

Europe at the Beginning of the 21st Century: Opportunities and Challenges

By

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Introduction¹

The Treaties of Rome signed on 25 March 1957 have recently celebrated the 50th anniversary. These treaties formed the European Economic Community (EEC) and the European Atomic Energy Community, also known as EURATOM.

Anniversaries are opportune moments for reflection, thinking back on what has been achieved, analysing challenges of the day and thinking ahead about likely and desired futures.

Actually, the process of integration in Europe started before the Treaties of Rome. It was on 9 May 1950 that the French foreign minister Robert Schuman suggested what became the first Community, the European Coal and Steel Community (ECSC), established by the Treaty of Paris in 1951. The architect behind the plan was another Frenchman, Jean Monnet.

The European Communities started a successful process of integration in Europe. Over the years more and more policy areas were included and more and more states joined as members. What started as economic integration has increasingly also become political integration, especially since the creation of the European Union (EU) by the Maastricht Treaty in 1992.

At a time where journalistic observers talk about a crisis because of the French and Dutch rejections of the proposed Constitutional Treaty it is worth looking at the situation in a wider perspective. The Schuman Plan in 1950 put Europe on a new trajectory, radically different from Europe's history of interstate rivalry, conflict and war in the previous centuries.

Since the start of the integration process in Europe in the early 1950s a number of theories of integration have been applied to study the process. Explanations - and predictions - require concepts to organize our knowledge. Theories provide us with such concepts. Good theory not only helps us understand the world we live in, but also to have certain ideas about likely futures. For this reason we will also briefly discuss the reasons for European integration in this paper.

European integration has faced challenges from the very beginning. The process has had its ups and downs, but it has kept moving. With the latest enlargement in January 2007 the EU now has

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27 members. The big enlargement in 2004 took in 10 new members. Can such a large union function efficiently, or will too many solutions be sub-optimal? Could the process even grind to a halt?

The purpose of the latest reform effort, the Constitutional Treaty, was to equip the much-enlarged Union with institutions that could function efficiently. The rejection of the Treaty by the French and Dutch electorates has created a lot of uncertainty, but life goes on in the EU. Decisions are made. Policies are implemented. And it now seems likely that the proposed Reform Treaty will incorporate some of the institutional changes from the Constitutional Treaty.

But maybe some of the policies are in need of reforms, too. The Common Agricultural Policy (CAP) remains a controversial policy, expensive for European consumers and some producers in Third Countries. Another big challenge for the EU is employment, especially in the three big original member states, France, Germany and Italy. Is this a national challenge, or can the EU contribute more to creating jobs in Europe. The so-called Lisbon strategy outlined in 2000 which was supposed to make such a contribution has not been very successful so far.

Looking towards the future, the discussion can be cast in terms of ‘Widening versus Deepening’, a debate that has existed since the first enlargement in the 1970s. Can the EU keep enlarging and still remain robust? Is there a risk of too much diversity? Would the solution be more multi-speed integration or variable geometry, allowing smaller groups of countries to move faster than the slower member states?

On balance we think that the Schuman-Monnet trajectory has not exhausted itself contrary to what many observers have said in recent years. But the decision-making system it created, the so-called Community method, needs to be made more democratic and legitimate in the eyes of the general public. This, in the end, is probably the EU’s biggest challenge. But does legitimacy go through results (output legitimacy) or the way decisions are made (input legitimacy)? Or are national identities in Europe so deep-rooted that it will be difficult to create supporting European identities?

Where we are today

What are we talking about when we speak of European integration? One way to look at integration is to see it as a process of joint decision-making. Such joint decision-making can be measured on various dimensions. In the classical literature on European integration three dimensions were considered especially important: functional scope, institutional capacity and geographical domain (see fig. 1). Over time there

have been important developments in these dimensions. Others would require a certain sharing or delegation of sovereignty before talking about international integration.

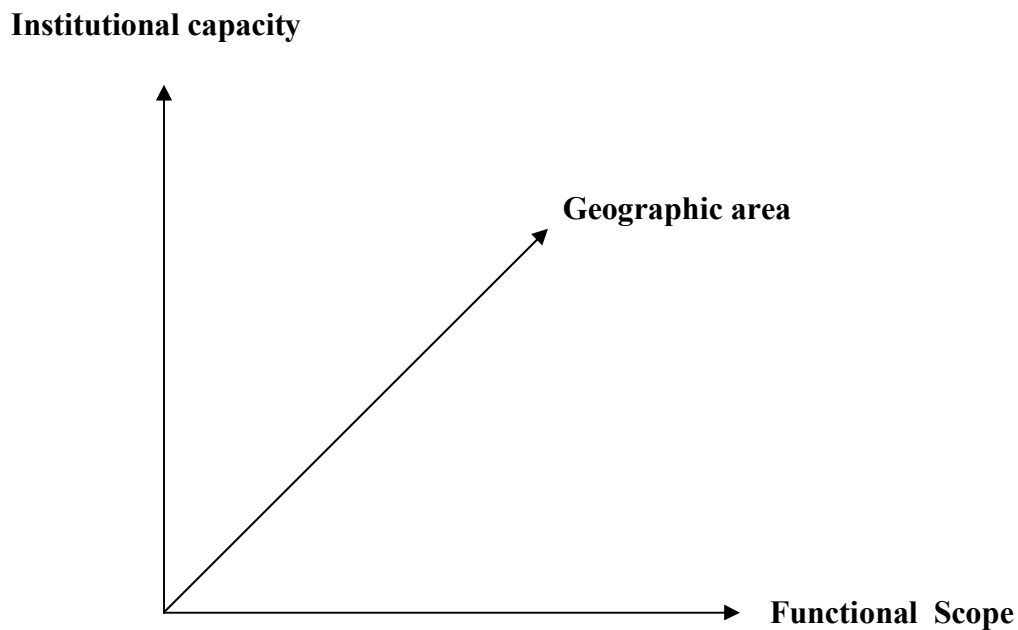
Increasing functional scope

Functional scope refers to the issues included in the integration process. If we look at the European Communities (EC) it started with the coal and steel sectors in the ECSC in 1952. Atomic energy was included with EURATOM in 1958. But in the same year a wider economic integration process started with the EEC, which first of all set out to realize a common market including a customs union. It aimed for free movement of goods, services, capital and people (or at least workers), the so-called Four Freedoms. It further set out to create four major common policies: commerce, competition, agriculture and transport. Beyond these policies the Treaty of Rome creating the EEC foresaw the harmonization of other economic policies and art. 235 made it possible for the EEC to adopt common policies by unanimity if such policies were considered necessary to get the common market to function. This made it possible for the EEC to develop common policies in areas not foreseen in the Treaty of Rome, such as for instance environmental policy. This expansion of scope continued with the Single European Act (SEA) in 1986, when new treaty provisions in respect to environment, economic and social cohesion (regional policy), and research and development were introduced. The process also continued with the Maastricht Treaty on European Union (EU) signed in 1992 and in force since November 1993. This treaty includes new or improved treaty provisions on monetary union, industrial policy, trans-European networks, consumer protection, public health, environment, development cooperation, research and development, education and culture. The Amsterdam Treaty negotiated in 1996-97 and in force since 1999 also added a few new policies, especially employment (See table 1).

This process of expanding scope has now reached a level where many people start wondering whether the EU will start interfering in too many aspects of daily life. Some see the principle of subsidiarity as a way to stop further expansion; possibly even transferring some powers back from the central European level to the national or regional levels. For the future there is a need for a language that can guide the discussion about the most appropriate division of powers between different levels of governance. Do we have such a language? If not, can it be developed? The issue was discussed in the European Convention (2002-3), which prepared the Intergovernmental Conference (IGC) (2003-4) which concluded the negotiations of a new so-called Constitutional Treaty. The treaty did produce some clarification of the division of powers between the Union and the member states, but the list of concurrent

powers is by far the longest, suggesting that the EU will have to live with a fair amount of ‘cooperative federalism’ in the future, too.

Fig. 1: Dimensions of Integration



Source: Compiled by the author

Increasing membership

Geographical domain is shorthand for the question of membership. As is well known the European integration process started with six countries. Through successive enlargements the EU has now reached a membership of 27 (See table 2). And there are still countries which want to join, including candidate countries Croatia, Macedonia and Turkey. Remaining non-member states in the Western Balkan have been promised they can join once they fulfil the so-called Copenhagen criteria for membership from 1993.

Each successive enlargement has changed the nature of the Community. The bigger the number, the more difficult one should expect the decision-making process to be. Enlargement therefore should ideally go in parallel with steps to increase the decision-making capacity. The SEA coincided with

the third enlargement. The Maastricht Treaty prepared the fourth enlargement. The Amsterdam Treaty was supposed to prepare the next enlargement, but did not succeed in adopting important institutional reforms (Laursen, 2002). A new Intergovernmental Conference (IGC) therefore negotiated the Treaty of Nice in 2000 (Laursen, 2006a). This treaty *inter alia* included changes in the voting rules in the Council (of Ministers) and other institutions and some increased use of QMV. Officially it was said to make the EU ready for the next enlargements, which took place in 2004 and 2007.

But in reality the EU leaders did not consider Nice sufficient. So a post-Nice process of further institutional reforms started. This process produced the proposed Constitutional Treaty in 2004. The future of this latest treaty reform is uncertain, but can the EU keep enlarging without at least adopting some of the reforms proposed by that treaty? The decision by the European Council meeting in June 2007 to call a new IGC to negotiate a Reform Treaty suggests that EU leaders do consider some institutional changes essential to get the much wider EU to function.

Improving institutional capacity: Efficiency and Legitimacy

Institutional capacity is first of all a question of decision-making capacity, but taken in a broad sense, including capacity to implement and enforce decisions. We could also talk about capacity to solve common problems. The nature of common institutions is an important aspect of this dimension. It is of central importance whether these institutions have supranational powers or remain purely intergovernmental. In the EU we find a combination of these procedures. But the first pillar of the EU, the European Communities (EC), is predominantly supranational (using the Community method). The second pillar, the Common Foreign and Security Policy (CFSP) remains basically intergovernmental. And so does the third pillar, Justice and Home Affairs (JHA) which after the entry of force of the Amsterdam Treaty is reduced to Provisions on Police and Judicial Cooperation in Criminal Matters.

The Community method applied in the first pillar of the EU, include at least three components:

1. an independent Commission which has an exclusive right of initiative,
2. majority voting in some areas in the Council of Ministers, and
3. a legal system which has primacy and direct effect and which includes the European Court of Justice (ECJ) which can make binding judgements.

We could add a fourth element, a directly elected European Parliament (EP) which is increasingly becoming a co-legislator. The EP got budgetary powers in two reforms in 1970 and 1975, and since 1979 it has been directly elected. The Single European Act (SEA) in 1987 introduced a cooperation

procedure which increased the EP's influence on especially internal market legislation and an assent procedure that gave the EP a veto on enlargements and association agreements. Through the so-called co-decision procedure, introduced by the Maastricht Treaty in 1993, a number of regulations and directives now need to be adopted by both the Council and the EP before they become binding 'legislation.' Concerns about legitimacy were decisive for these successive increases in the powers of the EP (See table 3).

It is in respect to the Community method that the EC differs from classical intergovernmental organizations, where normally initiative belongs to the member states, where decisions require unanimity or consensus, and where decisions often remain recommendations because of weak surveillance and enforcement mechanisms. In the EU's second and third pillars, however, unanimity remains the norm, the Commission shares the right of initiative with the member states and the ECJ is excluded (at least in the second pillar). The institutional capacity of the second and third pillars is therefore much lower than the institutional capacity of the first pillar (see table 4).

The question of institutional capacity has been an important one in the history of European integration. The founding fathers, Jean Monnet and others, believed supranational institutions to be necessary to create a binding kind of cooperation in Europe. The UK and the Scandinavian countries, which did not take part in the integration process at the outset, believed that traditional intergovernmental institutions would be sufficient. Nor did General de Gaulle like supranational institutions. But the Treaty of Rome had entered into force when he became president in France in 1958. The first major institutional crisis in the EC in the mid-1960s between President De Gaulle's France on one side and the Commission and the other five member states on the other side focused on institutional capacity. The Luxembourg Compromise in January 1966, where the French insisted on having a right of veto whenever important national interests are at stake, for many years stopped the movement towards applying qualified majority voting (QMV) in the Council, even where this was clearly foreseen in the Treaty of Rome.

A unanimity approach means that decisions will be based on the 'lowest common denominator'. The possibility of 'upgrading the common interest' is increased if qualified majority voting (QMV) is applied (Haas, 1961). So using QMV should increase efficiency.

The unanimity approach associated with the Luxembourg Compromise increasingly became a problem in the 1970s, when the energy crisis put pressures on the system and the membership of the Communities had increased from six to nine. The SEA in 1986 addressed this issue of institutional capacity. By specifying that the legislation to complete the internal market normally should be adopted by QMV in the Council the SEA increased the institutional capacity of the EC (new article 100A). This was an important element among the factors that gave the Community a new momentum from the mid-eighties (Laursen, 1990).

Table 1: Expanding Functional Scope of EC/EU

Treaty of Paris	Treaties of Rome	Single European Act	Maastricht Treaty	Amsterdam Treaty	Treaty of Nice
					Defence
				Employment Schengen <i>acquis</i>	
			<i>Economic and Monetary Union (EMU)</i> Visa policy Health Consumer protection Industry Trans-European networks Development cooperation Education Culture Social Policy (UK opt-out) <i>Common Foreign and Security Policy (CFSP)</i> , incl. defence (WEU) <i>Justice and Home Affairs (JHA)</i>		
		<i>Internal market</i> Environment Economic and social cohesion Research and Development (Foreign policy)			
	<i>Common market</i> Trade Competition Agriculture Transport Atomic energy				
Coal Steel					
1952	1958	1987	1993	1999	2003

Source: Compiled by the author

Table 2: Expanding Membership of the EC/EU

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

Source: Compiled by the author

Table 3: Institutional Capacity of the Community Method (First Pillar) - a Formal View

Paris Treaty	Rome Treaties	Merger Treaty	Budget Treaties	SEA	Maastricht Treaty	Amsterdam Treaty	Nice Treaty
							More QMV More co-decision
						More QMV More co-decision Much JHA transferred to 1 st pillar	
					More QMV Co-decision procedure		
				More QMV: art. 100A Co-operation procedure Assent procedure			
			'Own Resources' EP budgetary powers				
		Single Commission and Council					
QMV High Authority ECJ	QMV Commission ECJ						
1952	1957	1967	1970/75	1987	1993	1997	2003

Source: Compiled by the author

Table 4: Institutional Capacity of Intergovernmental Cooperation (2nd and 3rd pillars) - a Formal View

Luxembourg Report	SEA	Maastricht Treaty	Amsterdam Treaty	Nice Treaty
				EU defence autonomy
		<i>CFSP</i> (2nd pillar of EU) <i>JHA</i> (3rd pillar of EU)	High Representative for CFSP Policy Unit Reduced 3 rd pillar: Criminal Justice and Police cooperation	
	<i>EPC</i> treaty base			
European Political Cooperation (EPC)				
1970	1987	1993	1999	2003

Source: Compiled by the author

The Maastricht Treaty continued the effort to increase the Community's institutional capacity (Laursen and Vanhoonacker, 1992). It introduced QMV in some of the new policy chapters that were included in the treaty. However, some issues remained controversial and sensitive. For such issues unanimity would remain the rule. This included industry and culture among the new policy areas. It would also remain the rule for many institutional issues, taxation policy, and even sensitive aspects of environmental policy.

The question of implementation capacity is partly a question of the nature of the legal and institutional system. But much also depends on the administrative and political capacity at the level of the member states. It is a well-known fact that some member states are better at implementing Community directives than others. But if member states do not implement the Commission can intervene and infringement cases before the ECJ can follow. In this respect the supranational powers of the EC remain extremely important.

The kind of capacity required to solve common problems depends on the nature of the problems. Here too, we need to develop a language that can guide our discussion about the required

capacity of common institutions. Supranational institutions are required for some problems, but not all. It can be argued that game theory can help us think about both issues of scope and capacity. Basically the argument is that when you have policy issues where actors are tempted to cheat or defect from agreements you need good and strong institutions. Game theory refers to these problems as cooperation or collective action problems (Stein, 1982). You will need good institutions that can create 'credible commitments' (Moravcsik, 1993, 1998). But when you face simple coordination problems you do not need elaborate institutional set-ups (Laursen, 2007). The principle of subsidiarity also tries to address some of these issues, but it can be argued that it has weaker inference rules than game theory.

How did we get there?

Spill-over and unintended consequences

The theory of international integration has passed through various phases. It was mainly American political scientists who contributed to early theoretical efforts in the 1950s. Ernst Haas wrote the classic, *The Uniting of Europe* (1958), which studied the European Coal and Steel Community (ECSC). Karl Deutsch developed the concept of a 'security community,' which was applied in a number of case studies (Deutsch, 1954; Deutsch et al., 1957). Whereas the concept of functional spill-over was important in Haas' contribution, Karl Deutsch was mainly interested in the effects of transactions on attitudes and behaviour. Haas produced an early optimistic study, viewing integration as a rather automatic, cumulative process (Haas, 1958). Deutsch, on the other hand, concluded that the process of European integration had come to a halt in the 1960s (Deutsch et al., 1967).

Lindberg produced an important study in the 1960s on the early years of the EEC, especially the successful development of the Common Agricultural Policy (CAP) (Lindberg, 1963). Like Haas' earlier study of the ECSC, Lindberg's study of the EEC stressed spill-over and predicted continued integration. The Haas-Lindberg theories became known as neofunctionalist theories; they had borrowed certain ideas from earlier functionalist theories, but also differed from these, especially by stressing the importance of supranational institutions (Pentland, 1973).

As mentioned, Ernst Haas developed the concept of spill-over, which was also applied by Lindberg. According to Lindberg,

... 'spill-over' refers to 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 create a further condition and a need for more action, and so forth (Lindberg, 1963: 10).

Haas saw the EEC as spill-over from the ECSC. He talked about 'the expansive logic of sector integration'. He predicted that the process would continue in the EEC. Liberalization of trade within the customs union would lead to harmonization of general economic policies and eventually spill-over into political areas and lead to the creation of some kind of political community (Haas, 1958: 311).

When the European integration process experienced a crisis in the mid-1960s, however, many scholars concluded that Haas' early theory had been too deterministic or faulty. This included Haas himself, who now admitted that he had not foreseen 'a rebirth of nationalism and anti-functional high politics'. A revised theory would have to take account of 'dramatic-political' aims of statesmen such as General de Gaulle (Haas, 1967).

In a much-quoted article Stanley Hoffmann argued that the national situations and role perceptions were still too diverse within the EC. In general he argued:

Every international system owes its inner logic and its unfolding to the *diversity* of domestic determinants, geo-historical situations, and outside aims among its units (Hoffmann, 1966: 864).

So he contrasted the logic of integration with a logic of diversity. The latter sets limits to the degree to which the 'spill-over' process can operate. 'It restricts the domain in which the logic of functional integration operates to the area of welfare'. Hoffmann advanced the suggestion that, 'in areas of key importance to the national interest, nations prefer the certainty, or the self-controlled uncertainty, of national self-reliance, to the uncontrolled uncertainty' of integration (Ibid.: 882). He referred to the latter areas as 'high politics'. Spillover was limited to the areas of 'low politics'.

Lindberg took a second look at integration with Scheingold. Together they reformulated neofunctionalist integration theory to take account of political leadership - or lack of it. They made the theory less deterministic, more voluntaristic (Lindberg and Scheingold, 1970). This of course reduces the predictive capacity of the theory.

Lindberg and Scheingold now analysed the European Community as a political system. Inputs of demands, support, and leadership are transformed by the system into outputs in the form of decisions and actions, which in turn influence future inputs through a feed-back process. They had

borrowed the concept of system from David Easton (1965), but added leadership among inputs to arrive at a dynamic analysis of the EC. The Commission can provide supranational leadership, and national leadership can be provided by national governments.

Despite Lindberg and Scheingold's effort to adapt neo-functionalism the theory went out of fashion. Indeed, not much theoretical analysis of European integration took place during the 1970s and early 1980s. After the new momentum of European integration in the mid 1980s associated with the SEA and internal market plans some scholars rediscovered neo-functionalism (e.g. Tranholm-Mikkelsen 1991), but many argued for new approaches. Some new approaches resembled neo-functionalism in various ways. An important element in historical institutionalism was 'unintended consequences' The member states were not in complete control (Pierson, 1996).

Series of rational grand bargains

The most clear-cut alternative to the classic neofunctionalist theory is a realist-inspired theory emphasizing the role of the states in the integration process. With such an approach integration can be seen as a series of rational bargains based on 'convergence of national interests' (Moravcsik, 1991). But when and why do national interests change and converge? Moravcsik's answer, when he studied the negotiation of the SEA, was found in domestic politics. Most decisive was President Mitterrand's decision, announced on 21 March 1983, to remain in the European Monetary System (EMS), and the policy implications of this stance.

By stressing the role of states and power relations and lowest-common-denominator bargaining Moravcsik's study of the SEA resembled to the position of neorealists. The main difference between Moravcsik and neorealists is that Moravcsik does not treat the state as a black box. On the contrary, he opens the state to study the process of national preference formation, introducing thus a two-level approach.

Andrew Moravcsik refined his approach during the 1990s, labelling it liberal intergovernmentalism (Moravcsik, 1993).

Moravcsik's liberal intergovernmentalism is built on the assumption of rational state behaviour. Costs and benefits of international interdependence can then be seen as determinants of national preferences. The approach is based on a liberal theory of national preference formation. The focus here is on state-society relations. Governments respond to shifting pressures from domestic social groups. The

next element is an intergovernmentalist analysis of interstate bargaining, where some have more influence than others.

When Andrew Moravcsik developed 'liberal intergovernmentalism' he proposed a two-step analysis of integration, first national preference formation, then interstate bargaining (Moravcsik, 1993). Later he added a third step, institutional choice (Moravcsik, 1998).

The first stage is to try to explain national preferences. The central question asked by Moravcsik here is whether it is economic or geopolitical interests that dominate. The answer based on major decisions in the European integration process is that economic interests are most important.

The second stage, interstate bargaining, seeks to explain the efficiency and distributional outcomes. Here two possible explanations of agreements on substance are contrasted: asymmetrical interdependence or supranational entrepreneurship. Moravcsik arrives at the answer that asymmetrical interdependence has most explanatory power. States that depend most on agreement will have to compromise more than states which depends less on agreement.

The third stage explores the reasons why states choose to delegate or pool decision-making in international institutions. Delegation in the EU refers to the powers given to the Commission and the ECJ. Pooling of sovereignty refers to the application of majority decisions, especially QMV. To explain institutional choice Moravcsik contrasts three possible explanations: Federalist ideology, centralized technocratic management or more credible commitment. The answer is that states delegate and pool sovereignty to get more credible commitment.

Agency: ideas and leaders

Many EU scholars do not agree fully with Moravcsik's way of studying European integration. It is correct that classical neofunctionalism underestimated the importance of domestic politics. The present author has emphasized that in some of his writings (e.g. in Laursen and Vanhoonacker 1992, 1994). But an intergovernmental perspective easily underestimates the importance of the role of supranational institutions (Kelstrup, 1994; Sandholtz and Sweet, 1998, Beach 2005). For instance, some would argue that it does not do enough justice to the role played by the Delors Commission during the latter part of the 1980s and early 1990s (Dinan, 1994). Nor does it account for the lobbying that takes place in Brussels or the 'Europeification' of national policy making, which has taken place (Andersen and Eliassen, 1993 and

2001).

During the 1990s a critique set in from various sides against rationalist theories, including Liberal Intergovernmentalism. New reflectivist approaches emerged as an alternative. The fact that the mainstream international relations (IR) approaches had failed to predict the end of the Cold War was part of the reason for this changing mood of IR. Especially neo-realists had made predictions about the continuation of bipolarity in the mid and late 1980s just before the revolutionary changes in 1989. And then there were neo-realists who predicted that the EU and NATO would decline after the end of the Cold War and that Europe would move back to unstable multipolarity (Mearsheimer, 1990). Such predictions clearly underestimated the role of institutions in Europe (Keohane and Hoffmann, 1993).

In 1992 Alexander Wendt told scholars “Anarchy is What States Make of It” (Wendt, 1992). This was obviously a very different way of looking at matters compared with the way neo-realists had explained and predicted international politics from international anarchy and relative capabilities of states (Waltz, 1979).

A number of younger European scholars now started wondering whether the dominant approaches to the study of European integration were too rationalistic, too, and paid too little attention to how interaction affects interests and identity. A special issue of the *Journal of European Public Policy* explored the issue in 1999 (Christiansen, Jørgensen and Wiener, 1999). Moravcsik was invited to contribute. He asked whether something was rotten in the state of Denmark, referring also to the ‘Copenhagen school’ in security studies: “...the force of continental constructivist theories appears to radiate outward from the Danish capital, where it is the hegemonic discourse” (Moravcsik, 1999a: 669). His judgment was harsh: “Hardly a single claim in this volume is formulated or tested in such a way that it could, even in principle, be declared empirically invalid” (ibid.: 670). Most of the contributors to the volume were criticized for not advancing testable theories. Based on his own research Moravcsik claimed that ideas are transmission belts for interests and indeed rather epiphenomenal. The authors did not take alternative theories seriously enough to test them. “Constructivism prevails by default rather than by surmounting the challenge of honest empirical validation” (ibid.: 676).

Among those criticizing liberal intergovernmentalism we also find Marlene Wind, who said that

... important institutional elements such as the evolution and change of norms, ideas and

historically produced codes of conduct – discursive as well as behavioural, are completely expelled from analysis (Wind, 1997: 28).

She further criticizes Moravcsik for underestimating the role of the Commission and personalities. “The member states are far from ‘in control’ of the process,” she says (Ibid.: 30).

A number of recent studies have looked at the role of supranational institutions in connection with treaty reform in the EU (esp. Beach 2005). There has also been a very interesting study of the role of the Presidency (Tallberg, 2006). These studies suggest that Moravcsik underestimated the transaction cost in EU decision-making. It is argued that these costs can be high and that it takes leadership to overcome collective action problems to arrive at efficient solutions.

A distinction is needed between treaty making and reform on one hand and day-to-day legislation in the EU on the other. Actually Moravcsik admits that transaction costs can be high in day-to-day decision-making, thus the call for pooling and delegation to assure credible commitments (see also Moravcsik 1999b). For the former, the grand bargains, the Moravcsik view is that demand produces supply without difficulties. But could such a view really explain the start of integration in 1950. A recent study has emphasized ideational forces not only at the start of the integration process but also later on (Parsons, 2003). Comparative studies suggest that integration require both demand and supply (i.e. leadership) to be successful (Mattli, 1999).

Luckily for the EU the system is leadership-rich much of the time, especially in day-to-day policy making and implementation, where the Community method still serves a useful function and the role of the Presidency has become institutionalized (see table 5). IGCs may be different. Here the process may depend more on national leadership, but again the Presidency can play a role, possibly assisted by the Council Secretariat. And occasionally the Commission can play a role as happened in the case of the SEA (Beach, 2005, Laursen 2007)).

Table 5: Institutions and Leadership in the EU

	Negotiation of the original treaties	Making common policies	Implementing policies	Treaty reforms
Issues	Efficiency and distribution	Efficiency and distribution	Defection	Efficiency and distribution
Institutions	IGCs	Commission initiative Some QMV in Council ECJ	Commission surveillance Commission and ECJ enforcement	IGCs
Leadership	National leadership Presidents of IGCs	National (esp. Presidency) and supranational (esp. Commission)	Supranational	National leadership Presidencies

Source: Laursen 2007.

Current challenges²

Further enlargements

The question of the future borders of the EU has been on the EU agenda since the end of the Cold War. Since then the EU has already gone through three enlargements, first by neutral EFTA states, then a number of former Communist countries. The list of current candidates includes Croatia, Macedonia and Turkey. Potential future candidates in the Western Balkans include Serbia, Montenegro, Bosnia, Albania and even Kosovo. But will an EU of 35 member states be the end of the road? What about Ukraine and other former Soviet states in Europe?

² This section includes policy advocacy. For space reasons it does not present any detailed analysis.

The EU has given a partial answer by creating the European Neighbourhood Policy (ENP) which has been on offer to the neighbours in the east and around the Mediterranean which have not been offered membership.

But is the ENP an adequate response to the problems faced by the new neighbours? Would the prospect of future membership give incentives to reforms? Wasn't that what we saw in the Central and Eastern European Countries (CEECs)? Weren't reforms speeded up in Turkey when the country was finally offered candidate status in 1999?

On the other hand there is of course a big concern inside the union. Enlargements have costs, budgetary costs and decision-making costs. So how big can the Union become and still function?

The wisest answer is probably the official one given so far limiting further enlargements to the Western Balkans. But the ENP should be developed further towards free trade and easy access to the internal market, applying conditionality as is now normal in the EU's external relations.

For the moment Turkey remains the biggest challenge. Turkey is a candidate. Membership negotiations have started. But there are second thoughts in some member states. But the EU cannot turn its back to Turkey. A promise is a promise. The fact that Turkey is predominantly a Muslim country should not be a problem. A no to Turkey would look like a 'Clash of Civilizations.' The EU is not and should not become a 'Christian' project. The collective identity of the EU is based on democracy, rule of law, respect for human rights and rights of minorities. If Turkey can live up to these, as well as economic and administrative conditions set out in Copenhagen in 1993, Turkey should be allowed to join.

Policy reforms

The EU policy in most need of reform arguably is the Common Agricultural Policy (CAP). Although it has gone through various reforms, especially the McSharry reform in 1993 to complete the Uruguay Round, and a further reform as part of Agenda 2000 that prepared the big enlargement in 2004, the CAP is still expensive for EU consumers that keep paying prices above world market prices for food. It still takes a large part of the EU budget. And it is one of the obstacles the EU faces in improving trade relations with other producers of agricultural products in the world, including the Doha Development Round within the WTO..

The difficulties of reforming the irrational CAP are instructive. The EU must be studied from a 2-level game perspective. Politicians listen to constituents, including farmers. Consumers are less organized. So some groups have disproportional influence at the national level. It takes a lot of political leadership to overcome resistance to reform. The Commission played important roles both in 1993 and 1999 and they keep trying. But if a few national political systems cannot deliver optimal decision the EU cannot reform its policies, despite the formal possibility of using a QMV. The spirit of the Luxembourg Compromise in 1966 is still around when important decisions have to be made.

Another big policy challenge for the EU and its member states is job creation. But this is a problem that not all member states face to the same extents. The situation has been particularly bad in France, Germany and Italy, the Big Three among the original Six. A problem for the EU is the fact that labour market policy remains a national prerogative. If some national labour markets are too inflexible this has to be changed at the national level. Efforts to change the labour market in France led to big demonstrations and the government backed down. And high unemployment was one of the reasons why many Frenchmen voted 'no' to the Constitutional Treaty in 2005. Once again the EU as such pays a price because politicians in one country cannot deliver.

One of the strategies developed to create jobs in Europe is the so-called Lisbon strategy of 2000. It applies a method known as the Open Method of Coordination (OMC). It has been lauded by politicians and scholars alike. But it hasn't produced results worth talking about so far. If member states are serious about producing jobs through the EU they should extend the Community method to employment policy. That is the way to create 'credible commitments', not reports, comparisons of 'best practices', benchmarks and discussions. What does it help to know that some countries succeeded in creating a lot of jobs through the 1990s by instituting very active labour market policies, including training and retraining, if some countries cannot introduce such policies? Such policies require a high administrative capacity at the national level. The budgetary means of the EU in these areas are extremely limited.

As other industrial countries the EU also faces challenges in the environmental and energy sectors. But one could argue that the EU had actually done better in these areas than most industrialized countries. The EU has been studied as an international leader in the environmental area (Bretherton and Vogler, 2006). A recent meeting of the European Council arrived at conclusions on energy policy that has been widely welcomed, although as usual, there have been critical voices saying

that the EU is not going far enough in reducing greenhouse gases and turning to renewable energy sources.

Institutional reforms: efficiency and legitimacy

To produce good policies the institutional framework must be in order. “Institutions matter” we learn from contemporary institutionalist theory. This is where the non-ratification of the Constitutional Treaty is creating a special challenge for EU leaders and publics.

Despite the successes of European integration the popular support for European integration has fallen after the end of the Cold War. Is it that political leaders have not been good at explaining the rationale of European integration? Or are people simply starting to take the achievements for granted. These achievements include more peace and prosperity in Europe. Travel has become easier and cheaper. Borders are open. Taking jobs in other member states is easy. The single currency is good for business and tourism.

The big challenge seems to be economic growth. 31% of French voters who voted ‘no’ to the Constitutional Treaty mentioned the employment situation in France as a reason for their ‘no’. The French did not vote against the EU. Many want a more ‘social Europe.’ The Dutch case was different. 32% of the Dutch voters, who voted ‘no’ to the Constitutional Treaty, mentioned lack of information as a reason (Laursen, 2006b). Whatever the exact reasons, in both cases national governments failed to deliver. Certainly it is shocking that the Dutch government did not do more to inform the electorate of the significance of the treaty.

It was a major mistake of so many governments who had not had referendums before or who did not constitutionally need a referendum to decide for ratification through referenda. These are inherently risky. Often the electorate votes about other things than what they are asked about. Often they try to punish an unpopular government. Once again we have seen that the voters of one or two countries can hold the EU hostage.

At the moment the Constitutional Treaty has been ratified by 18 of 27 member states, including two by referenda, viz. Spain and Luxembourg. These states represent about 56% of the EU population. Still it cannot enter into force because all 27 members have to ratify. All member states are veto players.

The German Presidency of 2007 has tried to get the ratification problem solved. We had to await the result of the French presidential election. The new French President Nicolas Sarkozy advocated a mini-treaty, and then a simplified treaty. The June 2007 European Council decided for a Reform Treaty, which would drop terminology suggesting a state-like union including like the word constitution. The new treaty is supposed to be negotiated during the Portuguese Presidency in the second part of 2007. Although the mandate is limited the negotiations could turn out to be difficult.

When the Danes voted ‘no’ to Maastricht in 1992 it was a Danish problem. When the Irish voted ‘no’ to Nice in 2001 it was an Irish problem. Why should the two countries which voted ‘no’ this time not sort out ‘their’ problems? The answer is that France has been a pivotal state in European integration in the past and that France remains a pivotal state.

Concerning legitimacy it seems that Europe has to pay more attention to ‘output legitimacy’ to solve the economic problems. If the economy improves people will support the EU more. All the constitutionalism rhetoric surrounding the Constitutional Treaty – based on ‘input legitimacy’ considerations - may even have been counterproductive.

Scenarios of the Future: Deepening vs. Widening

Where may the future take Europe? Various scenarios can be imagined:

1. A wider and stronger EU
2. A wider, but weaker EU
3. A more flexible EU
4. A disintegrating EU

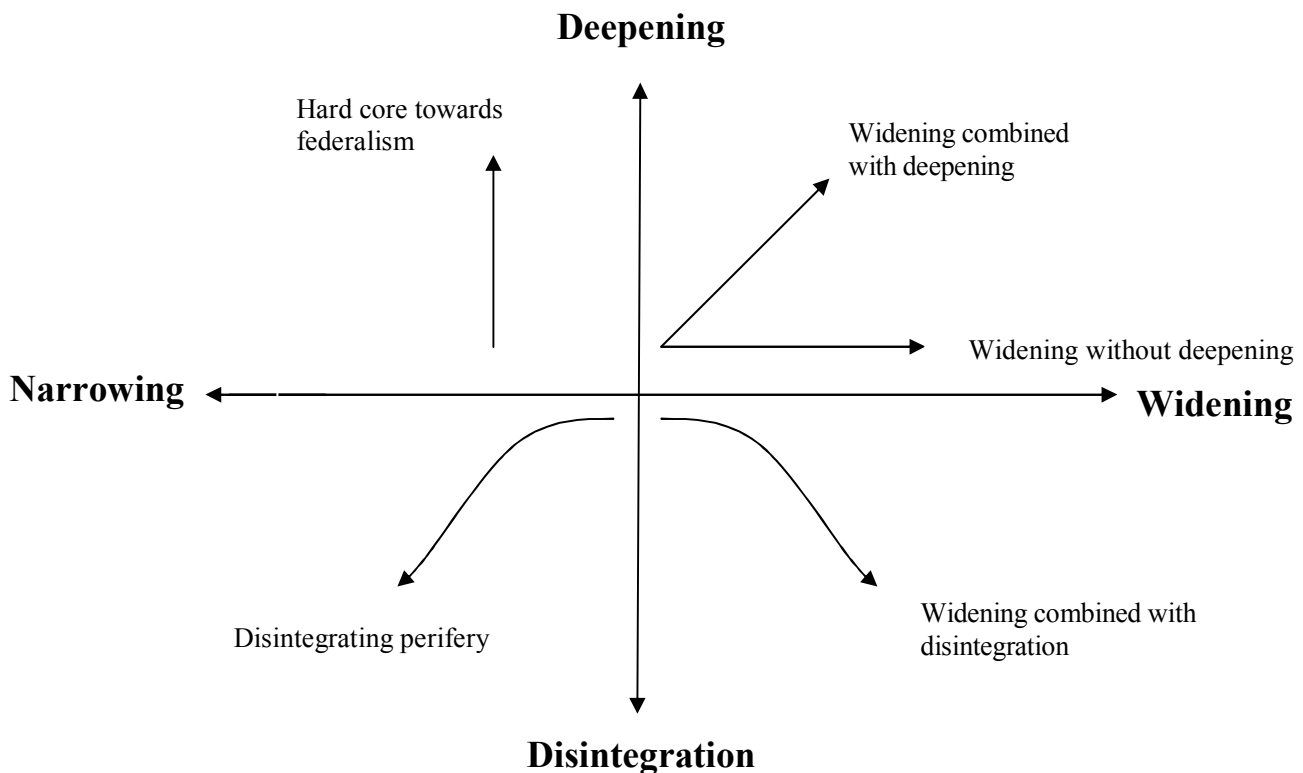
Figure 2 gives an idea of possible directions. The two main dimensions in this discussion are deepening and widening. A discussion about deepening vs. widening has taken place in connection with earlier enlargements, too. The issue has been to make sure that enlargement does not lead to institutional paralysis. Historically, therefore widening has often been associated with steps to deepen integration.

A wider and stronger EU is what is hoped for by many Europeans: Uniting the continent after the end of the Cold War and extending the ‘security community’ of Western Europe to all of

Europe is supposed to contribute to a more peaceful Europe. Integrating the economies of the CEECs into the internal market is expected by many to produce welfare gains for all in the longer run, although it is recognized that there will be distributional issues where the EC budget will have to play a role, e.g. through structural policies.

But decision-making in EU-27 will be more difficult because of the greater number of participants and therefore greater divergence of interests. Were the institutional changes of the Nice Treaty sufficient to avoid a slow-down of decision-making? Will we move towards a wider free trade area without political union? This is the fear of some, but also the hope of some who do not like European integration to deepen further.

Figure 2: Deepening versus Widening



Source: Adapted from Regelsberger and Wessels, 1995; Wessels, 1996.

The worst-case scenario is disintegration. This could take Europe back to old-fashioned power politics, conflicts and war. This was the scenario of some Realist scholars at the end of the Cold War (e.g. Mearsheimer, 1990). But neo-liberal institutionalist scholars have argued that European institutions, including first of all the EU, have contributed to avoidance of such a scenario (Keohane, Nye and Hoffmann, 1993)

Table 6: Kinds of Integration

Form	Goal	Speed	Examples within the treaty	Examples outside the treaty
Uniform integration	Same	Same	Traditional EC strategy	
Multi-speed integration	Same	Different	Transition periods when joining EMU convergence criteria	
Variable geometry	Different	Different	UK opt-outs and Danish exemptions WEU from Maastricht to Nice Schengen cooperation after Amsterdam	WEU until Maastricht Schengen cooperation until Amsterdam

Source: Compiled by the author.

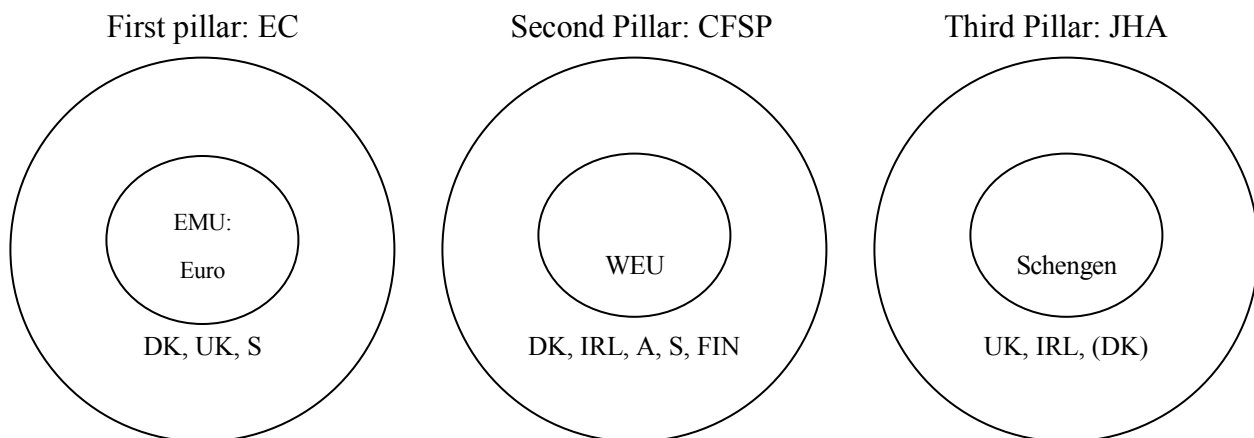
There remains another scenario referred to as ‘flexibility’ in the European debate. This includes various forms of integration where some countries move ahead leaving others behind, either temporarily (multi-speed integration) or permanently (variable geometry). Table 6 illustrates a central distinction between multi-speed integration and variable geometry. Allowing different speeds has been part of the European integration process from the beginning. When new members join they are given transition periods. The plan for EMU foresaw that not all might join the third phase at the same time. It laid out so-called convergence criteria that had to be fulfilled before a member was considered capable of taking part in the single currency from an economic point of view. But a country like Greece, which

joined the third phase with some delay in January 2001, accepted the goal of EMU all the time. Some of the discussion about flexibility, such as the German CDU proposal for a hard core Europe in 1994, has been based on the idea that a smaller group of members can be a kind of *avant-garde* that will help move the process forward.

It all starts becoming more problematic when the Member States cannot agree on the goal. This situation existed clearly at the time of the negotiation of the Maastricht Treaty when a new kind of construction was invented. This was the construction that gave the United Kingdom an opt-out on social policy. The remaining eleven members at the time decided to introduce a new chapter in the Treaty on social policy. But John Major's Conservative British government stayed outside. 'Variable geometry' is the term often used for this kind of 'flexibility'.

If variable geometry is limited to a few and not-so-important areas the EU can probably live with it. The problem will arise if it becomes generalized to a system where countries can pick and choose freely. Such a situation is referred to as *à la carte* integration. It is widely considered that *à la carte* integration will easily lead to disintegration.

Figure 3: Different Core Groups of the EU at the Time of the Amsterdam Negotiations

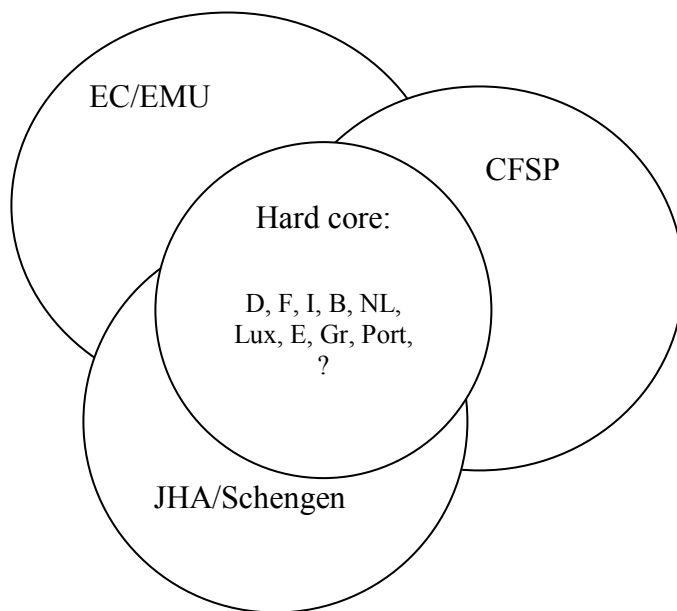


Source: Compiled by the author

In today's EU we have different core groups for different policy areas. If we divide it along the three pillars of the Maastricht Treaty we have the euro group as core in the first pillar of the

European Community. In the second pillar, Common Foreign and Security Policy (CFSP) the WEU could be seen as a core at least until 1999 when the EU started to develop its own defence dimension. In the area of Justice and Home Affairs the Schengen Agreement could be seen as a kind of core group (see fig. 3).

Figure 4: Towards a Hard Core?



Source: Compiled by the author

Currently there are 9 Member States that take part in these three cores: Germany, France, Italy, Spain, Belgium, the Netherlands, Greece, Luxembourg and Portugal (see fig. 4). However, various developments are starting to blur this picture. The Amsterdam Treaty moved a number of issues from the Third to the First pillar and it integrated the Schengen *acquis* into the Treaty. But the UK and Ireland keep having their own border controls, and Denmark does not take part in supranational first pillar JHA cooperation, but is free to take part in Schengen cooperation on an ‘intergovernmental’ basis. It is all rather complicated – and surely difficult to understand for European citizens. Another important element in the situation is also the change in the British position on developing a European defence identity. Although the UK was always a member of the WEU it used to resist the development of a special European defence identity, but the UK changed policy after the

Kosovo crisis in 1998. The fact that the EU ‘neutrals’ supported the inclusion of the so-called Petersberg tasks of “humanitarian and rescue tasks, peacekeeping tasks and tasks of combat forces in crisis management, including peacemaking” in the Amsterdam Treaty has also helped the EU to move further in this area.

Given the different cores we cannot talk about concentric circles. We have eccentric circles in the European integration process. Those included in all the three cores we looked at, can be seen as a common core. This group does largely agree on developing the integration process further, but the participants differ on speed and specific policies, such as for instance environmental policy, and even France and Germany have different perspectives on the future institutional architecture, with Germany leaning more towards federalism and France more towards a Europe of Nation-States.

In view of the last enlargements we can ask how these different national preferences are likely to develop.

In general it seems that most new member states are eager to join the whole integration process and become full members. Most of them will have no problems in taking full part in CFSP. JHA may raise certain questions about capacity in respect to new external borders (customs, migration, etc). In respect to the first pillar the CEECs have been busy preparing for the internal market through the pre-accession strategy (Laursen, 2001). In the end they passed that hurdle. It may take more time for many of them to fulfil the convergence criteria for EMU, although we may be in for some surprises here.

Too much flexibility is neither in the interest of the old EU members nor the new ones. If the EU is more permanently split up in an A-group and a B-group, the CEECs fear that they may have to join the B-group. Those who would like to see the EU become a wide free trade area with weak institutions, like British Conservatives and ‘nationalists’ in Denmark, Poland and some other countries, will be happy if the integration process grinds to a halt and is reversed. These people have never fully understood that the integration process starting with the Schuman Plan in 1950 has changed the trajectory of European history in an amazing way. Integration has produced both more prosperity and more security in Europe. This process is now being fully extended to most of Europe. Multi-speed integration may be part of enlargement processes. But variable geometry should be avoided as much as possible. A hard core should not become permanent, but it should be allowed to act as an *avant-garde*

taking the whole of Europe towards a more committing kind of cooperation, which is the basis of peace and prosperity. Too much insistence on special national interests and ‘free riding’ will lead to sub-optimal outcomes that can become costly for all.

Concluding Remarks

A serious dialogue is needed to set common goals in Europe. There were hopes that the post-Nice agenda would produce such a dialogue. It did to some extent, but it was an elite dialogue that did not really touch the people. The people seem not to care much about intricate institutional details.

But institutions do matter. The literature on international regimes can give some guidance, especially game theoretical approaches (Stein, 1982; Laursen, 1997). For areas where states can gain by defecting on international agreements, such as trade, monetary policy, and environmental policy, good common institutions are required to make sure that agreements are implemented. In trade there is always the temptation to use protectionism. In monetary policy there is the temptation to use competitive devaluations. In environmental areas there is the temptation to overexploit common resources or send pollution across borders to the neighbours. There is thus a clear logic in creating ‘supranational’ institutions for such issue areas.

Indeed, the EU can be seen as a rational response to international interdependence. The EU was created by the member states to solve certain common problems that they cannot solve independently. They pooled and delegated sovereignty because they wanted ‘credible commitments’ to carrying out substantive agreements (Moravcsik, 1998).

The system created has at least two levels. The EU level should not be made scapegoat for what the national level should be doing, but does not get done, such as creating flexible labour markets that can produce jobs. The EU should not be held hostage to failures of national political systems as has happened in connection with the ratification of the Constitutional Treaty.

The EU’s biggest challenges today are national. A cooperative 2-level system like the EU requires strong, legitimate national governments. With so many veto points in the system it is a miracle that it functions at all. But it can function better in the future if the most important institutional reforms

of the Constitutional Treaty can be adopted. Whether we like it or not a mini-reform, as suggested by French presidential candidate Nicolas Sarkozy, or Reform treaty as it is now called, adopted without referenda may be the way out of the current debacle.

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