Erschienen in: Journal of European Public Policy ; 22 (2015), 6. - S. 764-782
https://dx.doi.org/10.1080/13501763.2015.1020835

The European Union as a system of differentiated integration: interdependence, politicization and differentiation

Frank Schimmelfennig, Dirk Leuffen and Berthold Rittberger

ABSTRACT This contribution conceptualizes the European Union (EU) as a system of differentiated integration characterized by both variation in levels of centralization (vertical differentiation) and variation in territorial extension (horizontal differentiation) across policy areas. Differentiation has been a concomitant of deepening and widening and has increased and consolidated as the EU's powers, policy scope and membership have grown. Turning to explanation, the contribution attributes the pattern of differentiated integration in the EU to the interaction of interdependence and politicization. Differentiation among the member states (internal differentiation) results from supranational integration under conditions of high interdependence and politicization. By contrast, external differentiation (the selective policy integration of non-member states) occurs in highly interdependent but weakly politicized policy areas. These constellations are illustrated in case studies of differentiation in the internal market, monetary union and defence.

KEY WORDS Differentiated integration; European Union; interdependence; politicization

INTRODUCTION

'What is the European Union (EU)?' and 'How does it develop?' are the perennial questions driving the study of European integration. In order to answer these questions, the theory and research of European integration has predominantly focused on the expansion of the EU's tasks, competencies and membership. The big debates in European integration theory between different versions of neofunctionalism and intergovernmentalism have focused empirically on big 'deepening' decisions such as the establishment of the European Communities (e.g., Haas 1958; Milward 1984), the Single Market, or Economic and Monetary Union (EMU; e.g., Moravcsik 1998; Sandholtz 1993; Sandholtz and Zysman 1989). More recently, ideational approaches have been applied to the same turning points (Parsons 2003), as well as to EU enlargement

(Schimmelfennig 2003). In all of these studies, the issue has been why and under what conditions the EU deepens or widens and what this tells us about its nature. In this context, instances of differentiation such as the opt-outs from EMU, the transitional arrangements for new member states or the association of non-member countries were mainly seen as (temporary or marginal) side effects of negotiations on bargaining about 'more integration'.

In this contribution, we take a different perspective. We propose to conceptualize the EU and explain its development as a '*system* of differentiated integration' (Leuffen et al. 2013). Rather than restricting differentiation to a temporary, accidentalor non-systematic feature of European integration, we argue that differentiation is an essential and, most likely, enduring characteristic of the EU. Moreover, differentiation has been a concomitant of deepening and widening, gaining in importance as the EU's tasks, competencies and membership have grown. We distinguish two types of differentiation that we term vertical and horizontal differentiation. Vertical differentiation means that policy areas have been integrated at different speeds and reached different levels of centralization over time. Horizontal differentiation relates to the territorial dimension and refers to the fact that many integrated policies are neither uniformly nor exclusively valid in the EU's member states. Whereas many member states do not participate in all EU policies (internal horizontal differentiation), some non-members participate in selected EU policies (external horizontal differentiation).

From this conceptual starting point we turn to explanatory theory. Two main factors of integration are distilled from classic theories of European integration: interdependence and politicization. Whereas interdependence is a driver of integration, politicization acts as an obstacle. We develop conjectures on how different constellations of interdependence and politicization generate vertical and horizontal differentiation in the EU's system of differentiated integration. In a nutshell, we argue that vertical differentiation mainly results from variation in interdependence, whereas horizontal differentiation is triggered by politicization. Internal differentiation – EU member states opting-out – is produced by supranational integration under conditions of high policy interdependence and asymmetric politicization across member states. External differentiation results if non-members that are unable to join because EU membership is highly politicized opt in selectively in highly interdependent but weakly politicized policy areas. We demonstrate the plausibility of our theory in three brief case studies on the internal market, monetary union and EU defence policy.

DIFFERENTIATED INTEGRATION IN THE EU

A system of differentiated integration

Polities can be conceptualized as three-dimensional configurations of authority (Leuffen et al. 2013: 8–9).

- *Level of centralization*: polities that monopolize authoritative decisions in the centre have a maximum level of centralization, whereas decision-making authority dispersed across a multitude of actors indicate a low level of centralization;
- *Functional scope* varies between authority over a single issue and authority over the entire range of policies;
- *Territorial extension*: the authority of a polity can be limited geographically to a single political territory, or it may encompass several territories – up to the entire world.

The classical configurations are the (unitary) state and the international organization. In the unitary state, all policies are decided at the same (central) level and cover the same (limited) territory. In addition, the modern state has maximum functional scope: it covers all policy areas. By contrast, international organizations are typically decentralized and task-specific, but cover a large number of territories.

Federal states differ from the unitary state in that policy areas are governed at different levels of centralization or co-governed by subnational and national authorities. The territorial extension and functional scope of the federal state, however, is of the same order as that of unitary states. It deals with all policy areas inside a closed territory (note, however, that a federation's extension grows with the number of subunits of which it is composed). This is also the basic model of federalist conceptions of European integration, which assume a set of member states that form a union and allocate the authority over policy sectors to themselves, to the union or as mixed competences.

In contrast to the federalist conception, both the level of centralization *and* the territorial extension may vary by policy or task. The EU has different boundaries and members for the eurozone, 'Schengenland' or the Single Market. At the same time, the EU differs from the conglomerate of functionally specialized and partly overlapping but formally independent international organizations that characterizes the international system and is captured in alternative visions for 'competitive governments for Europe' (Frey and Eichenberger 1996) or a 'condominio' of 'many Europes' (Schmitter 1996: 136). Such conceptions ignore the extent to which the EU has developed an institutional core or centre that reaches across the EU's policy sectors with their variation in centralization and territorial scope. This institutional core is constituted, first, by the Treaty on European Union; second, by the EU's institutions, namely the European Council, which gives general directions for all policy sectors of the EU and for treaty revisions, but also by the Council, the European Commission, the European Parliament and the European Court of Justice, which are present – albeit to different degrees and with varying competences – across the board of EU activities and across the territories into which the EU's external relations reach. Finally, there is a core group of member states – the original EC-6 and most members of the eurozone – that take part in all the activities of the EU at the highest level of centralization. The EU is not 'many Europes' with task-specific jurisdictions each having their own organization but *one Europe with a single organizational and member state core and a territorial extension that varies by function*. This is how we define a 'system of differentiated integration'.[1]

Systems of differentiated integration are characterized by *vertical and horizontal differentiation*. In determining differentiation, we start from a 'policy' as a set of rules and procedures governing an issue or issue area. Each policy has a certain level of centralization (or vertical integration) and territorial extension (or horizontal integration). The variance in vertical integration across policies constitutes the degree of vertical differentiation in the system. In addition, we can determine the horizontal integration in each policy area by counting the number of participating states. The variance in horizontal integration across policies constitutes the extent of horizontal differentiation in the system. A system in which either vertical differentiation or horizontal differentiation (or both) are zero ceases to be a system of differentiated integration.

In addition to the extent of horizontal differentiation, we can distinguish different kinds of horizontal differentiation in the EU. There is no horizontal differentiation in a policy area if there is uniform and exclusive membership of EU member states. This is the case, for instance, in the Common Agricultural Policy. A policy area is characterized by *internal differentiation* if at least one member state does not participate in integration – monetary policy is the most prominent case in point – and by *external differentiation* if at least one non-member state participates: this is true for the internal market, which extends into the European Economic Area (EEA; with Iceland, Liechtenstein and Norway). In addition, internal and external differentiation can go together as in the policies covered by 'Schengen', which combines the membership of EU non-members (such as Norway and Switzerland) and the non-membership of EU members (such as Ireland and the United Kingdom [UK]).

Measuring and mapping differentiated integration

Leon Lindberg and Stuart Scheingold (1970) were the first to systematically categorize and map European integration with the help of two indicators: extension (functional scope in our terminology) and intensity (level of centralization). Tanja Börzel (2005) provides a more fine-grained and robust measurement (of what she calls breadth and depth), which explicitly builds on the work by Lindberg and Scheingold but extracts its information exclusively from formal decision rules as spelled out in the treaties. In our mapping of integration, we both simplify and expand Börzel's measurement. First, we collapse breadth and depth into a single measurement for vertical integration and extend it to 2013.[2] Following Börzel, our variable is ordinal and consists of six categories detailed in Table 1. Note that our data reflects treaty-based differentiation and hence excludes differentiation that is based on EU secondary legislation. Second, we extend the measurement to horizontal integration by counting the number of states that formally participate at the highest level of

Table 1 Measurement of vertical integration

	Vertical integration
0	No EU-level policy co-ordination
1	Intergovernmental co-ordination (no delegation, no pooling)
2	Intergovernmental co-operation (minimal delegation, no pooling)
3	Joint decision-making I ('Community method', but limited pooling)
4	Joint decision-making II ('Community method', pooling)
5	Supranational centralization (full delegation to supranational bodies)

Source: Börzel (2005: 221).

integration in a particular policy area. We then divide that number by the total number of European states existing at that time.[3]

Figure 1 displays the development of vertical and horizontal integration measured as the mean of 18 policy area scores (as defined in Börzel [2005]) and standardized to range between 0 and 1. Two trends can be discerned. First, European integration is a story of growth in integration. There are periods of accelerated growth (the 1950s and the 1990s) and periods of relative stagnation (the 1970s and 2000s) but no rollback. By 2013, the average value for vertical integration has risen to a level of almost 80 per cent (or 4 on the vertical integration scale). The strong qualified majority voting-based version of the 'Community method' is now the typical decision-making mode. Similarly, the line for horizontal integration indicates that 75 per cent of European countries now partake in the average EU integrated policy.

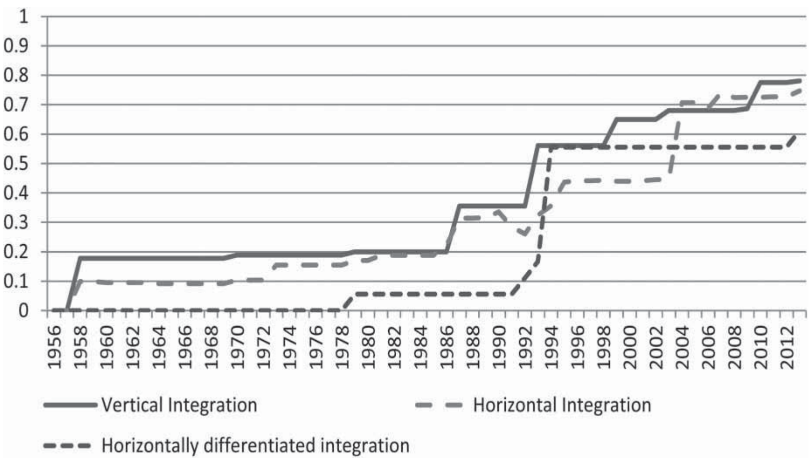

Figure 1 Vertical integration, horizontal integration, and horizontal differentiation in the EU (annual mean policy scores of 18 policy areas, 1956–2013)
Source: Börzel (2005: 221) for vertical integration; own data.

Second, it is remarkable that the lines for vertical and horizontal integration show roughly the same trajectory and have reached roughly the same level of integration. They indicate that the alleged dilemma between deepening vs widening does not exist. It appears as if vertical integration has attracted ever more European countries to the EU and/or that enlargement has produced renewed interest in deepening. At least, vertical and horizontal integration do not stand in each other's way.

Figure 1 also shows that the dynamic growth in integration has been accompanied by an equally dynamic growth in *horizontal differentiation* since the 1990s. Horizontal differentiation is measured as the share of policy areas with either internal or external differentiation.[4] Until the early 1990s, integration in the European Community (EC) has remained largely uniform. With the exception of the European Monetary System (EMS, since 1979), transitional provisions for new member states and a few individual exemptions, member states have always participated in, and non-member states have been excluded from, *every* integrated policy. The 1990s, however, have seen a surge in both internal and external differentiation. Since the mid-1990s, more than half of the policy areas in our sample have been horizontally differentiated in one way or another. Figure 1 suggests that horizontal differentiation has been the facilitator – or the price – of dynamic growth in both vertical and horizontal integration.

Figure 2 presents an additional measure of differentiation focusing on the differences between policies. For both vertical and horizontal integration, it displays the range of the 18 policy areas, i.e., the distance between the policies with maximum and minimum integration. The figure shows, first, that vertical differentiation has always been more pronounced than horizontal

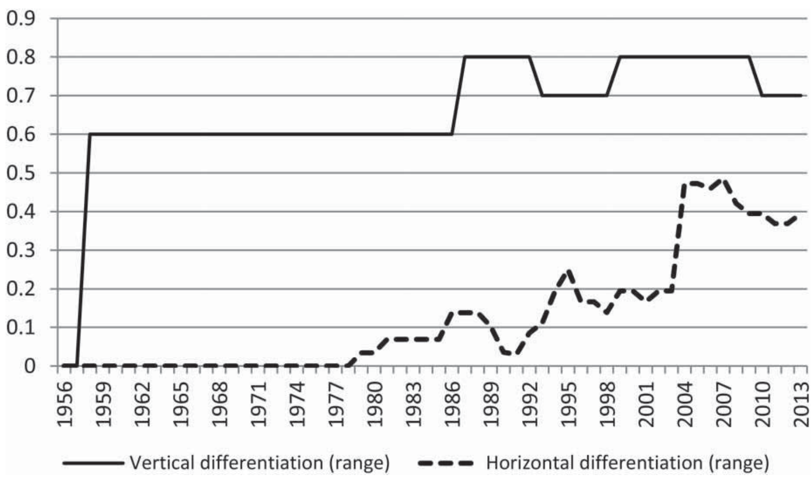

Figure 2 Vertical and horizontal differentiation in the EU, 1956–2013 (range values)

differentiation – the range values are higher. In other words, the differences in centralization across policy areas exceed the differences in membership.

Second, vertical differentiation has remained a stable concomitant of European integration throughout its history. In spite of strong overall vertical integration, the differences in centralization across policies have remained almost constant. The range spread between the most and the least centralized policy has fluctuated between 60 and 80 percentage points (or three to four points on the five-point vertical integration scale) and is currently exemplified by the difference in vertical integration between defence and monetary policy.

Third, horizontal differentiation has set in later, has fluctuated more strongly and has significantly increased over time. In line with Figure 1, horizontal differentiation, i.e., the opt-out or exclusion of member states from integrated policies, and the participation of non-member states, have only started in the late 1970s as result of horizontal differentiation in the EMS. Horizontal differentiation has reached a second peak in the mid-1990s, marking the difference between an internal market expanded to the European Free Trade Association (EFTA) countries (the EEA countries and the new members of 1995) and an EMS that had shrunk as a result of the monetary turbulences of the early 1990s. A similar discrepancy occurred in the mid-2000s, when eastern enlargement increased the European Research Area to 31 members, whereas the eurozone remained limited to 13 member states.

In sum, whereas vertical differentiation has always exceeded horizontal differentiation in European integration but has remained more or less stable, horizontal differentiation has grown over the past 30 years. In other words, the data show that the EC of the 1950s to the late 1980s was a highly decentralized but largely uniform federal polity; by contrast, the EU has developed into a system of differentiated integration combining vertical with horizontal differentiation. Moreover, the strong growth in both vertical and horizontal integration has not reduced either vertical or horizontal differentiation. The patterns and trends in the data on integration suggest that differentiation is a durable feature of European integration and maybe even growing in importance. To better understand these patterns and trends, we now move on to theorizing their main driving forces.

EXPLAINING DIFFERENTIATED INTEGRATION: INTERDEPENDENCE AND POLITICIZATION

A system of differentiated integration is a polity that displays variance across policy areas and across space, while maintaining an institutional core. We suggest that the emergence, configuration and development of the EU's system of differentiated integration can best be understood by focusing on properties of its constitutive components: policies and countries. We further suggest that two variables constitute a promising starting point for a parsimonious explanation of differentiated integration: interdependence and politicization. Whereas interdependence can generally be conceived as a factor that creates demand for and promotes integration, politicization tends to inhibit integration. Where high levels of interdependence and politicization come together, differentiated integration is likely to result.

Interdependence is considered a main driving factor of integration in both major integration theories: (liberal) intergovernmentalism (Moravcsik 1998) and in neofunctionalism or supranationalism (e.g., Stone Sweet and Sandholtz 1997). Intergovernmentalists argue that governments, when becoming aware that unilateral policy options do not produce desired results, engage in multilateral co-operation to obtain economic and security benefits they could not achieve otherwise. If there are negative externalities entailed in policies conducted by other states, domestic constituencies (such as interest groups) alert their governments to such problems and incite them to provide a joint policy response, e.g., policy harmonization or integration. According to supranationalism, transnational exchanges and transactions are a major driving force of integration, generating demand for international rules. To the extent that transnational exchanges are both a cause and a manifestation of international interdependence, the two factors can be equated with each other. This is most obvious in the case of transnational economic exchanges, which result from the welfare benefits that countries expect to derive from foreign trade and investment.

Interdependence varies across policies, countries and time. Certain policies entail stronger externalities or transnational exchanges than others, and countries can be affected differentially by interdependence. Moreover, supranationalism assumes European integration to produce endogenous interdependence or 'spillovers': initial steps of integration bring about additional transnational exchange and externalities for additional policy areas and countries. These spillovers result in demand for additional integration.

While interdependence is seen as a driver of integration, most integration theories agree that politicization tends to be an impediment to integration. We follow de Wilde's (2011: 560) definition of politicization of European integration 'as an increase in polarization of opinions, interests or values and the extent to which they are publicly advanced towards the process of policy formulation within the EU'. Mass-level salience and contestation of European integration, the mobilization of Eurosceptic public opinion by Eurosceptic parties and opportunities to voice Eurosceptic opinions in national referendums or elections to the European Parliament are the main indicators of politicization in the EU. In the first decades of European integration, major integration steps were argued to have been taken under the condition of a 'permissive consensus' (Lindberg and Scheingold 1970: 41). Since the Treaty of Maastricht, however, the politicization of European integration has increased markedly (cf., Eichenberg and Dalton [1993]; Marks and Steenbergen [2004]), reached new heights with the ratification process of the Constitutional treaty (cf., Statham and Trenz 2013), and given rise to a new cleavage in European politics (Kriesi et al. 2008). Hooghe and Marks (2009) argue that politicization leads to a stronger awareness of EU affairs, i.e., more people care about integration outcomes. Since élites are generally considered more supportive of the integration process than publics, a more mobilized citizenry engenders growing opposition to the integration project. While élites are most concerned about the autonomy costs of integration (Mattli 1999), identity concerns and costs come into play at the level of citizens – a dynamic most prominently covered by constructivist theories of European integration.

Similar to the issue of interdependence, politicization differs across policy areas and countries. As Hoffmann (1966) pointed out, the prospect of integration in areas of 'high politics' should yield higher autonomy costs compared to integration in 'low politics' (cf., Rittberger et al. 2014). Taking Hoffmann's distinction as a point of departure, Genschel and Jachtenfuchs (2014) distinguish 'core' and 'non-core state powers' and claim that states attach more importance to issues that relate to 'core state powers' and that are closely linked to questions of national sovereignty (such a state's army, currency or public administration). Concerning country differences, we expect that European integration should be particularly contested in countries with a comparatively high share of citizens with exclusive national identities (cf., Hooghe and Marks 2005, 2009).

We submit that the interaction of interdependence and politicization explains the general pattern of integration and differentiation in the EU. We conceive interdependence as the primary driver of integration. Interdependence creates the initial demand for integration, and a subsequent increase in exogenous or endogenous interdependence produces demand for more integration. Whether this demand will be met depends on politicization, however. In other words, politicization intervenes in the relationship between interdependence and integration. If interdependence is low, politicization does not matter much because there will not be major demand for substantial integration in the first place. If strong interdependence is combined with no or weak politicization, demand for integration is likely to be met. If strong interdependence is confronted with strong politicization, however, integration will fail, remain at a low level, or become differentiated. We can thus think of politicization as a factor that constrains governments in translating integration demand into integration outcomes. Moreover, we assume that institutional factors are of minor importance in shaping the translation of demand into outcomes compared with politicization. In other words, governments have ample freedom to design vertical and horizontal differentiation according to what fits the constellation of interdependence and politicization best. The enormous variety of differentiated arrangements in European integration supports this assumption.

We thus assume that policies are the more vertically integrated, the more they are characterized by interdependence and the less politicized they are. As a corollary, vertical differentiation in the EU increases with the differences in interdependence and politicization across policies. We further assume that policies are the more horizontally integrated, the more countries are affected by interdependence and the less European integration is politicized in these countries. As a consequence, horizontal differentiation in the EU increases with differences in interdependence and politicization across countries. Asymmetric interdependence is, however, less relevant for horizontal differentiation than asymmetric politicization. According to Moravcsik (1998), asymmetric interdependence is a common feature of intergovernmental negotiations on European integration. It translates into differential bargaining power and affects the distribution of bargaining gains, but does not normally prevent integration as long as all parties to the agreement win. By contrast, asymmetric politicization often has the effect that some governments face domestic ratification constraints or failures that prevent them from participating in the integrated policy. Moreover, when policy issues turn into identity issues or are confronted with principled concerns about sovereignty, they do not always lend themselves to a bargaining solution.

We therefore assume that three main factors condition the integration outcomes in each policy area: the extent of interdependence; the extent of politicization of the policy; and the asymmetry of politicization of European integration across countries. We further distinguish four typical outcomes at the policy level: (a) high vertical and uniform (or externally differentiated) horizontal integration; (b) high vertical and internally differentiated horizontal integration; (c) low vertical and uniform horizontal integration; and (d) low vertical and internally differentiated horizontal integration. Table 2 lists the configurations for dichotomous (high and low) values of the three factors and the hypothesized outcomes.[5]

Based on Table 2, we formulate a set of conjectures:

H1a: Low interdependence is a sufficient condition of low vertical integration.

H1b: High interdependence is a necessary condition of high vertical integration.

Table 2 Policy characteristics and integration outcomes

	Interdependence	Politicization	Asymmetry of politicization	Integration outcome
1	High	High	High	High & (internally) differentiated
2	High	High	Low	Low & uniform
3	High	Low	–	High & internally uniform (or externally differentiated)
4	Low	High	High	Low & (internally) differentiated
5	Low	High	Low	Low & uniform
6	Low	Low	–	Low & uniform

These two hypotheses follow from the assumption that integration is primarily driven by interdependence; high interdependence, however, does not necessarily translate into high vertical integration if politicization is high (and symmetric), too.

> H2: Asymmetric politicization is a necessary and sufficient condition of internal horizontal differentiation in highly interdependent policy areas.

This is the core hypothesis about internal horizontal differentiation. The horizontally differentiated integration of a policy is driven by the asymmetric politicization of European integration across countries. If (high) politicization is symmetrical, we expect to see uniformly low vertical integration: all states are constrained by politicization and inhibited to move towards high levels of centralization.

> H3a: High vertical and internally uniform horizontal integration results from a combination of high interdependence and low politicization.
> H3b: High and horizontally differentiated integration results from a combination of high interdependence and high and asymmetric politicization.
> H3c: External horizontal differentiation results from a combination of high politicization of European integration in the non-member state but high interdependence and low politicization at the policy level.

These hypotheses summarize the conditions under which high vertical integration is horizontally uniform or differentiated. Whereas high interdependence is necessary for high vertical integration, the form of horizontal integration is determined by the degree and distribution of politicization. If policy-specific politicization is high in all countries, vertical integration is likely to be low. If policy-specific politicization is low in all countries, we expect either uniform or externally differentiated horizontal integration. External differentiation results from a constellation between the EU and a third country, in which European integration in general is so highly politicized that membership is not domestically feasible, but policy interdependence is so high (and policy-specific politicization is so low) that the third country seeks policy integration without membership. Finally, if policy-specific politicization is asymmetric across member states, we expect to see internally differentiated horizontal integration.

COMPARATIVE ANALYSIS

For an empirical plausibility check of these conjectures, we select three policies that vary strongly on the combination of interdependence and politicization. The 'internal market' is characterized by high interdependence and low politicization; 'monetary union' represents high interdependence and high politicization; and 'defence' is a policy of low interdependence (in the EU context) and high politicization. Note that we assume asymmetric politicization to be a constant (some countries are significantly more Eurosceptic than others) so that we cannot test variation on this condition. We also disregard potential cases of low interdependence and low politicization as theoretically uninteresting.

For our illustrative comparative analysis and based on the hypotheses developed in the previous section, we use a simple, categorical measurement of the variables. The integration outcome is a combination of vertical integration and horizontal differentiation. For vertical integration, we use the scale shown in Table 1. 'Low (or intergovernmental) integration' comprises the first three steps from 'no EU-level policy co-ordination' to 'intergovernmental co-operation'; 'high (or supranational) integration' merges 'joint decision-making' and 'supranational centralization'. 'Uniform integration' denotes a territorial extension that comprises all member states but only member states; a policy is 'internally differentiated' if at least one member state fails to participate at the highest level of vertical integration in the policy area; and it is 'externally differentiated' if at least one non-member state participates.

The comparative categorical measurement of the conditions 'interdependence' and 'politicization' is less straightforward and will be based on plausibility. Cases of 'high interdependence' are characterized by high transnational exchange, significant economies of scale, and/or important international externalities. For politicization, we start with the distinction between core state powers – 'core functions of sovereign government' (Genschel and Jachtenfuchs 2014: 1) or policies that have traditionally been a monopoly of public authorities – and non-core state powers. The integration of core state powers is assumed to create significant autonomy concerns for governments and identity concerns for nation-state citizens that translate into politicization. It is therefore coded as 'high politicization'.

Internal market: high interdependence, low politicization, supranational integration and external differentiation

The gradual establishment of a common market was the main project of European integration in its early stages starting with the Treaties of Rome (1957). A customs union had been in force since 1968, but significant non-tariff barriers to trade and restrictions on the movement of services, capital and persons remained in place. The principle of mutual recognition established by the European Court of Justice in its *Cassis de Dijon* decision of 1979 and the Single European Act (SEA, 1986) paved the way to a single market (officially in force since 1993). Internal market policies were the first policies to be centralized at a high level of vertical integration. Ever since the Treaties of Rome, they have been the bedrock of the Community method of joint decision-making, and the completion of the internal market was the reason the EC introduced qualified majority voting in the Council in the SEA.

Internal market policies have always been uniformly valid in the member states – with the exception of temporary exceptions for new member states (such as limitations to the freedom of movement for labour in Eastern enlargement for up to seven years). Moreover, internal market policies are characterized by external differentiation. In 1994, Iceland, Liechtenstein and Norway joined the European Economic Area, an extension of the single market without a customs union, but including the adoption of 'horizontal' and 'flanking' policies such as social policy, consumer protection, environmental policy and research policy. The network of bilateral agreements between Switzerland and the EU creates an institutionally different but substantively similar horizontal integration into the internal market (Gstöhl 2015).

Trade is the area of high transnational exchange *par excellence*. Market integration promises a more efficient factor allocation and economies of scale. These incentives create demand for negative integration, i.e., the removal of economic barriers. In addition, increasing levels of economic interdependence produce policy externalities, which in turn create demand for integration by regulation and supranational policy co-ordination (Genschel and Jachtenfuchs 2014; Mattli 1999; Mattli and Stone Sweet 2012; Moravcsik 1991). In addition, economic integration is typically an area of low autonomy and identity costs. It is a hallmark of the liberal democracies that the EU is composed of that the market is a largely autonomous sphere. The state regulates the market but state ownership of economic enterprises is very limited. By integrating the market supranationally, governments therefore lose relatively little autonomy. Moreover, markets do not qualify as strong symbols of national identity. Gradual market integration was the preferred initial policy area for European integration according to the community method precisely because it combined high interdependence with low politicization.

These characteristics of internal market policies conform to constellation 3 in Table 2. They explain why we see high vertical integration and the absence of internal differentiation (H3a) but also external differentiation (H3c). Norway and Switzerland, the most important non-member countries participating in the internal market, are strongly dependent on trade with the EU. Roughly 75 per cent of Norway's and two-thirds of Switzerland's external trade is with the EU. At the same time, identity-based popular Euroscepticism is strong (Gstöhl 2002; Leruth 2015), and both countries have a history of negative referendums on EU membership (or even EEA membership, in the Swiss case). The highly politicized nature of EU membership in general prohibits accession to the EU; selective participation in a highly interdependent and weakly politicized policy area is possible, however.

Monetary union: high interdependence, high politicization, high integration and internal differentiation

In the European Economic Community, monetary policy has remained at the level of intergovernmental co-ordination. After the breakdown of the United States (US) dollar-based Bretton Woods system of fixed exchange rates, the monetary policies of the member states were first co-ordinated in the unstable Currency Snake, then in the European Monetary System (EMS, since 1979). These systems were intergovernmental and remained outside the treaty framework. The leap towards high levels of vertical integration came with the establishment of the single currency in 1999, which vested the independent European Central Bank with exclusive monetary policy competences.

Monetary policy has always been the most internally differentiated policy area of the EU. Only five member states participated continuously in the Snake and the EMS. The new member states of the 1980s took several years before they joined the EMS. The UK and the Nordic countries only participated for a short period between 1990 and 1992. Monetary policy was the first treaty-based EU policy from which member states – Denmark and the UK – were granted a full and formal opt-out, and it is the policy area with the most non-participants among the member states. The single currency started in 1999 with 11 out of 15 member states; in 2015, eurozone membership stands at 19 out of 28. Apart from some micro-states, non-member countries do not formally participate in the currency union (even though Kosovo and Montenegro have adopted the euro unilaterally).

Interdependence in monetary policy increased significantly with the internal market programme. It promised to boost market transactions and transnational exchanges in Europe, thereby increasing the relevance of transaction costs of currency exchange for firms. In addition, the removal of barriers to the free movement of capital envisaged in the SEA threatened to increase the risk of currency speculation and undermine the stability achieved in the EMS (Dyson and Featherstone 1999: 3). A 1990 Commission report entitled 'One market, one money' (Commission of the European Communities Directorate-General for Economic and Financial Affairs 1990), argued that a single currency would add microeconomic efficiency and macroeconomic stability to the internal market: 'complete capital liberalization requires virtually a unified monetary policy if exchange rates are to be stable' (Commission of the European Communities Directorate-General for Economic and Financial Affairs 1990: 9).

In addition, however, monetary policy is a core state power. It has traditionally been a monopoly of the state and a symbol of national identity – as reflected in a quote of the Austrian economist Joseph Schumpeter: 'The monetary system of a people reflects everything that the nation wants, does, suffers, is.'[6] The abolition of the national currency generally increased public awareness of European integration and was a contested issue in many member states. In some of them, the Treaty of Maastricht and the adoption of the euro were subject to referendums. As a result of negative referendums, Denmark secured an opt-out from EMU in the Treaty of Maastricht and Sweden stopped preparations for joining the eurozone. The countries that opted out of the euro *de facto* or *de jure* are not the ones that were least interdependent with the internal market or least in line with the principles and rules of EU monetary policy, but those with strong national identities and a long track record of Euroscepticism. In fact, the monetary policies of Britain, Denmark and Sweden were more in line with the German model than those of most Southern European euro countries; Denmark and Sweden conduct roughly 70–75 per cent of the foreign trade with the rest of the EU; and at the time the decision on EMU participation was made, Britain, Denmark and Sweden were consistently among the EU countries with the lowest popular support for integration, the most widespread fears of losing national identity and the highest shares of citizens with exclusive national identity (see Eurobarometer 38 in 1992 and Eurobarometer 43 in 1995).[7]

In sum, the case of monetary policy mirrors constellation 1 in Table 2. It corroborates H3b, that internally differentiated integration results from high interdependence and asymmetric politicization. Under conditions of high international interdependence in the internal market, monetary policy's status as a core state power was not sufficient to thwart supranational integration in this area altogether. High perceived autonomy and identity costs caused the most Eurosceptic member states of the EU to opt out of the single currency, however. For the same reason, the Eurosceptic non-members participating in the internal market have not made advances to join the currency union.

Defence policy: low interdependence, high politicization, low integration

EU defence policy has not crossed the high integration threshold so far. After the failure of the supranational European Defence Community in 1954, there was no EU security policy co-ordination at all during the first decades of European integration. It became a formal part of the Common Foreign and Security Policy pillar of the EU at Maastricht (1992) but it was not until the Saint-Malo initiative of Britain and France in 1998 that concrete steps of putting a European defence policy into practice were taken. These steps have, however, not moved beyond a low level of vertical integration. Even though the policy was relabelled as Common Security and Defence Policy (CSDP) in the Treaty of Lisbon (2009), it has remained in essence an intergovernmental policy based on consensual decision-making among member governments and voluntary participation of member states in CSDP operations.

CSDP is characterized by only very modest internal differentiation. Denmark is the only member state to have demanded and been granted an opt-out in the area of security and defence as part of its opt-out package after the negative referendum on the Treaty of Maastricht. Denmark does not participate in the EU's foreign and security policy when the relevant activities carry defence implications, and Denmark does not participate in the European Defence Agency. More internal differentiation may result from 'permanent structured co-operation' among individual member states as envisaged in the Treaty of Lisbon. So far, however, this instrument has not been implemented. Finally, non-member states do not formally participate in CSDP: there is thus no external differentiation (even though non-EU member states may participate selectively in and contribute to the EU's civilian and military missions).

European interdependence in the area of security and defence has remained relatively low. During the Cold War, Europeans have depended less on each other for achieving security and military effectiveness than on the United

States. Transgovernmental exchanges have taken place in the context of the North Atlantic Treaty Organization (NATO) rather than in a European context. After the end of the Cold War, EU members have not faced any major military threat and European defence expenditures have decreased sharply. For any residual threats and military operations, most EU member states continue to rely on NATO and US capabilities. Moreover, defence policy constitutes a core state power, as it has traditionally been a monopoly and *raison d'être* of the state. The integration of defence affects the core of state sovereignty and autonomy, qualities which tend to be particularly sensitive to questions of national identity.

In spite of the Danish opt-out, internal differentiation in CSDP has been limited. Uniformity can be attributed to the low level of integration in this policy area. As long as decisions are generally taken by unanimity and member states participate voluntarily in CSDP operations, state sovereignty in defence policy is not critically undermined. Political salience and contestation and thus politicization would most probably increase, however, if defence policy competences were actually pooled in the EU and delegated to its supranational institutions. As a result, we would be likely to witness more opt-outs, not only by Eurosceptic but also by traditionally neutral countries such as Ireland. The plan for 'permanent structured co-operation' in CSDP foreshadows such a development. In sum, the case of CSDP fits constellations 4 or 5 in Table 2. It corroborates hypothesis H1, that high interdependence is a necessary condition of high vertical integration, and H2, that asymmetric politicization is a necessary condition of internal differentiation.

CONCLUSION

The development of European integration is characterized by deepening, widening and differentiation. Whereas vertical differentiation across policies along the federalist model has always between a core feature of European integration, horizontal differentiation has emerged and increased since the early 1990s. The EU now appears to be a consolidated system of differentiated integration, a polity whose policies vary with regard to both their level of centralization and their territorial extension.

We theorize the interaction of interdependence and politicization to be the main driving force of differentiated integration. Increasing interdependence creates demand for (more) integration. As long as integration is limited to non-core state powers or to integration-friendly countries, integration is likely to eschew politicization and remain uniform. This has been the general condition of European integration until the end of the 1980s. Politicization enters the stage as interdependence pressures increase, travel to other policy areas and countries and start to affect core state powers and less integration-friendly countries. This is the situation post-1990. Member states with a relatively Eurosceptic citizenry are likely to contest and reject the supranational integration of core state powers. This produces internal differentiation. Non-member states whose strongly Eurosceptic citizenry prevents them from joining the EU respond to high interdependence by selective integration in non-politicized policy areas such as the internal market. This produces external differentiation.

Based on our analysis, differentiation is here to stay on the condition that exogenous and endogenous interdependence continue to grow. As the recent euro crisis shows, both the politicization of integration and the pressures of interdependence are likely to persist. They deepen the divide between the eurozone and the rest of the EU and spread into newly integrated neighbouring policies such as banking regulation (Schimmelfennig 2014). Moreover, EU policies continue to produce externalities for non-member countries that are either unwilling or unable to join. These externalities create a permanent demand for external differentiation (Gstöhl 2015). Against this backdrop, the study of differentiated integration can contribute to generating a more refined theoretical and empirical understanding of European integration more generally.

Biographical notes: Frank Schimmelfennig is professor of European politics at ETH Zurich, Centre for Comparative and International Studies. Dirk Leuffen is professor of political science and international politics at the University of Konstanz, Germany. Berthold Rittberger is professor of international relations at the Geschwister-Scholl-Institute of Political Science, University of Munich, Germany.

Addresses for correspondence: Prof. Frank Schimmelfennig, ETH Zurich, IFW D 45.1, 8092 Zurich, Switzerland, email: frank.schimmelfennig@eup.gess.ethz.ch / Prof. Dirk Leuffen, University of Konstanz, Department of Politics and Public Administration, Universitätsstraße 10, Box 83, D – 78467 Konstanz, Germany, email: dirk.leuffen@uni-konstanz.de / Prof. Berthold Rittberger, Geschwister Scholl Institute of Political Science, Ludwig-Maximilians-University Munich, Oettingenstr. 67, 80538 Munich, Germany, email: berthold.rittberger@gsi.lmu.de

REFERENCES

Beck, U. and Grande, E. (2007). *Cosmopolitan Europe*, Cambridge: Polity Press.

Börzel, T. (2005) 'Mind the Gap! European Integration between Level and Scope', *Journal of European Public Policy* 12(2): 217–36.

Commission of the European Communities Directorate-General for Economic and Financial Affairs (1990) 'One Market, one money: an evaluation of the potential benefits and costs of forming an economic and monetary union', *European Economy* 44 (October), available at http://ec.europa.eu/economy_finance/publications/publication7454_en.pdf

de Wilde, P. (2011) 'No polity for old politics? A framework for analyzing the politicization of European integration', *Journal of European Integration* 33(5): 559–75.

Dyson, K. and Featherstone, K. (1999) *The Road to Maastricht: Negotiating Economic and Monetary Union*, Oxford: Oxford University Press.

Eichenberg, R.C. and Dalton, R.J. (1993) 'Europeans and the European Community: the dynamics of public support for European integration', *International Organization* 47(4): 507–34.

Frey, B.S. and Eichenberger, R. (1996) 'FOCJ: competitive governments for Europe', *International Review of Law and Economics* 16: 315–27.

Genschel, P. and Jachtenfuchs, M. (2014) 'Introduction: beyond market regulation. analysing the European integration of core state powers', in P. Genschel and M. Jachtenfuchs (eds), *Beyond the Regulatory Polity? The European Integration of Core State Powers*, Oxford: Oxford University Press, pp. 1–23.

Gstöhl, S. (2002). *Reluctant Europeans. Norway, Sweden, and Switzerland in the Process of Integration*, Boulder, CO: Rienner.

Gstöhl, S. (2015) 'Models of external differentiation in the EU's neighbourhood: an expanding economic community', *Journal of European Public Policy*, doi:10.1080/13501763.2015.1020834.

Haas, E.B. (1958) *The Uniting of Europe: Political, Social and Economic Forces, 1950–57*, Stanford, CA: Stanford University Press.

Hoffmann, S. (1966) 'Obstinate or obsolete? The fate of the nation state and the future of Western Europe', *Daedalus* 95(4): 861–98.

Hooghe, L. and Marks, G. (2005) 'Calculation, community, and cues. Public opinion on European integration', *European Union Politics* 6(4): 419–43.

Hooghe, L. and Marks, G. (2009) 'A postfunctionalist theory of European integration: from permissive consensus to constraining dissensus', *British Journal of Political Science* 39(1): 1–23.

Kriesi, H., Grande, E., Lachat, R., Dolezal, M., Bornschier, S. and Frey, T. (2008) *West European Politics in the Age of Globalization*, Cambridge: Cambridge University Press.

Leruth, B. (2015) 'Operationalizing national preferences on Europe and differentiated integration', *Journal of European Public Policy*, doi: 10.1080/13501763.2015.1020840.

Leuffen, D., Rittberger, B. and Schimmelfennig, F. (2013) *Differentiated Integration. Explaining Variation in the European Union*, Basingstoke: Palgrave.

Lindberg, L.N. and Scheingold, S.A. (1970) *Europe's would be Polity: Patterns of Change in the European Community*, Englewood Cliffs, NJ: Prentice-Hall.

Marks, G. (2012) 'Europe and its empires: from Rome to the European Union', *Journal of Common Market Studies* 50(1): 1–20.

Marks, G, and Steenbergen, M. (eds) (2004) *European Integration and Political Conflict*, Cambridge: Cambridge University Press.

Mattli, W. (1999) *The Logic of Regional Integration. Europe and Beyond*, Cambridge: Cambridge University Press.

Mattli, W. and Stone Sweet, A. (2012) 'Regional integration and the evolution of the European polity: on the fiftieth anniversary of the *Journal of Common Market Studies*', *Journal of Common Market Studies* 50(1): 1–17.

Milward, A.S. (1984) *The Reconstruction of Western Europe, 1945–51*, Berkeley, CA: University of California Press.

Moravcsik, A. (1991) 'Negotiating the Single European Act: national interests and conventional statecraft in the European Community', *International Organization* 45(1): 19–56.

Moravcsik, A. (1998) *The Choice for Europe. Social Purpose and State Power from Messina to Maastricht*, Ithaca, NY: Cornell University Press.

Parsons, C. (2003) *A Certain Idea of Europe*, Ithaca, NY: Cornell University Press.

Rittberger, B., Leuffen, D. and Schimmelfennig, F. (2014) 'Differentiated integration of core state powers', in P. Genschel and M. Jachtenfuchs (eds), *Beyond the Regulatory Polity? The European Integration of Core State Powers*, Oxford: Oxford University Press, pp. 189–210.

Sandholtz, W. (1993) 'Choosing union: monetary politics and Maastricht', *International Organization* 47(1): 1–39.

Sandholtz, W. and Zysman, J. (1989) '1992: recasting the European bargain', *World Politics* 42(1): 95–128.

Schimmelfennig, F. (2003) *The EU, NATO and the Integration of Europe. Rules and Rhetoric*, Cambridge: Cambridge University Press.

Schimmelfennig, F. (2014) 'Differentiated integration before and after the crisis', in O. Cramme and S. Hobolt (eds), *Democratic Politics in a European Union Under Stress*, Oxford: Oxford University Press, pp. 120–34.

Schmitter, P.C. (1996) 'Imagining the future of the Euro-polity with the help of new concepts', in G. Marks, F.W. Scharpf, P.C. Schmitter and W. Streeck (eds), *Governance in the European Union*, London: Sage, pp. 121–50.

Statham, P. and Trenz, H.-J. (2013) 'How European Union politicization can emerge through contestation: the Constitution case', *Journal of Common Market Studies* 51(5): 965–80.

Stone Sweet, A. and Sandholtz, W. (1997) 'European integration and supranational governance', *Journal of European Public Policy* 4(3): 297–317.

Zielonka, J. (2006) *Europe as Empire. The Nature of the Enlarged European Union*, Oxford: Oxford University Press.