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The PHARE programme and the concept of spillover: neofunctionalism in the making

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ABSTRACT This article argues that neofunctionalism has been wrongly underestimated and widely neglected in recent years. It suggests that neofunctionalism can be developed in a meaningful way to explain the emergence of PHARE as well as the decision-making structures and dynamics shaping the programme. A number of subsidiary neofunctionalist contributions have been largely ignored, and many of the recent partial theories either reconfirm neofunctionalist hypotheses or provide useful insights for their revision and development. This analysis aims to upgrade underestimated neofunctionalist assumptions, such as externalization, *engrenage* and task expansion, as well as to extend the current understanding of neofunctionalism by incorporating the mediating role of the Presidency and the phenomenon of epistemic communities into the theory. The findings of this study challenge those of Haggard and Moravcsik's analysis of the political economy of financial assistance to Eastern Europe. Apart from refuting the conclusions of their case study, this article challenges Moravcsik's approach more generally.

KEY WORDS Central and Eastern Europe; EU decision-making; integration theory; neofunctionalism; PHARE programme.

INTRODUCTION*

At the Paris Summit of the Arch in July 1989 the G7 Heads of Government decided to give the mandate for the co-ordination of all Western aid to the European Commission. This task, which is the highest foreign policy responsibility the Community has ever been granted, subsequently led to the development of the Community's own aid initiative, the PHARE programme. The emergence and evolution of this Community competence has largely escaped theoretical explanation. An exception is the study by Stephan Haggard and Andrew Moravcsik (1993).¹ They made three claims which are contentious in view of the findings of this study. They held that it would be misleading to think of European Community (EC) aid as initiated by the Commission, that the Commission's involvement merely shadowed decisions made in intergovernmental bargains, and that the co-ordination of aid under the PHARE programme has proven a narrow and

transitional task (1993: 256, 259, 280). The subsequent analysis disputes these assertions. Moreover, it will be argued that intergovernmentalism, even in its most refined form developed by Moravcsik (1991, 1993, 1995), does not provide adequate tools for an analysis of this Community competence. While Moravcsik, as well as most of his critics (e.g. Pierson 1996; Marks *et al.* 1996), found no merit in revising neofunctionalism as a theory of European integration after it had been widely criticized and refuted on both empirical and theoretical grounds, this article argues that neofunctionalism can be modified and developed in a meaningful way, though less ambitiously than intended by the early neofunctionalists. Instead of the narrow focus on its economic determinism inherent in the concept of functional spillover which has attracted the attention of many critics (e.g. Keohane and Nye 1975; Moravcsik 1993), this analysis seeks to draw on the full repertoire of neofunctionalist insights. At the same time it will be argued that many of the recent micro-theoretical endeavours have either reconfirmed old neofunctionalist assumptions, or provided new insights which can be incorporated into neofunctionalist theory. After a decade mainly dominated by attempts to produce partial theories of European integration, it is now time to see how the recent microtheories fit into wider approaches, such as neofunctionalism.² The PHARE programme makes an interesting case study, especially since external relations as a policy area have, so far, essentially been ignored for testing neofunctionalism.

A REVISED NEOFUNCTIONALIST FRAMEWORK

The essence of neofunctionalist theory of integration can be derived from six underlying assumptions. Most importantly, integration is understood as a process. Here neofunctionalists fundamentally differ from intergovernmentalists who tend to look at isolated events. While intergovernmentalists look at a single 'photograph', neofunctionalists examine a whole 'film' (Pierson 1996: 127). Implicit in the notion of integration as a process is the assumption that processes evolve over time, take on their own dynamics and can lead to outcomes that were unintended by national decision-makers. Second, neofunctionalists assume the prevalence of pluralist politics with multiple and diverse actors which are not restricted to the domestic political realm but can make contact and build coalitions across national frontiers and national bureaucracies. The dynamics which drive the integration process forward are encapsulated in the last four neofunctionalist maxims. First, neofunctionalists assume utility maximizing actors. Interest-driven national and supranational élites, recognizing the limitations of national solutions, provide a key impetus to the integration process. Second, interests are not perceived as constant, as assumed by intergovernmentalists. They tend to change during the integration process, as actors can learn from the benefits of communitarization and from their experiences in co-operative decision-making, adding another spur to the integration process. Third, once established, institutions can take on a life of their own and are difficult to control by those who created them. Concerned with increasing their own powers, supranational institutions become agents of integration, which can influence the perceptions of élites, and therefore governments' interest. Last, interdependence between economies as well as between sectors (which are assumed

to be so interdependent that it is impossible to treat them in isolation) provokes and fosters integration.

From these assumptions one can derive the main neofunctionalist hypotheses, centred around the concept of spillover. Although they were often run together in neofunctionalist writings, four distinct aspects of this notion can be identified: functional, political, cultivated, and induced spillover.³ In its most general formulation *functional spillover* 'refers to a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and need for more action, and so forth' (Lindberg 1963: 10). Haas directly linked the concept to functional-economic integration. He held that sector integration 'begets its own impetus toward extension of the entire economy' (1958: 297). Owing to the interdependence of some sectors in advanced economies, integration in one area would work only if followed by the integration of other related areas. Some recent studies have highlighted the potential integrative force of functional pressures, especially in terms of spillovers from the 1992 project to economic and monetary union (EMU) (Padoa-Schioppa 1987) and from the single market to the domain of social policy (Leibfried and Pierson 1995). An interesting variation of functional spillover is the concept of 'task expansion' which relies on the same kind of pressures. However, whereas functional spillover refers to co-operation in a new area, task expansion denotes increased co-operation in the same field (Schmitter 1969; Groom 1978). Task expansion has been widely neglected and deserves more attention as an analytical tool.

Political spillover encompasses the integrative pressures exerted by national élites, who realize that problems of substantial interest cannot be satisfactorily solved at the domestic level. This would lead to a gradual learning process whereby élites shift their expectations, political activities (Haas 1958; Lindberg 1963) and loyalties (Haas 1958) to a new European centre. As a result national élites would promote further integration, thus adding a political stimulus to the process. Haas focused on the pressures exerted by non-governmental élites in pluralist Western Europe. He emphasized the altered perceptions of interest groups on the national level as well as the formation of umbrella organizations on the European level. Lindberg, on the other hand, particularly stressed the role of governmental élites. He pointed out that the rapid increase of the number of working groups and sub-committees has led to a complex system of 'bureaucratic interpenetration' which brought thousands of national civil servants in frequent contact with each other and with Commission officials. This process whereby 'national bureaucrats are being reinforced in their disposition to take integrative decisions by their increasing involvement with each other in the various national administrations and the institutions of the Community' has later been termed *engrenage* (Taylor 1983: 9–10). This concept received some academic attention in the 1970s (e.g. Scheinman and Feld 1972), but was thereafter essentially ignored. Two decades later, during which time the European project and bureaucratic interaction⁴ have advanced substantially, there is a case to be made for renewed investigation into the impact of *engrenage*.

Cultivated spillover describes the integrationist pressures exerted by the central institutions of the Community in their attempts to cultivate functional as well as

political spillover and, more generally, to spur the integration process in Europe. Haas emphasized the role of the Commission in the facilitation of agreement on integrative outcomes. As opposed to lowest common denominator bargaining, which he saw inherent in intergovernmental decisions, the supranational systems were characterized by a bargaining process of 'upgrading common interests'. The participants in such negotiations tend to swap concessions facilitated by the work of an institutionalized mediator such as the Commission. Common interests are upgraded in the sense that each feels that by conceding something it has gained something else. Lindberg emphasized the cultivation of political spillover. He pointed out that the Commission is in a privileged position of centrality and authority, not only enabling it to direct the dynamics of relations among states but also the relations of groups within pluralist states. According to Lindberg, the Commission's cultivation of contacts with national élites would gradually lead to the Commission's 'informal co-optation' of member states' officials and interest groups to help realize its European objectives (1963: 71). A number of case studies support the cultivated spillover hypothesis. As for the European Court of Justice (ECJ), the most persuasive account in that respect has been provided by Burley and Mattli (1993). More studies have revealed the Commission's ability to play a proactive and integrative role, for example, in the fields of telecommunications (Sandholtz 1993), energy (Matlary 1997), and in the launch of the 1992 project (Sandholtz and Zysman 1989). Such efficacy on the part of the Commission may have surprised even the early neofunctionalists. Haas held that the dissipating initial élan of the Commission was 'far from fatal' and that the quality of supranational bargaining was only altered subtly (1964: 78). All in all, the role of the Commission merely assumed secondary importance in *The Uniting of Europe* (e.g. Haas 1958: xiii–xv). It is therefore proposed here to upgrade the concept of cultivated spillover within the theory.

A fourth type of spillover can be identified from neofunctionalist writings, namely what has been termed here *induced spillover*.⁵ Haas noted that successful integration among the Six and changes in existing trade patterns were likely to give rise to outsiders' considerations of joining the integration project. This could lead to a 'geographical spillover effect' (Haas 1958: 314). Schmitter took this line of thought further for the development of his 'externalization hypothesis'. He held that once a regional integration project has got under way and developed common policies

participants will find themselves compelled – regardless of their original intentions – to adopt common policies *vis-à-vis* nonparticipant third parties. Members will be forced to hammer out a collective external position (and in the process are likely to rely increasingly on the new central institutions to do it).

(Schmitter 1969: 165)

The externalization hypothesis is useful because it makes a valuable connection between the Community and the external environment. The elaboration of a common external policy comes about for a number of voluntary and involuntary motives. Voluntary motives encompass, for example, the formation of a common foreign policy position to increase the collective bargaining power of the

Community. 'Induced spillover' refers to what Schmitter described as 'involuntary motives', such as extra-Community demands and unforeseen threats to Community interests, and therefore constitutes a sub-hypothesis of Schmitter's wider externalization hypothesis. The concept of induced spillover is closely related to the basic neofunctionalist maxims. Common external positions are the unexpected result of a process which may be influenced by international interdependence or utility-maximizing outsiders inspired by the success of the regional bloc or the impotence of purely national solutions. For the construction of a revised neofunctionalist framework, the almost forgotten insights of induced spillover need to be restored.

While in recent years a number of scholars have recognized the value of neofunctionalism (e.g. Sandholtz 1993; Marks *et al.* 1996), few have made an effort to refine the theory (with the exception of Tranholm-Mikkelsen 1991; and less explicitly Stone Sweet and Sandholtz 1997) in the face of the challenges that were levelled against it.⁶ Tranholm-Mikkelsen argued that neofunctionalism can only provide a 'partial theory', which is unable to explain all parts of the integration process. It lies in the nature of the European animal, which is so abnormal and hybrid, that it can only be described from different angles, using different approaches. He therefore rightly suggested that we must depart from the traditional understanding of neofunctionalism as an all-encompassing theory of regional integration. Second, it has been argued that neofunctionalism cannot return to the 'automaticity of spillover', which led some neofunctionalists to go as far as to predict 'a political community of Europe in fact even before the end of the transitional period' (Haas 1958: 311) and political actors shifting their 'loyalties' to the European level (Haas 1958: 16). It is therefore proposed here to loosen the theory's predictive strait-jacket by merely treating the different kinds of spillover as tools for describing and explaining certain dynamics of European integration and for making 'informed judgments' rather than 'hard prediction' (George 1996: 250). And as Stone Sweet and Sandholtz rightly stated '{t}here is substantial room for supranational governance without the ultimate shift in identification' (1997: 301).

In underlining the value of these explicit theoretical departures I will subsequently propose further adjustments to neofunctionalist theory. Apart from upgrading subsidiary concepts such as induced spillover and task expansion as well as underestimated hypotheses, like cultivated spillover and *engrenage*, two theoretical extensions are suggested here: the accommodation of epistemic communities and the Council Presidency as an institutionalized mediator both within the concept of cultivated spillover. One aspect in the more recent literature that goes beyond the neofunctionalist preoccupation with the involvement of national civil servants or interest groups in the decision-making process is the concept of *epistemic communities*. Peter Haas defines epistemic community as 'a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area' (1992: 3). He asserts that such communities of knowledge-based experts may influence decision-making by 'articulating the cause-and-effect relationships of complex problems, helping states identify their interests, framing issues for collective debate, proposing specific policies, and identifying salient

points for negotiation' (Haas 1992: 2). Epistemic communities can have a considerable influence on EU policy-making (see, for example, Mazey and Richardson 1997). Epistemic communities can be accommodated within the concept of cultivated spillover. Neofunctionalists had pointed out that the Commission is in a privileged position of centrality, which enables it to act as a broker between different groups. Through its cultivation of and participation in epistemic communities, the Commission can make use of them, for example, by obtaining their backing for its policy proposals. Epistemic communities are further reconcilable with neofunctionalism because its pluralist politics assumptions allow for transnational coalitions.

Neofunctionalism can be further extended by incorporating the mediating role of the Presidency into the theory. With the Luxembourg Compromise, which forced the Commission to take a back seat, and the arrival of European political co-operation (EPC), Technical Councils and European Councils, the Council Presidency began to develop into an alternative architect of compromise. Governments face a number of pressures to abstain from pursuing their national interest and assume the role of a neutral mediator, such as increased media attention as well as peer group evaluation (Wallace 1985). During their Presidency national officials also tend to undergo learning processes about the various national dimensions which induce more 'European thinking' and often result in 'European compromises' (Wurzel 1996). A number of case studies confirm Presidencies' inclination to take on the role of honest and promotional broker, which tries to push the negotiating parties beyond the lowest common denominator (see, for example, Regelsberger and Wessels 1985; Kirchner 1992). The learning processes pointed out by Wurzel suggest the possibility of accommodating the Presidency's mediating role within the concept of political spillover. However, there are even closer affiliations with the concept of cultivated spillover. Ernst Haas pointed out that the use of an institutionalized mediator usually leads to upgrading the common interest of the parties involved in multilateral negotiations. In the context of the European Coal and Steel Community (ECSC) and the European Economic Community (EEC) he saw this role fulfilled by the High Authority and the European Commission. However, the mediating services do not necessarily have to come from those supranational institutions, but could simply be provided by 'a single person or board of experts with an autonomous range of powers' (Haas 1961: 368).

THE CASE OF THE PHARE PROGRAMME

Succumbing to the Commission's passion for acronyms, PHARE (Poland-Hungary: Aid for Restructuring of the Economies) was chosen as the name for the Community's aid scheme to the Central and Eastern European countries (CEEC), since originally it provided assistance only to Poland and Hungary. By early 1998, the programme encompassed thirteen countries.⁷ Originally, the programme's aim was merely to provide support for the process of transition towards a market economy and democratic institutions in the CEEC. Today, however, the PHARE programme cannot easily be separated from the overall background of European Union (EU) relations with the CEEC. PHARE has become the financing

instrument of the 'Europe Agreements' and has obtained a central position in the strategy for the accession of the CEEC to the Union. Assistance is adjusted from partner country to partner country through different bilateral agreements. It is managed by the Commission, under the aegis of Directorate-General 1A for External Political Relations, in co-operation with the beneficiary countries. Occasionally, the analysis will draw on developments that are related to the TACIS programme, the Community's aid programme for the New Independent States and Mongolia, which was established after PHARE in 1991.

The Paris Summit, externalization and induced spillover

The decision of the G7 Heads of Government at the 1989 Paris Summit to give the mandate for the co-ordination of Western aid to the Commission can be largely attributed to induced spillover. The concept holds that the member states of a successful integration project may find themselves obliged to work out a common external position *vis-à-vis* third countries and increasingly rely on the central institutions to do it, owing to a number of involuntary, i.e. induced, motives. The decision to give the co-ordination mandate to the Commission was largely brought about by two such motives. First, the Commission's fruitful involvement in Africa-Caribbean-Pacific development, EC-CEEC trade agreements and EPC led to a series of demands and expectations by the outside world that compelled the Community to respond to the events of 1989 and finally give responsibility to the Commission for the co-ordination of Western help. Most prominently, Lech Walesa continuously warned about the urgency of assistance in support of the reform process, *inter alia* in his talks with Commission President Delors (*Financial Times*, 18 May 1989). Pressure was also exerted on the member states, which were asked, as in the case of General Jaruzelski's letter to François Mitterrand, to work not only unilaterally but also within the EC framework (*Financial Times*, 8 July 1989). In addition, the US, owing to the Community's success in the late 1980s, came to view the EC as a source of leadership (Petersen 1993).

The second set of motives stems from the geographic proximity and the speed of events in the CEEC. The vicinity of the events required Western leaders to act especially because they were facing the prospect of mass immigration from Eastern Europe. The pressure on European decision-makers was compounded by the speed of events. This provided a sound rationale for handing responsibility over to the Commission. As one commentator put it:

certainly the Member States were obliged to think in an integrated way. The speed of the events and the enormity of the challenge were such that the classic progression of deliberations in EPC followed by action in the Community was no longer realistic.

(Nuttall 1992: 280)

The outcome of the Paris Summit of the Arch is well explained by the concept of induced spillover. Extra-Community factors induced European leaders to hammer out a common policy and rely on the Commission to co-ordinate it. However,

induced spillover was not the only pressure shaping this outcome. More light is shed on this matter by examining the role played by the Commission, to which we will turn later.

Much of the preceding analysis does not contradict liberal intergovernmentalism (LI). From a Moravcsikian perspective, member states, whose behaviour reflects the rational actions of governments constrained at home by domestic societal pressures and abroad by the Community strategic environment, delegated some of their sovereign powers to the Commission by granting it the competence of co-ordinating the Western aid effort. When domestic pressures are low, as in this case, Moravcsik allows national leaders some autonomy (1993: 494). However, as Moravcsik generally treats supranational entrepreneurship as epiphenomenal and only insufficiently accounts for the extra-Community strategic environment, LI leaves us somewhat in the dark about what national decision-makers would do with their enhanced bargaining space. For Moravcsik, extra-Community pressures are not part of the EC intergovernmental bargaining process. If at all, they only influence policy-making by shaping governments' preferences via the 'transmission belt' of domestic politics (1993: 483). This is implausible here. Pressures from Eastern Europe and from across the Atlantic directly influenced EC governments. The US position, for example, owed more to geo-political (US co-ordination of aid unacceptable to the Soviet Union) and other external factors (US perception of Commission leadership; Delors lobbying Bush; improving EU-US relations) than to domestic forces (US budgetary constraints three years from Presidential elections).

The pre-accession strategy, functional spillover and task expansion

In the history of PHARE there have been a number of changes in the focus of the programme. In the early period food aid was an important element. Later technical assistance in areas such as agriculture, energy and the environment became paramount. However, the most significant change in the PHARE programme occurred after the Heads of Government had agreed at the Copenhagen European Council that the associated countries in Central and Eastern Europe, that so desire, shall become members of the EU, as soon as they can satisfy the economic and political conditions required (Commission 1993: 11). This probability of going ahead with Eastern enlargement in the distant future set in motion functional pressures which led to a systematic change in the PHARE programme, resulting from the dissatisfaction with the attainment of a collective goal (assisting the CEEC), owing to the desire to achieve another goal (making the CEEC fit for possible accession), under the existing scope and priorities of the programme. The outcome was not to resolve this dissatisfaction by resorting to collaboration in another, related sector (functional spillover), but to intensify the commitment in the original sector, which has been termed 'task expansion' (Groom 1978). Functional pressures led to the adoption of a comprehensive pre-accession strategy. In Essen, the Heads of Government decided to raise the limit of the PHARE budget that could be used to co-finance infrastructure investment from 15 to 25 per cent, as the CEEC themselves were lacking capital, European Investment Bank (EIB) loans

were only allowed to cover up to 75 per cent of the total cost, and the improvement of physical links between the partner countries and the Union was regarded as vital for accession (Commission 1995). At the Cannes European Council, it was decided to increase the PHARE budget considerably. For the five-year span 1995–9, an extra 2.5 billion ECU (in comparison to the five preceding years) were committed to the programme. As one senior Commission official put it: ‘This increase was decided with a clear view to the enormous challenges of integrating the associated countries into the Union’ (interview, June 1996).

Functional pressures always need actors who translate those pressures into particular policies. The functional pressures that have been pointed out above were first recognized by the Commission. In its two communications to the Council, the Commission identified the changes that were necessary for a progression towards the integration of the associated countries into the Community (Commission 1994a, 1994b). In addition, the German Presidency was sympathetic to the Commission proposals. It agreed that there was a need for a comprehensive and coherent pre-accession strategy and made this one of the primary objectives of its presidency (*Agence Europe*, 10 November 1994). Most importantly, the German Presidency worked out a compromise that allowed agreement on a strategy without specifying any figures for the future PHARE budget and thus prevented a stalemate at Essen (*Agence Europe*, 19 November 1994).

PHARE, political spillover⁸ and *engrenage*

Engrenage, the process whereby national civil servants through their increasing involvement with each other are encouraged to take integrative decisions, has also been termed ‘socialization process’ (Lindberg and Scheingold 1970). At the working group level in the area of EU relations with Central and Eastern Europe, professional (and often also personal) relations between the national civil servants are extremely good. This is not surprising given the frequency of their interaction. They meet not only in the Central Europe Working Group, where most general matters concerning the CEEC, including PHARE, are discussed, but also at preparatory meetings for the Association Council, the Association committees and sometimes also at meetings of the PHARE management committee. As one official put it, ‘we usually see each other more often than the experts from our ministries, in busy periods at least every other working day’ (interview, June 1996).

For neofunctionalists, the integration process was to be supported, in the long run, by a change of attitudes and expectations (Lindberg 1963) or even a change of loyalties (Haas 1958) to a new European centre. Despite the high level of cross-border bureaucratic interaction, it is doubtful that a change of loyalties to Brussels has occurred. However, there is some evidence for increasingly favourable attitudes of certain civil servants *vis-à-vis* the European project. In line with the findings of Scheinman and Feld (1972), a number of national diplomats sensed that through their work in Brussels they had developed a more ‘European’ orientation than before. One example for such a development is Dietrich von Kyaw, the German Permanent Representative, who claims to be known in Bonn not as the *ständiger Vertreter* (Permanent Representative) but as the *ständiger Verräter* (permanent

traitor) (*Financial Times*, 11 March 1995). Moreover, it is interesting to note that the most Europhoric civil servants tend to be the ones who have served longer in Brussels than their counterparts who have only recently joined their Permanent Representations. The possibility cannot be dismissed that the level of *engrenage* may indeed be a function of the duration of the socialization impact.

Even though national officials may not have changed their loyalties to the European level, *engrenage* may still facilitate the integrative process (see also Niemann 1997a, 1997b). Helen Wallace, in her analysis of multilateral negotiations in the Community, remarked that 'habits of discourse and mutual familiarity facilitate productive discussions' which frequently lead to 'expectations of reciprocity' (Wallace 1990). In this analysis there is evidence for such a development. For example, it is common practice to make concessions to national counterparts in both related and unrelated fields. A former Danish official reported that, during the 1993 Danish Presidency, his Spanish colleague gave in on an issue because the latter knew that he was under pressure from Copenhagen to resolve the issue. This was possible because in the past he had given in to his Spanish counterpart in a different area.

It is also important to look at the relationship between the civil servants of Permanent Representation with their ministries, as the increased European orientation among civil servants may have a direct impact on national policy formation in the capitals. David Spence (1993) has pointed out that British officials often have to persuade their colleagues in Whitehall that the boundaries of negotiability have been reached. There are a number of ways in which this can be done. As interlocutors between Brussels and their capitals, officials in the Permanent Representations have a sounder knowledge of the various national positions. This is recognized by governments which often request their Permanent Representation to sound out other delegations in order to prepare discussions in Whitehall. Here, the officials in Brussels have an obvious opportunity to influence their capitals. In addition, officials admitted that when reporting back to their capitals they can always omit a piece of information or highlight something that may not have been as important during the discussion.

Engrenage challenges LI in two ways. First, Moravcsik disregarded the possibility of supranational-institutional aspects of the Community influencing national governments' preference formation. For Moravcsik those preferences emerged through domestic conflict of societal groups competing for political influence (1993: 481). Second, the above analysis shows that, not as assumed by Moravcsik (1993: 483), governments are not unitary actors in the bargaining process. The Brussels-based part of a national administration cannot be easily controlled and may attain for itself a certain degree of autonomy in the decision-making process. Given the fact that about 90 per cent of final texts of legislation or action are decided at the professional diplomatic level (*Financial Times*, 12 March 1995), the socialization process may have a significant bearing on day-to-day policy-making. Admittedly, Moravcsik's focus is on major bargains. 'But the grand bargains are, by definition, intergovernmental. The research results are quite predictable when one looks to intergovernmental bargains for evidence of intergovernmental bargaining' (Stone Sweet and Sandholtz 1997: 307).⁹

PHARE and cultivated spillover

The Commission as a motor for spillover and policy entrepreneur

In the case of the PHARE programme the Commission played the proactive and integrative role that neofunctionalists might have hoped for. This is true especially for the birth of the programme when externalization pressures, inducing G7 governments to authorize the European Commission to co-ordinate aid to Poland and Hungary, were strengthened by an assertive Commission under the leadership of Delors. Before the Paris G7 summit, the Commission President had been asking EC governments for months to co-ordinate relations with the Communist bloc (Ehlermann 1989). In a programme speech before the European Parliament (EP) in January 1989 Delors put particular emphasis on this point. The desire to have joint discussions with the US on East–West questions was first mentioned by Delors in February in an interview with the *Wall Street Journal*. In April, Delors called for the co-ordination of export credits to the East which irritated several member states (*Financial Times*, 25 April 1989). In June Delors went to Washington. ‘Insiders claim that it was Delors’s own powers of persuasion about Eastern Europe over lunch with Bush which led the Americans to consider giving the Community the important new foreign policy role’ (Ross 1995: 63).

Another landmark in the history of the PHARE programme is the Copenhagen European Council where the Commission successfully initiated and defended the introduction of co-financing infrastructure from PHARE funds. This move was regarded as necessary by the Commission, as after up to four years of know-how transfer there was less need for technical assistance in the CEEC. Despite resistance from a number of member states, most notably France, the United Kingdom and Ireland, which faced pressure from their domestic consultancy industries not to reduce the share of technical assistance, from which they benefited disproportionately, the Commission was determined to push its initiative through. In this case the Commission acted like a true policy entrepreneur. It was able to draw on its superior expertise, it negotiated skilfully and was persistent. During the negotiations on the working group level and the Committee of Permanent Representatives (COREPER) the Commission ‘softened up’ the French, British and Irish opposition, while waiting for a ‘window of opportunity’ (Majone 1996). The Commission knew long in advance that the CEEC would feature high on the agenda and that the summit might produce a clear statement on accession. As the improvement of infrastructure in the CEEC was regarded as vital for accession, this provided a good opportunity to bring the issue of PHARE’s use for investment purposes to the forefront. Leon Brittan and Jacques Delors ensured through consultations with the Danish Presidency that the issue would be put on the agenda for the last day of the Copenhagen European Council. One senior Commission official recalled that the papers with the agenda arrived in the delegations early in the morning, only a few hours before the meeting, which left little time for a well-prepared response. ‘Once it was on the table, it was clear that it would go through’ (interview, June 1996). The Council framework would have allowed for too

much controversial discussion, which would have diluted the original Commission proposal.

Moravcsik's benchmark for disproving LI is to show how decisions differ from what a liberal intergovernmentalist analysis would have expected. LI would have predicted a failure of the Commission's initiative, as unanimity was required at Copenhagen and the UK, French and Irish decision-makers were constrained by the significant pressures from their consulting industries. The accounts of the Commission attaining the mandate of co-ordination of the Western aid effort and the Commission's role at the Copenhagen European Council suggest that Community institutions are more than 'a passive structure, providing a contractual environment conducive to efficient intergovernmental bargaining' (Moravcsik 1993: 508). The preceding analysis also challenges Haggard and Moravcsik's conclusions concerning the allegedly marginal role of the Commission in initiating and shaping EC aid. Their claims are essentially based on the failure of Commission initiatives for a Community-wide political and risk insurance and for an expansion of the EIB's role. However, this needs to be contrasted with the more important initiatives, such as the co-ordination of the Western aid effort leading to the PHARE programme itself, the introduction of co-financing infrastructure from PHARE funds as well as the expansion of the aid volume, which were successful. Moreover, the PHARE programme has proved to be a far broader and much more viable policy than they anticipated (1993: 280). It has been continuously adapted to the evolution of Eastern Europe's economic and political transition and obtained a central position in the Union's pre-accession strategy.

The cultivation of alliances with national élites and epistemic communities

Apart from making use of its negotiating skill and its capacity to generate ideas that reshape the perspectives of other parties, the Commission has also made its voice heard through the 'cultivation of political spillover'. This can mean two things: first, the Commission cultivates relations with governmental and non-governmental élites for the purpose of using them as short-term allies, for example, in order to have backing for certain proposals; second, and more explicitly referred to by Haas and Lindberg, there may be co-optation, the process whereby the Commission seeks to pull national élites into its sphere of influence by cultivating long-term relations. Lindberg saw evidence for such a strategy in the Commission's efforts to remain in good standing with the press, which contributed to the pro-integrative climate of the late 1950s and early 1960s. Throughout the PHARE programme this strategy was most clearly evident in 1992–3 when the programme was severely criticized by Parliament and the media for being too cumbersome. As a number of member states pushed for a dissolution of PHARE and its replacement by bilateral aid programmes, DG I established a PHARE information unit in 1992 which was set up to protect the integrity of the programme. This public relations exercise contributed to a generally more favourable attitude towards the Commission's management of PHARE in the following years.

When pursued on an *ad hoc* basis, Commission cultivation efforts are more easily traceable. Throughout the PHARE programme the formation of *ad hoc*

coalitions – that between Delors and Bush constituting the most prominent one – has repeatedly served Commission policies. In its proposals concerning the PHARE programme, the Commission has often used formal or informal channels to sound out member states' interests. This allowed the Commission to design proposals in a manner so that major quarrels could be avoided and support for its initiatives more easily secured. In addition, consultations of umbrella organizations or expert groups provide the Commission with additional leverage and give its proposals more legitimacy. For example, the Commission has from time to time consulted EUROCONTROL, the European organization for air traffic control, for technical information and advice, including Commission proposals concerning the use of PHARE for radar equipment at the international airport in Albania. As one Commission official explained: 'the more any organization is allowed to become involved in the preparation of projects, the greater the stake they feel they have in it, and the more they defend the proposal *vis-à-vis* member states' (interview, July 1996). The Commission can also make use of epistemic communities in a similar manner. For example, there is a transnational epistemic community in the field of nuclear safety which had considerable influence on the establishment of nuclear safety as a prioritized sector within PHARE and TACIS. This network of knowledge-based experts with policy-relevant insights is made up of specialists from European national regulatory authorities, plant operators, engineering companies, Commission experts and others. The fact that nuclear safety became a prioritized area within the PHARE programme can be largely attributed to the Commission's capability of directing the dynamics of relations with this epistemic community. Throughout the development of the nuclear safety aspects of the PHARE programme, the Commission drew on the expertise of the epistemic community and sought its backing in order to get its proposals through the management committee. Moreover, the Commission managed to stabilize its relations with the epistemic community through promoting its institutionalization which, as also previously argued by Mazey and Richardson (1997), can reinforce its bargaining position *vis-à-vis* the Council and national delegations.

These findings suggest that the Commission may influence both levels of the liberal intergovernmentalist game: governments' preference formation is affected by the *ad hoc* and long-term manipulation of domestic élites. At the decision-making level the Commission can make an impact, especially when assisted by temporary support from organized interest. Moravcsik denies the importance of transnational networks. He claims that 'even when societal interests are transnational, the principal form of their expression remains national' (1991: 25). Transnational networks, such as epistemic communities, however, are more important in the decision-making process than anticipated by Moravcsik. The *transnational* organization of interests and ideas matters, as those 'networks operate in ways that lead to *co-ordinated* pressure being placed on governments' (George 1996: 54; emphasis added).¹⁰

The role of the Presidency as an institutionalized mediator

Over the past three decades the Council Presidency gradually developed into an alternative architect of compromise (e.g. Wallace 1985; Kirchner 1992). The unambiguous flexibility concerning the kind of body that could perform this role of promotional broker within Haas' writings (1961: 368) allows for an extension of cultivated spillover to include the mediating role of the Presidency into the concept. The role of the Presidency as an institutionalized mediator and its integrative contribution are supported by this study and perhaps best exemplified by the 1996 Italian Presidency and its management of the negotiations of the latest TACIS regulation. After the negotiations under the Spanish Presidency ended in a deadlock, the Italian Presidency managed to work out a compromise between the opposing national positions. Throughout the Spanish Presidency, the Italians had been aligned with the interests of the Southern states which tried to enhance the chances of their firms winning contracts under the TACIS tendering procedure. When it took up its Presidency, Italy moved away from that position and took a much more neutral stance. This substantiates Regelsberger and Wessels' claim that a strong vested interest may not hurt the Presidency's package broker role (1985: 89). The Italian Presidency found a formula which all member states and the Commission could accept. While greater emphasis on the environment, nuclear safety and cross-border co-operation satisfied the northern states, the southern member states were generally content about the better tendering opportunities given to the less experienced applicants. All member states, including the Commission, welcomed the greater emphasis on the transparency of the tendering procedures (*Agence Europe*, 26 January 1996). The compromise worked out by the Italian Presidency managed to upgrade common interests, as all negotiating parties compromised their original positions, but still felt that they gained something. A similar outcome was anticipated by Haas (1961) in terms of the Commission's mediating efforts.

CONCLUSIONS

The findings of this article pose a severe challenge to those of Haggard and Moravcsik. Contrary to their claims, the establishment of the PHARE programme and its development have been considerably influenced by the Commission. The latter's involvement clearly goes far beyond shadowing intergovernmental decisions. Apart from those empirical challenges, this article also contests Moravcsik's liberal intergovernmentalist approach more generally. The preceding arguments have indicated that the Commission, by itself or in coalition with national élites and epistemic communities, exerted pressures on both levels of Moravcsik's game. Hence, Moravcsik's neat separation between national preference formation and EC-level bargaining does not make sense, as both are manipulated by the supranational and transnational realm. The implausibility of this clear-cut distinction is further underlined by the trend towards the Europeanization of domestic politics (e.g. Rometsch and Wessels 1996). Moreover, the externalization pressures inducing the Community to take co-ordinated action suggest that

a two-level game, in any case, would need to be upgraded to a three-level game in order to reflect the realities more accurately (see Patterson 1997). This begs the question on how many levels we can possibly play. If we added the supranational and the subnational (e.g. Marks *et al.* 1996) levels, the conceptual conciseness and elegance of the Moravcsikian approach would soon give way to a proliferation of variables adding greater complexity and reducing coherence. An 'undisciplined proliferation of variables' was found 'unsatisfying' by Moravcsik himself (1995: 612).

Neofunctionalism, in its revised form, has provided a suitable theoretical framework for a conceptualization of Community aid involvement in Central Eastern Europe. The preceding analysis has drawn on the full repertoire of neofunctionalist dynamics. It restored some of the forgotten insights, such as externalization and task expansion, upgraded underestimated assumptions, like political and cultivated spillover, and extended the current understanding of neofunctionalism by incorporating the concept of epistemic communities and the mediating role of the Presidency into the theory. For the development and revision of old and new hypotheses a number of recent works with micro-theoretical ambitions have been found useful, such as those of Mazey and Richardson, H. Wallace, P. Haas, Majone, and others. Without explicitly marketed as neofunctionalist, their contributions are compatible with and help to develop a revised neofunctionalist framework. However, there is further scope for modification. Future revisions of neofunctionalism may want to consider, for example, the writings of Tsebelis (1994) and Westlake (1994) on the EP which suggest the possibility of incorporating Parliament's role as a conditional agenda-setter or as an integrative force (especially when allied with the Commission) into the concept of cultivated spillover. Insights gained from multi-level governance may provide a further extension of cultivated spillover. Marks *et al.* (1996) have indicated that the Commission can have virtually a free hand in creating and exploiting policy networks (e.g. Marsh and Rhodes 1992) including actors such as regional and local officials and authorities, similar to the findings on the Commission's use of epistemic communities in this article. Finally, Wessels' fusion theory with its emphasis, among other things, on the bureaucratization of the integration process in Europe could provide useful insights for a revision and/or revival of *engrenage* as an explanatory concept (e.g. Rometsch and Wessels 1996). The existing scope for further specification of neofunctionalist hypotheses, the tentativeness of parts of the preceding analysis (e.g. on *engrenage*) and the absence of further (especially counterfactual) case studies testing the more innovative claims of this article suggest that neofunctionalism is still in the making, thus clearing the ground for further research.

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NOTES

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- 1 Haggard and Moravcsik, in their broad study of the political economy of financial assistance to Eastern Europe, concluded that the liberal theory of co-operation best conceptualizes the aid regime. They suggested that the demand for the functional benefits of co-operation, which is shaped by the social interests that underlie governments' preferences, tends to create its own supply (1993: 285). Thus, their theoretical conclusions contain the main thesis which was specified and elaborated by Moravcsik in his liberal intergovernmentalist approach (1993).
 - 2 Later it will be suggested that neofunctionalism itself can only be conceived of as a 'partial theory'. However, it is still a 'wider' approach given the comprehensiveness of the concept of spillover.
 - 3 The sensible distinction between functional, political and cultivated spillover has been previously made by Tranholm-Mikkelsen (1991).
 - 4 For example, the number of Council working groups grew from just over thirty in 1960 (Lindberg 1963: 58) to 268 in 1994 (Wessels 1996: 173) and implementation committees increased from ten in 1960 to 276 in 1990 (Wessels 1996: 188).
 - 5 For this term I am indebted to Geoffrey Edwards who coined it.
 - 6 Neofunctionalism has been criticized, for example, for its predictive pretensions (e.g. Keohane and Nye 1975; Moravcsik 1993), for having underestimated the force of nationalism and the nation state (e.g. Hoffmann 1966), and on the grounds of having disregarded the impact of changing economic conditions on the process of European integration (e.g. Holland 1980).
 - 7 Poland, Hungary, Bulgaria, the Czech Republic, Slovakia, Albania, Romania, Estonia, Latvia, Lithuania, Slovenia, Bosnia-Herzegovina and the former Yugoslav Republic of Macedonia.
 - 8 Neofunctionalist assumptions have provided less insight for the analysis of political spillover in terms of non-governmental élites in this case study. The investigation into the role of organized interests with regard to the PHARE programme did not correspond to the neofunctionalist perception of interest group behaviour. Contrary to Haas' predictions, there was little organized interest at the European level. The Federation Européenne d'Association de Conseil d'Organisation (FEACO), the European umbrella organization of management consultancies as the most prominent actor, was a rather weak player. However, the inapplicability of neofunctionalist hypotheses in this case may not be representative, as the PHARE programme only constitutes a small area of Community activity. In contrast, the findings of, *inter alia*, Sandholtz and Zysman (1989) as well as Mazey and Richardson (1997) suggest that interest groups have begun to play a significant role in the process of European integration, much in the way anticipated by Haas.
 - 9 Pierson (1996) also persuasively shows how, in the area of social policy, a distorted account is given by merely focusing on the modest results achieved at Maastricht, as there has been a significant incremental development of European social policies largely through the accumulation of micro-level commitments.
 - 10 For example, Moravcsik argued that transnational business élites played no significant role in promoting the 1992 project, but that business interests at the domestic level did. However, Moravcsik ignores the fact that 'the leading business interests that pushed most strongly for the single market programme were all linked together through the European Round Table of Industrialists' (George 1996: 54).

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