

Cover Page



Universiteit Leiden



The handle <http://hdl.handle.net/1887/31618> holds various files of this Leiden University dissertation.

**Author:** Pan, Wen

**Title:** Crises and opportunities : strengthened European Union economic governance after the 2008 financial crisis

**Issue Date:** 2015-01-28

## 2 Chapter Two: Neo-Functionalism

Neo-functionalism is often considered as the first theory to account for European integration (Jensen 2010). Starting from Ernst B. Haas's book *The Uniting of Europe: Political, Social and Economic Forces 1950-1957* published in 1958, neo-functionalism made its debut on the stage of international relations (IR) theories; it differs from former IR theories by giving prominence to supranational institutions and non-state actors (such as interest groups and political parties), which are held as the important driving forces behind regional integration, besides national states (Jensen 2010, 71-73). Initiating the first theorizing of European regional cooperation, Haas's book of 1958 is regarded as "the founding moment" of EU studies (Rosamond 2005, 238). Originally, via constructing a theoretical framework to explain the process of European integration starting from the ECSC, Haas aimed at formulating a scientific grand theory which was capable of accounting for regional cooperation elsewhere after the Second World War.<sup>32</sup> But as soon as neo-functionalism took the European integration project as its case study, the fate and evolution of this theory was inextricably bounded to the vicissitudes of this enterprise in practice (Jensen 2010, 72).

Neo-functionalism contends that economic integration leads to political integration, and supranational institutions will gradually develop and gain their own political agenda, which over time will "tend to triumph over interests formulated by member states" (Jensen 2010, 75). Compared with traditional IR approaches which stress the gains and losses among national states, such as realist "zero-sum" games, neo-functionalism claims that there should be a win-win situation for all that involve in processes of economic and political integration (Jensen 2010, 74-75). Though neo-functionalists like Haas (1971) would say that neo-functionalism does not support

---

<sup>32</sup> See also Niemann and Schmitter (2009, 47). Haas once hoped that his findings could "serve as propositions concerning the formation of political communities" (Haas 1958, xv) which share similar economic patterns and political ideologies with open industrial economies, pluralist societies, and democratic political systems (1958, xv-xvi). As for his theory's potential application, he stated clearly: "Hence, I would have little hesitation in applying the technique of analysis here used to the study of integration under NATO (North Atlantic Treaty Organization), the Scandinavian setting, the Organisation for European Economic Co-operation, or Canadian-United States relations. I would hesitate to claim validity for it in the study of regional political integration in Latin America, the Middle East, or South-East Asia" (Haas 1958, xvi).

a political agenda of federalism similar to that of the US, to argue that economic integration will lead to political integration obviously demonstrates neo-functionalists' pro-integration assumptions (Jensen 2010, 72; 78), and such a pro-integration stance has been criticized by interdependence theorists as neo-functionalist "teleological and regional orientation" (Tranholm-Mikkelsen 1991, 8-9).

## **2.1 The Core Concepts of Neo-Functionalism**

For half of a century, neo-functionalism, tested by the EU's successes, stagnation, and sometimes failures, has been modified and developed by its proponents such as Lindberg (1963), Schmitter (1969), Lindberg and Scheingold (1970, 1971), Nye (1971), Tranholm-Mikkelsen (1991), Stone Sweet and Sandholtz (1998), Rosamond (2005), Niemann (2006), and Jensen (2000, 2010). As a result, according to Jensen (2010), three kinds of distinctive neo-functionalist propositions on the dynamics of the European integration process have been formulated: (1) the spillover thesis, (2) the elite socialization thesis, and (3) the supranational interest group thesis. These three approaches have formed the core thinking of neo-functionalist theory.

### **2.1.1 Spillover**

Above all, "spillover" is generally considered as the key concept to understand the propositions of neo-functionalism, and the term "spillover" is utilized in two senses: (1) to describe the occurrence of (further) integration, and (2) to "identify the driving force and inherent logic of integration via increased functional/economic interdependence" (Niemann and Schmitter 2009, 49). Haas first applied the term "spillover" to present his assumptions that economic integration in one sector, for example, in coal and steel, will trigger other economic and political cooperation; consequently, "[t]he 'spillover' effect in sector integration is believed to lead inevitably to full economic unity" (1958, 283) and European economic integration will "complete the 'spillover' from ECSC to Euratom and its promise of independence from oil imports, from sector common markets to the General Common Market" (298). As sector integration "begets its own impetus toward extension to the entire economy" (1958, 297), Haas defined it as "the expansive logic of sector integration" (1958, 283-317; 1967b, 321). Later Lindberg formulated the concept of spillover as follows: "the initial task and grant of power to the central institutions creates a situation or a series of situations that can be dealt with only by further expanding the task and the grant of power" (1963, 10). In *Theories of*

*European Integration*, Rosamond defined “spillover” as “the way in which the creation and deepening of integration in one economic sector would create pressures for further economic integration within and beyond that sector, and greater authoritative capacity at the European level” (2000, 60). From Haas (1958) to Lindberg (1963), and to Rosamond (2000), the idea of spillover suggests two layers of integration: the economic dimension and the political dimension, with the latter being mentioned as a “full economic unity”, “(the) grant of power to the central institutions” and “greater authoritative capacity at the European level”, respectively. In addition, the concept of spillover implicitly assumes that “economic growth would continue unabated in the capitalist world, and that all member states would benefit more or less equally from that growth” (Niemann and Schmitter, 52). Anyhow, “spillover” is a dynamic process “where cooperation in one field necessitates cooperation in another” (Jensen 2010, 73), that is, cooperation in one policy area would take cooperation in other related neighboring policy areas as a prerequisite, and a new political agenda will be generated and must be fulfilled properly so as to realize the original planned cooperation. In such a way, European integration is viewed as “a self-perpetuating process”: as soon as the first integrative steps get started, those integrative initiatives are moving ahead towards further integration (Lelieveldt and Princen 2011, 34), and meanwhile, integration in the economic fields will spill over into the political areas, promoting a kind of political integration, as “integration processes, once started in a field of ‘low politics’, will create a dynamic of their own and sooner or later affect other policy fields” (Diez 1999, 605). So “spillover” indicates both economic and political cooperation. Cameron (1992) dissects the spillover dynamic into several analytical phases:

- (1) “Supranational institutions are assigned tasks that are *inherently expansive*.”
- (2) “Interest groups, political parties, and other national political elites begin to press for a strengthening and expansion of the functions of supranational institutions so that they can perform those tasks.”
- (3) “As those new functions are carried out, support builds for the strengthened supranational institutions among both elites and the mass public.”
- (4) “Thus, to the extent that *inherently expansive* tasks are assigned to supranational institutions, the responsibilities and powers of, and support for, those supranational institutions will tend to increase in a spillover effect.” (Cameron 1992, 25)

The above four steps suggest the ideal effects and consequences entailed in spillover for the integration process. An “inherently expansive” task means the task at issue is functionally interdependent from other issues, and its fulfillment requires cooperation in other related policy areas (Lindberg 1963, 10; Niemann and Schmitter 2009, 51), and this suggests the possibility, and quite often the necessity, to enlarge the competence and functions of existing institutions or to establish new institutions so as to carry out the initial tasks. From the neo-functionalist point of view, the expansion of supranational institutions’ functions and powers is the logical development of economic integration, during which the power of governments is “constrained by rules whose production they do not control” (Stone Sweet and Sandholtz 1998,18) and thus causes “unintended” consequences for “the actors involved in decision making” (Jensen 2010, 77). Therefore, the reinforcement and expansion of existing supranational institutions or the establishment of new institutions can be taken as the most direct and visible evidence of spillover effects. As far as the EU’s newly established mechanisms to deal with the sovereign debt crisis are concerned, spillover is happening to the EU and EU economic integration is on the way.

#### **2.1.1.1 From Economic Integration to Political Integration**

As spillover is in effect, economic integration will lead to political integration, “whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over the pre-existing national states” and “[t]he end result of a process of political integration is a new political community, superimposed over the pre-existing ones” (Haas 1958, 16). Political integration is a key concept for neo-functionalists; however, there are disagreements among neo-functionalists on Haas’s proposition of actors’ loyalty transferring to the new center (Niemann 2006, 13; Niemann and Schmitter 2009, 46; Jensen 2010, 75), and even at the initial stage of neo-functionalism, Lindberg (1963, 6) suggests that political actors “shift their expectations and political activities” rather than shift their loyalties (i.e. “shifts in values and any reference to a political Community end point”) to the new center (see also Niemann 2006, 14-15). As for Haas himself, he gradually changed his first position, taking out loyalty transferring from the defining characteristics of political integration, as Niemann and Schmitter (2009) summarize:

“Contrary to the conventional reading and misinterpretation of neo-functionalism, Haas actually held that such a shift in loyalties need(s) not be absolute or permanent, allowing for multiple loyalties (Haas 1958, 14). In addition, soon after devising his original definition of integration, Haas downplayed the previously amalgamated endpoints (Haas 1960), and also abandoned shifting *loyalties* as a defining characteristic of integration. Instead, he emphasized the transfer of *authority* and *legitimacy* (Haas 1970, 627-8, 633).” (Note 4, in Niemann and Schmitter 2009, 64; their emphasis)

So the loyalty transferring should not be taken as an indicator to gauge integration, and “[t]he essence of political integration”, Lindberg argues, “is that governments begin to do together what they used to do individually; namely, they set up collective decision making processes that in greater or lesser degree handle actions, engage in behaviors, and make allocations of goods or values that used to be done (or not done) autonomously by governments and their agents” (Lindberg 1971, 59). Collective decision-making, therefore, is the core of political integration. Combining “A Scale of the Locus of Decision-Making” by Lindberg and Scheingold (1970, 69; see also Lindberg 1971, 69) and “Stage of Decision Process” by Lindberg (1971, 71-72) with “Table 1: Political Integration” by Jensen (2000, 78), a scale to measure the degree of political integration can be illustrated as in Table 2.1:

Table 2.1 The Scale of Political Integration

Political integration indicator: collective decision-making	Locus of activity	Degree of political integration	Score
<b>Mode 0:</b> All policy decisions are made by national processes and no decision behavior in the collective system. No collective administration of policy.	All activity at the national level.	None	0
<b>Mode 1:</b> A narrow range of problems is carried to specific policies or rules, or a few important problem areas are involved but decisions are only made into goals or general policies. Very little direct administration by the collective system; national governments have almost complete discretion, subject to some “coordination”.	Only the beginning of Community decision processes; preponderance at national level, some at collective level.	Level 1	1
<b>Mode 2:</b> A few important areas are regarded as common and approached as such, but decisive issues are still subject to national processes. (A few important problems are carried to specific	Policy decisions on both, but national activity predominates.	Level 2	2

policies or rules, or decisive problems dealt with at the collective level are as many as that at the national level, but only in the formation of goals or general policy).			
<b>Mode 3:</b> Within a given issue area, problems dealt with collectively are equivalent in number or importance to these subject to national systems alone.	Both, roughly equal.	Level 3	3
<b>Mode 4:</b> Collective administration exists for most of the policies; data is gathered and alternatives are generated in the collective system. The most decisive problems are decided collectively in the form of policies and rules, but important areas are still subject to autonomous national activities, where collective decisions are reached only to goals or broad policies. (Most decisions must be taken jointly, but substantial decisions are still taken autonomously at the national level).	Both, community dominates, but of substantial national activity.	Level 4	4
<b>Mode 5:</b> Only a narrow range of problems is still decided upon in national systems autonomously. The great bulk of recognition, communication and problem solving take places in the European system. All problems are dealt with authoritatively, but implementing policies and rules is still subject to governmental discretion.	Both, the community dominates, with a small national role.	Level 5	5
<b>Mode 6:</b> Distinction between internal policy and collective policy disappears. All policy decisions and all the implementation of rules take place in collectivity.	All community.	Level 6	6

Notes: Level 1-6 indicates a low-high degree of political integration. On the scale of 0-6, no political integration is given the score of 0, and the degree of political integration increases from the score of 1 to 6, where full political integration bears the highest score of 6.

Sources: Own compilation based on Lindberg and Scheingold (1970, 69), Lindberg (1971, 69-72) and Jensen (2000, 78).

In neo-functionalist logic, European economic integration leads to European political integration. Accompanying its economic success during the 1980s, the Community's "[p]olitical integration has moved forward in fits and starts" (William Wallace 1990, 3), while throughout the 1990s, there was increasing political integration in EU social policy and labour market areas (Jensen 2000). The condition for political integration, as William Wallace once pointed out, is that it results from economic cooperation accompanied by "high levels of economic and social

interaction” (1990, 9). As the economic and social interactions among EU member states and EU citizens become more frequent and deeper against the trend of globalization, it is expected that EU political integration will also get intensified and broadened. Following these arguments, this dissertation formulates its first hypothesis:

*H1: European economic integration, via spillover effects, leads to European political integration; with more intense economic cooperation and social interaction among member states, the degree of political integration increases.*

As analyzed above, the expansion of existing supranational institutions or the establishment of new institutions can be taken as the most direct and visible evidence of spillover effects; accordingly, the three selected cases in this dissertation, representing the EU’s newly established mechanisms to solve the sovereign debt problem, suggest the effectiveness of the neo-functionalist spillover dynamic. Along with the Community’s development, there are increasing numbers of national issues dealt with on the basis of various collective decision-making modes at the EU level, and this fact shows that European political integration is happening, just to different degrees. If H1 is correct, then in case studies we should observe certain collective decision-making modes indicating political integration in the newly developed policies and mechanisms, and meanwhile, these collective decision modes entailed in the selected cases should also show a rising level of political integration compared with previous practices along with the rising level of economic and social interactions. Though William Wallace (1990) does not specify the indicators for the “high levels of economic and social interaction”, the measurement of them can be indicated by the data on trade and personnel mobility in the Community across EU national states. This hypothesis test is going to ascertain the nature of political integration, and the connection among economic cooperation, social interaction, and the degree of political integration.

#### **2.1.1.2 Functional Spillover**

Three kinds of spillover processes are further differentiated by neo-functionalist writers: functional (or technical) spillover, political spillover, and cultivated spillover (Lelieveldt and Princen 2011; see also Jensen 2010, Niemann 2006, Rosamond 2000,

and Tranholm-Mikkelsen 1991).<sup>33</sup> Functional spillover refers to a situation in which a successful cooperation in one sector requires support and cooperation in other adjacent sectors (Jensen 2010, 72-73). The creation of the Single Market is a good example to illustrate the rationales behind the functional spillover dynamic. In order to forge an internal integrated market to realize the free movement of goods, labor, capital and services, national states must reach agreements on various existing regulations and standards on, for example, payments, working hours, and the working environment. In addition, as the Single Market means the cancellation of border checks among member states, further coordination in police affairs and immigration policies is necessary and required. Furthermore, along with the establishment of the Single Market, transnational trade increases, and so does the vulnerability of national economies to the fluctuations of national currencies. To reduce financial risks and transaction costs related to expanding trade, EMU was created as a functional logical necessity to streamline the Single Market and protect national economies. The functional spillover mechanism, which consists of the first sub-hypothesis of spillover effects, can be stated as follows in the context of the euro area sovereign debt crisis:

*H1a': To solve the debt crisis (i.e. a fiscal issue) requires support and cooperation in other related areas and thus pushes further integration in both the original and these related areas.*

As Table 1.2 and Table 1.3 illustrate, in order to solve the sovereign debt crisis, there should and must be coordination among fiscal, economic and financial policies.

---

<sup>33</sup> These three terminologies were not put forward by the first-generation neo-functionalists (see Niemann 2006, 29-30). Adopting from Stephen A. George who calls the third category “the role of the Commission” (George 1985, 27) or “Commission leadership” (George 1985, 24), Tranholm-Mikkelsen (1991) first makes such a three-fold distinction from previous neo-functionalist literature which is believed to lack explicit and exact definitions of “spillover” (see note 17 in Tranholm-Mikkelsen 1991). In fact, the term “cultivated spillover” was put forward by Nye as early as in 1971 from Haas’s general idea of “spillover”, as Nye (1971, 200) writes: “Haas used the term to cover both perceived linkages between problems arising out of their inherent technical characteristics and linkages deliberately created or overstated by political actors (what might be called ‘cultivated spillover’).” Other scholars may make their own distinctions in these three categories with different names and emphasis. For example, Burley and Mattli divide the three as “functional spillover, political spillover, and upgrading of common interests” (1993, 55-56; 65-69); Jensen (2000) states that there are four integration dynamics described by traditional neo-functionalists: (1) functional spillover; (2) the formation of coalitions and cultivated spillover; (3) shifts in loyalty preferences and elite socializing; and (4) the approval of, or political support from, internationalized/supranational interest groups (2000, 84), based on which Jensen puts forward a new form of dynamics for the EU: institutional/legalistic spillover. Later Jensen (2010) adapted his previous classifications, arguing for three kinds of spillover and the three theses of EU dynamics.

The three selected cases — the European Semester, the ESRB, and the ESM — indicate that functional spillover is effective: to solve the debt crisis, basically a fiscal issue, requires and thus promotes cooperation in other policy areas. Niemann (2006, 62) proposes the following detailed operational processes to identify the functional spillover dynamic: (1) there is an original goal A; (2) there is a functional interdependence between issue A and issue B; (3) actions taken in the area of B, which may require further action, must affect issue A and this is necessary to achieve the original goal A; and (4) the salience of issue A determines the strength of the functional requirement, and besides B, if no other means can be adopted to reach the original objective A, the functional connection between A and B tends to be strong. So the case studies in this dissertation will use these indicators to examine the effectiveness and magnitude of the functional spillover effect.

In accounting for the transitional history from the ECSC to EMU, functional spillover is properly justified, and additionally, two types of economic integration results have been identified: negative integration and positive integration (Tranholm-Mikkelsen 1991, 5). The former means the removal of barriers on exchange and discrimination of trade, while the latter refers to “the formation and application of coordinated and common policies in order to fulfill economic and welfare objectives other than the removal of discrimination”, and it is argued that these two together comprise European economic integration which will lead to an economic union (Pinder 1968, 90).<sup>34</sup> Blauberger (2009, 1044, note 1) suggests the distinction between the two in the way that “[p]olicies of negative integration aim at goals of market-making [...] by abolishing national barriers to free trade or protecting undistorted competition” while “policies of positive integration aim at both goals of market-making and market-correction by defining common European rules.” So basically, negative integration indicates deregulation of national discrimination and trade barriers, while

---

<sup>34</sup> The two terms can be traced back to Tinbergen’s (1954, 122) “negative integration” and “positive policy of integration” (or “positive action”), from which Pinder makes his adaptations. Tinbergen distinguishes these two terms on the basis of whether policy instruments are to be eliminated or new policies are formed, whereas Pinder judges on the basis of whether the purpose is to remove discrimination or to maximize welfare in other ways (see note 3 in Pinder 1968). Hoffmann (1964, 88) also argued for the two different ways to promote integration, and he claimed “[o]n the whole it has been easier for the Six to agree on ‘negative’ than on ‘positive’ policies, i.e. to eliminate tariffs, quotas, obstacles to competition or to mobility, than to take measures that require a more painful, deliberate and persistent transformation of existing practices.”

positive integration moves further to formulate common rules at the EU level; if negative integration means deregulation, then positive integration implies reregulation (Wolf 2011, 16). According to Tranholm-Mikkelsen, negative integration will, in one respect, result in reducing state sovereign autonomy because it deprives member states of a number of policy instruments which “have been, or will be, prohibited by EC law as market distorting” (1991,12), and in another respect, it causes problems such as “social dumping” (i.e., a downward spiraling of worker’s rights and social benefits), uneven wealth distribution, and the aggravation of the disparities between center and periphery; the way to solve these potential problems, however, is either through spillback — “retreating from the original commitment to the internal market” — or spillover — “going further with positive integration” (1991, 12-13). For Lelieveldt and Princen (2011, 189-192), creating the common market via negative integration would suggest a long way of “a cumbersome procedure”, as each time relevant actors (e.g. individuals, companies, member states, the Commission) would go to the Court to ask for adjudicating on the cases of possible “unjustified barriers to trade”; besides, for some cases, the abolishment of national laws “may threaten other values, such as environmental or consumer protection”; therefore, the alternative of positive integration (“also known as harmonization or the approximation of laws”) by adopting EU legislation to set up EU wide norms and standards appears more attractive, as new EU laws tell what the member states shall adopt instead of eliminating national laws and telling then what cannot be adopted. Viewed in a historical perspective, the EU’s development from the 1950s onwards exhibits the general trends of “going further with positive integration” in spite of political crises and the harsh economic environment sometimes, and member states become to realize that international cooperation is irreversible and it is a precondition for them to maximize economic, social and security benefits. Nevertheless, due to the diversity of member states, moving from negative to positive integration would be difficult, for such moves involve reaching agreements on common substantive policies (Tranholm-Mikkelsen 1991, 17). In case studies, this dissertation will also check the way functional spillover was realized: via negative integration or positive integration or both, and the functional spillover hypothesis H1a’ can be reformulated as follows:

*H1a: Solving the debt crisis (i.e. a fiscal issue) requires support and cooperation in other related areas and thus pushes further integration in both the original and these related areas via positive integration rather than negative integration.*

### **2.1.1.3 Political Spillover**

Whereas functional spillover focuses on the technical aspects of European integration, political spillover, on the other hand, concentrates on “a more deliberated political process” initiated by actors such as governmental elites, interest groups, political parties or private agents, because these actors believe they could get more benefits via further integration (Jensen 2010, 76). It is argued that in order to solve common problems successfully, supranational cooperation turns out to be a must, so national actors prefer European-level solutions to those at the national level and these actors become the supportive forces for European integration. The political spillover process, therefore, is “the process of adaptive behavior”, which implies “the incremental shifting of expectations, the changing of values, and the coalescing at the supranational level of national interest groups and political parties in response to sectoral integration” (Burley and Mattli 1993, 55). One often-cited example of interest groups’ influence is the activities of the European Round Table of Industrialists (ERT) (e.g. Cowles 1995, Sandholtz and Zysman 1989): during the 1980s, the ERT actively pushed for the creation of the Single Market and then in the 1990s and the 2000s, it promoted the accession of the Central and Eastern European (CEE) states to the EU, because the ERT held that an integrated and larger single market promises huge profits to industrial companies; accompanying those activities, the expectations and interests of national actors involved in the ERT obviously have been diverting to the supranational level (Jensen 2010, 76). Besides the interest group pro-integrative activities and values, the role of individual leaders are also emphasized by neo-functionalist political spillover propositions. For instance, Tranholm-Mikkelsen particularly stresses the political impetus injected by interest group leaders, as these elites believe that supranational solutions serve their interests better and thus shift their activities, expectations and even loyalties to the new center — a phenomenon described by Tranholm-Mikkelsen as “a learning process” (Tranholm-Mikkelsen 1991, 5; see also Haas 1958, 16; 1961, 365-67; Niemann and Schmitter 2009, 49). In comparison to the learning processes, there are “socialization processes”, that is, as EU institutions, working groups, and sub-committees are proliferating, contact and communication among national officials and Commission officials also increase and become intensified, which leads to “a complex system of bureaucratic interpenetration” and “interaction patterns” within the framework of supranational institutions where consensus among national agents is

fostered (Niemann and Schmitter 2009, 50). The socialization process of the building-up of consensus suggests a supranational problem-solving mode among national delegates, which Haas calls “a cumulative pattern of accommodation in which the participants refrain from unconditionally vetoing proposals and instead seek to attain agreement by means of compromises upgrading common interests” (Haas 1967a, 66). In short, political spillover assumes a pro-integrative position, attitude, and role of both governmental and non-governmental actors towards further integration. *In recent years, as each individual member state normally cannot solve global challenges and collective issues (e.g. climate change, global warming, pollution, and nuclear non-proliferation) on its own and partnership and cooperation are the world trend to do so, one should expect political spillover to be a more common phenomenon in the EU.* All in all, political spillover “is the result of deliberate pressure exerted by national interests because they expect to benefit from further integrative steps” (Lelieveldt and Princen 2011, 36), and concerning the current eurozone sovereign debt crisis, the political spillover mechanism suggests the following:

*H1b: Confronted with the collective sovereign debt problem, national interest actors, both governmental and non-governmental, support further integration and promote European-level solutions over national-level means because to do so brings more benefits.*

Can we indeed put governmental actors and interest groups into one category? This dissertation put them together in H1b because the connotation of “political spillover” refers to attitudes, opinions and activities of various ACTORS towards the EU integration process. Regarding the three types of spillover, functional spillover deals with the technical aspects of European integration, cultivated spillover focuses on EU institutions, and in comparison, political spillover particularly highlights the subjectivity of ACTORS; moreover, placing them together, this dissertation will examine whether the positions of governmental actors are in line with or contradict those of interest groups so far as the issue of the sovereign debt crisis is concerned. To test H1b, this dissertation will mainly focus on the political leaders of the member states and national/transnational interest groups, which typically represent governmental and non-governmental attitudes towards the EU’s actions to deal with the debt crisis respectively. As argued previously, loyalty transferring is not “a defining characteristic of integration”, and moreover, it is empirically difficult to trace EU decision-makers’ and national elites’ loyalty transferring (see section 2.1.2), but still,

the general positions of governmental elites and interest group leaders (i.e. non-governmental elites) and their attitudes towards the solutions to the crisis can be ascertained as the indicators of the effectiveness of political spillover. If the political spillover mechanism suggested by H1b has occurred, there should be evidence in the cases to show national actors' interests, activities, or expectations as regards supranational decisions and policies. Besides, the general explanation — “to do so brings more benefits” — should be specified case by case. Furthermore, when looking for actors' support for supranational solutions, this dissertation, as suggested by Niemann (2006, 66), will also examine (1) the connection between actors' supportive attitudes to a policy and the degree of political integration of that policy area, (2) whether member state positions are in line with or contradict or shift towards that of organized interests, and (3) if possible, the level of national actors' support for supranational solutions at different points in time, which can be used to indicate the potential intensification of learning and socialization processes. As for the positions of governmental elites, this dissertation will focus on the heads of state or government of the EU member states in the European Council and the Ministers in the Council of the European Union, while for the attitudes of national/transnational interest groups, this dissertation will select BusinessEurope and the European Trade Union Confederation (ETUC) as the research nodes. The choosing of those two non-governmental interest groups is based on two major considerations: first, as “the overarching EU business group” and “the federation of European labour unions” respectively, BusinessEurope and the ETUC are the most important and typical cross-border organizations for employers and employees within the EU vis-à-vis the European institutions (Lelieveldt and Princen 2011, 136), which in one respect, represent the broad interests of companies and workers in Europe, and in another respect, offer a comparison of policy orientations between two rival interest groups; second, the eurozone as well as the whole EU sovereign debt crisis has been exerting huge impact on both industries and employment rates, directly affecting the benefits and welfare of both employers and employees, so to examine their positions toward the EU's new measures is also a way to ascertain the ordinary people's general stance on the EU's handlings of the sovereign debt crisis.<sup>35</sup>

---

<sup>35</sup> The representative and importance of the two transnational interest groups over others are supported by their memberships and missions, which are available at their official websites.

Against the euro area sovereign debt crisis, it is meaningful to observe the activities of the President of the European Council Herman Van Rompuy who is also the President of the Euro Summit and thus is expected to play a leading role in eurozone governance (see “Euro Summit President”, Eurozone Portal). As political spillover captures deliberate political processes initiated by various actors, obviously, facing serious financial and economic challenges, Van Rompuy actively engages in promoting solutions to the crisis at the EU level, which illustrates elites’ and leaders’ support for further integration. Without doubt, the nature and function of the European Council and its President are already expressions of the dynamic of political spillover, which are prescribed by the first part of the Lisbon Treaty, Article 15.<sup>36</sup> With the enforcement of the Lisbon Treaty, the European Council has obtained the legal status as one of the EU’s official institutions, and the activities of its leader (i.e. Van Rompuy) as well as of the European Council can also be studied from the perspective of “cultivated spillover”.

#### **2.1.1.4 Cultivated Spillover**

Cultivated spillover focuses primarily on a different dimension of European integration: the role of supranational institutions. It has been argued that relying on formal powers or informal means, supranational institutions, such as the European Commission, the EP and the European Court of Justice (ECJ), have played an active role in fostering and thus cultivating further integration (Lelieveldt and Princen 2011, 36). One way to promote collective interests is via “package deals”, that is, via binding heterogeneous issues together to a single composite item. During intergovernmental negotiations, by initiating “package deals”, supranational institutions (prominently represented by the European Commission) urge the member states to make concessions to support each other so as to get their different interests in different policy areas safeguarded, via unanimous or majority voting modes (Jensen 2010, 76; see also Haas

---

<sup>36</sup> According to the first part of the Lisbon Treaty, Article 15, the European Council should inject impetus to EU development, outline general political directions and define priorities for the EU, while “[t]he President of the European Council: (a) shall chair it and drive forward its work; (b) shall ensure the preparation and continuity of the work of the European Council in cooperation with the President of the Commission, and on the basis of the work of the General Affairs Council; (c) shall endeavour to facilitate cohesion and consensus within the European Council; (d) shall present a report to the European Parliament after each of the meetings of the European Council”.

1967a, 65-66, Lindberg and Scheingold 1970, 116-17).<sup>37</sup> Via “splitting the difference” among national bargaining positions, the essence of the package deals is to push negotiations moving beyond a “minimum common denominator” to an “upgrading of the common interest”, with the result of redefining the conflict as well as expanding the power of the supranational agencies (Tranholm-Mikkelsen 1991, 6).<sup>38</sup> The swaps of concessions among member states posit that participants in negotiations are rational actors who feel that by conceding something, they can gain something else without jeopardizing those areas where consensus prevails (Niemann and Schmitter 2009, 50), and swapping concessions occurs under “the services of an institutionalized autonomous mediator”, where participants “refrain from vetoing proposals and [...] seek compromise, which in turn bolster the power base of the central institutions” (Burley and Mattli 1993, 56). In contrast to functional spillover, the main force to forge package deals does not originate by technological necessity, but from “political and ideological projections and political possibilities” (Nye 1971, 202). Member states must balance their gains and losses during such bargaining processes, but evidently, supranational institutions have assumed driving-engine roles in facilitating negotiations and maximizing bargaining outcomes. To summarize, the rationale behind cultivated spillover is like this: rational actors seek a common stand by splitting the differences and swapping concessions under the auspices of supranational institutions such as the Commission so as to safeguard each other’s specific interests. As a result, common interests get upgraded and supranational institutions gradually extend their mandate “as commensurate with the increasing breadth and depth of integration, thus providing the process with yet more impetus” (Niemann and Schmitter 2009, 50).

Many researchers throughout the 1990s have already illustrated the pro-integrative role of the Commission. Bornschier and Fielder (1995), Cameron (1992), Cowles (1995), and Sandholtz and Zysman (1989) have highlighted the leadership role of the Commission on the internal market programme; Peterson (1991), Pollack (1994) and Sandholtz (1992a) on technology policy; Sandholtz (1992b) on

---

<sup>37</sup> Haas describes this as “to swap concessions in related fields” (Haas 1967a, 65), while Lindberg and Scheingold call it “coalition formation” (1970, 117) which is regarded as the dynamic properties of the Community system (1970, 116).

<sup>38</sup> Originally, Haas (e.g. 1961; 1967a, 65-66) called it “upgrading common interests”, and sometimes the term “upgrading of the common interest” or “upgrading common interests” is used as a substitute for “cultivated spillover” to describe the third element of the neo-functional dynamics of integration (e.g. Burley and Mattli 1993).

information technology; Sandholtz (1993a) on telecommunications; Matlary (1997) on energy; Jabko (1999) on the establishment of EMU; O'Reilly and Stone Sweet (1998) on air transport policy; Marks (1993) on structural policy; Sbragia (1993a) on environmental policy; Cram (1993), Eichener (1992) and Majone (1994) on social policy; Ross (1993) on industrial policy; and Hooghe (1996) and Marks (1996) on cohesion policy.<sup>39</sup> An early study of the Commission by Cram (1993), for example, points out that as far as the EC's social policy regulation is concerned, the Commission is an active integrative force rather than a neutral bureaucracy, as the Commission tends to maximize its initiative power by various ways, such as exploring both non-binding soft law and process law,<sup>40</sup> carrying out research programs, and pursuing the use of qualified majority voting (QMV) on issues of worker's health and safety rules, so as to prepare the ground for future regulatory policy action (Cram 1993, 143-144). As a result, the Commission has developed a degree of autonomy of its own, pursuing sets of goals of its particular interest (Cram 1993, 136). Cram (1993, 135; 137; 141-42) attributes the Commission's opportunistic nature of preparing the ground for future regulatory action to the relatively costless budget expenditure on regulatory policy-making from the Commission's side. Based on previous debates and the traditional neo-functionalist propositions on the Commission's pro-integration role, Jensen (2000) probes into EC social and labour market policy and puts forward a new neo-functionalist spillover mechanism: legalistic/institutional spillover, with the conclusion that the Commission acts as an initiator and "dynamo" as assumed by neo-functionalism rather than just a mediator, as expected by intergovernmentalist-oriented theories.<sup>41</sup> Jensen's legalistic/institutional spillover is a further development and clarification of neo-functionalist cultivated spillover, as it specifies how the Commission links its new proposals to the original objective:

---

<sup>39</sup> The literature review here is based on Marks, Hooghe, and Blank (1996, 365) and Niemann and Schmitter (2009, 61).

<sup>40</sup> Cram divides the existing EC social legislation into four categories and thus outlines four patterns for EC social policy development: "1. Process – establishing rules and procedures at a Community level, setting up Committees and organisations. 2. EC action/direct expenditure – requiring direct Community expenditure and intervention, e.g. through the European Social Fund. 3. Regulatory – setting standards, establishing rules of conduct with which national governments, businesses and individuals must comply. 4. Soft law – non-binding legislation which nevertheless has political significance"(1993, 138). Cram (1993, 145) explains that the fourth category includes EC Recommendations, Opinions and Declarations.

<sup>41</sup> The hypothesis derivation of the legalistic/institutional spillover effect is formulated later in this chapter, see "2.4.2.1 Jensen's Institutional/Legalistic Spillover".

“Following the adoption of the Social Charter by the Member States in 1989, the Commission drew up its action plan, which was intended to ensure that the Charter was implemented. The plan has served — since 1990 — as a basis for regulation-oriented initiatives implemented by the Commission in the field of social and labour market policy. It originally listed 47 proposals for measures, all of which have now been implemented in one form or another.

[...]

One example of the Commission’s dynamic and integrating behavior was its choice of legal basis for a number of proposals related to social and labour market policy submitted in connection with the action plan.” (Jensen 2000, 86-87)

Originally, the adoption of the action plan was to secure the implementation of the Social Charter; taking such opportunity, the Commission presented its proposals related to social and labour market policy by connecting them to the action plan which takes QMV instead of unanimity as the legal basis. For instance, when tabling proposals on atypical work, the Commission chose Art. 100A (single market) and 118 A (working environment) of the SEA as the legal basis, and consequently, QMV, rather than unanimity, in the Council of Ministers was applied to adopt the Commission’s proposals in both cases; however, the Commission’s approach was contested by interest groups, companies, and employers’ associations (e.g. the European employers’ organization UNICE<sup>42</sup>) disagreed, who argued that the atypical work proposals were related to workers’ rights and interests, and hence they should be covered by Art. 100A para.2 of unanimous voting in the Council of Ministers (Jensen 2000, 87). Anyhow, the Commission, via linking proposals to the original goal, deliberately selected QMV rather than unanimity as the legal basis for member states to reach agreement, thus exhibiting a pro-integrative position. As a result, the Commission’s such initiatives, according to Jensen (2000, 88), have strengthened and promoted the supranational tendency of the EU in the following ways: (1) the use of QMV rather than unanimity increases the chances for the relevant proposals to be adopted, and the veto exercised by a single member government is then utterly impossible; (2) the application of QMV enables the Commission to have more freedom to set pro-integration agenda and more maneuver room to build coalitions with some of

---

<sup>42</sup> UNICE stands for *Union des Industries de la Communauté européenne*, which was officially established in March 1958 and changed its name into BusinessEurope as from 23 January 2007.

the key member states or with the international trade union movement so as to create and prepare “an improved treaty basis for future initiatives”; (3) when QMV voting procedures are used in the Council, the EP is involved, consulted, and even making decisions together with the Council (i.e. the co-decision procedure), so along with the increasing application of QMV, the EP gradually exerts greater influence, and this is believed to be a main reason for the EP’s always-supporting stance to the Commission’s usually “offensive” strategies; and (4) as the case of social and labour market policy shows, the Commission, by drawing out proposals that may contradict other actors’ interpretations of the legal basis provided by the Community Treaty, sends a clear signal to the member states: there are the limitations of the current Treaty, so if member states want to achieve their original goal, “then the Treaty should be amended so as to facilitate closer integration” (Jensen 2000, 88).

To sum up, the Commission, by various creative ways, such as binding different national interests in different policy areas via “package deals”, exploring non-binding soft law or process law, carrying out research programs, or linking new proposals to the original objective to deliberately choose QMV as the legal basis so as to be adopted, has been acting not only as a mediator but also as a political entrepreneur to promote negotiators to reach agreements and thus push EU integration further (Jensen 2010, 77; Schmitter 2005, 266). The EU’s history does demonstrate that the Commission has been successfully cultivating both functional and political spillover continuously (Tranholm-Mikkelsen 1991, 15), and by using its agenda-setting powers effectively, the Commission has advanced regional integration and increased its own weight in policy reform (Ross 1995). The results of cultivated spillover, as Keohane and Hoffmann (1990, 296) once indicated, are that EU supranational institutions’ authorities gradually extend (typically represented by the Commission) and meanwhile joint decision-making is incrementally deepened, which implies that there is mutual support among supranational institutions. To wrap up, the discussions above on the political spillover effects of the Commission can be illustrated as follows:

Table 2.2 An Overview of Political Spillover Effects Initiated by the Commission

Pro-Integrative Approaches by the Commission	Possible Consequences and Impacts
<b>Strategy 1:</b> Formulating “package deals”; <b>Strategy 2:</b> Exploring binding process law and/or non-binding soft law; <b>Strategy 3:</b> Carrying out research programs; <b>Strategy 4:</b> Pursuing QMV by linking new proposals to the original objectives; (Extension possible)	<ul style="list-style-type: none"> <li>● Some other actors may oppose the Commission’s proposals, while the Commission builds coalitions with some key national governments and/or interest groups;</li> <li>● Along with the increasing application of QMV and the co-decision procedure, the EP exerts greater influence, which tends to support the Commission’s proposals suggesting the involvement of the EP in decision-making;</li> <li>● The Commission expands its power and autonomy;</li> <li>● The Commission’s proposals may signal the limits of the current legal basis prescribed by EU Treaties for member states to reach certain goals in certain policy areas, preparing the ground and planting the seeds for pro-integrative initiatives in the future; (Extension possible)</li> </ul>

Sources: Own compilation on the basis of the literature review of this section.

Based on Table 2.2 and in the context of the ongoing euro area sovereign debt crisis, the cultivated spillover mechanism can be captured as follows:

*H1c': By making proposals for the solutions to the sovereign debt crisis, the Commission takes pro-integrative approaches to address the crisis; as a consequence, the Commission, while building coalitions with the key member states and/or interest groups, expands its power and autonomy, and meanwhile, the EP tends to support the Commission’s proposals which imply the application of QMV where the EP is involved.*

The purposes of this hypothesis test are to examine the following aspects: (1) When the Commission puts forward proposals to solve the debt crisis, does it take an obvious pro-integration stance? And in what a specific way does the Commission act as a promoting force for EU integration? In other words, is any of the pro-integrative approaches listed in Table 2.2 present in the selected cases? If not, what are the new strategies adopted by the Commission to foster European integration? The various ways the Commission can resort to have formulated a sort of “scheme” (see Table 2.2),

and by looking into the Commission's agenda-setting behavior in these cases, the first half of H1c will confirm or develop the elements of the overview of Table 2.2; (2) Was there any opposition to the Commission's proposals? Did the Commission establish certain coalitions (patterns) with certain actors? (3) Did the Commission expand its power and autonomy after the proposals were adopted and implemented? Or did the proposals prepare the ground for the Commission's further initiatives? And (4) what were the EP's positions as regards the Commission's proposals? If the EP always supported the Commission's "offensive" proposals which suggested the use of QMV rather than unanimity to reach decisions, a new element should be introduced into the cultivated spillover hypothesis: mutual support among EU supranational institutions to "cultivate" integration. As the Lisbon Treaty entered into force on 1 December 2009, the co-decision procedure (i.e. the decision-making procedure involving the EP, with subsequent QMV in the Council) has become the OLP, and the EP became a constant factor in EU decision-making for most policy areas; in line with the neo-functionalist cultivated spillover thesis, the EP as a supranational EU institution should hence also act as a driving force for European integration.<sup>43</sup> Accordingly, H1c' can be reformulated as follows:

*H1c': By making proposals for the solutions to the sovereign debt crisis, the Commission takes pro-integrative approaches to address the crisis; as a consequence, the Commission, while building coalitions with the key member states and/or interest groups, expands its power and autonomy, and meanwhile, the EP also takes pro-integration positions and tends to support the Commission's proposals.*

In addition to testing neo-functionalist cultivated spillover effects generated by the Commission, the reformulated H1c will also examine cultivated spillover effects generated by the EP: first, whether and how does the EP demonstrate its pro-integration role? Second, does the EP always support the Commission? If so, then we can say that there is mutual support between the Commission and the EP to promote integration; if not, what is the divergence between the Commission and the EP and what are the reasons that cause such divergence? As the co-decision procedure has

---

<sup>43</sup> Box 5.4 of Jensen (2013, 65) summarizes neo-functionalist expectations on the EU main institutions, among which the EP "is expected to have a supranational orientation and to be the natural ally of the European Commission. Although MEPs (Members of the European Parliament) are elected by the nationals of their home country, they are divided politically and ideologically in their daily work. Neo-functionalists expect MEPs to develop loyalties towards the EU and the 'European idea', so that they will often (although not always) defend European interests against national interests."

become the OLP after the implementation of the Lisbon Treaty, QMV obviously is no longer the prominent factor accounting for the EP's always-supporting stance for the Commission; third, is there any sign suggesting that the EP is also seeking to extend its power and authority? The reformulation of H1c is due to legislative procedures changes brought by the Lisbon Treaty, and the Lisbon Treaty can be taken as an intervening factor; as the EP co-decides with the Council of Minister, H1c actually studies the position and role of the Commission, the EP and the Council who are the actors involved in EU legislative procedures concerning the euro area sovereign debt crisis.

It is worth mentioning that as the European Council has obtained a legal basis via the Lisbon Treaty as one of the seven EU official institutions, the study of cultivated spillover should also extend to this EU institution. There is no need to elaborate the cultivated spillover effects of the European Council, however, as providing the EU with necessary integration impetus is one of its prescribed functions. With the common practices of the co-decision procedure, three main EU institutions are involved in EU legislation: "[i]n principle, the Commission proposes new laws, and the Parliament and Council adopt them. The Commission and the member countries then implement them, and the Commission ensures that the laws are properly applied and implemented" ("EU Institutions and Other Bodies", European Union). What is interesting here is the role of the European Council under the leadership of its President: what are the suggestions the European Council and its President make to the Commission? Though the European Council has no power to pass laws, it does set up the political agenda and provide the general directions for the EU, thus exerting its influence over the Commission's proposals and even the EP's and the Council's co-decision. In a general sense, the European Council delineates and frames the potential activity grounds for EU legislative procedures. So the case studies of this dissertation will also examine the linkages between the European Council guidelines and the concrete Commission proposals so as to (1) specify the origin as well as the originality of the Commission's proposals, and (2) evaluate the influence the European Council has exerted on the Commission proposal formation. To sum up, H1c' can be further reformulated as follows:

*H1c: By making proposals for the solutions to the sovereign debt crisis, the Commission, under the framework laid down by the European Council, takes pro-integrative approaches to address the crisis; as a consequence, the Commission,*

*while building coalitions with the key member states and/or interest groups, expands its power and autonomy, and meanwhile, the EP also takes pro-integration positions and tends to support the Commission's proposals.*

Combining functional, political and cultivated spillover together, Burley and Mattli (1993) have set an example to test and confirm the three types of spillover mechanisms in accounting for the building-up of the EC legal system, hence advocating EC legal integration: functional spillover is the logic of law, where the Court gradually extends its juridical power by establishing new decisions to address whatever obstacles so as to secure the common market; political spillover exhibits a trend of “transnational incrementalism” where member states follow the Court’s legal prescription positively; and finally, the upgrading of common interest dynamics has ever been effective in the way that the Court serves as an arbiter more than a mediator, continually “justify(ing) its decisions in light of the common interests of the members as enshrined in both specific and general objectives of the original Rome treaty” (Burley and Mattli 1993, 69). After applying former neo-functionalists propositions to analyze the development of the EC’s legal system, Burley and Mattli clearly state: “the legal integration of the community corresponds remarkably closely to the original neo-functionalist model developed by Ernst Haas in the late 1950s” and “the independent variables posited by neo-functionalist theory provide a convincing and parsimonious explanation of legal integration” (Burley and Mattli 1993, 43). Mattli and Slaughter (1995, 1998) further support the ECJ’s cultivating role in the EU project.

#### **2.1.1.5 Conditions for Spillover**

The three different types of spillover — functional, political, and cultivated — have spotlighted three important dimensions of the European integration project: technical necessities and operation, national interest group actors, and supranational institutions. Are there any particular context requirements needed for spillover to take place? It has been claimed that early versions of neo-functionalism are devoid of “a comprehensive, refined and integrated specification of the conditions under which spillover may occur” (Niemann 2006, 21; see also Niemann and Schmitter 2009, 52). Nevertheless, Schmitter (2005) suggests that the criticisms of Haas’s failing to address the conditions for the occurrence of spillover are a misreading. From Schmitter’s point of view, Haas actually has discussed the necessary conditions for spillover, only without an explicit hypothetic formulation, and Schmitter makes a summary of Haas’s hints on spillover

conditions: (1) “increase in economic interdependence between member countries”; (2) “crises of sufficient magnitude due to unintended consequences”; (3) “development of political competence and autonomy for intervention by regional bureaucrats”; and (4) “emergence of interest associations capable of acting on the regional level independent of national constraints” (2005, 258).

These four can be taken as the criteria to assess whether there are mature conditions for the spillover effect to take place. Schmitter further contends that as the integration process expands into other initially unattended areas (which he terms “*engrenage*”)<sup>44</sup> and affects more actors (which he terms “politicization”), however, the likelihood of controversiality and difficulty in reaching agreement also increases, which could lead to the expectation of a slowing-down integration progress over time (2005, 261; 263). In the process of “*engrenage*”, the EU is already engaging in nearly all policy areas and only few areas such as a common energy policy and certain aspects of transport infrastructure seem to have potential spillover effects; moreover, the expansion of EU membership to twenty-seven and more in the future, the diversity and heterogeneity of member state interests make reaching agreements and package deals much more difficult (Schmitter 2005, 268). In the process of “politicization”, when common citizens, political parties, large social movements, national politicians and civil servants, regional officials and other invisible interest representatives all together begin to include the EU into their political agenda and pursue their interests at the EU level, the monopolized decision-making in Brussels shall be challenged, and the integration progress is not viewed as an “all winners” game, but “winners and losers” within member states (Schmitter 2005, 268).<sup>45</sup> So from a neo-functionalist perspective, there is still a risk of “self-disconfirming” (Schmitter 2005, 263), and the “unanticipated functional interdependencies may have exhausted itself [sic]”

---

<sup>44</sup> Niemann (2006, 18-19) gives a detailed explanation of the term “*engrenage*”. Different scholars would define this term in different ways and the various notions of “*engrenage*” “can be seen as a variation of functional spillover” (note 35, in Niemann 2006, 18-19; see also note 7, in Niemann and Schmitter 2009, 64). “*Engrenage*” is quite often treated as a synonym for the “socialization process”, as Niemann (1998, 436) writes: “*Engrenage*, the process whereby national civil servants through their increasing involvement with each other are encouraged to take integrative decisions, has also been termed ‘socialization process’”. This is different from Schmitter’s definition of “*engrenage*” discussed here.

<sup>45</sup> This actually is in line with Nye’s early argument: “the low-cost integration and technocratic style decision-making procedures are unlikely to last very long and certainly not until a widespread popular support or a powerful coalition of intensely concerned interests have [sic] developed to the point at which they determine the decisions of political decision-makers” (1971, 224).

(Schmitter 2005, 268). Put simply, spillover is not without limits. Nevertheless, the neo-functionalist spillover thesis may remain “the most insightful and helpful in understanding its (the EU’s) underlying dynamics” (Schmitter 2005, 265). Schmitter’s propositions on the conditions and the limits of spillover are the development and extension of former neo-functionalism, which can be stated in hypothesis form as follows:

*H2: The presence of four factors (i.e. increasing economic interdependence between member states, crises of sufficient magnitude as unintended consequences, regional bureaucrats’ competence and autonomy to intervene, interest associations’ capability to deal with problems independently from national constraints) contributes to the occurrence of spillover; however, the integration process tends to slow down due to the increase of “engrenage” and “politicization”.*

The four factors look reasonable, and as far as the serious challenges brought by the euro area sovereign debt crisis to the EU are concerned, those factors are very likely to be present and effective. Haas and Schmitter do not specify the indicators for the four conditions of spillover, and hence this dissertation proposes the following measurement in the context of the sovereign debt crisis. 1. The economic interdependence between the member states can be assessed on the basis of internal trade statistics. 2. The magnitude of the crisis on the basis of (a) the growth rates of the GDP, (b) government budget deficit and debt rates, (c) inflation rates, (d) unemployment rates, and (e) bond yield rates for governments to finance from the market. 3. Regional bureaucrats’ competence and autonomy to intervene on the basis of the integrative proposals and activities of EU institutions and their leaders, such as by the President of the Commission, José Manuel Barroso, the President of the ECB, Mario Draghi, and the President of the European Council, Herman Van Rompuy. 4. Interest associations’ independent capability on the basis of transnational interest groups’ policies and activities, such as BusinessEurope and the ETUC. These four factors show neo-functionalists’ concerns with member states’ economic interdependence and reliance on each other, the vicious impact of a crisis and its logical demand for further integration, supranational institutions’ and their leaders’ pro-integration role, and the assumed non-governmental organizations’ proactive role towards EU integration, respectively. What needs to be further specified is “*crises of sufficient magnitude as unintended consequences*”, which could be internal and/or external, institutional and/or non-institutional. Concretely, through case studies, the

presence of each factor and the interactions among them will be examined. As for the slowed-down claim, the EU's initiatives and developments presented in Table 1.2 and 1.3 disconfirm such a hypothesized prediction, while the explanatory chain of "*due to the increase of 'engrenage' and 'politicization'*" should get clarified. Put in another way, why does a slowed-down of the EU not happen if the policy areas for member states to reach agreement are going to be exhausted and there are decreasing policy areas left for member states to reach agreement (i.e. *engrenage*), and if the participation of various national actors pursuing their political rights at the EU level increases (i.e. *politicization*)?

Schmitter's (2005) four-factor summary offers a tentative contextual explanation for the general phenomenon of spillover, and a more detailed elaboration of the conditions for the three types of spillover has been developed by Niemann and Schmitter (2009; cf. Niemann 2006, Schmitter 2004). To start with, the set of conditions for functional spillover is proposed as follows: (1) functional pressures have to be perceived by actors as compelling and persuasive, that is, the original task and objectives therein are salient and the interdependence with other areas to take further action is strong — a case in point to illustrate this is the spillover effect from the single market to the policy domain of justice and home affairs (JHA) such as the border control and asylum policy (Niemann and Schmitter 2009, 57); (2) decision-makers, restricted by their time horizons, anticipate that: (a) further integration in one area should not cause problems in other areas, which in turn shall trigger further unintended integration, or (b) the benefit of the first step of further integration is "sufficiently salient that it outweighs the concerns about later spillover effects into other areas" (Niemann and Schmitter 2009, 58). Normally, functional spillover mechanisms become effective under condition (b), but still, there are examples when condition (b) is not met while the features of condition (a) arise. For instance, negotiations at the Amsterdam Intergovernmental Conference (IGC) which intended to bring services under the scope of the Common Commercial Policy failed because some member states feared that to apply Article 113 to trade in services would "foster the process of internal Community liberalization in the area of services and [...] the Commission could use the backdoor of Article 113 to regulate in areas which fell under member states' competence", so such an integration step of expanding the scope of Article 113 was believed to be going to cause an undesired spillover effect in other areas in the near future: internal Community services liberalization — a result that was judged by

national governments as more costly than the benefits brought by extending the policy scope (Niemann and Schmitter 2009, 58). Additionally, functional spillover happens most likely in the areas of “high issue density”, that is, a high presence of the connections and interdependencies between issue areas. As Pierson’s (1996, 137-138; 1998, 39-41) figure “the growth of issue density” illustrates, the number of possible connections and interactions among actors and policies increase geometrically along with the increase of issue areas at the European level. With two issue areas, there is only one possible connection between the two issues, but with four issue areas, the possible connections increase to six, and then with an expansion to eight, the number of potential connections goes up to twenty-eight; therefore, as the EU proceeds with new issues, areas and policies, the potential for functional spillover processes also grows (Niemann and Schmitter 2009, 58). This implies a perpetual motion for functional spillover as there are always newly rising issues, problems and challenges for the EU to deal with. A number of studies have highlighted the effectiveness of functional spillover from the 1992 program, for example, to EMU (Mutimer 1989), to the area of social policy (Pierson and Leibfried, 1995) and to the domain of energy policy (Matlary 1997).

Second, when interest groups and national governments tend to seek solutions at the EU level rather than at the domestic level, there is political spillover. As for the political spillover dynamic of non-governmental elites, the conditions include: (1) “the potential gains from European integration are high”; (2) “interest groups can easily ascertain the benefits of EU activity”; (3) “the relevant issue area has for some time been governed by the EU/EC, so that organized interests had a chance to familiarize themselves with the Community policy process, to coordinate on the European level, and for learning processes to occur”; and (4) “functional spillover pressures or — as some of the revised neo-functionalist approaches would allow for — internationally induced incentives drive or reinforce the rationale for seeking supranational solutions” (Niemann and Schmitter 2009, 59). As for the political spillover concerning governmental elites, that learning and socialization processes leading to their turning to supranational solutions: (1) “need time to develop”; (2) “tend to be significantly constrained if important members of a working group/committee are distrusted”; (3) “are impaired when issues become politicized”; (4) “can be offset in the case of adverse bureaucratic pressures in national ministries and administrations”; (5) “tend to be obstructed when negotiations are rather technical in nature and negotiations do not

possess enough expertise”; (6) “may be impeded when officials are a priori against changing their norms and habits and feel that they have been dragged into EU/EC cooperation” (Niemann and Schmitter 2009, 60).

Apart from the typical example of the ERT’s pro-integration stance on the Single Market and EU eastern enlargement (Cowles 1995), cases to vindicate interest groups’ and non-governmental elites’ political spillover include aspects such as the pro-integrative stance of the transnational community of European central bankers to help the debate on EMU at Maastricht (Cameron 1995), and business and consumer groups’ support to transfer national competence concerning air transport to the Community (O’Reilly and Stone Sweet, 1998). Still, there are also cases where the political spillover dynamic is less substantial, as Niemann (1998, 2006) argues that relevant interest groups such as the Fédération Européenne des Associations de Conseils en Organisation (FEACO) was a rather weak player with regard to the PHARE programme (Poland and Hungary: Aid for Restructuring of the Economies), which did not correspond to neo-functionalist predictions, and the 1996-97 Amsterdam IGC negotiations on the extension of the Common Commercial Policy’s scope to the area of services also saw little organized group interests at the EU level. The main reason to hinder interest groups’ involvement in both cases, explained by Niemann and Schmitter (2009, 59), is the opaqueness and complexity of rules and decision-making procedures, which obscured interest groups’ perceptions of the benefits of supranational governance and caused their confusion about where to start lobbying. Nevertheless, Niemann’s (1998, 2006) case study of the PHARE programme prove that there were political spillover effects among governmental elites as the conditions listed above were largely met and favorable to fostering socialization and learning processes; by contrast, the case of the 1996-97 intergovernmental negotiations on the reform of EU trade policy does not indicate the impact of political spillover among governmental elites, as the above conditions were partly/largely not met (Niemann and Schmitter 2009, 60). Moreover, studies have suggested the following: over time the Council committees tend to develop an *esprit de corps* of their own, and national officials who participate intensively in EU committees also tend to enact supranational allegiances (Trondal 2002); there is intense informal communication and cooperation among national delegates who tend to adopt common attitudes towards different negotiation patterns (Beyers and Dierickx, 1998); national institutions and the domestic environment, similar to the supranational institutions of the EU, also have a


socialization function, affecting actors' adoption of supranational conceptions (Beyers 2005); national elites involved in EU decision-making have an overall willingness to make a change in their positions, reflecting a considerable degree of collective responsibility (Egeberg 1999, 471).

Finally, in terms of the conditions for cultivated spillover, the main focus, according to Niemann and Schmitter, is on the entrepreneurship of the Commission, and the favorable factors fostering cultivated spillover of the Commission include: (1) "its ability to forge internal cohesion"; (2) "the Commission's capacity to shape the agenda — not only where it has an exclusive right of initiative, but also in the second and third pillars and at IGCs — for example by proactively tabling proposals, skillful timing of proposals, and maintaining close ties with the Presidency"; (3) "the cultivation of relations with member governments, interest groups, or other actors, i.e. securing support for its policies by making use of its strategic position of being centrally located within a web of policy networks and relationships"; (4) "its ability to build consensus and broker compromises, often while upgrading common interests"; (5) "the instrumentalization of functional (and exogenous) spillover pressures, i.e. promoting further integration by drawing on such rationales in the debate"; (6) "the Commission's capacity to know the limits of its entrepreneurial leadership so as not to overplay its hand *vis-à-vis* the member states" (Niemann and Schmitter 2009, 60-61). Besides, other factors can also affect the cultivated spillover dynamic of the Commission: powerful member states' support, interest group allies, and the historical context where "institutions may register the greatest impact on policy outcomes in periods of swiftly changing events, uncertainty and incomplete information and during periods of policy adaptation" (Niemann and Schmitter 2009, 61). As the literature review in section 2.1.1.4 has shown, lots of studies have demonstrated the Commission's proactive and integrative entrepreneurship, and many of the cases do largely meet the favorable conditions that foster the Commission's cultivated spillover dynamic as suggested by Niemann and Schmitter. Still, there are cases where the Commission's cultivated spillover effects are constrained due to the absence of favorable conditions, and one example in point is the failure of the Amsterdam IGC negotiations on the Common Commercial Policy, where the favorable conditions for cultivated spillover were largely absent as "the Commission lacked internal coherence, overplayed its hand and was largely unsupported by interest groups or key member states", and consequently, the Commission's influence in this case was rather limited

(Niemann and Schmitter 2009, 61).

All the conditions/factors discussed above draw up the overview of aspects that contribute to the effectiveness of the three classic spillover mechanisms posited by neo-functionalists (Table 2.3). Case studies of this dissertation will first check the presence (or absence) of the proposed conditions and then try to ascertain the relationship among them. Neo-functionalism is an old but evolving theory, and the potential for developing neo-functionalism lies “not least in further specifying the conditions under which the different types of spillover pressure are likely to unfold” (Niemann and Schmitter 2009, 64).

Table 2.3 Conditions Fostering Spillover

General Conditions for Spillover Effects and Proposed Measurement	
Factors	Measurement
1. Increasing economic interdependence;	Internal trade data; (Extension possible)
2. Crises of sufficient magnitude;	<ul style="list-style-type: none"> <li>● Institutional aspects: crises due to unintended institutional consequences;</li> <li>● Non-institutional /economic and financial aspects:               <ol style="list-style-type: none"> <li>(1) GDP growth rates;</li> <li>(2) Government budget deficit and debt rates;</li> <li>(3) Inflation rates;</li> <li>(4) Unemployment rates;</li> <li>(5) Bond yields for governments to finance from the market;</li> </ol> </li> </ul> (Extension possible)
3. Regional bureaucrats' competence and autonomy to intervene;	Supranational institutions' and their leaders' pro-integration attitudes and activities: e.g. The Commission and its President Jos éManuel Barroso; The ECB and its President Mario Draghi; The European Council and its President Herman Van Rompuy; (Extension possible)
4. Interest associations' capability to deal with problems independently from national constraints;	Non-governmental organizations' independent integration-oriented positions, policies and activities: e.g. BusinessEurope and the ETUC (Extension possible)
 Favorable Conditions for Each of the Three Spillover Mechanisms	
5. Conditions for functional spillover	<ol style="list-style-type: none"> <li>(1) Compelling and persuasive technical pressures to complete the original task and objectives;</li> <li>(2) Decision-makers anticipate that (a) further integration in</li> </ol>

	<p>the concerned area shall not cause problems in other areas, which in turn shall trigger further unintended integration, and/or (b) the benefit of further integration is salient and outweighs the concerns about later spillover effects into other areas;</p> <p>(3) High presence of the connections and interdependencies between issue areas (i.e. “high issue density”);</p> <p>(Extension possible)</p>
6. Conditions for political spillover	<ul style="list-style-type: none"> <li>● Representing the stance of nation states’ and governmental elites’ turning to supranational solutions:               <ol style="list-style-type: none"> <li>(1) Involves time to be developed;</li> <li>(2) Will be heavily constrained when important members of a working group or committee are distrusted;</li> <li>(3) Will be impaired, offset and obstructed if issues are politicized, adverse bureaucratic pressures permeate in national ministries and administrations, and/or issues in negotiations are rather technical, which require special expertise that negotiators lack;</li> <li>(4) Will be impeded if officials reluctantly and resist to adapt their norms and habits to EU integration;</li> </ol> </li> <li>● Non-governmental elites representing positions of interest groups tend to support supranational solutions when:               <ol style="list-style-type: none"> <li>(5) Further integration brings more benefits and interest groups can ascertain those potential gains;</li> <li>(6) The issue of concern for further integration has already been under EU governance for a while, thus learning processes may happen and interest groups have the time to become familiar with relevant rules and existing policy-making processes, and thus can better exert influence and coordinate at the EU dimension;</li> <li>(7) Functional spillover pressures and international incentives and worldwide trends of cooperation and partnership reinforce the rationale of seeking solutions at the EU level;</li> </ol> </li> </ul> <p>(Extension possible)</p>
7. Conditions for cultivated spillover (of EU institutions, typically represented by the Commission)	<p>For the Commission:</p> <ol style="list-style-type: none"> <li>(1) The ability to forge internal cohesion;</li> <li>(2) The capacity to table pro-integrative proposals and shape its own agenda;</li> <li>(3) By formulating a coalition with some actors (e.g. powerful member states, interest groups) to secure adequate support for its proposed policies;</li> </ol>

- (4) The ability to foster consensus and broker compromises by various means (e.g. package deals);
  - (5) Making use of functional and exogenous pressures (e.g. the historical context of the period of crisis, dramatic changes, uncertainty and incomplete information, and policy adaptation) as the rationales to promote future integration;
  - (6) Having knowledge about the limits of its entrepreneurial leadership, avoiding to overplay its hand vis-à-vis the member states;
- (Extension possible)

Sources: Own compilation on the basis of the Schmitter (2005), Niemann (2006), Niemann and Schmitter (2009).

### **2.1.2 Elite Socialization and Supranational Interest Groups**

As for the thesis of elite socialization and the thesis of supranational interest groups, both emphasize the trends of supranationalism over nationalism. The former asserts that officials and politicians, the so-called elites who participate in EU decision-making, tend to shift their loyalties from their national states to the European institutions. For example, Haas (1958, chs. 5 and 6) stresses the role of non-governmental elites, while Lindberg (1963, ch.4) concentrates on governmental elites (see also Niemann 2006, 15; Niemann and Schmitter 2009, 48). The latter argues that interest groups, in a supranational context, try to match their activities with the regional integration development, placing their demands on national governments and pressing for more integration. By doing so, they also become Europeanized (Jensen 2010, 77-79). It was estimated that at the end of the 1990s, in the EU, “thirteen of the seventeen most important policy domains are [...] influenced by transnational groups” (Fligstein and McNichol 1998, 88). These two theses underscore the forces that support further integration, contending that governmental and non-governmental elites and relevant interest groups tend to hold that a further step of integration will bring more benefits, and such a positive perception leads those actors to “move part of their activity to a higher level of aggregation and therefore gradually shift their focus and expectations to European institutions” (Niemann and Schmitter 2009, 49). Since the leader(s) of an interest group can be seen as the speaker(s) and promoter(s) for that group’s position and policy towards the integration process, interest group stances on further integration can also be traced from their leaders’ attitudes towards issues concerned. As a matter of fact, the elite socialization thesis and the supranational

interest group thesis can be viewed as extended elaborations of “political spillover”, and consequently their basic propositions can be tested under the rubric of political spillover.

Though political spillover and the thesis of elite socialization are “closely related” (Jensen 2010, 76; 2013, 63), “it is difficult”, as Jensen once commented, “to conduct an empirical study of the neo-functionalist thesis of elite socialization. As Taylor suggests, it will always be possible to argue that shared experience generates shared attitudes. [...] my analysis fails to provide an adequate basis for confirmation of the neo-functionalist thesis of elite socialization” (Jensen 2000, 88-89). To detect an official’s loyalty transferring accurately, this dissertation argues, one needs to trace and compare his/her attitudes at different times towards similar and even the same issues. That is, the loyalty shift assertion, in a strict sense, should be set in a structured comparison of the opinions of the same subject on EU general integration or on a specific policy and issue at two (or more) different points of time. Meanwhile, under the influence of many other factors — being internal and external, national and international — officials’ attitudes are subject to changes, and the exact mechanisms behind these changes are difficult to be defined. Literally, politicians’ attitudes and positions towards a specific EU issue can be ascertained via interviews or questionnaires, but loyalty “shift”/“transferring” indicates a comparison with previous or later data involving a certain time gap. In an extreme sense, it is decision-makers’ current choices, not their past loyalties or future intentions, that influence the EU’s policy-making. Moreover, an individual official’s loyalty normally cannot exert a decisive impact on EU outcomes, but rather, a collective stance of a committee and group stands out as an important force. In such logic, to examine the shifting of loyalties turns out to be impractical and trivial, and this may account for the reason why Haas (1970, 1971) abandoned loyalty shifts as a defining characteristic of integration. Normally, neo-functionalist followers, such as Stone Sweet and Sandholtz (1998) prefer to treat loyalty transferring as an open question, while the rival intergovernmentalists tend to reject this proposition (e.g. Scharpf 1988) or argue for multiple loyalties (e.g. Wessels 1997). Niemann (1998, 436) possibly gives a more cogent and appropriate comment on loyalty transferring, as he says: “[d]espite the high level of cross-border bureaucratic interaction, it is doubtful that a change of loyalties to Brussels has occurred. However, there is some evidence for increasingly favorable attitudes of certain civil servants *vis-à-vis* the European project” (Niemann 1998, 436).

So this dissertation will not deal with individual official's loyalty shifts/transferring. However, what we should not ignore is national citizens' attitudes: citizens' support and position changes towards the EU are important, meaningful and even decisive for the fate of the EU. As discussed in section 2.1.1 about the analytical dissection of the spillover dynamic by Cameron 1992, neo-functionalism assumes that spillover effects connote both elites' and public support for the supranational institutions. All the three new measures represent EU approaches to the eurozone sovereign debt crisis and they are initiated, pushed and supported by the EU officials/elites. Due to the seriousness of the current crisis, individual nation states cannot address it on their own, and the resort to supranational means becomes a natural and unavoidable choice for national governments; against such a background and following the neo-functionalist logic (e.g. Cameron 1992, 25), this dissertation proposes that:

*H1d: As the inherently expansive task (i.e. to solve the eurozone sovereign debt crisis) is assigned to EU supranational institutions, the autonomy and power of EU institutions — typically represented by the Commission — expand; meanwhile, European citizens' support for the EU project also tends to increase.*

The first half of this hypothesis displays a sort of overlap with the latter part of H1c, and the purpose of the testing of this hypothesis is to see whether functional spillover will trigger a proportionate increase in both the powers of supranational institutions and the support of elites and national citizens for the EU project. It should be noted, however, that even if neo-functionalist assumptions are correct (i.e. elites' and national citizens' support for the EU tends to increase as functional spillover is in effect), there will be a limit to an "increasing room" of support rates, that is, after reaching a certain level or "plateau", a further increase of support rates might become difficult or even impossible. In an extreme theoretical sense, if the support rates already reach 100%, the proposed "increasing trends" shall be inaccurate. But for now, this dissertation expects that there still is an "increasing room" for the support rates, and the second half of this hypothesis is to see whether the EU's initiatives and efforts to address the crisis help to enhance its credibility and thus promote support for the EU project. If the support rates constantly display a pattern of "stability", this dissertation will make a tentative assumption on the "plateau" level. In addition, by assessing the support of the public, H1d also addresses the issue of EU legitimacy and the so-called

“permissive consensus”,<sup>46</sup> checking whether there is an obvious “disconnect between elites and masses” (Rosamond 2013, 88). Finally, what needs to elaborate and specify is the term “support for the EU project”: as far as the theme of this dissertation is concerned, case studies will focus on the support for EMU (and the euro) and EU solutions to address the crisis.

To summarize, as the three theses of spillover, elite socialization and the supranational interest group illustrate, neo-functionalism emphasizes the role of supranational institutions and non-governmental actors, advocating a supranational tendency for EU integration. The essence of supranationality, as Haas claims, “lies in the tendency for economic and social decisions to ‘spill over’ into the realm of the political, to arise from and further influence the political aspirations of the major groupings and parties in democratic societies”, that is, supranationality has exhibited an “indirect penetration” from the economy to politics (Haas 1967a, 65). Moreover, supranationality is built upon common interests and must be realized through certain supranational institutions, as Haas argued that “the upgrading of the parties’ common interests relies heavily on the services of an institutionalized mediator, whether a single person or a board of experts, with an autonomous range of powers” (Haas 1961, 368), and one of the lessons drawn from European integration is that “*institutionally*, supranational bodies most readily lend themselves to accommodation on the basis of upgrading common interests” (Haas 1961, 377, his emphasis). Obviously, supranational institutions assume indispensable functions during the EU integration process, and hence Haas has also been regarded as a pioneer in theorizing the logic of institutionalization at the supranational level (Stone Sweet and Sandholtz 1998, 5-6).

## **2.2 Theoretical Roots of Neo-Functionalism: Functionalism**

Neo-functionalism, as its name suggests, can be traced back and compared with an antecedent integration theory: functionalism.<sup>47</sup> The idea of functionalism starts from David Mitrany’s work *A Working Peace System* (1943),<sup>48</sup> in which he proposes ways

---

<sup>46</sup> Cini and Borragán (2013, 401) describe “permissive consensus” as “[t]he political context that allowed elites in the post-1945 period to engage in European integration, without involving Europe’s citizens”.

<sup>47</sup> Niemann and Schmitter (2009, 45-46) suggest that neo-functionalism finds its theoretical roots at the juncture between functionalist, federalist and communication theories and also draws inspirations indirectly from the “group theorists” of American politics.

<sup>48</sup> The evolution of functionalism can be studied through Mitrany’s chronological works: *The Progress of International Government* (1932), “A War-Time Submission: Territorial, Ideological or

to do away with wars and conflicts between national states: to set up world organizations not based on national territories but on functional tasks. Different organizations should be designed according to the requirements of different governmental tasks; in the way of carrying out specific tasks across national frontiers, these organizations could bring more welfare rewards to citizens than those obtainable within the national states — the rationale of such a functionalist approach is that form follows function (Lelieveldt and Princen 2011, 35). As a result, there would be a proliferation of international or transnational organizations to serve different purposes. Mitrany's time witnessed the cruelties of the First and the Second World Wars, so the intention of functionalism was to reduce nation states' conflicts and to realize world peace. As soon as governmental tasks are organized and fulfilled properly, it was believed that citizens would gradually transfer their loyalties to these newly formed organizations, because they would learn and experience the greater benefits of international cooperation, and thereby reduce their nationalist chauvinism which often leads to warfare between states. Believing nationalism was the root of war holocausts, Mitrany rejected organizations of governments in the federal form,<sup>49</sup> because this might just reproduce another sort of nationalism at a higher level (Lelieveldt and Princen 2011, 35; see also Taylor 1974, x, Mitrany 1944, 5-7; 1965, 123-34). Besides, Mitrany also disagreed with the idea to forge an association of nations, like the League of Nations, because he believed that this kind of loose association would still perpetuate the traditional link between authority and a definite territory (Mitrany 1975, 125).

---

Functional International Organisation?" (1941), and *A Working Peace System* (1943). For more about Mitrany's later works and his functionalist approach see Imber's (1984) "Re-Reading Mitrany: A Pragmatic Assessment of Sovereignty".

<sup>49</sup> After the two destructive World Wars, many efforts and research were dedicated to eliminating wars and ensuring world peace, and the US has always been taken as a comparative model to explore such possibilities. For example, Deutsch *et al.* (1957) suggest that "'integration' does not necessarily mean the merging of peoples or governmental units into a single unit", but also could be achieved by another two ways: "amalgamation" and "the pluralistic security-community". The first one refers to "the formal merger of two or more previously independent units into a single larger unit, with some type of common government after amalgamation", as the US is an illustrative example, while in the second form, countries still retain their legal independence with separate governments, as the combined territory of the US and Canada would suggest. To maintain peace, any political community, being amalgamated or pluralistic, must become a security-community, that is, must achieve integration. "Integration" and "amalgamation" overlap, but not completely: amalgamation can be without integration, and vice versa (Deutsch *et al.* 1957, 5-7). For Jean Monnet, the architect of the ECSC, two routes were available at that time to realize continental peace: federalism and military unification; he chose "a second-best indirect solution": integrate the two industrial sectors, coal and steel, which were necessary to any warfare in future (Schmitter 2005, 256-257).

### **2.2.1 Mitrany's Functionalism**

When Mitrany formulated his functionalist ideas, the dominant trend of IR theorization was the normative school represented by Norman Angell; nevertheless, the normative idealistic approach got discredited by increasing anarchy in the international society during the 1930s, which stimulated the revival of a realist approach led by Hans Morgenthau; functionalism at that time received little attention (Taylor 1974, xii). As a new phase in IR theorization in the 1950s, two developments heralded the resurgence of functionalism: behaviouralism and scholars' attention to the problem of world order (Taylor 1974, xiii-xvi). Traditionally, nation states quite often compete and fight for military security and natural resources, so the dominant themes in IR literature are conflicts and cooperation, swords and ploughshares, war and peace; however, Mitrany offered another alternative: the development of a "working peace system" (Taylor 1974, xi). Mitrany attributed the root of violence and wars to people's dissatisfaction with their social and economic circumstances, so if people are given a "moderate sufficiency of what they want and ought to have they will keep the peace" (Mitrany 1944, 15; see also Taylor 1974, xi). Following such logic, Mitrany proposes a transnational "working" system to meet people's demands and to serve them better and more efficiently than national governments can. Mitrany argues that in a modern society, international organizations, no matter in what kind of form and manner, in one aspect, must do the same things as national governments do; endowed with autonomous tasks and powers, functional bodies, in another respect, would not merely discuss but must do things jointly so as to enlarge and co-ordinate the social scope of authority in the hope of overcoming "the deep-seated division between the needs of material unity and stubborn national loyalties" (Mitrany 1975, 125-126). Functionalism is a theory of action (Cornett and Caporaso 1992, 237). Then what are the principles to divide and assign tasks to the international organizations? Mitrany (1941, 115) puts forward "a natural organic selection" to bind together common interests under the essential principle that

"activities would be selected specifically and organized separately, each according to its nature, to the conditions under which it has to operate, and to the needs of the moment. It would allow, therefore, all freedom for practical variation in the organization of the several functions, as well as in the working of a particular function as needs and conditions altered." (Mitrany 1941, 116)

This suggests that there is no fixed rule or rigid pattern to allocate different functional segments to different international organizations, so on the one hand, these organizations are open and flexible to the changes of human needs, which may emerge, alter or vanish over time across space without commitments to any particular integrated end state (Rosamond 2000, 34), while on the other hand, there might be an overlapping of these functional bodies (Lelieveldt and Princen 2011, 35). The purpose of this approach is to prioritize human needs or maximize public welfare as opposed to “the sanctity of the nation-states or the celebration of any particular ideological credo”, and to realize this, human beings must be rational about their needs and choices and be creative to construct institutions that can perform the functions assigned to them; therefore, function determines structure, hence the term “functionalism” (Rosamond 2000, 33). Moreover, functionalism connotes technical self-determination, that is, function determines organs as well as the political instrument most suitable to its activities, which “by the same means provides for its reform at every stage” (Mitrany 1941, 118). To entrust the real tasks of the government to international organizations on the basis of social needs and political developments, national sovereignty, not by conquest or revolution, but by consent, must be gradually transferred to a new world authority, and the new authority’s status depends on “how far the transfer of sovereignty from national groups is both willing and continuous”; nevertheless, “[s]overeignty cannot in fact be transferred effectively through a formula, only through a function” (Mitrany 1975, 128). Mitrany regards this transfer as a sharing rather than the surrender of sovereignty: by pooling sovereign authority, separate national states would perform tasks jointly and better (Mitrany 1975, 129). Countries’ participation in an international organization is decided by the weight of their interests and resources, and all would benefit from the general service of this organization even if they have no part in its control (Mitrany 1941, 119). In this way, the dilemma that “we can neither ignore the deep roots of nationality in search for material efficiency, nor deny the urgent cry for social betterment for the sake of a hollow independence” gets resolved; without offending “the sentiment of nationality or the pride of sovereignty”, the functional approach can also offer the weakest countries an equal opportunity to enjoy the benefits brought by any functional activities they participate in and assure non-domination of stronger countries (Mitrany 1965, 139). Neither would national countries be supplanted — instead, they become links in a functional system (Mitrany

1941, 122), nor are they formally separated sovereign entities — instead, they are of “material interdependence” (Mitrany 1933, 101; also see Rosamond 2000, 34-35). Besides, the functional structure entails a union of people not of the states, so citizens can be the democratic representation for a specific function (Mitrany 1941, 119).

As for the federal system, Mitrany believes it is both rigid and limiting: it binds a few things to be done in common while also maintaining a separate status quo through constitutions which are difficult to change. So in Mitrany’s opinion, politically, the federal idea goes too far: it cannot be realized on a world scale, while economically and socially, it goes not far enough: it offers less to realize “a unified peaceful development” (Mitrany 1975, 129). The essence of Mitrany’s proposal is to develop a working instrument of world governance — “a universal league” (Mitrany 1933, 116) — so as to realize world peace. As a response to the problem of the so-called democratic accountability, Mitrany distinguishes two aims/functions of international organizations: one is “to create a forum for the expression of progressive world opinion”, and the other is “to build up an effective instrument of common policy”, and being over-zealous in the first one would debilitate the second (Mitrany 1975, 131). So Mitrany argues that if we want to build up an effective world system where power can be restrained, voting democracy may need to yield to working democracy (Mitrany 1975, 132).

### **2.2.2 Evaluation of Functionalism**

Functionalism takes a positive view on human nature and believes a rational and peaceful progress is a possibility; it stretches the liberal-idealist tradition of IR from Kant through Woodrow Wilson and beyond, putting non-governmental organizations as a central object of study and challenging the traditional state-centric view of “power politics” (Rosamond 2000, 31). Functionalism offers a new way of thinking to construct post-war order; nevertheless, there are also criticisms to this approach, which, according to Rosamond (2000, 38-42), fall into four categories.

First, functionalism holds that the determination of needs is objective and technocratic, but to make such a decision could be a fundamentally political task, which is difficult to operate with the laissez-fair capitalist market logic: complex coordination among sectors and fierce market competition mean there are both losers and winners. Second, functionalism was attacked for its rational-technocratic argument on human being’s rational choices and governments’ rational movements towards

maximizing citizens' welfare and happiness; by separating welfare from power, it underestimates the continuing salience of politics. Besides, it assumes that the fulfillment of needs will automatically generate support for the institutions that carry out the task, but it does not specify the mechanism through which the needs should be identified first and it also lacks a theory of communicative action to explain how actors would come to believe certain things about the world. Third, functionalism has not been shown to be predictive as its advocates suggest, and reality has not been unfurling in the way that Mitrany has envisaged, so it may be treated just as a theory of political intervention. Finally, functionalism has been criticized for lacking scientific rigor as some scholars argued that "there is no foundational theoretical statement in functionalism" (Rosamond 2000, 41), which, however, can be accounted by Mitrany's multiple roles as being a journalist, corporate consultant and foreign affairs analyst whose intended audience are not always academic researchers, but from Mitrany's point of view, theoretical rigor may cause problems as it "denoted practical rigidity and creative closure" (Rosamond 2000, 42).

Despite those criticisms, the influence of functionalism was far-reaching, and it is regarded as the "intellectual ancestor" for many other diverse approaches to international order such as interdependence theory, the world society image of IR, linkage politics and regime theory (Taylor 1990a, 125). It also anticipated works on transnationalism and governance without government (Rosenau and Czempiel, 1992). Mostly, it laid the foundations for neo-functionalism, the first integration theory specialized in accounting for the EC.

### **2.2.3 Neo-Functionalism and Functionalism: Continuity and Difference**

#### **2.2.3.1 The Influence of Functionalism on Neo-Functionalism**

Functionalism and neo-functionalism share similarities. Above all, both are dedicated to find solutions to avoid the calamity of wars among the traditionally-defined national states and thus to maintain European/world peace. Besides, both theories emphasize the supremacy of citizens' welfare, advocating welfare-dominated policies of international organizations. History has proven the European integration project's success in maintaining peace, stability and realizing prosperity among its member states for more than 60 years. Moreover, both functionalism and neo-functionalism represented a new way of thinking different from traditional ideal federalism, architecting a new path to post-war unity by incremental and strategic means rather than by pursuing a

constitutional design; meanwhile, functionalism offered an innovative and distinctive approach beyond conventional categories to do IR research (Rosamond 2000, 39; 51). Consequently, the traditional state-centric approach to IR gives its way to supranational institutions and officials, multinational interest groups and political parties. As functionalism was the starting point for Haas and Lindberg to develop neo-functionalism (Taylor 1974, xiii), the indebtedness of neo-functionalism to functionalism is quite noticeable.

First, the functionalist “emphasis on the technocratic fulfillment of needs as the basis for more profound and lasting systems of peace, along with the evolutionary logic” anticipated neo-functionalist arguments on “spillover” (Rosamond 2000, 38-39). According to Cornett and Caporaso (1992), a functionalist action strategy consists of three steps: “(1) identify areas of society where people can cooperate, (2) arrange cooperative behavior functionally — not along territorial lines, and (3) take advantage of inter-sectoral imbalances to extend cooperative arrangements into related areas once initial cooperation has taken root”; the final stage involves “cooperation on many different fronts along with appropriate political institutions” (Cornett and Caporaso 1992, 237). These three steps prepared neo-functionalist spillover arguments, as Cornett and Caporaso maintain that “[t]he key to the process-level component of functionalist theory lies in the concept of spillover” which “refers to the purported self-expansive tendency of integration within pluralistic socioeconomic environments” (Cornett and Caporaso 1992, 238). The authors further distinguish two types of spillover contained in functionalism: the first one is about the integration tendency transmitting from one sector to another, such as tariff reductions in trade putting demands on exchange rate policy; the second one refers to the integration movement from economic issues to political ones, such as informal and private cooperation becoming institutionalized (Cornett and Caporaso 1992, 238). These two types of the functionalist integration rationale herald the two layers of the core concept of neo-functionalist spillover: economic and political integration.

Second, functionalist propositions on the way to organize governmental tasks based on their functions and the consequent effects of functional division were inherited and further developed by neo-functionalism as follows: (1) to carry out governmental tasks, establishing supranational institutions is necessary; (2) in the process of transnational cooperation, citizens transfer their loyalties to the new higher authority; (3) functionalist advocating for citizens’ democratic representation in

functional bodies is the precursor to the EP, as Mitrany once asserted that “[t]he sum of these functions’, not any preconceived formula, must in the end shape the character of an eventual European executive, and hence also of an European parliament” (Mitrany 1965, 132). In such a way, the neo-functionalist approach can be taken as an expansion of the logic of functionalism.

### **2.2.3.2 The Differences and Disagreements between Neo-Functionalism and Functionalism**

Besides the similarities, neo-functionalism is different from functionalism in several respects. With spillover effects, European cooperation, in the neo-functionalist approach, leads to a regional political system, with which functionalism disagrees at least on two points.

First, politically, functionalists believe that a new political community will simply recreate all traditional problems of the international society on a larger scale (Taylor 1974, xiv). The ultimate future of Europe, from Haas’s point of view, is not a federation, confederation or intergovernmental organization, but a supranationality, that is, a “supranational scheme of government at the regional level” which “bears a very striking resemblance to the prevailing nature of government at the level of the industrial nation in everything but constitutional terminology”, serving as “the appropriated regional counterpart to the national state which no longer feels capable of realizing welfare aims within its own narrow borders, which has made its peace with the fact of interdependence in an industrial and egalitarian age” (Haas 1967a, 71). In contrast, Mitrany opposes any schemes for a world government or any state-like entities dispensing world governance, because a political Union or a “United States of Europe” by nature must be nationalistic too, which “must impede, and may defeat, the great historic quest for a general system of peace and development” (Mitrany 1965, 145). Mitrany further explains:

“Under the pressures of a planned and radical social transformation it is bound to shape towards a centralized system — closed, exclusive, competitive; and whatever else it may do, such a system would hardly be suited to mediate between the new ideological divisions, or temper the raw nationalism of the new states so as to steer them towards the greener pastures of a mutual international community.” (Mitrany 1965, 145)

For Mitrany, the result of functional developments would “not create a new

system”, but rather “merely rationalize and develop what is already there” and “[e]verywhere social activities [...] are organized and continually reorganized in that way” (Mitrany 1941, 118). In such a sense, “functionalism is not really a theory of integration at all because the term ‘integration’ is suggestive of a particular institutional end stage” (Rosamond 2000, 34). Regional unions, from the vantage point of functionalism, are similar to the state building-up process, reproducing territorial state-like functions at a higher level with unchanged decision-making systems transferred from component national states, which would lead to the domination of the powerful states as the old IR themes suggest (Mitrany 1943).

Second, geographically, functionalism rejects “the territorial closure implicit” in a European regional scheme, and as a matter of fact, Mitrany questioned the definition of “Europe” in terms of its geographic boundaries, for the territorial logic of the European unions would create potential “interregional antagonisms” by differentiating between members and outsiders (Mitrany 1965; Rosamond 2000, 37). In other words, geographical unions connote exclusion and separation. Meanwhile, among the member states of a regional union, there lacks a kind of “natural cohesiveness” between nations, and it is also difficult to construct an “imagined community” for the new union (Rosamond 2000, 38), and this would imply an identity problem for the new authorities. In short, functionalism regards any European integration project, in Rosamond’s words, as being both “atavistic” and “recidivist”: the former for generating interregional antagonism, and the latter for repeating governance on the basis of “the anachronistic foundations of statehood and territory” at a higher level (Rosamond 2000, 38). Naturally, Mitrany (1965) approved the technical and functional logic behind the development of the ECSC and the Euratom, but he did not think the ECSC and the Euratom should be developed into any defined institutions such as the EEC. European integration, therefore, from the functionalist point of view, has gradually evolved beyond the functional logic into a formal process which duplicates the old problems at a supranational level with a new version.

The above two lead to the third major difference: though having opened a new door for IR research on non-governmental factors, functionalism provides “a weak account of power and institutions” (Cornett and Caporaso 1992, 238). Functionalists

such as Mitrany and Jean Monnet<sup>50</sup> contend that power and institutions are inextricably tied with sovereignty and national prestige, and such a belief leads them to highlight technical integration potentials while undervaluing the importance of the political consensus and struggles behind the technical integrative experiments. By comparison, neo-functionalists, while acknowledging functionalist insights on social and economic cooperation and integration, attach great importance to supranational institutions (Cornett and Caporaso 1992, 238). Besides, neo-functionalism also stresses politicians' initiatives which would be termed "elite socialization", as Haas points out that "the 'purely' economic decisions always acquire political significance in the minds of the participants" (1967a, 65) and in the modern industrial system, everything is political (1967a, 71). Niemann and Schmitter (2009, 46) offer the following summary: "[l]ike functionalism, neo-functionalism emphasizes the mechanisms of technocratic decision-making, incremental change, and learning processes", but different to functionalism, "neo-functionalists attached considerable importance to the autonomous influence of supranational institutions and the emerging role of organized interests", and "[m]oreover, where Mitrany attached importance to changes in popular support, neo-functionalists privilege changes in elite attitudes."

## 2.3 Critiques of Neo-Functionalism

Neo-functionalism, once being ambitious to provide a grand framework to summarize and explain the dynamics of regional integration in any context (Rosamond 2005, 243; see also Barrera and Haas 1969; Haas 1961, 1967b; Haas and Schmitter 1964), has been criticized on both empirical and theoretical grounds, with the main critiques coming from Haas (1975, 1976), Keohane and Hoffmann (1991), Keohane and Nye (1975, 1977), Moravcsik (1993, 1998, 2005), Risse (2005), Taylor (1990, 1993), and Schmitter (2005).

---

<sup>50</sup> Jean Monnet (1888-1979), one of the founding fathers and architects of the EC, is regarded as another important precursor to neo-functionalism. Tranholm-Mikkelsen (1991, 3) suggests that neo-functionalist ideas have already got an embryonic form in the Schuman Plan (1950) promoted by Monnet. Rosamond (2000, 51-54) discusses Monnet's role in the process of building up the Community. Schmitter (2005, 256) clearly states that Haas's neo-functionalism is the synthesis of both Mitrany's conception of functionalism and Monnet's pragmatic strategy for running the ECSC and developing it into the EEC. Niemann and Schmitter (2009, 46) also regard Monnet as an important intellectual antecedent of neo-functionalism.

### **2.3.1 Neo-Functionalism's Failure to Capture EC Political Stagnation during the 1970s**

On empirical grounds, the neo-functionalist approach as a whole was discredited by the general sluggishness in the pace of European integration in the 1970s when political integration did not happen as neo-functionalists had predicted: “neo-functionalism appears to mispredict both the trajectory and the process of EC evolution” (Moravcsik 1993a, 475-76). Neo-functionalist failure to capture the reality of the EC in the 1970s, according to Schmitter (2005), was caused by neo-functionalism's intrinsic “dual paradox”. The first paradox is that the integration process starts with member states' willingness to cede certain national autonomy or sovereignty, so naturally nation states prefer to “converge upon some relatively non-controversial and apparently separable issue arena where tangible gains from co-operation were sufficient to warrant giving up some portion of their respective autonomy to a common institution”; however, if so, “there was little reason to expect any further expansion”, and the regional organization would keep its stagnant inter-statist structure; furthermore, the finitude of non-controversial and separable policy areas also suggest the limitation and potential exhaustion of integration. The second paradox is that national politicians, on the one hand, realize that there are rising costs for their countries to retreat from the integration process where they have been reaping great benefits, while on the other hand, they are also aware that in the long run, sovereignty would be diminished, so with such an anticipation, they might rationally refuse to be involved in the first place, as the de Gaullian case illustrates, and also design their institutions to avoid or minimize sovereignty shrinkage (Schmitter 2005, 262-63). Apart from the two paradoxes to explain the stagnating pace of the EU, another argument is that it takes some time for the underlying functional interdependencies to become manifest and mature to push actors to take pro-integrative stances and measures (Schmitter 2005, 257; 266). Additionally, the adverse economic environment during the 1970s also contributed to the political stagnation and the trend of intergovernmental decision-making by member states; under unfavorable economic circumstances, nation states “have appeared both uncertain and defensive and frequently unwilling to take the Community option” (Webb 1983, 21; also see Niemann and Schmitter 2009, 52).

Since neo-functionalist prediction of a progressive and linear integration process was refuted by reality and consequently abandoned by scholars, new concepts and theories arose, trying to encapsulate the European integration project better. For

example, Taylor (1993) put forward a new concept, “consociationalism”,<sup>51</sup> to suggest that functional cooperation may be both positive and negative for the integration process: being positive “in the sense that links are fostered, attitudes modified, and community strengthened”, while being negative in the sense that segmental autonomy may get reinforced (Taylor 1993, 84). The idea of “consociationalism” indicates “an end situation which has built into it pressures for the maintenance of segmental autonomy within a cooperative system, i.e., a symbiotic arrangement” (Taylor 1993, 84). Therefore, for one thing, to strengthen functional integrative systems “may help to sharpen rather than soften the cleavages in the existing society of nations” (Taylor 1993, 85); for another, the concept of consociationalism implies a symbiotic relationship between separate national states (the participating segments) and the supranational entity EC (the collectivity), where the two depend on each other as mutually sustaining parallel evolving powers (Taylor 1993, 92; 252). Taylor believes that as regional federalism might merely reproduce old problems of the international society, the EC’s consociational structure and symbiotic relationship between member states and supranational institutions avoid repeating the old story (1993, 255). Taylor argues that the processes of consociationalism proceed alongside the neo-functionalist dynamics of integration (Taylor 1993, 90), and the result of European integration is that “the sovereignty of states has not been challenged fundamentally” — though the conditions for sovereignty have been changing — in spite of “the appearance of schemes for advanced federalism in the European Community” (1993, 1), because “[t]he symbiotic relationship between the region and the member states encourages governments to see the strengthening of the region as a way of enhancing their own sovereignty” (1990c, 246). Taylor’s theory of “consociationalism” and “symbiosis” could be viewed as a reconciliation as well as a synthesis of neo-functionalism and intergovernmentalism.

In addition to the stagnant scenarios in EC politics, there are another three “pieces of reality” that traditional neo-functionalism has failed to address. First, as it concentrates on sectoral spillover and various actors’ activities, it overlooks the functionalist power expansion of the ECJ in the 1970s when there was political

---

<sup>51</sup> The idea of consociationalism could be traced back to Lijphart’s “consociational democracy” (1968, 1969, 1977). It is utilized to characterize the stable democracies of the Low Countries, Switzerland and Austria nevertheless with fragmented subcultures, where “the centrifugal tendencies inherent in a plural society are counteracted by the cooperative attitudes and behavior of the leaders of the different segments of the population” (Lijphart 1977, 1).

stagnation of the EC. This part is supplemented by later neo-functionalists when neo-functionalism revived in the 1990s. Second, neo-functionalism has not recognized or problematized the significance of the expansion of EC membership, and “[a]ll the discussion about ‘widening v.s. deepening’ is taking place in a theoretical vacuum that neo-functionalism is incapable of filling” (Schmitter 2005, 267). Finally, regional integration also provides a forum for minorities and their leaders to voice their specific interests as “[t]he minority seeks to consolidate direct contacts with regional level organization” and “direct links between local groups and the Community” are being built up, but traditional neo-functionalism seems to neglect “this observable political fact” of minority’s separate representation in the EC (Taylor 1993, 86). While pointing out this deficiency of neo-functionalism, Taylor claims that his theory of “consociationalism”, which proposes a symbiotic relationship between the participating segments and the collectivity, can account for “the observed pattern of behavior of the minorities in the European Community” (1993, 87); later Cini and Borragán (2010a, 440, emphasis added) directly define the term “consociationalism” as “a political model which brings together distinct communities in shared decision-making, whilst *protecting the interests of the minority*”.

## **2.3.2 Criticism of Neo-Functionalist Core Concepts**

On theoretical grounds, according to Jensen (2010), criticism of neo-functionalism could fall into four categories. The first kind of objections addresses neo-functionalist core theses, mainly focusing on the spillover thesis and the elite socialization thesis.

### **2.3.2.1 Spillback and Countervailing Forces**

As early as in the very beginning of the 1970s, neo-functionalist proponents Lindberg and Scheingold have put forward the disintegrative counterpart of the concept of spillover: the “spillback” — “a situation in which there is a withdrawal from a set of specific obligations” and “[r]ules are no longer regularly enforced or obeyed” with the result that “[t]he scope of Community action and its institutional capacities decrease” (1970, 137). Haas (1971) also has been aware that integrative activities may result in “self-encapsulation” or “spill-around”, and he explained: in some areas, there is a lack of new demands by actors after successful accomplishments, which will lead to a state of self-encapsulation (e.g., activities relating to public health, transportation, telecommunication, and the protection of human rights); by comparison, the term

“spill-around” means in some areas, integrative activities will lead to the creation of rival organizations defying political centralization, which might or might not contribute to the overall integration process (Haas 1971, 11).<sup>52</sup> Later, Tranholm-Mikkelsen clarified and summarized the counter-integrative factors as “countervailing forces” that lie on the other side of the equation of the dynamics of European integration: (1) nationalism, represented by “dramatic-political” actors such as de Gaulle in the 1960s and Thatcher in the 1980s; and (2) diversity of member states, in the social, economic, political and administrative sphere (1991, 16-17). In addition to spillover dynamics and countervailing forces in the equation, there are other factors which may either promote or impede integration, such as the external security environment, security within the Community, or member states’ interdependent relationship with other countries outside the Community (Tranholm-Mikkelsen 1991, 17-18). Therefore, integration is

“a dialectical process determined by the twin forces of a ‘logic of integration’ and a ‘logic of disintegration’. The ‘logic of integration’ contains the logic of spill-over, but it also encompasses aspects of interdependence and security. The ‘logic of disintegration’ consists of adherence to the symbols of sovereignty, the diversity of the member states and other aspects of interdependence and security.” (Tranholm-Mikkelsen 1991, 18)

Viewing integration as a dialectical process denies the “automaticity” of spillover and deprives the predictive power of neo-functionalism, but the future pace and direction of integration can be assessed on the basis of the strength of the two forces (Tranholm-Mikkelsen 1991, 18).<sup>53</sup> Agreeing with the proposition of “a

---

<sup>52</sup> At the same period of time, Schmitter (1971, 241-242) offered a different explanation of the two terms and he distinguished all together six alternatives to spillover in terms of an actor’s strategies: (1) spillover (i.e. “to increase both the scope and level of his commitment concomitantly”); (2) spill-around (i.e. “to increase only the scope while holding the level of authority constant or within the zone of indifference”); (3) buildup (i.e. “to agree to increase the decisional autonomy or capacity of joint institutions but deny them entrance into new issue areas”); (4) retrench (e.g. “to increase the level of joint deliberation but withdraw the institution(s) from certain areas”); (5) muddle-about (e.g. “to let the regional bureaucrats debate, suggest, and expostulate on a wider variety of issues but decrease their actual capacity to allocate values”); (6) spill-back (i.e. “to retreat on both dimensions, possibly returning to the status quo ante initiation”); and (7) encapsulate (i.e. “to respond to crisis by marginal modifications within the zone of indifference”).

<sup>53</sup> Schmitter argues that some of Haas’s ideas have been misrepresented and distorted, and one of the fallacious inferences from neo-functionalism is that “spillover occurs automatically” (Schmitter 2005, 257-258; 261). To claim that the statement— “spillover occurs automatically” — is a misinterpretation of Haas’s ideas can be justified by Haas’s own writing: “[t]he spillover process, though rooted in the structures and motives of the post-capitalist welfare state, is far from automatic” (Haas 1967a, 77). This dissertation, however, would like to treat Haas’s (1967a) disconfirmation of

dialectical process”, Niemann (2006, 47-51) further developed the concept of “countervailing forces” in his revised neo-functionalist framework which embraced three kinds of disintegrative forces: sovereignty-consciousness, domestic constraints and diversities, and a negative integrative climate. First, sovereignty-consciousness encapsulates actors’ unwillingness and opposition to delegate sovereignty/competences to EU supranational institutions and it is “linked to (national) traditions, identities and ideologies and may be cultivated through political culture and symbolisms”, which may exhibit themselves in the extreme form of nationalism and can impede the EU’s development as during de Gaulle’s and Thatcher’s period of time. The incorporation of this countervailing force into revised neo-functionalism suggests the drop of the original neo-functionalist “end of ideology” argument,<sup>54</sup> and according to this perspective, nationalism still accounts for the outcomes of the European regional project (Niemann 2006, 48). Second, domestic constraints and diversities are proposed to signify national governments’ reduced autonomy to act due to the direct constraints posed by domestic actors (such as lobby groups, opposition parties, and the media/public pressure) or indirect constraints from domestic structural limitations (such as a country’s economy, demography, legal tradition or administrative structure) (Niemann 2006, 48-49), which are “exacerbated by the economic, cultural, legal, demographic or other diversities between member states” (Niemann and Schmitter 2009, 56). These domestic constraints and diversities “may entail considerable adjustment costs for some and thus obstruct integrative endeavours” (Niemann and

---

spillover’s automaticity as a clarification and revision of his original thinking, that is, the so-called “fallacious inferences” might be “correct inferences” from Haas’s earliest works. This dissertation holds that Haas’s (1958) work does imply an automatic spillover process without clear specification, and such suggestive automaticity was further reinforced by Lindberg as he defined “spillover” as “a situation in which a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn creates a further condition and a need for more action, and so forth” (Lindberg 1963, 10). Rosamond (2005, 244) also pointed out that the initial thoughts of “spillover” embedded in *The Uniting of Europe* do suggest automaticity in the sense that “the logic of integration is somehow self-sustaining, rational and teleological”, and Haas’s (1967a) disconfirmation came at a time when the assumption of automatic spillover encountered severe empirical troubles when de Gaulle recalibrated the development of the Community into a more overtly intergovernmental direction (Rosamond 2005, 245). Haas himself also noted that decision-making within the Community in the middle of 1960s demonstrated the tempo of spillover slowed down and “the initial *élan* of the supranational style was dissipated” (Haas 1967a, 77). In such a way, Haas actually revised his ideas. In light of neo-functionalism, the statement “spillover is an automatic process” suggests that the European integration process was viewed as a self-sustaining or self-perpetuating process without taking the external environment into consideration.

<sup>54</sup> Cf. section 2.3.3.

Schmitter 2009, 56). The inclusion of this countervailing force into the revised neo-functionalist framework can make up one deficiency of neo-functionalism: domestic constraints and diversities can help to explain member states' variation in choices for integration (Niemann 2006, 49). Finally, a negative integrative climate is utilized by politicians to take public attitudes and opinions, especially during the national election period, on European integration into account. As a worsening economic situation tends to provoke an unsupportive climate for the Community in general, the accommodation of this countervailing force is against "the erroneous neo-functionalist assumption that growth would continue unabated in Western Europe" (Niemann 2006, 49). Overlapping with the factor of "domestic constraints" (such as electoral pressure), the "negative integrative climate" is conceptualized as a broad variable to take the role of the public into account in the integration process (Niemann 2006, 49-50).

Representing disintegrative pressures as opposed to the integrative pressures generated by spillover, countervailing forces may either lead to stagnation (staying at the status quo or remaining at a standstill) or cause reversal of integration (spilling back and retreating from previous commitments) (Niemann 2006, 47). To take countervailing forces into account and thus to understand the European project as a dialectic process of both a "logic of integration" and a "logic of disintegration" is helpful to ascertain the relative strength and the causal significance of the dynamics of integration (Niemann 2006, 47). The dialectic process is an equation made up of spillover effects which serve as dynamics of European integration on the one side, and of countervailing forces which discourage further integration on the other side. As a result, a particular mode of decision-making or the integration process is the outcome of, and also can be explained by, "[t]he strength, variation and interplay of various pressures on both sides of the equation" (Niemann 2006, 50). Moreover, empirical analyses suggest that there is no so-called "unitary" national interest. Rather, national interests and the interests of national decision-makers are influenced by various domestic, intrastate and international factors, and "[i]n short, the interest perceptions of national (and other) decision-makers involved in EU decision-making are decisively shaped by the various spillover and countervailing pressures" (Niemann 2006, 51). Based on the achievement of the EU and the breadth and depth of European integration so far, it is reasonable to conclude that the countervailing forces are not strong enough to counterbalance the integrative spillover effects, and it is supposed that the

integrative process will further continue despite possible unforeseen spillback forces such as further enlargement and unfavorable international situations. In addition, it is also assumed that over time diversity among member states is likely to diminish because of the learning and socializing processes where the EU increasingly exerts its influence on constructing actors' preferences, norms and identities, which, however, might be at the same time offset to different degrees by other countervailing developments (Niemann 2006, 51).

In addition to the concept of spillback and countervailing forces, some scholars suggest there are limits to the spillover effect. For example, Keohane and Hoffmann (1990, 290-293) admit spillover does exist and happen, but successful spillover requires prior intergovernmental agreements. When those agreements are fresh and viable, pressures for further cooperation in initial policy areas as well as in related areas appear, but those pressures do not automatically lead to common policies and institution creation, and the materialization of the spillover pressure depends on a new round of intergovernmental bargains. What will happen next will be determined by various factors: national domestic politics, the external environment, at the time Western Europe's economic situation, political leaders of nation states, and the supranational institutions (Keohane and Hoffmann 1990, 293). Meanwhile, apart from centripetal momentums, the Community also shares centrifugal forces coming from poorly coordinated national and sectoral bureaucratic coalitions (Keohane and Hoffmann 1990, 293). To sum up, EU integration is a dialectic process of the logic of integration and the logic of disintegration, and the EU's developments can be viewed as the result of an equation where integration forces outweigh disintegration forces, as shown in Figure 2.1.

Niemann (2006, 7) attributes the failure of the 1996-97 Amsterdam IGC to modernize Article 113 as a weak spillover dynamic with strong countervailing pressures. Figure 2.1 suggests that the EU's developments or failures can be explained by either stronger spillover effects or stronger countervailing forces, which can be further calculated by the presence and prominence/strength of selected factors mentioned above.

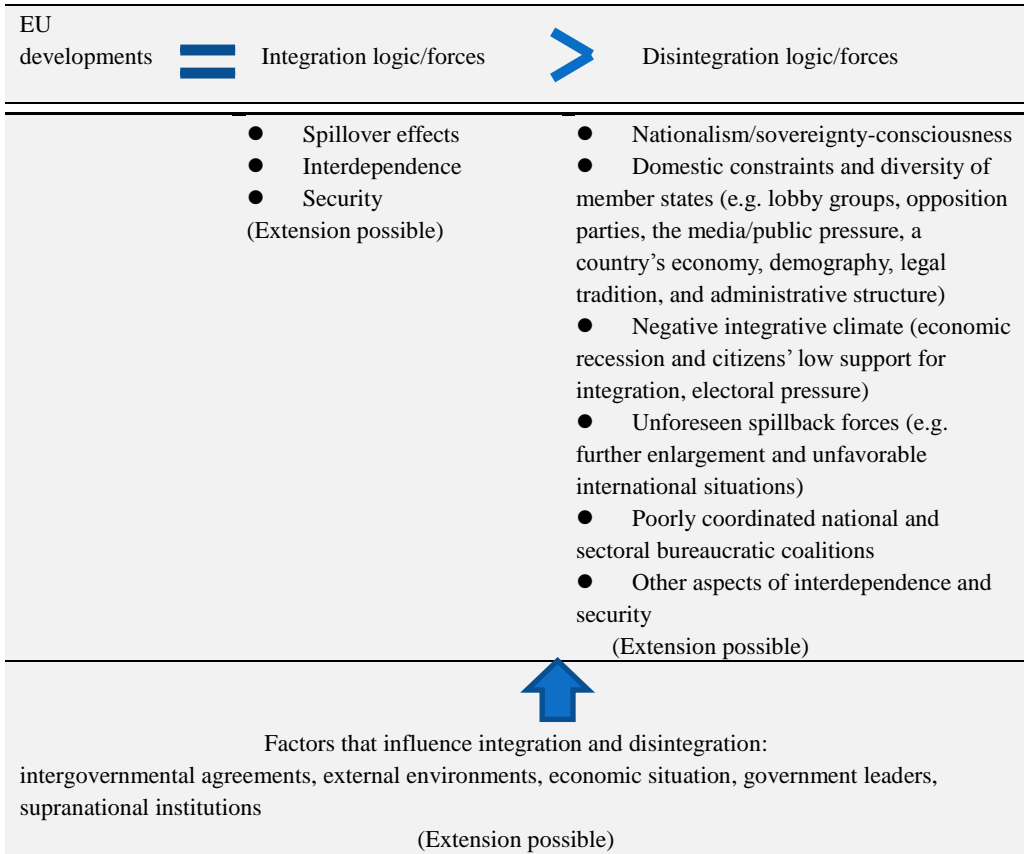


Figure 2.1 An Equation Accounting for EU Integration

Sources: Own compilation on the basis of Lindberg and Scheingold (1970), Haas (1971), Schmitter (1971), Tranholm-Mikkelsen (1991), Keohane and Hoffmann 1990, Niemann (2006), and Niemann and Schmitter (2009).

**2.3.2.2 Disconfirmation of Elite Socialization and Loyalty Transferring Assumptions**

With the concept of consociationalism, Taylor (1990, 1993) challenged the idea of elite socialization and denied the trends of transferring national loyalties to supranational institutions. Instead, Taylor suggested that it is the interests of the member states who, by sending national politicians and civil servants to supranational institutions such as the Commission, intensify EU political integration, as he argues that there is “an increasing determination to insist upon proportionality in the central institutions, and indeed an increasing tendency for particular elites to identify their nationals in those

institutions as their representatives”, leading “the tendency for the collegiate principle in the Commission to become weaker [...] and for state governments to act as if Commissioners from their states were their representatives” (Taylor 1990b, 180; Taylor 1993, 89). The Commission is acting as “an umpire rather than a promoter of any specific ideology” (Taylor 1990b, 179; Taylor 1993, 88) and meanwhile “pressures to enlarge the role of the Commission as umpire are increased rather than diminished as integration proceeds” (Taylor 1990b, 180; Taylor 1993, 89). In the context of consociationalism, the integration process “sharpens the identity of the cartel of elites” and “encourages the clearer definition of minorities and the articulation of their separate interests in the larger framework” (Taylor 1993, 87). Hooghe (2002) argues that civil servants in EU supranational institutions tend to be more nationally oriented when issues of vital political interests to member states are concerned. Moreover, research also shows that, besides the insulated elites, public opinion, party competition, and the mass media are also vital to European integration (Hooghe and Marks 2007).

Loyalty transfer implies an underlying neo-functionalist reasoning: those who profit most from the EU integration process should be the most supportive of the EU enterprise, like women and farmers who, during the integration process, have obtained an equal pay and treatment as men within EU’s labor market or received huge agricultural subsidies under the common agricultural policy (CAP). Risse’s (2005) research, however, disconfirms this proposition, and shows that women in general are less supportive of the EU than men are, and farmers’ satisfaction with the EU’s performance also turns out to be rather low (Risse 2005, 297). Risse’s findings suggest that material benefits do not naturally lead to loyalty transfer, because “socialization into European identity works not so much through transnational processes or through exposure to European institutions, but on the national levels in a process whereby Europeanness or ‘becoming European’ is gradually being embedded in understandings of national identities” (Risse 2005, 305). Risse applies his research results to explain the double puzzle of European integration: “the persistent balance in the EU’s constitution-building between supranational and intergovernmental institutions, on the one hand, and the lagging behind of foreign/defense affairs in European integration, on the other”, as European identity is built upon and must be understood from national processes and “the compatibility between European identity and national identities varies by country in a similar way as national constitutional traditions resonate with European integration to rather different degrees” (Risse 2005, 305). In short, Risse’s

argument is against neo-functionalism predictions on the trends of shifting loyalties from national levels to supranational institutions. It also demonstrates that there is a big gap in support of the EU between the elites and common people.

### **2.3.3 Haas's Self-Critiques and Revisions**

The second kind of negation to neo-functionalism came from Haas himself. As the core concept "spillover" failed to encapsulate the EC in the 1970s, Haas took recourse to another approach to explain European integration: theories of interdependence developed by Keohane and Nye (1975, 1977). According to Keohane and Nye (1977), "dependence" is "a state of being determined or significantly affected by external forces", and "interdependence" suggests mutual relations among those dependences; in world politics, interdependence, as a result of international transactions, "refers to situations characterized by reciprocal effects among countries or among actors in different countries" (Keohane and Nye 1977, 8). The key to understanding such interdependence is the involved "costs", as Keohane and Nye state: "interdependent relationships will always involve costs, since interdependence restricts autonomy; but it is impossible to specify *a priori* whether the benefits of a relationship will exceed the costs. This will depend on the values of the actors as well as on the nature of the relationship" (1977, 9-10). Interdependent relationships, therefore, are not necessarily mutually beneficial, and this leads to other arguments: first, increasing joint benefits gained from an interdependent relationship do not guarantee a conflict-free distribution, and "large-net-benefit cooperation" does not exclude competition; second, interdependence is not "evenly balanced mutual dependence", and there are asymmetries in dependence for different actors where powers and processes of political bargaining emanate (Keohane and Nye 1977, 10-11). As the world is extensively interdependent, world politics is characterized by international regimes of "networks of rules, norms and procedures that regularize behavior and control its effects", where relationships of interdependence often occur and have been defined and affected (Keohane and Nye 1977, 19).

While having a lot in common with neo-functionalism,<sup>55</sup> interdependence theory

---

<sup>55</sup> Tranholm-Mikkelsen (1991, 8) compares the similarities between neo-functionalism and interdependence theory: both "are usually associated with the so-called 'pluralist' or 'cobweb' image of international relations. Both downplay the significance of formal state boundaries; both stress the

differentiates itself most from neo-functionalism in the aspect that it does not prescribe or envisage the outcome of international cooperation or integration: interdependence is a condition, not a process; it is shaped by political acts that are not predicted by theory (Tranholm-Mikkelsen 1991, 8-9). Interdependence theory, as argued by Taylor, actually implies contradictory propositions at two different levels: at the regional level, it suggests “a concentration of power, and the placing of functions within common frameworks”, while at the global level, it shows “the way in which powers might be disaggregated, and administrations and national interests fragmented by transgovernmental or transnational coalitions” (Taylor 1993, 2). The harsh reality of the 1970s pushed Haas to part with neo-functionalism to the degree that “the study of regional integration should be both included in and subordinated to the study of changing patterns of interdependence” (Haas 1976, 208). As a result, the notion of “integration” was defined as “*institutionalized procedures devised by governments for coping with the condition of interdependence*: coping, it must be stressed, may take the form of increasing, decreasing, or maintaining interdependence” (Haas 1976, 210, his emphasis). For Haas, in the 1970s, the EC once of a distinctive “supranational” style evolved into “a huge regional bureaucratic appendage to an intergovernmental conference in permanent session” (Haas 1975, 6; quoted in Jensen 2010, 80). In fact, as early as in the 1960s, Haas had already observed that “[d]isintegration and nationalist *immobilisme* appear to dominate, rather than the advance of regional government” (1967a, 62, his emphasis), and meanwhile, the automaticity of spillover got changed from a status of certainty to probability (Tranholm-Mikkelsen 1991, 9; see also Haas 1967a, 77). As a response to the drama of de Gaulle’s policies and Hoffmann’s criticism, Haas admitted the smooth functioning of integration requires certain conditions: the goals pursued by statesmen and non-governmental elites must be “‘incremental-economic’ rather than ‘dramatic-political’” (Tranholm-Mikkelsen 1991, 9). These pragmatism and technocratic policy-making steps led to what Haas calls “the end of ideology” (Haas 1967b, 334), that is, the doctrines and ideologies emanating from the political thought of the 19<sup>th</sup> and early 20<sup>th</sup> century could not adequately describe the dramatic economic and social changes as well as European regional integration since 1945 (Haas 1967a, 62), which implies that “as societies became richer,

---

importance of non-governmental actors in world politics; and both emphasize the prevalence of non-military issues in the dealings among non-socialist, developed states”.

they would become more concerned with the pursuit of wealth rather than with nationalist, socialist or religious ideals” (Niemann 2006, 16).

As for the “contrived” or “deliberate” package deals, Haas admitted that as the political linkage of package deals became longer and more complex, the uncertainty surrounding the EC’s integration process also increased so much that policies designed by virtue of deliberate issue linkage could be “fated to fail” (Haas 1976, 209). Furthermore, by switching to interdependence theory, Haas also acknowledged another shortcoming of the original neo-functionalist theory: it focuses too narrowly on the regional integration process/entity while ignoring other external factors; the European integration project is only a part of the world economy, which cannot be insulated from the external changing environment (Jensen 2010, 80; Niemann 2006, 22).

### **2.3.4 Critiques of Supranationalism by Intergovernmentalism**

The third set of criticisms is directed against neo-functionalists’ “excessive” emphasis on the supranational components in the European integration process. This kind of critique argues that the core of regional integration lies in cooperation among national states involved, and regional integration forms such as the EC/EU should be considered as intergovernmental organizations. The initial critics of this kind were Stanley Hoffmann (1966) and Roger Hansen (1969). While Hoffmann (1966) put forward the logic of diversity opposing the neo-functionalist logic of integration, Roger Hansen (1969), while asserting that neo-functionalism had neglected the effects of external structural imperatives on member states’ integration preferences at the EU level, refuted neo-functionalists’ proposition that societal pluralism is a precondition to European integration. Haas believed that a “New Europe” had to be built on the basis of “capitalism, industrialism and pluralistic democracy” (Haas 1967a, 62),<sup>56</sup> but from Hansen’s point of view, societal pluralism is a disintegrative force retarding the integration process because “sophisticated societies are better able to receive messages about potential threats (such as those posed by supranational institutions) to their integrity” (Rosamond 2005, 248). In line with Hansen’s argument, neo-functionalist theory was criticized to be of a typical American optimism, which simply believes that “problem-solving and resolution of conflicting interests within a pluralist political

---

<sup>56</sup> Deutsch et al. (1957, 200) possess a similar opinion, and they assert that policies of pluralism which increase “the machinery and traditions of mutual consultation, communication, and cooperation” seem to be the most effective approach to promote integration.

system could overcome the obstacles to European union” (William Wallace 1982, 58). National states and national interests, Hoffmann and Hansen would say, are the key to answering all the questions of integration, and these kinds of objections to neo-functionalism can be classified under the rubric of liberal intergovernmentalism.<sup>57</sup> Though traditional intergovernmentalism is on the opposite side of neo-functionalism, it is true that without cooperation and engagement of national states, any integration progress is impossible. This also leads to the revelation of another weakness of neo-functionalism: an inadequate account of domestic political processes and structures (Niemann 2006, 23; Niemann and Schmitter 2009, 53).

### **2.3.5 Critiques of Neo-functionalism’s Elitist Nature**

Finally, neo-functionalism was attacked for its elitist nature which implies that European citizens were not considered to be actively involved in the integration process; without mass participation, the so-called “integration model” is undemocratic (Jensen 2010, 81). This also applies to the debate on the EU’s “democratic deficit”, and the fact that national referendums in France and the Netherlands rejected the EU Constitutional Treaty in 2005 shows another weakness in the theory of neo-functionalism: democratic accountability. The fathers of neo-functionalism, like Haas and Lindberg, did not attach much importance to the role of public opinion and citizen’s support for the integration project; rather they reached the conclusion that “there was a ‘permissive consensus’ in favor of European integration (Lindberg and Scheingold 1970, 41) and that this would suffice to sustain it” (Niemann and Schmitter 2009, 48). The EU project is not only planned, set up, and pushed forward by political elites, but also needs the understanding and support of the ordinary citizens of Europe.

## **2.4 Neo-Functionalism’s Renaissance during the 1990s**

Along with the European integration progress in the 1980s and 1990s, such as the creation of the Single Market and the establishment of the EU with the three-pillar structure, neo-functionalism gained a renaissance after years of obsolescence.<sup>58</sup>

---

<sup>57</sup> See chapter three of this dissertation.

<sup>58</sup> Schmitter (2005, 264) has attributed the EC’s turnaround development in the mid-1980s to two changes in the European policy environment: one is the rising competitive power of other regions and countries, especially Japan; the other is that national states became incapable of achieving desired macro-economic outcomes, or even worse, got undesired outcomes as regards economic growth and monetary stability, as, for example, demonstrated by the Socialist government of François Mitterrand

Mostly, the Community's development during this period has soundly justified the "spillover" effects as advocated by neo-functionalism. As Taylor observes, EC integration in the 1980s gained new momentum where "a new balance between the autonomy of the states and the integration of the European Community had been struck" (Taylor 1993, 75), and to understand the EC better, students need to return to the long-time unfashionable theory: neo-functionalism (Taylor 1993, 77). In 1991, Tranholm-Mikkelsen's paper: "Neo-Functionalism: Obstinate or Obsolete? A Reappraisal in the Light of the New Dynamism of the EC" signaled the "re-opening of the debate on neo-functionalism as an approach to the study of the EC" (Tranholm-Mikkelsen 1991, 2).<sup>59</sup> This theoretical revival trend was represented by, for example, Sandholtz (1996), Stone Sweet and Sandholtz (1997; 1998), Stone Sweet and Brunell (1998), Stone Sweet (2004), and Niemann (2006). Though neo-functionalism offers no clear direction for theoretical revisions and modifications and some neo-functionalist concepts are of limited usefulness to researchers (Niemann 2006, 23), neo-functionalist core ideas such as spillover effects and supranational tendencies appear to be galvanized.<sup>60</sup>

## **2.4.1 Stone Sweet and Sandholtz's Supranational Governance and "Transaction-Based" Theory**

### **2.4.1.1 Towards Supranational Governance: The Process of Institutionalization**

Stone Sweet and Sandholtz (1998) argue that though the traditional dialectical distinction between supranationalism and intergovernmentalism is no longer sufficient to capture European integration, the two forge a continuum that can explain EU different policy areas effectively, with intergovernmental politics and supranational politics located at the left and right ends, respectively. From left to right, this

---

(1981–83). Schmitter emphasizes the external pressures pushing actors to be more integrative, such as the oil shocks and the collapse of the Bretton Woods System in the 1970s, to the degree that "[m]uch of what has happened since the mid-1970s can better be attributed to external trends and shocks than to purely internal processes and functional *engrenages*" (Schmitter 2005, 266-67).

<sup>59</sup> Tranholm-Mikkelsen's paper won the F.S. Northedge Essay Competition (established in 1986) of 1991, and the quotation here is also the editors' comment on Tranholm-Mikkelsen's paper (see Tranholm-Mikkelsen 1991, 1).

<sup>60</sup> It is worth pointing out that besides neo-functionalism, other theories and approaches were also applied to explain the re-launching of West European integration during the 1980s and 1990s. For instance, Cornett and Caporaso (1992) compared different explanations offered by neo-classical economic theory, neo-realism, neo-liberal institutionalism, functionalism and neo-functionalism to "EC 1992", each theoretical tool approaching the Community from different perspectives.

continuum can measure the mode of governance of any given policy sector in the EU with the growing presence and intensity of three factors: EC rules, EC organizations and transnational society, as some areas are characterized by (more or less) supranationalism and others by (more or less) intergovernmentalism (1998, 8-9). Stone Sweet and Sandholtz illustrate the continuum as follows:

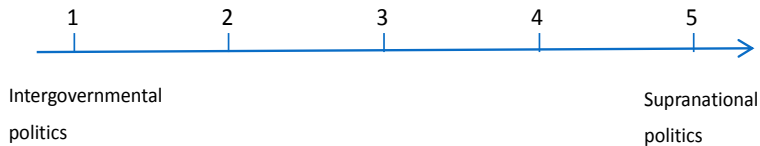


Figure 2.2 Patterns and Trends of Governance in the European Union

Notes: From left to right, the presence of three factors (1) supranational organizations, (2) supranational rules, and (3) transnational society increases; this continuum is used to measure the influence of the three factors on EU policy-making processes and outcomes within any given policy sector as well as the developing trend of EU supranational governance.

Sources: Adapted from Stone Sweet and Sandholtz (1998, 8).

On the left pole, intergovernmental politics means the central players in policy-making are the national executives of the member states, who reach policy agreements via bargaining which in turn is shaped by the relative powers of member states as well as the state preferences originating from various domestic groups; the mode of intergovernmental politics is applicable, for instance, in the Council of Ministers, and governance at the EC level serves as “a passive structure that enhances the efficiency of interstate bargaining” (Stone Sweet and Sandholtz 1998, 8). By contrast, on the right pole, supranational politics refers to a governance mode of centralized-governmental structures, where “organizations constituted at the supranational level possess jurisdiction over specific policy domains within the territory comprised by the member states” and thus the behavior of all actors, including the member states, is constrained (Stone Sweet and Sandholtz 1998, 8). Moving from the left end to the right suggests a momentum towards supranational governance.

Stone Sweet and Sandholtz define supranational governance as “the competence of the European Community to make binding rules in any given policy domain” (1998, 1) as a consequence of rising levels of transnational exchanges in trade and investment as well as the development of Euro-groups, networks and associations (1998, 2).

Supranational governance happens because rising exchange costs activate governments to “adjust their policy positions in ways that favor the expansion of supranational governance” (Stone Sweet and Sandholtz 1998, 4). The behavior and processes of these transnational exchanges, on the one hand, are “decisively shaped by the institutional context of the EC”, while on the other hand, tend to “produce or reinforce supranational rule-making” (Stone Sweet and Sandholtz 1998, 2). As a result, along with “the expansion of transnational society, the pro-integrative activities of supranational organizations, and the growing density of supranational rules”, the processes of transnational exchange, while sustaining and getting embedded in intergovernmental bargaining and decision-making, “gradually, but inevitable, reduce the capacity of the member-states to control outcomes” (1998, 5). The prominent formal characteristic of supranational governance is its “centralized governmental structure”, that is, institutions at the supranational level, such as the European Commission, the ECJ, while the essence of supranational governance lies in the supranational institutions’ juridical power over the national member states in specific policy domains, whereby “supranational organizations are capable of constraining the behavior of all actors, including the member-states, within those domains” (Stone Sweet and Sandholtz 1998, 8). Therefore, the indicator to measure the degree of supranational governance is the binding power of EC rules on its member states, and this measurement is furthermore based on three interrelated dimensions: (1) “EC rules: the legal, and less informal, constraints on behavior produced by interactions among political actors operating at the European level”, (2) “EC organizations: those governmental structures, operating at the European level, that produce, execute, and interpret EC rules”, and (3) “Transnational society: those non-governmental actors who engage in intra-EC exchanges — social, economic, political — and thereby influence, directly or indirectly, policy-making processes and outcomes at the European level” (Stone Sweet and Sandholtz 1998, 9). The presence and intensity of each of the three factors increase along the scale from left to right, so from point 1 to point 5, one should observe the following aspects and developments (Stone Sweet and Sandholtz 1998, 10).

First, the presence and the degree of clarity and formalization of EC rules increase. At point 1, rules are few and their binding powers are weak as “they do not trump individual governmental interests that conflict with them”; as we move towards the right end, the presence of informal and formal rules increases and the binding

powers of EC rules grow. At point 5, rules are “highly formal, codified in treaty law, secondary legislation, and the ECJ’s jurisprudence” (Stone Sweet and Sandholtz 1998, 10). In any given policy area, rules “grow more dense and elaborate” in “governing the interactions of all actors” along the continuum from left to right (Stone Sweet and Sandholtz 1998, 10).

Second, EC supranational institutions’ influence on policy-making processes and outcomes increases, that is, the autonomy of supranational bodies increases. Autonomy means EC institutions’ “capacity to define and pursue, on an ongoing basis, a politically relevant agenda” (Stone Sweet and Sandholtz 1998, 10). At point 1, EC institutions only facilitate intergovernmental negotiations and logistically lower the transaction costs for involved governments. At point 3, EC institutions may succeed in policy innovation — a form of relative but meaningful autonomy. At point 5, EC institutions can innovate even when facing member states’ indifference or hostility — a form of substantial autonomy. As soon as supranational organizations obtain autonomy, they acquire and exert the ability to “shape not only specific policy outcomes, but also the rules that channel policy-making behaviors” (Stone Sweet and Sandholtz 1998, 11). Therefore, EU institutional autonomy can be measured by the actions the Commission initiates, the policy outcomes the EU finally realizes, and the decision-making rules the Council applies.

Third, the presence and influence of transnational actors (e.g. interest groups, businesses, knowledge-based elites) on policy-making processes and outcomes increase. At point 1, national executives, who “mediate between domestic actors and supranational organizations and rules” have the ultimate say (Stone Sweet and Sandholtz 1998, 10), while at point 5, transnational actors exert their influence, targeting national or supranational bodies and often playing one level off against the other.

These three dimensions are considered to be the “crucial indicators of levels of integration in the EC”, which can help explain the unevenness of integration across policy areas, the degree of the EU’s supranational governance competence, and the dynamic nature of European integration over time (Stone Sweet and Sandholtz 1997, 304; 1998, 9). Stone Sweet and Sandholtz claim that this scale is useful for two purposes. First, it can be used to compare different degrees of supranational governance and development in various policy areas, as from left to right along the continuum, there is a growing presence and intensity of each of the three factors. For

example, policy sectors located at point 2 show a tendency towards intergovernmental politics, while those at point 4 exhibit strong features of supranationalism. Second, the scale can be used to measure the degree of EC integration, which means to measure the degree of EC institutionalization, as “integration” is defined as “the process by which the horizontal and vertical linkages between social, economic, and political actors emerge and evolve” and “these linkages [...] are constructed and sustained by EC rules”, that is, they are institutionalized to different extents (Stone Sweet and Sandholtz 1998, 9).

Stone Sweet and Sandholtz label those three — organizations, rules, transnational society — as “the supranational trio”, which mutually reinforce each other in the following logic: “[a]n expansion of the tasks or autonomy of supranational organizations creates opportunities for political action, which actors and groups will seek to exploit, thus expanding transnational society”; as “societal actors adjust their behaviors in response to new supranational rules, these rules can gradually be locked in” (Stone Sweet and Sandholtz 1998, 11). The dynamics of European integration consist of the mutual reinforcement of the three factors, as a movement in one dimension tends to push the other two also to move — this is what Stone Sweet and Sandholtz call “an internal dynamic of institutionalization” (Stone Sweet and Sandholtz 1998, 11). Rules and rule-making are the core of the logic of institutionalization, and once the process towards the supranational pole begins, it is difficult to reverse what has already occurred, because current supranational settings and rules shape the context for subsequent interactions, defining actors’ objectives and interests, possible means to pursue self-interests, and dispute resolution mechanisms (Stone Sweet and Sandholtz 1998, 16-17); moreover, current supranational rules “delineate the contours of future policy debates as well as the normative and organizational terms in which they will be decided” (Stone Sweet and Sandholtz 1998, 17) — those views actually reflect the ideas of HI (cf. chapter four of this dissertation). Put simply, institutionalization is the process of rule creation, application and interpretation by those who live under them (Stone Sweet and Sandholtz 1998, 16), and the binding force and intensity of the presence of rules are the indicators of the degree and strength of institutionalization. In the EU context, the EU Treaties directly created by the member states enjoy the legal status as primary Union law, and naturally, policy domains prescribed by the Treaties move more quickly towards supranational governance than other policy areas which are not contained in the Treaties. This supports the research result of Fligsten and

McNichol (1998, 85) that “[m]ost of the arenas in which the EU built competencies were laid down in the Treaty of Rome and the original language and definitions gave rise to organizational structures oriented towards producing legislation in those domains” — a tendency Fligstein and McNichol term “a path dependent fashion”. To sum up, the degree of EU supranational governance is corresponding to the EU’s process of institutionalization: if supranational governance is taken as a trend or result, institutionalization is the process and dynamic leading to such a supranational trend or outcome. Both the degree of the EU’s supranational governance and strength of institutionalization can be measured by the binding powers and the intensity of the presence of EU rules of the three interrelated dimensions: supranational bodies’ autonomy, the presence and the degree of clarity and formalization of EC rules, and the presence and influence of transnational actors on policy-making processes and outcomes.

#### **2.4.1.2 The Mechanism behind Institutionalization: Transaction-Based Theory**

An important deviation made by Stone Sweet and Sandholtz from traditional neo-functionalism is that they do not use the term “spillover” to explain European integration and the formation of supranational institutions within the EU. Instead, they develop a new approach called “transaction-based theory” for their research. The starting presumption is that societal actors, especially non-state actors, depend on European transactions: as there are expanding transactions across EU borders, transactors’ demands for regulation at the European level — European standards, rules, and dispute resolution mechanisms — definitely increase, which leads to the process of institutionalization and the establishment of supranational governance (Stone Sweet and Sandholtz 1998, 11-12). Nevertheless, Stone Sweet and Sandholtz (1998) do not offer an unequivocal definition of what they call “transactions” and “transactors”, but they mention the term here and there: “exchange across national borders”, “transnational economic interests”, “intra-EC exchange”, “rules and organizations have favored economic actors with a stake in cross-border transactions (trade, investment, production, distribution)”, “transnational exchange (e.g. trade, investment, the development of Euro-groups, networks, and associations)” (1998, 2); Stone Sweet and Sandholtz emphasize that “transaction-based theory” is the foundation on which they build their arguments of supranational governance:

“Our starting point is society, in particular, non-state actors who engage in transactions and communications across national border, within Europe. These are the people who need European standards, rules, and dispute resolution mechanisms — who need supranational governance. In the beginning, the causal mechanism is quite simple: increasing levels of cross-border transactions and communications by societal actors will increase the perceived need for European-level rules, coordination, and regulation.” (1998, 11)

Therefore, “transactions” is quite an inclusive term to refer to any form of exchange across national borders, and the main feature of “transactions” is economic interests, while “transactors” are persons involved in transaction activities and demanding supranational rules and governance. Transactions and transactors are case specific, as the examples after Stone Sweet and Sandholtz’s (1998) chapter illustrate: when Sandholtz (1998) applies the transactions-based theory to the telecommunications sector, transaction activities are defined in the area of transnational telecommunications illustrated by the figures and tables titled “Annual Percentage Change in EU Population, Intra-EU Trade, and Intra-EU Telephone Traffic” (138), “Correlations between Intra-EU Cross-Border Telephone Traffic and Trade, GDP, and Population” and “Pooled Cross-Sectional Time-Series Analysis: Intra-EU Cross-Border Telephone Traffic” (139), with the transactors interested in promoting pan-European telecommunications (i.e. equipment manufacturers, business users, new services providers, and alternative infrastructures), while Cameron (1998), who contends that the extension of supranational authorities of monetary and exchange-rate policy from the creation of the EEC to EMU was ultimately caused by increased economic interdependence among member states who then demanded tension resolutions at the EU level over monetary and exchange-rate issues alongside the progressive expansion of the single internal market (Cameron 1998, 190), utilizes the data of “Trade Dependence of the EU Member States, 1958-1995” (193), “The Concentration of EU Trade within the EU, 1958-1995” (194), “Realignments in the European Monetary System (EMS), March 1979-August 1992” (201), “The Balance of Trade within the European Community, 1973-1990: Cumulative Surplus (+) or Deficit (-) with Other EC Member States (in \$bn.)” (203), “Growth and Unemployment in the European Union, 1995-1997” (207), and “Public Support in the EU for Introduction of a Single Currency, October-November 1996” (212). So the specification of transactions and transactors and accordingly, the relevant statistics, are subject to

specific policy areas and research topics, but a commonality stands out: cross-border economic activities among member states, that is, intra-EU trade and the mutual dependence of economies.

European integration, indeed, has a “spillover mechanism”, but it is of transactions, by transactions and for transactions. The rationale is like this: “As the most obvious hindrances to cross-national exchange are removed, or their effects reduced by the transaction-cost-reduction behavior of supranational organizations and rules, new obstacles to such transactions are revealed and become salient”, and the new emerging obstacles must be tackled properly due to the demand of transactions and transactors (Stone Sweet and Sandholtz 1998, 15). Three causal factors are behind this integration logic: transnational exchange, supranational organization, and EC rules (Stone Sweet and Sandholtz 1997; 1998, 25). This transaction-based theory is held to have explained the uneven integration speed for different EU policy areas, as “variation in the levels of cross-border interactions and in the consequent need for supranational coordination and rules” has decided the degrees of supranational governance for different issue areas (Stone Sweet and Sandholtz 1998, 14). The higher are the intensity and values of cross-nation transactions, the stronger is the demand for the coordination of rules and dispute resolution mechanisms at the EU level; the lower the intensity and values of cross-border transactions, the less, weak or fewer demand there is for supranational rules and governance. So naturally “the EC has moved farthest towards the supranational pole with respect to managing the internal market”; by contrast, for the Community’s Common Foreign and Security Policy (CFSP), “few societal transactors find its absence costly” and “[t]here is therefore minimal social demand for integration in that policy domain” (Stone Sweet and Sandholtz 1998, 14). In addition, “higher levels of transactions push the EC to legislate, the Court to clarify the rules, and interests to organize” (Stone Sweet and Sandholtz 1998, 14), and it is not surprising that the Commission exercises greater autonomy in the policy areas where transaction levels are high than in other areas where they are relatively low. Pollack’s research (1998) supports this argument as he finds that the Commission assumes more power in competition policy than in structural funds or in external trade, while within competition policy, the Commission has gained more authority in telecommunications than in the energy sector. This shows that a low level of cross-frontier transactions does not push supranational governance in the policy domains which though have ever been prescribed by the EU Treaties, whereas a high level of transactions leads to the creation

and growth of supranational governance even in a new area which has not been mentioned by the EU Treaties previously (e.g. the telecommunications sector) (Stone Sweet and Sandholtz 1998, 17-18). Because the impetus behind the newly established rules is to facilitate cross-border transactions, the new rules definitely will promote a higher level of transactions after their application, which in turn leads to new demands for new rules to facilitate transactions further, with transactors' interests accumulatingly entrenched in the supranational rules and causing "a high degree of 'stickiness' in movement along the continuum" towards supranational governance (Stone Sweet and Sandholtz 1998, 19). So transaction-based theory expects more EC rules as there is an increasing level of transnational exchange (Stone Sweet and Sandholtz 1997, 310). Along with new rules, policies and mechanisms, expanding transactions push forward the EU's institutionalization process.

In addition to their deviation from the concept of "spillover", Stone Sweet and Sandholtz do not agree with Haas's argument on political actors' loyalty transferring from the national to the European level. Rather, they treat it as an open question, and supranational governance does not necessarily lead to "an ultimate shift in identification" (Stone Sweet and Sandholtz 1998, 6). Still, Stone Sweet and Sandholtz's supranational governance argument is based on the rationales provided by neo-functionalism where "integration is the process by which the EC gradually but comprehensively replaces the nation-state in all of its functions" (Stone Sweet and Sandholtz 1998, 4), with the result that "member-state governments become less and less proactive, and more and more reactive to changes in the supranational environment to which they belong" (1998, 6).<sup>61</sup> Stone Sweet and Sandholtz state clearly that the three ingredients of their theory "are prefigured in neo-functionalism: the development of transnational society, the role of supranational organizations with meaningful autonomous capacity to pursue integrative agenda, and the focus on European rule-making to resolve international policy externalities" (Stone Sweet and Sandholtz 1998, 6). The history of the Community in the 1980s and 1990s appears to have justified transaction-based theory as Treaty revisions were a response to the demand for more cooperation at the European level caused by the growth in transactions across

---

<sup>61</sup> Stone Sweet and Sandholtz acknowledge their indebtedness to Deutsch's ideas (e.g. Deutsch et al. 1957; Deutsch 1966) on social exchange, communication and transaction, and to Haas's thinking about the relationship between global interdependence, political choice, and the development of supranational institutions (see Stone Sweet and Sandholtz 1998, 5).

national borders, while from another perspective, Treaty revisions are also “partially precipitated by the limits of the institutions and organizations of the EC to deal with these activities” (Fligstein and McNichol 1998, 86). Stone Sweet and Sandholtz’s “supranational governance”, however, attracted two kinds of criticism: first, it neglects the potential effects of external changes, and second, it again falls into the old “neo-functionalism-intergovernmentalist” dichotomist pit as it privileges certain actors (i.e. supranational institutions) and concentrates only on a partial empirical aspect (i.e. day-to-day developments) of the EU (Niemann and Schmitter 2009, 54). The first kind of criticism appears justifiable, and as a matter of fact, later Niemann’s (2006) new concept of “exogenous spillover” can be regarded as a revision and supplement to this weakness of neo-functionalism, but the second type of criticism seems not to be fully justified as the dichotomous neo-functionalism-intergovernmentalist debate serves as a source for later new approaches and theories on the EU.

In sum, based on transaction-based theory, Stone Sweet and Sandholtz’s propositions on the dynamics of European integration (i.e. the internal dynamic of institutionalization) and supranational governance can be captured by the following hypothesis:

*H3: Rising cross-border transactions increase transactors’ demand for more regulation at the EU level (i.e. European standards, rules, and dispute resolution mechanisms), and this leads to the process of EU institutionalization where the degree of EU supranational governance increases while member-states’ capacity to control policy outcomes decreases, as the presence and the degree of clarity and formalization of EU rules, the Commission’s autonomy, and the presence and influence of transnational actors on policy-making increase and get mutually reinforced.*

If this mechanism is valid, then in case studies there should be evidence that: (1) cross-border transactions expand in one area while the absence of regulations in that area at the EU level is costly for transactors; (2) transactors demand more regulation at the supranational level; (3) the tasks or autonomy of EU institutions expand (such as the Commission exercising greater autonomy and/or the Court clarifying the rules); (4) transactors exploit the opportunity to influence the policy-making processes and the outcomes reflect transactors’ preferences; (5) EU rules are introduced, reinforced, revised or further clarified; (6) the application of new rules facilitates cross-border transactions, and the level and value of transactions increase after the implementation of new rules; (7) transactors adjust their behavior to adhere to the new rules and the

new rules are normalized as being “givens”; (8) when the urgent or most obvious hindrances to cross-national exchange are alleviated or removed, other related or new rising obstacles to transnational transactions become salient and pressing, and as a consequence, transactors demand more regulation at the EU level to facilitate transactions further; (9) as transactors’ interests accumulatively get entrenched in EU supranational rules, the EU moves along the scale towards a high degree of supranational governance; (10) EU supranational governance is realized through the process of institutionalization, exhibiting a path dependent fashion which is difficult to reverse as current supranational rules not only provide means for transactors to pursue their interests and the mechanisms to resolve their disputes, but also shape the context for their subsequent interactions and delineate the normative and institutional contours of EU future policy; (11) there is a trade-off between supranational governance and intergovernmental politics, that is, increasing supranational governance implies decreasing control of member states on policy outcomes, a process by which nation state functions are gradually replaced by supranational institutions, national governments become reactive rather than proactive to changes in the supranational environment, and national executives gradually lose an ultimate say on policy formation. In short, the higher intensity and values of transnational exchange there are, the more and elaborated EU rules are; transactions are the engine to push forward the process of EU institutionalization and a higher degree of supranational governance, which also explain the degree of variation in supranational governance in difference areas and growing supranational governance in some areas which may have not been mentioned by the EU Treaties previously. Hypothesis 3 can be dissected into three sub-hypotheses of the internal dynamic of institutionalization, the trade-off between increasing supranational governance and member state control over EU policy-making, and the irreversible trend of EU supranational governance, each of which, against the background of the eurozone sovereign debt crisis, can be stated as follows:

*H3a: Increasing cross-border transactions among euro states demand more regulation at the EU level (i.e. European standards, rules, and dispute resolution mechanisms), leading to a process of EU institutionalization where rules are introduced or reinforced on the basis of the mutual enforcement among EU institutions, EU rules, and transnational society.*

*H3b: Along with the process of institutionalization during the eurozone sovereign debt crisis, EU supranational governance increases while national capacity*

*to control economic and monetary policy outcomes is reduced.*

*H3c: During the eurozone sovereign debt crisis, the EU's new developments, which result from increasing cross-border transactions and transactors' demand for more regulation at the EU level, lead to a higher degree of EU supranational governance, which is hard to reverse as current supranational rules both define transactors' means to pursue their interests and dispute resolution mechanisms that shape the context for subsequent interactions and delineate the normative and institutional contours of future policy.*

The mechanism suggested by H3a consists of consecutive steps of (1) (2) (3) (4) (5) (6) (7) (8) (9), while H3b indicates a causal chain connecting (1) (2) (3) (4) (5) (6) (7) (8) (9) (11). *H3c*, stating a causal relationship with the sequence of (1) (2) (3) (4) (5) (6) (7) (8) (9) (10), actually is an expression of the idea of path dependence of HI, and its test can also be carried out under the banner of Pierson's path dependence or HI. Obviously, the ultimate forces underlying H3 as well as H3a, H3b, and H3c are transnational economic activities and trade interdependence among member states, as the common causal chains of (1) (2) (3) (4) (5) (6) (7) (8) (9), summarizing the propositions of Stone Sweet and Sandholtz's transactions-based theory, start from the expansion of cross-nation trade. Compared with *H1*, H3 can be seen as an extension of *H1*, exhibiting the continuity of neo-functionalist core arguments: supranational tendency and supranational governance, where transnational economic trade is the cornerstone of both *H1* and H3. The core of political integration is EU collective decision-making, which is actually a part of EU rules, so theoretically, *if there is any European political integration, there should also be EU supranational governance, and if political integration increases, so does the degree of EU supranational governance.* In case analyses, this dissertation will also explore the connection between *H1* and H3.

#### **2.4.1.3 Pierson's HI and Pollack's Principal-Agent Analysis**

When Stone Sweet and Sandholtz (1998, 19) explain their arguments of transactors' entrenched interests for EC rules and the "stickiness" of the EC's movement towards supranational governance along the continuum, they resort to "two logics": Pierson's (1998) path dependence, an historical institutionalist approach, to the development of

social policy<sup>62</sup> and Pollack's (1998) principal-agent analysis to the Commission's autonomy, both of which support and reinforce Stone Sweet and Sandholtz's supranational governance arguments. Pierson's HI contains two themes: first, the EC's political development must be viewed through time — it is historical; second, the temporal process of the EU is defined by and embedded in institutional rules, structures, or norms — it is institutionalist (Pierson 1998, 29). Once institutional and policy changes are there, actors will adapt themselves to these changes, which may cause unexpected or undesired outcomes that are difficult to unwind; meanwhile, adaptations to previous decisions will raise the “sunk costs” for governments to exit from supranational governance. As a result, a reversal of a supranational governance course is unattractive and difficult (Pierson 1998, 45). In comparison, Pollack employs a principal-agent model to explore the relationship between the Commission and national governments as far as structural policy, competition policy and external trade policy are concerned. According to Pollack's principal-agent model, member governments have delegated their powers to the Commission, and the Commission de facto has gained independent preferences for policy-making and policy implementation, possessing considerable autonomy to pursue its “more European” interests, but such preferences and autonomy “have been constrained in particular by the preferences of the member governments, by the varying possibilities for sanctioning available to dissatisfied member governments, by the information available to the Commission and the member governments at different points in time, and by the Commission's varying ability to strike up alliances with transnational actors and with other supranational organizations such as the European Court of Justice” (Pollack 1998, 224; see also Pollack 1997). Pollack's argument is another way to assert the existence and influence of EU supranational governance and EU supranational institutions' autonomy, which is conditioned by the state of policy institutionalization at a given time and may vary in degree for different policy areas. As a consequence of the process of institutionalization and supranational governance, Treaty amendments and expansion are necessary and possible, and once a shift towards supranational governance has occurred, the supranational tendency is hard to reverse.

---

<sup>62</sup> For a more detailed elaboration on Pierson's HI, see chapter three and chapter four of this dissertation.

## **2.4.2 Supranational Governance and the European Court of Justice**

Having been building up its supranational authority and supremacy over national legal systems over time, the ECJ is frequently taken as an example to illustrate the EU's supranational governance and its institutional autonomy (e.g., Burley and Mattli, 1993; Stone Sweet 2004; Stone Sweet and Caporaso 1998). For instance, Burley and Mattli (1993) argue that in the EC there is a "legal integration" process in which EC law has gradually penetrated member states' domestic law via two principal ways: (1) formal penetration — the expansion of supranational legal acts (i.e. Treaty law and secondary community law) taking precedence over domestic law and the increasing numbers and types of cases in which individuals resort to community law directly in their national courts; (2) substantive penetration — the spillover effect of legal regulation from the economic domain to social and political areas such as political participation rights and occupational health and safety. Accompanying those penetration processes is the legal uniformity in interpreting EC law (Burley and Mattli 1993, 43). Burley and Mattli (1993, 65-69) claim that neo-functionalism's three dynamics (i.e. functional, political and cultivated spillover) are working well in the building-up of the EC legal system and are appropriate to account for the EC's legal integration (see also section 2.1.1.4). They point out that during the 1960s and 1970s, the ECJ has set up its legal doctrines over national legal affairs and thus has propelled European political integration. The reason for the effectiveness of law is the perception of the separation between law and politics, where legal integration is regarded as "a nominally nonpolitical sphere" (Burley and Mattli 1993, 69). Nevertheless, from Burley and Mattli's point of view, law is a mask and shield, which "hides and protects the promotion of one particular set of political objectives against contending objectives in the purely political sphere"; in fact, legal decisions are inevitably of political significance, and as a result, gradually "economic integration might ultimately lead to political integration" (1993, 72). Burley and Mattli conclude that the Court does have the power to pursue its own pro-integration agenda, and meanwhile, the autonomy of the Court embarks on a particular developing path which is difficult for member states to monitor or control (Burley and Mattli 1993, 74). Burley and Mattli acknowledge their affinities to neo-functionalism and especially express their indebtedness to Haas's neo-functionalist ideas (Burley and Mattli 1993, 43), and they believe "neo-functionalism offers a genuine political theory of an important dimension of European integration" (Burley and Mattli 1993, 76).

Stone Sweet and Brunell (1998) also propose a theory of European legal integration. They list three causal factors that contribute to EU legal integration: transnational exchange, triadic (i.e., of two disputants and a dispute resolver) dispute resolution, and the production of legal norms, based on which they argue that “on crucial points, intergovernmentalists have gotten it wrong” (Stone Sweet and Brunell 1998, 63). According to Stone Sweet and Brunell, these three factors, while being analytically independent, exert interdependent effects on each other and the theoretical logic for the supranational polity is as follows: transnational exchange (factor 1) leads to transnational social frictions and disputes, which, in one respect, promote dispute resolutions (transnational triadic dispute resolution — factor 2), and in another respect, demand for normative solutions (transnational rules — factor 3) because these frictions and disputes expose problems which require collective action, and thereby supranational governance is established; once the causal connections between the three factors have been forged, the legal system will gain self-sustaining and expansionary dynamics to move further (Stone Sweet and Brunell 1998, 64-65). Stone Sweet and Brunell highlight the Treaty system’s transformative power of constitutionalization — “the process by which the EC treaties have evolved from a set of legal arrangements binding upon sovereign states into a vertically integrated legal regime conferring judicially enforceable rights and obligations on all legal persons and entities, public and private, within EC territory” (e.g., Article 177 of the Rome Treaty establishes and explains a preliminary reference to the ECJ) — which make the EC of intergovernmental cooperation evolve into “a multi-tiered system of governance founded on higher law constitutionalism” (Stone Sweet and Brunell 1998, 65). As a consequence, within the EC, “the operation of the legal system has progressively reduced the capacity of national governments to control policy outcomes, while it has enhanced the policy influence of the EC’s supranational institutions, national judges, and private actors” (Stone Sweet and Brunell 1998, 77).

The arguments of Stone Sweet, Sandholtz and Brunell are in line with Haas’s initial propositions, as Stone Sweet writes: “[o]ur results provide broad support for some of the core claims of ‘neofunctionalist’ theory, first developed by Ernst Haas (1958; 1961). [...] We formalized these insights as hypotheses, gathered data on the processes commonly associated with European integration, and tested out hypotheses in diverse ways. The evidence supports Haas’s basic intuitions” (Stone Sweet 2005, 6). One thing is in common with neo-functionalists: analyzing the EU project from the

economic interests of transnational exchange (e.g. for Haas, the starting research point is economic integration, for Stone Sweet and Sandholtz, cross-border transactions, and for Stone Sweet and Brunell, transnational exchange). This could be justified by the nature and purposes of the Community, which is “DESIRING to contribute [...] to the progressive abolition of restrictions on international trade” (The Treaty of Rome, p.2); “[t]he Community shall be based upon a customs union which shall cover *all trade in goods* and which shall involve the prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect, and the adoption of a common customs tariff in their relations with third countries” (The Treaty of Rome, Article 9, emphasis added). As for political integration as argued by Haas (Haas 1958; 1961), the “loyalty transfer” and the establishment of “a new political community” might be doubted or only partially confirmed, but the EU’s supranational jurisdiction over national legal systems has happened, and it is acknowledged by some political scientists that “legal integration had significantly outpaced economic and political integration” (Mattli and Slaughter 1998, 177). The supranational tendency is fully confirmed as regards EU juridical development.

## **2.5 Neo-Functionalism’s Development in the New Millennium**

### **2.5.1 Jensen’s Institutional/Legalistic Spillover**

In its revival trend since the 1990s, neo-functionalism has been developed, enriched and invigorated. Jensen (2000) applies the traditional neo-functionalist concept of “spillover” to analyze the EU’s social and labour market issues since the mid-1980s. Adapting the scale set out by Lindberg and Scheingold (1970) to his study,<sup>63</sup> Jensen reaches the conclusion that there is increasing political integration in EU social policy and labour market fields, and on the basis of the neo-functionalist concept of spillover, he develops and supplements traditional neo-functionalism by introducing a new integration dynamic — “institutional/legalistic spillover” — to illustrate and capture the increasingly significant integrative effects of the treaty negotiations on the development of co-operation in these areas. This new form of dynamic mechanism, derived from the amendments to EC Treaties (see Jensen 2000, 86-87), can be stated in

---

<sup>63</sup> See “Figure 3.2. A Scale of the Locus of Decision-Making” by Lindberg and Scheingold (1970, 69) or “Figure 5. Locus of Decisionmaking” by Lindberg (1971, 69). Cf. Table 2.1 of this dissertation.

hypothesis form as follows:<sup>64</sup>

*H4: When institutional and legal rules and procedures are applied in the policy areas where political integration has reached the most advanced stage of development (i.e. decisions by QMV in the Council), there is a spillover effect of these rules and procedures which tend to affect other related areas where political integration is least developed (i.e. unanimity in the Council) as the Commission tends to choose the use of QMV as its proposals' legal bases for member states to reach agreement and thus arouses member states' attention to the limits of current decision-making of unanimity.*

Jensen confirms the validity of H4 by the evidence that three Treaty revisions in a decade, from the SEA (1986), to the TEU (1992), and then to the Amsterdam Treaty (1997), gradually but steadily extended the legal/institutional basis for EU cooperation: the QMV mode in the Council of Ministers was applied for an increasing number of issues, while the use of unanimity was constrained into less areas. According to Jensen (2000, 86), roughly speaking, in the original Treaty of Rome, unanimity is the norm for decision-making; nevertheless, along with the three treaty revisions from the middle of the 1980s to the end of the 1990s, decisions reached by QMV expanded, spilling over from the creation of the Single Market to other policy areas, and at the same time, the practice of the veto by member states has been abolished in many cases. Obviously, Jensen uses the decision-making mode in the Council of the Ministers to measure the degree of EU political integration, and he regards the application of QMV in the Council for EU decision-making as the most advanced stage for the cooperation among member states while the practice of national veto and the unanimous voting mode as the least developed form of EU political integration. Jensen's institutional/legalistic spillover expects more application of QMV in newly revised EU treaties (e.g. the Lisbon Treaty of 2009) and also in less politically integrated policy areas, because the Commission, acting as a promoter rather than a mediator, tends to formulate its proposals in reference to the legal basis of using QMV rather than unanimity for member states to reach agreement. Due to the implementation of the Lisbon Treaty from 1 December 2009 onwards, the co-decision procedure, where the EP co-decides with the Council using QMV, has obtained the legal status of the OLP and extended into most EU policy decision-making areas — just like the OLP (“ordinary legislative

---

<sup>64</sup> Jensen (2000) does not explicitly formulate his institutional/legalistic spillover as a testable hypothesis, and here this dissertation puts forward the hypothesis as an effort to summarize and conceptualize Jensen's arguments (especially Jensen 2000, 86-87).

procedure”) name suggests, “ordinary” means the “[d]ecision-making procedure that is most commonly used in the EU for adopting legislation” (Lelieveldt and Princen 2011, 301).<sup>65</sup> Such a fact justifies Jensen’s institutional/legalistic spillover, and it also shows that the decision-making mode prescribed by the Lisbon Treaty is both the fundamental basis as well as the ultimate limit for current EU policy-making, as Jensen (2000, 90) argues that institutional/legalistic spillover also indicates that “political integration of specific areas of policy (e.g. social and labour market policy) is subordinate to more general legalistic and institutional principles in the Community”. The rationale behind institutional/legalistic spillover is like this: in order to facilitate the adoption of certain policies and realize a closer union, current limits of policy-making by unanimity should be broken through; as a result, Treaty amendments to broaden the legal basis for QMV decision-making are necessary and unavoidable. A good example to support this, Jensen (2000, 88) says, is that the Commission drew member states’ attention to the limitations of the SEA when they were negotiating revisions to the EU Treaties. In light of institutional/legalistic spillover, we can expect that after the Lisbon Treaty, if there is be any grand treaty revisions, QMV should be applied for even more policy areas than what are prescribed in the Lisbon Treaty. In short, the core idea of Jensen (2000) is that institutional/legalistic spillover causes the expansion of the use of QMV in the Council, and at the same time it also signals an increasing degree of EU political integration.

Clearly, H4 — Jensen’s institutional/legalistic spillover — deals with the voting mode changes in the Council between EU Treaty revisions, assuming a progressive expansion of QMV; accordingly, this dissertation will test this spillover mechanism by examining the QMV changes in the Lisbon Treaty. At first glance, institutional/legalistic spillover appears to be in effect, as the Lisbon Treaty legalized the co-decision procedure as the OLP covering most policy areas; as a consequence, the use of QMV gets expanded into more policy areas and the degree of EU political integration increases. Nevertheless, the process leading to institutional/legalistic

---

<sup>65</sup> Piris (2010) gives a comprehensive legal and political analysis on the Lisbon Treaty, and for detailed information on the changes of legal bases introduced by the Lisbon Treaty, see the Appendices 4-8 in Piris (2010, 365-97). One thing deserves mentioning: not only are there legal bases switched from unanimity to QMV, but also from QMV to unanimity in the Council (i.e. related to the enhanced co-operation in CFSP) (see Piris 2010, 394). Moreover, unanimity or common agreement continues in a number of important areas (around eighty cases), “such as taxation, social security and social policy, (...) the multiannual financial framework, (...) as well as most of the measures in CFSP including defence” (Piris 2010, 213).

spillover of the Lisbon Treaty (i.e. “*as the Commission tends to choose the use of QMV as its proposals’ legal bases for member states to reach agreement and thus arouses member states’ attention to the limits of current decision-making of unanimity.*”) still needs to be confirmed, which suggests the study and comparison of the legal basis of Commission proposals before (i.e. under the Nice Treaty) and after the Lisbon Treaty. As for the research of this dissertation, we will see whether there were any differences if the three new measures selected as cases studies would be proposed with different legal bases by the Commission before the Lisbon Treaty. In addition, when H4 posits that QMV expands from the most advanced political integrated area to the least politically integrated area, it implies the following: (1) in the Council of Ministers which represents nation state’s interests, QMV is the most advanced form of European nation states’ cooperation and unanimity is the least developed form of political integration; and (2) political integration of specific policy areas is subordinated to EU general legalistic and institutional principles, that is, no policy-making should be beyond the decision-making mode of QMV prescribed by the Lisbon Treaty, and the form of QMV laid down in the Lisbon Treaty should represent the highest degree of EU political integration up to now. In case studies, we will examine whether there is any supporting evidence for those.

Two points need to be clarified and elaborated further. First, when arguing for institutional/legalistic spillover, Jensen (2000) focuses on EU Treaty revisions and the role of supranational actors (in particular the Commission) in promoting co-operation of social and labour market policies, thus exploring “the integrative effects of the treaty negotiations on the development of co-operation”(71); however, EU decision-making is multi-faceted and complex. According to Warleigh-Lack and Drachenberg (2013, 201), EU decision-making can be grouped into two basic types: the first type refers to those of “history-making”, such as treaty changes and setting out strategies for the whole EU for a period of years; the second type is about those of daily law-making (see Table 2.4). Jensen’s research reflects the characteristics of both types of decision-making, particularly analyzing the Commission’s pro-integrative role in the Community’s legislative process, which, however, in light of Table 2.4, only deals with the most characteristic policy-making within the EU: the Community method. Second, describing as well as prescribing decision-making in the Council, the term “QMV” has different variations as it developed through EU history. QMV simply means the “[d]ecision-making rule in the Council which requires a majority that is substantially

larger than a simple majority of (50%+1), but does not require unanimity” (Lelieveldt and Princen 2011, 302). As Warleigh-Lack and Drachenberg (2013, 202-204) stress, the Community method at the EU level starts from a two-fold power separation between the Commission and the Council, with a unanimous rule in the Council, which over time evolves into a three-fold power separation between the Commission, the Council and the EP; alongside the evolution, two significant components have been introduced into the Community method: QMV in the Council and a powerful legislative role of the EP. Accordingly, decision-making of the Council has undergone two stages: from the Rome Treaty to the 1970s, “unanimity in the Council was the decision rule in all legislative decisions”; in the mid-1980s, the process of making changes to the Community method as well as the Council decision rules was initiated due to the requirement to complete the European single market (Warleigh-Lack and Drachenberg 2013, 202). Nevertheless, when Jensen said “[r]oughly speaking, in the original Treaty of Rome, unanimity was the norm for adopting proposals on co-operation between the member states, whereas the three revisions referred to above (i.e. the SEA, the EU Treaty and the Amsterdam Treaty) have led to a situation in which decisions (on a very wide range of issues) are reached by a qualified majority” (2000, 86), it does not mean the term QMV was invented in the later days; in fact, the Treaty of Rome has already laid down both decision-making rules for the Council. For example,

“The Commission shall take all appropriate steps to ensure that such negotiations shall be undertaken before the end of the second year after the entry into force of this Treaty and be concluded before the end of the first stage.

If, for certain products, no agreement can be reached within these periods, the Council shall, on a proposal from the Commission, acting unanimously until the end of the second stage and by a qualified majority thereafter, determine the duties in the common customs tariff.” (The Treaty of Rome, Article 20)

In practice, however, during the empty chair crisis caused by De Galle’s vetoes, “[t]ensions further increased when de Gaulle objected to a scheduled change in decision-making rules in the Council that would introduce a new rule for making decisions, called qualified majority voting (QMV)” (Lelieveldt and Princen 2011, 13-14), and it is not until in the 1980s that QMV was “effectively introduced” into the

Council as the member states agreed to give up their veto powers and national sovereignty in some areas so as to realize market integration (Warleigh-Lack and Drachenberg 2013, 202). Since the Treaty of Rome of 1957, QMV, embodying an attempt to strike a balance between larger and smaller member states and based on weighted votes attributed to member states, implies two rules needed to be specified: (1) how to distribute votes among the member states, and (2) the threshold to adopt a decision (Lelieveldt and Princen 2011, 97), so along with Community enlargement, the power distribution entailed in QMV also gets changed.<sup>66</sup> The current QMV in the Council (of EU-27) is defined by the Nice Treaty, which requires “a triple majority”: (a) a minimum 255 votes out of the 345, (b) a simple majority of member states (14 out of 27 member states), and (c) those member states represent at least 62% of the EU population (see e.g. Piris 2010, 213-14; Lelieveldt and Princen 2011, 97; see also Table 6.23). After the Nice Treaty, the Lisbon Treaty introduced a new regime of QMV called a “double majority” with two thresholds of (a) at least 55% of the members of the Council and (b) at least 65% of the EU population; besides, a decision can be blocked by a minority group of at least four member states (Article 16 (4) TEU).<sup>67</sup> This new voting system will enter into force on 1 November 2014, but there is a transitional period from 1 November 2014 to 31 March 2017 during which the current QMV is still applicable at the request of a member state (Lisbon Treaty, Protocols of (No 9) and (No 36)); this means the new QMV method will become fully effective from 1 April 2017. The most prominent impact introduced by the new QMV regime is the changes of member state voting weights. For instance, the voting weight of Germany will almost double to 16%, while Ireland’s voting weight will be reduced from 2% to less than 1% (Lelieveldt and Princen 2011, 98).<sup>68</sup> Despite the fact that the voting weights of member states evolve and change over time, in reality, formal voting does not take place often in the Council and around 90% of the Council decisions are adopted by informal consensus; still, the distribution of votes plays in the background of Council negotiations, as a nation state’s bargaining position largely depends upon its capacity to forge a blocking minority (Lelieveldt and Princen 2011, 98-99).

---

<sup>66</sup> See “Box 28. Evolution of the Weight of Council Members’ Votes since 1957” in Piris (2010, 218-19).



<sup>67</sup> For more details about the rules that may lead to a blockade in the Council, see Article 238(2) TFEU; more explanation relating to the implementation of Article 16(4) TEU, see “Box 30. The 2009 ‘Ioannina-Bis’ Mechanism” in Piris (2010, 224).

<sup>68</sup> See “Figure 4.2 Voting Weights under QMV before and after 2014” in Lelieveldt and Princen (2011, 98).

Table 2.4 EU Daily Decision-Making: Policy-Making Patterns, Decision-Making Procedures, and Types of Decisions<sup>69</sup>

Policy-making pattern (represented by typical policy)	Key features of policy-making pattern: different degree of the involvement of EU main institutions (a. the Commission; b. the Council; c. the EP; d. the Court of Justice of the European Union (CJEU))	The spectrum of decision-making procedures (legislative procedures): between the community method (A) and the intergovernmental method (B)	Types of decisions (the legal tool-kit): four basic instruments and other types of instruments
1: The Community method (e.g. the CAP, trade policy)	<ul style="list-style-type: none"> <li>● Legislative function</li> <li>a: taking policy lead and monopolizing drafting and tabling of legislative proposal;</li> <li>b&amp;c: usually get involved in the OLP where the EP jointly decides with the Council using QMV; if not, the EP must be consulted before any final decision can be taken;</li> <li>d: final judicial power</li> </ul>	<p>A</p> <p>A: a way of making decisions in which the EU's supranational institutions play an important role, typically referring to the OLP (i.e the co-decision procedure), where a: exclusive (i.e sole) right of initiative; b: a QMV decision rule; c: full power of amendment and consent;</p>	<p>Roughly alongside the policy-making pattern and the spectrum of decision-making, four basic legal instruments, that is, Regulations (I), Directives (II), Decisions (III), and Recommendations and Opinions (IV), as a whole or partially, are applicable to most EU policy areas with different degrees of binding powers upon the member states;</p>

<sup>69</sup> Lelieveldt and Princen (2011, 79-104) make a distinction between “types of decisions taken within the EU” and “types of decision-making procedures existing in the EU”. The first category refers to a range of different types of legal instruments which differ in the degree of the binding power to the member states, represented by the four basic legal instruments prescribed by Article 288 TFEU: Regulations, Directives, Decisions, and Recommendations and Opinions; the second category includes the “ordinary legislative procedure”(OLP) and “special legislative procedures”. In comparison, Warleigh-Lack and Drachenberg (2013) argue for EU “policy-making patterns” from another perspective, and they mention the four basic legal instruments as four types of EU legal acts. It should be emphasized once more that EU decision-making is multilevel, diversified, and complicated, and there is no “one-size-fits-all” summary of various forms of EU decision-making, and for different categorizations, there are always exceptions and special cases. For instance, normally, the European Council has no formal role in the legislative procedures, but it can act as an “appeal body” by unanimity for the Council, and the decisions of the CFSP can be adopted by the Council and/or the European Council; as no legislation can be adopted under the CFSP, strictly speaking, decision-making procedures under the CFSP are not “special legislative procedures” (Lelieveldt and Princen 2011, 94). Therefore, Table 2.4 is just an attempt to make a rough generalization.

	over all legislation.			
2: The regulatory mode (e.g. competition, single market, environmental policy)	<ul style="list-style-type: none"><li>● EU institutions have strong relatively independent decision-making powers</li><li>a: agenda setter, engaging with stakeholders, experts, and agencies to develop regulations;</li><li>b&amp;c: co-legislate;</li><li>d: playing significant role in ensuring implementation;</li></ul>		b&c: have to agree to a proposal before it can be adopted, and can adopt amendments to the proposal; Generally, in policy areas of taxation and budget, judicial and police cooperation, and foreign policy, the OLP is complemented with additional safety valves or is replaced by another procedures.	I,II and III: having the legally binding power to different addressees: I: binding in its entirety and applicable in all member states; II: binding upon each member state who needs to choose national forms and methods to transpose EU legislation into domestic law; III: binding in its entirety, but concerning individual cases; I & II: constituting the EU's legislative acts/two types of legislation, meaning creating a fixed legal framework across all member states or allowing variations between member states; IV: no binding force, which may assume other names, such as "(broad) guidelines" by the Council.
3: The distributional mode (e.g. budget)	<ul style="list-style-type: none"><li>a: agenda setter and overseeing implementation;</li><li>b: main legislator, deciding mainly by unanimity;</li><li>c: being the key actor in deciding the Budget;</li><li>d: having a marginal role.</li></ul>			
4: Intensive transgovernmentalism (e.g. the CFSP)	<ul style="list-style-type: none"><li>a: not an exclusive agenda setter, member states also having the right of policy initiation;</li><li>b: decisions by unanimity (also in the European Council);</li><li>c: in weak consultative position (in regard to consent to international agreements);</li><li>d: being excluded.</li></ul>		B: a way of making decisions where member state governments play a central role; various other legislative procedures, collectively known as "special legislative procedures", where, to a greater or lesser extent, a: has to share its right of initiative with	Special legal instruments beyond the basic four are applied, such as those for the CFSP (which only have legal effects "between" rather than "within" the member states and where the CJEU does not have the competence to review CFSP decisions).

		member state governments; b: makes decisions by unanimity; c: has only an advisory role or no role at all.	
5: Policy coordination (e.g. employment, aspects of fiscal policy)	<ul style="list-style-type: none"> <li>● The Open Method of Coordination (OMC) is the main policy-making instrument</li> <li>● Focusing on benchmarking best practices in decentralized approach in line with the principle of subsidiarity a: playing increasingly important monitoring and agenda-setting role; b: setting policy goals and guidelines by unanimity; a&amp;b: member states submit to the Commission and the Council annual reports on their progress; c: being excluded; d: playing a marginal role.</li> </ul>	<p>Introduced in March 2000 by the Lisbon Strategy*, the OMC is a policy-making procedure that does not yield any binding decisions, but aims at realizing social-economic policy coordination and convergence via processes of benchmarking and policy learning (no penalties and relying on the incentives of “peer pressure”);</p> <p>The OMC fills the gaps of the policy areas where member states do not want to be bounded by EU legislation, while realizing that policy coordination is necessary to achieve economic ambitions, thus being strongly of intergovernmental nature.</p>	No binding decisions are allowed, so the OMC never takes the form of regulations (I), directives (II), or decisions (III).
<p>The working mechanism of the OMC, largely driven by the member states themselves assembled in the Council and assuming various forms in different policy areas:</p> <ul style="list-style-type: none"> <li>● The Council determines the objectives to be achieved in an area as well as the indicators to measure the attainment of those objectives;</li> <li>● Each member state formulates an action plan for reaching the objectives;</li> <li>● Based on those indicators, the performance of each member state is “benchmarked” (i.e. being assessed and compared to the performance of other member states);</li> </ul> <p>As being “soft law” measures but never taking the form of directives, regulations or decisions, the OMC takes place in policy areas of national competence, such as employment, social protection, social inclusion, education, youth and training.</p>			

The EP and CJEU play no role in the OMC process.			Two general categories and applications of decisions and legal instruments
Three decision-making procedures (the ordinary, special, OMC)			
Differ in the power distribution and role of the EU's three main institutions a: exclusive ("sole") right of initiative or not; b: unanimous or a QMV decision rule; c: consent required or not			Category 1: normal types, the four basics (I,II,III,IV), applicable for most decisions and policy areas; for some policy areas, all types of the four are aviable (e.g. the establishment of the single market), while in other areas, not all of them are applicable (e.g. in the social policy area, the EU can adopt Directives, not Regulations, and for the sensitive issues relating to social exclusion and social protection within the social policy, EU legislation is not allowed, that is, no EU binding legislation is there at all); Category 2: Other types: special legal instruments for certain policy areas (e.g. for the CFSP).
A ←————→ B			
greater power to supranational institutions		greater power to national governments	
The Community Method:		The Intergovernmental Method:	
the OLP ("ordinary legislative procedure");		"special legislative procedures" (in most cases combining an advisory EP with a unanimous Council)	
		The OMC: for the social and economic aspects	
Example: decision-making procedures in EU social policy			
Ordinary	Special	OMC	
<ul style="list-style-type: none"><li>● Occupational safety and health</li><li>● Working conditions</li><li>● Information and consultation of workers</li><li>● Equality between male and female workers</li><li>● Integration of persons excluded from the labour market</li></ul>	<ul style="list-style-type: none"><li>● Employment conditions for immigrants from outside the EU</li><li>● Collective representation of workers and employers</li><li>● Employment protection</li><li>● Social security and social protection</li></ul>	<ul style="list-style-type: none"><li>● Combating social exclusion</li><li>● Modernization of social protection</li></ul>	
Legislation allowed (but only Directives in this field)		NO legislation	
The differentiation between legislative and non-legislative acts is made through the type of adoption procedure and not through the denomination of the act. The ordinary and special legislative procedures result in legislative acts and otherwise the act does not belong to the cateory of legislative			

acts (Article 289(3) TFEU).

The closer to member state vital interest or more politically sensitive an issue is, the more likely the Council decides unanimously, and the smaller the role of the Commsision and the EP will be. In the OMC, the EP and the CJEU play no role.

No legislation can be adopted without the consent of the Council, while the role of the Commission and the EP varies among different issues.



The logic behind and navigating the maze of EU decision-making

(1) Fostering EU-wide approaches to issues;	Allowing for variation in the balance between common EU policies and the national government powers.
(2) Protecting member state sovereignty;	
(3) Installing an element of democracy by the participation of the EP.	

Notes: the lowercase letters a, b, c, d stand for the Commission, the Council of Ministers, the EP, and the CJEU (the ECJ), the uppercase letters A and B for the Community method and the intergovernmental method, the Roman numbers I, II, III, and IV for the four basic decision types and legal instruments, representing Regulations, Directives, Decisions, and Recommendations and Opinions, respectively.

The OMC and the Lisbon strategy \*: The origins of the OMC can be traced back to the European Employment Strategy, “where it provided a new framework for cooperation between Member States by directing national policies towards common objectives in areas which fall within the competence of the Member States, such as employment, social protection, social inclusion, education, youth and training”. As an intergovernmental instrument of “soft coordination” with peer evaluation pressures, the OMC tends to assign the Commission a surveillance role and be used “as a reporting device rather than one of policy development”. (European Commission-SEC (2010) 114 Final, 21)

Sources: Own compilation and adaptation from Warleigh-Lack and Drachenberg (2013, 203), Lelieveldt and Princen (2011, 79-104), Piris (2010, 92-94), and the European Commission website of Glossary:

<[http://europa.eu/legislation\\_summaries/glossary/open\\_method\\_coordination\\_en.htm](http://europa.eu/legislation_summaries/glossary/open_method_coordination_en.htm)>.

Obviously, EU policy-making is diversified and multileveled, where EU main institutions are involved in different degrees and assume different weights. In light of the propositions of H4, the Community method of the OLP (which includes patterns 1 and 2 in Table 2.4) stands for the most advanced stage of political integration of the EU up to now, as the EP and the Council co-legislate where the Council adopts the decision rule of QMV, so Table 2.4 appears to have confirmed H4, but still the mechanisms suggested by H4 require a closer examination in the case studies before drawing conclusions. Moreover, according to the categorization of Table 2.4, if the policies originally covered by patterns 3, 4 and 5 with unanimity in the Council get changed into QMV rules, H4 then will be vindicated to be correct. As the topic of this dissertation is related to employment and fiscal policy, case studies of this dissertation

will check whether the policy-making patterns for and of the EU's new measures indicate any movement from unanimity to QMV. Originally, Jensen's institutional/legalistic spillover (H4) intends to hypothesize and explain the developments between EU treaty revisions, but this dissertation will test whether H4 is also effective in accounting for the EU's new developments during the euro area sovereign debt crisis. Last but not least, when putting forward institutional/legalistic spillover, Jensen makes use of the evidence of increasing political integration in the social and labour market fields to support his argument, but he finds that traditional neo-functional spillover concepts are inadequate to account for such developments, so he puts forward institutional/legalistic spillover as a supplement to the traditional spillover theses. Hence, carrying out the test of H4 also implies the correctness of H1, and from Jensen's (2000) vantage point, *institutional/legalistic spillover accompanies EU political integration*.

### **2.5.2 Niemann's Revised Neo-functionalist Framework and Exogenous Spillover**

Adopting early neo-functionalist ideas, Arne Niemann (2006) develops a new neo-functionalist framework to analyze the PHARE programme, the reform of the Common Commercial Policy, and the communitarisation of visa, asylum and immigration policy. To be specific, Niemann revises early neo-functionalist assumptions in the following way: first, he rejects neo-functionalism as "a grand theory"<sup>70</sup>; instead, he takes it as a useful "partial theory" in a wider sense to account for only some parts of the EU; second, he dismisses European integration as an automatic and exclusively dynamic process, but rather views it as a dialectical process of both dynamics and countervailing forces defined by certain conditions; third, he proposes the components of countervailing forces: sovereignty-consciousness, domestic constraints and diversities, and a negative integrative climate, which mainly account for nationalism, variation among member states in choices for integration, and unfavorable opinions of European integration during economic recession, respectively; fourth, while admitting elites play a primary role to enhance European integration, he

---

<sup>70</sup> Risse-Kappen mentions this is neo-functionalism's "n=1" problem, which hopes to make an integration theory *sui generis* to explain the EU, while liberal intergovernmentalism, from Risse-Kappen's point of view, does avoid this problem, as "it is linked to general theories of domestic preference formation, bargaining, and international cooperation" (1996, 56).

also emphasizes the publics' impact on the evolution of EU integration in a wider view, pointing out that electoral pressure is an important aspect of domestic constraints and a negative integrative climate; finally, Niemann not only accepts neo-functionalism as being a soft rational-choice ontology, but also takes constructivism as a complementary building brick to his revised neo-functionalist framework, departing from actor-centeredness to attributing structures and agents an equal ontological status where structures and agents mutually constitute each other (Niemann 2006, 27-29; 52). To facilitate his hypotheses tests, Niemann further clarifies the dynamics of integration — the concept of spillover — via adding another two new forms of spillover into the traditional distinction between functional, political and cultivated spillover: exogenous spillover and social spillover.

Exogenous spillover extends the concept of spillover to outside factors which affect the behavior of actors and structures at both the EU level and the national domestic level, and thereby the EU project is analyzed in a global context instead of being viewed by the traditional neo-functionalists as an insulated entity from the outside (Niemann 2006, 32).<sup>71</sup> Haas's turning to theories of interdependence in the 1970s suggests his awareness to include some exogenous factors into the neo-functionalist framework; Niemann contends that exogenous factors, though constituting obstacles to further integration, generally serve as integrative forces, and he offers the following logic: first, some exogenous events are threats or shocks to the EU's stability and development, but they are also regarded as being conducive to regional integration as the external threats and shocks push closer cooperation among member states to find common solutions — cases in point include the Cold War pushing the creation of the EC in the 1950s, and US and Japanese economic

---

<sup>71</sup> There is a trajectory of Niemann's thinking on "exogenous spillover", which can be traced back to his early argument on "induced spillover" (a term coined by Geoffrey Edwards) in 1998. Niemann (1998, 431-32) expresses his indebtedness to traditional neo-functionalists, as he explains: at the very beginning, Haas (1958, 313-17) uses the "geographical spillover effect" to conceptualize the possible enlargement of the Community; later in line with Haas's idea, Schmitter (1969, 165) develops an "externalization hypothesis" to suggest the Community's "collective external position" against nonparticipant third parties, a concept that connects the Community to the external environment. Schmitter (1969, 165) contends that the formation of a common external policy comes from voluntary motives (i.e. responses to the inducements, such as to enhance the bargaining power of the Community) and involuntary motives (i.e. responses to the threats of others, such as extra-Community demands and unforeseen threats to Community interests) (see also Niemann 1998, 431-32). Niemann (1998, 432) says that his "induced spillover" describes Schmitter's "involuntary motives" and thus belongs to a sub-hypothesis of Schmitter's externalization hypothesis. All those exhibit the continuity and evolution of the old and new neo-functionalism.

competition to the EC in the 1980s promoting the creation of the Single Market and the agreement on the 1992 programme (Niemann 2006, 33)<sup>72</sup>; second, the nature and magnitude of many problems, such as migration, environmental destruction, climate change, terrorist attacks, go beyond an individual state's potential governance and competence and thus require a collective approach to those issues, and regional integration can actually act as an effective buffer against uncertain or serious external shocks and damages; at the same time, due to more global problems and increasing regional interdependencies, national governments' power to deliver the economic, social and other well-being to their citizens has been decreased during the process of globalization, and EU countries tend to circumvent this disadvantage via closer cooperation at the European level (Niemann 2006, 33); third, once common policies are developed, participating states will find themselves compelled (which may contradict their original intentions) to take a collective external position and common policies against non-participant third parties so as to "increase the collective bargaining power of the Community *vis-à-vis* the outside world as well as involuntary motives such as the demands of the extra-Community environment reacting to (successful) developments within the regional integration project", and this is "likely to rely increasingly on the new central institutions" (Niemann 2006, 34); finally, actors' preferences are not given, and "[t]he external environment/system, just like EU membership, to some extent, constitutes decision-makers' preferences", that is, exogenous spillover exerts a certain structural pressure (Niemann 2006, 34). The final logic is difficult to trace in empirical cases, but the introduction and adaptation of "internationally prevailing policy paradigms and discourses" into the EU project by internal actors can serve as an indicator to show the wider external context's impact on EU decision-makers. A case in point is that the agreement to create the Single Market and to liberalize many policy areas shows Community leaders' gradual acceptance of Anglo-Saxon neo-liberal economic ideas (Niemann 2006, 34). All in all, the logic of

---

<sup>72</sup> It is worthy to note that Schmitter (2004), as a former student of Haas and a devoted disciple of neo-functionalism, also highlights this shortcoming of traditional neo-functionalism and shares the same opinion with Niemann that external pressures are not just an impediment but also a potentially facilitating force to push forward the integration process. Schmitter (2004) puts forward "initiating cycles" and "priming cycles" to account for the changes of member states in between decision cycles, where national actors become more receptive as regional integration proceeds through crises, as he argues: "With each successive crisis resolved as the common institutions emerge from the initiation cycles, regional-level rules (...) gain in significance to the point that they begin to overshadow the opinions and actions of national governments, associations and individuals" (Schmitter 2004, 61).

exogenous spillover, linking the EC's internal development to the changes of the external environment, in hypothesis form suggests the following:

*H5: Because problems are beyond individual states' potential ability (which is also decreased by national interdependencies) to address and a regional integrated block can serve as a buffer against the harsh external environment, exogenous threats and crises push the EU integration process forward rather than impede it, as member states cooperate closely at the EU level to seek common solutions with the result that participating member states, who might rely on the new central institutions, forge a collective common position against non-participant third parties so as to increase the EU's collective bargaining power and/or its ability to meet the outside world demand, and/or with the result that EU decision-makers' preferences are shaped by a wider internationally prevailing policy paradigms and discourses.*

H5 is a summary of Niemann's four logics of exogenous spillover, each arguing for the general nature and effectiveness of exogenous spillover, the factors contributing to exogenous spillover, the possible results of the exogenous spillover effect, and the structural impact of the external environment on internal actors' preferences and choices, respectively, which suggest that the overall exogenous spillover mechanism can be further dissected into four sub-hypotheses. In the context of the euro area sovereign debt crisis which was triggered by the 2008 global financial crisis, H5, the mechanism of exogenous spillover, can be tested on the basis of the following four sub-hypotheses:

*H5a: The exogenous threats and crises imposed by the global financial crisis of 2008 as well as the world-wide economic recession afterwards push the EU integration process forward rather than impede it, as member states seek closer cooperation at the EU level to forge common solutions to the eurozone sovereign debt crisis triggered by the global financial crisis.*

*H5b: The reasons for EU countries to seek common solutions at the supranational level are due to two facts: (1) the nature and magnitude of the global financial crisis, economic recession and the eurozone sovereign debt crisis go beyond each state's individual capacity to cope with and the EU acts as an effective buffer to the external financial turmoil and economic crisis; (2) against the trend of globalization, increasing economic interdependence among EU member states decreases the power of individual national governments to solve the sovereign debt crisis, as national economies and the financial market become more sensitive and*

*susceptible to each other's economic and financial disturbance.*

*H5c: Along with the adoption and implementation of the common measures, participating states forge collective external positions, which may contradict their original intentions, against non-participant third parties so as to increase the EU's collective bargaining power and/or its ability to meet the outside world demand, and as the expression and realization of the common external positions increasingly rely on EU supranational institutions, national government reliance on EU (new) institutions also increases.*

*H5d: The external environment exerts structural pressures on EU decision-makers' choices for the solutions to the eurozone sovereign debt crisis, that is, EU decision-makers' preferences are shaped by wider internationally prevailing policy paradigms and discourses.*

As far as the nature, magnitude and impact of the financial crisis of 2008 and the euro area sovereign debt crisis as well as the EU's efforts to solve the crisis are concerned (see Table 1.2 and 1.3), H5a and H5b appear to be correct, but still the mechanisms presented in H5a and H5b need to be closely examined in the framework of case studies. If H5 is valid, then all four sub-hypotheses should be vindicated in case studies, and this dissertation will check whether there is evidence in the selected cases to justify all the causal chains posited by exogenous spillover.

Compared with exogenous spillover, "social spillover", a concept that is split off from political spillover, is used to explain learning and socialization processes (Niemann 2006, 5).<sup>73</sup> From early neo-functional literature, Niemann specifies two propositions of traditional neo-functionalism about the idea of social spillover: "emphasis on the quality of interaction, reflexive learning and the role of communication" and "learning and socialization not constant but subject to conditions", based on which Niemann makes his extension by incorporating the concept of

---

<sup>73</sup> Niemann (2006, 37) explains his use of "socialization" in two ways: "the induction of new members [...] into the ways of behavior that are preferred in a society" (Barnes, Carter and Skidmore 1980, 35), and complementarily, "the process by which actors internalize norms which then influence how they see themselves and what they perceive as their interests" (Risse and Wiener 1999, 778). It is also worthy to note that Moravcsik (1998, 489) once analytically split the neo-functional term "spillover" into two categories: "social spillover" and "political spillover": the former refers to the situations where previous decisions can induce changes — economic, ideological or ideational adjustments — in national preferences, which then promote further integration, whereas the latter is attributed to describe the processes in which "international institutions may alter the terms under which governments negotiate new bargains" (Moravcsik 1998, 489).

communicative and norm regulated action (2006, 53). The idea of social spillover actually can be considered as a sub-hypothesis of political spillover, which highlights the social interaction of agents and the mutual influence between decision-makers' norms and values and a wider structural environment.

## **2.6 Summary: The Features of Neo-Functionalism's Revival During and After the 1990s**

Neo-functionalism's new development during and after the 1990s indicates its openness and dynamics, and there is an "apparent possibility of developing and modifying neo-functionalism in a meaningful way" and "many of the more recent micro-level concepts can sensibly be accommodated within the larger neo-functionalist framework" (Niemann 2006, 3). After examining neo-functionalist literature in two decades, Jensen points out the prominent characteristic of this neo-functionalist revival trend. When scholars reuse neo-functionalist theory, they do not take it as a grand theory to explain the whole integration project like the former neo-functionalists once did; rather, they accept it as a partial theory only applicable for some aspects of the European integration process (Jensen 2010, 82). Through adapting and revising previous neo-functionalist ideas, scholars have formed new insightful frameworks to explain the EU project's various policy areas, such as defense policy (Guay 1996), social and labour market policy (Jensen 2000), telecommunications policy (Sandholtz 1998), competition policy (McGowan 2007), attitudes among European civil servants (Hooghe 2001b; 2002), and transnational civil liberties (Newman 2008).<sup>74</sup> Neo-functionalism's renaissance and new developments show the theoretical validity and power of the core concept of neo-functionalism: spillover, based on which later scholars reevaluated and reformulated neo-functionalist propositions according to their research topics and purposes, and the theory itself got revitalized. In the 2004 edition of *The Uniting of Europe*, Haas offers his reflections on neo-functionalism against the new trends in IR and political theories, whereby he incorporates the elements of constructivism and institutionalism into his previous neo-functionalist propositions; in the introduction of this newly edited book, he discusses the benefits of an institutionalist thinking on neo-functionalism, stating that neo-functionalism "can become part of a respectable constructivism" (Haas 2004, xvii; quoted in Niemann and

---

<sup>74</sup> This literature review is based on from Jensen 2010 (82-83).

Schmitter 56) while by absorbing and adapting to new thoughts, traditional neo-functionalism “has a new lease on life” and is “no longer obsolescent” (Haas 2004, liii; quoted in Niemann and Schmitter 56). Drawing new insights from institutionalism and constructivism, the revised neo-functionalism manages to bridge as well as go beyond the old divide of the classical neo-functionalist-intergovernmental debate (Niemann 2006, 11). To sum up, neo-functionalism’s development from the 1990s onwards exhibits two features: the first one is to be taken as a partial theory to be selected to explain certain aspects of the EU, and the second one is taking the shortcomings of traditional neo-functionalism into account to complement as well as absorb new ideas from other disciplines to develop. As a result, the revised neo-functionalist framework becomes more adaptive and useful to explain European integration.

Nevertheless, offering a summary of neo-functionalism is not an easy task, as the theory means different things to different scholars while the original theoretical accounts were revised and modified by a number of writers (Niemann 2006, 13; Niemann and Schmitter 2009, 46), but still, from the above literature review, a vital characteristic of neo-functionalism emerges: the concept of spillover, which has originally been put forward by traditional neo-functionalism and become modified and expanded along the vicissitudes of the European integration project. Case studies of this dissertation will test the validity of neo-functionalist core assumptions by the EU’s new challenges during the eurozone sovereign debt crisis, which shall lead to the further confirmation, rejection, modification or new development of this classic European integration theory.

