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# 3

## Neofunctionalism

Arne Niemann, Zoe Lefkofridi, and Philippe C. Schmitter

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## Introduction

Neofunctionalism stands out among early theories of European integration in its sophistication and in the amount of criticism that it has attracted. The theory was first formulated in the late 1950s and early 1960s by Ernst Haas in response to the establishment of the European Coal and Steel Community (ECSC) and later the European Economic Community (EEC). The theory was in its prime until the mid-1960s, during which time the evolution of European integration seemed to vindicate its assumptions. Shortly before the publication of Haas' seminal book, *The Uniting of Europe*, in 1958, cooperation on coal and steel under the ECSC had "spilled over" into the EEC and the European Atomic Energy Community (Euratom). In addition, the formation of the cus-

toms union ahead of schedule and the progress made on the Common Agricultural Policy supported the neofunctionalist claims. From the mid-1960s, however, several adverse developments culminating in the “empty chair” crisis of 1965-66 when French President Charles de Gaulle effectively paralyzed the Community, cast doubt on the theory’s apparent assumption of automaticity. Despite some attempts to revise certain hypotheses and claims in the late 1960s and early 1970s, Haas eventually declared the theory to be “obsolescent” (Haas 1976). With the resurgence of the European integration process in the mid-1980s, neofunctionalism made a comeback in academia. Since the 1990s, several efforts have been made to revise and extend the original approach.

We proceed as follows: after identifying neofunctionalism’s intellectual roots in Part 1, we specify its initial assumptions and hypotheses, including the central notion of “spillover” (Part 2). In Part 3, we review the criticisms that have been leveled against it before turning to later revisions of the theory in Part 4. Part 5 applies the theory critically to explain the nature and probable outcome of the sovereign debt crisis.

## **Intellectual roots**

The roots of neofunctionalism can be found in a very general assumption common to many social science theories, namely that the consequences of some behaviours can explain their existence and trajectory. For whatever reason – organic, mechanical, ideological, or ethical – human beings decide to resolve their problems by engaging in specific tasks (“functions”), and this usually involves cooperation with others. If the tasks are satisfactorily accomplished, the cooperation will persist and may even become institutionalised.<sup>1</sup>

In the case of regional integration, the initial actors are independent national states and innovative, supra-nationally motivated, politicians or administrators. Their shared recognition that interdependence requires that they act collectively in order to resolve some mutually recognised problem motivates a collective effort. In its original functionalist formulation (Mitrany 1966) the theory emphasised the role of experts in identifying the problem and the means for its resolution, the incremental sequence of efforts to accomplish this, and the process of learning from experience in order to apply the method to other problem areas. Later formulations added the potentially autonomous influence of actors within regional institutions and the emerging role of regionally organised interests. Even more important was the recognition that, because the peaceful

and consensual integration of previously sovereign states was so unprecedented, it inevitably led to miscalculations. This, in turn, produced “unintended (and usually unwelcome) consequences” which led to periodic crises which had to be resolved. This process of “spilling over” from one policy area to another and from a lower to a higher level of supra-national authority became the central focus of the theory.

## **Early neofunctionalism**

As a theory, neofunctionalism has evolved with the process of European integration (and, to some extent, with the process in other regions). It underwent a series of reformulations in the late 1960s and early 1970s, when the original version by Ernst Haas was revised and even rejected by Haas himself as “obsolescent” (Haas 1976), and modified by a number of writers such as Philippe Schmitter, Leon Lindberg, and Stuart Scheingold (all students of Haas). Neofunctionalists have differed, for example, with regard to their understanding of the end state of integration and whether, or to what extent, loyalties and identities would shift to the new centre, i.e. whether it would create a distinctive over-arching European nationality.<sup>2</sup> Its central concept, the “spillover” i.e. the tendency for regional policy-making to extend from one arena to another, has been applied by other integration theorists to a wide range of different phenomena. Its distinctive logics of functional interdependence, bureaucratic activism, interest group mobilisation, and learning from one policy arena to another have been surreptitiously inserted into other theories under different labels. Its critics have advanced very selective and narrow interpretations of the approach, particularly with regard to the “automaticity” that was presumed to characterise the spillover process.<sup>3</sup>

## **Definition of integration**

Neofunctionalism offers no single authoritative definition of integration. Its practitioners have always considered it to be a process rather than an outcome or an end state. They also agreed that the process involved the creation and role-expansion of distinctive regional institutions. Moreover, the approach has always been “transformative,” stressing change in both expectations and activities of the part of actors participating in the process.

Haas (1958: 16), based on his study of ECSC, defined integration as:

“the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones.”

Lindberg (1963: 6), who studied the subsequent EEC, offers a somewhat different and less ambitious definition:

“(1) The process whereby nations forego the desire and ability to conduct foreign and domestic policies independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to new central organs: and (2) the process whereby political actors in several distinct settings are persuaded to shift their expectations and political activities to a new centre.”

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**Key points:**

- For neofunctionalists, integration is a process that involves not only the creation of regional institutions and the gradual expansion of their role, but also the transformation of participating actors’ expectations and activities.

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## **Underlying assumptions**

Despite critics’ claims to the contrary, neofunctionalism has never claimed to be a general theory of regional integration. Haas called it an “approach,” recognising that it made no attempt to explain all aspects of the integration process – especially, **why** it was initiated, **who** would be its original and subsequent participants, and **what** would be its eventual institutions. It has been applied to integration efforts in other regions than Europe, but with the conclusion that its mechanisms and assumptions are usually fallacious (Haas and Schmitter 1964: 706f, 720). Precisely because its main presumption is “transformative,” i.e. that regional integration changes the nature of its participants, activities, institutions, and even objectives over time (and across issue arenas), neofunctionalism differs ontologically from theories such as intergovernmentalism that treat it as an invariant sequence of events (mainly Treaty negotiations) involving the same “realistic” and “zero-sum” competition whose outcome is determined by the relative power capabilities of its member states (see Moravcsik and Schimmelfennig, Chapter ?).

Moreover, neofunctionalism does not presume that only governmental actors represent the unified “national interest” and will dominate the process. It is fundamentally “pluralist” in that it postulates a wide (and increasing) range of private actors (interest associations, social movements, political parties, firms) that may play an important role, at both the national and supra-national levels. While Haas (1958: chs. 5 and 6) devoted much of his attention to the role of non-governmental elites, Lindberg (1963: ch. 4) largely focused on governmental elites. Along with the emergence of cross-national interest coalitions and social movements, neofunctionalism also assigns a key role to the administrators of supra-national agencies (“Eurocrats”) in initiating new policies and implementing existing ones.

Overall, the neofunctionalist approach can be described as unremittingly elitist. Integration in Europe was to rest on a process characterised “by manipulation of elite social forces on the part of small groups of pragmatic administrators and politicians, in the setting of a vague but permissive public opinion” (Haas 1968: xii), later also referred to as the “permissive consensus” (Lindberg and Scheingold 1970: 41). The very early neofunctionalist writings did not ascribe much importance to the role of public opinion or politicisation. For Haas (1958; 1961: 374) the public was mobilized and participated in the Community system through affiliation with mass organisations, such as trade unions and other interest groups. From the early to mid-1960s onwards, neofunctionalists started to take politicisation somewhat more seriously. Politicisation was seen “as an intervening variable between economic and political integration.” It “implies that the actors seek to solve their problems so as to upgrade common interests and, in the process, delegate more autonomy to the center” (Haas and Schmitter 1964: 707). By the late 1960s and early 1970s, neofunctionalists engaged more intensely and systematically with the question of politicization. Schmitter (1969: 166) defines politicization as a “process whereby the *controversiality* of joint decision-making goes up. This in turn is likely to lead to *a widening of the audience or clientele* interested and active in integration. Somewhere along the line *a manifest redefinition of mutual objectives* will probably occur [...] along with “*a shift in actor expectations and loyalty* toward the new regional center” (Schmitter 1969: 166: emphasis in original). However, Schmitter’s account of the potential impact of politicization became more cautious soon afterwards, when he suggested such a prediction only applied to exceptionally dynamic (integration) processes, while the more normal result of politicization would be “encapsulation,” a state of rest or stagnation (Schmitter 1970). Lindberg and Scheingold

(1970) dedicated more attention to politicization processes that may disrupt integration. They suggested that the relatively benign climate in which the EC was able to grow during its early years could be transformed into a politicized, conflictual one, unless the Community was perceived as responsive and relevant in terms of the demands and needs of wider segments of the population. Such developments, however, were “not likely to be felt in the years immediately ahead” (Lindberg and Scheingold 1970: 278).

Neofunctionalism deals only with the dynamics of integration, once it has been initiated and before it has ended. Five assumptions encapsulate the driving forces behind its progress:

(1) Its practitioners assume self-interested and (imperfectly) rational actors (Haas 1970: 627), who are able to learn and change their preferences, regarding both their interests and their strategies. Interdependent national and supra-national elites, recognising the limitations of national policy solutions, provide the key impetus. The shift of expectations, activities, and (perhaps eventually) loyalties<sup>4</sup> towards the new centre is also seen as motivated by actors’ conceptions of their (usually material) interests. However, these self-interested motives are not perceived as constant in content. They are likely to change during the integration process as actors learn from the benefits of regional policies and from their experiences in cooperative decision-making (Haas 1958: 291).

(2) Once established, regional institutions can acquire a degree of policy-making autonomy, and the employees of regional institutions can become agents of further integration by identifying new projects, influencing the perceptions of interest (and perhaps eventually, loyalties) of private and public elites and, therefore, modifying the definitions of the national interest in their member states.

(3) Policy decisions by regional institutions tend to be incremental. They are based on successive compromises and seemingly marginal adjustments, which in turn lead to unintended consequences. This arises from the novelty of the task and consequent incapacity of most political actors to engage in “correct” long-term purposive behaviour. They “stumble” from one decision to another and decisions are normally taken with imperfect knowledge and often under the pressure of crises and impending deadlines (Haas 1970: 627).

(4) Neofunctionalists reject the conventional realist axiom that all games played between actors are necessarily zero-sum. Their exchanges are often better characterised



as positive-sum games in which all those involved can benefit and a “supranational” style of decision-making tends to emerge, which Haas defined as “a cumulative pattern of accommodation in which the participants refrain from unconditionally vetoing proposals and instead seek to attain agreement by means of compromises upgrading common interests” (Haas 1964: 66).

(5) Actors – national, sub-national, and, eventually, supra-national – become inexorably more interdependent and embedded in complex networks of production, exchange, and diffusion in an expanded and growing capitalist economy. Increasingly, functional problems cannot be resolved within the boundaries of existing states, and the European level of aggregation seems to provide the best available framework for dealing with them. It is probably based on this assumption that Haas initially believed that this automatic spillover process would lead to the emergence of a political community in Europe before the end of the transitional period established by the Rome Treaty (Haas 1958: 311). No neofunctionalist (including Haas) has since expressed such optimism about this process.

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**Key points:**

- Both governmental and non-governmental actors (e.g. interest associations, social movements, political parties, firms) play a role in the integration process.
- Actors are (imperfectly) rational and self-interested, but are able to learn and change preferences over strategies.
- Exchanges between actors are positive-sum, and during the process of integration actors at different levels (supranational, national, subnational) become interdependent.
- Regional institutions can acquire autonomy, and their policy decisions tend to be incremental.
- The integration process is dominated by elites. From the mid-1960s onwards, neofunctionalists began to take politicisation and the role of the public into account to a certain extent.

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## **The concept of spillover**

The neofunctionalist description-*cum*-explanation of the dynamics of the integration process in Europe can be succinctly encapsulated in the notion of “spillover.” The term

was first applied in two distinctive ways: (1) as a sort of shorthand for describing the occurrence of (further) integration; and, (2) to explain the driving force and inherent logic of integration. Haas (1958: 383) described an “expansive logic of sector integration” whereby the integration of one sector leads to “technical” pressures that push member states to integrate other sectors. The idea is that the functional problems in some (but not all, *vide*, military-security that was transatlantic from the start and strongly encapsulated in functional terms) sectors are so interdependent that they could only be resolved by integrating yet more tasks. Haas (1958: 297) held that sector integration “begets its own impetus toward extension of the entire economy [...]” In the literature, *functional spillover* came to denote the dominant rationale for further integration (cf. Lindberg and Scheingold 1970). Its proponents focused on the economic and political elites as the only agents able to bring about such an expansion.

Moreover, they had to do so without popular knowledge or support since the attention of citizens was focused on more immediate issues and pay-offs. Haas (1958: 312-13) stressed the support and pressures exerted by interest associations and firms while Lindberg (1963: ch. 4) focussed on the role of governmental elites and socialisation processes. He drew attention to the proliferation of EU working groups and sub-committees which, by bringing thousands of national officials into frequent contact with each other and Commission officials, had given rise to a complex system of bureaucratic interpenetration. These interaction patterns, Lindberg argued, increased the likelihood of socialisation occurring amongst civil servants from different member states and with their Eurocratic interlocutors within the Council framework. When the initiative and pressure came predominantly from national (governmental and non-governmental) elites, it was termed to involve a *political*, rather than a *functional, spillover* (Tranholm-Mikkelsen 1991: 5).

Additional impetus for further integration could also come from those employed by supranational institutions. Haas had earlier emphasised how the High Authority of the ECSC and, later, the European Commission consciously fostered agreement on more integrative outcomes. As opposed to lowest common denominator bargaining, a method inherent in strictly intergovernmental decision-making, efforts by “Eurocrats” were characterised by “splitting the difference” and more significantly by a bargaining process of “upgrading common interests,” whereby participants tended to swap conces-

sions in related sectors, encouraged by the mediation of the Commission and other regional institutions. The effect of this effort was later termed a *cultivated spillover* (Tranholm-Mikkelsen 1991: 6).

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**Key points:**

- Spillover provides the impetus for further integration; it happens because functional problems in some sectors are so interdependent that they can only be resolved by integrating yet more tasks (functional spillover).
- This is complemented by the integrative roles of (governmental and non-governmental) national elites (political spillover) and supranational institutions (cultivated spillover).

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## Criticisms

Neofunctionalism is probably the most heavily criticised theory of European integration — if only because it was the first to focus so exclusively upon it (e.g. Hoffmann 1995 [1964]: 84ff). Many of its early proponents “retired” from the field when the EEC manifestly failed to expand as Haas had predicted and entered a protracted period of stasis, from which it only emerged in the mid-1980s. During the 1980s and 1990s, critiques came from many different perspectives. It is important to note, however, that many of the criticisms levelled against neofunctionalism misrepresented its claims, distorted its arguments, or interpreted the approach selectively.

Neofunctionalism was erroneously accused of failing to account for unintended consequences, when that was precisely at the core of its expansive logic (McNamara 1993), or of its supposed failure to recognise that loyalties and identities tend to be multiple (Marcussen and Risse 1997). Its critics have also exaggerated neofunctionalism’s predictive pretensions. This especially relates to Haas’ pronouncement of a political community as a likely outcome of the integration process before the end of the twelve-year transitional period referred to in the Treaty of Rome (1958: 311). Neofunctionalists had avoided making such assumptions about an end state as early as the beginning of the 1960s (Haas 1960, 1964; Lindberg 1963: 6). In addition, the theory was

disparaged for explanatory short-comings on issues beyond its research focus and analytical spectrum, such as questions related to the nature of interest representation and intermediation in the EU (cf. Hix 1994: 6) or the initiation of the integration process in Europe (cf. Milward 1992: esp. ch. 1). For a more extensive account of these contestable critiques, see Niemann (2000: 13-23).

Yet other criticisms provide more pertinent and fundamental challenges. For example, neofunctionalists underestimated sovereignty consciousness and nationalism as barriers to the integration process (Hoffmann 1995 [1964]: esp. 75-84). Likewise they have said relatively little about the (underlying causes of) disparate national demands for integration (Moravcsik 1993). Hooghe and Marks (2009) contested the “permissive consensus” assumption – that Lindberg and Scheingold (1970) and other neofunctionalists still upheld in the 1970s – and argued that one must pay greater attention to the role of the public to understand the development of European integration.

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**Key points:**

- Neofunctionalism was the first theoretical approach to focus exclusively upon European integration; as such, it constituted the point of departure for most other approaches to the study of integration that often misrepresented neofunctionalist claims or interpreted the approach selectively.
- A number of valid criticisms have also challenged the theory, particularly with regard to the role of the public.

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## **Revised neofunctionalism**

In response to events occurring in the integration process itself (and to some of the criticisms), a few neofunctionalists sought to reformulate their theory in the 1960s and early 1970s. Critics responded to their efforts by observing that the revised approach had become increasingly dependent upon ad hoc occurrences and explanations and, therefore, was so indeterminate in its conclusions that it provided no clear direction for research (e.g. Moravcsik 1993: 476). Most academic observers by the 1970s and early 1980s had dismissed the approach as either “out-of-date” or “out-of-touch” (Hansen 1973; Hoffmann 1966; Holland 1980; Webb 1983). Many turned to purely descriptive accounts that eschewed any attempt at theorising. Others sought to subsume the experience of

European integration into orthodox theories of international relations – whether realist, neo-realist, or liberal.

However, some other scholars have implicitly – or sometimes even explicitly – recognised the continuing value of neofunctionalism, suggesting that the approach contains some useful building blocks for contemporary theorising (e.g. Keohane and Hoffmann 1991; Marks, Hooghe and Blank 1996; Pierson 1996). Others even argued for resurrecting the theory in light of the Community's resurgence in the mid-1980s (Taylor 1989; Tranholm-Mikkelsen 1991). Moreover, some more recent approaches bear considerable (if often unrecognised) resemblance to their neofunctionalist ancestors. Alec Stone Sweet and Wayne Sandholtz explicitly credit neofunctionalism's influence when advancing their "supranational governance" approach. They emphasise the role of transnational exchange, EU rules, and supranational institutions. They argue that cross-border transactions generate a demand for EU rules that the Union's institutions seek to supply, and observe that a supranational society emerges as business actors and other societal groups realise that one set of regional rules is preferable to the multiple (and often conflicting) sets of old national rules. Once they had tested the limits of the new supranational rules, they demand more precise rules departing further from the original intentions of member governments. Stone Sweet and Sandholtz argue that the transfer of competences to the EU is uneven and depends on the intensity of demands for regional-level regulation in a given issue area. All this sounds very neofunctionalist, although they do leave open the issue of whether actors' loyalties and identities will eventually shift to the European level (as do most recent revisions of neofunctionalism) and place greater emphasis on the relevance of intergovernmental bargaining (Stone Sweet and Sandholtz 1997; Sandholtz and Stone Sweet 1998).

Few scholars have overtly and consistently identified themselves as neofunctionalists, but Philippe Schmitter is one of them. A former student of Ernst Haas who refused to accept his mentor's declaration of "obsolescence," he first turned to the task of revision in the early 1970s and then again thirty years later. In terms of the basic driving forces of integration, Schmitter not only points to endogenous tensions and contradictions inherent to regional integration – such as those between an integrated single market that is (still) accompanied by exchange rate fluctuations due to the maintenance of national currencies, -- but also to the importance of exogenous factors – not just as an impediment, but potentially as a spur to integration. As for the role of supranational institutions in fostering integration, he belatedly emphasised the role of the

European Court of Justice in making major contributions to the assertion of EU supranationality, although he did not use the term “legal spillovers.” Schmitter (1970) illustrates the dynamic of his revised approach through a model of decision cycles: “initiating cycles,” which the present European Union passed through long ago, are followed by “priming cycles” that account for the changing dynamics of member states and competences of regional institutions in-between decision cycles. “The major difference between ‘initiating’ and ‘priming’ cycles [...] comes from the rising importance of distinctive regional processes. With each successive crisis resolved as the common institutions emerge from the initiation cycles, regional-level rules [...] gain in significance to the point that they begin to overshadow the opinions and actions of national governments, associations and individuals” (Schmitter 2004: 61). As regional processes take greater effect, national actors may become more receptive to changing the competencies and authority of regional institutions.

In his revised theory, Schmitter deliberately rejects the “automaticity of spillover” assumption. Strategic responses other than spillover are conceptualised, such as (a) “spill-around,” the proliferation of functionally specialised independent but strictly intergovernmental institutions; (b) “build-up,” the concession by member states of greater authority to the supranational organisation without expanding the scope of its mandate; (c) “muddle-about,” when national actors try to maintain regional cooperation without modifying its institutions; and (d) “spill-back,” where Member States withdraw from previous commitments. Schmitter points out that so far each of the (priming) decision cycles has generated further imbalances and contradictions, thus avoiding “encapsulation,” a state of stable self-maintenance. He also implies that the EU has not yet reached the “transforming cycle,” when the options for functionally integrating their economies have been exhausted and the actors would have to shift to political integration. In his most recent effort, he inverts the approach and explores the ways in which neofunctionalism can be used to explain regional disintegration (Schmitter and Lefkofridi 2016).

Another revised neofunctionalist framework was developed by Arne Niemann (1998, 2000, 2004, 2006). Taking early neofunctionalism as a starting point, he departs from the original approach in several ways. First, the ontological scope is slightly broadened – beyond what Haas (2001) *post hoc* described as “soft rational choice” for the original neofunctionalist account – towards a more inclusive ontology by encroaching upon “soft” constructivism to a larger extent than Haas (2001) attributed

to his early neofunctionalism (see Risse, Chapter 7 of this volume). While acknowledging that there is a real (material) world out there, which offers resistance when we act upon it, behaviour is only to some extent shaped by physical reality. Instead, actors' capacity for learning and reflection has an impact on the way in which they attach meaning to the material world. They frame or construct the world according to their knowledge, norms, experience and understandings.

Second, integration is no longer viewed as an automatic and exclusively dynamic process, but rather occurs under certain conditions and is better characterised as a dialectic process, i.e. the product of both dynamics (driving forces) and countervailing forces (Tranholm-Mikkelsen 1991). The latter are explicitly conceptualised in his framework. In particular, two concrete countervailing forces are accommodated in the revised neofunctionalist framework: "sovereignty-consciousness" and "domestic constraints and diversities."

Third, Niemann expands the scope of functional spillover beyond mere economic linkages, freeing the concept from its deterministic ontology. He argues that the degree of interdependence between policy areas is not the sole determinant of the strength of functional spillover logics and that functional structures do not determine actors' behaviour in a mechanical or predictable manner. Rather, for functional logics to gain traction they must be *perceived* as plausible or compelling (Niemann 2006: 30f).

Fourth, Niemann refined the concept of political spillover (in terms of non-governmental elites). He argues that not only the quantity but also the *quality* of interaction impacts on cooperative norm socialisation and learning processes. Learning and socialisation are no longer regarded as constant (as implied by early neofunctionalists), but contingent on conditions such as "a commonly shared lifeworld," "uncertainty and insufficient knowledge," "the possibility for lengthy discussion," and "low levels of politicisation." Under such conditions, actors are predisposed to deliberate, reason, argue, and persuade, rather than bargain, and may consequently undergo more deeply-rooted (reflexive) learning.<sup>5</sup>

Both Schmitter's and Niemann's revised accounts are much less parsimonious than earlier versions of neofunctionalism. Their formulations on spillover and their hypotheses are more complex and less deterministic than the original theory. In the introduction to the 2004 edition of the *Uniting of Europe*, Haas made a final contribution to European integration theory. While not attempting to revise his neofunctionalist theory, Haas makes some important reflections on how new

developments in IR and political science theory relate to, challenge, and (potentially) stimulate neofunctionalism. In particular, Haas explores how neofunctionalism “can become part of a respectable constructivism” (Haas 2004: xvii). Haas also considers the utility of (old and new) institutionalist approaches. He concludes that the incorporation of institutionalist thinking has given neofunctionalism “a new lease on life” and the theory is “no longer obsolescent” (Haas 2004: liii).

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**Key points:**

- Revised Neofunctionalism differs from early neofunctionalism in that:
  - It leaves open the issue of whether actors’ loyalties and identities will eventually shift to the European level.
  - It places greater emphasis on transnational exchange (and supranational institutions) (e.g. Stone Sweet and Sandholtz 1997).
  - It rejects the automaticity of spillover, refines the functional and political spillover dimensions of the concept (Niemann 2006), and conceptualises other strategic responses (e.g. spill-around and spill-backs - see Schmitter 1970).

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## **The sovereign debt crisis viewed from a neofunctionalist perspective**

The sovereign debt crisis arguably constitutes a crucial case for the neofunctionalist approach, since it has manifestly penetrated to the arena of “high politics,” i.e. issues close to the heart of national sovereignty, and therefore has become highly politicised (Hobolt and Wratil 2015). Neofunctionalism was previously confined to the analysis of “low politics,” i.e. conflicts that did not (yet) threaten the core features of national identity and sovereignty, and attracted little attention from political parties or the public (Hoffmann 1966).

As mentioned earlier, Schmitter (1970) incorporated the notion of intrinsic crisis into his revised understanding of the basic neofunctionalist paradigm some four decades ago. In response to a crisis, actors (national states, supranational functionaries, cross-national parties, interest associations, and social movements) can adopt a variety of strategies. The outcome of their inevitably conflicting interests can, if the crisis is sufficient, force the regional organisation to change its institutions and practices. Given



favourable conditions, this could enhance either the scope of its tasks or the level of its authority; and under especially favourable conditions, a package deal can emerge that accomplishes an outcome labelled as “spillover.”

This argument follows a sequential logic of decision-making cycles induced by successive crises. These cycles first change the strategies of national actors – governments and non-governmental organisations – that, in turn, place pressure on the scope and level of regional institutions. If the response is expansive, this changes the perception of national and sectoral interests (and, eventually, their very identities), triggering further changes at the regional level that, as the result of a subsequent crisis, transform the basic expectations and strategies of national actors and so on. A “good” crisis, by disappointing established members’ expectations and/or to raising the prospect of new opportunities, compels actors to redefine either the tasks or the level of authority (or both) by making their collective agreement “spill over” into new areas.

In theory, the present Euro crisis would seem to conform almost perfectly to what Schmitter (1970) modeled as “the Transcending Cycle.” This cycle of decision-making was expected to compel member states to:

(a) Engage in more comprehensive policy coordination across sectors and policy arenas; thereby institutionalizing at the supranational level the central governing mechanisms of planning, budgeting, taxing, and subsidizing characteristic of a federal polity.

(b) Break out of predominantly national partisan alliances and form more salient cross-national ones; laying the foundation for the establishment of the most important missing element in the EU polity, namely a distinctively European party system.

(C) Once this has been accomplished, the European Parliament (EP) will become much more significant to citizens and eventually form an EU government transparently dependent upon the results of its elections and not upon the opaque calculations of member governments, as is presently the case.

(D) In short, this is supposed to be the crisis that will drive the EU from economic to political integration and from regional technocracy to democracy.

In what follows, our analysis will be two-fold: With regard to the first expectation, we assess the relevance of the various spillover dynamics for explaining the management of the crisis and the drive towards a more complete Economic and Monetary Union (EMU). Second, we critically examine the impact of politicisation and the role

of experts during the crisis with regard to the second expectation. The third and fourth ones are yet to appear.

As regards the degree of European economic integration, the pre-crisis institutional framework considerably advanced in all main policy areas of EMU. Particularly worth mentioning is, in terms of fiscal and macroeconomic surveillance, the so-called “six-pack” of legislative measures, adopted to strengthen the fiscal rules of the Stability and Growth Pact (SGP) and the national fiscal frameworks and to set up a framework to tackle macroeconomic imbalances. These were supplemented by the so-called “two-pack” and the Fiscal Compact, increasing the coordination of fiscal and budgetary policy (Begg 2013). In the financial sphere, the creation of the banking union, i.e. a centralized banking supervision at the European Central Bank (ECB) and its resolution counterpart, the Single Resolution Mechanism at the Commission, deepened to a remarkable degree European economic integration (Merler 2014).

## **Spillover dynamics**

In a nutshell, the management of the crisis resulted in integrative outcomes due to significant dysfunctionalities that arose from the incomplete EMU architecture created in Maastricht. These functional rationales were reinforced by integrative pressures exerted by supranational institutions, transnational-organised interests and markets. Spillover mechanisms thus provide important insights for understanding the integrative steps taken during the crisis.<sup>6</sup>

### **Functional spillover**

The progress towards deeper economic integration that came about during the process of managing the crisis can be explained as steps taken to alleviate functional pressures arising from an incomplete architecture created in Maastricht. Policy that would normally take place at the same level of governance has been allocated to different levels under the Maastricht EMU design. While monetary and exchange rate policy is an exclusive EU competence, fiscal policies are largely determined at the national level. Financial sector regulation is determined at the European and national level, while financial sector supervision and structural policies (beyond the single market) are loosely coordinated at the EU level, but legislated at the national level.

We can identify three dysfunctionalities that brought about substantial integrative pressures during the crisis. First, the creation of crisis management tools such as the ESM and a tighter fiscal and economic framework sought to alleviate the functional dissonances between a stable single currency and the “no-bailout” clause and decentralized national policies leading to public over-indebtedness. Second, the establishment of the banking union reflects steps taken to reduce the functional dissonances emanating from European financial stability and integration on the one hand, and a banking system that was functioning under essentially national policy allowing private over-indebtedness on the other. The third dysfunctionality arose from the interaction of the first two in what became known as the bank-sovereign nexus (European Council 2012). Fragile public and private debt developments became intertwined at the national level, either because domestic banks were overexposed to failing domestic sovereign debt, or because the sovereign had to rescue the systemically important credit institutions. A close correlation thus arose between sovereign and bank debt with European-wide financial instability implications, simultaneously interrupting the smooth transmission of monetary policy by the banking system. The nexus thus endangered the EU- and Euro area-wide public goods such as financial stability and the single currency. A combination of fiscal backstops like the ESM (and the possibility of bank recapitalization) together with a centralized supervisory and resolution framework sought to alleviate the bank-sovereign nexus.<sup>7</sup>

Functional pressure may also, to some extent, explain the *timing* of change. The crisis can, at least in part, be seen as the result of existing, and amplifier of subsequent, functional pressures. If functional pressures are not resolved through further integrative steps, this can promote crises, which in turn cause further functional pressures during the process of crisis management, thereby eventually triggering the necessary steps of integration. At least some elements of the crisis can be attributed to the first two dysfunctionalities described in this section (Schmidt 2012: 76). Moreover, the lack of crisis management tools led to the third dissonance, whereby the support of illiquid banks to ensure financial stability became difficult for over-indebted national governments (Dyson 2013: 216).

### **Political spillover**

Next, we examine the integrative role played by non-governmental elites by discussing the role of interest associations and financial markets.

*The role of interest associations:* Many Europe-wide organised interest groups – especially those representing large-scale businesses – have a strong preference for further integration. Survey data suggest that 78 percent of Eurozone business leaders are positive about the overall impact of joining the Euro, 94 percent support the survival of the Euro, and 89 percent favour further economic integration (Grant Thornton International Business Report 2013). Their position papers, reports, and statements further corroborate their interest in supranational solutions (e.g. BusinessEurope 2011; European Roundtable of Industrialists 2011, 2012). Also, in line with neofunctionalist assumptions, much of the corporate interest representation and articulation during the crisis took place through Brussels-based umbrella organisations and/or in a transnationally co-ordinated fashion. More importantly, specific associations have been able to influence outcomes. For example, in the negotiations for the “six-pack,” BusinessEurope acted as a policy entrepreneur, arguing for stricter binding sanctions – both in terms of greater automatism and transfer of fines to a crisis resolution fund – even before this was taken up by the Commission or Task Force (Knedelhans 2014).<sup>8</sup>

*The role of the financial markets:* Although financial markets may be treated simply as arenas in which actors play out their individual strategies and respond to each other (Overbeek 2012: 40), a majority of authors have viewed them (mostly implicitly) as actors during the crisis (e.g. Schimmelfennig 2012: 396; Yiangou, O’Keefe, and Glöckler 2013: 16ff). They acted, largely autonomously, both directly and indirectly to promote integration during the crisis (Schmidt 2012: 24). They may not have been organised as a unitary actor, but due to the high uncertainty and herd-like behaviour observed during the crisis (Dyson 2013:220), their actions appeared unitary vis-à-vis EU policy-makers and exerted significant pressure towards the adoption of integrative measures (Schimmelfennig 2012: 396). In particular, they bluntly revealed the dysfunctionalities of the original EMU design and became a serious threat to the Euro area through the radical reassessment of a variety of economic and credit risks. During numerous “historic” summits, where decision-makers attempted to persuade the markets of their ability to solve the problems, original positions gradually subsided to the pressure of financial markets, leading to more sustainable measures such as the six-pack, Fiscal Compact, and Banking Union (Vilpišauskas 2013: 372). From a neofunctionalist

perspective, financial markets became a “revealer” of, and barometer for, the degree to which functional dissonances were addressed: when significant crisis management and integrative measures were taken, markets generally reacted positively, reducing pressure on sovereign bonds. By contrast, investors withdrew rapidly from these markets when they saw policy-making inactivity and hesitation.

### **Cultivated spillover**

The Commission, the European Parliament, and especially the European Central Bank shared a clear preference for substantial action towards further integration. The Commission sought to exploit the opportunity through proposals that would reinforce its authority in fiscal, budgetary, and banking arenas – and even raised the prospect of a “quantum leap” towards political union (Lefkofridi/Schmitter 2014: 6). The resulting regime of economic and financial governance provided the Commission with new opportunities for influence – primarily through new implementation powers (Bauer and Becker 2014). Though somewhat marginalised during the crisis, the EP exerted a lot of pressure so that the ESM and the Fiscal Compact were subjected to revisions (Fabbrini 2013: 1022f). In the end, the EP’s mobilization resulted in its stronger involvement in the new regulatory framework – its role was strengthened compared to the previous version of the Stability and Growth Pact and to national parliaments (Fasone 2014).

The ECB reacted with standard and non-standard monetary policy measures, including the rapid reduction of its key interest rates; changes to its collateral policy and Long Term Refinancing Operations (LTROs); the adoption of three Covered Bond Purchases Programmes (2009, 2011, 2014); the Securities Markets Programme (SMP) in 2010 and the announcement of Outright Monetary Transactions (OMT) in 2012, both with the aim of enhancing the transmission of monetary policy through purchases of securities in secondary markets under different conditions. Beyond monetary measures, the ECB was an early advocate of integrative deepening to buttress EMU (Van Rompuy et al. 2012) and played an advisory role in assisting the authorities to shape and monitor EU-financed economic adjustment programmes. The ECB’s role in advancing integration was most evident in the development of the banking union. In neofunctionalist terminology, the ECB’s advocacy to adjust and deepen the EMU framework is understood as resolving functional dissonances between the different policy domains under EMU that jeopardized the ECB’s independence and its ability to shield the Euro and

deliver price stability. Menz and Smith (2013: 203) even suggest that the ECB was a “decisive, at times even shrewd actor in pursuing its favoured strategy. In fact, much of the empirical story reads like one of quiet, yet powerful, mission creep”. They further claim that ECB “officials [were] dedicated to not only salvaging the Euro at any cost, but also pushing for fiscal union”.

## **The Euro crisis as the revenge of neofunctionalism?**

Has the Euro crisis been “the revenge of neofunctionalism” (Cooper 2011)? There’s at least two good reasons to question this conclusion. First, the **timing of the original EMU** agreement had little or nothing to do with dysfunctional conditions in the European monetary system. The pre-existing arrangement that permitted member states to modify the rates of exchange between their national currencies within flexible limits was working relatively well, with only occasional difficulties. There was no compelling need for a common currency. What switched the item from the passive agenda, where it had seen much discussion and little progress, to the active one was the reunification of Germany. Other EU governments, especially the French, insisted on an enlarged Germany’s providing additional proof of its continued commitment to the integration process, and the strongest demonstration was the demise of the Deutschmark. In other words, EMU was clearly the product of an “intergovernmental” decision taken on the basis of calculations of relative power and national interest.<sup>9</sup> In purely functional terms, a common currency was a likely objective for the region in the indefinite future (Mutimer 1989), but the choice to take this step in the early 1990s was decidedly premature.

Second, one of the **results** of EMU was decidedly not predicted by neofunctionalists. Most neofunctionalists from the early/mid-1960s, beginning with Haas and Schmitter (1964), assumed that eventually the expansion of the process of regional integration would become increasingly politicised as it was bound to encroach upon more and more controversial issue arenas – from negative measures designed to facilitate the flow of transnational exchanges to positive ones that imposed uniform regulations on such flows, from “pareto-optimal” policies that were intended to benefit everyone without harming anyone to distributions of funds and exemptions with clear winners and losers. Evidently, that is precisely what occurred as a result of the Euro

crisis. More and more EU citizens began to pay attention to the process and to mobilize their respective civil societies and party systems to an unprecedented extent. What was not expected by (most) neofunctionalists was that most of the immediate political mobilization would be against, rather than in favour, of further integration. Their scenario was, unsurprisingly, strictly functional: since the process was expected to and did indeed generate more benefits than costs for the public, it would respond favourably to such an expansion. Only national political elites whose status was so contingent on the role that they played at the domestic level were expected to oppose it. Exactly the opposite occurred. The improvement in their material welfare proved insufficient for most citizens in the EU – at least, until the financial crash of 2008. Instead many national elites were quite willing to shed responsibility for making and implementing policies that were either too controversial or too ineffectual to be implemented within the confines of their respective states. This allowed them to avoid accountability for any eventual failures and to pass on the responsibility to the EU. Citizens shifted their attention upward, but not their gratitude nor their identity.<sup>10</sup>

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### **Key points**

- As expected by neofunctionalists, supranational institutions (Commission, EP and especially ECB) exploited the crisis and the substantial dysfunctions of the EMU system it revealed to push for more integration and strengthened their involvement in the emerging economic and financial regimes.
- Largely contrary to neofunctionalists' original expectations, the politicisation of European integration during the crisis generated public mobilization mainly against, rather than for, further integration.

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## **Why does neofunctionalism matter for future research?**

Admittedly, neofunctionalism has been used mainly to explain progress in regional integration, and most of its practitioners have normatively approved of it. There are, however, at least nine reasons why neofunctionalism and its revised versions should matter for future research and could be used to explain integration and disintegration in Europe (and beyond) and even to provide material to critics of the process.

First, neofunctionalism is “transformative” in two senses: (1) it regards the process of integration as changing in both its objectives and its participants; and (2) it has repeatedly demonstrated its capacity to retain its core concepts, mechanisms, and hypotheses while incorporating changes in the conditions that affect them. There is no reason, in principle, that these transformations have to be positive – either in moving the process forward or in gaining further public approval.

Second, neofunctionalism explicitly denies that institutions of regional integration can be treated as equivalent to the myriad transnational and intergovernmental organisations that populate the contemporary world system. The latter are deliberately repetitive and non-transformative and seek to sustain the existing interstate order; the former have a distinctive purpose and dynamic and aspire to improve that order. Whether they succeed depends on both the nature of regional actors responding to functional interdependencies and the eventual reaction of mass publics (most national and some supranational) to these efforts.

Third, neofunctionalism is the only theory of regional integration that explicitly incorporates the non-governmental organisations of civil society – interest associations, social movements, humanitarian organisations, etc. – into the process and explicitly denies that only so-called sovereign national states are relevant in determining its policies or outcomes. Again, how these organisations respond to the increased scope and level of authority of regional organisations is a contingent matter. The outcome of the unavoidable politicisation triggered by this process is not just the product of governments acting in their (alleged) national interest.

Fourth, neofunctionalism incorporates two dimensions of human behaviour that are not usually considered or even mentioned in classical theories of international relations: learning and socialisation. It presumes that repeated interactions across different levels of political aggregation and in different policy arenas will alter the perceptions and calculations of those involved. If the outcomes of these policies are perceived and inculcated as positive, this will make the success of future cooperation more likely.

Fifth, efforts at regional integration via functional cooperation and policy implementation are no longer a monopoly of Europe. Neofunctionalism offers a distinctive set of



concepts, assumptions, and hypotheses that are potentially applicable elsewhere and the comparison with the more-developed case of Europe can be fruitful.

Sixth, crises have been an integral part of the process of regional integration. Most have been endogenous to the process, others have originated from the EU's and its member states' relation to the exogenous, "extra-European" environment. Neofunctionalism, better than any alternative theory, can explain why the former emerge and what their likely effects will be. In other words, it is clearly biased in favour of endogeneity, but is still capable of contributing to understanding diversity in the response of member states to exogenous shocks and events.

Seventh, the seemingly inexorable increase in interdependence between national economies, societies, and states (i.e. globalization) is an undeniable fact of the contemporary world. Neofunctionalism is rooted in this fact, albeit with an emphasis on its impact at the regional level. Although the European region has a "peculiar" set of functional interdependencies (not to mention, emotional memories of historical antagonisms), only a theory that recognizes and internalizes this phenomenon stands a chance of explaining contemporary relations between national states – whether or not they are successfully transformed.

Eighth, unlike some theories of European integration, neofunctionalism can be fruitfully drawn upon when studying the EU's role in the world. In building on its established body of spillover pressures and extrapolating an "external spillover" dynamic, neofunctionalism offers a useful perspective on the extension of the scope of EU competences as well as its action in the external policy realm (Bergmann and Niemann 2018).

Finally, this chapter has also discussed the limitations of neofunctionalism. It is much better at explaining the process of regional integration once it has been initiated than at explaining what its eventual outcome will be, who will be involved in it, and when the process will reach a stable equilibrium. The potential consumer of this approach should be aware of its limited aspirations and decide to buy into it as a function of his or her specific research topic.

## Conclusion

Although neofunctionalism has been widely criticised and even declared obsolescent, it remains an important approach for conceptualizing and explaining the dynamics of European integration. There are several reasons for that: first, as the case illustration has indicated, neofunctionalism (still) has a very useful toolkit for analysing salient issues, explaining EU decision processes and policy outcomes. Second, neofunctionalism has inspired subsequent theorizing, and later approaches have drawn extensively (if not always explicitly) on its assumptions and hypotheses. Third, neofunctionalism has proven capable of reformulation, partly owing to the nature of its core assumptions, concepts, and hypotheses, and partly to its authors' propensity for self-reflection and self-criticism.

Hence, rather than confining its relevance to the specific conditions prevailing at the time of its formulation in 1950s Europe, the student of regional integration should recognize that neofunctionalism is an evolving theory – and one that is no longer confined to Europe. Its academic location between the disciplines of international relations and comparative politics enhances its potential for explaining an unprecedented process of transformation that virtually by definition cannot be captured by either of these sub-disciplines of political science. As such, its research agenda is far from exhausted. There is continued potential for developing the theory, not least in further specifying the conditions under which the pressure of different types of spillover is likely to emerge and affect the subsequent strategic responses for further integration or eventual disintegration. Thus, the approach is open-ended and inconclusive, but that should be taken as a challenge rather than as an excuse for dismissing it out of hand.

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### **Key points:**

- Neofunctionalism draws on international relations and comparative politics and emerged in the early days of the European project.
- Nowadays it remains an important theoretical toolkit for analysing and understanding the dynamics of regional integration.

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## Guide to further reading

Haas, E.B. (1958) *The Uniting of Europe: Political, Social and Economic Forces, 1950-7*, London: Stevens.

This seminal work provided the foundation for the neofunctionalist approach. Now in its third edition, the book is one of the most frequently referenced titles in the entire literature on European integration.

*Journal of European Public Policy* (2005), 12(2), Special Issue in Honour of Ernst Haas.

An edited collection of papers that reviews different aspects of (Haas') neofunctionalism.

Lindberg, L. (1963) *The Political Dynamics of European Economic Integration*, Stanford, CA: Princeton University Press.

A neofunctionalist classic. While Haas (1958) focused on the ECSC, Lindberg here concentrates on the EEC.

Niemann, A. (2006) *Explaining decisions in the European Union*, Cambridge: Cambridge University Press.

This book analyses, restates and revises the neofunctional approach and assesses the usefulness of the revised neofunctionalist framework for three cases studies.

Schmitter, P. (1969) 'Three Neo-functional Hypotheses about International Integration', *International organisation* 23(2), 161-166.

A concise formulation of the concept of spillover.

Schmitter, P.C. (1970) 'A Revised Theory of Regional Integration', *International organisation* 24(4), 836-868.

An important revision of neofunctionalist theory.

## Discussion questions

1. Why does the concept of spillover occupy such a prominent place in neofunctionalism – especially when much of the process of integration seems to consist of minor, incremental, almost daily interactions across national borders?
2. Discuss the criticisms that have been levelled against neofunctionalism. Do they invalidate its basic assumptions? To what extent do they focus on aspects of the process that the theory does not intend to address? To your mind, what remains valid?

3. Neofunctionalism is a notoriously moving target. It proudly proclaims that it evolves and mutates with the integration process itself. Is this a strength or a weakness? Is this true of other theories?
4. To what extent and how has neofunctionalism influenced and informed more recent theories? From your reading of the other chapters, which of them seem to have borrowed the most?
5. What contribution has neofunctionalism made to theorizing European integration?

## **Study questions**

1. How do neofunctionalists define regional integration?
2. What are the key assumptions of neofunctionalism?
3. What are the commonalities and differences between early and revised versions of neofunctionalism?
4. What are the different types of spillover?
5. How does neofunctionalism help explain the current economic and financial crisis in Europe?

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## Notes on Contributors

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<sup>1</sup> For a general exposition and critique of "functional causal imagery" see Stinchcombe (1968).

<sup>2</sup> Compare, for example, Haas (1958: 16, 311) with Lindberg (1963: 6).

<sup>3</sup> Perhaps the most striking example of such a kind of selective and misleading reading is the work of Alan Milward (1992: 11f).

<sup>4</sup> Haas actually held that such a shift in loyalties need not be absolute or permanent, allowing for multiple loyalties (Haas 1958: 14). In addition, soon after devising his original definition of integration, Haas downplayed the previously amalgamated end-point (Haas 1960), and also abandoned shifting *loyalties* as a defining characteristic of integration. Instead, he emphasized the transfer of *authority* and *legitimacy* (Haas 1970: 627f, 633).

<sup>5</sup> Cf. Niemann (2004; 2006) who builds on Habermas (1981), Risse (2000), and Checkel (2001).

<sup>6</sup> This section draws on Niemann and Ioannou (2015).

<sup>7</sup> As pointed out by Niemann and Ioannou (2015), the functional spillover logic was strong also because alternative solutions to reach the original goal (the stability of EMU and safeguarding the Euro) were considered politically and economically far too costly and/or risky.

<sup>8</sup> Compare BusinessEurope (2010a, b) with European Commission (2010a, 2010b) and European Council (2010). Also cf. Knedelhans (2014).

<sup>9</sup> The outcome challenges one of the core assumptions of that theory which is rooted in the notion that governments act rationally in full knowledge of eventual consequences. EMU

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was intended to preclude the possibility of German hegemony in Europe. It actually ended up increasing Germany's relative power, not to mention a fierce resentment that threatened the entire project of European integration.

<sup>10</sup> "Politicisation" has become one of the most salient features of European integration since the beginning of the twenty-first century. Virtually all of the theories and approaches in this revised version will have to cope with it - somehow and eventually. None of the previous ones anticipated it, except for neo-functionalism. Schmitter (1969) even formalized it as an explicit hypothesis. His mistake was not only to misjudge the direction that mass public opinion and elite behaviour would take in response to this process, but also its instrument. He assumed that this would be the crisis that would finally produce a European party system – eclipsing, if not superseding, the national ones. There is absolutely no sign that this is happening, either as a consequence of the Euro crisis or any other event. For an approach that focuses specifically on the emergent process of politicisation, see the "post-functionalist" work of Hooghe and Marks (2009).