

Neo-Functionalism as a Theory of Disintegration

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Neo-functionalism and Disintegration

The European Union (EU)'s future has been put into question in practice as well as in theory (Lefkofridi and Schmitter 2015; Schmitter 2012; Volland 2008). In a purely probabilistic sense, the fact that the EU shows signs of disintegration is hardly surprising since most of the many efforts at transnational regional integration since the Second World War have exhibited similar symptoms. Either they failed to fulfill their initial commitments, withdrew from tasks already assigned to them or simply collapsed altogether. That so many observers of the EU regarded it as exceptional and, hence, immune to disintegration perhaps explains the apparent surprise among observers. Of course, so far all that has been observed are "morbidity symptoms," not some definitive diminution or demise.

Nevertheless, the events and processes triggered by the dual crises of the Euro and the EU do require some re-thinking about the theories (and their presumptions) that have been used to explain the heretofore relative success

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of regional integration in Europe (for a critical discussion, see Volland 2008). Prominent among these has been the neo-functionalist approach. The temptation, therefore, would seem to be to call into question its basic assumption, namely, the predominant role played by a diversity of self-interested actors competing with each other for the functional distribution of public goods provided by regional institutions. This could then be replaced by another approach, probably, some version of inter-governmentalism in which the only relevant actors are states promoting their self-regarding national interests and protecting their citizens from foreign intromission into their affairs and values. ² In this essay, it is our purpose not to reject but to exploit neo-functionalism as a conceptual and theoretical instrument that helps understand the current crisis and its future consequences. It does not deny that the formal institutions and informal practices of the EU are threatened or that previously unobserved tendencies have emerged – but seeks to interpret them in ways that are consistent with its basic assumptions.

As an approach to understanding trans-national regional integration, neo-functionalism has been frequently criticized for its alleged bias in favor such a process -- despite explicit protestations to the contrary by one of its practitioners (Schmitter 2004). The confusion seems due to the fact that the conditions present in Western Europe were unusually favorable to the generation/cultivation of spill-overs from one functional arena to another and from lower to higher levels of common authority. When the approach was applied elsewhere to efforts at regional integration in less favorable settings, it (correctly) predicted failure even to meet the objectives proclaimed in their founding treaties. (Schmitter 1970; Haas and Schmitter 1964).

The normal expectation with regard to the performance of such regional or global efforts at functional cooperation/integration is that they should “self-encapsulate,” i.e. at best, they should perform the initial tasks bestowed upon

² For an extreme version based on the argument that this has always and only been the purpose of regional integration in Europe, see Alan Milward (1992).

them by member states by international agreement and then persist as stable institutionalized components of the interstate order. Only in exceptional circumstances or conditions should actors within such arrangements be expected to agree to a redefinition of their functional tasks or an upgrading of their authoritative status.

Given the current and concurrent crises of the EU and the Euro, it would seem appropriate to explore the hypotheses and presumptions that neo-functionalism might employ to predict “spill-backs” rather than “spill-overs.” A spill-back is when member states no longer wish to deal with a policy at the supranational level, e.g. the collapse of the Euro or MS’ exits from the Eurozone or even the EU - be they coerced (e.g. Grexit) or voluntary (e.g. Brexit). Such “spill-backs” are fervently advocated by parties on the radical left and right (albeit for different reasons) in both debtor and creditor states (e.g. *Freiheitliche Partei Österreichs*, *French Front National*, *Communist Party of Greece*). In this piece we apply neo-functionalist theory in an effort to understand the causal logic of disintegration, and its likely point of departure.

When and why should one expect that a given set of institutions of regional integration would agree (or be forced) to withdraw their competence to make policy in an arena previously subject to its trans-national “governance”? Or, more dramatically, under what condition might it collapse altogether? The EU is not likely to break as long as it successfully fulfills key functions for the Union’s economy and society as a whole; but it *can* and *will* break if it does not. In what follows, we first articulate explicit (and implicit) neo-functionalist suppositions and hypotheses. Next, we try to identify whether and to what extent disintegration is indeed a possibility in the empirical world. To this aim, we examine different pieces of empirical evidence in favor or against neo-functionalist expectations; we either employ official databases (e.g. Eurostat, Eurobarometer) or rely on existing analyses. Instead of conclusion, we close with the most recent development, the Greek referendum of July 2015, when politicization and conflict reached its zenith.

Neo-functionalism Suppositions and Hypotheses

As is the case with any theory, neo-functionalism (NF) has suppositions that are explicit (some of which may be exclusive to it) and others that are implicit (and usually shared with other theories). These, in turn, produce hypotheses that can be tested against empirical data – quantitative or qualitative. All the explicit ones are ultimately derived from the core assumption of NF, namely, that the **process of regional integration** (in the contemporary setting) **depends on the realization of mutual gains from cooperation in policy arenas characterized by high levels of functional interdependence.**

I. Explicit (and sometimes exclusive) suppositions & hypotheses:

1. Economic integration and interdependence: The removal of barriers to trade, investment and human mobility (negative integration) and the creation of common, market-regulating rules (positive integration) will produce a continuous increase in the interdependence of member states (MSs). This increase will not only be absolute and general for the trans-national regional organization (TRO) as a whole, but it will also be the case for all of its MSs. The distribution of this increase will not accrue primarily to a single MS or a set of 'hegemonic' MSs within the TRO. The increase will be distinctively regional, i.e. greater among MSs than between them and non-MSs.

2. Benefits and Public Perceptions: The net benefits from this increase in regional interdependence will be positive, both for the economy as a whole and for the population at large. These benefits will be recognized and appreciated by those affected, and they will be (more-or-less) evenly distributed and shared across MSs. Therefore, mass publics will tend to support positively the existing TRO and expansions of its *compétences* in the future. This support may take the form of passive consent or active assent, depending on the visibility of threats and the magnitude of benefits.

3. Security: The primary expected benefit from regional integration should be greater security, both against predation by outsiders and in favor of material benefits from insiders. In the course of the integration process, actors may shift their perception of expected benefits, especially after some of them have been satisfied. But this will not involve a major shift toward the satisfaction or provision of non-material benefits such as the protection of national identity, the fulfillment of traditional values or the desire for a sense of affective belonging – at least, not until the integration process is sufficiently advanced to have produced a stable political equilibrium.

4. Role of Experts: Neo-functionalism assigns a major role to experts, both those in the TRO and those in the respective national bureaucracies. They are presumed to be anxious to expand their role in policy-making and, therefore, to introduce new initiatives when the opportunity arises (usually as a result of crisis, see below Supposition I.8). They are also supposed to be wary of “premature” politicization and, therefore, to internalize emerging conflicts and resolve them without including outsiders, especially those with a wider political agenda. Experts are presumed to form something approximating an “epistemic community” based on a high level of agreement concerning the nature of the problem and the means for resolving it. Moreover, this shared scientific paradigm is also supposed to be predisposed to favor an increase in intervention by public authority, in this case, by the TRO.

5. Respect of EU Decisions: The policies of the TRO should be largely self-enforcing, given the presumption of net benefits. MSs will respect their commitments to implementing the policies of the TRO (*pacta sunt servanda*) and do so voluntarily and effectively, even when they have not approved the decisions taken. The TRO will not be obliged to acquire a monopoly on the use of legitimate violence within its territory (i.e. to become a state) in order to ensure compliance because this property can be reliably left to its MSs. The TRO will, however, have to rely increasingly on its capacity for adjudicating

disputes (“legal integration”) about the distribution of benefits, but especially concerning the honest and reliable implementation of its decisions by MSs.

6. Convergence: Increased interdependence of MSs, plus the shared and (more or less) equal distribution of benefits, will lead to a convergence among MSs in economic performance and social protection. Under most favorable conditions, this will mean an “upward” convergence in which the initially less well-endowed and performing MSs will come closer to attaining the levels of performance of the better endowed and better performing ones. In the absence of such a convergence, the TRO should be prepared to compensate the relative losers via some mixture of greater leniency (negative integration) or material redistribution (positive integration).

7. Incremental Positive and Negative Integration: The process of regional integration will be incremental, involving a sequence of interrelated decisions. The process does not include major “threshold effects” or decisions that are so much more consequential or controversial that they require a radically different mode of decision-making or conflict resolution. This incremental continuity will not be interrupted when (and if) the TRO switches from cooperation among MSs to cooperation of MSs in their relations with outside, non-member states. Nor will this relative continuity be significantly affected when the TRO is compelled to shift its attention from initially easier issues to resolve to more difficult ones whose rewards are less visible and delayed in effect. Nor will it be significantly affected when it shifts from the task of removing barriers to exchange (negative integration) to the task of regulating these exchanges and compensating for their potential perverse effects (positive integration).

8. Conflict and politicization: The process of regional integration inevitably generates conflict among MSs, especially given the novelty of the effort and, hence, the impossibility of calculating accurately all the potential consequences of collective decisions. The most significant sources of conflict

among MSs and between their constituent interests are endogenous, i. e. produced by the integration process itself, and these are easier to resolve “in house.” The usual process for resolving these conflicts is to reach a compromise involving some mixture of increased authority for regional institutions (“build-up”) or an extension of their policy scope (“spill-around”) or both (“spill-overs”). To the extent this prevails, the result will be an expansion of the role of those TRO institutions most capable of exercising supra-national authority in relative independence from the authority and sovereignty of MSs. The emergence of greater conflict with regard to the TRO, its policies and its increased autonomy will unavoidably result in “politicization,” i.e. the mobilization of wider and wider publics paying attention to the integration process and expressing a greater diversity of opinions about it. According to Supposition 2, this mobilization on balance should be favorable based on the net distribution of benefits to the economy and population.

II: Implicit (and not unique) Suppositions and Hypotheses

1. Democracy: The member states of the TRO must have regimes that are both democratic and liberal. They have regular and reliable mechanisms for holding their rulers accountable to citizens and they are committed to respecting the rule of law, human rights and tolerant of their citizens engaging in political activities.³ The type of democracy need not be the same and may even become less so over time, but citizens must be free to form various types of collective political organizations – parties, associations and movements – and to do so across national borders. The regimes of MSs allow their citizens to both support and criticize the policies of the TRO. The political institutions of MSs provide regular and predictable access to representatives of national and international interests, passions and convictions. The governments of MSs do

³ Both of these became formal obligations for membership in the EU, but were not at the time NF was developed as a theory. It was simply presumed as a constant in the case of Europe, but it was a variable in such cases as South American and Central American integration in the 1970s and 1980s.

not systematically discriminate in providing information to their citizens – and allow TRO authorities to directly address these citizens. Needless to say, these conditions are not only present at the time of becoming a member, but persist throughout the country's membership.

2. Consequences of Enlargement: The enlargement of the TRO to incorporate more members does not fundamentally alter the previously established processes or institutions of regional integration. Even if it is highly likely that the new entrants will have different economic and social endowments at the time of entry, existing TRO formal institutions and informal practices will be able to adjust to them. The sheer number of accession states may also make the decision-making process slower and more difficult – and the more that enter at the same time, the greater the impact will be – but it will not result in stalemate, provided that negotiations persist and compromises can be reached.

3. Pluralistic Conflicts: The pattern of conflicts mentioned above in Supposition I.7 will be pluralistic, i.e. it will not result in the formation of a distinctive subset of MSs that are regular and systematic losers across a range of issues. Such a polarization of conflicting actors – whether at the national or sub-national level – can be avoided if the distribution of benefits from integration is both proportional and convergent. It can also be avoided if the underlying pattern of social and economic cleavages is cross-cutting, e.g. some small states are rich and others are poor; some centrally located states have more and others less state capacity; some historically dominant powers are willing and others less willing to accept a sub-ordinate position.

4. La finalité? All theories of regional integration – explicitly or implicitly – presume that it will eventually end in an enduring and stable set of institutions. NF has been notoriously reluctant to predict what this “la finalité politique” might be (not to mention when it might come about), but it does presume that the TRO will evolve institutionally as a function of the benefits it

distributes and conflicts it resolves. As we have seen in Supposition I. 5, NF seemed to presume that it would not be necessary for the TRO (or the EU in this case) to fulfill all of the requisites historically associated with the emergence of a sovereign national state. But what was not imagined was that, instead of forming a distinct hierarchy of institutions concentrated in a single location (Brussels) according to the model set by most previous patterns of national political integration, the EU resulted in a very dispersed set of institutions at different locations with different internal structures and even with different memberships. When the crisis of Euro hit, the EU possessed no coherent and re-endowed set of institutions to deal with it. The result was a chaotic, competitive and redundant effort to respond to this “mother of all crises” that might otherwise have produced a definitive breakthrough in the path to political integration.

4. Exogenous shocks: Any TRO is inserted in a wider variety of international contexts and subject to unforeseen external events. These exogenous shocks and pressures are likely to have a differential impact upon MSs and to be a source of internal conflict, quite independent of the usual presumed endogenous ones. Their timing is also more unpredictable and unlikely to be coordinated with the status or cyclical properties of endogenous conflicts. Moreover, they may be more difficult to resolve since the TRO is less likely to have the installed capacity to do so. And it is highly likely that in doing so, the MSs and their regional institutions will have to rely on the cooperation of non-MSs. Especially threatening to NF is the possibility that in response to such changes in the broader international context, actors within the TRO will find themselves having to deal with the “high” politics of national identity and security – for which they have no mandate or experience.

5. Fairness: Finally, the entire process of regional integration should be perceived by a substantial proportion of its /victims as “fair.” Some of this will be ensured by the Suppositions discussed in I. 2. regarding the evenly shared distribution of benefits and actor perception of this, but fairness is a more

elusive property in political relations, especially among states and populations that have had previous histories of unfair treatment by each other. The criteria for judging fairness (or justice) are highly subjective, but it is a definite advantage for any given TRO if these criteria are relatively similar – or at least commensurate -- across MSs.

If any one of these hypotheses is proven wrong when applied to the EU, then there are grounds for questioning the validity of that aspect of NF – unless, of course, this unexpected variation can be “explained away” by mitigating factors. These disproven results also suggest that there might be some corresponding increase in the likelihood that the EU could disintegrate. If substantial chunks of them are not confirmed, that likelihood should increase exponentially. Needless to say, if all of them are falsified, neo-functionalism should be abandoned in favor of some other theory of regional integration (or the effort at theorizing should be abandoned altogether on the grounds that the EU experience is so *sui generis* that no theory can be based on it). In the next section, we thus attempt a first empirical exploration of the aforementioned suppositions and hypotheses⁴.

Empirical Evidence: towards disintegration?

In this section, we explore empirical evidence that could (dis)confirm the above outlined expectations. First and foremost, we look at trends in trade, which was the primary objective of economic integration and can serve as an indicator of interdependence. Second, we examine citizens’ attitudes to disintegration, their perception of their country’s EU membership as well as the meaning of Europe to them personally. Third, we look at indicators of citizens’ economic discomfort. Fourth, we discuss the role played by experts. Fifth, we review evidence of respect of EU rules. Finally, we briefly discuss

⁴ Though has not been possible to collect data for the purpose of testing each and every hypotheses in this version of the draft, but we hope that these obstacles will be overcome in future versions.

politicization and conflict during the crisis, focusing on the most recent development, the Greek referendum of July 2015, when politicization and conflict reached its zenith.

1. Economic integration and Internal vs. External Trade: Surprisingly, empirical research on the relationship between economic integration and trade begun only in the 2000s. The few studies on the topic suggest a positive relationship between integration and trade: as economic integration deepened within the EC/EU, so did the reciprocal trade among EU members (Agur et al. 2007; Rose 2004, 2001, 2000). While the data show a slow, but steady rise of intra-EU trade, they also manifest that EU members become more and more open to trade in general, including an increase of external trade (e.g. Agur et al. 2007). Although intra-EU trade has been traditionally higher than extra-EU trade, there is variation across MS; also, Eurostat has observed a change in recent years: intra-EU trade is decreasing⁵.

Figure 1 shows the difference between EU internal and external trade for the 28 MS in 2013. Overall, for the EU28, intra-EU trade is much higher than extra-EU trade, though there is variation among MS. Three EU MS, Greece, Malta and the UK engaged more in external than in internal trade in 2013.

Figure 1 about here

Figure 2 shows first that the share of internal exports to total exports has fluctuated over time, and second that the EU and the Eurozone have a very similar performance: while the share of internal exports to total exports was increasing steadily since the 1980s, it stagnated during the 1990s, rose again in the 2000s but has experienced sharp downward trend in recent years. This implies that external partners may be growing in importance.

Figure 2 about here

⁵ More detailed information is to be found in Eurostat's online publication, URL: http://ec.europa.eu/eurostat/statistics-explained/index.php/Intra-EU_trade_in_goods_-_recent_trends (accessed June 30, 2015).

In a recent paper O'Neill and Terzi (2014) analyze changes in world GDP and trade and extrapolate what the world trade situation will look like by 2020 if the current trend continue. According to their study, by 2020 the three key EU economies Germany, France and Italy will be focusing their trade relationships with countries outside the euro area (China; developing/emerging markets) than within it. The lack of difference between the EU and the Eurozone observed in Figure 2 also implies that the Euro may not have the expected effects on trade (see also O'Neill and Terzi 2014).

However, recent research that focuses specifically on the effect of the common currency on trade shows that it has benefited intra-EU trade (Sadeh 2014). Sadeh (2014)'s analysis of the euro's impact by type of MS in the period 1999-2006 also produces the interesting finding that trade increased more among periphery states of the Eurozone (Greece, Italy, Ireland, Portugal and Spain) than among its core member states (Austria, Belgium, Finland, France, Germany and the Netherlands). During the same period, an increase in trade was observed between the periphery and the core of the Eurozone, albeit lesser than that observed among the periphery states. This study thus concludes that at the micro-economic level the euro works despite its macro-economic difficulties, and also suggests that, in the long run, the euro is helpful to periphery countries.

When we look at trends of individual MS in imports and exports of goods within and outside the EU, we see great variation among MS states, and there is a single MS that performs much better than all others. Figure 3 shows longitudinal trends of imports from within (left graph) and outside (right graph) the EU. Based on the graph on the left, which concerns imports with the EU, we can see that: Germany is the lead importer inside the EU (top line), followed by France, the UK, Italy, Belgium, the Netherlands, and Spain; all other countries crowd at the bottom, with Austria and Sweden leading this group. The graph on the right shows imports from outside the EU: here again Germany represents the top line on the graph, followed by the UK, the

Netherlands, Italy, France, Spain, Belgium, Austria and Sweden; all the other countries are located at the very bottom.

Figure 3 about here

Figure 4 about here

Figure 4 demonstrates the trends in exports within the EU (left graph) and outside it (right graph). Regarding exports within the EU, Germany once again has the lead, although in this case its 'distance' from other MS is much larger than in the case of imports. Germany is followed by the Netherlands, France, Belgium, Italy, UK; Spain leads the laggard group, followed by Austria, Sweden, Ireland and Portugal. When it comes to exports beyond the EU market (right graph), Germany has by far the best performance, followed by France, the UK, Italy; among the countries in the bottom of the graph the best performers are the Netherlands, Belgium, Spain, Sweden and Ireland.

To summarize, economic integration, including the introduction of the common currency, has benefited trade among MS of the EU. At the same time there are clear indications of German hegemony, which consistently outperforms all other MS (always top) across indicators. When comparing internal to external trade in the case of the EU's best performer, it seems that, to date, internal EU trade has brought more gains than external trade: in 2012 Germany exported more products to other EU MS than to countries outside the Union (Figure 3, left and right graphs). That said, we observe a pronounced rise of Germany's exports *outside the EU* since the crisis, which may suggest that the EU's market hegemon is becoming more outward- rather than inward looking in its search for trading partners.

2. Perceived benefits of European integration: How do general publics perceive integration? Do they associate it with positive expectations? We begin with exploring empirically the levels of recognition and appreciation of the EU by the citizens themselves. How much one appreciates something is reflected

to how much s/he would care about losing it. Fortunately, the Eurobarometer contains a question that allows us to measure attitudes of EU citizens to disintegration of the Union. More specifically, EU citizens were asked: *“If you were told tomorrow that the European Community (Common Market) - European Union - had been scrapped, would you be very sorry about it, indifferent or very relieved?”*. Unfortunately, we cannot see the impact of the crisis on such attitudes - which has without doubt affected how much citizens appreciate the EU- because the data stops in 2004. Although this question was not asked after this point, it is nonetheless useful to see how Europeans felt about the possibility of disintegration prior to the crisis. Indeed, if citizens perceived integration as beneficial, there should be a sizable amount of them that would indeed feel sorry for the collapse of the Union.

Figure 5 about here

Figure 5 shows that, until a decade ago, while a considerable amount of citizens within the EU would be very sorry to hear that the EU collapsed, an equally large amount would be indifferent to disintegration. We also observe that since the 1990s indifference started rising above 40% while the percentage of citizens that would feel very sorry if the Union would disintegrate started declining below 40%. In the mid 1990s the trends reversed but it seems that when the data collection stopped both indifference and sadness were experiencing a parallel increase. Over time, we observe a small increase in the percentage of citizens that would be even relieved if the Union would disintegrate, while those that do not know how to answer this question remain relatively stable over time, around 10 per cent.

In our view, citizens' attitudes to disintegration are related to their perception of the country's membership in the EU but also by their own, personal perception of the EU's role in their life, and the expectations that are bound to this. Hence, recognition and appreciation of integration by the citizens can be understood by additionally examining the percentages of citizens that have a

positive perception of their country's membership. If these percentages decline over time, it is evident citizens who support integration become fewer and fewer. In detail, EU citizens were asked *"Taking everything into consideration, would you say that (your country) has on balance benefited or not from being a member of the European Community (Common Market)?"*. Figure 6 shows national averages EU citizens who think that Union membership is good both prior to (2007) and during the crisis (2011). Interestingly, this question also stopped being asked.

Figure 6 demonstrates a clear decline in the amount of citizens with positive perception of EU membership before and after the crisis. With the exception of Finland (one the most Eurosceptic MS) where we observe a slight increase in the percentage of Finns that view EU membership positively, all other MS experienced decline during the crisis' years. Again, we do not know how this trend evolved after 2011 because we lack more recent data, so we can only speculate that the trend is downward, given the developments in the Union and its incapacity to solve the crisis until this moment. Recent analyses of trust in the EU (Armingeon and Ceka 2013), which is a different indicator of the EU's relationship with the citizens it is supposed to serve, also portray a worrisome picture.

Figure 6 about here

Besides citizens' appreciation of their country's membership in the EU throughout time, it is important to also examine how do Europeans perceive the (expected) benefits from integration from a personal perspective. For this purpose, we focus on what the EU means to them personally: Figure 7 shows that in 2001 for most citizens the meaning of the EU was linked to positive expectations: it was about facilitating travel (39%), a European government (31%); improving the economic situation in Europe (31%); creating a better future for young people (28%) and jobs (24%); ensuring peace (23%), and protecting citizens' rights (16%). What we see is that in 2001 the EU meant a

lot more than a peace project. For some Europeans, however, the EU presented a risk of losing cultural diversity (11%), while for others it represented bureaucracy, waste of time and money (12%), or just a utopia (5%). While we lack more recent data on this question, we suspect that the rise of far-right Eurosceptic parties that oppose the EU out of fear of cultural but also economic losses (see Lefkofridi and Michel, forthcoming) might have radically changed the picture sketched by Figure 7

Figure 7 about here

And as we saw earlier, the crisis generated massive unemployment and has hindered growth, which, in turn, hurt the image of the EU as an economic solution, or the creator of jobs and of a better future for the young. To this we should add that the development of EU citizenship has also faced challenges – mostly due to the difficulties people encounter regarding getting informed about and exercising their rights as EU citizens; this is what a recent study of European citizenship in times of crisis by Closa and Vintila (forthcoming, 29) observes and concludes that “the social and political panorama in the EU in 2013 is a long way from the initial optimism that accompanied the formal introduction of EU citizenship twenty years ago.”.

3 & 6: Benefits and Convergence: Europeans’ economic prosperity has been one of integration’s key goals. One way of assessing the distribution of benefits within the Union is to look at the index of economic discomfort, unofficially called “Okun’s misery index”. This indicator specifies the level of economic malaise as the unweighted sum of the annual inflation and unemployment rate. In Figure 8 we reproduce Lechmann’s (2009) calculations of this index in EU MS prior to the current crisis, where higher values mean more discomfort. Figure 8 reveals variation over time and across states; but the picture is very mixed.

Figure 8 about here

What we see here is that discomfort is lowest in Austria, Denmark, and the Netherlands, and highest in Eastern European countries, the last to join the Union; that said, since these countries joined, their economic discomfort decreased. Interestingly, Germany is the only strong economy whose index approaches the indices of much weaker economies, such as Greece or Portugal. Since we lack data to demonstrate the evolution of misery indices since the crisis, next we consider trends of a key component of this index: unemployment.

Figure 9 visualizes unemployment rates within the Union and the Eurozone over time compared to that of US and Japan (top) as well as current rates across EU MS (bottom). Firstly, the top graph shows unemployment trends in the EU and the Eurozone during 2000-2015, compared to those of the US and Japan. In detail, we see that, contrary to Japan's stability of low unemployment over time, the US and the EU experienced rise in unemployment rates at the beginning of the crisis in 2009. However, the parallel evolution of US and EU unemployment rates was very short-lived; since 2010 the US trend is downward, the EU is upward. This very stark divergence is interesting because the EU and the US chose very different methods to deal with the economic crisis (see also below, where we discuss the role played by experts in this regard).

Figure 9 about here

Secondly, the bottom graph of Figure 9 demonstrates current levels of unemployment (2014-2015) in each of the MS. Here we see tremendous differences: unemployment rates range from 4.7 in Germany to 22.5 in Greece. This sharp rise in unemployment has, of course, impacted levels of poverty. As mentioned above, we lack data on the Okun index in the EU for recent years; however, at least for the Eurozone members, inflation is regulated by the ECB, not by the MS. So based on the aforementioned rise of unemployment, it is normal to expect that misery may be pertinent in some MS today. For instance,

in the hardest hit MS poverty has experienced dramatic increases since the beginning of the crisis. A Report by the Director of the National Bank of Greece in 2013 shows that: in 2011 (already two years in the crisis) 21.4% of the Greek population lived below the poverty line, while 31% was at the threshold of poverty and thus also endangered of social exclusion; the amount of people living in households where none was employed increased by 53,7% between 2010-2011 (Bank of Greece 2013: 101-3).

Last but not least, and in relation to proposition 6 we should note since the onset of the crisis the EU has been performing very poorly in terms of growth, especially if compared to the US and Japan (Balcerowicz et al. 2013). It should be noted, however, that some countries who had experienced decline in growth earlier (Sweden in mid-1990s, Germany in 2000s) have witnessed an increase ever since – a trend that remained during the crisis. On the contrary, Italy has had a steady decline in growth since the mid-1990s. Greece, on the other hand, experienced a downward trend until the 2000s, but then boomed until the crisis hit, and growth sharply declined ever since (ibid.). Since the beginning of the crisis, the group of “growth leaders” in the EU consists of Germany, Sweden and many countries that joined the EU very recently (Bulgaria, Estonia, Latvia, Lithuania, Malta, Poland and Slovakia).

All the above contradicts neo-functionalist hypotheses that the distribution of benefits would not be skewed, and that MS would converge in terms of economic performance and social protection. The current crisis is witnessing exactly the opposite. In the name of increasing competitiveness and making the labor market more flexible, troubled-countries government have pursued the reduction of wages and pensions. Within the framework of austerity applied to Greece, the measures implemented in the context of the international loan mechanism (Memoranda of Understanding, MoU) have been combined with violations of trade union and collective bargaining rights (ILO 2012). The situation of labor in Greece after the Troika therapy is entirely

different from other MS, such as France or Austria – so by no means can we speak of convergence of social protection within the EU.

However, if the Union is performing as badly in terms of growth, unemployment, and convergence, what has been the role played by experts? What about the epistemic community the neo-functionalist framework put so much faith in?

4. Epistemic Communities: The role played by experts in EU policy-making is well established in the literature (Radaelli 1999), from environmental (Zito 2001) to security issues (David Cross 2007), the creation of the EMU (Verdun 1999) and the convergence of competition policy (Waarden and Drahos (2002). At the same time, a recent empirical study by Gornitzka and Sverdrup (2011) shows that, while the Commission relies on a large expert group system for developing, monitoring and implementing EU Policy, the principal actors in this expert group system are officials of national governments. National administrators and national authorities competent on the policy issue of concern constitute 69.8 % and 34.1 % of experts participating in Commission expert groups, while regional and local administration officials amount to 8.1 %. At the same time, scientists and business/industry constitute 33.3 % and 28.5 % respectively. This study observes a much smaller participation in the Commission's expert group system by NGOs (16.7%), practitioners (12.7%), social partners/unions (11.8%), consumers (8%) and international organizations (2.2%).

Expertise has been contrasted with politicization (Radaelli 1999) and it seems that, at least for the most part of integration, conflicts were indeed internalized and resolved without reaching the outside, political world⁶. It is very important to note that prior to the crisis, a coherent and dedicated group of neo-liberal economists came to dominate both regional and global

⁶ A big exception to this rule was the Bolkenstein directive on the liberalization of services, which was criticized by left-wing organizations as a route towards competition among workers, social dumping and income decline.

international financial institutions. This global epistemic community has resulted in policy choices becoming increasingly determined by their assumptions, models and policies (Chwieroth 2007). As Rosenhek (2013: 23) explains the “interpretative plots of the crisis were not offered by outsiders, but rather by established and powerful actors, such as the Fed and the ECB, with recognized expertise and high epistemic authority”. Notwithstanding key differences regarding their positioning the political economy, their institutional legacy and their definition of the main task of central banks, the diagnoses, notions and themes offered by the Fed and the ECB were very similar (ibid.)

During the crisis, the neoliberal epistemic community in Europe by and large internalized its conflicts and has thus had a very consistent approach in favor of austerity. Experts advocated fiscal balance and budgetary austerity with the assumption that this would result in monetary stability and a shift of available investment from public institutions to private firms, which in turn was supposed to have triggered a general expansion of employment, production and prosperity. So much epistemic authority these experts have, that they were even appointed to govern troubled countries and pursue these policies (*vide* Monti in Italy and Papademos in Greece). Indeed, the solution of the crisis was thought of as a technocratic issue, as a matter of fiscal consolidation, which could only occur by the “objective” technocratic rule who was not constrained by electoral clienteles. Parties on the other hand, avoided as much as possible to get their hands dirty with cutting their clienteles’ salaries, pensions, or even their jobs in order to bring the common household in order. In the case of Greece, for example the austerity measures for six years although they resulted in GDP shrinking by 25% over 4 years, unemployment rising to 25% (and youth unemployment to 50%); yet, the epistemic community was insisting on the same kind of medicine to be continued.

However, on the issue whether ‘austerity as the right medicine’ the trans-Atlantic epistemic consensus had been challenged by the fact that the US very

different policies compared to the EU (e.g. invested money to create jobs and growth) and was much more successful in getting through the crisis and reverse unemployment trends (see Figure 9). The more recent rupture between US and EU neoliberal economists was reflected by the fact that the IMF published a report that clearly says that Greek debt is not sustainable (after years of not having expressed a clear position⁷). In fact, the Radical Left-led Government of Greece was elected in January 2015 with debt relief as its key goal. Although this government, like all others before, conceded (ideological) defeat by accepting *all* creditors' terms about austerity measures in exchange of financial assistance, the creditors also kept on refusing to put the debt issue on the negotiating table. The Greek government thus announced a referendum to be held on July 5, 2015: Greeks, six years in the crisis - and austerity treatment- already, were to accept or reject the creditors' proposal for further austerity measures. The referendum was decisive for Greece but also Europe (see below: politicization and conflict). At the meeting of the International Monetary Fund's board on Wednesday before the referendum, the IMF management proposed to publish this report at short notice. European members questioned the timing of the report's publication because of its potential impact on the Sunday vote; but as they were heavily outnumbered and the US members, who were in favor of its publication, the report of the Greek debt's unsustainability saw the light (Reuters 2015a). It is important to note that top economists from the US have been very critical of the kind of economic mantra Europeans have been following and vociferously presented their arguments and contributed to the debate on the Greek referendum. They even encouraged the Greeks to vote 'no' to more austerity (Galbraith 2015, Krugman 2015, Stiglitz 2015), even contrary to the recommendation by the President of the Commission Jean Claude-Juncker (2015) (and statements by

⁷ An IMF report issued in Summer 2013 discussed the sustainability of the Greek debt and admitted that the IMF made mistakes in the Greek case (The Wall Street Journal, 2013); it did not however recommend a change in policy direction.

President of the European Parliament Martin Schulz and the President of the Eurogroup Jeroen Dijsselbloem) in favor of a 'yes' vote.

5 and 7. Incremental Integration and Pacta Sunt Servanda?

The activity of the Court relates to neo-functionalist hypotheses about whether EU law is respected, but also about the incremental pace of integration, and whether the TRO utilized the crisis to increase its authority.

Firstly, the amount of new cases brought to the European Court of Justice have increased over time; this is reflecting the production of ever more legislation (European Court of Justice 2011). According to official statistics published by the Court, it has been more and more active over time: although not in a perfectly linear fashion, new cases have been expanding and so have completed and pending cases between 2007 and 2011 (European Court of Justice 2011).

Secondly, studies of implementation of EU law show that some states comply in most cases, whereas others delay transposition, be it due to domestic political conflict over the content of the policy or due to neglect (Falkner et al. 2007; Falkner and Treib 2008). When we examine the bulk of completed cases of failure to fulfill obligations we see that while most MS have engaged in non-compliance, for some the situation is more pronounced. Whereas very few MS do *not* figure on the statistics, more than half had trouble with fulfilling their obligation; the champions of 'failure to comply' during 2007-11 were, in ranked order: Italy, Spain, Greece, Belgium, Luxembourg, Portugal, France, Germany, Ireland, Austria, Sweden, Poland, Czech Republic, the Netherlands, UK and Finland; all others have negligible percentages but this is primarily because they had transposed most of the *acquis* before joining. Figure 10 shows the number of infringement proceedings throughout time, where there is a very clear upward trend.

Thirdly, often the same type of violations are treated differently, which could impact the perception of fairness of integration (thus connecting to supposition II.6). At the beginning of the crisis there was much talk about lack of some MSs' respect towards the Stability and Growth Pact (SGP). However, such violations had occurred previously and had been tolerated politically: when Germany and Portugal (2002) and then soon again later (2003) Germany and France were the first to violate the SGP rule⁸ the Council of ministers did not resort to punitive measures, *despite* recommendations by the Commission. Violations of the Pact were neither admonished, nor were violating members coerced to conform to the rule. Based on understanding for unfavorable economic conditions, states violating the Pact were given flexibility and time to correct their deficits. As a result, the EU's capacity for legal coercion was substantially weakened.

However, the situation was very different a couple of years later. First, this time it was not Germany but Southern MS who had breached the rules; and second, it was not just EU institutions, but also financial markets and international rating agencies who were involved (this, in turn, connects to II.5 on the role played by exogenous factors in causing and solving the crisis; for a discussion, see Lefkofridi and Schmitter 2014.). That said, neo-functionalism assumed crises to be endogenous and its solutions as well; in dealing with the Greece, a Eurozone member, the Council decided to voluntarily involve the IMF in the EU's internal business. The so-called "Troika" composed of the European Commission, the European Central Bank and the International Monetary Fund was the institution in charge, whose role is to make sure that MoU are honoured through constant surveillance and close monitoring, including on-site visits and controls.

⁸ Detailed figures are provided by Ongena and Schuknecht (2006).

Fourthly, the TRO acquired more powers in order to prevent future crises from happening. The new system of economic governance was encased in system of budgetary and fiscal coordination known as the European Semester process. The European semester sets out the timetable and responsibilities of all actors, at EU and member state level in a very elaborate system of coordination. The commitments underpinning the European semester are contained in a series of complex rules that were negotiated as the crisis unfolded. Those rules, which reinforced the Growth and Stability Pact, are contained in a series of legal acts known as the '6 Pack' which entered into force in December 2011, the Fiscal Compact which followed in January 2013 and the '2 Pack' which became law in May 2013 (See Table 1). Thus, a very complex and elaborate system of additional rules were agreed, some of which apply to all member states and others only to the Eurozone.⁹

8. Conflict and Politicization

Throughout the decades, the source of the problem regarding the politicization of Europe was that it was nationally bounded, and controlled by national political parties. They have –consistently- played a very irresponsible role in this regard, either by depoliticizing Europe or by demonizing Brussels (see Lefkofridi and Schmitter 2014). Prior to the crisis, only parties on the extreme poles have mobilized on the issue of European integration, albeit for very different reasons. These parties do not politicize integration in order to defend it but to criticize it, and there are nuances and varied degrees of Euroscepticism within the radical right and left camps. Some among Eurosceptic parties reject the EU altogether, whereas others want to keep it but change either its policies, or its polity (e.g. more democracy), or both. Among the mainstream, pro-European parties, there has been no effort to encourage public debates neither about the benefits of European integration nor about how to address the EU's problems and deficits.

⁹ The Commission's Vade Mecum on the Stability and Growth Pact runs to 115 pages.

During the crisis, however, the emergence of greater conflict with regard to European integration, its policies and its increased autonomy did result in ever more politicization, i.e. the mobilization of more and more EU citizens paying attention to the integration process and expressing a greater diversity of opinions about it. We saw an unprecedented mobilization of civil society: the citizens took the streets to join demonstrations against austerity and the solutions pursued at the EU and national levels that increase inequality and hurt the middle and lower classes were abundant in the last years (Accornero and Pinto 2015; Beichelt 2014; Della Porta 2012). Only the amount of protest events is enough evidence that many European citizens are concerned with European integration and also that they are not happy with the policies pursued. Europe became even more politicized since the election of the Greek radical left party SYRIZA in January 2015, whose first half a year in power produced turbulent relationships between EU partners and Greece. Instead of conclusion, we would like to end this first draft with the Greek referendum and its consequences for Europe.

Instead of conclusion: Grexit?

Of course, the EU is a moving target – all the more so in the midst of its most severe crisis to date. Whatever one might conclude on the basis of its response so far might well be annulled by future developments. At the time of writing, the EU is trying to sort out a solution for its most troubled member, Greece – inside or outside the Eurozone. EU partners are angry with the Greeks. More than half (61%) among Greeks that casted a ballot said on July 5, 2015 said a vociferous no to the question of accepting or not the conditions of financial assistance set by its creditors. The referendum had been announced soon after the Greek government left the negotiations. Why the government left the negotiations on June 26, 2015 and put the creditors' proposals to a referendum vote was not straightforward. At first sight, if one carefully compares the documents that were on the table prior to the referendum, namely the

creditors' proposal and the Greek government's counter-proposal, it becomes obvious Greek government had agreed to most, if not all, of the creditors' conditions. In other words, this government that had been elected to end austerity had agreed to austerity measures. But the other key claim of this government, the discussion on the sustainability of the debt was not discussed. Without such a discussion, the government would not be able to pass the new austerity measures through parliament, and even if it did, it would have huge difficulties to implement them. Given the data present above, it is easy to understand why this is the case. The economy is ever contracting, a large part of the population is impoverished, and the prospect of Greece getting back on its feet and becoming independent from foreign loans was slim.

The referendum was organized very hastily and would by no means classify as good practice of direct democracy (Trechsel 2015): a very complicated question asked the Greek citizens to accept or not two technical documents containing the austerity package and gave them a couple of days to comprehend and decide on highly technical matters with important consequences for their salaries, or pensions. The government claimed that a strong NO would strengthen its negotiating position to negotiate a better deal that would include the debt. Right afterwards, however, the President of the European Commission, the guardian of the Treaties, gave a speech addressed to the Greek people (in German, French, and English), where he gave a clear interpretation of the referendum as a vote of 'yes' or 'no' to the Eurozone "and Europe" more broadly (Juncker 2015). In this speech, the President of the Commission implied that a 'no' signified Grexit from both. Soon afterwards the Presidents of the European Parliament and the Eurogroup supported this interpretation.

In the meantime Greece, who had not applied for a new bailout, enforced capital controls, and banks closed. The ECB limited emergency liquidity assistance to Greek banks, which put more pressure on the Greek government. In panic, then, the Greek government asked for a third bailout, whereby, once

again, it accepted the Troika's demands for continuing austerity. But the German chancellor said no negotiations would start before the referendum, thus sending a signal to the Greek people to vote 'yes'. The Greek government however insisted that a 'no' did not mean Grexit but a rejection of the policies that have been imposed thus far in exchange of financial assistance. So did many noticeable economists from the US. Although none knew what the referendum was really about in the end, the Greek population started getting deeply divided into a 'yes'/'no' camp and the political climate in Greece and Europe got polarized to an unprecedented extent.

Perhaps the most positive of these, admittedly dramatic, developments is that Europeans got thirsty for EU news, about what EU officials and political leaders in other EU countries say or do (Poschardt 2015). The days before the referendum even saw thousands of Europeans taking the streets to express their solidarity with the Greek people, encouraging them to vote 'no' in the hope that this would force EU leaders to change policy direction (Reuters 2015b). Prominent academics from all around the world wrote Op-eds, warning that in case of Grexit the future of the Eurozone would be at stake, not because Greece matters much in the EU economy but because it would become a precedent case that would make the EU more vulnerable to the markets. This could also affect the performance of the strongest economies of the Eurozone, given the importance of the currency for trade. However, a discussion about the sustainability of the debt is avoided because the fact that Europeans are not as indifferent about EU issues as (national) politicians have wished impacts on national parties' vote optimization strategies. Among the hardliners against the Greek government are the newest and poorest among the Eurozone members, who wished to join the EU and the Eurozone but did so at its most turbulent times. While German historians remind their Chancellor that their country has benefited from debt relief many times in its history, the Eurozone declares itself ready for a Grexit.

Figure 1. Intra-EU and extra-EU trade in the EU28 in 2013. Source: Eurostat.

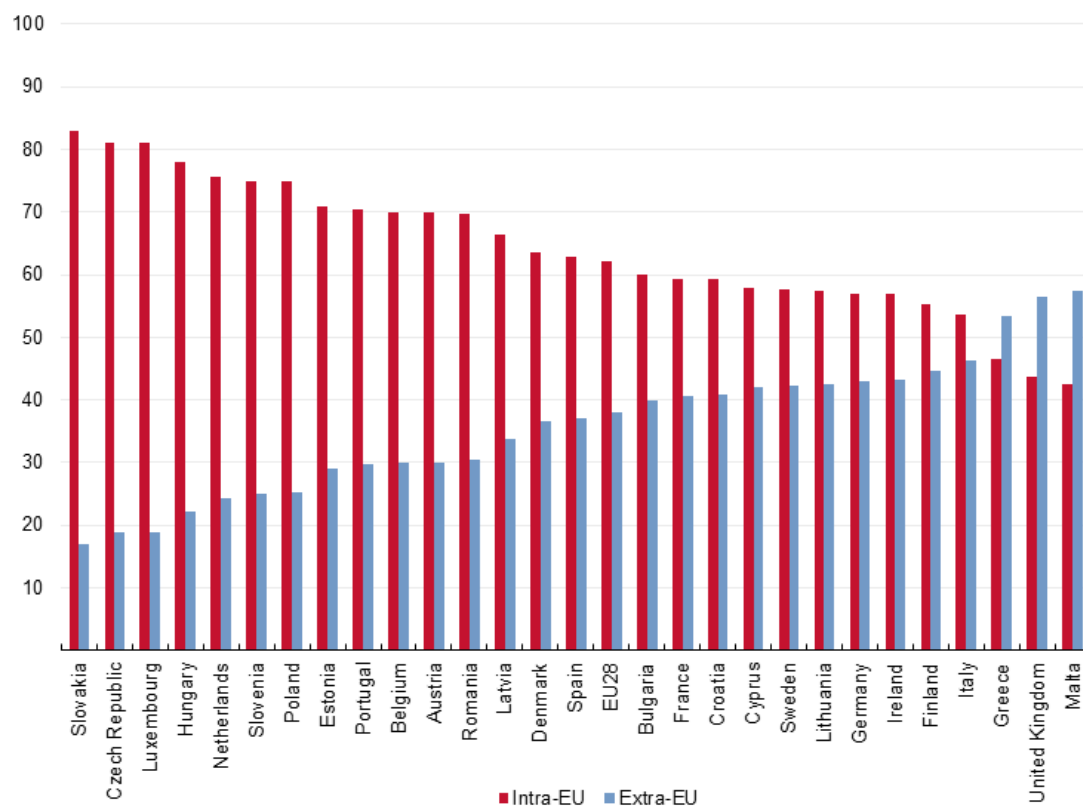


Figure 2. Shares of Intra-EU and intra-Eurozone export on total export.
Source: Bruegel/IMF¹⁰.

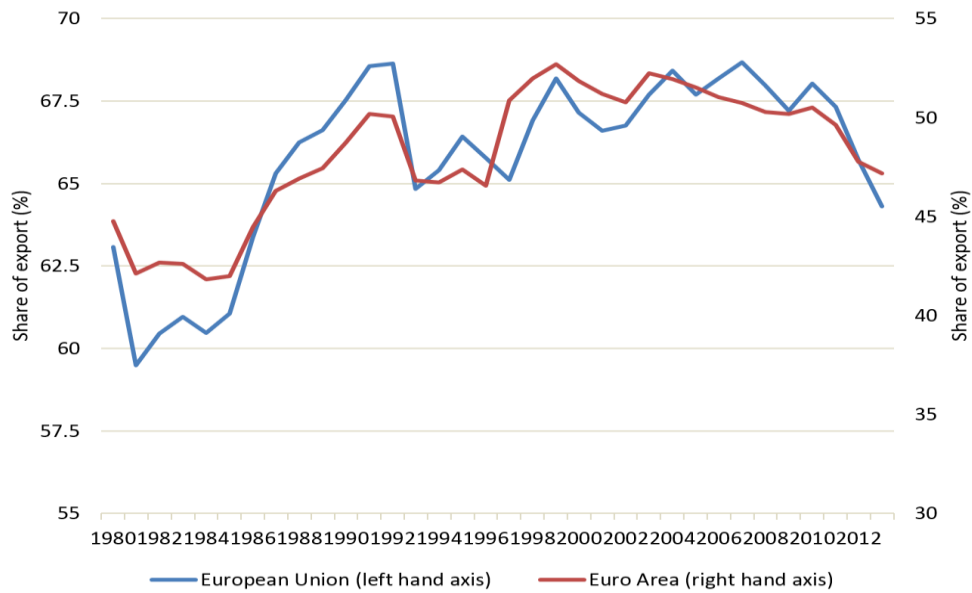
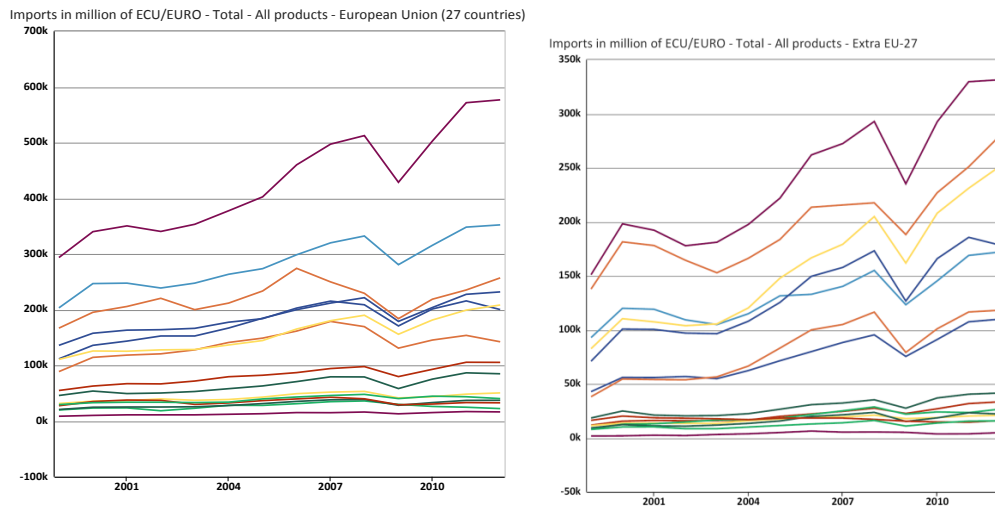


Figure 3. Individual MS' imports from within (left) and outside (right) the EU.
Source: Eurostat/Knoema.



¹⁰ This figure shows shares of intra-EU and intra-Eurozone shares of export on total export, while taking into account the changing composition of both the EU and the Eurozone over time (i.e. a given country is included in the series only by the time it joined the EU/the Euro).

Figure 4: Exports within (left) and outside (right) the EU27 over time. Source: Eurostat/Knoema.

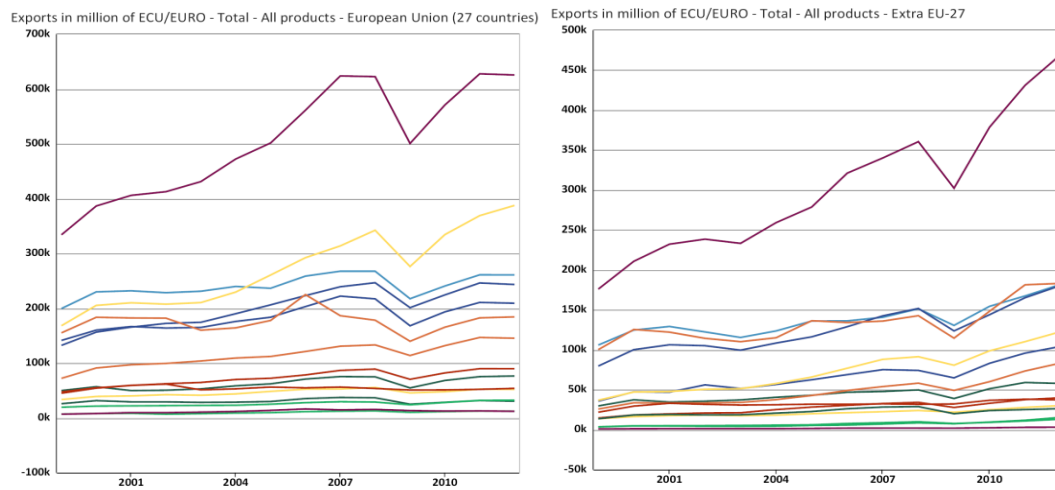


Figure 5. Attitudes to Disintegration of the Union (1973-2004). Source: Eurobarometer.

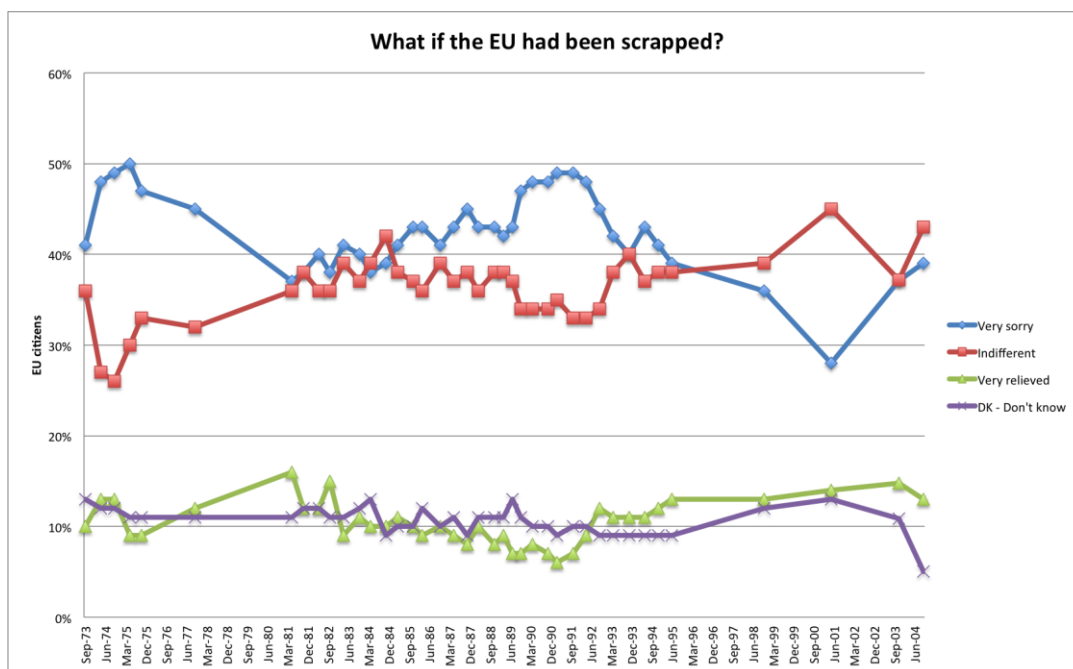


Figure 6: Perceived Benefit from EU membership by MS. Source: Eurobarometer.

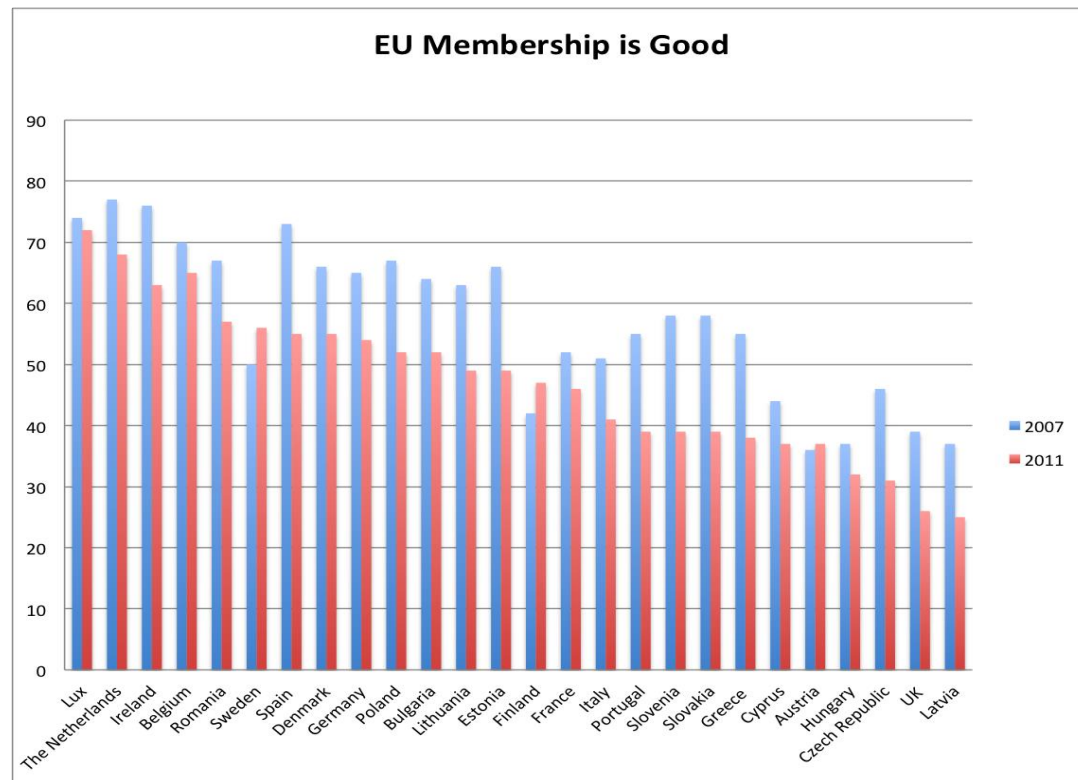


Figure 7: What the EU means to citizens Source: Eurobarometer (2001)

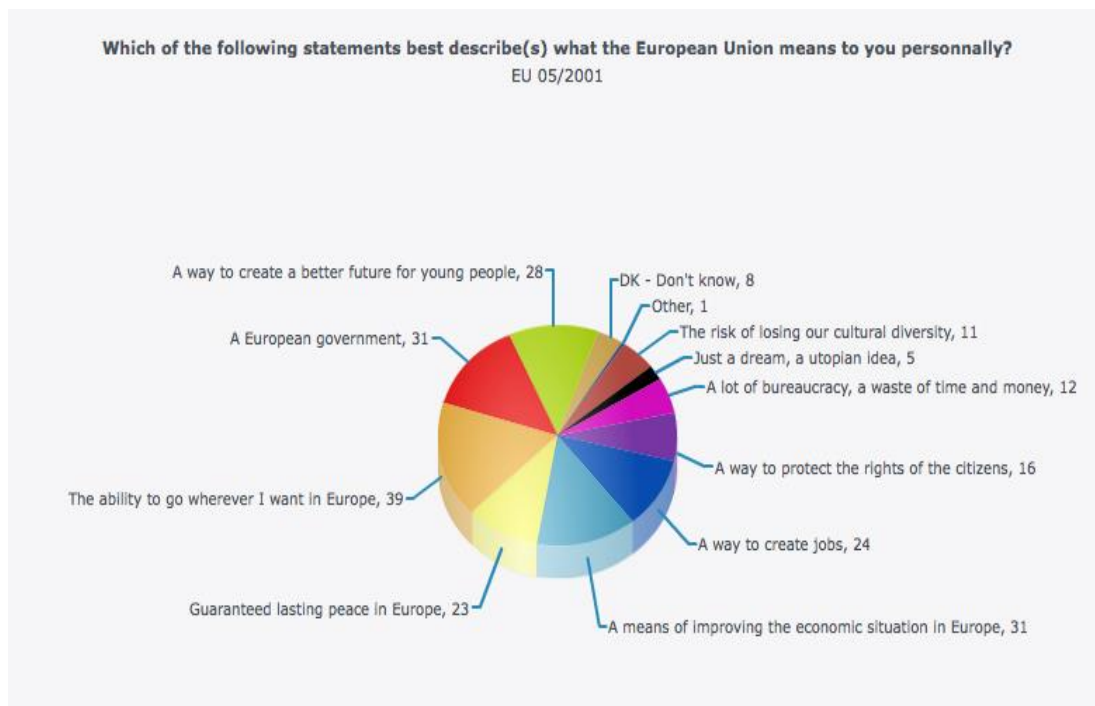


Figure 8: Okun's Misery Index in the EU prior to the crisis.
Source: Lehmann (2009).

Okun's Misery Index (OMI₁), European Union Countries, 2001-2007

Country	2001	2002	2003	2004	2005	2006	2007
Belgium	9	9,1	13,33	10,3	11	10,6	9,3
Bulgaria	26,9	24	22,8	18,2	16,1	16,4	14,5
Czech Rep	12,5	8,7	16,31	10,9	9,5	9,3	8,3
Denmark	6,8	7	11,18	6,4	6,5	5,8	5,5
Germany	9,5	9,8	13,1	11,6	12,6	11,6	10,7
Estonia	18	13,9	10,3	12,7	12	10,3	11,4
Ireland	8	9,2	7,21	6,8	6,6	7,2	7,5
Greece	14,4	14,2	15,5	13,5	13,4	12,2	11,3
Spain	13,1	14,7	14,62	13,7	12,6	12,1	11,1
France	10,1	10,5	13,14	11,6	11,1	11,1	9,9
Italy	11,4	11,2	14,79	10,4	9,9	9	8,1
Cyprus	5,8	6,4	9,45	6,6	7,3	6,8	6,2
Latvia	15,4	14,2	7,4	16,6	15,8	13,4	16,1
Lithuania	18,1	13,8	11,4	12,6	11	9,4	10,1
Luxembourg	4,3	4,7	1,8	8,2	8,4	7,6	6,8
Hungary	14,8	11	18,64	12,9	10,7	11,5	15,3
Malta	10,1	10,1	17,81	10,1	9,7	9,7	7,1
Netherlands	7,3	6,7	10,36	6	6,2	5,6	4,8
Austria	5,9	5,9	10,47	6,9	7,3	6,5	6,6
Poland	23,6	21,9	33,08	22,6	20	15,2	12,2
Portugal	8,5	8,8	11,66	9,2	9,8	10,8	10,5
Romania	41,3	31,1	35,6	20	16,3	13,9	11,3
Slovenia	14,8	13,8	12	10	9	8,5	8,7
Slovakia	26,5	22,2	31,15	25,7	19,1	17,7	13
Finland	11,8	11,1	14,24	8,9	9,2	9	8,5
Sweden	7,6	6,8	11,61	7,3	8,2	8,5	7,8
UK	6,2	6,4	8,71	6	6,9	7,7	7,6

Figure 9: Unemployment. Top graph: Trends in unemployment over time in the EU, the Eurozone, the US and Japan (2000-2015); Bottom graph: current unemployment in each of the EU MS (2014-5). Sources: Eurostat/Knoema.

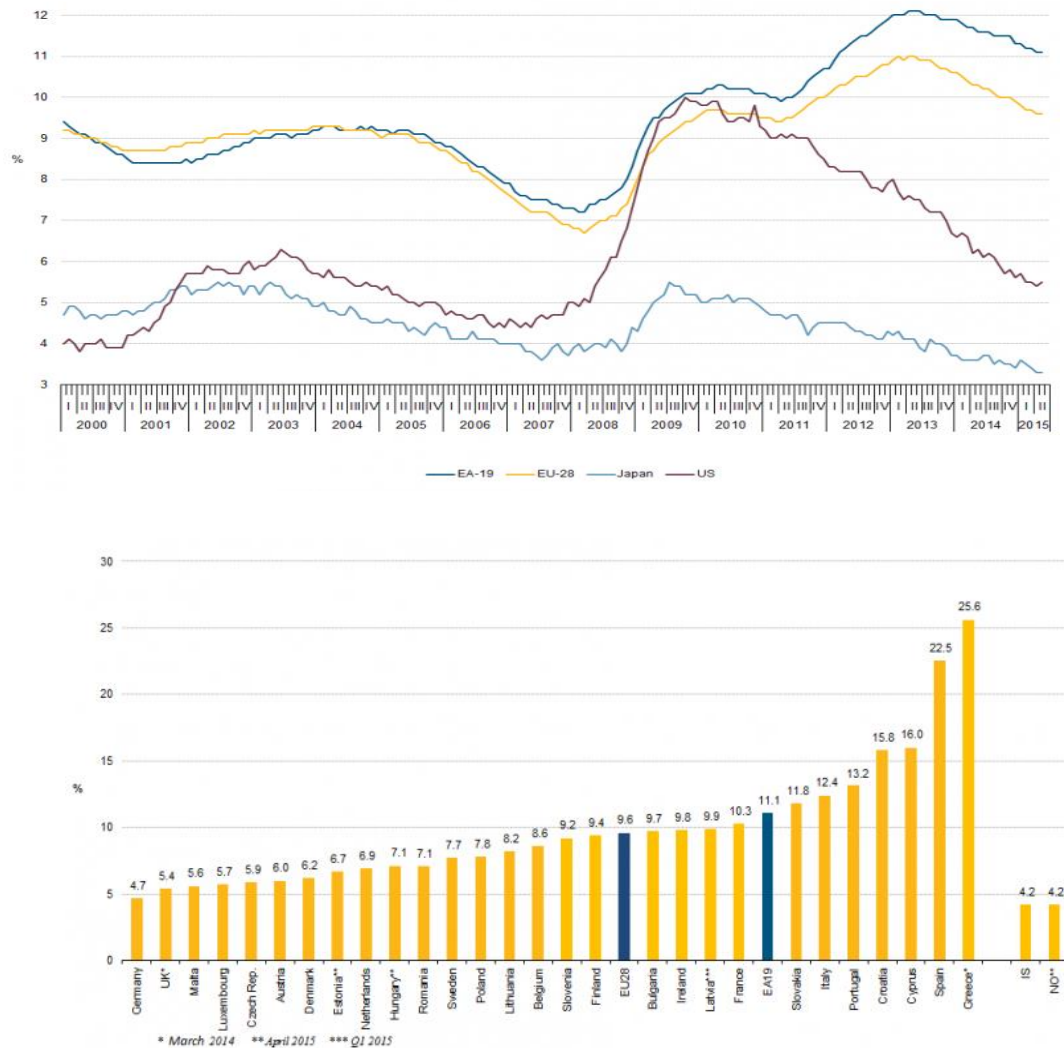


Figure 10. Number of proceedings. Source: European Court of Justice¹¹.

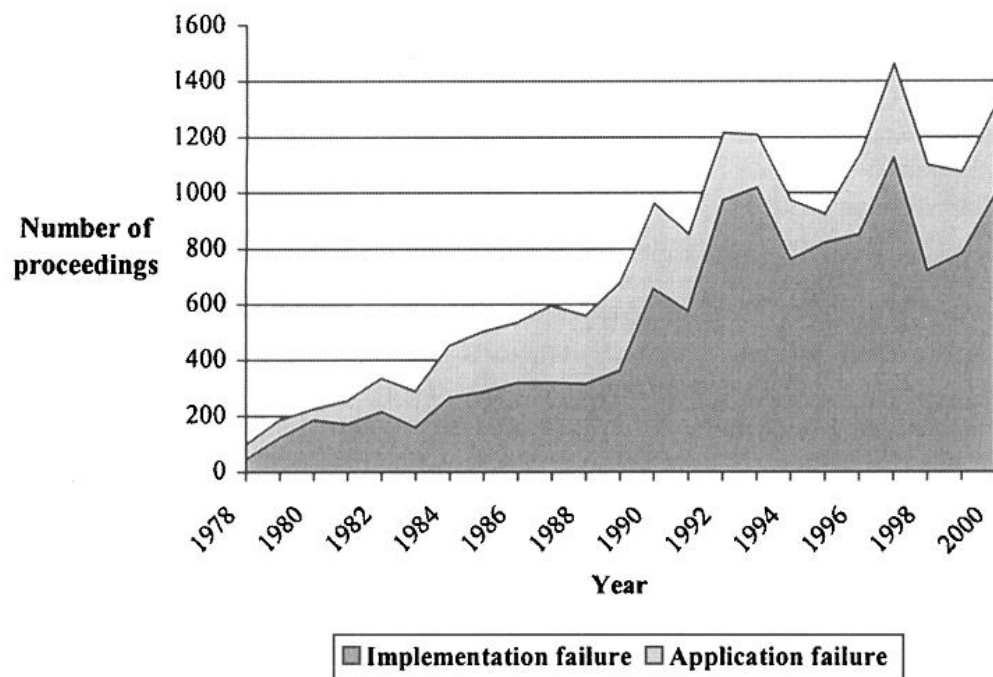


FIGURE 3. *Infringement proceedings initiated for non-compliance with EU rules 1978–2000*

Source: European Commission annual monitoring reports.

¹¹ These statistics are to be found in this online publication of the Court, URL:

http://curia.europa.eu/jcms/upload/docs/application/pdf/2011-05/ra2010_stat_cour_final_en.pdf

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