the euro zone can resolve the contradiction only by recovering their sovereignty in the monetary field? What is clear, at any rate, is that neither the monetary crisis nor the broader legitimacy crisis of the European project can be resolved as long as the goals of this project remain indeterminate. Yet, most solutions proposed today—from Wolfgang Schäuble’s proposal of a popularly elected president of the European Commission to the elaborate reform plans of Jean-Claude Piris (2011)—do not even consider what used to be called the *finalité* of the integration project.

For many years European leaders attempted to evade the problem of a clear definition of goals by relying on two different but related strategies. One strategy consisted in masking a variety of different, even conflicting, aims and visions under such open-ended formulas as “ever closer union of the peoples of Europe”. Since the end of the era of “permissive consensus” this approach is not just ineffective, but actually counterproductive. As Edward Carr noted many years ago:

> The conception of politics as an infinite process seems in the long run uncongenial or incomprehensible to the human mind. Every political thinker who wishes to make an appeal to his contemporaries is consciously or unconsciously led to posit a finite goal

(Carr 1964 [1939]: 89)

The other strategy consisted in emphasizing institutional processes and legal procedures rather than concrete outcomes. As already noted, however, also this formalistic approach to integration is no longer possible: a common monetary policy has a direct and visible impact on the life of all inhabitants of the euro zone, indeed of the entire EU. Thus, the traditional ambiguity about the goals, and limits, of European integration is no longer possible; nor is it anymore possible to conceal the progressive weakening of the normative base on which the entire project rests.
6. From the democratic deficit to a democratic default?

For years Euro-leaders and many academics have been saying that a necessary, and perhaps sufficient, condition for solving the EU’s democratic-deficit problem was to give more powers to the European Parliament. Unfortunately, the steady growth of the powers of this supranational assembly has been accompanied by an equally steady decline in the turnout of voters at European elections. The fact is that both politicians and academics are reluctant to admit that the root cause of the phenomenon they deplore lies, not so much in the failure to replicate at the supranational level the legislative institutions of the nation state, as in the in the mismatch between expanding supranational powers and the limited, even shrinking, popular support of the European project. It has already been noted that as long as the powers delegated to the European level were limited and reasonably well defined, the indirect legitimacy derived from the democratic nature of the member states was sufficient to guarantee at least the permissive consensus of the citizens. Problems arose once the powers assigned to the European level vastly exceeded the available normative resources. If the extent of the mismatch between the expanding supranational powers and the limited normative resources was first revealed by the difficult ratification of the Maastricht Treaty, the sovereign debt crisis – and the various attempts to resolve it – have drastically reduced an already limited normative capital.

In January 2001 Greece entered the third stage of EMU and adopted the euro. Despite persistent doubts about the reliability of the data provided by the Greek government, the European Council resolved that Athens had satisfied the convergence criteria and could therefore join a bloc of countries that included such champions of fiscal discipline as Germany, the Netherlands and Austria. Ten years after its admission to the supposedly exclusive Euro club, Greece is being treated as a protectorate of the EU. During negotiations between Athens and the so-called troika – composed of representatives of the ECB, IMF and of the European Commission – in June and July 2011, troika's officials revealed their plans: in order to make Greece's 50 billion euro privatization programme happen, outsiders were to be brought in to run it. And because Greece seemed incapable of collecting taxes, international experts would come in to do that, too. Also the Dutch were urging that Greece's privatization programme be given to an agency run by international experts. Finland – one of Germany's main allies in the campaign for a strict disciplinary attitude towards countries which broke the fiscal rules – insisted that Greek assets should be securitized so that they could be used as collateral: if Greece defaulted, lenders could be given an airport or some other utility. Also the technocratic government of Prime Minister Papademos enjoyed little freedom of action since it had to act under the bailout conditions administered by the troika.
According to Matthias Mors, the head of the troika mission in Athens, his team has set up an early warning system in the Greek capital to follow closely the activities of parliamentarians, members of government and high-level bureaucrats. The purpose is to be able to intervene immediately, if necessary (Süddeutsche Zeitung of 29 March 2012, p.8). This strict disciplinary stance towards governments that overshoot the deficit guidelines set by the Growth and Stability Pact will continue in the future: under the permanent emergency mechanism (the European Stability Mechanism) the European Commission got new powers to scrutinize national budgets, and impose fines on deficit violators.

The elitist character of the European integration project (Majone 2009: 22-35) has reached its full expression in the emergence of Germany as the would-be rescuer of the euro, a concentration of powers justified by the claim that the survival of “Europe” depends on the survival of the common currency – in the words of the German chancellor: “Wenn der Euro scheitert, scheitert Europa” (see the introduction). The EU is supposed to be a free association of sovereign states enjoying the same rights and duties, and united by the principle of loyal cooperation. However, the concentration of decision-making powers in very few hands has reached a level never attained before. The supranational institutions, especially the Commission, seem to have lost much of the power and influence they enjoyed in the past, even in the recent past. But also intergovernmentalism is no longer a mode of governance by a fairly large group of sovereign states, decision-making powers having been pre-empted, first by the Franco-German couple and then by Germany alone. The other member states are naturally concerned about this development. A recent indication of such concerns is the threatened resignation of the head of the Euro Group, Jean-Claude Juncker. The Luxemburg prime minister – and first permanent president of the group of finance ministers of the euro zone, since January 2005 – was protesting against the fact that all key decisions on monetary policy are now taken in complete disregard of the collective opinion of the Euro Group. It is true that in a crisis situation important decisions may have to be taken quickly and in camera, but the important commitments made now – such as the obligation to respect the strict budgetary conditions imposed by the Fiscal Pact – concern not only the present but also future governments. In fact, the Fiscal Pact is an international treaty and as such it can be modified only by unanimous agreement of its twenty-five signatories – a very high hurdle.

Already some years ago, a few long-time official participants in the EMU project stated privately that some form of fiscal federalism – i.e., a more federal European structure with centralized redistributive policies of taxing, borrowing, and spending – is a certainty in the long run; but this was at the time a publicly taboo idea (McNamara 2006). Since the
beginning of the sovereign-debt crisis such voices have become more insistent, and are openly expressed. Thus, Jacques Attali – founding president of the European Bank for Reconstruction and Development and former adviser to French President Mitterand – believes that Greece will never be able to repay its debts because the numerous aid plans, even if they have so far succeeded in avoiding default, failed to clear the long-term liabilities. On the other hand, the current crisis cannot be resolved by Greece exiting from the euro zone: "If we let Greece go bankrupt, the euro will disappear. The very principle of the European Union will be challenged". According to the French expert, the only possible solution requires the political courage of implementing a plan that includes the establishment of a European Ministry of Finance; the issuing of European Treasury bonds that would stretch out the debts payments of Greece, Portugal, and Ireland; and assessing a broad-based European Value Added Tax that would raise the necessary funds to repay the debt (Attali 2011). No concerns are expressed about the democratic legitimacy of this and other plans with similar far-reaching consequences at the national level. Effectively, the defenders of EMU in its present form assume that the debt crisis can be solved only by enlarging the democratic deficit of the EU to a point where, given the state of public opinion today, it becomes politically unsustainable: a democratic default. They refuse to admit the need of more flexible patterns of integration.

7. Differentiated integration and its modes

The euro was supposed to be the visible symbol of the irresistible advance towards a politically united Europe. Actually, monetary union has split the EU into several camps – perhaps permanently. Instead of the Commission’s slogan “One Market, One Money, One Law” we now have a Union divided into three groups: the members of the euro zone; the de jure (UK, Denmark) and de facto (Sweden) opt-outs; and the member states waiting (with less and less enthusiasm) to be admitted to the euro zone. A fourth group may emerge in the near future. A well-known American economist – Kenneth Rogoff, professor at Harvard and former chief economist of the International Monetary Fund – predicted, already in 2006, that the EU may be further subdivided with the emergence of the group of the future drop-outs of the euro zone – countries with a large public debt which in the next five to ten years may have to give up the euro. The reason, according to Rogoff, is that countries like Greece, Portugal, or even larger members of the euro zone, such as Italy and Spain, may be forced to abandon the common currency because rigorous implementation of the Maastricht parameters could entail social and economic costs too high for their voters to accept (Mueller 2006). At the time of this writing (May 2012), the probability that Greece may become the first
member of the group of the opt-outs is greater than fifty per cent, according to many experts. But even fiscally sound members of the euro zone could in the future decide to give up the common currency. The reason is that a one-size-fits-all monetary policy may entail costs too high to make monetary union acceptable in terms of an economic calculus of benefits and costs. Thus, given the great socioeconomic heterogeneity of an expanding euro zone, countries that until recently considered the economic benefits of monetary union greater than the costs could very well think otherwise in the enlarged EU (De Grauwe 2004).

In sum, instead of accelerating the movement towards political union, EMU has made differentiated integration, of one type or another, practically unavoidable. “Differentiated integration” is a generic and neutral term used “to denote variations in the application of European policies or variations in the level and intensity of participation in European policy regimes” (Wallace 1998: 137). Several possible models of differentiated integration have been proposed in the past. Leo Tindemans, prime minister of Belgium and convinced federalist, in his 1975 report on the future of European integration focused less on the final goal of a federal Europe than on the model of what would be later called “multi-speed Europe”. According to Tindemans, economic and other differences were already so large among the (then) nine members of the EC that it was impossible to work out a credible action programme under the assumption that all the intermediate goals were to be reached by all member states at the same time. Hence his proposal that different states should be allowed to move towards deeper integration at different speeds, depending on their ability to do so. The Tindemans Report had no immediate impact on the integration process, but a quarter of a century later its author could claim that his ideas had found practical implementation in the rules of EMU, according to which only countries satisfying certain conditions were allowed to move to the final stage of monetary union (Tindemans 1998).

The Belgian leader also emphasized the difference between his model of multi-speed Europe—which assumes that all the member states agree on the final goal of political integration, and only the speed with which they move toward it may vary—and the model of Europe à la carte. According to the latter model, popularized by Ralf Dahrendorf in the same period, “no one must participate in everything”, a situation that “though far from ideal is surely much better than avoiding anything that cannot be cooked in a single pot” (cited in Gillingham 2003: 91-2). Concretely this meant that there would be common European policies in areas where the member states have a common interest, but not otherwise. This, said the future Lord Dahrendorf, must become the general rule rather than the exception if we wish to prevent continuous demands for special treatment, destroying in the long run the coherence
of the entire system – a prescient anticipation of the present practice of moving ahead by granting opt-outs from treaty obligations.

Tindemans’ and Dahrendorf’s contributions effectively opened the debate on differentiated integration. In addition to the two modes of integration just mentioned, the label applies to several other models such as “variable geometry”, “core and periphery”, and “concentric circles”. None of these various integration modes is based on, or inspired by, any formal social-scientific theory. All concepts of differentiated integration were worked out and discussed as ad hoc responses to concerns raised by the growing number and diversity of the members of the European Community, and then of the European Union. Indeed, any discussion of differentiated integration must start from the observation that each enlargement of the EU changes the calculus of the benefits and costs of integration—the reduction of transaction costs made possible by harmonized rules, on the one hand, and the welfare losses entailed by rules that are less precisely tuned to the resources and preferences of each member state, on the other. The problem of a high level of heterogeneity, already noted in the case of monetary union, arises with any type of policy harmonization. As long as resources and preferences are fairly similar across countries, the advantages of common rules are likely to exceed the welfare losses caused by harmonization, but when heterogeneity exceeds a certain threshold the reverse will be true.

The economic theory of clubs, originally developed by James Buchanan (1965), provides a good conceptual basis for analyzing in greater detail the tension between policy harmonization and socioeconomic heterogeneity. Thus, Alessandra Casella (1996) has used Buchanan’s theory to study the interaction between expanding markets and the provision of product standards. She argues, inter alia, that if we think of standards as being developed by communities of users, then “opening trade will modify not only the standards but also the coalitions that express them. As markets...expand and become more heterogeneous, different coalitions will form across national borders, and their number will rise” (ibid: 149). The relevance of these observations extends well beyond the narrow area of standard-setting. In fact, Casella’s arguments about heterogeneity among traders as the main force against harmonization and in favour of the multiplication of “clubs” are quite relevant to the study of differentiated integration in Europe. In order to appreciate their relevance, however, we need to recall a few definitions and key concepts.

*Pure public goods*, such as national defence or environmental quality, are characterized by two properties: first, it does not cost anything for an additional individual to enjoy the benefits of a public goods, once it is produced (*joint-supply property*); and, second, it is difficult or
impossible to exclude individuals from the enjoyment of such goods (*non-excludability*). A “*club good*” is a public good from whose benefits individuals may be excluded – only the joint-supply property holds. An association established to provide an excludable public good is a *club*. Two elements determine the optimal size of the club. One is the cost of producing the club good: in a large club this cost is shared over more members. The second element is the cost to each club member of the good not meeting precisely his or her individual needs or preferences. The latter cost is likely to increase with the size (i.e., heterogeneity) of the club. The optimal size is determined by the point where the marginal benefit from the addition of one new member – i.e. the reduction in the per capita cost of producing the club good – equals the marginal cost caused by a mismatch between the characteristics of the good and the preferences of the individual club members. If the preferences and the technologies for the provision of club goods are such that the number of clubs that can be formed in a society of given size is large, then an efficient allocation of such excludable public goods through the voluntary association of individuals into clubs is possible. With many alternative clubs available each individual can guarantee herself a satisfactory balance of benefits and costs, since any attempt to discriminate against her would induce her exit into a competing club – or the creation of a new one.

The important question for us is: what happens as the complexity of the society increases, perhaps as the result of the integration of previously separate markets? It has been shown that under plausible hypotheses the number of clubs tends to increase as well, since the greater diversity of needs and preferences makes it efficient to produce a broader range of club goods. The two main forces driving the results of Casella’s model are heterogeneity among the economic agents, and transaction costs – the costs of trading under different standards. Harmonization is the optimal strategy when transaction costs are high enough, relative to gross returns, to prevent a partition of the community of users into two (or more) clubs that reflect their needs more correctly. Hence harmonization occurs in response to market integration, but only when heterogeneity is not too great.

Think now of a society composed not of individuals, but of independent states. Associations of independent states (alliances, leagues, confederations) are typically voluntary, and their members are exclusively entitled to enjoy certain benefits produced by the association, so that the economic theory of clubs is applicable to this situation. In fact, since excludability is more easily enforced in the context envisaged here, many goods that are purely public at the national level become club goods at the international level (Majone 2005: 20-21). The club goods in question could be collective security, policy coordination, common technical standards, or harmonized taxation. In these and many other cases, countries unwilling to
share the costs are usually excluded from the benefits of inter-state cooperation. Now, as an association of states expands, becoming more diverse in its preferences, the cost of uniformity in the provision of such goods can escalate dramatically. The theory predicts an increase in the number of voluntary associations to meet the increased demand of club goods more precisely tailored to the different requirements of various subsets of (more homogeneous) states. It will be noted that the model sketched here is inspired by a pluralist philosophy according to which variety in preferences should be matched by a corresponding variety in institutional arrangements.

Of the modes of differentiated integration mentioned above “integration à la carte” and “variable geometry” come closest to the situation modelled by the theory of clubs. The expression “variable geometry” has been used in several meanings. In the meaning most relevant to the present discussion it refers to a situation where a subset of member states undertake some project, for instance an industrial or technological project in which other members of the Union are not interested, or to which they are unable to make a positive contribution. Since, by assumption, not all member states are willing to participate in all EU programs, this model combines the criterion of differentiation by country, as in multi-speed integration, and by activity or project—as in integration à la carte. Still, all member states are supposed to respect a core of binding rules, but no broader commitments than those implied by the general rules. For some authors (e.g., Maillet and Velo 1994) variable geometry is only a temporary stage until full integration has been achieved. Monetary union and the Schengen Agreement (with the British and Irish opt-outs, and Denmark’s partial opt-out) are cited as concrete examples of variable geometry. What has been said above about Tindeman’s interpretation of EMU, however, applies also to these authors’ view of variable geometry: since monetary union is still considered part of the acquis communautaire, we are dealing with a case of multi-speed integration—except for the two countries enjoying an officially acknowledged opt-out. A more recent example of selective intergovernmental cooperation outside the provisions of the Treaties is the so-called G-5, an intergovernmental group comprising the interior ministers of France, Germany, Italy, Spain, and the UK. This particular club seeks to circumvent the lengthy decision-making processes of the Council of Ministers, and to conclude a series of bilateral agreements which should then form the basis of future EU-wide measures (Lavenex and Wallace 2005). If EMU, Schengen, or the G-5 are to be regarded as temporary stages on the road to full integration, then the distinction between variable geometry and multi-speed integration becomes elusive. The fact is that the various models of differentiated integration discussed in the literature overlap, and the lack of an explicit theoretical basis makes systematic classification impossible. One of the unanticipated consequences of the crisis of the euro zone may be a much greater attention
given to the theoretical, institutional, and political aspects of differentiated integration—not only in research but also in teaching.

8. Beyond unilinear thinking and total optimism: teaching European integration after the crisis of monetary union

Let me conclude with some observations about the traditional approach in teaching (but also in writing about) European integration. As I argued a few years ago (Majone 2009: 205-7), this approach was inspired by a sort of unilinear evolutionary image – a view which emerged at a time when the EC comprised a small group of fairly homogeneous West European states. At that time it was not unreasonable to assume that the EC would evolve, sooner or later, into a politically integrated bloc, perhaps even into something like a post-national, but otherwise traditional, territorial state. In fact, for federalists like Altiero Spinelli the establishment of a European federal state would have to precede the political and economic reconstruction of the nation states after World War II – the federation being the necessary foundation of the new national states. The old assumptions are no longer tenable in a Union of twenty-seven members – or more, in the near future – at vastly different stages of socioeconomic development, with different geopolitical concerns, and correspondingly diverse policy priorities. Under present conditions, not orthogenesis (as biologists call straight-line evolution) but evolution with several side-branches seems to be the appropriate model. As a matter of fact, surveying the general pattern of European integration since the end of World War II one can see several distinct branches – a number of, often overlapping, state groupings established for purposes of cooperation in a variety of fields: political, economic, human rights, security, science and technology. An important example is the Council of Europe founded in 1949, which at present has more than forty member countries. The Council may concern itself with all political, economic, and social matters of general European interest and thus has an even broader mandate than the European Union. True, it does not have the power to make binding laws: the two instruments at the Council’s disposal are non-binding resolutions, and conventions effective only between the states that ratified them. The most important convention enacted under its auspices is the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR) of 4 November 1950. With the creation of the European Court of Human Rights, the ECHR provides an enforcement structure which subjects the states to a “European” supervision of their compliance with the provisions of the Convention. For this reason, it has been argued that the ECHR constitutes a first expression of supranationalism in the European integration
process (Lenaerts and Van Nuffel 1999). It is interesting to note that despite the non-binding character of the norms, levels of compliance with the ECHR and with the decisions of the Strasbourg Court do not appear to be at all lower than levels of compliance with EU law (MacCormick 1999).

There are many other forms of European cooperation within and without the EU framework, e.g. Benelux – the customs union among the Netherlands, Belgium, and Luxembourg established in 1948--and the Nordic Council, created in 1952 to promote regional, economic, and political cooperation among Denmark, Iceland, Norway, Sweden, and Finland. A further instance of European cooperation is provided by the association of Iceland, Norway, and Switzerland, as non-EU member states, to the Schengen system. In addition, there are numerous functional associations cooperating in various science and technology fields, such as the European Space Agency.

It is therefore wrong to reduce the history of European integration after war to one particular approach, and wrongheaded to insist that the EU should be the main, if not the only, forum for close European cooperation. In fact, the variety of modes of integration and interstate cooperation is one of the distinguishing features of European history. As Eric Jones (1987) has stressed, for most of its history Europe formed a cultural, economic, even a political unity. Of course, it was a special type of unity that did not exclude frequent, if limited, wars. Not the unity of the Chinese or Ottoman empires; rather, unity in diversity, embodied in a system of states competing and cooperating with each other. Such a system realized the benefits of competitive decision-making and the economies of scale of the centralized empire, giving Europe some of the best of both worlds. In the words of the British historian: “This picture of a Europe which shared in salient respects a common culture...and formed something of a single market demonstrates that political decentralisation did not mean a fatal loss of economies of scale in production and distribution. The states system did not thwart the flow of capital and labour to the constituent states offering the highest marginal return” (Jones 1987: 117).

In the preceding section we saw that there are also good theoretical reasons to believe that in complex societies the multiplication of voluntary associations, competing and cooperating with each other, need not be an element of weakness—on the contrary it can signal a positive, welfare-enhancing development. Unilinear accounts of European integration neglect the multiplicity of institutional alternatives that were available in the past, and may become relevant again in the near future: from city leagues to regional associations and transnational functional networks. I believe that broader, more historically oriented view of European
integration would provide a suitable conceptual framework even for courses concentrating on policymaking in the EU. Moreover, one of the challenges facing teachers of such courses will be to explain the causes and consequences of the present crisis and, more generally, to explain that regional integration, like globalization, entails costs as well as benefits. A striking characteristic of much writing, and teaching, about the EC/EU is the tone of general optimism that pervades such discussions. Many students of European integration assume that the EU is developmentally flexible in the sense of being able to adapt to constantly changing conditions. Thus a legal scholar writes of “the inherent ability of the EU integration process to constantly reinvent itself as part of an evolutionary process of political and economic survival” (Szyszczak 2006: 487). Another student of European law has contended that the approach to integration followed for half a century is still basically valid, and capable of evolving in response to changing pressures and new priorities (Dougan 2006). Equally favourable prognoses have been issued by a number of scholars and commentators who over the years have absorbed what I have called the EU’s political culture of total optimism (Majone 2011).

In the context of a more realistic assessment of the benefits and costs of regional integration, the student’s attention could also be called to a small, but high quality body of writings about the possibility that efforts to cooperate internationally may have undesirable consequences (see, for example, the chapter titled “Can Coordination Be Counterproductive” in Bryant 1995, where the contributions of Martin Deldstein, Kenneth Rogoff and of other distinguished economists to this theme are mentioned).

It is true that recently some European leaders have switched from total optimism to catastrophism. The same German chancellor who in March 2007 asserted, on the occasion of the fiftieth anniversary of the signing of the Treaty of Rome, that “European integration has given us peace and prosperity. It has created a sense of community and overcome hostilities”, only three years later went as far as saying that the crisis of the euro was nothing less than an existential threat for Germany and for Europe: “if the euro fails then Europe fails”. But as I argued in the introduction, there is no logical, political, or economic reason why the failure of monetary union, in its present form, should entail the failure of “Europe”. At least from the perspective of the teacher of European integration, the present crisis should be viewed as a sort of blessing in disguised in that it has focused attention on the major structural flaws of the traditional integration methods and forced us to think how the integration process could continue – if necessary along different lines.

What I am suggesting is that the story of EMU may be used as a parable – a narrative by which certain ill-understood, or deliberately concealed, features of the traditional approach to European integration are clearly revealed. Even more appropriately, perhaps, EMU may be
seen as a metaphor of the entire process as it developed since the first European treaties. A metaphor is a way of conceiving of one thing in terms of another, and its primary function is understanding: it helps us “to conceptualize the less clearly delineated in terms of the more clearly delineated” (Lakoff and Johnson 1980: 59). From either perspective, the process leading to monetary union, and the consequences of the decisions taken at Maastricht in 1992, are uniquely significant. Thus, to understand why the great expectations that accompanied the introduction of the euro were soon bitterly disappointed is to grasp the basic problems of policymaking in the EU – and to perceive them more clearly than would be possible by analyzing other, less obvious, cases of policy failure, say, the Common Agriculture Policy; or the disappointing results of the Open Method of Cooperation. It is indeed hard to find a better example of the willingness of EU leaders to compromise their collective credibility by committing themselves to overoptimistic goals. Nor can one find, in the entire history of European integration, a better illustration of the complete disregard, not only of expert opinion, but also of such basic principles of crisis management as the timely preparation of contingency plans, and careful attention to signs that may foretell a crisis.

In a once famous book on *De Statu Imperii Germanici*, published in 1667, Samuel von Pufendorf argued that any attempt to transform the Holy Roman Empire of the German Nation into a more cohesive polity, on the French or English model, was bound to fail. As an association of sovereign states, however, the Empire could and did perform a number of very useful tasks for its members. In fact, while nationalist historians of the nineteenth century considered the empire a monstrosity, modern scholarship has rediscovered the virtues of an institutional arrangement which, for all its limitations, fulfilled important functions and exerted a profound influence on the historical and political culture of Germany (Schilling 1989). Thus, contemporary historians find that the competition between the two main imperial courts (the Reichskammergericht and the Reichshofrat), far from being dysfunctional, served the interest of different corporate groups. Also the imperial parliament – the (in)famous *Immerwährender Reichstag*, or Permanent Parliament – was an ideal venue for interest mediation among the territorial members of the empire. Again, the various “Circles” (*Reichskreise*) – clubs or associations operating between the sovereign states and the empire – represented a useful intermediate level of policymaking for a number of issues, including defence.

State-like ambitions are bound to be counterproductive for a *sui generis* polity like the EU as well. Within the general framework of a customs union and a common market for goods—a degree of integration most Europeans seem willing to support – different, often overlapping, clubs would form, according to the preferences and needs of their members. Broader popular support than is available to the EU today – elicited by a few concrete examples of successful
inter-state cooperation – would of course make it possible to set more ambitious goals than a customs union-cum-common market. The guiding principle should always be that each new commitment must be matched by corresponding material and normative resources. This means that the strategy of fait accompli – which led, inter alia, to the adoption of monetary union before there was any agreement on political union or even on close fiscal coordination -must be abandoned once for all. If one clear lesson emerges from the experience of the last fifty years, it is that in the age of mass democracy elite-led integration can only go so far (Majone 2009: 233-4).

References


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