

**Europeanized Integration in the EU:  
New Member States and Monetary Union**

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AND WHAT DOES THE FUTURE HOLD?**

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## **Abstract:**

The aim of this paper is to investigate why convergence is so difficult in the EU Monetary Union (EMU). Why have new members of Central and Eastern Europe experienced substantial delays into their process of joining the Eurozone from 2004 to 2010?

The dissertation draws on the assumptions found in the current literature on European Union dynamics – such as European integration, Europeanization, federalism, Multi-Level Governance (MLG), and domestic factors – and argues for a new way defined “Europeanized Integration” to look at the political and policy implications of EU membership in new members from Central and Eastern Europe. Currently, only two theories (Europeanization and domestic factors) have been considered by scholars in studying monetary union. The contribution of this dissertation is to introduce and test the federalist theory in EMU. Further, I will conceptualize an alternative understanding of the EMU named “Europeanized Integration”.

My hypothesis is that no single theory can explain and predict past dynamics and future evolution of monetary union. In studying problems and failures in adopting the single currency, I expect to encounter mixed result, showing that each theory has explanatory flaws.

As for the selection of the cases, potentially many countries could be chosen. I will try to include as many cases as possible, understanding that a synoptic theory, taking into account entrance delays and successful adoptions, is highly desirable. I am presently oriented to choose all new twelve members entering the EU in 2004 and 2007. However, due to time constraints and theoretical parsimony, some cases will be treated more extensively than others or, eventually, a lower number of cases could be selected.

In my initial research, I have found that a policy highly centralized at the EU level like the monetary policy, can be explained in terms of federalism or Europeanization when the Euro is successfully adopted by EU members (currently solely by Malta, Cyprus, Slovenia, and Slovakia). However, eight new members on twelve obtained a delay in entering the Eurozone. This derogation can be elucidated through different theoretical lenses: (I) Predominance of domestic factors, preventing the adoption of Euro. (II) Lack of integration process brought about a forced and subsequently unsuccessful Europeanization, a critical evolutionary path that I define through “Europeanized Integration” theory. This dissertation attempts to explain this phenomenon but in order to do this, more research is necessary.

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## Introduction

Currently, only sixteen EU members out of twenty-seven have adopted the Euro. Numerically, this slow and partial adoption means that the Eurozone is slightly dominating on the “Non-Eurogroup”. The aim of this paper, therefore, is to investigate why convergence is so difficult in the EU Monetary Union despite its ostensible requirement for new members. Why did new Central and Eastern members obtain a derogatory postponement?

The EU monetary union is a topic that can be approached from extremely different angles, in terms of monetary policy, financial management, macroeconomic modeling, institutional building, and political negotiations, among others. These fields are inherently interconnected among themselves but at the same time maintain a peculiar insight to look at the EMU with distinctive theories and methods. All provide a better understanding of the monetary union but it is imperative to clarify the direction that will be adopted in the writing of this dissertation. A number of studies examine the negotiations that occurred during the institutional framing of the monetary integration as a policy determined by politics<sup>3</sup>. This assumption legitimizes the purpose to study monetary union from politico/institutional perspective, following the assumption that it is not less important than economic, financial, or monetary approaches.

Amy Verdun in 1999 edited a critical book aimed to analyze EMU from different theoretical perspectives, such as neofunctionalism, intergovernmentalism, multilevel governance, Europeanization, and others, concluding that “theories need to be merged in order for us to

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<sup>3</sup> Among others, see Jones, Erik (2002). “The Politics of Economic and Monetary Union”, Rowman and Littlefield, Lanham. Dinan, Desmond (2005), “Ever Closer Union”, Rienner: Boulder,. Featherstone K., and Radaelli, C. (2003) “The Politics of Europeanization”, Oxford University Press.

obtain a better picture of the actors involved in the European integration process”<sup>4</sup>. Based on the case of EMU, Verdun observed that only taking together the neofunctionalist and intergovernmental approaches the whole picture of EMU can be portrayed. But since then, concerning the EMU, new approaches refined their analyses (like domestic politics), and surprisingly enough, one approach - the federalist - has not been taken into account very analytically. Not to mention that new members entered into the EU, redefining the boundaries of the EMU and its problems.

To answer these questions from a politico/institutional perspectives, hence, I assume that intergovernmentalism, Europeanization, federalism, domestic factors, and Multi-Level Governance theories are insufficient to elucidate the path and result of monetary union. In the EMU, on the contrary, I expect to find mixed results - one theory could have a higher explanatory leverage than others in elucidate the evolution of EMU in some countries, but it could be unsuccessful to depict other cases. Despite the richness of every theoretical insight, in fact, no one is able to offer an all-comprehensive, holistic account of the EMU.

Some scholars already underlined extensively the fit of Europeanization (especially Kenneth Dyson) and domestic factors (Bulmer, among others) in explaining frequent rejections that occurred in the EMU by accession countries. Further, critical theories such as multi-speed integration and differentiated Europeanization have been provided especially with reference to the monetary union. They appear to be very persuasive in such a diversified scenario of derogations, but they do not take into consideration the fact that the EU could be depicted as transitioning toward a federal system.

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<sup>4</sup> Verdun, Amy (2002). *The Euro: European Integration Theory and Economic and Monetary Union*, Lanham MD: Rowman & Littlefield, pages 27-28.

A first contribution of this dissertation will be, therefore, to study the monetary union from a federalist perspective. Contrary to other policies where the EU does not have much power (like foreign policy), monetary union is a precise competence of the EU that could be defined as a federal prerogative. A second contribution deals with theories produced specifically for new EU members of Central and Eastern Europe. After a literature review of these apparatuses known as accession and post-accession theories, I will provide a critical revision of this approaches named “Europeanized Integration” that will underline the different status between old and new members as the predominant key to understand problems in putting into practice policies coming from the EU. On this regard, I suggest that lack of integration process brought about a forced and subsequently unsuccessful acceptance of monetary union, thus causing several new members to ask for a postponement of the Euro adoption. Lack of integration meant that new members were required “to play the game” without participating in defining its rules during the 1990s, when they were not yet members of the Union. Europeanized Integration indicates that accepting monetary union forces new members to integrate into an already Europeanized context where the rules have been previously decided upon by other actors. In fact, they did not take part in “uploading” European integration that was managed solely by the old EU members. Therefore, asking for a postponement was the only option they had in redefining and negotiating “fit” and exercising some sort of power politics in bargaining with other members.

In the first chapter, I will delineate a brief historical overview to clarify how the EU institutions planned the monetary union as a communitarian policy, adopting a three-step approach toward policy convergence, and the real development, fragmented among opting outs, ambivalent adoptions, and derogatory postponements. Further, a brief paragraph will be

dedicated to the theory produced on convergence in monetary union. I will also delineate the role of EU institutions in managing monetary policy and I will mention the pivotal acts that contributed to the framing of the monetary union.

The second chapter will consist of the bibliographic review that will take into account competing (but partially overlapping) theories found in the current literature on European Union dynamics. My purpose is to test the explanatory powers of these theories against one another using the monetary union as a prominent policy case. These main competing theories – Europeanization, Federalism, Multi-Level Governance, and domestic factors –, will be reported in wide sections. I will also define Europeanized Integration.

The third chapter summarizes the methodology adopted to advance the research design. I will test all the theories presented above on monetary policy in comparative perspective, using the twelve new Countries from Central and Eastern Europe as case studies.

I will start the intensive study of the before the conclusion, with a broad historical overview of any domestic response to monetary union, whether they were successful in adopting the Euro (like Malta, Cyprus, Slovenia and Slovakia), or ask for and obtain a successful entrance delay into the Eurozone.

## 1. History of the Monetary Union

### 1.1 *Old Members and the Three-Step Approach toward Convergence*

The Economic and Monetary Union (EMU) is the last step of a long path toward EU economic and monetary integration<sup>5</sup>. Economically, the attempt of the Commission in 1961-1962 with the “Action programme for the second stage of the common market” was prior to the EMU<sup>6</sup>. Further, the Werner Report in 1970 expressed the “Member States’ political will to establish an economic and monetary union”<sup>7</sup>. Finally, the creation of the European Monetary System (EMS), whose establishment was due to the political initiative of the French and the German governments, was defined as a “scheme for the creation of closer monetary cooperation leading to a zone of monetary stability in Europe”<sup>8</sup>. The EMS included the European Exchange Rate Mechanism (ERM), a system designed to reduce exchange rate variability and achieve monetary stability in Europe against the turbulence of the global currency market, especially caused by the fluctuating US dollar during Reagan’s presidency. The ERM was based on the concept of fixed currency exchange rate margins, but with exchange rates variable within those margins.

The 1985 Single European Act (SEA) mentioned that monetary union should be a reachable goal of the European Community. However, the SEA did not plan how this could be

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<sup>5</sup> For the historical evolution of the monetary integration, see Jones, Erik (2002). “The Politics of Economic and Monetary Union”, Rowman and Littlefield: Lanham, pag. 5 -11; Panarella, Alfredo (1995), “The Maastricht Treaty and the Economic and Monetary Union”, Leuven University Press, pag. 13 – 30. Dinan, Desmond (2005), “Ever Closer Union”, Rienner: Boulder, p. 77-79. Van Oudenaren, John (2005). “Uniting Europe”. 2nd ed. Rowman and Littlefield: Lanham, Chap. 6.

<sup>6</sup> Commission des Communautés Européennes (1962), “Mémorandum de la Commission sur le programme d’action de la Communauté pendant la deuxième étape, Chapitre VIII (politique monétaire)”, 24 Octobre 1962, Office des publications officielles des Communautés Européennes, No. 8067/1/XI/1962/5, Luxembourg. With this document, the commission inserted a chapter on monetary matters proposing to fix the exchange rates between European currencies together with the accumulation of an European reserve currency in preparation for the monetary union.

<sup>7</sup> Report to the Council and the Commission on the realisation by stages of an Economic and Monetary Union in the Community (Werner Report), OJ [1970] C 94/1, and Bulletin of the European Communities 11/1970.

<sup>8</sup> Resolution of the European Council of 5 December 1978 on the establishment of the European Monetary System (EMS) and related matters.

achieved<sup>9</sup>. A new debate among European policymakers toward the opportunity of a monetary integration started in 1988. This debate, ignited by the president of the Commission, Jacques Delors – and opposed by UK prime minister Margaret Thatcher -, shows how policies can be affected, if not initiated, by political leaders who strongly follow their political beliefs, personal expertise, individual culture, norms and ideologies, psychological traits, and cognitive skills. Delors' intention was to further promote a monetary union through a three-stage process leading to a complete currency convertibility and an irrevocable fixing of exchange rates, together with some institutional arrangements and transitional requirements<sup>10</sup>.

In 1992, following Delors, the Maastricht Treaty (formally, the Treaty on European Union, TEU) established the EU, together with the second stage of the EMU<sup>11</sup>. Technically, Maastricht provided some convergence criteria (also known as the “Maastricht criteria”) for EU member states to enter the third stage of the EMU and adopt the Euro<sup>12</sup>. Then, as I will explore later, the whole process to achieve monetary union among existing members, which lasts a decade, can be depicted in terms of convergence. In the TEU, four underlying principles drive the EMU. First, subsidiarity defines the balance of power in the union<sup>13</sup>. Second, the principle of parallelism between economic union and monetary union, which can be seen on the whole as a principle emphasizing the “economic convergence” process as already declared by the Treaty

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<sup>9</sup> On the importance of the Single European Act for the monetary union, see Hix (2005). “Economic and Monetary Union”, ch. 10 in *The Political System of the European Union*, 2nd ed. New York: St. Martin's Press, 2005.

<sup>10</sup> “Report on economic and monetary union in the European Community (the Delors Report), para. 25; and Van Oudenaren, John (2005), “Uniting Europe”, 2<sup>nd</sup> edition, Rowman and Littlefield: Lanham.

<sup>11</sup> On the development of EMU, see Panarella, Alfredo (1995), “The Maastricht Treaty and the Economic and Monetary Union”, Leuven University Press, pag. 33 – 55; Van Oudenaren, John (2005), op. cit., pag. 206-227.

<sup>12</sup> The four main criteria are based on Article 121(1) of the European Community Treaty. The purpose of setting the criteria is to maintain the price stability within the EU even with the inclusion of new member states. The member who wants to adopt the euro need to meet certain criteria which include inflation rate (no more than 1.5 percentage points higher than the 3 best-performing member states of the EU); government finance (the ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding fiscal year); government debt (the ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year); exchange rate (applicant countries should have joined the exchange-rate mechanism (ERM II) under the European Monetary System (EMS) for 2 consecutive years; long-term interest rates (the nominal long-term interest rate must not be more than 2 percentage points higher than the 3 best-performing member states).

<sup>13</sup> Art. G.5 TEU.

Establishing the European Community (TEC) in 1957<sup>14</sup>. Third, the principle of cohesion was aimed at reducing developmental inequalities between richer and poorer regions within member states<sup>15</sup>. Finally, the principle of irreversible progressivity, that is, the three scheduled steps, emanates from the first stage of the EMU that started in 1990, with the full liberalization of capital movements among members. The second stage began in 1994 and was characterized by the creation of the European Monetary Institute (EMI). The last stage initiated in 1999, consisted of the creation of the European Central Bank (ECB) and the replacement of ERM by ERM II<sup>16</sup>. With the third step, members decided to delegate irrevocably their monetary policy to the ECB. Finally, in 2002 creation and diffusion of the Euro came into effect.

A number of studies examine the negotiations that occurred during monetary integration, a process that lasted more than a decade. Specifically, looking at the domestic political reactions and subsequent bargaining in the European debate shows that the setting of a common monetary policy was determined by politics<sup>17</sup>. This feature, together with the determination of political leaders, characterized the early evolution of the EMU, with reluctant, ambiguous and supportive positions. The reluctant UK government contested the political desirability of the EMU, followed by Denmark. As a result, a derogation status has been granted for the states that wanted to opt out from the EMU, following the principle according to which participation in the EMU cannot be imposed on any member state. Sweden, a member since 1995, has also deliberately chosen to stay out of the mechanism, thus maintaining their currency, the Swedish Krona. Sweden is expected to participate in ERM II in order to meet the convergence criteria required to adopt the

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<sup>14</sup> Title II (arts 102 – 109), Part Three of the EEC. Despite the interconnections between the economic and the monetary union, in this paper I take into consideration only the monetary union.

<sup>15</sup> Art 130A TEC, para. 2.

<sup>16</sup> Currencies in ERM II are allowed to float within a range of  $\pm 15\%$  with respect to a central rate against the Euro.

<sup>17</sup> Among others, see Jones, Erik (2002). "The Politics of Economic and Monetary Union", Rowman and Littlefield, Lanham. Dinan, Desmond (2005), "Ever Closer Union", Rienner: Boulder,. Featherstone K., and Radaelli, C. (2003) "The Politics of Europeanization", Oxford University Press.

Euro, but its exceptional status has been tolerated by EU institutions. Greece and Italy represent ambivalent cases. After an initial decision to opt out from the EMU, Greece decided to adopt the Euro. As a result, during the third step in 1999, the Greek currency was part of ERM II, and Greece has been part of the Euro-zone since 2001. Not only Greece but also Italy dealt ambivalently with the possibility to postpone its entrance into the EMU, due to lack of prerequisites. However, especially in the case of Italy, the Euro was intended as an “external tie” and to work as a tool to promote some urgent domestic reforms, allowing Italy to respect the timing scheduled.

Finally, France and Germany were leading members convincingly supporting the EMU. Since the beginning, in fact, the creation of the European Monetary System (EMS) was due to the political initiative of the French and German governments that defined it as a “scheme for the creation of closer monetary cooperation leading to a zone of monetary stability in Europe”<sup>18</sup>. More recently, France also took advantage of the German call to collaborate toward a monetary union, because otherwise, for German Chancellor Helmut Kohl an EMU without France would not make sense<sup>19</sup>. Consequently, Dyson notes that the negotiation ability of French policymakers asking for extra conditions in the negotiation process occurred along the three steps. Another reason explaining France’s resistance in opposing Germany predominance is that in the EMU, the “goodness to fit” worked well in France too<sup>20</sup>. In this sense, Howarth notes that French governments tended to interpret the EMU as an extension of French state activity at the EU level together with the defense of its domestic monetary interests<sup>21</sup>. Finally, France could also count

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<sup>18</sup> Resolution of the European Council of 5 December 1978 on the establishment of the European Monetary System (EMS) and related matters.

<sup>19</sup> Dyson (2002), *op. cit.*

<sup>20</sup> See Börzel, T. and Risse, T. (2000). “When Europe Hits Home: Europeanization and Domestic Change”, in *European Integration online Papers (EIoP)*, 4, 015; and Börzel, T. and Risse, T. (2003). “Conceptualizing the Domestic Impact of Europe”, in Featherstone and Radaelli eds., *The Politics of Europeanization*, Oxford University Press.

<sup>21</sup> Horwarth, (2002), *op. cit.*

on the support of other members like the UK and Italy, which were not particularly enthusiastic about the idea of a “Bundesbank-cloned” monetary regime. In conclusion, the pressure from France and other members was able to dilute the predominance of Germany in monetary policy-making<sup>22</sup>. In conclusion, for Jones, the EMU provided a change in the Franco-German relationship, notwithstanding difficult negotiations during and after the EMU implementation<sup>23</sup>. In fact, according to Van Oudenaren, the Maastricht treaty reflects French preferences about timing and German preferences about the conditions<sup>24</sup>.

### *1.2 New Members Delaying Euro Adoption*

In 2004, a new chapter was written on monetary union, with the entrance of ten new members from Eastern Europe into the EU. In theory, the situation of new members is different from the one of the old members. In fact, new members have to accept all the provisions that come with entrance into the European Union, which includes mandatory adoption of the Euro. None of them have the possibility to opt-out, they are obliged to join the Euro-group according to the convergence criteria<sup>25</sup>. However, negotiations between the domestic and EU levels characterize not only the early, but also the late evolution of the EMU, with the inclusion of new members. Specifically, new members have found room for negotiation with the aim of delaying their entrance into the Eurozone. As a result, of the ten new members, only Slovenia adopted the Euro in 2007, Malta and Cyprus adopted it in 2008, and finally Slovakia did in 2009. The

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<sup>22</sup> Ladrech, Robert (1994). “Europeanization of Domestic Policies and Institutions: The Case of France”, in *Journal of Common Market Studies*, Vol. 32, N. 1, March.

<sup>23</sup> Jones, Erik (2002). “The Politics of Economic and Monetary Union”, Rowman and Littlefield, Lanham.

<sup>24</sup> Van Oudenaren, John (2005). “Uniting Europe”. 2nd ed. Lanham, MD: Rowman and Littlefield, 2005.

<sup>25</sup> The EU institutions tolerated UK’s, Denmark’s and Sweden’s opt out from the Euro but the Commission has stated it would not be indulgent on any future members attempting the same route. Then, opting out became a procedure that the EU was obliged to ban for future new members.

absence of big economies such as Poland, the Czech Republic and Hungary in the Euroclub is confirming that convergence is far from completely successful<sup>26</sup>. Even Romania and Bulgaria, new members as of 2007, are expected to convert to the Euro without a definite timetable<sup>27</sup>.

### ***1.3 Theorizing Convergence in Monetary Union***

This section outlines the theoretical apparatus on convergence that logically followed the crafted convergence by EU policy makers. For many commentators, the chapter on the EMU included in the Maastricht Treaty delineating a single market and a common currency represents the most significant event in European integration since the signing of the Rome Treaties in 1957<sup>28</sup>. The EMU has been particularly important because it introduced the idea of convergence, a process that will be adopted by the EU to promote integration in other policy areas. Also, the EMU represents one of the first examples of policy supposed to be managed almost entirely by EU institutions; this means that the EU has an effective role in directing and pressuring its members toward policy, procedures and goals. Finally, the EMU is particularly important for multi-level governance due to, at least, two prominent reasons: first, it presupposes a transfer of sovereignty in monetary policy from domestic authorities to supranational institutions without eliminating the former; secondly, it provides a new concept of a central bank, called to manage a brand new regional currency.

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<sup>26</sup> The Estonian Kroon, Lithuanian Litas, and Slovenian Tolar were included in the ERM II in 2004; the Cypriot pound, the Latvian lats and the Maltese lira on 2005; the Slovak koruna on 2005. The currencies of the three largest countries which joined the European Union on 1 May 2004 (the Polish zloty, the Czech koruna, and the Hungarian forint) are expected to follow eventually, without a precise timetable.

<sup>27</sup> Bulgaria enjoyed ERM II membership in the beginning of 2007 and adoption of EMU is predicted for 2010. Romania plans to join ERM II in 2010-2012, while adoption of EMU is not scheduled with a precise timetable.

<sup>28</sup> J. V. Louis, "Perspectives of the EMU after Maastricht", in Stuyck ed., *Financial and Monetary Integration in the European Economic Community – Legal, Institutional and Economic Aspects*, Kluwer Law and Taxation Publishers, Deventer 1993, pp. 5.

The EMU represents a clear case of policy change for the EU members. Looking at the theory produced on convergence, Featherstone and Radaelli (2003) with the other contributors of their book, use some institutional explanatory concepts such as domestic adaptation, cross-national convergence, policy transfer and “goodness of fit”. These concepts depict different processes in policy homogeneity within the EU, which is defined as a complex entity with its own nature, mixing international, supranational and intergovernmental features <sup>29</sup>. Notwithstanding, among these institutional explanations that are in competition or partially overlapping, particularly persuasive is the “goodness of fit” approach elaborated upon by Börzel and Risse to explain successful policy implementation, a situation that occurs when there is homogeneity between the domestic institutional framework and the European one. In the EMU, this approach worked better in the German and French cases, when the two countries tried to upload their respective central bank models to the EU level during the earlier negotiations <sup>30</sup>.

Literature offers other insightful theories on convergence. For Knill, convergence is “an increase in the similarity between one or more characteristics of a certain policy [...] across a given set of jurisdictions [...] over a certain period of time. Policy convergence, thus, describes the end result of a process of policy change” <sup>31</sup>. Knill argues that convergence is a causal mechanism provoked by imposition, international harmonization, regulatory competition or transitional communication and Europeanization. Furthermore, Holzinger and Knill distinguish among degree, direction and scope of convergence. This configuration applies to many concepts familiar to the study of public policy such as imposition, international harmonization, lesson-

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<sup>29</sup> Featherstone K., and Radaelli, C. eds. (2003) “The Politics of Europeanization”, Oxford University Press.

<sup>30</sup> Goodness to fit has been elaborated in two separated articles. Börzel, T. and Risse, T. (2000). “When Europe Hits Home: Europeanization and Domestic Change”, in *European Integration online Papers (EIoP)*, 4, 015; and Börzel, T. and Risse, T. (2003). “Conceptualizing the Domestic Impact of Europe”, in Featherstone and Radaelli eds., *The Politics of Europeanization*, Oxford University Press.

<sup>31</sup> Knill, C. (2005), “Introduction: Cross-national Policy Convergence: Concepts, Approaches and Explanatory Factors.” *Journal of European Public Policy* 12: pag. 768.

drawing, transnational problem-solving, and emulation<sup>32</sup>. Falkner et al., argue that in social policy and labor law, only moderate convergence can be detected because the members partially implement the EU directives<sup>33</sup>. In addition, Jordan addresses an interesting methodological issue on convergence, underlining the necessity to better define the problem of causality with a more precise definition of the variables under investigation. In fact, for him, the implementation of EU policy can be studied with a cumulative body of research designs dealing with the concepts of isophormism, policy transfer, and new modes of EU coordination<sup>34</sup>. Finally, Lenschow, et al. and Castles (add quote) developed a framework for analyzing domestic factors (culture, tradition and economy) behind policy diffusion and convergence<sup>35</sup>. They confirm with the “Family of Nations” idea that countries that are culturally, traditionally and economically closer are expected to adopt similar policy solutions<sup>36</sup>.

Initially, within the dynamic of regional integration, the EMU designers proposed and propelled the EMU through a convergence process involving all the EU members. However, in real terms, members have adopted multiple strategies to cope with the EMU convergence criteria. The result is that 16 countries out of the 27 EU members use the euro as currency. This partial implementation excludes the options of null and full convergence, but opens the problem to test monetary convergence through a scale in terms of low, moderate, or significant convergence.

The overall historical path depicted above on monetary union necessarily affects theories on convergence, which can be considered an indicator of the theories under investigation

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<sup>32</sup> Holzinger, K. and Knill C. (2005), “Causes and conditions of cross-national convergence”, in *Journal of European Public Policy*, Vol. 12, N. 5 (October), pgs. 775 – 796;

<sup>33</sup> Falkner (2005), **edit citation**

<sup>34</sup> Jordan, A. (2005), “Policy Convergence: A Passing Fad or a New Integrating Focus in European Union Studies?”, *Journal of European Public Policy* 12: 944-953;

<sup>35</sup> Lenschow, A., Duncan L., and Sietske V., (2005), “When the Birds Sing. A Framework for Analyzing Domestic Factors Behind Policy Convergence”, *Journal of European Public Policy* 12: 797-816. Francis Castles (**add quote**).

<sup>36</sup> See F. Castles (1993). “Families of Nations”, Brookfield, NH: Dartmouth.

(intergovernmentalism, Europeanization, federalism, Multi-Level Governance, Europeanized Integration, and domestic factors). On one extreme, if full convergence is (or will be in future) observable, it would be legitimate to recall federalist and Europeanization approaches. In cases where adoption does not occur, domestic factors and Europeanized Integration would help to explain the reason of such reluctance to implement monetary policy.

## **2. Theories Explaining the Evolution of the European Union**

### ***2.1 The Intergovernmental Method: “Uploading” Integration***

“Uploading” European integration is the bottom-up creation of a brand new supra-state body of institutions, rules and procedures by the members of the European Union (EU). It is the definition of “the rules of the game”. It coincides with intergovernmentalist integration theory, as defined by Hoffman in the 1960s and Moravcsik in the early 1990s, among others.<sup>37</sup> In integration, the independent actors are the member-states and the EU is the dependent actor. The successful accomplishment of an uploading supra-state path of politics - “full integration” - represents a crucial step in the process of achieving politico-institutional homogeneity, economic performance, legal framework, and cultural convergence. Featherstone suggests that the identification of domestic inputs keen on the EU policy process properly equates to the notion of integration<sup>38</sup>. The EU integration process is combining in a brand-new way the external projections and the internal factors of its member. It departs from the nation-state level, but it is not merely internal. It represents a bottom-up flow, but it is not a mere external factor.

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<sup>37</sup> Hoffmann, S. (1995). “the European Sisyphus: Essays on Europe 1964 – 1994 (Oxford: Oxford University Press). Moravcsik, A (1998) “The Choice for Europe: Social Purpose and State Power from Messina to Maastricht (London: UCL press).

<sup>38</sup> Featherstone K., and Radaelli, C. (2003), “The Politics of Europeanization”, Oxford University Press.

Integration is characterized by a double dynamic: on one side, the horizontal integration in terms of (relatively) free flows of people, goods and services in the region, due to the economic policy coordination among members. In this scheme, further, a second coordinate can be identified in the vertical integration between multiple levels of governance, the sub-state, the state and the supra-state.

Full integration is made possible by the activity of some intermediate actors bridging and mediating between domestic and supra-state politics. In integration, the action of intermediate actors can be analyzed with a multi-perspective focus, in terms of institutions, economic interests, and lobbying groups (neo-liberalism), norms and identities (constructivism), balance of power (realism), leadership perceptions and ideologies (the statist school). In integration, the missing approach is the societal one, because integration is supposed to be an elite-driven process. Hix identifies a plethora of domestic actors who are responsible for the EU policy process activation, like political parties, interest groups, domestic and European elections, and public opinion<sup>39</sup>. Finally, the Council, being essentially formed by domestic governments, is more willing to accommodate member states' interests than the interests of the EU. Another sphere where heads of governments unite is the Council. It is pivotal in the definition of the treaties, the long-term rules under which EU policies have to be delivered.

In the creation phase, as well as in the subsequent phases, a member-state opens a third decisional level, the supranational policy that expands its area of responsibility. That is, with the regional project, the states have to set their decision according to three levels of policies (domestic, regional and foreign) that correspond to three different stages of the IR system (domestic, supra-state, and international). In this way, the supranational delegation of sovereignty cannot be considered a form of masked foreign policy because in the latter, the states

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<sup>39</sup> Add reference

do not delegate sovereignty, while in the former they delegate a certain degree of sovereignty to the regional level. This implies a different ontology associated with a different sphere of action. Then, from the IR perspective regional integration is changing Putnam's two-level system and Gourevitch's second image reversed<sup>40</sup>.

Technically, integration can be considered as an institutional reconfiguration requiring new model engineering, widely analyzed by two schools. From this perspective, as noted earlier, intergovernmentalism explains what European integration is<sup>41</sup>. In the case of EMU, it is embodied in the three steps toward convergence planned since Maastricht and the more recent Treaties aimed to craft the entry of accession members.

As a prescriptive approach, intergovernmentalism advocates the EU as an international regime constituted by national interests and preferences, reducing or limiting a greater role for EU institutions (Commission, Parliament, and Courts). Looking at EMU, it is difficult to imagine a return to intergovernmentalism in a policy which is highly centralized and managed by an independent institution such as the European Central Bank. Particularly in the EMU, a return to a greater role for member states would probably mean the failure of EMU itself.

## ***2.1 Europeanization***

In this section, I illustrate and define the actors, dynamics and the nature of the relationships involved in both the European integration and Europeanization. The traditional bibliography on "uploading" European integration posits the bottom-up creation of a supranational body of institutions, rules and procedures by the members of the European Union (EU). Recently, this path has been considerably refined with an emerging attention on "downloading"

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<sup>40</sup> See Putnam, R. (1988), "Diplomacy and Domestic Politics: The Logic of Two-Level Games", in International Organization, 42, 427-460 and Gourevitch, P. (1978), "The Second Image Reversed: The International Sources of Domestic Politics", in International Organization, 32, 881-912.

<sup>41</sup> Cini, Michelle (2006), "European Union Politics", Oxford: Oxford University Press.

Europeanization, the top-down “domestic adaptation to the pressures emanating directly or indirectly from EU membership”<sup>42</sup>. In integration, the independent actor is the state and its supranational intentions to create the EU, the dependent actor. In Europeanization, the EU is assumed to be an autonomous actor, able to shape policies, politics and politics of its member-states.

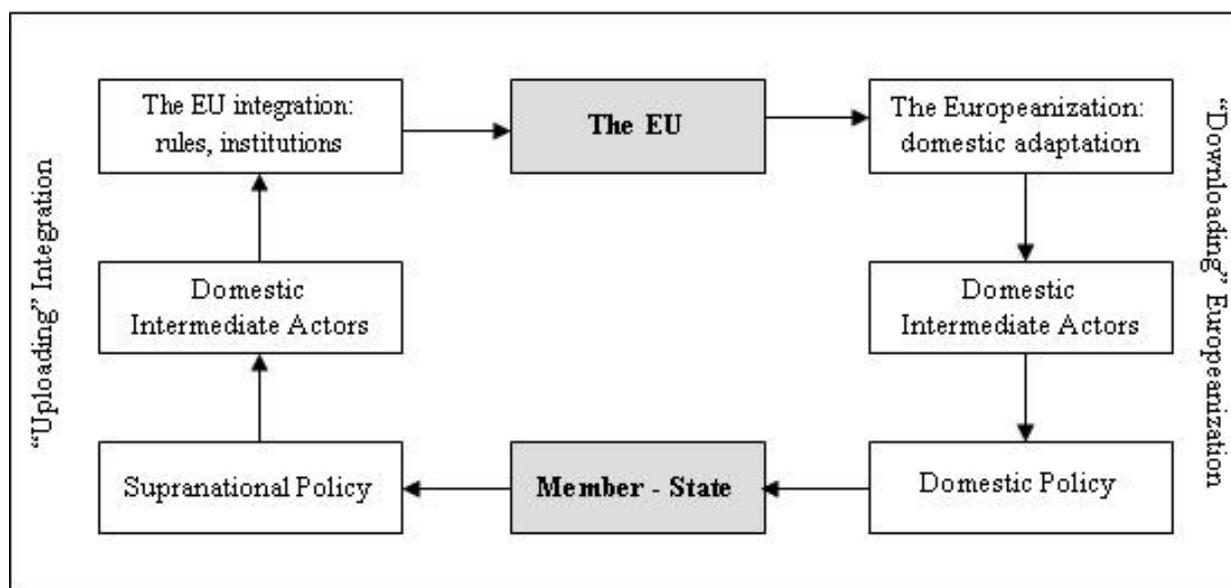


Figure. 1 – Structure, actors and dynamics in regionalism between the member states and the European Union. Adaptation from Borzel<sup>43</sup>.

The conventional relationship depicting actors (member-states and the EU), “Uploading” and “Downloading” dynamics and the nature of the relationship on European Integration and Europeanization is presented in Figure 1. “Downloading” Europeanization is the top-down domestic adaptation to the pressures emanating from EU membership. It means “to play the game”. In Europeanization, the EU is assumed as an autonomous actor, able to shape policies, politics and politics of its members. In this sense, Europeanization is a systemic approach that evaluates the impact of the EU on the domestic politics of its members because of the growing

<sup>42</sup> Featherstone K., and Radaelli, C. (2003:7), “The Politics of Europeanization”, Oxford University Press.

<sup>43</sup> Borzel, Tanja. (2005). “How the European Union Interacts with Its members”, in Bulmer and Lequesne (eds), *The Member States and the European Union*, Oxford, Oxford University Press.

importance accorded to the EU as a region state, able to operate actively in a number of domestic policies, politics and political. Then, after the initial state intention to transfer some pivotal policies to the supranational level (integration), now the region-state is able to cause some domestic repercussions in terms of policy adaptation by member states. As a result, in full Europeanization it is correct to assume that the EU is the independent actor, and the member-states the dependent one.

According to Hix and Goetz, studies on Europeanization are different from studies of European integration in terms of their analytical focus. On one side, studies on integration stress the process of institution-building at the European level. On the other side, an emerging approach is paying attention to the influence of supranational framework on the domestic politics of member states. Similarly, Risse et al. address their attention to “why, how and under what conditions Europeanization shapes a variety of domestic structures in a number of countries”<sup>44</sup>.

“Downloading” Europeanization is a policy process that refers to the mediating role of the European Union in mutating domestic institutions, networks, political cultures and public policy within its members. Further, Radaelli discusses the concept of Europeanization looking at the impact of the EU politics and policies on the member-states<sup>45</sup>. He proposes a taxonomy for both theoretical and empirical purposes, underlying the differences among Europeanization, convergence, harmonization, and political integration. According to Risse, Cowles and Caporaso, finally, Europeanization is the “emergence and the development at the European level of distinct structures of governance”<sup>46</sup>.

Full Europeanization is analyzed in terms of agents and processes. Looking at the first factor, intermediate actors facilitating or hindering Europeanization are formal structures (state

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<sup>44</sup> Cowles, M. and Caporaso, J. Risse, T. (2001), op. cit.

<sup>45</sup> Radaelli, C. (2003). “The Europeanization of Public Policy”, in Featherstone K., and Radaelli, C. (2003) “The Politics of Europeanization”, Oxford University Press.

<sup>46</sup> Cowles, M. and Caporaso, J. Risse, T. (2001), op. cit.

institutions, national legal systems, regional administrations, etc.) as well as informal structures (leadership beliefs and perceptions, relationship between government and business, public discourses, national identities, citizenship)<sup>47</sup>. Risse et al. argues that, whether or not a country addresses its institutional structure to Europe depends on the presence or absence of mediating factors. They posit five mediating factors: multiple veto points in the domestic structure, facilitating formal institutions, a country's organizational and policymaking cultures, the differential empowerment of domestic factors, and learning<sup>48</sup>.

Analyzing the processes, in successful Europeanization, scholars focus on the notion of change in the member-states<sup>49</sup>. In this regard, the literature identifies some intermediate processes in terms of domestic adaptation, cross-national convergence, or policy transfer<sup>50</sup>. Particularly successful has been the "goodness of fit" approach, a situation that occurs when there is homogeneity between the domestic institutional framework and the European one<sup>51</sup>.

The EMU can be inscribed in the path that Radaelli defines as Europeanization of public policy.<sup>52</sup> When "Downloading" Europeanization is successful, EU policies enter into the domestic realm of its member-states. However, in the monetary union, among the old members this happened everywhere with the exception of the "opting out" states (UK, Denmark and

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<sup>47</sup> ib.

<sup>48</sup> ib.

<sup>49</sup> Bulmer S. and Padgett, S. (2004), "Policy Transfer in the European Union: An Institutional Perspective", in British Journal of Political Science, 35, 103-126;

<sup>50</sup> **For the bibliography of domestic adaptation**, see Cowles, Caporaso and Risse, (2001), op. cit.. **For the bibliography on cross-national convergence**, see Seeliger, R. (1996), "Conceptualizing and Researching Policy Convergence," in Policy Studies Journal 24: 287- 306; Holzinger, K. and Knill C. (2005), "Causes and conditions of cross-national convergence", in Journal of European Public Policy, Vol. 12, N. 5 (October), pgs. 775 – 796; Jordan, A. (2005), "Policy Convergence: A Passing Fad or a New Integrating Focus in European Union Studies?", in Journal of European Public Policy 12: 944-953; Knill, C. (2005), "Introduction: Cross-national Policy Convergence: Concepts, Approaches and Explanatory Factors." Journal of European Public Policy 12 : 764-774; Lenschow, A., Duncan L., and Sietske V., (2005), "When the Birds Sing. A Framework for Analyzing Domestic Factors Behind Policy Convergence", in Journal of European Public Policy 12: 797-816. **Bibliography on policy transfer** includes Bulmer and Padgett (2004), op. cit; Radaelli, C. (2000)," Whither Europeanization? Concept stretching and substantive change", in European Integration online Papers (EIoP), 4, 1-31.

<sup>51</sup> Borzel and Risse (2003) in Featherstone K., and Radaelli, C. *The Politics of Europeanization*, Oxford University Press.

<sup>52</sup> Radaelli, add quote.

Sweden). Looking at the new members, only Slovenia (in 2007), Malta and Cyprus (in 2008), and Slovakia (in 2009) adopted the Euro, while all the other states obtained a postponement.

Concerning the problems occurred in EMU, Featherstone notes that the EMU has changed the political agendas of national governments and has created a new institutional framework at the EU level<sup>53</sup>. All the steps towards the EMU have been characterized by a political legitimization. However, for Featherstone the situation is complicated by the necessity of double levels of legitimization (at the national and European ones) and actors' legitimization (citizens, technocracies, and elites). On the same field, Hix approaches the EMU as a policy-making area by reviewing the political science literature. In doing this, he underlines the institutional division of competences in the EMU between the EU and its member-states<sup>54</sup>. Goetz and Hix, finally, analyze the EU as a political system, looking at the way its actors and institutions work<sup>55</sup>. Actually, policy outcomes depend on preferences and institutions. Policy competences between the EU and its member-states are analyzed in terms of constitutional settlement with a separation between exclusive competences of the EU, shared competences between the EU and its members, coordination competences, and exclusive competences of the member-states.

## **2.2 Federalism**

For federalists, the organization of the EU is based upon the existence of a voluntary union with a central authority created by its member states. Under this theory, institutions promoting the EU

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<sup>53</sup> Featherstone, Kevin (1999). "The Political Dynamics of the Economic and Monetary Union", in Cram et al. eds. *Developments in the European Union*, St. Martin Press.

<sup>54</sup> Hix (2005). "Economic and Monetary Union", ch. 10 in *The Political System of the European Union*, 2nd ed. New York: St. Martin's Press, 2005.

<sup>55</sup> Goetz, K., Hix, S. (2000) "Europeanised Politics?: European Integration and National Political Systems", Frank Cass & Co., London; Hix, S. (2005). "The Political System of the European Union", 2nd ed. New York: St. Martin's Press.

interests and prerogatives such as the European Commission, the Parliament and the Courts constitute this centralized sphere, which predominance is counterbalanced by institutions defending member-states interests, through the intergovernmental (or confederal) method. Taken together, the decision-making shared between these two types of institutions denotes what a federation is.

However, Burgess observes that depending on historical backgrounds, federalism can be defined in many ways, even contradicting each other. Federalism interpreted as decentralization in opposition to highly centralized unitary states represents the most divergent definition of federalism from that presented above. In this perspective, federalism means a system that shares (and *not* concentrates) power among multiple lines. In such way, the transition from a unitary state to a federal system is made possible through devolution of powers from central level to sub-state units such as provinces, regions, or districts.

Scholars investigating federalism from a comparative perspective, such as Fabbrini, do not see the need to define the EU as an exceptional system, contesting the idea that the institutional structure of the EU is unique, like supporters of Europeanization theory would suggest<sup>56</sup>.

For Burgess, “the drive toward Economic and Monetary Union (EMU) is unquestionably a political imperative and constitutes yet another incremental step on the road towards a federal Europe.”<sup>57</sup> According to Fabbrini, “the Euro exerted further pressure on the EU to become a supranational polity, rather than, or more than, an international organization”.<sup>58</sup>

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<sup>56</sup> Fabbrini, Sergio (2005). “Democracy and Federalism in the European Union and the United States”, New York, London: Rutledge, page 119.

<sup>57</sup> Burgess, Michael (2006). “Federalism and Federation” in European Union Politics, Cini ed, Oxford: Oxford University Press, page 80).

<sup>58</sup> Fabbrini, Sergio (2005), op. cit.

However, despite Burgess and Fabbrini's observations, surprisingly enough the possibility to analyze EMU as a case of institutional federalism seems not to be investigated by the literature. Given the nature of EMU, managed independently by the European Central Bank after a quasi complete shift of sovereignty in monetary policy from member states to the EU, seems that federalism defined as a path toward centralization would particularly fit.

### **2.3 *Multi-Level Governance (MLG)***

Another theoretical apparatus that can be evoked to explain the evolution of EMU is Multi-Level Governance (MLG). This section initially presents theories on MLG and later it focuses on literature looking at the connections between MLG and the EMU. Since the 1990s, the EU government has been defined as increasingly multilevel and interdependent. In such an environment, MLG is defined as the intertwined policy formation processes at four levels: (1) the sub-state (the micro-regions within the states); (2) the domestic (the various member-states); (3) the supranational (the EU institutions); (4) non-state level (Non-Governmental Organizations).

In line with MLG theory and practice, states are required to play the role of co-policymakers and/or policy implementers. On the other hand, the EU is supposed to be able to effectively drive policymaking, especially in areas where it is exclusively competent. Moreover, micro-regions within the state are relatively free to search for representation at the EU level, in order to search for funds and legitimization as political actors. MLG is continuously shaped by different dynamics. In this way, trends to decentralization of agenda setting and devolution work well when there is symbiosis between the various levels of governance, providing the development of collaborative patterns.

MLG was first used by Marks in 1993 to capture developments in the European integration after the Single European Act (SEA) in 1988<sup>59</sup>. Drawing from the policy networks approach in domestic politics, Marks defined MLG as “a system of continuous negotiation among nested governments at several territorial tiers”<sup>60</sup>. He further notes that within MLG “supranational, national, regional, and local governments are enmeshed in territorially overarching policy networks”. For Hooghe and Marks, MLG does not imply that central governments are no longer important<sup>61</sup>; rather it contends that central governments are no longer the only institutions that control decision-making. Fundamentally, multi-level governance implies that the making of public decisions is dispersed across multiple territorial levels. Further, according to Marks and Hooghe, the core argument of MLG is that “governance must operate at multiple scales in order to capture the variations in the territorial reach of policy externalities”<sup>62</sup>.

Looking at the EU, Marks and Hooghe propose a model in which institutions, such as international, national, regional, and local authorities, perform general-purpose functions in a multi-level governance system. These institutions perform several functions, including a number of policy responsibilities. This model, then, is concerned with power sharing among actors operating at a limited number of levels. Applying the concept of multi-level governance to EU decision making, Marks notes that in MLG, subnational actors are important in the EU, leading to three tiers of decision making- national, supranational, and subnational. Principally, in the EU, MLG has been used to denote the presence of various institutions that affect public policy in the

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<sup>59</sup> Marks, Gary (1993). “Structural Policy and Multilevel Governance in the EC.” in Alan Cafruny and Glenda Rosenthal, (eds), *The State of the European Community*, New York: Lynne Rienner, pag. 391-410.

<sup>60</sup> Marks, Gary (1993), op. cit. pag. 392.

<sup>61</sup> Hooghe, Liesbet and Gary Marks (2001). “Multi-level Governance and European Integration”. Rowman and Littlefield Publishers.

<sup>62</sup> Hooghe, Liesbet and Gary Marks (2001), op. it., pag. 16.

EU member countries<sup>63</sup>. Other studies have also outlined some benefits of MLG. Pollack and Majone argue that multiple jurisdictions can facilitate credible policy commitments<sup>64</sup>. For Weingast, multiple jurisdictions allow for jurisdictional competition<sup>65</sup>. To Gray, it facilitates innovation and experimentation<sup>66</sup> and for Studlar, MLG can be considered as a broader view of federalism.<sup>67</sup>

Literature on the EMU grasps MLG theory to various degrees. Despite the empirical problems and theoretical criticisms that will be depicted later, the EMU is particularly important for at least two prominent reasons: first, it presupposes a transfer of sovereignty in monetary policy from national authorities to supranational institutions; second, it provides a new concept of a central bank, called to manage a regional currency. The influence of MLG in European politics and public policy means that members experience some reduction of their sovereignty in their domestic environment. In a policy area like the EMU, MLG should encourage institutional reform and sovereignty shifts from the domestic level to the European one. In the EMU, then, only the supranational level of authority (the European Central Bank) is exclusively responsible for addressing monetary policy. This intuitively explains why member-states are not affected uniformly by the EMU, even if it was supposed to regulate a common monetary policy. Especially looking at the old members, this fragmented response is caused by different preferences among member states, able to circumvent necessities of institutional change promoted by the EMU.

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<sup>63</sup> These institutions are the European Commission (EC), European Parliament (EP), the European Court of Justice (ECJ), the central governments of member countries, and the provincial and state governments in federal and quasi-federal member countries of the EU.

<sup>64</sup> Pollack, M., (1997). "Delegation, Agency and Agenda Setting in the European Community," *International Organizations*, 51:99-134. Majone, Giandomenico (1998). "Europe's 'Democratic Deficit': The Question of Standards", *European Law Journal*, 4:1:5-28.

<sup>65</sup> Weingast, B., (1995). "The Economic role of Political Institutions: Market Preserving Federalism and Economic Development", *Journal of Law, Economics and Organization*, 11: 1-31.

<sup>66</sup> Gray, Virginia (1973). "Innovation in the States: A Diffusion Study." *American Political Science Review*, 67: 1174-85. Gray, Virginia (1994). "Competition, Emulation, Policy Innovation", in Lawrence C. Dodd and Calvin Jillson (eds.), *New Perspectives on American Politics*, 230-48, Washington: CQ Press.

<sup>67</sup> Studlar, add reference.

Here it is important to note that when looking at the monetary union, MLG works only in three main contexts: the national context of individual countries (the European states), the context of the European Union, and NGOs such as private banks and pressure groups which have interests dependent on the monetary policy. With reference to the EMU, MLG is strongly correlated to the relationship between the European and the domestic levels, with little importance accorded to sub-state actors like local communities. This is because, before the EMU, the monetary policy was in the hands of domestic governments and regulated by independent agencies such as the central banks. In this system of competences, scarce room was accorded to the local actors, such as provinces, regions, or lands<sup>68</sup>. Consequently, with the aim to develop a common monetary policy, the EMU defined a new system of competences in which territorial actors were not involved<sup>69</sup>.

A common denominator is that the EMU promotion within the EU is depicted as a process in which the policy process is determined by politics<sup>70</sup>. On this point, Falkner et al write “the process of designing and implementing EU law is political”<sup>71</sup>. Similarly, Featherstone and Radaelli (2003) demonstrate that Europeanization of policies is a political-driven process. However, many theories portray MLG from different perspectives, looking at economic factors, institutional legitimization, and actors’ behaviors.

Cameron traces the emergence of new European organization structures in the monetary realms, adopting an economic explanation of MLG<sup>72</sup>. He argues that member-states perceived

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<sup>68</sup> Although the Scots retain the right to issue their own banknotes but the monetary policy is regulated by the Bank of England.

<sup>69</sup> However, further studies might explore and find cases in which local levels played a major role in defining old domestic monetary policy and subsequently in EMU, if any.

<sup>70</sup> Jones, Erik (2002). “The Politics of Economic and Monetary Union”, Rowman and Littlefield, Lanham. Dinan, Desmond (2005), “Ever Closer Union”, Rienner: Boulder., Featherstone K., and Radaelli, C. (2003) “The Politics of Europeanization”, Oxford University Press.

<sup>71</sup> Falkner, Gerda et al., (2005). “Complying with Europe”, Cambridge University Press: Cambridge/New York.

<sup>72</sup> Cameron, David (1998). “Creating Supranational Authority in Monetary and Exchange-Rate Policy: The Sources and Effects of EMU”, in Stone Sweet and Sandholtz eds. *European Integration and Supranational Governance*, Oxford University Press: Oxford.

the necessity to create new institutions at the supranational level to better serve their interests. Like Cameron, Jones analyzes the EMU in terms of an economic goal led by political processes<sup>73</sup>. Idiosyncrasy is the concept used by Jones to define the controversies that have surrounded the creation of the EMU, because “the politics of EMU [...] varies from country to country and from one situation to the next”<sup>74</sup>. The author argues that divergences toward the EMU embraced the significance of the broad change instilled in the member-states and the EU, made more difficult by the coexistence of different actors, interests, institutions and time.

### ***1.1 Domestic Factors***

As said before, in the bibliography the traditional approach to full integration posits the states as the independent actors and the EU as the dependent actor; this results in a bottom-up dynamic. Further, the growing literature on “Downloading” Europeanization argues that the conventional relationship is the opposite, with the EU being the independent actor and the states being the dependent one, with a top-down stream as a result. It derives a conventional relationship that is depicted with by following chart.

This relationship is correct when both European integration and Europeanization are successful. Overall, it depicts a logical and consequential process in which member-states first integrate themselves into the EU, and secondly they are willing to play the EU game, adapting domestically to its inputs. In the case of monetary union, European integration was pursued with the inter-governmental bargain and, effectively managed with supranational method by the European institutions. However, this crucial logic is not universal because it does not have an

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<sup>73</sup> Jones, Erik (2002). “The Politics of Economic and Monetary Union”, Rowman and Littlefield, Lanham.

<sup>74</sup> Jones, Erik (2002). Op cit., pag. 1.

explanatory leverage posed by the difficulty of Europeanization toward the monetary union. These difficulties, depicted above, have significant repercussions on real convergence in EMU. These important empirical problems call for a state-centric research project emphasizing the prominent role of domestic factors in endorsing or rejecting what has been decided at the EU level.<sup>75</sup> This approach is aimed to providing in-depth case studies shading lights on important domestic factors otherwise neglected by other approaches.

In defining domestic responses to the inputs coming from the EU, a plethora of actors matter, such as regime type, institutional architecture, national elections, the change of governments, political parties' ideologies, public opinion attitudes, policy styles, interest groups, public opinion, culture, symbols, political discourse, norms and rules, media coverage, administrative, legal and technical factors, and, last but not least, the economic situation. Looking at EMU, the assumption is that policy toward the euro is decided by governments upon such factors, following the assumption that domestic factors determine not only domestic policy but also foreign policy. Further, very influential domestic actors usually have the last say in the states' decisions and preferences.<sup>76</sup>

## 2.5 *Europeanized Integration*

“Euro Fatigue Takes Hold” headlined the Wall Street Journal in 2007, underlining that the “[c]ommon currency offers few incentives for new EU members [and] membership in the euro

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<sup>75</sup> Inter alia Bulmer, S. J. (1998), ‘New institutionalism and the governance of the Single European Market’, *Journal of European Public Policy* 5 (3): 365-386. Elster, J., C. Offe and U. K. Preuß (1998), *Institutional Design in Post-Communist Societies: Rebuilding the Ship at Sea*, Cambridge: Cambridge University press. Huelshoff, M. G. (1994), ‘Domestic Politics and Dynamic Issue Linkages—A Reformulation of Integration Theory’, *International Studies Quarterly* 38 (2):255-279.

<sup>76</sup> Dandashly, Assem. Verdun, Amy (2009). “A Road with Multiple Lanes: The Journeys of the Czech Republic, Poland and Slovenia towards Euro Adoption”, paper presented at the Eleventh Biennial International EUSA Conference, Los Angeles, California, April 23-25, 2009. Dandashly, Assem. Verdun, Amy (2009). “The Domestic Politics of Euro Adoption in the Czech Republic, Hungary and Poland”, Paper prepared for presentation at the Conference The Evolution of Integration in Europe, 20 Years after the Fall of the Berlin Wall, Viessmann Academy, Germany, October 12-14, 2009

zone has failed to generate significant level of popular enthusiasm”<sup>77</sup>. The newspaper also reported a statement released by the International Monetary Fund arguing that “growing skepticism about benefits from euro adoption and reform fatigue [...] contributed to a weakening of political support for euro adoption”<sup>78</sup>.

My integrative hypothesis is based on the assumption that they have a different status from the old members. More specifically, their lack of participation in the integration stage during the 1990s – because they were not members – constitutes the main political reason of their delaying. In this sense, they were forced to a kind of “Europeanized Integration” without any power to decide about the rule of the game.

As a result, several new Central and Eastern members have abandoned their entry dates for adopting the Euro. More precisely, in 2004, with the entrance into the EU of ten new members from Central and Eastern Europe, negotiations between the domestic and EU levels aimed at postponing their entrance into the Eurozone took place. In effect, despite the fact that adoption of the Euro was mandatory and the impossibility to “opt out” was precluded, of the new ten members, only Slovenia had adopted the Euro in 2007, followed by small members Malta and Cyprus in 2008. The absence of big economies such as Poland, the Czech Republic and Hungary in the Euroclub confirms that convergence and downloading Europeanization are far from being completely accomplished. Romania and Bulgaria, new members from 2007, are even expected to convert to the Euro without a definite timetable.

Therefore, another case in which Europeanization or federalization is made difficult is epitomized by new members of Central and Eastern Europe who obtained a successful entrance delay in the European Monetary Union (EMU). In some cases which will be investigated later, I

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<sup>77</sup> The Wall Street Journal, Tuesday August 7, 2007, page 2.

<sup>78</sup> Ibidem.

suggest that a lack of integration process brought about a forced and subsequently unsuccessful Europeanization, thus causing almost all the new members to ask for a postponement of the Euro adoption. Lack of integration means that new members are required “to play the game” without participating in defining its rules during the 1990s, when they were outside the Union. It means that downloading Europeanization forces new members to integrate in an already Europeanized context where the rules have been previously decided by other actors. In fact, they did not take part in “uploading” European integration that was managed solely by the old EU members. Therefore, asking for a postponement was the only option they had in redefining and negotiating “fit” and exercising some sort of power politics in bargaining with other members. The whole process can be defined as “Europeanized integration”.

Europeanized integration confirms the theory that for new members, the EU is more attractive before entering but elusive after the admission<sup>79</sup>. Considering that the EU loses its coercive power after the accession, “coercive Europeanization” fails. This hypothesis partially confirms Dyson’s theory on the discrepancy between the projected enlargement of the EMU to new member states and real events<sup>80</sup>. Europeanized Integration also includes the idea of paradoxical Europeanization. For Dyson, Europeanization as an explanatory variable for the Euro adoption in Eastern and Central Europe has an ambivalent effect: on one hand, limited Europeanization; on the other hand, the compulsory adoption of the Euro. Then, Eastern and Central governments have evolved political strategies to cope with this forced convergence, which Dyson defines as “paradoxical Europeanization” and “clustered convergence”. For Dyson, Europeanization is paradoxical because for new members, it is persuasive before, but elusive after. Further, clustered convergence means that in the EMU, convergence in future could be

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<sup>79</sup> Dyson, *op. cit.*

<sup>80</sup> Dyson, K. (2007). “Euro Area entry in East-Central Europe: Paradoxical Europeanisation and Clustered convergence”, *West European Politics*, Vol. 30, No. 3, 417 – 442, May.

visible only in groups of countries, such as the Baltic States<sup>81</sup>. Alternatively, the lone Euro adoption by Slovakia among the Visegrad States could validate the hypothesis of clustered convergence in business cycle among families of nations but nominal divergence in the Euro accession. Another working possibility provided by the actual Euro adoption by the entrant countries (Slovenia, Malta, Cyprus and Slovakia) could be a scattered, fragmented, randomized adoption of the common currency. Finally, the most extreme option would be a sort of “permanent postponement”, a sort of *de facto* opt-out with over protracted - if not perennially undefined - timetable.

Considering that the aim of this paper is to analyze the politics of the Euro dynamics, I assume that Europeanized integration represents a workable political explanation (but not the only one) for creating a delay in the Euro adoption. Europeanized Integration moves also in the direction depicted by Grabbe when she argues that Europeanization operating in applicant countries is characterized by an asymmetry of power, because they are subject to external pressures without the possibility of influencing EU policy-making from the inside<sup>82</sup>.

Finally, a mention of the attitude of the European Commission is needed. The EU institutions tolerated the UK's, Denmark's and Sweden's refusal to join the Euro but the Commission has stated it would not be indulgent on any future members attempting the same path. Therefore, “opting out” has become a procedure that the EU was obliged to ban for new future members. However, in Europeanized Integration, N-NDFs provoked a prudent reaction by the Commission that is now calling for a reevaluation of its attitude toward implementation of

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<sup>81</sup> Dyson, K. (2007). “Euro Area entry in East-Central Europe: Paradoxical Europeanisation and Clustered convergence”, *West European Politics*, Vol. 30, No. 3, 417 – 442, May; and K. Dyson (ed.), “Enlarging the Euro Area: External Empowerment and Domestic Transformation in East Central Europe”, Oxford: Oxford University Press.

<sup>82</sup> Grabbe, Heather (2002), “Europeanisation Goes East: Power and Uncertainty in the EU Accession Process”, paper for the ECPR Joint Sessions of Workshops, Turin 22 – 27 March.

mandatory accomplishments, such as monetary union. The Commission, in fact, usually promotes the EU interests but in this case it had to retrench and play a moderate role in promoting monetary union among its new Central and Eastern members.

### 3. The Structured Focused Comparison for the Study of the Illustrative Cases

Theory Member	Europeanization	Federalism	Multi-Level Governance	Domestic Factors	Europeanized Integration
Bulgaria					
Cyprus	√	√			
Czech Republic				√	√
Estonia					
Hungary					
Latvia					
Lithuania					
Malta	√	√			
Poland					
Romania					
Slovakia	√	√			
Slovenia	√	√			

Figure 8 – Structured and focused indicators for the comparative studies of the cases.

## **Expected Findings**

The prominent role of member-states is unquestioned in integration, because the first *raison d'être* of the EU can be identified in state dynamics to create supranational institutions, rules and procedures through an intergovernmental method. Old members took more than ten years to define the path to monetary union in order to define a true regional integration process. For the old members, the supposedly equilibrated evolution of the EU followed the apparent clear and logical path defined by the shift from integration to Europeanization. However, the bargaining typical of the integration phase showed the discomfort of some states (especially the United Kingdom, Denmark, Sweden, but also Italy and Greece) toward the adoption of a common currency, this led to the tolerance of some exceptional cases where countries were allowed to opt out while others were allowed to be ambivalent.

New Central and Eastern members represent cases that could readdress and redefine analysis on the EMU. All these countries experienced a path to move toward the membership (in terms of potential candidates, official candidates and effective members) but they did not negotiate the rules of the games as the old members did in the 1990s. This means that for them, Europeanization took place without the logic of the previous regional integration process. Therefore, for some of these countries, asking for a postponement was the only option they had in redefining and negotiating “fit” and exercising some sort of power politics in bargaining with other members. This process, which I defined as “Europeanized Integration”, expresses the idea that new members are in a different ontological situation than the old ones, because they have to accept all the provisions that come with the entrance into the EU, including the adoption of the

Euro. However, new members also found room for negotiation, especially with the aim to delay their entrance in the Eurozone.

Furthermore, the problems of member-states' ability to lead Europeanization, instead of the EU, create a paradoxical situation that deserves to be solved theoretically. While member - states generally have had to adapt to Europe, it is true that the EU in fundamental policy areas have had to adapt to members' input in Europeanization. This paradox makes the underpinned relationships in traditional models more complicated. In this sense, the new member-states' postponement of monetary union in Europeanization is an emblematic case for two reasons. The first is the inversion of the roles in a policy area that is supposed to be exclusively managed by the EU. Secondly, it happened in Europeanization, a process which members should follow, and not precede, the EU. Therefore, especially in Europeanization, overestimating the role of the EU and underestimating the role of member states is a risk.

Looking at the conceptual puzzle among European integration (“the setting of the rules of the game”), Europeanization, federalism, and MLG (to “play the EU game”), and domestic factors (“stay out of the EU game”), the broad picture is not easy to describe, due to the multiple and contemporary interconnections between the rules of the game, how the game is played and where it is played. In particular, critical examples of Europeanization such as Europeanized integration, might contribute to a different theory explaining the distribution of competences than the one currently believed, redirecting relationships, and the role of the actors involved in sharing policy attributions. In this regard, it might be appropriate to look at how the plural set of institutions involved in relevant policy fields, like monetary union, modify the issue of the patterns of collaboration among actors in both integration and Europeanization. Further, the EMU was intended to be a process of policy convergence and institutional reform. However,

convergence represented a problematic step in both old and new members. It can be said that for old members, Europeanization represents a second phase logically following the first one, which is the regional integration. As a result, EMU in old and new members provides great examples of the repercussions of integration and Europeanization on convergence that need to be studied more deeply.