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Chapter 1

Introduction: Explaining the EU Political System

The EU: a Political System but not a State

How the EU Political System Works

Actors, Institutions and Outcomes: the Basics of Modern Political Science

Theories of European Integration and EU Politics

Allocation of Policy Competences in the EU: a 'Constitutional Settlement'

Structure of the Book

The European Union (EU) is a remarkable achievement. It is the result of a process of voluntary economic and political integration between the nation-states of Europe. The EU began with six states, grew to 15 in the 1990s, enlarged to include a further 10 in 2004, and may eventually encompass another five or 10. The EU started out as a coal and steel community and has evolved into an economic, social and political union. European integration has also produced a set of governing institutions at the European level with significant authority over many areas of public policy.

But, this book is not about the history of 'European integration', as this story has been told at length elsewhere (for example Dedman, 1996; McAllister, 1997). Nor does it try to explain European integration and the major turning points in this process, as this too has been the focus of much political science research and theorizing (for example Moravcsik, 1998; Stone Sweet *et al.*, 2001). Instead, the aim of this book is to understand how the EU works today. Who has ultimate executive power? Under what conditions can the Parliament influence legislation? Is the Court of Justice beyond political control? Why do some citizens support the central institutions while others oppose them? How important are political parties and elections in shaping political choices? Why are some social groups more able than others to influence the political agenda? Are the policies governing the single market deregulatory or reregulatory? Who are the winners and losers from expenditure policies? What are the political consequences of economic and monetary integration? Have policies extended and protected citizens' rights and freedoms? And, how far are the central institutions able to speak with a single voice on the world stage?

We could treat the EU as a unique experiment. However, the above

questions could be asked of any democratic political system. Furthermore, the discipline of political science has developed a vast array of theoretical tools and analytical methods to answer exactly these sorts of question. Instead of a general theory of how political systems work, political science has a series of mid-level explanations of the main processes that are common to all political systems, such as public opinion, party competition, interest group mobilization, legislative bargaining, delegation to executive and bureaucratic agents, economic policy-making, citizen–state relations, and international political and economic relations. Consequently, the main argument of this book is that to help understand how the EU works, we should use the tools, methods and cross-systemic theories from the general study of government, politics and policy-making. In this way, teaching and research on the EU can be part of the political science mainstream.

This introductory chapter sets the general context for this task, explaining how the EU can be a ‘political system’ without also having to be a ‘state’. It then introduces the key interests, institutions and processes in the EU political system and the connections between these elements. The chapter subsequently reviews some of the basic assumptions of modern political science, and discusses how these assumptions are applied in the three main theories of EU politics. Finally, the chapter describes the allocation of policy competences between the national and EU levels.

The EU: a Political System but not a State

Gabriel Almond (1956) and David Easton (1957) were the first to develop formal frameworks for defining and analyzing political systems. Most contemporary political scientists reject the functionalist assumptions and grand theoretical aims of these projects. Nonetheless, Almond and Easton’s definitions have survived. Their essential characterizations of democratic political systems consists of four main elements:

1. There is a stable and clearly defined set of institutions for collective decision-making and a set of rules governing relations between and within these institutions.
2. Citizens and social groups seek to realize their political desires through the political system, either directly or through intermediary organizations such as interest groups and political parties.
3. Collective decisions in the political system have a significant impact on the distribution of economic resources and the allocation of social and political values across the whole system.
4. There is continuous interaction (‘feedback’) between these political outputs, new demands on the system, new decisions and so on.

The EU possesses all these elements. First, the degree of institutional stability and complexity in the EU is far greater than in any other international regime. The basic institutional quartet – the Commission, the Council, the European Parliament (EP) and the Court of Justice – was established in the 1950s. Successive treaties and treaty reforms – the Treaty of Paris in 1952 (establishing the European Coal and Steel Community), the Treaty of Rome in 1958 (establishing the European Economic Community and the European Atomic Energy Community), the Single European Act in 1987, the Maastricht Treaty in 1993 (the Treaty on European Union), the Amsterdam Treaty in 1999, the Nice Treaty in 2003 and the ‘Constitutional Treaty’ (signed in June 2004 but not yet ratified) – have given these institutions an ever-wider range of executive, legislative and judicial powers. Moreover the institutional reforms have produced a highly evolved system of rules and procedures governing how these powers are exercised by the EU institutions. In fact the EU probably has the most formalized and complex set of decision-making rules of any political system in the world.

Second, as the EU institutions have taken on these powers of government, an increasing number of groups attempt to make demands on the system – ranging from individual corporations and business associations to trade unions, environmental and consumer groups and political parties. The groups with the most powerful and institutionalized position in the EU system are the governments of the EU member states, and the political parties that make up these governments. At face value, the centrality of governments in the system makes the EU seem like other international organizations, such as the United Nations and the Organization for Security and Cooperation in Europe. But in the EU the member state governments do not have a monopoly on political demands. As in all democratic polities, demands in the EU arise from a complex network of public and private groups, each competing to influence the EU policy process to promote or protect their own interests and desires.

Third, EU decisions are highly significant and are felt throughout the EU. For example:

- EU policies cover virtually all areas of public policy, including market regulation, social policy, the environment, agriculture, regional policy, research and development, policing and law and order, citizenship, human rights, international trade, foreign policy, defence, consumer affairs, transport, public health, education and culture.
- In fact some scholars estimate that the EU sets over 80 per cent of the rules governing the production, distribution and exchange of goods, services and capital in the member states’ markets (for example Majone, 1996).

- On average more than 100 pieces of legislation pass through the EU institutions every year – more than in most other democratic polities.
- Primary and secondary acts of the EU are part of the ‘the law of the land’ in the member states, and supranational EU law is supreme over national law.
- The EU budget may be small compared with the budgets of national governments, but several EU member states receive almost 5 per cent of their national gross domestic product from the EU budget.
- EU regulatory and monetary policies have a powerful indirect impact on the distribution of power and resources between individuals, groups and nations in Europe.
- The EU is gradually encroaching on the power of the domestic states to set their own course in the highly contentious areas of taxation, immigration, policing, foreign and defence policy.

In short, it is beyond doubt that EU outputs have a significant impact on the ‘authoritative allocation of values’ (Easton, 1957) and determine ‘who gets what, when and how’ in European society (Lasswell, 1936).

Finally, the political process of the EU political system is a permanent feature of political life in Europe. The quarterly meetings of the heads of government of the member states (in the European Council) may be the only feature of the system that is noticed by many citizens. This can give the impression that the EU mainly operates through periodic ‘summitry’, like other international organizations. However, the real essence of EU politics lies in the constant interactions within and between the EU institutions in Brussels, between national governments and Brussels, within the various departments in national governments, in bilateral meetings between governments, and between private interests and governmental officials in Brussels and at the national level. Hence unlike other international organizations, EU business is conducted in multiple settings on virtually every day of the year.

What is interesting, nevertheless, is that the EU does not have a ‘monopoly on the legitimate use of coercion’. As a result, the EU is not a ‘state’ in the traditional Weberian meaning of the word. The power of coercion, through police and security forces, remains in the hands of the national governments of the EU member states. The early theorists of the political system believed that a political system could not exist without a state. As Almond (1956, p. 395) points out:

the employment of ultimate, comprehensive, and legitimate physical coercion is the monopoly of states, and the political system is uniquely concerned with the scope, direction, and conditions affecting the employment of this physical coercion.

However, many contemporary social theorists reject this conflation of the state and the political system. For example Badie and Birnbaum (1983, pp. 135–7) argue that

the state should rather be understood as a unique phenomenon, an innovation developed within a specific geographical and cultural context. Hence, it is wrong to look upon the state as the only way of governing societies at all times and all places . . .

In this view, the state is simply a product of a particular structure of political, economic and social relations in Western Europe between the sixteenth and mid-twentieth centuries, when a high degree of centralization, differentiation, universality and institutionalization was necessary for government to be effective. In other words, in a different environment government and politics could be undertaken without the classic apparatus of a state.

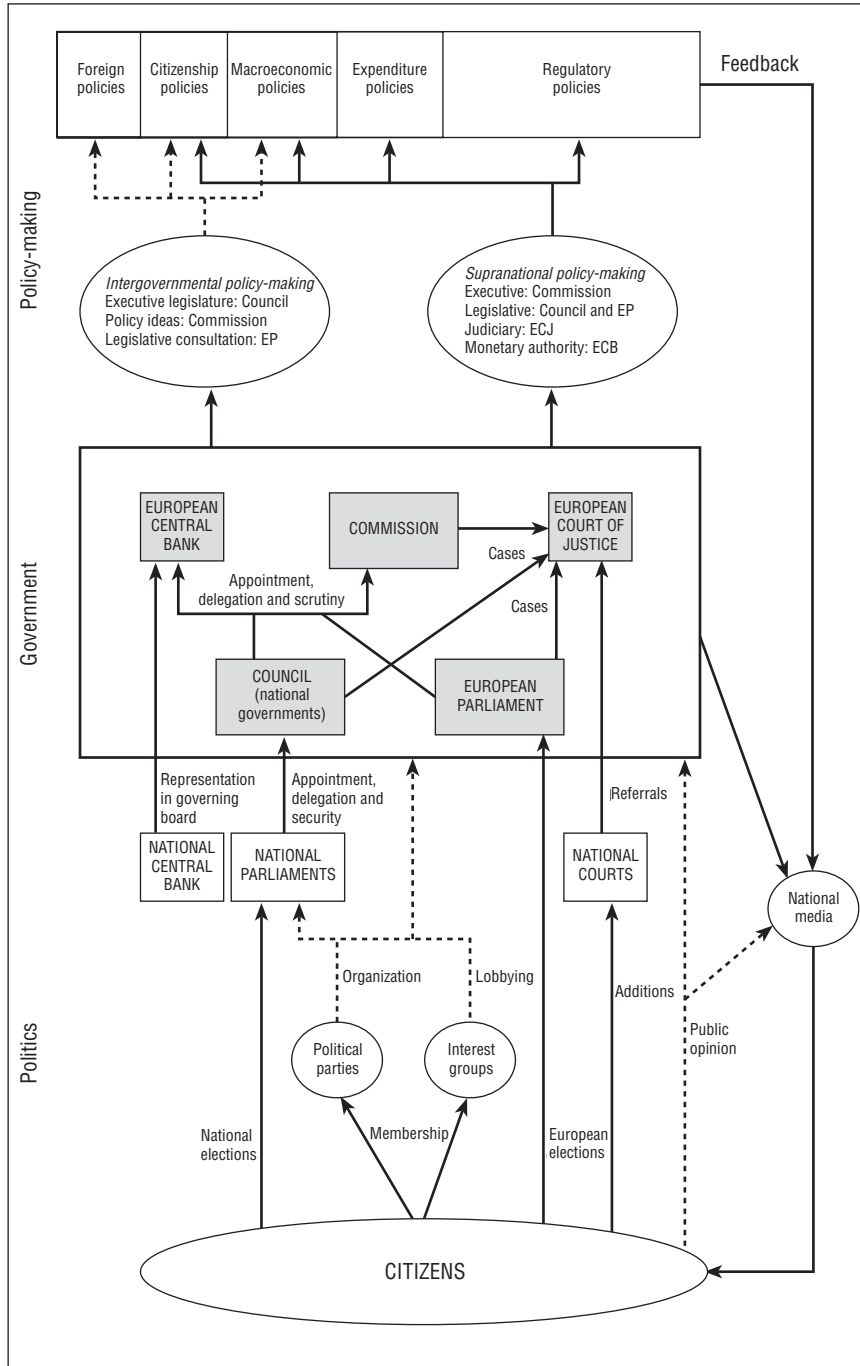
This is precisely the situation in the twenty-first century in Europe. The EU political system is highly decentralized and atomized, is based on the voluntary commitment of the member states and its citizens, and relies on suborganizations (the existing nation-states) to administer coercion and other forms of state power.

In other words, European integration has produced a new and complex political system. This has certainly involved a redefinition of the role of the state in Europe. But, the EU can function as a full-blown political system without a complete transformation of the territorial organization of the state – unlike the evolution from the city-state to the nation-state in the early-modern period of European history.

How the EU Political System Works

Figure 1.1 shows the basic interests, institutions and processes in the EU political system (the arrows indicate the direction of connections: complete arrows indicate a strong/direct link, and non-continuous arrows indicate a weaker/non-direct connection). At the base of the system are the EU citizens – the nationals of the 25 member states. EU citizens make demands on the EU system through several channels. In national elections, citizens elect the members of their national parliaments, who in turn form (and scrutinize) the governments that are represented in the EU Council. In European elections, citizens elect the members of the EP. By joining political parties and interest groups, citizens provide resources for these intermediary organizations to be involved in EU politics. By taking legal actions in national courts and the Court of Justice, citizens influence the development and enforcement of EU law. And, as a result of these links, public office-holders in

Figure 1.1 The EU political system



all the EU institutions take note of public opinion when defining their preferences and choosing actions in the EU policy-making process.

Two main types of intermediary associations connect the public to the EU policy process. First, political parties are the central political organizations in all modern democratic systems. Parties are organizations of like-minded political leaders, who join forces to promote a particular policy agenda, seek public support for this agenda, and capture political office in order to implement this agenda. Political parties have influence in each of the EU institutions. National parties compete for national governmental office, and the winners of this competition are represented in the Council. European commissioners are also partisan politicians: they have spent their careers in national party organizations, owe their positions to nomination by and the support of national party leaders, and usually seek to return to the party political fray. Members of the EP (MEPs) are elected on (national) party platforms and form 'party groups' in the EP, to structure political organization and competition in the Parliament. And, in the main party families, the party organizations in each member state and the EU institutions are linked through the transnational party federations.

Second, interest groups are voluntary associations of individual citizens, such as trade unions, business associations, consumer groups and environmental groups. These organizations are formed to promote or protect the interest of their members in the political process. This is the same in the EU as in any democratic system. National interest groups lobby national governments or approach the EU institutions directly, and like-minded interest groups from different member states join forces to lobby the Commission, Council working groups and MEPs. Interest groups also give funds to political parties to represent their views in national and EU politics. In each policy area, public office holders and representatives from interest groups form 'policy networks' to thrash out policy compromises. And, by taking legal actions to national courts and the Court of Justice, interest groups influence the application of EU law.

Next are the EU institutions, and the process of 'government' within and between these institutions. The Council brings together the governments of the member states, and is organized into several sectoral councils of national ministers (such as the Council of Agriculture Ministers). The Council undertakes both executive and legislative functions: it sets the medium and long-term policy agenda, and is the dominant chamber in the EU legislative process. The Council usually decides by unanimity, but uses a system of qualified-majority voting (QMV) on a number of important issues (where the votes of the member states are weighted according to their size and a large majority is needed for decisions to pass). Also, each government in the Council

chooses its members of the Commission, and the governments collectively nominate the Commission president.

The other main representative institution in the EU is the European Parliament. The EP is composed of 732 MEPs, who are chosen in European-wide elections every five years. The EP has various powers of legislative consultation, amendment and veto under the EU's legislative procedures. The EP can also amend the EU budget. The EP scrutinizes the exercise of executive powers by the Commission and the Council, votes on the Council's nomination for the Commission president and the full Commission college (the investiture procedure), and has the power to throw out the Commission with a vote of censure.

The European Commission is composed of a political 'college' of 25 commissioners (one from each member state) and a bureaucracy of 36 directorates-general and other administrative services. The Commission is responsible for initiating policy proposals and monitoring the implementation of policies once they have been adopted, and is hence the main executive arm of the EU.

The highest judicial authority is the European Court of Justice (ECJ), which works closely with the national courts to oversee the implementation of EU law. The EU also has an independent monetary authority – the European System of Central Banks – which is composed of the European Central Bank (ECB) and the central banks of the member states in Economic and Monetary Union (EMU).

These institutions produce five types of policy:

- *Regulatory policies*: these are rules on the free movement of goods, services, capital and persons in the single market, and involve the harmonization of many national production standards, such as environmental and social policies, and common competition policies.
- *Expenditure policies*: these policies involve the transfer of resources through the EU budget, and include the Common Agricultural Policy, socioeconomic and regional cohesion policies, and research and development policies.
- *Macroeconomic policies*: these policies are pursued in EMU, where the ECB manages the money supply and interest rate policy, while the Council pursues exchange rate policy and the coordination and scrutiny of national tax and employment policies.
- *Citizen policies*: these are rules to extend and protect the economic, political and social rights of the EU citizens and include cooperation in the field of justice and home affairs, common asylum and immigration policies, police and judicial cooperation and the provisions for 'EU citizenship'.
- *Foreign policies*: these are aimed at ensuring that the EU speaks with a single voice on the world stage, and include trade policies, external

economic relations, the Common Foreign and Security Policy, and the European Security and Defence Policy.

There are two basic policy-making processes in the EU. First, most regulatory and expenditure policies and some citizen and macroeconomic policies are adopted through supranational (quasi-federal) processes: where the Commission is the executive (with a monopoly on policy initiative); legislation is adopted through a bicameral procedure between the Council and the EP (and the Council usually acts by QMV); and law is directly effective and supreme over national law and the ECJ has full powers of judicial review and legal adjudication.

Second, most macroeconomic, citizen and foreign policies are adopted through intergovernmental processes: where the Council is the main executive and legislative body (and the Council usually acts by unanimity); the Commission can generate policy ideas but its agenda-setting powers are limited; the EP only has the right to be consulted by the Council; and the ECJ's powers of judicial review are restricted.

Finally, there is 'feedback' between policy outputs from the EU system and new citizen demands on the system. However the feedback loop is relatively weak in the EU compared to other political systems. EU citizens gain most of their information about EU policies and the EU's governmental processes from national newspapers, radio and television, rather than from pan-European media channels. In addition, the national media tend to be focused on national government and politics rather than on European-level politics. Consequently, national elites are the main 'gatekeepers' of EU news: deciding which information is important, and how this should be 'spun' in the national setting. Only social groups who have direct contact with EU institutions, such as farmers and some business groups, are able to circumvent the filtering of EU information by national elites.

Table 1.1 provides some basic socioeconomic and political data on the EU member states and their representation in the EU institutions. As the data show, no member state is either physically, economically or political powerful enough to dominate the EU. In a sense, every member state is a minority in the EU political system.

Actors, Institutions and Outcomes: the Basics of Modern Political Science

Political science is the systematic study of the processes of government, politics and policy-making. The modern discipline dates from the end of the nineteenth century, when people such as Woodrow Wilson, Robert Michels, Knut Wicksell, Lord Bryce and Max Weber first developed tools and categories to analyze political institutions, including

Table 1.1 Basic data on current and prospective EU member states

		Socioeconomic data		Political data		Representation in the EU		
Member state	Date joined	Pop (2003) (mil.)	GDP/head (2004) (€, PPS)	Main political parties and votes in the last national parliamentary elections (%)	Territorial structure	Votes in the Council under QMV	- Commissioners	MEPs (2004)
Austria	1995	8.1	27700	CD 42, SD 36	Federal	10	1	18
Belgium	1952	10.4	26570	SD 28, L 27, CD 19	Federal	12	1	24
Cyprus	2004	0.7	19690	RL 35, C 34	Unitary	4	1	6
Czech Republic	2004	10.2	15880	SD 30, C 25, RL 19	Unitary	12	1	24
Denmark	1973	5.4	27700	L 31, SD 29	Unitary	7	1	14
Estonia	2004	1.4	11020	Cen 25, C 25, L 18	Unitary	4	1	6
Finland	1995	5.2	24910	L 25, SD 23, C 19	Unitary	7	1	14
France	1952	59.6	25770	C 24, SD 24	Regional	29	1	78
Germany	1952	82.5	24940	SD 39, CD 39	Federal	29	1	99
Greece	1981	11.0	18,700	C 46, SD 41	Unitary	12	1	24
Hungary	2004	10.1	13970	SD 42, C 41	Unitary	12	1	24
Ireland	1973	4.0	30590	C 42, CD 23	Unitary	7	1	13
Italy	1952	57.3	23960	C 45, SD 35	Regional	29	1	78
Latvia	2004	2.3	9530	C 24, SD 19, L 17	Unitary	4	1	9
Lithuania	2004	3.5	10800	SD 31, Cen 20, L 17	Unitary	7	1	13
Luxembourg	1952	0.4	46560	CD 30, SD 24, L 22	Unitary	4	1	6
Malta	2004	0.4	17450	C 52, SD 48	Unitary	3	1	5
Netherlands	1952	16.2	26900	CD 29, SD 27, L 18	Unitary	13	1	27

Poland	2004	38.2	10920	SD 41, C 13	Regional	27	1	54
Portugal	1986	10.4	17100	C 40, SD 38	Unitary	12	1	24
Slovakia	2004	5.4	11970	N 20, C 15	Unitary	7	1	14
Slovenia	2004	2.0	17450	L 36, C 16	Unitary	4	1	7
Spain	1986	40.7	21770	SD 43, C 38	Regional	27	1	54
Sweden	1995	8.9	25700	SD 40, C 15	Unitary	10	1	19
United Kingdom	1973	59.3	27080	SD 41, C 32, L 18	Unitary/Regional	29	1	78
Bulgaria		7.8	7450	Cen 43, C 18, SD 18	Unitary	10	1	17
Romania		21.8	7460	SD 37, N 20	Unitary	14	1	33
EU15		379.4	25210			237	15	570
EU25		453.7	22940			345	25	732

Notes: RL = radical left, SD = social democrat, L = liberal, Cen. = centrist, CD = Christian democrat, C = conservative, N = nationalist.

Source: Eurostat; OECD; Elections Around the World (<http://www.electionworld.org/election.htm>).

bureaucracies, governments, parliaments and political parties. In the interwar period, a 'behavioural revolution' replaced this focus on the structural features of politics with 'methodological individualism' (Almond, 1996). The new method sought to explain political outcomes as the result of the interests, motives and actions of political actors (such as elites, bureaucrats, voters, political parties and interest groups) rather than as a consequence of the power of institutions and political structures (such as constitutions, decision-making rules and social norms). However in the 1980s and 1990s there was a return to interest in institutions under the label of 'new institutionalism', and since then many contemporary political scientists have integrated theories and assumptions about both actors and institutions in a single analytical framework (Shepsle, 1989; Thelen and Steinmo, 1992; Hall and Taylor, 1996).

Starting with actors, a common assumption in theories of politics is that political actors are 'rational' (see for example Dunleavy, 1990; Tsebelis, 1990). This means that actors have a clear set of 'preferences' about what outcomes they want from the political process. For example, party leaders want to be re-elected, bureaucrats want to increase their budgets or to maximize their independence from political interference, judges want to strengthen their powers of judicial review, and interest groups want to secure policies that increase the well-being of their members. Furthermore actors act upon these preferences in a rational way by pursuing the strategy that is most likely to produce the outcome they want. So party leaders will position themselves close to the key voters, bureaucrats will try to increase the size of the public sector, judges will make rulings that strengthen the rule of law, and interest groups will lobby those officeholders who are most likely to be decisive in the bargaining process.

But actors do not form their preferences and choose their strategies in isolation; they must take account of each other's interests and expected actions. 'Strong' rational choice theories assume that actors have perfect information about the preference ordering of the actors in the system, and therefore can accurately predict the result of a particular strategy. Nevertheless the perfect information assumption is often relaxed to allow for unintended consequences of actions and policy decisions. In either approach, political outcomes are seen as the result of strategic interaction between competing actors. Sometimes this interaction results in the best outcome for the actors involved – this is said to be an 'optimal' outcome. But very often actors are forced to pursue strategies that do not lead to the best outcome – as in the famous 'prisoners' dilemma' game (see Chapter 4). When this happens, the result is said to be 'suboptimal'.

Turning to institutions, these are the main constraints on actors' behaviour. Institutions can be 'formal', such as constitutions and rules

of procedure, or 'informal', such as behavioural norms, shared beliefs and ideology (North, 1990). One example of a formal institution is the fixed term of office of an elected official, which restricts the office-holder to a particular 'time horizon', and hence leads the office-holder to disregard the possible long-term effects of strategies or outcomes. Institutions determine the likely payoffs from particular actions, and therefore the best strategy to achieve a particular goal. As a result, institutions can produce particular outcomes (equilibria) that would not occur if the institutions were absent or were changed (Riker, 1980). When this happens the outcome is said to be a 'structure-induced equilibrium' (Shepsle, 1979).

However institutions are not fixed. If an actor thinks he/she will be better off under a different set of institutions, he/she will seek to change the institutional arrangements. Thus actors have preferences about political institutions, and act upon these 'institutional preferences' in the same way as they do on their primary political goals. The process of institutional choice, therefore, is no different from strategic interaction over policy outcomes (North, 1990; Tsebelis, 1990). In political bargaining over policies and over institutions there is an existing structure of preferences and institutions. But in the institutional choice game the outcome is an 'institutional equilibrium' (Shepsle, 1986), which in turn might produce a different policy equilibrium as a result of a new set of rules governing policy bargaining.

In sum, the basic theoretical assumptions of modern political science can be expressed in the following 'fundamental equation of politics' (Hinich and Munger, 1997, p. 17):

$$\text{preferences} + \text{institutions} = \text{outcomes}$$

Preferences are the personal wants and desires of political actors; institutions are the formal and informal rules that determine how collective decisions are made; and outcomes (public policies and new institutional forms) result from the interaction between preferences and institutions. This simple equation illustrates two basic rules of politics:

- If preferences change, outcomes will change, even if institutions remain constant.
- If institutions change, outcomes will change, even if preferences remain constant.

Politics, then, is an ongoing process. Actors choose actions to maximize their preferences within a particular set of institutional constraints and a particular structure of strategic interests. But some actors change their preferences, for example when new politicians come to power. Or actors collectively decide to change the institutions. In either

case, actors pursue new actions, which lead to new policy or institutional equilibria, which lead to new preferences relative to the existing policy status quo, and so on.

But once a particular institutional or policy equilibrium has been reached, these institutions and policies are often 'locked in'. First, despite the emergence of new actors or changes in actors' preferences, certain actors invariably have incentives to prevent any change from the new 'status quo'. These actors are said to be 'veto-players', and the more veto-players there are in a bargaining situation, the harder it is for policies or institutions to be changed (Tsebelis, 2002). Second, when new issues then emerge or the policy environment changes, policy options are now compared with the existing policy equilibrium rather than with the policy situation that prevailed when the equilibrium was first agreed. As a result, politics is often 'path dependent', whereby a particular institutional or policy design has long-term consequences that were not initially considered by the actors in the initial bargaining situation, for example because the actors had short time horizons or lacked information or knowledge about the long-term impact of their decisions (North, 1990; Pierson, 2000).

These assumptions can easily be applied to the EU. As discussed above, there are a number of actors in the EU system (national governments, the supranational institutions, political parties at the national and European level, bureaucrats in the national and EU administrations, interests groups, and individual voters), and the EU institutional and policy environment is complex. To explain how the EU works we must understand the interests of all these actors, their strategic relations *vis-à-vis* each other, the institutional constraints on their behaviour, their optimal policy strategies, and the institutional reforms they will seek to better secure their goals.

Theories of European Integration and EU Politics

Many contemporary scholars of the EU describe it as a political system (for example Attinà, 1992; Andersen and Eliassen, 1993; Quermonne, 1994; Leibfried and Pierson, 1995; Wessels, 1997a), and some early scholars of the European Community (EC) argued that European integration was creating a new 'polity' (for example Lindberg and Scheingold, 1970). However, few contemporary theorists try to set out a systematic conceptual framework for linking the study of the EU political system to the study of government, politics and policy-making in all political systems. The conceptual framework presented in this book does not constitute a single theoretical approach that explains everything about the EU. Thankfully, the 'grand theories' of the political system died in the 1960s, to be replaced by mid-level explanations

of cross-systemic political processes. As discussed, an underlying argument in this book is that much can be learned if we simply apply these cross-systemic theories to the EU. This is a very different project from seeking grand theories of European integration. Nevertheless the 'integration theories' are the intellectual precursors of any theory of EU politics (cf. Hix, 1994, 1998a).

The first and most enduring grand theory of European integration is neofunctionalism (Haas, 1958, 1961; Lindberg, 1963; Lindberg and Scheingold, 1970, 1971). First developed by Ernst Haas the basic argument of neofunctionalism is that European integration is a deterministic process, whereby 'a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn create a further condition and a need for more, and so forth' (Lindberg, 1963, p. 9). As part of the wider 'liberal school' of international relations, neofunctionalists believe that the driving forces behind this 'spillover' process are non-state actors rather than sovereign nation states. Domestic social interests (such as business associations, trade unions and political parties) press for further policy integration to promote their economic or ideological interests, while the European institutions (particularly in the Commission) argue for the delegation of more powers to supranational institutions in order to increase their influence over policy outcomes.

Neofunctionalism's failure to explain the slowdown of European integration in the 1960s, and the subsequent strengthening of the intergovernmental elements of the EC, led to the emergence of a starkly opposing theory of European integration known as intergovernmentalism (for example Hoffmann, 1966, 1982; Taylor, 1982; Moravcsik, 1991). Derived from the 'realist school' of international relations, intergovernmentalism argues that European integration is driven by the interests and actions of the European nation states. In this interpretation the main aim of governments is to protect their geopolitical interests, such as national security and sovereignty. Decision-making at the European level is viewed as a zero-sum game, in which 'losses are not compensated by gains on other issues: nobody wants to be fooled' (Hoffmann, 1966, p. 882). Consequently, against the neofunctionalist 'logic of integration', intergovernmentalists see a 'logic of diversity [that] suggests that, in areas of key importance to the national interest, nations prefer the certainty, or the self-controlled uncertainty, of national self-reliance, to the uncontrolled uncertainty of the untested blunder' (ibid., p. 882).

These two approaches have been the two great monoliths at the gate of the study of European integration since the 1970s. Subsequent generations of researchers have been forced to learn the approaches virtually by rote, and to explain how their own theories relate to these

dominant frameworks, usually by siding with one or the other. However three new theoretical constructs have emerged as the main new frameworks for understanding government, politics and policy-making in the EU.

First, Andrew Moravcsik has developed a theory he calls 'liberal-intergovernmentalism' (Moravcsik, 1993, 1998; Moravcsik and Nicolaidis, 1999). Liberal-intergovernmentalism divides the EU decision process into two stages, each of which is grounded in one of the classic integration theories. In the first stage there is a 'demand' for EU policies from domestic economic and social actors – and, as in neo-functionalism and the liberal theory of international relations – these actors have economic interests and compete to have these interests promoted by national governments in EU decision-making. In the second stage EU policies are 'supplied' by intergovernmental bargains, such as treaty reforms and budgetary agreements. As in intergovernmentalism, states are treated as unitary actors and the supranational institutions have a limited impact on final outcomes. In contrast to the classic realist theory of international relations, however, Moravcsik argues that state preferences are driven by economic rather than geopolitical interests, that state preferences are not fixed (because different groups can win the domestic political contest), that states' preferences vary from issue to issue (so a member state may be in favour of EU intervention in one policy area but opposed in another), and that interstate bargaining can lead to positive-sum rather than simple zero-sum outcomes. Nevertheless in liberal-intergovernmentalism the EU governments remain the primary actors in the EU political system, and institutional reforms as well as day-to-day policy outcomes are the product of hard-won bargains and trade-offs between the interests of the member states.

Second, Gary Marks, Paul Pierson, Alec Stone Sweet, Markus Jachtenfuchs, Beate Kohler-Koch inter alia have developed an alternative set of explanations under the label of 'supranational governance' (Marks *et al.*, 1996; Pierson, 1996; Sandholtz and Stone Sweet, 1997; Kohler-Koch, 1999; Stone Sweet *et al.*, 2001; Jachtenfuchs, 2001; Hix, 2002). While there are considerable variations among the ideas of this group of scholars they share a common view of the EU as a complex institutional and policy environment, with multiple and ever-changing interests and actors, and limited information about the long-term implications of treaty reforms or day-to-day legislative or executive decisions. This leads to a common claim: that the member state governments are not in full control, and that the supranational institutions (the Commission, EP and ECJ) exert a significant independent influence on institutional and policy outcomes. For example Pierson (1996) explains the trajectory of European integration in three steps. At time T_0 , the member state governments agree a set of institutional rules or

policy decisions that delegate power to one or other of the EU institutions. At time T_1 a new bargaining environment emerges, with new preferences by the member states, new powers for and strategies by the supranational institutions, and new decision-making rules and policy competences at the EU level. Then at time T_2 , a new policy or set of institutional rules is chosen. But as a result of the changes at T_1 , and because of the strategic behaviour of the newly empowered supranational institutions, the decision taken by the member states at T_2 is very different from that which they would have taken if they had faced the same decision at T_0 . In other words, at the first stage the member state governments were in control. Decisions by the governments produce particular 'path dependencies', that invariably result in the further delegation of policy competences and powers to the EU institutions.

Third, George Tsebelis, Geoff Garrett, Mark Pollack, Gerald Schneider, Fabio Franchino *inter alia* argue for a more explicitly 'rational choice institutionalist' perspective on EU politics (Schneider and Cederman, 1994; Tsebelis, 1994; Tsebelis and Garrett, 1996, 2001; Pollack, 1997a, 2003; Franchino, 2004; Jupille, 2004). These theorists start with formal (and often mathematical) models of a particular bargaining situation. From these models predictions are generated about the likely policy equilibrium, the degree of delegation to the supranational institutions, the amount of discretion the supranational institutions will have compared with the member states, and so on. Sometimes the models result in predictions that are similar to the liberal-intergovernmentalist view: for example that there are few short-term unintended consequences when the member state governments must decide by unanimity and have perfect information about each others' preferences and the preferences of the EU institutions (as in the reform of the EU treaties in Intergovernmental Conferences). However rational choice institutionalist models also produce explanations that are similar to the supranational governance view: for example that outcomes are controlled by the supranational institutions rather than by the member states when agenda setting is in the hands of the Commission, EP or ECJ, or when there is incomplete information in the policy process (Schneider and Cederman, 1994). In other words, rather than seeing EU politics as being controlled either by the member state governments or by the EU institutions, this approach tries to understand under precisely what conditions these two opposing outcomes are likely to occur.

The differences between the three contemporary theories of EU politics can easily be overemphasized (Aspinwall and Schneider, 2000; Pollack, 2001). All three approaches borrow assumptions and arguments from the general study of political science and political systems. All three share a common research method: the use of theoretical assumptions to generate propositions, which are then tested against the

empirical reality. As a result, deciding which theory is ‘right’ is not a case of deciding which theory’s assumptions about actors, institutions and information are closest to the reality. How good a theory is depends on how much and how efficiently it can explain a particular set of facts. However some theories are more efficient, some are more extensive, and all tend to be good at explaining different things. For example the liberal-intergovernmental theory uses some simple assumptions, and from these assumptions produces a rather persuasive explanation of the major history-making bargains. But, this theory seems less able to explain the more complex environment of day-to-day politics in the EU (cf. Rosamond, 2000; Peterson, 2001). The rational-choice institutionalist approach also aims for parsimony over extensiveness, with some simple assumptions being applied to a limited set of empirical cases, and it is good at predicting outcomes when the rules are fixed and information is complete. The supranational governance approach uses a more complex set of assumptions and is more able to explain a broader set of policy outcomes from the EU system and the long-term trajectory of the EU. Consequently the power of the different theories can only be judged where they produce clearly identifiable and opposing sets of predictions about the same empirical phenomenon. Unfortunately this is rare in EU politics, as it is in many areas of social science.

This may seem a rather arcane debate. However this overview of the main theoretical positions in EU politics is essential for understanding the intellectual foundations of the more empirically based research covered in the following chapters. The final building block is a basic knowledge of the allocation of policy competences in the EU system.

Allocation of Policy Competences in the EU: a ‘Constitutional Settlement’

In the EU, as in all political systems, some policy competences are allocated to the central level of government while others are allocated to the state level. From a normative perspective, policies should be allocated to different levels to produce the best overall policy outcome. For example the abolition of internal trade barriers can only be tackled at the centre if an internal market is to be created. Also, policies where state decisions could have a negative impact on a neighbouring state (an ‘externality’), such as environmental or product standards, are best dealt with at the centre. Policies where preferences are homogeneous across citizens in different localities, such as basic social and civil rights, could perhaps be dealt with at the centre (see Alesina *et al.*, 2002). And in the classic theory of ‘fiscal federalism’, the centre should be responsible for setting interest rates, as well as income distribution

from rich to poor states, on the ground that central monetary policies inevitably constrain the tax and welfare policies of the states (Brown and Oates, 1987; Oates, 1999). But in the new theory of ‘market-preserving federalism’, the centre should provide hard budgetary constraints on state expenditure (to prevent high deficits) and regulatory and expenditure policies should be decentralized, to foster competition and innovation between different regimes (Weingast, 1995; Quin and Weingast, 1997).

From a positive perspective, in contrast, the allocation of competences is the result of a specific constitutional and political bargain and the way in which actors with different policy goals have behaved within this bargain (Riker, 1975; McKay, 1996, 2001). For example social democrats usually prefer regulatory and fiscal policies to be centralized (to allow for income redistribution and central value allocation), whereas economic liberals prefer strong checks and balances on the exercise of these policies by the central government. In addition, some constitutional allocations of competence are more rigid than others. For example, where the competences of the centre and the states are clearly specified and there is independent judicial review of competence disputes, the states are more protected against ‘drift’ to the centre. Alternatively, where competences are divided along functional rather than jurisdictional lines – with different roles for the centre and the states within each policy area (such as the setting of broad policy goals by the centre and of policy details by the states) – there are fewer constraints on the expansion of central authority. Nevertheless, under all constitutional designs the division of competences is never completely fixed, and the long-term trend in all multilevel political systems has been policy centralization.

Table 1.2 shows the evolution of competences in the EU and the US. This exercise is largely impressionist and uses a variety of secondary sources, and is hence not an exact science. Nevertheless several broad trends can be observed. First, both polities started with a low level of policy centralization. Second, policy centralization occurred remarkably quickly in the EU compared with the US, and in some areas faster than others. By the end of the 1990s most regulatory and monetary policies were decided predominantly at the EU level, while most expenditure policies, citizen policies, and foreign policies were controlled by the member states. In the US, in contrast, foreign policies were centralized before economic policies. Third, in the area of regulatory policies the harmonization of rules governing the production, distribution and exchange of goods, services and capital is now more extensive in the EU than in the US (Donohue and Pollack, 2001). For example in the field of social regulation, where there are few federal rules in the US, the EU has common standards for working hours, part-time and temporary workers’ rights, worker consultation and so on. Also, after the

Table 1.2 Allocation of policy competences in the EU and US

	<i>European Union</i>					<i>United States</i>				
	1950	1957	1968	1993	2004	1790	1870	1940	1980	2004
Regulatory policies										
Movement of goods and services	1	2	3	4	4	1	3	4	4	4
Movement of capital	1	1	1	4	4	1	3	4	4	4
Movement of persons	1	2	3	4	4	1	3	4	4	4
Competition rules	1	2	3	4	4	1	1	4	4	4
Product standards	1	2	3	4	4	1	1	4	4	4
Environmental standards	1	2	2	3	3	-	-	3	4	3
Industrial health and safety standards	1	2	2	3	3	1	1	3	4	3
Labour market standards	1	1	1	3	3	1	1	2	3	2
Financial services regulation	1	1	1	3	4	1	1	2	3	3
Energy production and distribution	1	2	2	3	3	1	1	3	3	3
Expenditure policies										
Agricultural price support	1	1	4	4	4	1	2	4	4	4
Regional development	1	1	1	3	3	1	1	3	4	3
Research and development	1	1	2	2	2	1	1	2	3	2
Social welfare and pensions	1	1	1	2	2	1	1	3	4	3
Public healthcare	1	1	1	2	2	1	1	3	3	3
Public education	1	1	1	1	2	1	1	2	4	3
Public transport	1	1	1	1	1	1	1	2	3	2
Public housing	1	1	1	1	1	1	1	2	2	2

Monetary and tax policies										
Setting of interest rates/credit	1	1	2	3	4	2	3	4	4	4
Issue of currency	1	1	1	1	4	1	4	4	4	4
Setting of sales and excise tax levels	1	1	1	4	4	2	2	2	3	2
Setting of income tax levels	1	1	1	1	1	1	1	3	3	3
Citizen policies										
Immigration and asylum	1	1	1	2	3	2	4	4	4	4
Civil rights protection	1	1	1	2	2	2	2	2	4	4
Policing and public order	1	1	1	2	2	1	2	3	3	3
Criminal justice	1	1	1	1	1	2	2	3	3	3
Foreign policies										
Trade negotiations	1	1	3	4	4	3	3	4	4	4
Diplomacy and IGO membership	1	1	1	2	3	3	3	4	4	4
Economic–military assistance	1	1	1	2	3	3	4	4	4	4
Defence and war	1	1	1	1	2	4	4	4	4	4
Humanitarian and development aid	1	1	1	3	3	4	4	4	4	4
<p><i>Notes:</i> 1 = all policy decisions at the state level (EU national/regional level; US state level); 2 = some policy decisions at the central level (EU level, or US federal level); 3 = policy decisions at both state and central level; 4 = most policy decisions at the central level. EU: 1950 – before any treaties, 1957 – EEC Treaty, 1968 – Merger Treaty, 1993 – Maastricht Treaty. US: 1790 – end of ratification of Constitution, 1870 – reconstruction era, 1940 – New Deal, 1980 – before Reagan.</p>										

Sources: Schmitter (1996); Donohue and Pollack (2001); Alesina *et al.* (2002).

high point of regulatory policy-making by Washington in 1980, the 1990s brought the deregulation of US federal regimes and increasing regulatory competition between the states (Ferejohn and Weingast, 1997). Fourth whereas the EU has harmonized sales tax, there are no EU rules governing the application of income tax. In the US, in contrast, there are few federal restrictions on the imposition of consumption taxes by the states, while income taxes are levied by both the states and the federal authorities.

These variations in the policy mix in the EU and US stem from their very different social, political and historical experiences (Elazar, 2001). Despite these differences there are remarkable similarities in the area of socioeconomic policies. A normative perspective would hold that market integration should be tackled by the centre. From a positive perspective, however, in both the EU and the US basic constitutional provisions guaranteeing the removal of barriers to the free movement of goods and services have been used by the central institutions to establish common standards in other areas, such as social rights, and the gradual integration of economic powers, such as a single currency, and constraints on fiscal policies. In the US this occurred between the late nineteenth century and the end of the 1970s. In the EU it took much less time: from the early 1980s to the early 1990s. In other words, whereas the US constitutional structure placed some constraints on the central authority, there have been few constraints on the ability of the member state governments and the EU institutions to centralize power in the name of completing the single market.

Nevertheless, Table 1.2 also shows that once the single market was completed and the EU was given the necessary policy competences to regulate this market, a new European ‘constitutional settlement’ had been established: whereby the European level of government is responsible for the creation and regulation of the market (and the related external trade policies); the domestic level of government is responsible for taxation and redistribution (within constraints agreed at the European level); and the domestic governments are collectively responsible for policies on internal security (justice and crime) and external security (defence and foreign). This settlement was already established by the Single European Act, with some minor amendments in the Maastricht Treaty. The subsequent reforms (in the Amsterdam and Nice Treaties and the proposed constitution agreed in June 2004) have not altered the settlement substantially. For example the proposed Constitution would set up a ‘catalogue of competences’ which would further constitutionalize the settlement: with a separation between exclusive competences of the EU (for the establishment the market); shared competences between the EU and the member states (mainly for the regulation of the market); ‘coordination competences’ (covering macro-economic policies, interior affairs, and foreign policies), and

exclusive competences of the member states (in most areas of taxation and expenditure).

Hence despite the widely held perception that the EU is a ‘moving target’, with the permanent process of institutional reform, the opposite is in fact the case. The EU has not undertaken fundamental policy and institutional reforms because the settlement constitutes a very stable equilibrium. It would be much better if the member states would acknowledge the stability of the competence-allocation settlement and focus on the question of how to reform the central institutions to increase the efficiency and democratic accountability of the system as a whole. The EU political system has been established – the challenge now is to determine how it should work. This is exactly what happened in the negotiations on the proposed constitution, where the allocation of competences between the member states and the EU was settled within a few months of the start of the Convention on the Future of Europe in Autumn 2002, while the battles over the reform of the Council and the Commission derailed a planned agreement in December 2003, and were not resolved until June 2004.

Structure of the book

The rest of this book introduces and analyzes the various aspects of the EU political system. Part I looks at EU government: the structure and politics of the executive (Chapter 2), political organization and bargaining in the EU legislative process (Chapter 3), and judicial politics and the development of an EU constitution (Chapter 4). Part II turns to politics: public opinion (Chapter 5), the role of parties and elections and the question of the ‘democratic deficit’ (Chapter 6), and interest representation (Chapter 7). Part III focuses on policy-making: regulatory policies (Chapter 8), expenditure policies (Chapter 9), economic and monetary union (Chapter 10), citizens’ rights and freedoms (Chapter 11), and the EU’s foreign economic and security policies (Chapter 12). To create a link with the rest of the discipline, each chapter begins with a review of the general political science literature on the subject of that chapter. Finally, in Chapter 13 the underlying arguments and issues in the book are brought together in a short conclusion.

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