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# *The European integration at the crossroad*

Este artículo plantea una serie de interrogantes sobre la actual situación de la integración europea. Estudia la ampliación de los miembros de la UE y su alcance funcional, y lo asocia con los esfuerzos por incrementar la capacidad institucional de la UE. Tras de la ampliación con los países del Este en 2004 y 2007, y la adopción del Tratado de Lisboa (2007) que entró en vigor en 2009, es hora de preguntarse dónde estamos y dónde deberíamos estar. Un tema crucial es la crisis de la zona euro. ¿Nos va a aportar la actual improvisación las suficientes medidas para sacarnos de la crisis? ¿hay suficiente pensamiento estratégico y liderazgo en la UE? El liderazgo alemán centrado en la austeridad parece algo desubicado. La propuesta para más Europa en forma de unión política, fiscal y bancaria parece ahora el camino a seguir. Pero ¿cuántos estados de la UE y de la zona euro serán capaces de moverse en esa dirección? En el futuro podríamos tener más integración diferenciada o geometría variable.

*Artikulu honek gaurko integrazio europarraren gaineko egoeraz gogoeta egiten du. Europar Batasuneko kideak ugaritzea eta bere irismen funtzionala aztertzen ditu, EBren ahalmen instituzionala hobetzeko ahaleginei lotuta. Kideak ugaritzearen ondoren (2004an eta 2007an) eta Lisboako Ituna (2007) 2009an indarrean sartuta, non gauden eta non egon beharko genukeen galdetzeko ordua iritsi da. Euro-gunearen krisia gakoa da. Gaurko inprobisazioak osagai nahiko emango al dizkigu krisitik ateratzeko? ba al dago EBn behar beste adimen estrategiko eta lidergo? Lidergo alemaniarra, murriztasunean oinarritua, lekuz kanpo geratuta dago. Orain, aurrera jarraitzeko bidea Europaren beraren aldeko apustua da, Europa gehiago behar da: bat-egite politiko, fiskala eta bankuen batasuna. Baina EBeko eta euro-guneko zenbat estatu izango dira gai norabide horretan joateko? Litekeena da etorkizunean berezitako integrazio gehiago edo geometria aldagarria izatea.*

This article asks a number of questions about the current stage of European integration. It traces past expansion of functional scope and membership of the EU and links these changes with efforts to increase the institutional capacity of the EU. After the big eastern enlargements in 2004 and 2007 and the adoption of the Lisbon Treaty in 2007 and its entry into force in 2009 it is time to ask: where are we and where may we be going? A central issue is the eurozone crisis. Will the current muddling through add up to enough measures to pull us out of the crisis? Is there enough strategic thinking and leadership in the EU? German leadership with focus on austerity seems somewhat misplaced. Proposals for ‘more Europe’ in the form of banking, fiscal and political union, now appears to be the way forward. But how many member states of the EU –and eurozone– will be able to move in that direction? It looks as we may have more differentiated integration or ‘variable geometry’ in the future.

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Keywords: EU enlargement, treaties, monetary and fiscal union, eurozone crisis.

Palabras clave: ampliación UE, tratados, unión monetaria y fiscal, crisis de la eurozona.

JEL Codes: D72, E02, E42, E62, F33.

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## **INTRODUCTION**

This article will discuss the current status of European integration, including the eurozone crisis and its wider economic and political context as well as responses to the crisis. The fundamental question now is: does the EU post-Lisbon have the institutional capacity to solve the challenging problems? Is there a capacity for strategic thinking in the new post-Lisbon institutional set-up? Will there be enough leadership in the EU and the member states to turn things around? These are huge questions which cannot be answered fully in one article. But the article will outline some considerations.

Part of the response to the financial crisis has been the creation of the European Stability Mechanism (ESM) and more recently the European Fiscal Stability Treaty. Are these Germany-driven reforms with focus on austerity adequate? Can and should the EU do more about growth?

Part of the wider context is the ongoing negotiations about the financial framework which most likely will not increase the EU's budget. Will efforts to reform the Common Agricultural Policy end up being sub-optimal? Can further steps be made to improve the functioning of the Internal Market? And, in the areas of 'external action' will the EU be able to respond adequately to the external challenges, including transition and future membership of neighbouring countries

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<sup>1</sup> This article relies on earlier publications by the author, especially contributions to the two forthcoming books mentioned in the list of references. Financial support from the European Commission for the author's Jean Monnet activities and the EU Centre of Excellence at Dalhousie University, Halifax, Canada, is gratefully acknowledged.

which wish to join, especially in the Western Balkan? Space does not allow for discussion of all these issues, but they must be singled out.

These issues will be seen from a deepening versus widening perspective. This will include some historic background. It seems that there is enlargement fatigue in the EU at the moment. And the capacity for deepening may have been exhausted, too. If so, has European integration reached a sub-optimal equilibrium?

### **Some Background**

The European Union (EU) is facing a fundamental crisis, which especially affects the countries that take part in the single currency, the euro. The group is usually referred to as the eurozone, and when the ministers of finance from these countries meet they are referred to as the Euro Group. This group has its own president, currently Jean-Claude Juncker from Luxembourg. It can be seen as a subgroup of the Economic and Financial Affairs Council (ECOFIN) of the Council of the EU. The current 17 members of the eurozone are Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. It means that there are 10 member states of the EU which are not members of the eurozone, namely the Bulgaria, Czech Republic, Denmark, Hungary, Latvia, Lithuania, Poland, Romania, Sweden, and the United Kingdom. This kind of situation, where not all member states take part in a certain policy, in this case the third phase of Economic and Monetary Union (EMU), has been referred to by many names, such as flexibility or variable geometry. Assuming that those countries which are 'out' will eventually join those which are 'in' it can also be seen as two-speed or multi-speed integration. The literature on European integration is full of discussions about the pros and cons of flexibility (e.g. CEPR, 1995; and Stubb, 2002). In the academic literature it is also sometimes referred to as differentiated integration (Kölliker, 2006).

At the outset of European integration in the 1950s the idea was that all member states should take part in all common policies and institutions. New member states were expected to accept all existing rules, treaties and legislation, known as the *acquis communautaire*. No permanent exceptions were on offer, only transition periods of varying lengths.

Sometimes a smaller group of member states would start closer cooperation outside the treaties which had established the three European Communities (EC) in the 1950s, such as for instance when France, Germany and the Benelux Countries started the so-called Schengen cooperation in the 1980s in view of abolishing border controls. The membership of Schengen would grow the following years, and eventually the Schengen *acquis* was incorporated into the EU by the Amsterdam Treaty, which entered into force in 1999, but the United Kingdom (UK) and Ireland

remained outside the Schengen cooperation, with the possibility of opting-in on certain aspects.

EMU was first outlined as part of the Maastricht Treaty, which established the EU in 1993. It outlined three stages towards EMU, which would establish the single currency, the euro, and the European Central Bank (ECB) in 1999, among 11 member states at the time. The treaty included so-called convergence criteria, basically economic conditions, for participation. This sanctioned two-speed integration in the monetary area. Further, the UK and Denmark got opt-out clauses in protocols to the treaty, but other member states are in principle expected to join the eurozone once they fulfil the criteria.

The Maastricht Treaty also included a second pillar on Common Foreign and Security Policy (CFSP), and a third pillar on Justice and Home Affairs (JHA) cooperation. Cooperation in these areas had taken place outside the Community framework prior to the establishment of the EU.

The Lisbon Treaty, in force since December 2009, abolished the pillar structure, but CFSP has retained its own decision procedures, basically remaining as inter-governmental cooperation, while JHA has become more integrated under the so-called Community method, where decisions can be made by a qualified majority vote (QMV) in the Council and the European Commission, the European Parliament (EP) and the European Court of Justice (ECJ) play stronger and more important roles.

The treaty has an article now sometimes referred to as the ‘flexibility clause’ (Article 352 TFEU, ex-Article 308 TEC).<sup>2</sup> This article actually goes back to Article 235 in the Treaty of Rome establishing the European Economic Community (EEC) in 1958. It allowed the Council of Ministers to take action not explicitly foreseen by unanimity as long as they were necessary to attain one of the objectives of the Community. It got the name ‘flexibility clause’ in the defunct draft Constitutional Treaty (Article I-18) (Piris, 2006). Its scope was extended to include CFSP and JHA and the consent of the European Parliament (EP) was required. The clause survived in the Lisbon Treaty, but the name ‘flexibility clause’ was dropped. It refers to the objectives of the treaties, since the term Community has been abolished in the treaty (Piris, 2010).

This kind of ‘flexibility’ is different from the multi-speed variant we see in the case of EMU. Apart from EMU and a few explicit opt-outs eventually accepted –mostly for the UK and Denmark– the treaty introduced provisions on ‘closer cooperation’ by the time of the Amsterdam Treaty in 1997 (Stubb 2002a, 2002b), subsequently amended by the Treaty of Nice, which entered into force in 2003, to

<sup>2</sup> Since the entry into force of the Lisbon Treaty the treaty has two parts: The Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU).

make their application easier. At the same time the name was changed to ‘enhanced cooperation’ (Olsen, 2006). So ‘enhanced cooperation’, as it is now officially called, can take place on the basis of the treaties, on certain conditions which are outlined in the treaty. Enhanced cooperation post-Lisbon-treaty requires at least nine member states to participate (Article 20 TEU).

### **Dimensions of Integration**

European integration, the process associated with the three European Communities created in the 1950s and continuing with the EU from 1993, can be seen as a process of creating common institutions and developing common policies among a certain group of states. It started with the European Coal and Steel Community (ECSC) in 1952. Basically six countries pooled their coal and steel sectors and set up an independent supranational body called the High Authority to manage these sectors jointly. The institutional set-up also included a Council where the ministers from the member states would meet and make certain decisions. The purpose of the Council was to create a degree of political accountability. From the beginning a strong European Court of Justice (ECJ) was created. However, the original parliamentary assembly was relatively weak. The following two communities, the European Economic Community (EEC) and European Atomic Energy Community (EAEC or EURATOM), created by the Treaties of Rome in 1957 established two independent, but slightly less supranational ‘executives’ called ‘Commission’ in both cases as well as two separate Councils of Ministers. The Assembly and the ECJ were common for the three Communities from the beginning. Eventually the Merger Treaty in 1967 merged the ‘executives’ and Councils to form a single Commission and a single Council. The latter could meet in separate configurations though.

The important institutional part of the three Communities was an independent European ‘executive’ representing the ‘Community’ interest with a right of initiative, sometimes an exclusive right, and a high degree of autonomy. Further, in the Council some decisions could be made by a qualified majority vote (QMV). The Court was a real court that made binding decisions. So Community law started resembling federal law. This decision-making system became known as the Community method. Arguably it has served Europe well. The alternative is the much weaker intergovernmental cooperation, which has also been used in Europe, especially in the area of foreign policy cooperation, where the attachment to national sovereignty has been too strong for adoption of the Community method. When the Maastricht Treaty created the EU intergovernmental cooperation was retained in CFSP and JHA. The Lisbon Treaty still retains it for CFSP.

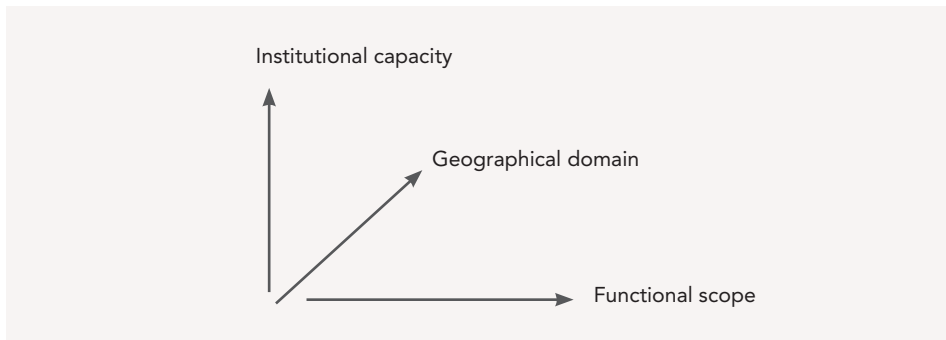
Figure nº 1 suggests three important dimensions of European integration. Over time more and more countries joined the process, and more and more policy areas were included. That more and more countries have chosen to do more and more to-

gether suggests a certain degree of success for European integration. Developing good common institutions arguably has been one of the reasons for this success.

### Expanding Policy Scope

Table n° 1 provides an overview of the functional scope of European integration. The focus is on the addition of formal policy chapters in the treaties establishing the EC/EU. Some policies were gradually included even before they were formally mentioned in the treaties such as, for instance, environmental policy. By the time that it was formally included by the Single European Act (SEA) in 1987 a number of environmental directives had already been adopted using various articles in the treaties, including Article 235 in the EEC Treaty which, as mentioned, allowed the Council by unanimity to adopt measures considered necessary to reach the objectives of the Community.

Figure n° 1. **DIMENSIONS OF INTEGRATION**



Source: Compiled by the author.

During the first four decades the focus was on the four freedoms of the internal market: free movement of goods, services, capital and people. Since the necessary harmonisation of national legislation, according to the Treaty of Rome (Article 100), required unanimity, it was necessary to improve the institutional capacity by introducing QMV for this harmonization. When this happened through the SEA, it gave integration a new momentum (Laursen, 1990). Thus institutions clearly matter.

The functional scope received the biggest boost with the Maastricht Treaty, which was to a large extent the response to the end of the Cold War (Laursen, 1992). It included EMU, which had been put on the agenda before the end of the Cold War. EMU was a radical upgrading of the European Monetary System (EMS) which dated back to 1979. The treaty changes since Maastricht also increased the policy

scope, but less so. They were mostly about upgrading the institutional capacity considered necessary to accommodate new member states, especially Central and Eastern European Countries (CEECs), which wanted to join the EU after the end of the Cold War.

Table nº 1. **EXPANDING FUNCTIONAL SCOPE OF EUROPEAN INTEGRATION**

Treaty of Paris (1952)	Treaties of Rome (1958)	Single European Act (1987)	Maastricht Treaty (1993)	Amsterdam Treaty (1997)	Nice Treaty (2003)	Lisbon Treaty (2009)
						Space
						Energy
						Tourism
					Defence	
				Employment		
				Schengen acquis		
				UK joins Social Policy		
			EMU			
			Visa policy			
			Public health			
			Consumer protection			
			Industry			
			Trans-European networks			
			Development cooperation			
			Education			
			Culture			
			Social policy (UK opt-out)			
			CFSP			
			JHA			
		Completion of Internal market				

.../...

		Environment				
		Economic and Social cohesion				
		R&D				
	Common Market					
	Trade					
	Competition					
	Agriculture					
	Transport					
	Atomic energy					
Coal						
Steel						

Source: Compiled by the author. For details on the different treaties, see Laursen forthcoming.

### The eurozone: A step too far?

Given the central importance of the eurozone crisis at the moment, EMU deserves extra space in this introduction. Arguably it was the most important novelty of the Maastricht Treaty, and it was controversial among politicians as well as professional economists, who asked the question whether Europe constituted an 'optimal currency area' and whether the institutional aspects of EMU were adequate.

The theory of optimum currency areas was mainly developed by the Canadian economist Robert Mundel at Columbia University in the 1960s. Mundel saw mobility of production factors as most important (Geza and Vasilescu, 2011). Along this line of thinking the four freedoms in the EC could be seen as contributing to making the EC/EU an optimum currency union. Free movement of capital was slow to be realised in the EC, though, but it eventually was realised from the late 1980s. Free movement of labour existed on paper, but many unemployed people hesitate to move to another member state, where they might not know the language, for instance. Other economists have looked at a host of factors, including openness of the economy, degree of diversification of production, financial integration, similarity of inflation rates, flexibility of prices and salaries, and finally degree of political integration. Compared on these factors the EU obviously scores lower than the US or Canada. Therefore the big question when the EU set out to create the EMU was whether it could sustain so-called asymmetrical shocks, where member



states face different economic developments and challenges, but have lost their monetary policy autonomy. Low labour mobility and real wage inflexibility are problems in the EU. This leaves fiscal transfers as a possibility, but the EU budget is relatively small (Dyson, 2000, pp. 193-95). Further, the Maastricht Treaty has a no-bail-out clause, which put strict limits on transfer possibilities through the European Central Bank (ECB) to the member states.

There had been monetary cooperation among EC states before Maastricht. The Treaty of Rome called for macroeconomic cooperation, especially concerning conjunctural policy (Art. 103) and balance of payments (Art. 104) and established a Monetary Committee with advisory status (Art. 105). According to Article 104 it was up to the member states to «pursue the economic policy needed to ensure the equilibrium of its overall balance of payments and to maintain confidence in its currency, while taking care to ensure a high level of employment and a stable level of prices».

The idea of EMU was subsequently proposed at The Hague Summit in 1969 and a plan, the Werner Plan, was worked out. It foresaw the establishment of EMU over the following decade. This was at about the time that the Breton Woods system was starting to crumble. However, the Werner Plan was too ambitious at the time and the energy crisis in the 1970s had a negative effect on the possibilities. In 1972 some member states did start cooperating on limiting currency fluctuations, within the so-called 'snake', limiting exchange rate fluctuations to  $\max. \pm 2.25\%$ . This cooperation had its limits and flaws, so in 1979 the European Monetary System (EMS) was initiated. EMS established an Exchange Rate Mechanism (ERM) and a European Currency Unit (ECU) based on a basket of currencies. Currency movements were limited to 2.25% around parity (Hodson 2010; Verdun 2011).

EMS was successful in creating macroeconomic convergence in the 1980s and EMU got on the agenda again, as a next step. The SEA added a new Article 102a about cooperation in economic and monetary policy. It mentioned «Economic and Monetary Union» for the first time in the treaty, but in a bracket. Although EMU was on the agenda, the member states were not yet ready for treaty-based commitments. In regard to cooperation, the SEA stated that «In order to ensure the convergence of economic and monetary policies which is necessary for the further development of the Community, Member States shall cooperate...» (Article 102a) The experience acquired within the EMS should be taken into account. Should institutional changes be necessary, it would require another treaty amendment, it was said.

Such treaty amendment followed with the Maastricht Treaty. In the meantime a committee chaired by Commission President Jacques Delors had prepared a report in 1988, which outlined three phases towards EMU. These phases became part of the Maastricht Treaty. The third phase saw the creation of the European Central Bank (ECB) and the introduction of the common currency, the euro, in 1999.

To qualify for taking part in the euro the member states had to fulfil the following convergence criteria:

- *Price stability*: Inflation rate may not be higher than 1.5% of the average inflation rate of the three best performing member states.
- *Sound public finance*: The government deficit may not exceed 3% of the GDP.
- *Sustainable public finance*: The government debt may not exceed 60% of GDP.
- *Durable convergence*: Nominal long-term interest rate may not be higher than 2% of the average of the three best performing member states in terms of price stability.

*Exchange rate stability*: Observance of normal fluctuation margins in the European Exchange Rate Mechanism (ERM), without devaluation for at least two years (Art. 109j) and Protocol no. 6 on the Convergence criteria; Hodson 2010, 162).

After the entry into force of the Maastricht Treaty the Germans in particular wanted to establish stricter rules for fiscal policy, which basically remained a national responsibility according to the Maastricht Treaty. Some governments hesitated, including the French government. These governments wanted to be able to use fiscal policy to create jobs, especially as they lost their monetary policy autonomy. The outcome was the adoption of the Growth and Stability Pact at the time when the negotiations of the Amsterdam Treaty were concluded in June 1997. The main elements were:

- governments will aim to achieve a balanced budget
- countries with a budget deficit exceeding 3% of GDP will be fined up to 0.5% of GDP
- these fines will not be applied if there are exceptional circumstances, such as a natural disaster or a decline in GDP of more than 2% in one year
- in cases where the drop in GDP is between 0.75% and 2% the application of the fine will be decided by ECOFIN by a QMV.<sup>3</sup>

The Growth and Stability Pact was not part of the treaty, but a separate resolution. Subsequently it was complemented by two Regulations (McNamara, 2005). Regulations are legally binding. However the commitments were insufficient. In connection with the economic slowdown in 2001-2 several governments started borrowing in excess of 3%, including Germany and France. ECOFIN failed to act on Commission recommendations. A softer version was adopted in 2005, and excessive

<sup>3</sup> Additional information at: [http://europa.eu/legislation\\_summaries/economic\\_and\\_monetary\\_affairs/stability\\_and\\_growth\\_pact/l25021\\_en.htm](http://europa.eu/legislation_summaries/economic_and_monetary_affairs/stability_and_growth_pact/l25021_en.htm) (Accessed 18 February 2012).

deficit procedures against Germany and France were revoked in 2007, after fiscal improvement in 2006 (Hodson, 2010; 172-73).

Arguably the current crisis started in the United States, but who knows whether the sovereign debt crisis in Europe would have happened anyway, maybe at a later stage. The response to the financial crisis on both sides of the Atlantic has been to increase the governmental oversight by creating new institutions. The moment a crisis starts spreading from one country to another the collective action problem becomes an international problem. This explains why international institutions, especially the International Monetary Fund (IMF), got involved.

The EU responded to the financial crisis with a series of steps that are still ongoing, suggesting a trial-and-error process. The steps taken have been politically controversial; the interstate disagreements on what to do have their roots in domestic politics. The countries that needed to bail out their banks or needed bail-outs themselves because of unsustainable public debt, the so-called PIIGS (Portugal, Ireland, Italy, Greece and Spain) in particular, were blamed for irresponsible fiscal policies, and other countries were not eager to step in. Had there been more solidarity between the member states more could have been done faster.

The ECB did assist the private sector, which was important (Mallaby, 2012). But the no-bail out clause in the Treaty of Maastricht, created problems for especially assisting Greece, but also other eurozone countries with high public debt, such as Italy and Spain. These latter countries have much larger economies than Greece. Germany, arguably the regional paymaster in the EU, set strict conditions for assistance, which first led to the creation of a temporary bailout fund, the European Financial Stabilisation Mechanism (EFSM) and then a permanent bailout fund, The European Stability Mechanism (ESM). This was referred to as a firewall in the debate. In parallel private investors also had to take a loss. This in turn was referred to as a haircut. The ESM required an amendment of the Lisbon Treaty. Further, a Fiscal Stability Treaty involving all eurozone members and most other EU member states, except the UK and the Czech Republic, has been adopted. It was hoped that these and other measures would reduce the risks in the future. However, many observers remain sceptical. As well, the challenge of competitiveness and growth remains to be addressed adequately. The situation in Greece after the elections in May 2012, which did not produce a government capable of carrying out the reforms requested by the IMF and European partners, created a serious situation for the eurozone. A second election took place in June. It has produced a three-party coalition government which is committed to carrying out austerity and structural reforms, but the austerity measures may be too tough and counterproductive.

The eurozone crisis has clearly demonstrated the asymmetrical nature of the EMU. The EMU has a centralized monetary policy, with a single currency for the 17 countries, which have adopted the euro. However, fiscal policy has remained

decentralised, with member states retaining the main responsibilities for taxation and expenditures (Verdun, 2011; 254). Only about one percent of the EU's Gross Domestic Product (GDP) goes through the EU budget, so the possibilities for autonomous EU anti-cyclical policies are tiny, basically limited to money from the so-called Structural Funds, including the Cohesion Fund, which have transferred money to the poorer countries and regions in the EU in the past, especially Greece, Spain, Portugal and Ireland until the eastern enlargements in 2004 and 2007. The new member states from Central and Eastern Europe have now become the main recipients of money from the Structural Funds (Sbragia and Stolfi 2008). Beyond the Structural Funds there is also the European Investment Bank (EIB) which could potentially make bigger contributions to growth, short of a more active ECB issuing eurobonds, something not allowed at the moment but advocated by some member states, the Commission and many economists. The new French president François Hollande, elected in May 2012 has insisted on the EU also developing a growth pact, and he has found some support. The meeting of the European Council at the end of June 2012 did agree to more stimuli and to bailing out banks in Spain and Italy. Nevertheless the mutualisation of sovereign debt through Eurobonds has still not been accepted by the German Chancellor Angela Merkel, at least not without further movement towards political union.

### **Expanding Membership**

In parallel with the expansion of policy scope, membership has also expanded. If we assume that it is more difficult to make decisions in a large group than a small group (which is not necessarily always the case) this has implications for policies and institutions. It is the way many politicians see it, and that explains why widening has often happened in parallel with deepening, i.e. expansion of policy areas and efforts to improve the institutions.

The first enlargement in 1973 was decided by the Hague Summit in 1969, where the leaders agreed on what they referred to as «completion, deepening, [and] enlargement». Completion first of all required agreeing on how to finance the Common Agricultural Policy (CAP). An agreement on 'own resources', i.e. independent sources of revenue for the EC, was reached in 1970. At the same time a Budgetary Treaty, which strengthened the EP slightly in the budgetary process, was adopted. The deepening part also included decisions to start foreign policy cooperation in 1970 in the form of European Political Cooperation (EPC), the predecessor of CFSP, as well as EMU, which was supposed to be realised in a 10-year period, but failed to be realised at the time (Dinan, 2010).

The Mediterranean enlargements in the 1980s led to greater emphasis on regional policy, including the concept of 'economic and social cohesion' which was

added into the treaty in 1987 by the SEA and eventually led to an important increase in funding of the Structural Funds. Institutionally, the new Article 100a, which introduced QMV for harmonisation of much of the legislation needed to complete the internal market, was very important.

The accession of three former members of the European Free Trade Association (EFTA) in 1995 may have had less impact. They were small, rich countries. But as formerly neutral countries there was some concern about the impact on CFSP. Subsequently Sweden and Finland played an active role in getting the so-called Petersberg tasks explicitly mentioned in the Amsterdam Treaty, the first treaty reform they took part in. Basically these tasks give a 'soft security' definition of EU defence policy, like peace-making, peace-keeping, conflict resolution etc.

The subsequent 2004 enlargement was much larger and required more preparation both inside the EU and in the applicant states. The deepening versus widening aspect was quite clear during the process. Deepening now especially meant making the EU ready institutionally to function with many more member states. The first effort in the form of the Amsterdam Treaty was not very successful. The next effort, the Treaty of Nice, did produce a reweighting of the votes in the Council, with bigger member states getting relatively more votes than the smaller member states than previously. This was requested by the larger member states to avoid a situation where the smaller member states would be able to dominate after enlargement (Laursen, 2006).

However the outcome of Nice was messy and many political actors felt that more was needed. This explains that reform efforts continued after Nice, first in the form of a so-called European Convention, which involved members of the EP (MEPs) and members of national parliaments (MPs), in the hope of producing a more legitimate treaty. The Convention duly drafted a so-called Constitutional Treaty, which was slightly amended by the member states in a 2003-04 Intergovernmental Conference (IGC). However, this draft treaty was rejected by the French and Dutch voters in referendums in 2005. After a reflection period the Lisbon Treaty was negotiated in much greater secrecy. It took over most of the content of the Constitutional Treaty, but changed the terminology away from explicit 'constitutionalism' (Laursen, 2008; 2012a, 2012b).

Enlargements are set to continue in the future for some years at least. Croatia will join in 2013. There are other official candidates: Turkey, Macedonia, Montenegro, Serbia and Iceland, and the remaining states in the Western Balkans have the membership perspective, conditioned upon political, administrative and economic reforms: Albania, Bosnia and eventually Kosovo.

However, it seems there is enlargement fatigue in the EU at the moment. Negotiations with Turkey are barely moving. Negotiations with Macedonia cannot start because of the name dispute with Greece. Eventually the EU will have to get its

act together and get serious about its promises. Could it pull through the eurozone crisis it might have time and energy for other urgent matters.

Table nº 2. **EXPANDING MEMBERSHIP OF THE EC/EU**

Number of members	Original members (1952)	1 <sup>st</sup> enlargement (1973)	2 <sup>nd</sup> enlargement (1981)	3 <sup>rd</sup> enlargement (1986)	4 <sup>th</sup> enlargement (1995)	5 <sup>th</sup> enlargement (2004)	6 <sup>th</sup> enlargement (2007)	7 <sup>th</sup> enlargement (expected 2013)
28								Croatia
27							Bulgaria	
							Romania	
25						Estonia		
						Latvia		
						Lithuania		
						Poland		
						Czech Republic		
						Slovakia		
						Hungary		
						Slovenia		
						Cyprus		
						Malta		
15					Austria			
					Finland			
					Sweden			
12				Portugal				
				Spain				
10			Greece					
9		Denmark						
		Ireland						
		UK						
6	Belgium							
	France							
	Germany							
	Italy							
	Luxembourg							
	Netherlands							

Source: Compiled by the author.

## Improving the Institutional Capacity

I have referred to some of the treaty changes over time. These have been about adding new policies or reforming existing policies. They have also been about the institutions, where there have been two kinds of concerns: efficiency and legitimacy.

It is probably fair to say that efficiency was foremost on the mind of the founding fathers in the 1950s. The supranational High Authority, which was part of the ECSC in 1952, was considered most important by Jean Monnet, who inspired Robert Schuman to propose the so-called Schuman Plan in 1950, pooling the coal and steel sectors of the six original members and creating novel institutions.

The founding fathers also created a Parliamentary Assembly, weak at first, but subsequently the main institutional winner in most treaty reforms that followed. Arguably this was the case because politicians concluded, that once more decisions were transferred to the supranational level, including budgetary powers from the 1970s, the supranational level required democratic legitimacy (Rittberger, 2005).

It is often said that the Commissions of the EEC and EURATOM were less supranational than the High Authority of the ECSC, but still the Commissions had their own prerogatives. They were still supposed to exercise supranational leadership (Lindberg and Scheingold, 1970). They were expected to assist the member states overcome collective action problems. Arguably the very first treaty reform, the Merger Treaty in 1965 –in force in 1967– was about increasing coordination and cutting down on transaction costs, thus increasing efficiency (Laursen, forthcoming). However the increased budgetary powers given to the EP in the two Budgetary Treaties in 1970 and 1975 respectively, were about democratic legitimacy as so-called ‘own resources’ were introduced. Customs duties, agricultural levies and a small part of the Value Added Tax (VAT) in the member states would now become EC revenue, escaping the control of national parliaments (Knudsen, forthcoming).

The SEA adopted in the mid-1980s had both efficiency and legitimacy aspects. Most important for efficiency was the new Article 100a, which introduced QMV for much of the legislation required to complete the internal market. At the same time the EP’s powers were increased slightly by a new procedure called the ‘cooperation procedure’, according to which internal market legislation should go through two readings in the EP. The EP also got a veto, known as ‘assent’ at the time, in respect to association agreements with third states and enlargement (Dinan, 2010).

Similarly the Maastricht Treaty creating the EU responded to a mix of concerns. QMV was extended to a number of new and existing policy chapters in the treaty, and the EP got a right of co-decision in some areas, especially for the internal market. Subsequently, through the Amsterdam, Nice and Lisbon Treaties, QMV and co-decisions were extended to more new and existing policy chapters. After Lisbon

most decisions can be made by QMV and the EP has a right of co-decision in most areas, now called the ordinary legislative method (Beach, 2005; Laursen, forthcoming). The EU starts looking more like a bicameral federal system.

The exception to this process of increasing QMV and empowering the EP has been CFSP, and its component the Common Security and Defence Policy (CSDP). CFSP was kept as a separate intergovernmental pillar by the Maastricht Treaty and so was Justice and Home Affairs cooperation (JHA) at the time; but whereas JHA has gradually become communitarized CFSP retains its intergovernmental nature even in the Lisbon Treaty. This, arguably, is the major shortcoming of the EU as a foreign policy actor (Laursen, 2009; Laursen, 2012b).

The clear trend, over time, with ups and downs, has been a move towards increasing institutional capacity. Some of the more important steps have been taken in parallel with enlargements, sometimes with small time gaps. But the growths in membership continuously produced concerns about institutional capacity. The premise was: the larger the union, the greater the diversity of interests and political cultures, the greater the difficulty of making decisions. Thus improving the institutions became a part of the deepening of integration together with expansion of policy scope.

### **Deepening versus Widening**

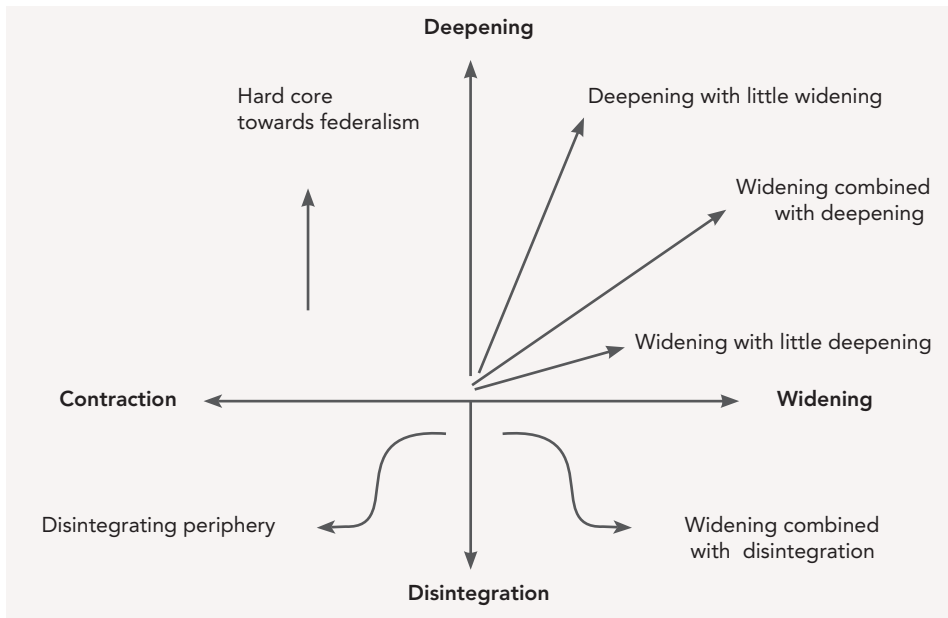
With the two dimensions of deepening and widening the EU can move in different directions, illustrated as four quadrants in Figure nº 2. Historically one can argue that the EU has combined widening and deepening. This does not guarantee that the future will be like that. Widening seems to have grinded to a near halt, especially if we look at the situations of Turkey and Macedonia. After the debacle of the Constitutional Treaty it is also difficult to see much deepening in the foreseeable future.

The big challenge for our predictions is the eurozone crisis. The Germans are calling for more Union, especially fiscal and banking union. However, they may not be able to pull all member states in that direction. They may not even be able to pull all members of the eurozone in that direction. Some members are unhappy with the German insistence of fiscal discipline and austerity at a time when unemployment is high and growth very low or negative. They believe that more fiscal transfers and growth measures are necessary. In the end this has to do with the different member states and their political leaders having different economic doctrines and interests. Political culture may be part of the problem too. In the end, you could argue that we have not yet arrived at that *solidarité de fait* which Robert Schuman spoke about when he made his famous declaration in 1950 that started the whole process of European integration.



Should Greece and/or other eurozone members exit, that might push a smaller eurozone, a kind of hard core, towards more federalism. It is difficult to predict the dynamic this might create. The internal market and some other common policies may well survive among 28 or more member states. A complete collapse of the EU or EMU does not seem likely. The EC/EU has faced serious crises before. The political investments –and economic interdependence– are too great. The EU most like will move forward, muddling through, not taking the rational strategic decisions federalists world like. The outcome could well be even more variable geometry than today.

Figure n° 2. **DEEPENING VERSUS WIDENING**



Source: Adapted from Wessels 1996 and 2008.

Scholars may focus on explaining the past as well as understanding the present. But we may also reflect on the future. That is what policy-makers and journalists expect us to do. The better our theories, the more informed such speculations can be. If we have detected general patterns in the past they may help us think about the future, or likely futures. Our problem is of course that we do not have single factor explanations of the past. We use a number of independent variables and intervening variables to construct a causal model of European integration. The big theoretical debates are about finding the variables with most explanatory power.

In my studies of regional integration I have taken a fairly rationalist approach as a point of departure, but also recognised the importance of creating trust and solidarity among integrating units. According to the rationalist perspective integration requires demand and supply (Moravcsik, 1998; Mattli, 1999; Laursen, 2003; Beach, 2005; Laursen, 2010). Demand comes from the society, including various organized interests. Supply must be provided by politicians who in turn are constrained by the domestic and international political systems. Integration is about overcoming 'collective action' problems, i.e. situations where there are temptations to cheat or defect from cooperation or where distribution problems have some actors feel that they get too little from common endeavours. Whether actors take a positive gains or relative gains perspective on this is one of the debates between liberal and realist international relations scholars (Baldwin, 1993). But it seems fair to expect that even in integration schemes among like-minded states governments do pay attention to what other member states get compared with what they get themselves. This becomes very clear in budgetary politics, for instance, but even when weighting of votes in the Council of Ministers has been on the agenda of some treaty reforms member states compare themselves with other member states.

As I tried to outline above European integration has had ups and downs, but overall there has been a trend towards expanding the functional scope and the geographical domain of integration. At the same time there have been continuous efforts to improve the institutional capacity, as demonstrated especially by successive treaty reforms. Arguably this new integration trajectory in Europe started with the Schuman Plan in 1950. The so-called Community method invented at the time put emphasis on supranational institutions, based on the conclusion that classical intergovernmental institutions were inadequate. The method was efficiency oriented. Results were supposed to produce legitimacy. However, gradually there emerged a concern for the democratic nature of the institutions, leading to a steady empowerment of the European Parliament (Rittberger, 2005). In due course these paths took us into the efforts to produce and adopt a constitutional treaty after the disappointing results of the Treaty of Nice in 2000.

### **The Debacle of the Constitutional Treaty**

The efforts to adopt the so-called Constitutional Treaty however did not succeed. The method was novel, preparing the new treaty in a so-called convention with important participation of politicians from national as well as the European Parliament (EP) and deliberate efforts to have greater openness and debate. Arguably the Convention took important steps beyond what the governments had been able to agree upon four years earlier in Nice, and the governments accepted most of the draft treaty in the Intergovernmental Conference (IGC) that followed (Beach, 2005).

About 10 of the 25 member states then decided to use referendums to ratify the treaty. Given the history of referendums this was a risky strategy. Most member states ratified the treaty by a parliamentary vote and referendums in Spain and Luxembourg had positive outcome. But the French and Dutch voters rejected the treaty in May and June 2005. With especially France, a leading founding member of the European Communities, voting No the treaty was dead (Laurson,2008).

After a reflection period the Lisbon Treaty was adopted including many of the same provisions as the Constitutional Treaty. The methodology changed. This time it was not a completely new treaty, but an amendment to existing treaties. 'Constitutionalist' terminology was removed. The treaty was negotiated in relative secrecy under German leadership (Laurson, 2012a). The alleged advantages of openness, debate and involvement of the people in history-making decision did not materialise on this occasion at least. Could it be that representative democracy is better than direct democracy to adopt complex treaties that even experts can find difficult to decipher?

### **Has integration reached a plateau?**

Andrew Moravcsik has argued that a constitutional equilibrium has been reached by the EU (Moravcsik, 2005, 2006, 2007). According to him, «The Treaty of Rome has long provided the EU with a de facto constitution» (Moravcsik, 2007, p. 33). Although the EU's constitutional structure has federal elements it is essentially confederal, and the «EU does not (with a few exceptions) enjoy the power to coerce, administer, or tax». Constitutional change requires unanimity but «[s]uch a system is deeply resistant to any fundamental transformation without consensus among a wide variety of actors». So, despite some features of federalism, many of its most important elements are missing. Thus, «the EU has no police, no army, no significant intelligence capacity and no realistic prospect of obtaining any of them» (*ibid.*, pp. 34-35). He argued that the Constitutional Treaty was not in fact a revolutionary document:

Recent constitutional deliberations underscored the stability of existing constraints on political, coercive, fiscal, and administrative capacity. Notwithstanding its high-minded Philadelphian rhetoric, the proposed draft consolidated, rather than fundamentally reformed, the 'European constitutional settlement.' Few in recent constitutional debates called the EU's essentially confederal structure into question (*ibid.*, 36).

The proposed reforms were incremental as earlier reforms of the Treaty of Rome had been.

According to Moravcsik, the main reason why people do not take more part in EU debates is the fact that most salient political issues such as health care, pensions,

taxation and education remain overwhelmingly national. What the EU can do about another issue that people care about –namely unemployment– is also limited because fiscal, labour market and education policies remain largely national. It is this problem of saliency of the issues dealt with at the EU level which also explains the low turn-out in elections to the European Parliament. Further institutional changes will not be able to get citizens to become more involved. Moravcsik argues:

Forcing the issue onto the agenda via a constitutional convention and referendum is counterproductive. This is the deepest lesson of the constitutional episode: from the very beginning with the Laeken Declaration –not simply at the end in a set of mismanaged referenda– the constitution utterly failed to inspire, engage, and educate European publics (*ibid.*, 43).

The alternative to conventions and referendums about the history-making decisions would be more attention to and efforts to politicise the day-to-day decision making process in Brussels. The problem here is of course the saliency of the issues. As long as the most important issues for the citizens are decided nationally it will be difficult the ‘politicise’ EU decision-making. How political parties approach the elections to the EP is an important variable.

### **Lisbon and post-Lisbon**

As mentioned the Lisbon Treaty adopted many of the new institutional provision suggested by the Constitutional Treaty. The European Council now has a semi-permanent president. There is a new High Representative of the Union for Foreign Affairs and Security Policy, who runs a new European External Action Service (EEAS). Voting in the Council of Ministers will in the future be based on a double majority formula, at least 55% of the member states representing at least 65% of the EU’s population. Efficiency is expected to improve by extended use of qualified majority voting (QMV) in the Council and legitimacy is expected to improve by making the EP a co-legislature in many more policy areas (Laursen, 2012b).

When the Lisbon Treaty was adopted in 2007 there was a widespread expectation that this was the last treaty reform for many years. The Constitutional Treaty debacle had produced a clear treaty reform fatigue. By the time the treaty entered into force the financial crisis had already started to hit Europe. The Economic and Monetary Union (EMU) parts of the treaty had not been an issue in the deliberations on and negotiations of the Constitutional Treaty and subsequently the Lisbon Treaty. There were talks of improving economic governance in the Convention and IGCs, but changes were minor, such as explicitly recognising the existence of the Eurogroup consisting of the finance ministers from the ‘Member States whose currency is the euro’ (Piris, 2010, pp. 304-305).

Since the entry into force of the Lisbon Treaty there have already been two formal changes in the treaty, one dealing with seats in the EP, and the other one dealing with the permanent rescue fund, the European Stability Mechanism (ESM). In general the financial crisis has rekindled the discussion about the need for further treaty reforms to deepen integration at least among the eurozone countries. Chancellor Merkel has become a leading spokesperson for deepening of integration in the form of fiscal and political union, whatever exactly these terms mean. The Commission has also been moving on this issue. In his State of the Union address to the EP on 12 September 2012 Commission president José Manuel Barroso said: «Let's not be afraid of the words: we will need to move towards a federation of nation states. This is what we need. This is our political horizon». He recognised, 'Creating this federation of nation states will ultimately require a new Treaty» (Barroso, 2012).

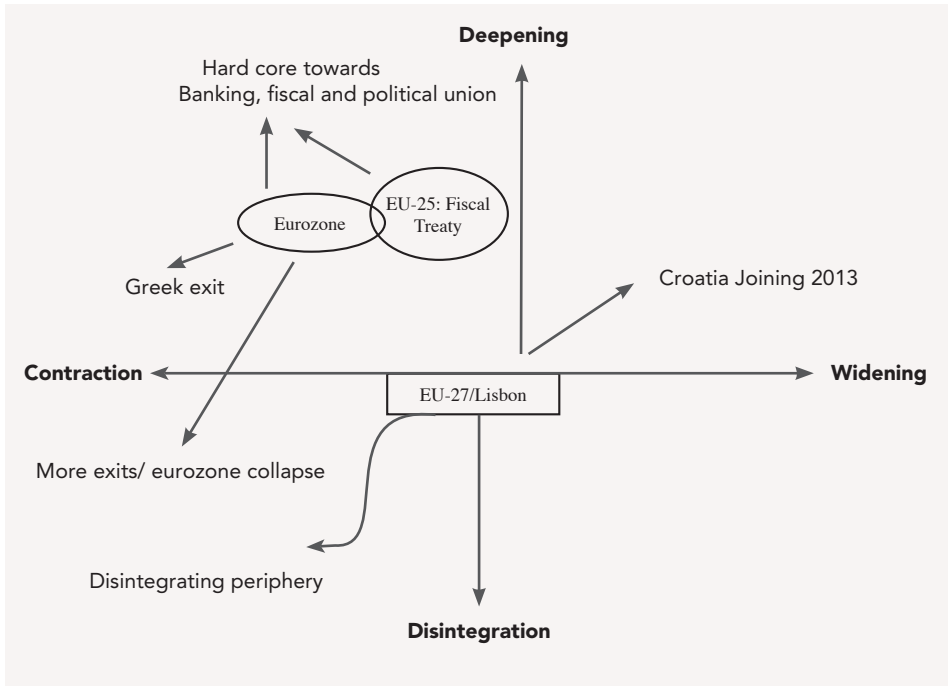
### **Will the Eurozone survive?**

The biggest question about the future of European integration is the survival of the eurozone. At the moment the approach to the crisis is one of muddling through, which has included the questionable emphasis on austerity at a time where growth and competitiveness should have highest priority. The steps taken by the last European Council meeting at the end of June 2012 moves a little in that direction, but with baby steps. The eurozone needs more decisive steps by the governments, EU institutions and the ECB.

The rational strategy –seen from a European point of view– is 'more Europe'. Many agree on that, but they have different ideas of what it means. In the current debate fiscal union often means more fiscal discipline, not more fiscal federalism in the sense of a union budget that could make a difference. Also, clearly the ECB should be allowed to issue Eurobonds to mutualise sovereign debt and become a lender of last resort. It is also important to make sure that the ESM has enough firepower. In the end this is all about solidarity among the countries in Europe. The EU must have a real sense of community as its foundation.

As has been suggested in a number of observers there is a risk of a Greek exit from the eurozone, possible even being followed by other members of the zone. This would clearly have both economic and political costs, in the end threatening the EMU construct. A worst case scenario would be the disintegration of the eurozone, an important part of the EU. The alternative is for the eurozone to move towards banking, fiscal and political union (the three Us), as discussed by Kurt Hübner recently (Hübner, forthcoming). If this is not possible in the short run a 'rationalised' muddling through might gradually take EMU in that direction, eventually to be crowned by a new treaty. Figure n° 3 illustrate some of the possible directions EMU and the eurozone can take.

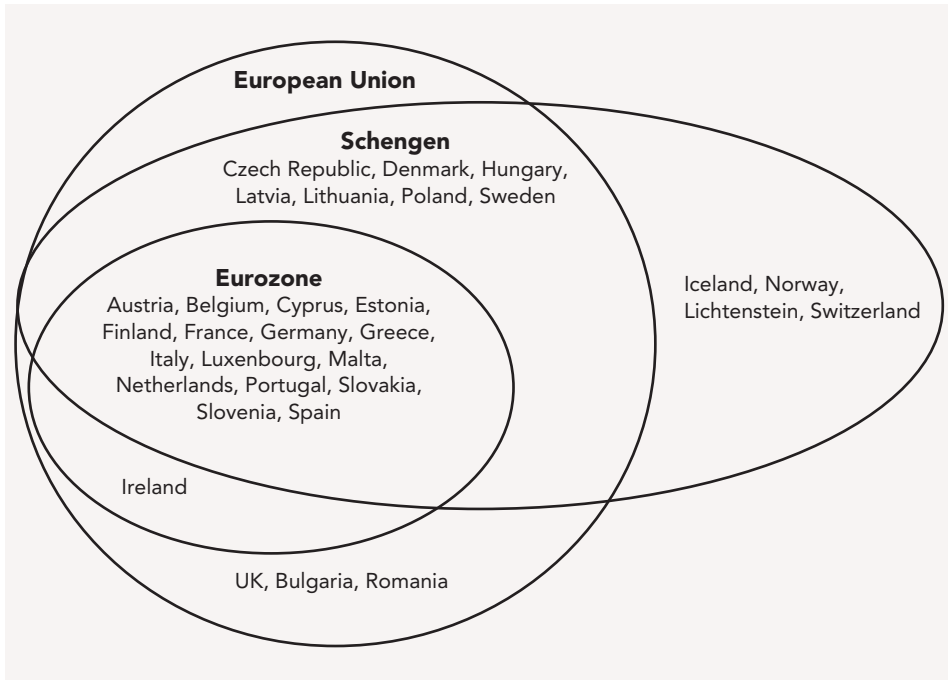
Figure nº 3. **FUTURE OF DEEPENING AND WIDENING**



Source: Designed by author, with inspiration from Wessels 1996 and 2008.

**Will we get more variable geometry?**

The move towards various forms of flexible integration or variable geometry became more visible in connection with the Maastricht Treaty in 1992, where the UK secured opt-outs for EMU and social policy, and Denmark for EMU, defence as well as Justice and Home Affairs (JHA) cooperation. As the EU expanded its agenda and membership it became more difficult to keep it all together. Subsequently as the Schengen cooperation consolidated the UK and Ireland stayed out of that part of European integration, which became incorporated in the EU by the Amsterdam Treaty in 1999. The Danish opt-out from JHA concerned supranational JHA, not intergovernmental cooperation. So Denmark took part in the pillar 3 part of the Maastricht Treaty initially, but when part of pillar 3 was moved to pillar 1 by the Amsterdam Treaty Denmark could not take part in it. Denmark could take part in Police and Criminal Justice cooperation which stayed in a slimmer intergovernmental 3<sup>rd</sup> pillar. With the entry into force of the Lisbon Treaty all JHA now fall under the Community method, so Denmark is excluded. However, Denmark secured an opt-in arrangement similar to the British solution, allowing for selective participation.

Figure nº 4. **VARIABLE GEOMETRY OF EUROPEAN INTEGRATION**

Source: Designed by the author.

Figure nº 4 gives a somewhat simplified overview of the current situation. It does not include CFSP where Denmark still has an opt-out from the Common Security and Defence Policy (CSDP) and where there is a tendency for *ad hoc* 'coalitions of the willing' to form. Nor does it include the European Economic Area (EEA), the agreement through which Norway, Iceland and Lichtenstein take part in the internal market, arguably the most important part of the EU. Switzerland, which has joined Schengen, does not take part in the EEA. It should not surprise that students of European integration find all this a bit confusing.

Seen from a European integration perspective the main problem with variable geometry is the way it can affect decision making. Often major decisions are packet-deals including various sub-issues. Political scientists take about linkage strategies. Decision-makers link various issues in the hope of reaching a deal where everybody feels that there is something in it. If linkage takes place within the same policy area American political scientists talk about log-rolling. If the link is with a different policy area the term used is side-payment (Lindberg and Scheingold 1970). Obviously a lot of variable geometry can make the use of side-payments more difficult.

### **Is there a leadership deficit?**

If variable geometry can make the use of side-payments more difficult sometimes it does have one clear advantage. It allows a smaller group to move ahead without waiting for the laggards. In this way it can facilitate leadership, which is seen by many as an important and sometimes necessary ingredient in the integration process (Lindberg and Scheingold, 1970; Mattli, 1999; Beach, 2005; Tallberg, 2006).

It is therefore relevant to ask whether the EU has the leadership required to overcome current challenges, including especially the eurozone crisis. The European Commission does try to put forward proposals. The President of the European Council has also tried to exercise leadership. But in the end, when we face major crises national leadership probably is more important than supranational leadership. In history-making decisions the EU tends to become intergovernmental (Moravcsik, 1998). In the past Franco-German leadership has been important (Pedersen, 1998). In today's EU Germany has become the most powerful country, for good or bad. Arguably Germany, led by Chancellor Merkel, played an important and positive role in reaching agreement on the Lisbon Treaty in 2007 (Laursen, 2010a). But history may be more critical when Chancellor Merkel's role in the euro crisis will be assessed in the future. As any rational political leader she is concerned about the next national election. If the national mood is not in favour of generosity it becomes difficult to be a regional paymaster.



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