

From ECSC to ESFS

European Integration from a Neo-Functionalist Perspective

Jonas Quincke, M.A, Berlin*

Abstract

After the Second World War, European cooperation in the coal and steel sector was the first step towards European integration. Since then much has changed, and the EU has evolved to the most sophisticated organisation of regional integration, enjoying great influence over the sovereignty of its member states. In the context of the recent crises and European intervention in Greece, this article will analyse the development of the EU since its beginnings from a neo-functional perspective, so as to explain why the European integration process took place the way it did.

1. Introduction

The EU has recently been all over national and international news. EU member states have been struck by the financial and debt crises, and more recently the eurozone crisis. Financial stability and debt reduction have now become the centre of attention for both national parliaments and the EU institutions. In response to the ensuing instability of markets, the European System of Financial Supervision (ESFS) was established in November 2010. This new system was designed to ensure a smooth functioning of the internal market and to make the financial sector contribute to economic growth as mentioned in Art. 3(1) of Regulation 1092/2010. Furthermore, in January 2012 the heads of state of 25 of the 27 EU member states agreed on a fiscal compact and the European Stability Mechanism (ESM), a rescue fund that will permanently replace the ESFS and the emergency funding programme European Financial Stability Mechanism (EFSM).

In addition to measures concerning the EU in its entirety, efforts have been made to tackle the tense situation in individual member states. In order for Greece to deliver the EU adjustment programme, a special task force has been set up, whose aim is to provide technical assistance and expertise as well as recommend regulatory or administrative measures.¹ Although the competences of the task force are limited and officially there is no conflict with the exclusive competences of the Greek government, all this shows that the EU has moved on from being a purely economic-based organi-

sation to a political entity which influences core competencies of national parliaments such as budgetary decisions. However, how, and perhaps more importantly *why* did the EU progress from a loose economic formation to the most sophisticated organisation of regional integration? The founding of the European Coal and Steel Community (ECSC), although having had a political background, focused only on economic cooperation and was seen as a tool to contain Germany's unilateral progress thanks to its economic advantage.² Since its beginnings, many changes have taken place, and not only has the designation changed from ECSC to EU, but also the number of member states has steadily increased. Yet the most significant changes have taken place in the organisational structure of the EU. Whereas during the ECSC the High Authority (the then equivalent of today's European Commission) enjoyed rather limited influence, over the course of the integration process more and more competences shifted from the national to the European level. Today, depending on respective resort, up to 80% of national legislation is rooted in or stems directly from EU law.³ To answer why this development has taken place, this article will first elaborate on neo-functionalism and the concepts of integration, spillover and actor socialisation, which will be followed by a brief historical overview of the process of European integration. The article will then evaluate the spillover effect and apply the concept to the EU using the case of competition policy.

II. European Integration: The Spillover Effect and Actor Socialisation

1. Neo-Functionalist

In order to give an accurate account of the concepts of the spillover and actor socialisation, it is necessary to put them into a theoretical context. The following section will give a brief outline of neo-functional theory, how it differs from other theories of integration and establish the rationale for using it in this article.

Neo-functionalism, developed by *Ernst B. Haas*⁴, was the first theory of European integration and emerged in response to the ECSC; the term 'European integration' describes the process by which policies are progressively formed

* After finishing his bachelor's degree in European Studies at Maastricht University, the author completed a master's in Political Science specialising in International Relations and International Political Economy at Münster University. He currently works for an MP in the German Bundestag.

¹ European Union, MEMO/11/599, Europa Press Releases, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/599>, accessed 10.01.2012.

² The pooling of coal and steel would make "any war between France and Germany becomes not merely unthinkable, but materially impossible", see Schuman Declaration, 1950, p.12.

³ *Töller*, ZParl 2008, 1 (9).

⁴ For an overview see: *Haas*, *The Uniting of Europe; Political, Social, and Economic Forces 1950-1957*, 2. Ed.

and decided upon at the European level. After the Second World War, European nation states voluntarily ceased their claim to full national sovereignty and entered arrangements with other states to establish new ways of resolving conflicts.⁵ Neo-functionalism places major emphasis on the role of non-state actors. While member states remain important actors, the focus is on regional organisations. These organisations emerge from the initial agreement of member states to some form of integration but they soon shift to a set of self-organised interests, which are no longer exclusively deemed to be state interests. Since this leads to a wider range of actors and goals, member states find themselves involved in regional pressures, which in turn leads to the delegation of more authority to regional authorities in order to resolve conflicts.⁶ In other words, “both the actors and the games that they play [change] significantly during the integration process itself”.⁷ The core assumptions therefore are: “integration occurs when organised interests pressure governments to manage economic interdependence by centralising policies and creating common institutions”; and “any initial decisions to integrate in the [described] fashion produces [intentionally and unintentionally] both economic and political spill-overs that push regional integration forward”.⁸

While neo-functionalism was a widely accepted theoretical framework in the early years of European integration, new theoretical approaches appeared in the mid-1960s, when neo-functionalism seemed unable to explain the ‘empty chair crisis’ – *De Gaulle’s* decision to remain absent from council meetings. The focus shifted to the intergovernmental aspects of the European Community, as critics, of which *Andrew Moravcsik* was the most prominent, charged neo-functionalism with being overambitious and too one-sided. In the 1990s *Moravcsik* developed the theory of liberal intergovernmentalism which combines liberal theory (focusing on preference formation) with intergovernmentalism (focusing on interstate bargaining), and is still an important reference point for most recent studies of integration.⁹ However, all this does not mean that the core concepts of neo-functionalism – the spillover effect and actor socialisation – have become obsolete. Scholars such as *Schmitter*¹⁰ and *McGowan*¹¹ have shown that many of the current approaches (such as multi-level-governance) are inspired by neo-functionalist theory. As will be argued in this article, it is not only possible to apply its concepts to the early years of integration, but also to more recent events.

2. The Spillover Effect

European integration operates at two levels: the national and the supranational. According to *Haas*, this process is driven by (economic) self-interest triggered at the national level. Further

integration then follows an “expansive logic of integration”¹², in other words spillover, bringing together actors from different national settings. This integration, although initially economic in nature, soon shifts into a political dimension. Supranational bodies encourage élites to gradually shift their focus from the national to the supranational level, ultimately resulting in a voluntary transfer of competences from member states’ national level to EU institutions. This in turn encourages further actors to follow the example and advances expectations vis-à-vis the supranational bodies. *Haas* thus defines integration as

*“the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities towards a new centre, whose institutions possess or demand jurisdiction over pre-existing national states.”*¹³

In other words, the initial agreement on integration gained momentum and triggered more integration. This is what *Haas* called the spillover effect. For example, in the case of the EU, a necessary precondition for trade liberalisation was some sort of political coordination. This, as will be discussed later, has resulted in yet deeper cooperation. Hence, for the purpose of this article, the spillover effect shall be defined as the following:

*“a situation in which 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 action, and so forth.”*¹⁴

3. Actor Socialisation

Actor socialisation, a concept developed by *Lindberg* and *Scheingold* in 1970 building on *Haas’s* work, is a mechanism which has to be seen in the context of spillover. It describes a shift in loyalties from the national to the supranational level, which in turn has an influence on the integration process itself. For this article it shall be defined as:

*“the process whereby the participants in the policy-making process, from interest groups to bureaucrats and statesmen, begin to develop new perspectives, loyalties, and identifications as a result of their mutual interactions.”*¹⁵

In other words, the identities and roles of the actors involved in the integration process are reshaped by the integration process itself.¹⁶

III. The Historical Development of the EU – an Overview

There were a number of international organisations in Europe following the Second World War which, rather than

⁵ *McGowan*, EIoP 11 (2007), 1 (2ff).

⁶ *Schmitter* in: *Wiener/Diez*, European Integration Theory, 1. Ed. 2004, pp.46f.

⁷ *McGowan*, (FN5) p.3.

⁸ *McGowan*, (FN5) p.6.

⁹ *Laursen*, Jean Monnet/Robert Schuman Paper Series 8 (2008) 1 (3-6).

¹⁰ *Schmitter*, (FN6).

¹¹ *McGowan*, (FN5).

¹² *Jordan*, Policy and Politics 29 (2001) 193 (197).

¹³ *Haas*, 1958, cited in *Jordan*, (FN12) p.197.

¹⁴ *Lindberg*, 1963 cited in *Laursen*, (FN9) p.4.

¹⁵ *Laursen*, (FN9) p.5.

¹⁶ *Trondal*, Arena Working Paper 7 (2007) 1 (9).

aiming for European integration, focused on the rebuilding of national economies. US policy and the Marshall Plan pushed Europe towards integration. However, first the German question (or rather the Franco-German question) had to be solved. France agreed to the formation of the Federal Republic of Germany in June 1948, but still favoured the idea of integration without Germany. Realising that under the Marshall Plan German recovery was inevitable, France proposed to pool sovereignty in the coal and steel sector under a supranational High Authority. The Schuman Declaration took place at a press conference on 9 May 1950 and is a major turning point in Franco-German relations. Despite its aim to contain Germany, it was the first step towards European integration. Negotiations for the European Coal and Steel Community were launched the same year between France, Germany, Italy, Belgium, Luxembourg and the Netherlands, and culminated in the signing of the Treaty of Paris in April 1951. It established a High Authority (now Commission), a Common Assembly (now Parliament) and the Special Council of Ministers (now Council of the European Union).¹⁷ These first steps of integration were followed by a setback. The European Defence Community proposed in 1950 and negotiated on in early 1951 failed as its ratification was rejected by the French National Assembly in 1954. Despite this failure, the member states of the ECSC signed the treaties for the European Economic Community and the European Atomic Energy Community (Euratom) in Rome on 25 March 1957. The new treaties were a tool to reach the goal of a common market and established an assembly, council, commission, and a court. It included, among other things, provisions for a customs union, competition policy, and coordination of macroeconomic policy.¹⁸

Even though indicators showed a good climate for integration and the 1960s were marked by high employment, low inflation and economic growth, integration slowed down after the Treaties of Rome. The Berlin crisis, the Cuban missile crisis and French problems in Algiers constituted a delicate climate for integration. In 1961, the UK applied to join the Communities but was rejected by a veto from the French President *Charles de Gaulle* in 1963 as he feared an upsurge of US influence in Europe. Two years later, in 1965, a dispute over the future of the Common Agricultural Policy, the French government withdrew its representative in Brussels as a sign of discontent with the Hallstein Commission. The dispute was only settled in 1966 with the Luxembourg Compromise which gave member states the right to veto if national interests were concerned. However, it was only a year later that France vetoed British accession a second time. It should be noted, though, that despite a lack of momentous decisions, the European Communities made considerable progress in several internal policy areas.¹⁹

Towards the end of the 1960s the integration succeeded in taking momentum again. In 1969 the The Hague Summit was held by the European Council with the agenda

of ‘completion’ (budget), ‘deepening’ (monetary union) and ‘enlargement’ (British accession). In 1970 the Treaty of Luxembourg granted the Parliament certain budgetary powers, the Commission and the Council were instructed to establish a plan for Economic and Monetary Union (EMU), and accession negotiations with the UK, Denmark, Ireland and Norway got underway. In 1973, after a failed referendum in Norway, the other countries joined the Communities. Furthermore, several policy fields, such as social policy, regional policy, environmental policy and energy policy were introduced or expanded during the 1970s.²⁰

The late 1970s and early 1980s were amongst the most difficult periods in the history of European integration. The oil crisis, an economic downturn and the British budgetary question stalled the integration process. However, in response to the new era of globalisation and the Mediterranean enlargement, the Single European Act was signed in 1987. Its aim was the creation of a single market by 1992 and stronger social policy. It was followed by one of the milestones in the history of European integration – the Treaty on European Union (TEU) signed in Maastricht in 1992. The treaty created the European Union and led to the creation of a single European currency (then the ECU, European currency unit). Perhaps even more important, it covered a large number of disparate institutional and policy issues and established the three pillars that currently constitute the EU: the European Communities (comprising the former ECSC and Euratom), the Common Foreign and Security Policy, and Justice and Home Affairs. It was later revised by the Treaties of Amsterdam and Nice in 1997 and 2001 respectively.²¹

The follow-up treaty to the TEU, the Treaty establishing a Constitution for Europe (TCE), was envisaged already in 2002, and was to replace the TEU with one single text. It was signed in 2004 by representatives of the member states but was rejected by referenda in France and the Netherlands in 2005. Yet again, integration was followed by stagnation. The TCE was replaced by the Treaty of Lisbon in 2007 which left many of the changes proposed in the TCE in place.²²

The late 2000s and the early 2010s have seen a time of crisis. As the financial situation worsens, calls for an “economic government” at the European level are getting louder.²³ As a response to the crisis, the European System of Financial Supervision (Regulation EU no 1092-2010 ESFS) and the European Stability Mechanism (Regulation EU no 9606-10 ESM) have already been launched. However, whether this financial integration will result in further political integration remains to be seen.

IV. Analysis

The EU and its predecessors have moved like a “swinging pendulum”²⁴ between periods of intergovernmentalism and

¹⁷ *Dinan*, *Europe Recast – A History of the European Union*, 1. Ed. 2004, pp. 13-41.

¹⁸ *Dinan*, (FN17) pp. 45-79.

¹⁹ *Dinan*, (FN17) pp. 83-119.

²⁰ *Dinan*, (FN17) pp. 125-164.

²¹ *Dinan*, (FN17) pp. 167-266.

²² For a summary of the Treaty cf. http://europa.eu/lisbon_treaty/glance/index_de.htm, accessed 15.02.2012.

²³ *Zeit Online*, Barroso fordert mehr Macht für die EU, <http://www.zeit.de/wirtschaft/2011-09/barroso-euro-wirtschaftsregierung>, accessed 29.02.2012.

²⁴ *Wallace/Wallace*, 1996 cited in (FN12) p.195.

supranationalism. The position of the pendulum has varied between the decades and depended very much on the willingness of the member states to integrate. Whilst integration progressed smoothly in the 1960s, the mid-1970s and the early-1980s were characterised by a slow process of integration.²⁵ The 1990s presented a breakthrough in the integration process, while the early 2000s were characterised by ups and downs. In terms of quantity, or ‘widening’ in the European jargon, they can be deemed successful as with the 2004 and 2007 enlargements twelve states joined the EU. But qualitatively things looked different. Although in 2007 the Lisbon Treaty was signed, crises seemed to stall the integration process. In spite of these difficulties, however, the recent ESM and ESFS represent a further step towards (economic) integration. It can be argued that notwithstanding different paces at different time periods, the trend has been one towards supranationalism. In the early days of European integration most policy areas were intergovernmental in character, while today almost all areas display supranational elements due to the co-decision procedure between the European Parliament and the Council of the European Union.

Most regional integration theories regard two conditions as necessary for integration: economic cooperation and a set of common institutions.²⁶ By using the example of competition policy, this article will consider how these two conditions led to a spillover into other policy areas, and ultimately paved the way for the EU.

Competition policy constitutes a perfect example of the spillover effect as defined by neo-functionalism. In few areas have so many competences been delegated from the national to the supranational level. To create a common market, a common competition policy was required. All states shared a common goal once they were engaged in the process of integration, but had different domestic structures and traditions in the field of competition policy. If a common policy was to be successful, however, a common institution would have to be set up. The Commission was given this role early on and became “an autonomous and quasi-judicial competition policy making institution [having] the simultaneous roles of investigator, judge, jury and executioner”.²⁷ This status had two important consequences: firstly, from a democratic point of view, it demanded for a system of checks and balances in which the Commission should be integrated, and thus new institutions and set of rules; and second, perhaps more importantly, the status of the Commission as ‘guardian of the treaties’ and as a *European* institution led to a process of actor socialisation. Ever since its formation, the Commission has been the one institution calling for deeper integration and more power for the EU.²⁸

With the creation of the European Economic Community (EEC) in 1958 the focus shifted from coal and steel to a wider set of goals including the abolition of internal tariffs, a common subsidised agricultural sector, and the aim

for a common transport policy. Consequently, not only was there a need to expand competition policy but also to create new mechanisms through which those goals would be executed and checked. In response, the member states created what *McGowan* calls a “superimposed community of bureaucrats and lawyers whose decisions came to influence and determine policy approaches at both national and supranational levels”.²⁹ These bureaucrats and lawyers shifted their loyalties to the supranational level and pushed for further integration, and thus constitute a perfect example of actor socialisation.

As for the EU, or rather its predecessors, it was a predominantly economic (and later also monetary) project which due to integration has moved into the political sphere. However, integration was an uneven process and differed from policy sector to policy sector, and the spillover was more effective in some fields such as competition policy than in others, such as security policy. What must be acknowledged, however, is that significant steps towards European integration can be identified, and that they have given rise to a system of European governance in the form of exclusively European and shared competences at the supranational level.

Using neo-functionalist terminology, it can be said that economic integration created a situation in which integration in other fields became necessary, which in turn created further conditions and a need for more action, and so forth.

V. Conclusion and Outlook

The underlying question of this article was not so much why the European integration process has taken place *the way it did* and how it differed across policy sectors but rather *why it occurred in the first place*, namely: why did the EU develop from a loose economic formation to the most sophisticated organisation of regional integration? The concepts of spillover and actor socialisation are only two tools which offer an explanation to the process of integration. It has been shown that once initiated supranational cooperation became a process with its own internal dynamics. Although having been initiated by states, the transfer of not only sovereignty but also loyalties led to a spillover from the economic into the political sphere. As *Gideon Rachman*, the chief foreign affairs columnist for the Financial Times remarked at a symposium from the German Council on Foreign Relations on 30 January 2012 in Berlin, it is almost a physical impossibility to integrate in one field without integrating in others.

However, it would be far-fetched to ascribe the entire integration process only to the spillover effect. There have been many critics of neo-functionalism. Particularly periods of a stagnating integration process are difficult to explain. Furthermore, it would be short-sighted to focus only on the economic dimension as a source of integration. Nevertheless, it is reasonable to say that spillover and actor socialisation contributed not only to the beginning of European integration, but remain a source of integration

²⁵ *Nugent*, *The Government and Politics of the European Union*, 5. Ed. 2003, p.21.

²⁶ *Malamud*, CIES e-Working Paper 1 (2005) 1 (7).

²⁷ *McGowan*, (FN5) p.4.

²⁸ *Zeit Online*, (FN23).

²⁹ *McGowan*, (FN5) p.9.

today. Summarising, the integration process can be seen as the outcome of various factors, as: visionaries such as *Monnet* and *Schuman*, the political situation at the end of the Second World War, the era of globalisation and finally also the willingness of its member states to integrate, to name only a few. However, a complete analysis of all the different aspects would have exceeded the scope of this article. Today, the EU displays elements of both intergovernmentalism and supranationalism, and in times of crises its future direction is still unclear.

As far as European integration is concerned, two trends can currently be observed: one the one hand, a tendency to call for less integration and stronger nation states, and financial integration and a call for 'more Europe' on the other. There is widespread discord as to how the crises should be tackled. The French government recently announced the introduction of a financial transaction tax³⁰ without wai-

³⁰ *Süddeutsche Zeitung*, Sarkozy will Finanztransaktionssteuer einführen, www.sueddeutsche.de/politik/rede-im-fernsehen-sarkozy-kuendigt-finanztransaktionssteuer-an-1.1270359, accessed

ting for an agreement at the European level, while the UK and the Czech Republic opted out from the fiscal compact agreed on in the European Council on 30 January 2012.³¹ However, the signing of the agreement by 25 member states and constant calls for more Europe³² show that more integration seems possible. In recent months even *George Osborne*, the UK Chancellor of the Exchequer, argued that only political union could rescue the Euro from sovereign debt crisis.³³ Some would argue that the goal of sound financial integration requires political integration, thereby supporting the logic of the spillover effect. However, whether the pendulum will swing towards intergovernmentalism or supranationalism remains to be seen.

01.02.2012.

³¹ Cf. Euractiv.com, <http://www.euractiv.com/uk-europe/cameron-comes-fire-phantom-veto-news-510498>, accessed 02.02.2012.

³² *Zeit Online*, (FN23).

³³ *Hodson*, Economic and Monetary Union: Divided We Stand, *The European Financial Review*, <http://www.europeanfinancialreview.com/?p=3932>, accessed 02.02.2012.