

# Grand Theories, Differentiated Integration

*Frank Schimmelfennig (ETH Zurich) and Thomas Winzen (University of Essex)*

Contacts: [frank.schimmelfennig@eup.gess.ethz.ch](mailto:frank.schimmelfennig@eup.gess.ethz.ch), [thomas.winzen@essex.ac.uk](mailto:thomas.winzen@essex.ac.uk)

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## **Abstract**

Even though differentiation has become a core feature of the EU, the grand theories have focused almost exclusively on uniform integration. In this paper, we derive hypotheses about differentiated integration from liberal intergovernmentalism, neofunctionalism, and postfunctionalism. In an analysis of EU treaty making between 1992 and 2016, we find evidence that heterogeneity of both wealth and identity, integration in the area of core state powers, and pre-existing differentiation drive differentiated integration. A comparison of the explanatory power of the grand theories shows that neo- and post-functionalism explain the differentiations that member states obtain in EU reform treaties more convincingly than liberal intergovernmentalism. A synthetic model performs best, however. The grand theories also leave noteworthy variation unexplained.

## **Keywords**

European integration, differentiated integration, liberal intergovernmentalism, neofunctionalism, postfunctionalism

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## Introduction

Ever since the early 1990s, differentiated integration (DI) has become a core feature of the European Union (EU). We define European integration as differentiated if EU rules and policies are not legally valid in all member states – or not exclusively valid in member states. In internal differentiation, individual EU member states do not participate in specific EU policies. Either they enjoy opt-outs that free them from the obligations of membership, or they are excluded from the rights and benefits of an integrated policy. In external differentiation, non-member states selectively adopt EU policies.

Whereas most differentiations are transitory, the two major post-internal market integration projects – monetary integration and the integration of interior (justice and home affairs) policies – began and have remained differentiated for more than 20 years. Successive enlargements and the Euro crisis have reinforced the institutional divide among the member states at the same time as non-member states have selectively integrated into the internal market (e.g., in the European Economic Area) and specific EU policies (such as Schengen or the European Research Area). In sum, the EU has developed into a ‘system of differentiated integration’ (Schimmelfennig et al. 2015). Differentiated integration also plays a key role in current debates about EU reform. In principle, it offers a constructive alternative to stagnation, on the one hand, and disintegration, on the other.

Yet the ‘grand theories’ of European integration have generally neglected its increasingly differentiated nature. They have focused on the big decisions to shift policy-making authority from the national to the regional level (intergovernmentalism), the general institutional and transnational dynamics that push integration beyond and above the initial intergovernmental agreement (neofunctionalism) and the constraining politicization that has developed in response to the deepening of integration (postfunctionalism).

Whereas the original grand theories were formulated when European integration was still largely uniform, the debate of the 1990s between liberal intergovernmentalism (LI) and neofunctionalism (NF) took place after DI had already become a core feature of European integration (Kölliker 2006: 38). Even though Moravcsik and Nicolaidis (1999: 83) describe instances of differentiation in the bargaining processes of the Amsterdam treaty negotiations and call for elaborating bargaining theory to deal adequately with exclusions and opt-outs, LI has not treated DI systematically. Nor has NF, given its focus on centralizing spillovers. In their outline of a postfunctionalist (PF) theory of European integration, Hooghe and Marks explicitly mention opt-outs and cooperation among subsets of member states as institutional reforms to ‘lower the heat’ (2009: 22) – but PF mainly aims to explain why identity-driven politicization constrains European integration in general.

In turn, the academic discussion of DI has long been atheoretical (in terms of social science or integration theory) and focused on describing specific cases, categorizing modes of DI and pondering its policy implications (Holzinger and Schimmelfennig 2012). More recent theory-oriented analyses of

DI have built on general theories such as collective-goods (Kölliker 2006), bargaining (Schneider 2009) and spatial theory (Jensen and Slapin 2012), as well as Bourdieuan international political sociology (Adler-Nissen 2014), but not on the grand theories. Leuffen et al. (2013) derive conjectures on DI from the grand theories, but apply them to specific policy areas and integration cases, rather than testing them systematically. This is what we set out to do in this paper.

Why re-engage the grand theories to explain DI? First, the grand theories continue to inform and structure academic debates about the ‘big picture’ and overall development of European integration. Because DI has become an important part of the big picture, the grand theories should have something to say about differentiation. Second, the grand theories offer all the building blocks of a complete theory of DI, from the sources of the social demand for DI via the institutional context of negotiations to the institutional implementation of differentiation. In that they differ from the existing theory-oriented analyses, which often focus on parts of the process only, or on the effects (rather than the causes) of DI (Kölliker 2006; Jensen and Slapin 2012; Adler-Nissen 2014).

In the theoretical section of the paper, we derive hypotheses on DI from the three grand theories that this special issue features: neofunctionalism, (liberal) intergovernmentalism and postfunctionalism. We postulate key conditions and mechanisms of differentiation that follow from the theories’ general assumptions and propositions on European integration. In particular, we add the heterogeneity of preferences and capacities and the supranational institutional context as relevant conditions of DI.

In the empirical section, we test these hypotheses on a dataset of treaty-based DI. In line with the general approach of the special issue, we seek to determine the ‘contributions of each theory in its own terms’ but also treat them as partially compatible, complementary and overlapping theoretical perspectives ‘on a multifaceted phenomenon’ (Hooghe and Marks, this issue). We find, indeed, that DI is substantially correlated with explanatory factors suggested by all grand theories: international heterogeneity of wealth and identity, the integration of core state powers, domestic constraints by Eurosceptic parties and the prior existence of differentiation in integrated policies. In addition, however, a synthetic model composed of all factors outperforms any individual grand theory.

The paper makes three major contributions. First, it elaborates the grand theories of European integration so that they can account for the distinction between uniform and differentiated integration. Second, it moves beyond existing work on DI, including our own (Schimmelfennig and Winzen 2014; Winzen and Schimmelfennig 2016), by explicitly engaging the grand theories to explain differentiation. Empirically, we include new analyses to assess the individual and joint explanatory power of the grand theories and the extent of variation left to be explained by other approaches. Third, it does so by testing hypotheses based on the grand theories against an encompassing dataset of DI (rather than individual case studies). We find that, with minor adjustments, the grand theories are flexible enough to cover differentiation as an additional outcome besides uniform integration and the status quo both theoretically and empirically.

## **Grand theories and differentiated integration: conditions, mechanisms and hypotheses**

In contrast to theories of European policy-making, theories of European integration focus on institutional change in the EU polity: the integration of new policy areas and member states and shifts in competencies between the state and the union and between the institutional actors of the EU.

Traditionally, the grand theories have covered the choice between the status quo and more (or less) uniform integration. Here, we expand the choice set to include DI. Starting from the core propositions of the grand theories, we theorize why and how member states opt for or end up with differentiated instead of uniform integration.

There is general agreement in the literature that demand for DI results from increasing heterogeneity of preferences and capacities among the member states (Holzinger and Schimmelfennig 2012).

Because the major decisions in European integration require unanimous agreement, uniform integration is likely if the member states have compatible integration preferences and are capable of helping each other realize these preferences. By contrast, if states and societies have incompatible goals – and side payments or issue linkages cannot overcome them – or if they lack the administrative or economic capacity for effective cooperation, individual member states are likely to veto further integration. This outcome, however, leaves one subset of member states dissatisfied: those with compatible integration preferences, sufficient integration capacity and an interest in further integration. By exempting or excluding states that are either unwilling or lack the capacity to integrate further, DI provides a remedy. In sum, DI accommodates heterogeneity by leaving some states at the status quo while others integrate (further).

The grand theories can easily integrate heterogeneity into their frameworks. They do not need to change their basic assumptions about what motivates social groups and states for or against integration. The only element they need to add is that heterogeneous or divergent preferences or capacities do not necessarily result in deadlock but create an opportunity for differentiation, depending on conducive bargaining situations and institutional settings.

Yet the grand theories differ on the relevant sources of heterogeneity and the conditions for realizing the demand. Whereas LI and NF feature the heterogeneity of economic preferences and capacities, PF emphasizes heterogeneity in national identities. And whereas LI focuses on intergovernmental bargaining power to explain DI, NF highlights the supranational institutional setting, and PF brings in domestic constraints – above all referendums and Eurosceptic parties.

In the following sections of the theory part, we describe the conditions and mechanisms of DI for each grand theory in more detail and formulate testable hypotheses. For reasons of space, we refrain from

repeating their general assumptions and propositions on European integration (see Hooghe and Marks, this issue; Schimmelfennig 2018; Wiener et al. 2019).

### ***Liberal intergovernmentalism***

LI argues that the relevant heterogeneity in preferences and capacities is mainly economic. On the one hand, heterogeneity arises from the divergence of interests in the market-making and market-correcting policies that the EU pursues (Moravcsik 1993: 487). Generally, governments aim to ‘secure commercial advantages for producer groups, subject to regulatory and budgetary constraints’ (Moravcsik 1998: 38). Depending on how competitive these powerful producers are on the regional market, states demand either market liberalization or protectionist policies. Moreover, they push for regulatory policies that benefit domestic producers. In market-making commercial policies, competitive position is paramount. Export-oriented sectors support market expansion and liberalization, whereas import-competing sectors seek protection from outside competitive pressures. To the extent that market-correcting policies affect competition, a similar logic prevails. Producers from high-regulation, high-standard national economies prefer a similar level of regulation in the EU to counter the competitive advantage of competitors from low-regulation states; those from states with weak regulation or weak standards oppose high-level harmonized standards to keep their competitive advantage. Finally, net contributors to the EU budget oppose the extension of EU subsidies, whereas net recipients favour an increase in EU expenditure (Moravcsik 1993: 495; Thomson 2011: 136-7).

On the other hand, heterogeneity arises from variation in state capacity. As a decentralized polity with weak central administrative capacity, the EU relies on its member states for the implementation of its policies. Administrative capacity has proven a robust factor in the explanation of member state compliance with EU law (Toshkov 2010). As administrative capacities of member states become more diverse, high-capacity member states are likely to become more reluctant towards integration for fear of unequal policy implementation undermining policy efficiency and the EU’s level playing field.

A good empirical approximation of the major cleavage generating heterogeneity is wealth (Bailer et al. 2015; Thomson 2011: 148-55). Wealthier countries are more likely to have competitive, export-oriented sectors, to start from higher regulatory standards, and to be net contributors to the EU budget. Therefore, they typically favour more integration on market expansion and liberalization, EU-wide regulatory standards, and restrictions on EU transfers and expenditure. In addition, wealth goes together with higher state capacity. Correspondingly, wealthier states are likely concerned that poorer states lack the capacity for effective integration, especially in areas of integration that require significant administrative, financial and technical capacity. In sum, LI expects heterogeneity of preferences and capacities to arise mainly between rich and poor states.

As the wealth gap between member states widens, demand for differentiation increases. For instance, rich states seek opt-outs from redistributive policies or push for the exclusion of poorer, low-capacity member states from policies that demand high administrative or economic capacity. Conversely, poorer states are interested in exemptions from costly regulatory rules.

Domestic economic interests most clearly shape state preferences, the 'more intense, certain, and institutionally represented and organized' they are (Moravcsik 1998: 36). These conditions are most likely to be present in EU policies related to the internal market. In other policy areas, in which outcomes do not have strong and clear economic implications, and the relevant domestic constituencies are weak or diffuse, state preferences – and their international heterogeneity – are harder to predict for LI or more likely to follow ideological beliefs (Moravcsik 1998: 486-9; Moravcsik and Nicolaïdis 1999: 61).

Under which circumstances can states realize their demand for DI? In the LI perspective, the intergovernmental distribution of bargaining power is the key factor. The sources of bargaining power are unequal preference intensity and unequal mutual dependence. Unequal preference intensity results from differences in how satisfied governments are with the status quo. Unequal mutual dependence results from differences in how much member state governments need each other to attain their goals – and in the credible outside options (alternatives to European integration) that they possess. Because negotiations on integration require unanimous intergovernmental agreement, governments with lower preference intensity and dependence can credibly threaten to block agreement unless their integration preferences are met (Moravcsik 1993: 499-502).

Governments with superior bargaining power are in a promising position to realize their differentiation preferences if other member states want to move beyond their preferred level and scope of integration. First, they can obtain exemptions ('opt-outs') from integration steps in exchange for foregoing their veto. Second, they can insist on excluding countries from integration, which do not share their policy preferences or do not meet their standards of capacity.

Wealthier states are typically more satisfied with the status quo and less dependent on (additional) international cooperation than poorer countries. They are therefore more likely to realize their DI demand. In the LI perspective, heterogeneity of wealth is therefore the main structural condition of DI. It not only creates general demand for DI, but also allows the more affluent states to impose DI on the less affluent ones. We thus derive a simple hypothesis from LI:

*(LI) DI increases with the heterogeneity of wealth among EU member states.*

## *Neofunctionalism*

LI and NF share the assumption that explanations of differentiation in European integration need to start from the compatibility of societal, efficiency-oriented and predominantly economic interests. While generally emphasizing the compatibility of ‘modern’ economic and social systems and pluralistic societal structures as a prerequisite for integration (Haas 1961), NF has remained vague in explaining the specific interests that shape integration preferences and the power of interest groups in affecting integration outcomes. Indeed, Moravcsik’s liberal reformulation not only moved intergovernmentalism closer to neofunctionalism, but also contributed a more precise analysis of societal preferences and power (Caporaso 1998: 9-10). Accordingly, theorists of European integration working in the tradition of NF such as Paul Pierson (1996) accepted that LI provided an adequate account of initial integration. For these reasons, we assume NF to share LI’s wealth-based hypothesis about differentiated integration.

In addition, however, NF puts strong emphasis on the endogenous dynamics of integration. Integration generates new supranational and transnational actors, institutions and interdependencies that affect the subsequent integration process independently of the original intergovernmental preference and power constellations. In the NF perspective, it is therefore relevant for the future development whether a policy is integrated uniformly or differentially.

First, DI facilitates decision-making on further integration. In a context of uniform integration, in which all member states are represented, the international heterogeneity of preferences and capacities is larger, and agreement is harder to achieve, than in a context of DI, in which states are already grouped by similarity of preferences and capacities. Decisions on further integration are easier to take if preference or capacity outliers are already exempted or excluded. Consequently, however, the integration gap between the status quo- and the integrationist member states is likely to widen over time (Jensen and Slapin 2012).

Second, uniform integration establishes supranational actors such as the European Commission, Parliament, and Court, which typically prefer integration to be uniform and therefore constrain DI. By contrast, supranational actors created for differentially integrated policy areas – such as the European Central Bank – are likely less committed to uniformity. Third, in spite of the established practice of differentiation, uniformity is still the EU norm. This norm is weaker, however, in policy areas, which have been differentially integrated from the start.

Finally, path-dependence (Pierson 1996) affects situations of uniform and differentiated integration differentially. In a situation of uniform integration, path-dependence locks in uniformity and creates incentives for uniform further integration. If prior integration has put states on two different paths, however, sunk costs and endogenous interdependence may propel states onto divergent integration trajectories and increase the costs of changing path (Schimmelfennig 2016). Path-dependence locks in

uniform and differentiated integration equally. For all these reasons, prior uniform integration inhibits DI, where prior DI facilitates subsequent DI. In addition to sharing the LI hypothesis on heterogeneity of wealth, NF thus suggests a general hypothesis about the dynamics of DI:

*(NF) Differentially integrated policies are more likely to generate additional differentiation.*

### ***Postfunctionalism***

Both LI and NF assume a functional or instrumental logic of integration. By contrast, PF is based on the assumption that organizations represent communities of culture and identity. As community beings, individuals have a fundamental interest in the collective self-determination of their community (Hooghe and Marks 2016). In addition, PF starts from the observation that European integration has become politicized domestically. It has become more visible and salient for citizens. It has created economic and cultural integration winners and losers, polarized attitudes and debates on the EU, and helped to form a new political cleavage between supporters and opponents of openness and integration. Finally, Eurosceptic parties have mobilized this integration cleavage, transformed national party systems, and made important electoral gains in many European countries. In the course of the politicization process, integration has shifted from the ‘interest group arena’ and its ‘distributional logic’ to the ‘mass arena’ with its ‘identity logic’ (Hooghe and Marks 2009: 9).

Correspondingly, in a PF perspective, the relevant international heterogeneity stems from incompatible integration preferences based on national identity. Specifically, ‘the more exclusively an individual identifies with an in-group, the less that individual is predisposed to support a jurisdiction encompassing outgroups’ (Hooghe and Marks 2009: 12). Thus, Euroscepticism increases with the share of individuals with exclusive national identities, and demand for DI increases with the variation in the exclusiveness of national identities across member states. Heterogeneity of identity is most relevant in issue-areas pertaining to community self-determination and solidarity, comprising ‘core state powers’ (Genschel and Jachtenfuchs 2014) such as internal and external security, which define the sovereignty of the state, but also migration and welfare policies.

Accordingly, ‘nationalist’ societies are likely to demand opt-outs from integration agreements, especially from non-market policies in the area of core state powers, or to push for the exclusion of societies in need of solidarity. As status quo-oriented actors, they are also generally in a promising bargaining position to realize their preferences. In addition, they can leverage domestic constraints. Generally, the ‘constraining dissensus’ on European integration is most effective, the more directly mass politicization affects EU negotiations and their outcomes. This is most clearly the case in countries, in which the ratification of European treaties by referendum is mandatory or customary and in which Eurosceptic parties threaten governments with mobilization against European treaties (Hooghe and Marks 2009). We thus derive four postfunctionalist hypotheses on DI.



- (PF1) DI increases with the heterogeneity of national identity among the EU member states.*
- (PF2) Integration in the area of core state powers increases the likelihood of differentiation.*
- (PF3) Member states with stronger Eurosceptic parties are more likely to obtain opt-outs.*
- (PF4) Member states that ratify EU treaties by referendum are more likely to obtain opt-outs.*

In the theoretical section of the paper, we elaborated the grand theories in order to explain differentiated rather than uniform integration. By building on their main assumptions, conditions and mechanisms of European integration, we sought to remain as close as possible to the original formulation of the theories. Even though the exponents of the grand theories did not explicitly cover DI, small theoretical adjustments – in particular regarding the relevance and nature of the international heterogeneity of integration preferences and capacities and regarding the variation in supranational institutional context – proved sufficient to generate testable hypotheses about DI.

This exercise has confirmed the partially competing, overlapping and complementary perspectives of the grand theories. For one, LI and NF share the hypothesis that heterogeneity of economic interests and capacities, following from heterogeneity of wealth, is the main driver of differentiation. In addition, however, NF brings in prior uniform integration as a constraint on further differentiations, and prior differentiation as a facilitator. By contrast, PF constitutes an alternative rather than an addition to the LI hypothesis. Heterogeneity of national identities rather than heterogeneity of wealth drives DI, and domestic rather than supranational institutional factors affect to what extent the demand for DI is realized. Yet even LI and PF are partly compatible and complementary. Whereas LI assumes that its explanation of DI is strongest in economic integration, PF focuses on the integration of core state powers.

## **Analysis: EU Treaty-making since Maastricht**

### ***Differentiation and differentiation opportunities***

We analyse differentiated integration in EU treaties from the Treaty of Maastricht (1992) to the 2016 intergovernmental agreement on the Single Resolution Fund, the latest reform treaty. We limit our analysis to treaties among the EU member states, because these treaties codify the big integration decisions that the grand theories focus on. And we start with the Treaty of Maastricht, because it marks the beginnings of differentiation as a persistent feature of European integration.

We set up our analysis from the perspective of individual member states. Member state governments participate in intergovernmental negotiations and they may conclude these negotiations with one or more opt-outs from the policies that were subject to reform. In this way, individual member states generate differentiated European integration. Importantly, to speak of *an* intergovernmental negotiation can be deceiving as these processes involve negotiations on many policy areas. In the

Maastricht Treaty, for instance, 28 policy areas were reformed. We consulted reports on all EU treaty reforms by the European Commission and Council of Ministers to identify the policy areas that were explicitly on the agenda of intergovernmental conferences (Table A1 in the appendix provides an overview). Hence, saying that member states can conclude intergovernmental negotiations with opt-outs means that this can happen in each negotiated area.

We design our analysis in close correspondence to these considerations. We observe the negotiation outcomes of each member states, in each policy area, negotiated in each reform treaty. We call this combination a ‘differentiation opportunity’. In the aforementioned Maastricht Treaty, each member state thus had 28 differentiation opportunities and creates 28 corresponding observations in our data. We are aware that our theoretical arguments provide a stylized account of a complex bargaining reality involving package deals as well as policy and country idiosyncrasies that we cannot fully measure, although we will try to adjust our analysis for such unobserved sources of diversity.

To continue our example of the Maastricht Treaty, how do we establish whether a member state concluded the negotiations on any of the 28 policies with an opt-out? Here we consult the formal treaty outcomes of the negotiations. We identify whether, according to the text of the treaties, the rules of a given policy area bind a given member state. If the member state is exempted fully or partially from the rules, we classify this as an opt-out or case of differentiation. For example, the British opt-out from the Maastricht Treaty provisions on the Eurozone are found in a legally binding protocol attached to this treaty. These pieces of information are found in the EUDIFF1 dataset (Schimmelfennig and Winzen 2014).

Importantly, in every treaty negotiation, we only code an opt-out if a country is exempt from *new rules*. If a treaty creates new rules in a policy area, and a country fully participates in these rules, we do not code a differentiation, even if the country has active opt-outs in this policy area from previous reforms. It is of course likely that pre-existing differentiation has knock-on effects but these are distinct from our dependent variable.

Furthermore, we consider as differentiation cases in which countries achieve desired exemptions and in which they are excluded from policy regimes against their will. This may seem controversial as exemptions and discrimination could result from different explanations. However, first, discrimination is very rare in reform treaty negotiations, unlike in enlargement. Since all countries have to vote in favour of a reform treaty, it is difficult to adopt discriminatory differentiation against anyone’s will. Discriminatory differentiation occurs predominantly in the case of recent new member states that enter treaty negotiations with active, discriminatory opt-outs (e.g. exclusion from the Eurozone) and are then also excluded from reforms (e.g. the reform of the Eurozone). We keep these cases of discrimination in the analysis, even though exemptions are the norm in reform treaties, since some theories describe exactly these lasting consequences of initial differentiation. However, we also

examine the implications of excluding the most recent accession countries and thus nearly all cases of discriminatory differentiation.

### *Variables and data*

Our theoretical arguments lead us to expect that certain country and policy characteristics increase the chances that a country obtains an opt-out in a given policy negotiation or differentiation opportunity. First, LI emphasizes ‘heterogeneity of wealth’ as a driver of differentiated integration. At the country-level, the argument implies a U-shaped relationship between the wealth of states and national opt-outs. Both the richest and poorest members of the EU are likely to obtain exemptions or be excluded from further integration. This leaves the average countries in the EU as the least-likely candidates for differentiation and suggests that the probability of differentiation outcomes increases the more countries deviate from average EU wealth. Consequently, we measure a country’s absolute distance from the member state average in wealth. In terms of data, our measure is taken a year before a differentiation opportunity and relies on gross national income (GNI) per capita, in purchasing power adjusted 2011 constant international dollars based on World Bank data.<sup>1</sup>

The NF expectation is that differentially integrated policies generate further differentiation. A differentially integrated policy is one in which, at the time of a negotiation, some member states already have existing opt-outs from previous reform treaties. From the NF perspective, it is important that there is a precedent of differentiation in the policy area and not which specific member state has set this precedent. Moreover, the degree of prior differentiation might matter too: is there only one or are there many cases of opt-outs in force? Therefore, we operationalize this variable at the policy level as a count of instances of differentiation in a policy area at the time of a reform treaty negotiation.

The PF hypotheses require several variables. To operationalize ‘heterogeneity of national identity’ (PF1) at the country-level, we measure exclusive national identity based on Eurobarometer surveys. The Eurobarometer asks respondents whether they feel ‘exclusively national’ rather than ‘national and European’, ‘European and national’ or ‘European only’ (Table A2 in the Appendix shows the surveys that we use). We assess the percentage of respondents feeling ‘exclusively national’ in each member state. As for PF2, following Genschel and Jachtenfuchs (2014: 10), core state powers are policies that are closely linked to sovereignty due to their ‘institutional significance for state building’ (Table A1 in the Appendix shows our classification).

For Eurosceptic party strength (PF3), we measure the seat-weighted average EU position of all government parties. We derive party positions from the Chapel Hill and Leonard Ray expert surveys

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<sup>1</sup> GNI correlates very closely ( $r > .97$ ) with GDP. However, unlike GDP, this measure avoids distortions in some years regarding Ireland. In GDP/capita terms, Ireland appears as the wealthiest European country (except for Luxembourg) (see also Financial Times 2015).

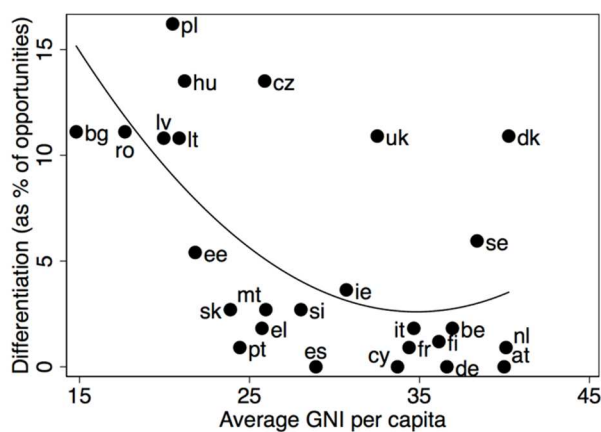
(Ray 1999; Steenbergen and Marks 2007; Bakker et al. 2015). These surveys ask experts to rank parties in terms of their leadership's stance on European integration. The Chapel Hill Surveys do not cover Cyprus, Malta, Luxembourg and Estonia (before 2006). Finally, we code whether a member state ratified a treaty by referendum (PF4).

Not counting observations for which we miss data on the explanatory variables, our data encompasses 1795 observations nested in 24 member states, 40 policy areas, and 9 treaties. The Appendix shows summary statistics (**Error! Reference source not found. A3**).<sup>2</sup>

### *Relationships between differentiation and the explanatory variables*

We begin to explore the plausibility of the theoretical expectations by examining bivariate relationships. First, LI suggests a U-shaped relationship between wealth and differentiation, as both rich and poor member states tend to negotiate exemptions or face discrimination. Figure 1 shows the expected U-shaped relationship, albeit only tentatively. Many of the post-2004 Central and East European accession countries drive this pattern on one end due to their many exemptions (e.g. from EU state aid policy) and significant discrimination (e.g. regarding the free movement of workers). Rich member states such as Britain, Denmark and Sweden constitute the other end of the inverted-U. However, the pattern is tentative as there are many uniformly integrated wealthy countries.

**Figure 1. Differentiation and wealth**

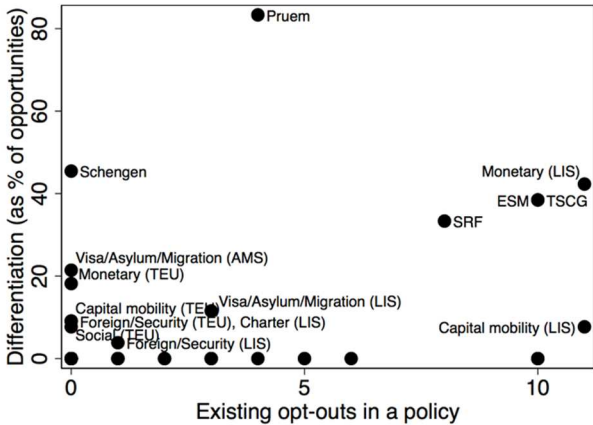


From the NF perspective, the decisive question is whether early reform treaties have created a precedent of differentiation in a policy area. The ensuing institutional dynamics are likely to generate knock-on effects over time. Figure 2 reveals strength and weaknesses of this argument. On one hand,

<sup>2</sup> For the statistical analysis, we standardize the continuous variables so that they take the value zero at their mean and unit changes correspond to standard deviations. The summary statistics (Table A3) show the original mean and the size of one standard deviation as reference points.

institutional precedent plausibly accounts for highly differentiated treaty outcomes and, in particular, the reforms of the Economic and Monetary Union in the Lisbon Treaty and a series of subsequent, issue-specific bargains culminating, for the time being, in the Intergovernmental Agreement on the Single Resolution Fund.

**Figure 2. Differentiation in differentially integrated policies**

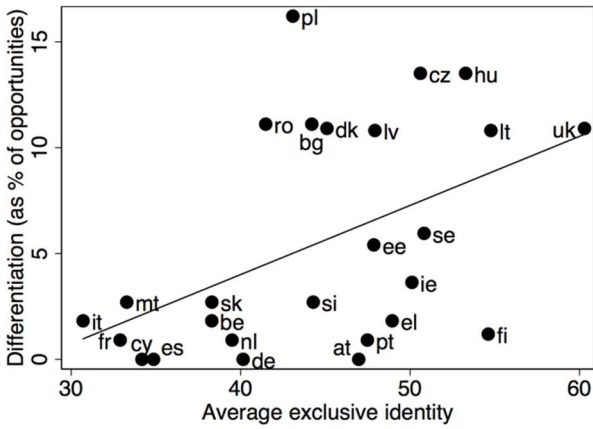


Note: For ease of presentation, only selected observations have labels.

Yet, NF struggles with some cases. First, it is by definition partial as it cannot account for the initial choice for differentiation. The EU has often relied on differentiation to introduce new policies such as the Schengen Area, monetary union and foreign and security policy in the Maastricht Treaty, or the Area of Freedom, Security and Justice in the Amsterdam Treaty. Precedent does not explain differentiated integration in these cases. Second, the NF expectation does not explain significant uniformity in cases in which extensive existing opt-outs would have suggested otherwise. The most salient cases are found in the area of enlargement. All post-2004 new members were excluded from the free movement of workers and services but these cases of special treatment expired over time and did not trigger follow-up effects in the Lisbon Treaty. It should be noted, however, that enlargement differentiation is temporary by design due to institutional factors and in this sense less out of touch with the NF expectation than our aggregate perspective can reveal (Schimmelfennig 2014).

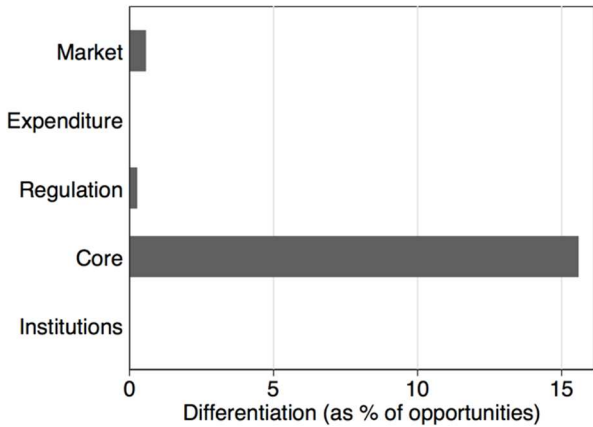
The PF expectations highlight the role of exclusive identity conceptions, Euroscepticism and core state powers. These relationships appear to be borne out by the evidence as countries where citizens identify exclusively with the nation (Figure 3) and with Eurosceptic governments (not shown) tend to negotiate national opt-outs more than other member states. However, the high levels of differentiation of the Central and East European member states do not fit the argument satisfactorily in most cases, although countries such as the Czech Republic, Poland, and Hungary where nationalism has been on the rise in recent years may gradually come to fit the PF perspective better than shortly after their accession.

**Figure 3. Differentiation and exclusive identity**



However, the strongest argument in favour of PF is that differentiation in reform treaties can be found almost exclusively in core state policies (Figure 4). There are exceptions such as the British opt-out from the Social Policy Protocol of the Maastricht Treaty and a few free movement of capital exemptions. There also are some additional cases of differentiation outside of core state powers in secondary legislation—e.g. regarding the distribution of agricultural subsidies—but post-Maastricht legislative differentiation generally also concentrates on core state policies (Winzen 2016). Hence, with some exceptions, the core state policy context comes as close to a necessary condition for differentiation in EU reform treaties as one could reasonably expect to find.

**Figure 4. Differentiation across EU policy domains**



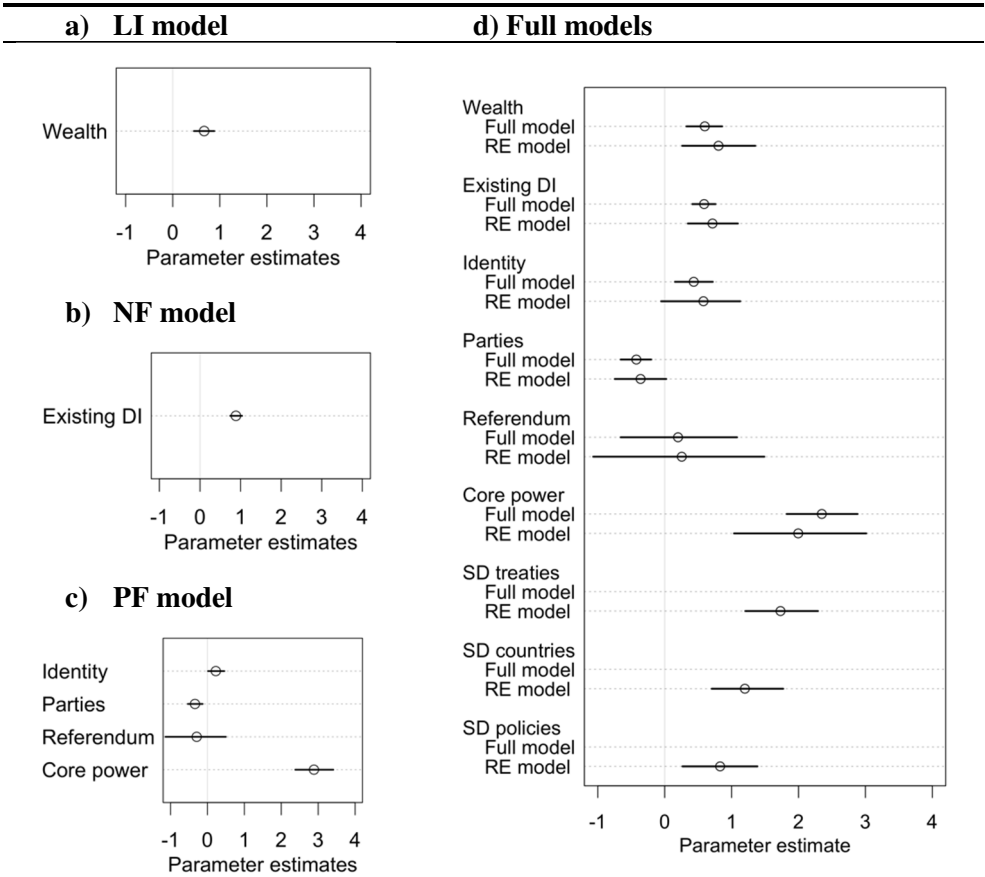
Overall, this first exploration lends plausibility to all theoretical perspective and underlines some of their weaknesses. LI and PF pinpoint important structural factors that help explain initial choices for differentiated integration in EU reform treaties. Yet, LI and its economic focus do not seem to fully capture the policy context of contemporary national opt-outs, which PF with its focus on core state

powers does better. PF in turn does not satisfactorily address the differentiated integration of relatively poor member states. NF, finally, sheds light on the institutional and temporal context of opt-outs but not on why they emerge in new and previously undifferentiated policy regimes.

**Comparing and combining the Grand Theories**

The previous section suggests that the grand theories have different strengths and weaknesses in explaining differentiation. Here we examine the empirical success of each individual theory and a combination of them.

**Figure 5. Statistical results**



Note: All models rely on 1795 observations from 24 countries, 40 policy areas, and 9 treaties. The figure shows mean parameter estimates with 95%-Highest Posterior Density Intervals (HPDI). RE model: Multilevel random effects model. SD: Standard deviations of random effects.

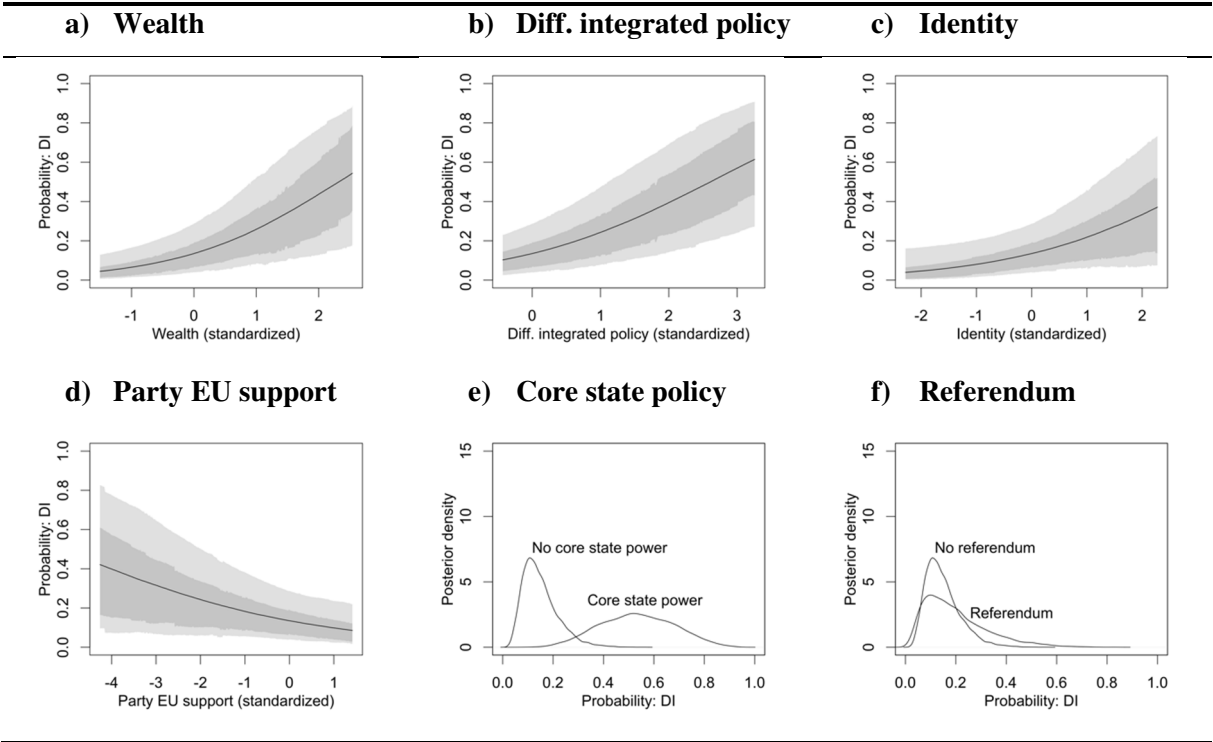
Figure 5 summarizes the results of the statistical models that form the basis of this section. Panels a) to c) derive from three logistic regression models in which the explanatory variables of each theory predict the likelihood that a country negotiates an opt-out. In principle, the results are as expected: Deviations from average EU wealth, differentially integrated policies, exclusive identities, Eurosceptic

parties, and core state polities are positively related with differentiation. Only the association of DI and referendums is rather uncertain.

In addition, Figure 5 shows two combined models. One of these models makes an effort to control for unobserved treaty, policy and country differences by using a multilevel structure with random effects for these clusters. The full models generally confirm the findings although uncertainty is greater in the multilevel model—this model does not assume that the observations are fully independent. We discuss the models in technical terms in the appendix.

We explore these results further by examining the magnitude of the relationships (see Figure 6).<sup>3</sup> If countries deviate from EU wealth much more than normal (two standard deviations correspond to 8.000 USD in per capita income) the probability of a differentiation is 40 percentage points higher than for countries close to the EU average. The relationships are about equally substantial for other key variables, if somewhat weaker for identity, and more uncertain for Eurosceptic parties. In line with previous comments, whether a referendum takes place or not does not tell us much about differentiation outcomes. Overall, all theories thus highlight substantially important relationships.

**Figure 6. Relationships between explanatory variables and differentiation**



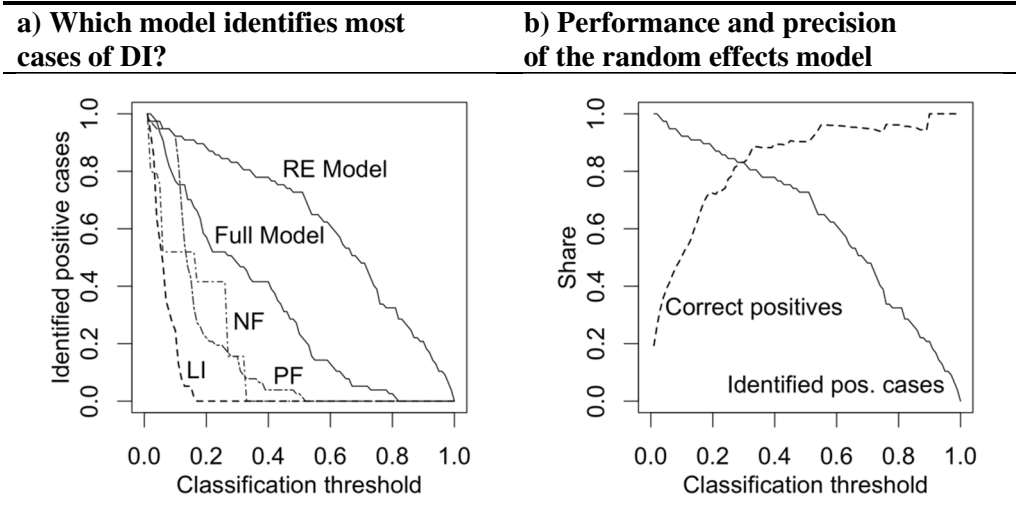
Note: The figure shows predicted probabilities that were simulated based on the full, multilevel model (see panel d) in Figure 5). Panel a)- d) show changes in predicted probabilities for different values of the variable. Solid line: Median predicted probability. Dark area: 70%-HPDI. Light area: 95%-HPDI. The other panels show distributions of predicted probabilities.

<sup>3</sup> These predicted probabilities assume a mildly differentiation-prone country, policy, and treaty as a baseline.



We might also evaluate the theoretical expectations in terms of whether they accurately tell us when and where differentiation happens. Since differentiation is, overall, rare, all theories predict a large number of outcomes correctly (i.e. as no differentiation) but how well do they pinpoint the few positive cases? To establish this, we have to set a threshold to say that a case should be classified as positive—for instance, if we predict a differentiation probability of 50 percent, we could say a case is predicted to have a differentiation outcome. Then we can compare this prediction with the actual outcome. We applied this strategy for all thresholds. Figure 7 shows how many positive cases the different models identify correctly (panel a)) at each threshold.

**Figure 7. Comparing classification performance**

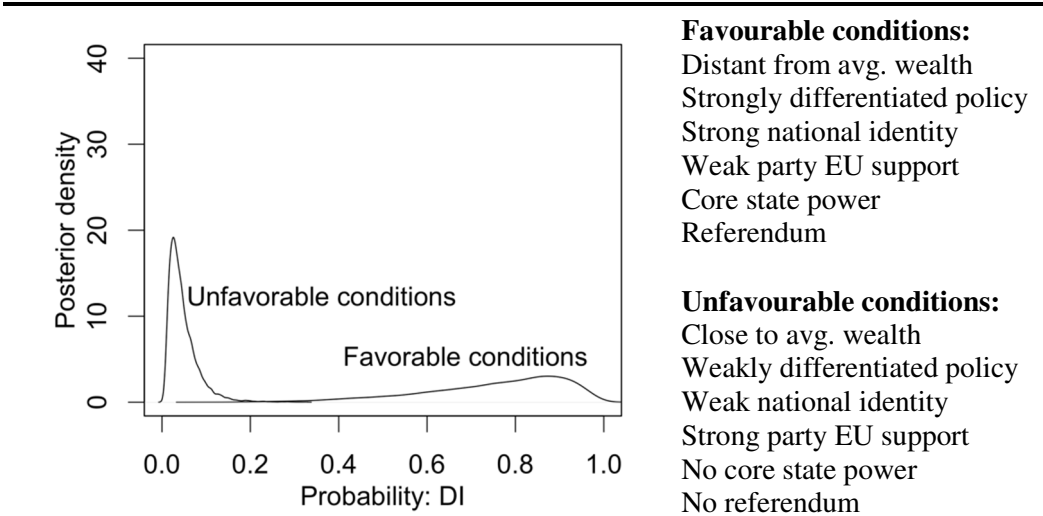


The results contain two insights. First, at any threshold, LI identifies the fewest opt-outs, followed by NF and PF that perform similarly. Clearly, however, a full model vastly outperforms any individual model by as much as 30 percentage points for many thresholds. For relatively low thresholds, the full model captures some 60 percent of all cases of DI. As the threshold becomes higher, we predict very few positive cases and therefore also capture few positive outcomes.

Second, the multilevel model does best by far. It additionally makes few false predictions (panel b)). For most thresholds, 80 percent of the positive predictions prove correct. This means that estimating the impact of different countries, policies, or treaties in addition to the explanatory variables adds significant explanatory power. Another way of thinking about this is that significant variation on these levels of analyses remains to be explained in more substantive terms. While our quantitative perspective obviously cannot account for all factors such as policy-specific externalities (Kölliker 2001), the large extent to which the multilevel model improves classification indicates blind spots of the grand theories.

Finally, we use the full model to examine the additive effect of favourable differentiation conditions. Consider cases such as the British or Polish involvement in Eurozone reforms. These countries differ from average EU wealth, maintain national currencies, feature Eurosceptic governments, and citizens with exclusive identities. What differentiation probability do we expect in such cases? As Figure 8 shows, a differentiation outcome is very likely under favourable conditions and exceedingly unlikely in the opposite scenario. Combining the variables of all grand theories thus generates strong expectations, in particular as to the most likely candidates for differentiation.

**Figure 8. Favourable and unfavourable differentiation scenarios**



Note: Distance/proximity to EU wealth, strongly/weakly differentiated policy, strong/weak identity, and party support are measured as the 75<sup>th</sup>/25<sup>th</sup> percentile of the respective distributions.

We present several additional analyses in the appendix. First, we show results for different subsets of the data: Only the EU15 member states, only the area of core state powers, and only the EU15 in the area of core state powers (Figure A1). The findings are generally very similar but are weaker or more uncertain, in some configurations, for exclusive identity and differentially integrated policies. Second, as our statistical models were estimated in a Bayesian framework, they entailed mild prior assumptions. We show that varying and relaxing these assumptions does not affect the results substantially, although it does lead to greater uncertainty (Figure A2). Third, we operationalized differentially integrated policy as a dummy variable (does at least one country have an existing opt-out in a policy area) and find that this measure does not consistently relate to differentiation in contrast to the continuous variable included in the main analyses. The extent of prior differentiation seems to be important.

## Conclusions

The grand theories of European integration formulate conditions and mechanisms of the establishment and development of integration. To this day, they shape the academic (and academically informed policy) debate on the drivers and dynamics of the EU. Yet they have not paid specific attention to the development of differentiation, which has become a central and persistent feature of European integration since the 1990s.

This paper suggests that the grand theories of European integration make a valuable contribution to the explanation of differentiated integration nonetheless. First, they are rich and flexible enough to put forward explanatory factors and produce testable hypotheses on DI. Second, the empirical analysis has largely corroborated these hypotheses. In line with both liberal intergovernmentalism and neofunctionalism, we provide evidence that heterogeneous economic structures and preferences generate demand for DI. So does variation in the strength of national identities, in line with postfunctionalist assumptions. In addition, we find that wealthier governments are more likely to realize their demand for differentiation (LI), prior differentiation generates or facilitates subsequent differentiation (NF) and strong Eurosceptic parties increase the probability of DI (PF).

Correspondingly, our analysis shows that all grand theories make a substantially important and accurate contribution to the explanation of DI. A comparative assessment of explanatory power shows that the neofunctionalist and post-functional models outperform the LI model. This is the case even though we removed ‘wealth’ from the NF model and attributed it exclusively to LI. This finding highlights the relevance of institutional context, integration dynamics, and post-functional political constraints for explaining DI in European reform treaties. The institutional dynamics of differentiated integration have been particularly visible in the reforms of the Eurozone, from the European Stability Mechanism to Banking Union, which have widened the institutional gap between Euro-area and non-Euro-area member states. Whereas the LI and PF models point to important initial conditions of differentiation (economic heterogeneity and identity-driven Euroscepticism, respectively) and PF additionally highlights the essential importance of the core state power context, both theories fail to appreciate the relevance of EU-level institutional dynamics.

We conclude, however, that we can learn most about DI from a composite or synthetic model. First, as we point out in the theory section, there is overlap across the hypotheses of the grand theories on DI. Moreover, as the descriptive analyses illustrated, the theories have complementary strengths and weaknesses. Second, DI proves to be associated with factors derived from all grand theories. Adding up the favourable and unfavourable conditions put forward by the three theories generates strong predictions about differentiation. Third, the composite model outperforms all single-theory models in terms of identifying cases of differentiation correctly. We also noted, however, that treaty, policy and country variation above and beyond the expectations of the grand theories remains, suggesting that other theoretical perspectives could fruitfully be explored in addition.

The synthetic model finally suggests reasons why differentiated integration will remain highly relevant in the future as a strategy to overcome integration deadlock. Economic and cultural heterogeneity among the member states is unlikely to diminish significantly; the most pressing current reform issues affect core state powers such as migration policy, border security and fiscal policy; and these issue areas feature an entrenched institutional history of differentiation.

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