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Regional Integration as Endogenous Choice :
The EU Case

Mehmet Ugur*

* Jean Monnet Chair, Economics, University of Greenwich, London, (M.Ugur@gre.ac.uk)

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Abstract

The proliferation of regional blocs has led to extensive research on regional integration arrangements (RIAs) in general and the European Union (EU) in particular. Yet, there is little work that analyses the integration process itself and its institutionalisation within a single analytical framework. In addition, existing theories tend to analyse integration and regional institution building as exogenous outcomes of government or societal preferences rather than as endogenous choices determined by government-constituent interaction. To address these shortcomings, we propose a political economy model that explains the causes, dynamics and policy-making procedures of RIAs as *endogenous* outcomes of government-constituent and government-government interaction. Extending Hotelling's spatial competition model, we derive four hypotheses: (i) policy convergence precedes intergovernmental bargaining for regional institution building; (ii) governments establish regional institutions as commitment devices that would codify convergent policy choices; (iii) the relative incidence of supranationalism and intergovernmentalism is a function of constituent loyalty volatility and the barriers that governments can erect against loyalty shifts; and (iv) the deepening of integration is a function of endogenous and exogenous shocks that affect the way in which government-constituent interaction unfolds. The relevance of these hypotheses is discussed in the light of the existing evidence on the European Union experience.

Key words: Regional integration, convergence, strategic interaction, EU competence.

Mehmet Ugur

Jean Monnet Chair

Economics

University of Greenwich, London

M.Ugur@gre.ac.uk

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Introduction

The 1990s can be described as the decade of regional integration. In Europe, we witnessed the deepening of the integration process and the launch of the eastern enlargement. Outside Europe, 50 regional integration arrangements (RIAs) were concluded within five years from 1990-94. This article proposes a political economy model that explains regional integration as an endogenous outcome of government-constituent and government-government interaction. The government is conceptualised as a proxy for the state, the territorial/lateral competence of which is deployed within a given jurisdiction. Its objective is to maximise constituent loyalty to the jurisdiction by choosing the stance of its public policy in competition with other governments for constituent loyalty. Constituents are individual or organised actors, whose competence is functional/vertical and whose objective is to maximise the rates of return on loyalty to a given jurisdiction.

Government-constituent and government-government interaction leads to endogenous policy choices affected by two independent variables: the extent of constituent loyalty volatility and the level of barriers against loyalty shifts. While loyalty volatility depicts the extent to which constituents can engage in policy arbitrage, barriers reflect the government's ability to block the constituents' 'exit' from the jurisdiction. The dependent variables are (i) the convergence of national policy choices prior to formal integration; (ii) the emergence of regional institutions as commitment devices; (iii) the relative incidence of intergovernmentalism and supranationalism; and (iv) the deepening of the integration process.

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The article is organised as follows. Section 1 briefly explains the case for focusing on government-constituent interaction in the study of regional integration in general and European integration in particular. Section 2 develops a political economy model that enables us to answer two questions: (i) why does policy convergence precede 'major intergovernmental bargains' on integrative arrangements? (ii) why do governments establish regional institutions? Section 3 opens up the 'public policy' box in the model and addresses two further questions: (i) why do intergovernmental and supranational procedures co-exist in EU's policy-making process and what affects their relative incidence? (ii) what determines the deepening of the integration process? Section 4 draws upon the findings of the existing research on European integration to discuss the relevance of the hypotheses derived in sections 2 and 3. Finally, the conclusions will summarise the main findings and speculate on a number of policy issues raised by regional integration.

1. The case for a political economy approach

Existing theories of European integration tend to focus on either state or societal preferences. This tendency generates static conclusions, based on a causal relationship between state or societal preferences as the independent variables and regional integration as the dependent variable. Space limitation does not allow for a judicious review of the extensive literature. Fortunately, this problem is ameliorated by recent reviews that constitute excellent stocktaking and make thought-provoking observations about the directions in which the research is developing (see, Pollack, 2001; Jachtenfuchs, 2001; and Rosamond, 2000). In addition, Ugur (1997) elaborates on the limitations of the state- or society-centric approaches to European integration.

In state- or society-centric approaches, integration is derived from state or constituent preferences rather than the strategic interaction between the two. Even when the interaction is taken into account, one side's preferences are treated merely as constraints on the options available to the other. Therefore, state- or society-centric approaches can be viewed as exercises in constrained optimisation. Constrained optimisation, however, is a valid approach only if the objective function to be maximised (e.g., the government's quest for maximum constituent loyalty) is not dependent on the variables that affect the opposite party's (e.g., constituents') objective function. If this is not the case, the right approach is optimisation under strategic interaction (or interdependence).

The Neo-functionalist theory of integration is the example *par excelence* of optimising the constituents' objective function subject to the 'statist' constraint imposed by the territorial competence of the state. It demonstrates how transnational actors maximise their welfare by institutionalising their linkages and unleashing a 'spill-over' process, which leads to continuous expansion of the mandate of supranational institutions at the expense of territorially competent governments. (See, Haas, 1964; Schmitter, 1969; and Lindberg and Scheingold, 1970. For a more recent contribution, see Tranholm-Mikkelsen, 1991). State-centric approaches (Neo-realism or international regimes theory) are just the mirror-image of Neo-functionalism: they demonstrate either why societal constraints are too weak to be significant for the maximisation of the statist' objective function (Waltz, 1979; Mearsheimer, 1990); or how such constraints induce governments to pool their sovereignty within frameworks for international cooperation (Keohane, 1986; Keohane and Hoffmann, 1991; Moravcsik, 1993). The resultant level of integration predicted by Neo-realism and international regimes theory differs, but the analytical construct is similar: it is about the way in which states can/cannot establish regional institutions that would serve their interests.

In the state-centric tradition, Moravcsik (1991 and 1993) takes the debate a step further by focusing on the formation of 'state preferences' and how these preferences generate 'demand for integration'. Yet, Moravcsik's early work is essentially about how governments choose the optimal level of integration given the constraint imposed by societal preferences. (See, for example, Moravcsik, 1993: 482-495, 496-507). Realising that this was hardly an improvement on conventional intergovernmentalism, Moravcsik (1998: 8-9) has shifted towards the rational-choice perspective. To explain the demand for integration, Moravcsik had to endogenise it by relating it to the need for credible commitments that would reduce the probability of defection in the state-state strategic game.

We argue that this move has not enabled Moravcsik to resolve the preference formation problem for two reasons. First, Moravcsik is now faced with an obvious inconsistency: why does he refrain from endogenising the outcomes of state-society interaction whilst he *does* endogenise the outcomes of state-state interaction? Secondly, if outcomes of state-state interaction are endogenous, the effect of exogenously given constituent preferences on the states' demand for integration becomes extremely fuzzy even if it does not disappear altogether.

Recently, the rational-choice institutional approach to EU policy-making has attracted positive reviews (Pollack, 1996, 2001; Keman, 1997; and Kerremans, 1996). The institutional approach is concerned with the question as to why EU institutions may induce member states to agree to policy decisions that, normally, might not be adopted. Viewed from a principal-agent perspective, this may be due to 'shirking' or 'bureaucratic drift' by the agent (EU institutions), which the principals (member-states) may not be able prevent because of imperfect information or limited sanctioning capacity. Or, it may be due to 'collective decision traps' that generate suboptimal policy outcomes because of the 'control' mechanisms established by the principals. (For applications of the principal-agent model, see Moe, 1990; Tesebelis, 1990 and 1994; North, 1990; Garrett, 1992; and Pollack, 1996. On joint decision traps, see Scharpf, 1988).

Yet, the major weakness of rational-choice institutionalism is that the 'EU-level game' unfolds in complete insulation from the 'national-level game', in which the *principals* of the EU-level game (i.e., national governments) are *agents* of some other principals (i.e., constituents) in the national-level game. Unless we can build a model that connects the two levels, neither the dynamics of integration nor regional institution building can be analysed satisfactorily. Such a model is developed in sections 2 and 3 below.

2. Policy convergence and demand for integration: the political economy of endogenous choices

Our model involves two governments and their constituents. The government is appointed by constituents to supply a composite public good – i.e., 'public policy'. Its objective is to maximise the constituents' loyalty to the jurisdiction over which the public good is supplied. This objective can be achieved either by changing the cost/quality mix of the public good; and/or by changing the cost/benefits associated with the constituents' decisions to 'exit' the jurisdiction. Constituents are private actors who consume the public good against contributions towards the cost of its supply. They appoint the government as an agent because they cannot resolve the free-riding problem posed by the 'public good' nature of the public policy. To maximise the returns on loyalty to a jurisdiction, the constituents can choose either to raise their 'voice' by lobbying, protesting, voting in an alternative government, etc; and/or they can 'exit' the jurisdiction with a view to consume the public good elsewhere. (For the original exit-voice-loyalty analysis, see Hirschman, 1970).

Now let us suppose that the world is composed of two jurisdictions within which this government-constituent interaction unfolds. This setting is similar to the duopolistic competition analysed by Hotelling (1929), who demonstrated that two suppliers would locate next to each other in order to maximise the number of loyal customers. Although Hotelling's original article was focused on locational convergence, the model can be (and has been) applied to explain the extent to which convergence occurs in prices or product qualities (see for example, D'Aspermont et al, 1979) or between programmes of political parties (see, for example, Downs, 1957). The spatial competition models that followed Hotelling's contribution share a number of common assumptions: customers (or voters) are rational actors trying to maximise welfare; there is perfect information about the costs/benefits of switching between (or remaining loyal to) suppliers/parties; there are no artificial barriers to switching between suppliers/parties; and suppliers/parties can 'leap frog' each other (i.e., change positions) to maximise loyalty.

The relevance of Hotelling's analysis for governments concerned with constituent loyalty may seem obvious. Nevertheless, we need to avoid hasty generalisations. Because of the assumptions indicated above, Hotelling's duopolists cannot erect artificial barriers against customer loyalty shifts and customers have perfect information about costs/benefits of the loyalty and exit options. Under these assumptions, location, quality or price convergence tends to be perfect. This is known as the principle of minimum differentiation – as depicted in Figure 1.

(Insert figure 1 here)

Customers to the left of F1 are loyal to Firm 1 and those to the right of F2 are loyal to Firm 2. However, customer loyalty in segments (b) and (c) is contestable, because each firm can adjust its location (or price or product quality, etc.) so as to increase the number of loyal customers. For example F1 can move to the right in order to increase the size of (a) and lure some marginal customers in (c). On the other hand, F2 can move to the left to increase the size of (d) and lure some of the marginal customers in (b). As the firms change position, the cost/incentive structure faced by customers change and new decisions have to be made about the preferred supplier. This strategic interaction between firms and between the latter and their customers will continue until both firms locate next to each other at F1' and F2'. The endogenous equilibrium at F1' and F2' is stable in the long run because for each marginal customer gained by one firm due to further movement there is a marginal customer lost to the other firm.

What needs to be highlighted here is that this *endogenous* outcome is not necessarily the best option for either the firms or the customers. For customers, who instigate duopolistic competition by switching between suppliers, convergence is a sub-optimal outcome because it reduces choice. If the model depicts product-based competition, the customers are left with excessively similar products. If it depicts locational competition, the customers are left stuck (loyal) to one firm or the other even if they are not happy with its product or service. The outcome is not necessarily the first-best option for the firms either. Although it enables each firm to maximise profits over the loyal segment of the market, it deprives them of the ability to increase the segment over which profits can be maximised.

Despite this significant insight, Hotelling's original model has been criticised for over-emphasising the stability of the perfect convergence. For example, D'Aspermont et al (1979) demonstrated that perfect convergence is sustainable only if equilibrium prices are zero. Given that this condition implies zero profits, the firms would not choose to locate next to each other. In fact, D'Aspermont et al demonstrated that equilibrium prices in Hotelling's model would imply a location at or near mid-points of each firm's market segment. However, at this location, the marginal profits are positive and increasing in the value of (a) and (d) in Figure 1. In other words, each firm has incentive to increase the size of (a) and (d) by moving closer to the centre. Therefore, Hotelling was right in predicting convergence, but this convergence is not necessarily perfect and the process is more messy than he envisaged.[1]

The application of Hotelling's model to political processes has also been subject to criticism. For example, Adams and Merrill (1999) criticise the spatial competition political models for overlooking the voters' non-policy motivations resulting from socio-demographic characteristics, partisanship, or retrospective policy evaluations. If such non-policy motivations are allowed for (i.e., the costs/benefits of loyalty shifts are not as transparent as Hotelling's model would assume), divergence between parties may remain the norm. Drawing on a similar theme, Adams (2001) demonstrates that divergence will also be the norm if the voters are biased - i.e., if their loyalty to a party is excessively high. Voter bias can be due to the impact of party leader's image, or the impact of social-psychological attachments rooted in class, religion, or ethnicity.

Perfect convergence does not obtain either when the units of analysis are governments and their constituents. Governments, as agents with territorial competence, can erect artificial barriers against constituent loyalty shifts by using border controls, erecting legal barriers, having different levels of law enforcement, etc. In other words, governments can divide the

[1] Imperfect convergence is also derived by Wang and Yang (1999), who demonstrate that convergence will approximate Hotelling's principle of minimum differentiation when the customers' reservation price (i.e., their willingness to pay for quality) decreases. This finding suggests that convergence is more likely between firms/products catering for low-income consumers who are unable to pay extra for quality or choice. Irmen (1998) too demonstrates that imperfect convergence will occur when firms compete on the basis of multiple product characteristics – i.e., when customers have to make choices on the basis of more than one variable. Under this scenario, firms will diverge with respect to the dominant characteristic but will converge with respect to the remaining n-1 characteristics.

‘constituent market’ by adding to the normal cost of ‘exit’. In addition, the costs/benefits of loyalty to or exit from jurisdiction are not fully transparent because of the constituents’ social, cultural or ideological attachments to a given jurisdiction. Therefore, the extent of policy convergence as a means of stabilising constituent loyalty is bound to be less than may be observed in Hotelling’s duopoly model. This outcome can be followed in Figure 2.

(Insert Figure 2 here)

The first government (G1) is assumed to have erected more stringent barriers to constituent loyalty shifts – hence the bolder line demarcating its jurisdiction. Because barriers increase the cost of exit from G1’s jurisdiction, G1’s constituents will have to rely more heavily on voice and will cross the jurisdiction only when the benefits of ‘exit’ are sufficiently high. Here, stringent barriers reduce the probability of loyalty shifts, but do not eliminate them altogether. In G2, the cost of exit is lower. Therefore, G2’s constituents will rely more heavily on exit compared to those of G1.This asymmetry in the government-constituent interaction implies that G1 will be less and G2 more willing to engage in convergence as a means of stabilising constituent loyalty. As a result, G1 will move only to G1’ whereas G2 moves further to G2’. This equilibrium, however, is not stable.

One reason is that G2 will compare the cost of convergence with that of erecting artificial barriers. If erecting barriers is less costly, it will emulate G1 and erect further barriers. Under this scenario, the positioning will tend to be around the midpoints of segments (b) and (d). This positioning, however, can be challenged by the constituents, who would eventually realise that the erection of barriers has reduced the effectiveness of ‘voice’ – which is now the main strategy for securing a change in the quality of the public good. Once this is the case, the premium on ‘exit’ will increase - leading to the discovery of new ‘exit’ methods, including illegal activities. Therefore, limited convergence behind high barriers may be sustainable only if both governments can keep fortifying the barriers continuously.

The other reason is the following. Suppose that G2 did not opt for the erection of artificial barriers. In this case, the constituents of G1 will realise that the stringent barriers erected by their government are undermining the effectiveness of their ‘voice’. This weakness of the ‘voice’ will increase the premium on ‘exit’ towards the jurisdiction of G2. Then G1 will have to either fortify the barriers (which may spoil the relations with G2), or it will have to change the convergence/barrier mix by moving further to the right beyond G1'.[2]

This preceding analysis suggests that policy convergence is an endogenous outcome of strategic interaction at two levels: government-constituent interaction at the national level and government-government interaction at the international level.[3] However, government-constituent interaction is the primary factor that determines the way in which governments interact with each other. This analytical result enables us to address three shortcomings in the debate on regional integration. First, it enables us to explain why governments may adopt convergent policies before any 'major bargain' on how the convergent policy choices may be codified by international agreements. In that sense, it enables us to state that policy convergence results from the governments' attempt to minimise constituent loyalty shifts and not from intergovernmental negotiations to that effect. In other words, policy convergence is an endogenous choice and not an exogenous option that governments can choose under certain conditions.

True, intergovernmental bargaining may be functional at a later stage for fine tuning the convergent policy choices, but it is neither the cause nor the source of those convergent choices. This analysis enables us to state the **first hypothesis (H1)** on regional integration: *the desirability of policy convergence may differ between governments, but it precedes and drives any intergovernmental bargaining aimed at 'locking in' the endogenous level of convergence by formal agreements.* This hypothesis implies that state-centric approaches ignore the process that precedes intergovernmental bargaining. Therefore, they are unable to predict either when intergovernmental bargains are likely to occur or succeed; or why they occur or succeed when they do. This hypothesis also implies that society-centric approaches ignore the possibility that regional integration is not necessarily a first-best option for non-state actors who, in the first place, trigger policy convergence and formal integration.

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[2] This dynamic is observed in the case of the former Soviet Union, which failed to maintain differentiated public policies in the face of competition from the West.

[3] Putnam (1988) was a sophisticated attempt at modelling the two-level game. However, Putnam's tendency to treat societal preferences merely as a constraint on the options of the negotiating governments remains the major source of the inconsistency that haunts Moravcsik's (1998) approach too. More recently, Stone Sweet and Sandholtz (1997) attempt to establish the connection between the two levels. In their analysis, however variables such as 'the density of supranational rules' or the 'intensity of formal or informal EU-level rules' are taken as given whereas these are the dependent variables that a theory of integration must explain.

The analysis above also enables us to understand why national governments may be induced to set up regional institutions for 'locking in' the primordial policy convergence. Let us recall that the erection of barriers does not enable governments to settle on a stable convergence/barrier combination that would stabilise constituent loyalty. In other words, governments posses the ability to erect artificial barriers but this ability poses a collective action problem that can be resolved only through policy co-ordination. Policy co-ordination, however, enables governments to overcome the collective action problem only if they can devise and implement rules that would tie their hands.[4] This condition is derived in Figure 3, which is nothing but a 'blown up' account of the government-government interaction in the model of Figure 2.

(Insert figure 3here)

Figure 3 consists of three schedules, drawn against two variables. The variables are the level of policy convergence (C) and the level of exit-blocking barriers (B) – the same variables in Figures 1 and 2. The Feasible Policy Frontier (FPF) schedule depicts the feasible combinations of C and B that both governments rely upon for achieving a given level of constituent loyalty. For simplicity, we assume that both governments face the same FPF. The indifference curve of government 1 (IG1) is steeper to reflect the scenario in Figure 2, where G1 relies on higher barriers. Finally, the indifference curve of government 2 (IG2) is flatter, reflecting G2's preference for convergence rather than barriers.

The optimal combination of convergence and barriers for each government is given by points of tangency between the FPF and indifference curves - i.e., G1 and G2. It can be seen that government 1 has a barrier bias (Bg1>Bg2), whereas government 2 has a convergence bias (Cg2>Cg1). If both governments are 'sovereign', they will stick to their preferred positions at points G1 and G2. However, we know from Figure 2 that these preferred positions are unsustainable in the long run. Then, the only option for stabilising constituent loyalty is to conclude an agreement that would determine the agreed upon convergence/barrier combination. If such an agreement is concluded, the equilibrium may be at any point between

[4] It must be noted that the oligoplists analysed in Figure 1 may also consider explicit collusion. For example, they can negotiate an agreement on prices and market shares, but such an agreement will be essentially unstable for two reasons. First, the low cost of loyalty shifts (i.e., the ease at which customers can switch between suppliers) is likely to induce the firms to 'cheat'. Secondly, such an agreement will be illegal – in other words, the cheating firm cannot be penalised by a 'legitimate' authority.

G1 and G2, for example E. However point E is not stable either. In fact, in terms of stability, the convergence/barrier combination at E (C and B) is no different than any other combination that may result from non-cooperative interaction.

That is because at point E, $Cg2>C>Cg1$ and $Bg2<B<Bg1$. Given these inequalities, the agreed levels of convergence and barriers (C and B) satisfy neither government 1 nor government 2. This problem can be resolved only if the agreement provides for a credible commitment mechanism that would rule out reversals to G1 and G2. Given the territorial competence of the governments, such a commitment mechanism requires a 'supranational' authority that would ensure the implementation of the agreement.

We can see that the government's territorial competence is a source of strength and weakness. On the one hand, it enables governments to reduce the incidence of loyalty shifts by erecting barriers, which, in turn, weaken the societal constraint on its policy preferences. On the other hand, however, territorial competence creates two problems: either it makes the achievement of a preferred barrier/convergence combination an elusive quest; or it requires authority delegation to a 'supranational' authority that would tie the governments' hands. Then, we can state the **second hypothesis (H2)** about regional integration as follows: *the governments' demand for regional integration is determined neither by governmental nor by societal preferences per se, but by a collective action problem that arises out of the governments' ability to erect barriers against loyalty volatility.* The significance of this hypothesis is that the demand for integration is an endogenous outcome that cannot be reduced to either government or constituent preferences.

3. From integration to policy-making: The EU case

In this section, we will open up the 'public policy' box and address two questions: (i) why do intergovernmental and supranational procedures co-exist in EU's policy-making process and what affects their relative incidence? (ii) what determines the deepening of the integration process? The co-existence of intergovernmental and supranational procedures has been pointed out by a large number of studies.[5] Nevertheless, systematic explanations have been less forthcoming. Also lacking has been the explanation as to why the relative incidence of intergovernmental and supranational

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[5] It is important to note that this co-existence was first noted by neo-functionalists. See Lindberg and Scheingold (1970: 95). Later on, the co-existence was linked to the concept of consociation. (See, Taylor, 1990 and 1991). For similar observations, see also Ludlow (1992: 59-68).

procedures differs from one policy area to the other. Up to now, such explanations have not gone beyond Hoffmann's (1966) classification of 'high' versus 'low' politics. This classification, however, lacks a theoretical basis and cannot explain the inter-temporal change in the relative incidence of intergovernmentalism and supranationalism in a policy area. True, Neo-functionalism has provided an explanation to the deepening of the integration process with the help of the 'spill-over' concept. Nevertheless, the 'spill-over' process is too deterministic, does not allow for temporary reversals and ignores the impact of external factors on the deepening process.

The inter-jurisdictional competition model developed above enables us to derive verifiable and analytically coherent hypotheses about the questions above. From section 2, we know that the source of policy convergence is the volatility of the constituents' loyalty. In section 2 we have also established that the incomplete nature of the policy convergence is due to the ability of the governments to erect barriers against loyalty shifts. However, for the sake of simplicity, the 'public policy' mentioned in section 2 was defined as a composite 'public good'. Therefore, it was possible to examine the extent and stability of the convergence at a macro level. However, we know that public policy is a vector of policy areas, for each of which the levels of loyalty volatility and exit-blocking barriers may be different.

For example, in some policy areas such as trade in goods, portfolio investment flows or foreign direct investment, etc. loyalty volatility is high and the government's ability to erect 'exit-blocking' barriers is low. Loyalty volatility is high because the cost of circumventing the 'exit-blocking' barriers is not augmented by 'special attachment' to a given jurisdiction - which may be due to political, cultural or ideological reasons. On the other hand, the government's ability to erect 'exit-blocking' barriers is low because the impact of the barriers on constituent welfare is transparent and distributed asymmetrically. Transparency ensures visibility of the costs/benefits associated with the exit-blocking barrier. On the other hand, asymmetric distribution implies that barriers affect different constituent groups differently, depending on their socio-economic position within the jurisdiction.[6] Therefore the justification of the barrier on the basis of an overarching national interest becomes difficult.

In some other policy areas such as education, law and order, foreign policy, etc. loyalty volatility is low and barriers are high. Loyalty volatility is low because the cost of 'exit' is augmented by political, cultural or ideological affiliation. Constituents begin to 'consume' these policies at an age when the decision about jurisdiction is made on their behalf by their parents. Therefore, the past

[6] For example, a restriction on capital movements affects capital owners adversely whereas it affects labour positively. Capital controls reduce the ability of capital owners to exploit higher returns in other jurisdictions, but it benefits the less mobile labour. That is because capital controls limit the erosion of the mobile tax base and reduce the probability of a higher tax burden on the less mobile labour.

consumption of these policies either engenders a certain degree of attachment to the jurisdiction or makes the change of jurisdiction more costly. In these policy areas, 'exit-blocking' barriers are high for two reasons. On the one hand, the government in the country of origin can easily legitimate exit-blocking barriers by appealing to an overarching national interest. On the other hand, the government in the country of destination will erect 'entry barriers' or a filtering mechanism in order to reduce the probability of free riding.

Given such differences between policy areas, we can now locate the policy issues along two axes, reflecting the extent of loyalty volatility and the level of barriers. For simplicity, the loyalty volatility and barriers are assumed to have only two values: low and high. Then, the policy issues will correspond to one of the cells in the 2x2 matrix of Figure 4. For example, policy issues characterised by low loyalty volatility and low barriers will correspond to cell A1. The first two entries in each cell of Figure 3 are nothing but the two endogenous outcomes derived in section 2: policy convergence as derived in Figure 2, and the extent of authority delegation derived in Figure 4.

(Insert figure 4 here)

If we focus only on the first two entries in each cell, we capture two aspects of the EU's policy output: the extent of convergence and the incidence of supranationalism relative to intergovernmentalism. Convergence is self explanatory: it reflects the extent to which governments approximate their policies in order to stabilise constituent loyalties – as depicted in Figure 2. The relative incidence of suprantionalism refers to the extent to which EU decisions can be taken without the risk of veto by the territorially competent governments. It can be measured by an index combining the voting procedures in the Council (qualified majority vs. unanimity), the role of the Commission (policy initiation vs. service provision), the role of the Parliament (consent/co-decision vs. opinion), and the binding nature of the policy decision (regulations/directives vs. decisions/declarations).

Let us first explain the differences in the level of convergence implied by the location of the policy areas. In cell B1, where policy areas are characterised by high barriers and low loyalty volatility, convergence is at the lowest level. That is because low loyalty volatility implies that governments are not under intense pressure to engage in policy convergence as a means of loyalty maintenance. Also, high barriers imply that the cost of moving between jurisdictions is high. As a result, the government-constituent interaction in these policy areas induces the governments to compete for constituent loyalty through policy differentiation rather than policy convergence. In contrast, cell A2 captures the policy areas where convergence between national policies is at the highest level. That is because high loyalty volatility combined with low barriers leaves the governments mainly with policy convergence as the only effective strategy for loyalty stabilisation.

In policy areas captured by cell A1, loyalty volatility is low – as it was the case in cell B1. However, the level of barriers is lower than B1. Therefore, the cost of loyalty shifts is lower and the governments are under relatively stronger pressure to engage in policy convergence. As a result, policy convergence in A1 will be low, but higher than the lowest level in B1. Finally, in cell B2, the level of barriers is as high as B1, but loyalty volatility is higher than B1. Therefore, the extent of convergence in B2 must be higher than B1. Also, it is likely to be higher than A1 because the higher barriers in B2 cannot ensure loyalty stability in the long run – especially when loyalty volatility is high.

The second entry in Figure 4 suggests that there is a positive correlation between the level of convergence and the relative incidence of supranationalism. This is due to the fact that the need for supranational institutions as a commitment device increases as the level of convergence increases. Therefore, supranationalism is at the lowest level in B1 and at the highest level in A2, with A1 and B2 reflecting a relative incidence between the two extremes. In none of the cells, however, is supranationalism the only procedure. What is reflected here is the incidence of supranationalism relative to intergovernmentalism.

Given the analysis above, we can state the **third hypothesis (H3)** as follows: *the incidence of supranationalism relative to intergovernmentalism in the EU's policy-making process is positively related to the level of constituent loyalty volatility, but negatively related to the level of exit-blocking barriers across policy areas*. This hypothesis is in line with observations that supranational and intergovernmental procedures co-exist in EU policy-making. Unlike such observations and *ad hoc* explanations, however, this hypothesis is derived analytically from the independent variables (i.e., loyalty volatility and 'exit-blocking' barriers) that underpin the integration process. In other words, the proposed model has the potential to connect (in fact, unify) the theory of integration and the theory of EU policy-making.

The third entry in Figure 4 is the deepening of the integration process, which involves increased authority delegation to EU institutions in a given policy area and/or expansion of EU competence to new policy areas. To date, explanations of this process have been limited to the 'spill-over' hypothesis of the society-centric and 'intergovernmental bargaining' hypothesis of state-centric approaches. The 'spill-over' hypothesis explains the deepening in terms of a 'ratchet effect' that originates from the initial integrative step. This explanation, however, is problematic because it ignores the endogenous nature the initial integrative step and the 'spill-over' process itself. The 'intergovernmental bargaining' hypothesis portrays deepening as discrete (i.e., stepwise) process that is driven by intergovernmental bargains. The problem here is also familiar: the endogenous nature of the convergence that precedes (and induces) intergovernmental bargains is ignored.

To address the shortcomings of the state- and society-centric approaches, we can state the **fourth hypothesis (H4)** as follows: *the deepening of integration is a result of increased loyalty volatility and/or reduced barriers that underpin the government-constituent interaction in a given policy area*. The change in the levels of loyalty volatility and/or barriers can be due either to exogenous shocks that originate outside or endogenous shocks that originate from within the EU system. Typical exogenous shocks can take the form of new international commitments by national governments (or by EU institutions where competence is granted), change in communication and transport technology, change in conflict risk, etc. Endogenous shocks, on the other hand, are due to the effects of the regional institutional set-up on the convergence/barrier mix available to governments. They can take the form of increased visibility of the inter-jurisdictional divergence between convergence/barrier combinations. Or, they can emerge as increased information about the implications of such divergence. These exogenous and endogenous shocks affect either the level of constituent loyalty volatility and/or the level of barriers that the governments can erect.[7]

These shocks will affect either the position or the slope of the feasible policy frontier (FPF) in Figure 3, which implies change in the feasible combination of convergence/barrier required to maintain a given level of constituent loyalty. Once this is the case, EU governments will have to settle on a new convergence/barriers combination, as long as the cost of this agreement is not higher than the cost of withdrawal from the EU system. It is the need for codifying this new convergence/barrier combination that requires a change in authority delegation to EU institutions in a given policy area or an extension of the EU competence to new policy areas.

4. From theory to evidence: the relevance of political economy modelling

Space limitation does not allow for a comprehensive test of the four hypothesis derived above. Therefore, in what follows, we will limit ourselves to a review of the evidence that

[7] In this context, globalisation can be thought of as an exogenous shock. Because globalisation is associated with increased cross-border mobility, it increases loyalty volatility. It also reduces the ability of national governments to erect barriers against loyalty volatility. Therefore, globalisation can be expected to increase the extent of authority delegation to EU institutions. The establishment of monetary union can be considered as an endogenous shock that reduces country risk and increases the visibility of the differences between national taxation policies. Therefore, monetary union can be expected to increase loyalty volatility in the area of taxation and may lead to convergence in tax policy.

emerges from the existing research on European integration. The aim is to demonstrate the relevance of the analytically derived hypotheses for further research rather than providing conclusive proofs.

The first hypothesis (H1) stated that policy convergence as a means of loyalty stabilisation precedes any intergovernmental bargaining for (and formal agreement on) the establishment of an RIA. This hypothesis enables us to put the 'intergovernmental bargaining' hypothesis into perspective. Of course, as Moravcsik (1991, 1993 and 1998) and Cameron (1992: 59-64) among others have demonstrated, intergovernmental bargains did precede major integrative steps. The significance of this finding, however, is less than what is read into it.[8] In addition, this finding is not derived from a single analytical model that answers three questions simultaneously: (i) what prompts intergovernmental bargaining? (ii) why does intergovernmental bargaining occur when it does? (iii) what authority delegation follows from the bargaining and the agreements it leads to?

The process leading to EU's establishment provides significant support for our first hypothesis (H1). After the war, European governments were faced with what Pizzorno (1964) described as the 'individualistic mobilisation of Europe'. Because of the breakdown in social continuity caused by the war, societal actors became more assertive and posed a serious challenge to the legitimacy of post-war governments. Faced with a decrease in constituent loyalty, European governments reacted by approximating their policies with a view to reduce the incentives for 'exit'. The incentives for exit could not be reduced by erecting barriers because the constituents were aware of the fact that such barriers had been at least one of the causes of the war and would reduce the effectiveness of their recently acquired 'voice' opportunities. Therefore, European governments had to engage in policy convergence not only to reduce the incentive for marginal loyalty shifts, but also to signal to the constituents that 'voice' would still be an effective strategy for increasing the returns on their jurisdictional loyalty. This policy convergence was the essence of the 'post-war' settlement, which involved a commitment to increased prosperity and significant re-distribution (On this, see Eichengreen, 1993).

A significant aspect of the post-1945 policy convergence involved the substitution of the inter-war protectionism with post-war reliance on export as an engine for growth. This conversion constituted the basis on which the European Payments Union (EPU) was

[8] To be precise, the emphasis on intergovernmental bargains has a descriptive rather than an analytical value.

established in 1950 with the aim of liberalising trade between European countries without reducing barriers against the rest of the world – especially the United States (see, Kaplan and Schleiminger, 1989; Milward, 1992: 119-223; and Eichengreen, 1993: 81-92). The EPU proved successful not only in increasing intra-European trade, but also in delivering faster growth. As Milward, (1992: 129) indicated, 'fulfilling the expectations of the reformed capitalist economy came to mean facilitating international exchanges' – even though this liberalisation had to be limited to intra-European trade. It was this primordial convergence towards a managed and territorially limited trade liberalisation that underpinned and facilitated the intergovernmental bargaining that led to the establishment of the EC as a customs union.[9]

Similar convergence processes were also at work before two major steps in the deepening of European integration: the single market and the establishment of the monetary union. As is well known, the single market was presented as a cure for 'eurosclerosis' – i.e., the combination of low growth, low productivity and high unemployment. This presentation proved a success for one trivial and one significant reason. The trivial reason was that a 'recipe for growth' was highly likely to find a receptive audience in an environment of stagflation, characterised by deteriorating trade balances, increasing prices, declining growth rates and increasing unemployment (see, Bruno and Sachs, 1985). The significant reason, however, was related to a process of convergence that is often neglected in the debate on European integration – namely, the gradual move of European governments away from Keynesian demand management towards supply-side economic policies. This process was echoed first in the change of government in the United Kingdom and had a 'domino effect' on the rest of Europe. It engulfed not only the centre-right governments, but also those of the centre-left, culminating in the conversion of the socialist French government from 'Keynesianism in one country' to embracing the market discipline in 1983.[10]

It must be noted that this process unfolded against a background of quantitative restrictions on imports that inhibited imports from the rest of world and segmented the customs union through the practice of national quotas in sensitive sectors (Pelkmans, 1993). Protectionism affected the negotiated settlement in Figure 3 and instigated a new wave of instability in the government-government interaction depicted in Figure 2. The instability was evident in the

[9] The benefits of managed liberalisation within Europe influenced even the traditionally sceptic UK and Dutch governments, who began to embrace the 'European solution' to the government-constituent interaction problems from mid-1950s onwards. See Milward (1992, 127, 134).

tension between the pro-protectionist camp led by France and pro-liberalisation camp led by Germany and the Netherlands. It was reflected for the first time in the conclusions of the 1981 Luxembourg Summit, which stated that trade was threatened by protectionist barriers, subsidies and other measures, and called for a 'concerted effort' to strengthen the internal market. As Cameron (1992) indicates, this call was repeated in all subsequent summits until 1985 – when trade policies caught up with the macroeconomic policies that required a pro-liberalisation stance. This interpretation suggests that the single market was not a product of intergovernmental bargains or 'big business' pressure per se. Rather, it was an endogenous outcome of the government- government and government-constituent interaction that led to new convergence/barrier combinations. The single market was essentially a codification of this new convergence/barrier combination, which was characterised by preference for lower barriers.

A similar process could also be observed prior to the establishment of the monetary union. As is well known, attempts at monetary union date back to the Werner Report of October 1970. The member states did not endorse the report in full, but picked up some of its recommendations that were considered as functional for shielding European economies against the monetary instability that originated in the United States.[11] This attempt led to the establishment of the 'Snake' – a fixed exchange rate arrangement expected to function as a buffer against monetary shocks. However, the Snake proved unsustainable, mainly because of the divergence between national macroeconomic policies. This divergence was so pronounced that the commitment to the fixed exchange rate regime could not be credible.[12] In that sense, the Snake experience demonstrated clearly that intergovernmental bargaining or agreements based on such bargaining cannot lead to integration unless they are underpinned by a primordial process of policy convergence.[13]

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[10] On the convergence of economic policies towards focusing on the supply-side, see OECD (1988). On the link between this convergence and the establishment of the single market, see Cameron (1992: 56-58) and Sandholtz and Zysman (1989).

[11] One of the recommendations of Werner's report was the fixing of exchange rates. A fixed exchange rate regime is effective in insulating economies against internal and external monetary shocks. That is because, under a credibly fixed exchange rate regime, a monetary policy shock is neutralised in the country of origin.

[12] For the connection between divergent macroeconomic policies and the Snake's failure, see Baer and Padoa-Schioppa (1989) and Mortensen (1990).

[13] Gros and Thygesen (1998: 26) state the reason for the Snake's failure as follows: ' … differences in policy preferences … overrode any formal undertaking. Even for the participants in the Snake, the exchange-rate commitment was insufficient to sustain parallel inflation and compatible budgetary policies.'

The success of the Exchange Rate Mechanism (ERM) in the second half of the 1980s and the transition to monetary union in the 1990s provide further support for this argument. Unlike the 1970s, national macroeconomic policies in the 1980s began to converge towards a new consensus. The convergence was driven by the rational expectations 'revolution', the central message of which was that constituents would react to policy announcements in ways that would enable them to maximise their welfare under the new policy framework.[14] It was widely believed that government intervention would produce results that defy the objective of the policy-maker and have negative welfare implications for all. The factors underpinning this convergence were increased loyalty volatility reflected in increased capital mobility and financial innovation; and reduced scope for discretionary intervention reflected in central bank independence and assignment of monetary policy to the achievement of an inflation target.[15]

It was due to this macroeconomic policy convergence that the ERM was relatively successful in reducing nominal and real exchange rate volatility and dampening inflationary expectations. Also, it was this policy convergence that induced Germany to relax its 'economist' approach to monetary integration, which insisted on macroeconomic policy convergence prior to any agreement that involved institutionalised monetary integration. Once the convergent policy choices were evident enough, the frequency of re-alignments decreased and speculative capital flows were checked. Interestingly, the stabilisation of speculative capital movements went hand in hand with the removal of capital controls in France and Italy – as predicted by the model in Figure 1 above.[16] This happy scenario continued until early 1990s, when German unification constituted an exogenous shock that led to divergence between Germany and the rest of the ERM. The other reason for the 1992-93 ERM crisis was the persistence of high levels of unemployment, which was interpreted by the markets as a factor that would encourage defection from the ERM discipline. Given the extent of policy convergence that had been achieved until the crisis, the ERM members reacted in a way

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[14] On the implications of rational expectations for macroeconomic policy, see Lucas (1977) and Sargent (1986).

[15] On the high levels of capital outflows observed in late 1970s and 1980s despite capital controls in France and Italy, see Gros and Thygesen (1998: 128-136). Neither France nor Italy could prevent the economic agents from circumventing the controls and forcing almost complete equalisation of domestic and international interest rates. Inflation targeting became the main objective of the monetary policy and increased its transparency across Europe. In addition, monetary policy transparency also increased with the introduction, since 1981, of central bank independence and the removal of credit controls. (See, Wooley, 1992; Mortensen, 1990).

[16] See, Gros and Thygesen (1992: 118).

suggested by the model in Figure 3: they upgraded the commitment mechanism with the move towards monetary union.[17]

The second hypothesis (H2) concerned the demand for regional integration – i.e., the delegation of authority to regional institutions. It implies that governments delegate authority to regional institutions to prevent defection from the agreed convergence/barrier combination. As Currie et al (1989) have indicated, policy convergence is a 'relative policy co-ordination' problem, which involves the approximation of one government's policy towards other governments. The literature on policy co-ordination also suggests that non-cooperative interaction between governments tends to generate Nash outcomes, which tend to be more inefficient the higher is the initial divergence between policies. (On this, see Currie and Vines, 1988). In addition, the gains from policy coordination are higher if barriers to inter-jurisdictional mobility exist at the beginning of the convergence process (see, Helkie et al, 1989 on the case of tariffs in trade policy co-ordination).

Given these findings, it can be seen that the process of policy convergence that precedes formal integration requires a commitment mechanism that would induce governments to comply with the agreed convergence/barrier combination and enable them to reap the benefits of convergence as a special case of policy co-ordination. This commitment mechanism must involve a superior authority that would punish non-cooperative behaviour. In other words, it must be capable of resolving the 'sovereign' government's punishment dilemma, first pointed out by Buchanan (1975). In addition, that authority must be granted competence to distribute the costs/benefits of the cooperative solution. Unless such a distribution mechanism exists, policy co-ordination tends to be less feasible. (See, Currie et al, 1989: 27).

These findings suggest that the second hypothesis (H2) is in line with the political economy literature on policy co-ordination. In addition, the hypothesis is also supported by the findings of the liberal intergovernmentalist research on European integration. For example, Moravcsik (1998: 9) states clearly that the delegation of authority to supranational institutions (or the pooling of sovereignty) occurred in policy areas where the member states felt the need for credible commitment. The credible commitment was needed to solve the problems of defection, incomplete contracting and monitoring of compliance.

This hypothesis is also supported by the findings of the rational-choice institutional approach to European integration. For example, Garrett (1992) indicates that EU member states (as 'principals') have established the European Court of Justice (ECJ) as an 'agent' to resolve the problems that might arise out of incomplete contracting. Garrett (1992) also acknowledges

[17] We must note here that the withdrawal of the UK was also in line with this prediction. The UK's divergent policy choices and/or economic fundamentals meant that it was the most likely candidate to defect.

that member states tended to comply with the decisions of the ECJ even when some of these decisions went against their preferences. In contrast, Ugur (1995) indicates that the policy areas in which the ECJ refrained from acting in this manner were those characterised by high barriers and low loyalty volatility (e.g. immigration), where the model proposed above predicts the lowest level of authority delegation to EU institutions.

The third hypothesis (H3) concerned the co-existence of supranationalism and intergovernmentalism and the relative incidence of the former in EU policy-making. In addition to the works cited above, detailed case studies lend support to this hypothesis. For example, Siedentopf and Hauschild (1988) demonstrate that EU policies are formulated through a 'joint policy-making process' characterised by the co-existence of both supranational and intergovernmental procedures. The co-existence is also confirmed by Nugent (1994) and Ludlow (1992), who examine the EU's organisational structure and the functioning of this structure, respectively.

The proposed model also enables us to explain the variation in the level of supranationalism across policy issues. As can be seen from Figure 4, supranationalism declines as the level of loyalty volatility falls and the level of barriers increases. Therefore, supranationalism will be dominated by intergovernmentalism in policy areas such as defence, law and order, education and immigration – as depicted in cell B1 of Figure 4. Intergovernmental agreements and/or policy co-ordination in these areas will be induced essentially by economies of scale and/or cross-border externalities rather than by the need to stabilise constituent loyalty. In contrast, supranationalism will be dominant in A2, where loyalty volatility is high and barriers are low. As indicated above, high loyalty volatility and low barriers tend to characterise policy areas such as trade, financial regulation, monetary policy, and trade-related areas such as health and safety standards, work place regulations, subsidies, etc – where EU competence is the most developed.

The fourth hypothesis (H4) concerned the deepening of the integration process. Our model explains this process by reference to exogenous and/or endogenous shocks that affect the levels of loyalty volatility and barriers associated with a given policy issue. This explanation is supported by evidence on major as well as minor steps in the deepening of European integration. For example, the establishment of the EU as a customs union acted as an endogenous shock that increased the feasible level of convergence not only in the trade policy but also in other trade-related policy areas such as industrial policy, competition policy, regional policy, and social policy, etc. As tariff barriers were eliminated, inter-jurisdictional mobility increased and non-tariff barriers became more visible. In addition, such barriers became the main determinants of returns on jurisdictional choice and threatened to increase one-way loyalty shifts between jurisdictions. As a result, EU member states had to gradually move upward along their feasible policy frontiers and combine higher levels of convergence with lower barriers.[18] This explanation enables us to transcend the limitation of the intergovernmentalist approach, which has to subscribe to the neo-functionalist 'spill-over' hypothesis for its explanation of the gradual increase in EU competence between major intergovernmental bargains.

The proposed explanation also enables us to transcend the weakness of the neo-functionalist 'spill-over' thesis, which cannot deal with the impact of external shocks on EU policy-making.[19] One type of external shock has been the commitments undertaken within the World Trade Organisation (WTO). Another type has been the increased cross-border mobility of goods/services, capital and people implied by globalisation. Still another shock has been the proliferation of RIAs. The common impact of these shocks on the EU system is that they have either increased loyalty volatility within each jurisdiction or they reduced the ability of national governments to maintain the *ex ante* levels of barriers. In other words, they have altered the position and/or the slope of the feasible policy frontier (FPF) in Figure 2. Therefore, EU member states had to settle on new convergence/barrier combinations and delegate the necessary authority to EU institutions in order to stabilise these new choices. This increased competence can be seen clearly in the area of third-country immigration (which has been dealt with through strictly intergovernmental procedures until the Amsterdam Treaty), tax policy co-ordination, the upgrading of the ERM into a monetary union, and the tightening of EU legislation on financial regulation as well as competition.

The fourth hypothesis is also in line with the findings of the literature on the connection between globalisation and regional integration. For example, Milner (1998) points out that the North American and European governments have agreed to create or strengthen regional institutions (through the Maastricht Treaty and the North American Free Trade Agreement) in order to resolve the co-ordination problems caused by their interdependence at a time of increased globalisation. Similarly, Bressand (1990) suggests that European integration deepened as high levels of cross-border mobility implied by globalisation has rendered national economic policy models ineffective. Again on a similar theme, Ugur (2001) demonstrates that increased capital mobility has induced EU member states to engage in tax

[18] A similar explanation applies to the impact of other endogenous shocks such as the single market or monetary union. However, space limitation does not allow for further elaboration on these endogenous shocks.

[19] Recall that Haas has declared neo-functionalism as obsolete because it cannot address the implications of increased interdependence at the system level. (See Haas, 1975).

policy co-ordination – an issue that has been a 'no-go area' in the history of European integration.

Conclusions

The analysis above suggests that regional integration is an economic and political solution to problems that arise not only from government-government, but also from government-constituent interaction. The shortcoming of state-centric approaches is their tendency to overlook the extent to which the governments' territorial/lateral competence (or 'sovereignty') may compel them to settle on endogenously determined solutions that constrain this competence. As a mirror image of this shortcoming, the society-centric approaches tend to underestimate the extent to which the constituent's quest for maximised returns on jurisdictional loyalty may compel them to settle on endogenous outcomes that imply reduced choice. Regional integration is such an outcome, which emerges from strategic interaction between governments and between the latter and their constituents.

Given the contrast between the constituents' functional/vertical competence and the governments' territorial/lateral competence, regional integration arrangements will continue to co-exist with national and sub-national systems of government as long as the collective action problem of the constituents and the co-ordination problem faced by governments persist. On the other hand, regional integration will transform the institutional environment within which both constituents and governments exercise their competences. This transformation involves the setting up of supranational institutions that would compel (or induce) both constituents and governments to come to terms with negative externalities, which are generated by increased inter-jurisdictional mobility and reduced scope for erecting barriers against such mobility. In that sense, regional integration is an endogenous outcome that forces (or enables) both governments and constituents to trade off efficiency gains with reduced choice. Therefore, in normative terms, the case for or against regional integration depends on the trade-off between efficiency gains and the cost of reduced choice.

In addition, the analysis above enables us to explain the variations in the extent of institutionalisation and competence observed across RIAs - i.e., the difference between 'deep' and 'shallow' integration. We have demonstrated above that the 'deepness' of an RIA (i.e., the extent of authority delegation to regional institutions) is positively correlated to the extent of policy convergence. We also know that convergence is positively related to the level of constituent loyalty volatility and negatively related to the level of exit-blocking barriers. Therefore, a government's choice between 'deep' or 'shallow' RIAs is determined by the extent of cross-border mobility it is faced with and the extent to which such mobility can be checked by exit-blocking barriers. Then, we can conclude that governments faced with relatively low levels of constituent loyalty volatility and/or relying on exit-blocking barriers would engage in limited policy convergence and prefer shallow RIAs. The implication of this conclusion is that 'shallow' RIAs may allow for greater choice, but they are likely to be less efficient in terms of resolving collective action problems that arise from government-government and government-constituent interaction.

Finally, the analysis above also enables us to understand why popular support for regional integration schemes tends to be low. We have established that regional integration is positively correlated to the extent of policy convergence, which implies reduced choice for internationally mobile societal actors. Therefore, we would expect the internationally mobile actors to be actively involved in lobbying regional institutions in order to influence the nature of the convergent policy choices. In other words, regional institutions are likely to emerge as loci of attention for internationally mobile actors such as companies, investors, professionals, etc. However, the active involvement of these actors, which are small in number, does not provide a wide enough basis for democratic legitimacy. On the other hand, the less mobile actors, who are large in number, will be less motivated to engage in active participation as convergence occurs mainly in policy areas where loyalty volatility is high. As a result, the large majority of the constituents will tend to be indifferent towards the establishment of RIAs. When, however, convergence (hence integration) extends to policy areas of direct relevance as a result of deepening, the less mobile actors may become involved but this involvement will be geared towards defending the existing variety rather than the uniformity brought about by integration.

Figure 1: Convergence implied by competition between firms

(No artificial barriers against customer loyalty shifts)

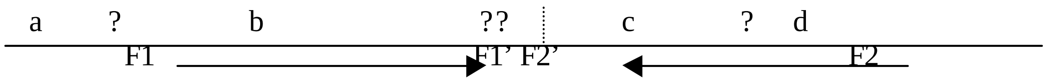


Figure 2: Convergence implied by competition between governments
(With artificial barriers against constituent loyalty shifts)

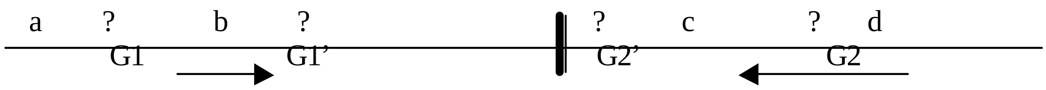


Figure 3: Unstable outcome of negotiations for convergence-barrier combinations

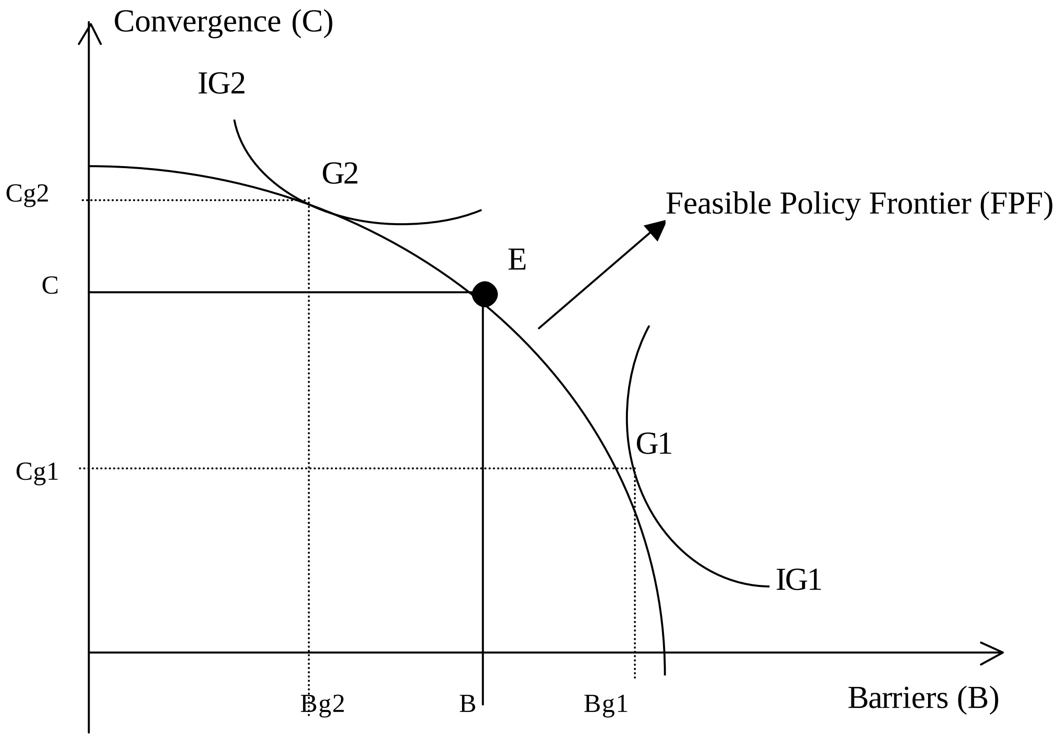
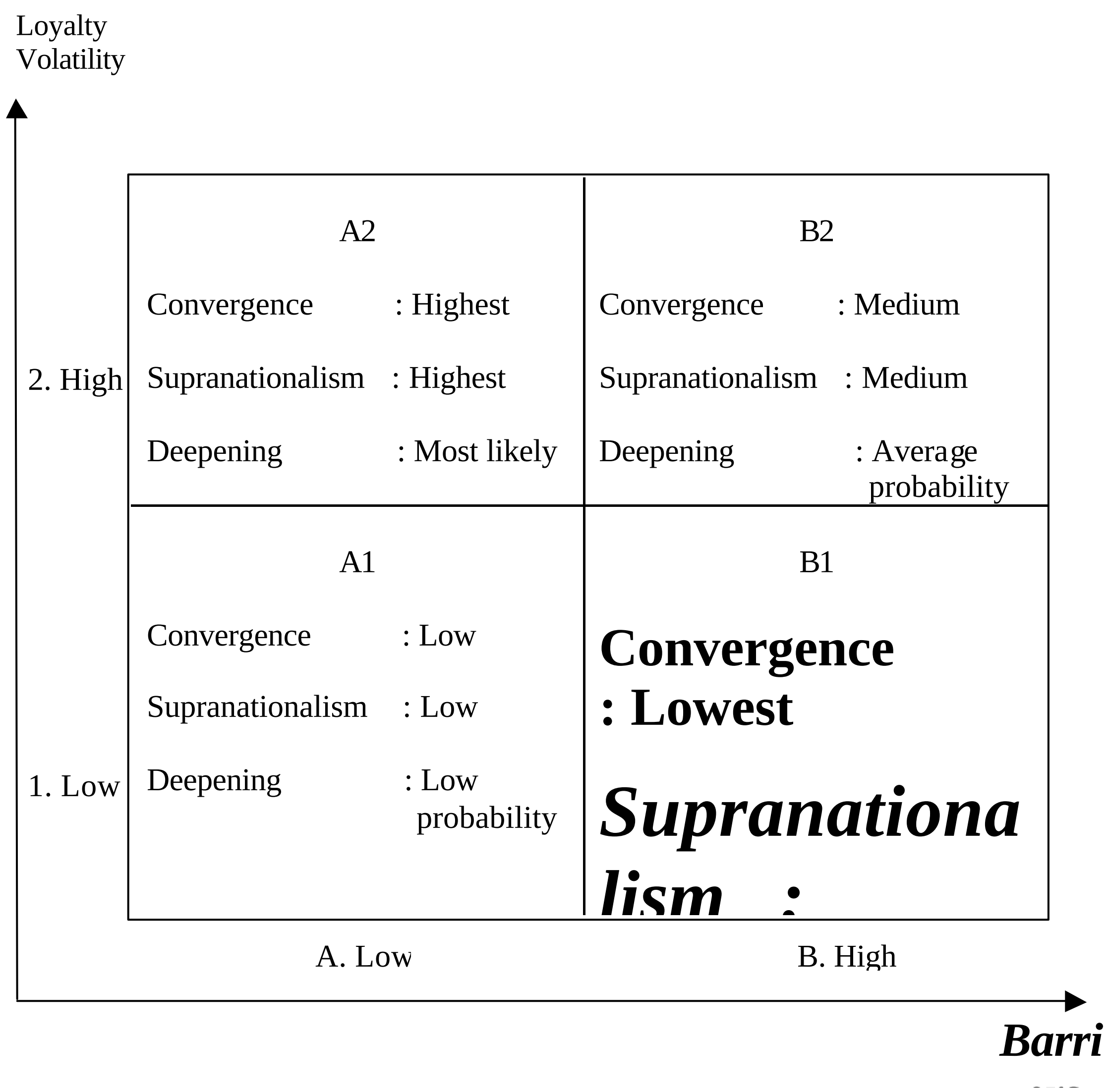


Figure 4: Relative incidence of policy convergence, supranationalism and deepening



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