The Political Economy of European Integration[1]

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European integration has long fascinated scholars of political economy. Understanding the economic initiatives at the heart of this process – the European Payments Union, the European Coal and Steel Community, the European Economic Community, the Single Market, and now the euro – and their institutional counterparts – the European Parliament, the Court of Justice, the Commission, the Council of Ministers, and the European Central Bank – has been a challenge for both economists and political scientists, neither of which have been reluctant to take up the gauntlet.

The development of scholarship in this area, not surprisingly, mirrors developments in the wider world. In the early years following World War II, the process of European integration seemed unique. The pace of integration and the development of supranational institutions were unprecedented; they certainly were unrivaled in other parts of the world. The member states of today's European Union showed an unparalleled willingness to pool authority and create collective institutions. This encouraged theories and interpretations of European integration that treated the case as sui generis (see Section 1 below). Impetus derived, it was said, from Europe's history of hostilities, or its geography of economic interdependence, or its inheritance of social democracy, preconditions that did not exist in other parts of the world. Once the process of integration started, it was driven forward by the founding generation of intellectual and political

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leaders, dynamized by the operation of positive feedbacks, and locked in by institutionalization. Because the preconditions were distinctive and the process took on a life of its own, European integration was one of a kind.

But as one decade gave way to the next, initiatives to promote freer trade and closer relations appeared in North America, South America, Asia and elsewhere, and it became evident that the regional impulse was by no means exclusively European. To be sure, these regional arrangements differed from Europe's in their particulars. Still, the growth of regionalism in other parts of the world reopened the question of whether the political economy of European integration was unique or whether Europe's experience was in fact just one more manifestation of a more general phenomenon.

This encouraged what might be called the normalization of European integration studies (see Section 2 below). Instead of searching for respects in which Europe was different, researchers sought to identify a common set of factors – the expansion of trade, the rise of capital mobility, the difficulty of liberalization negotiations at the global level – encouraging regional integration throughout the world. It sought to identify subtle variations that might explain why Europe embarked on this process earlier than other regions, which in this new view was all that really needed to be explained.

But, all the while, there remained a vague and inchoate sense that the European case was unique. Integration in Europe proceeded faster and farther than integration in other regions. European integration had a more prominent institutional aspect. And there was more talk of a political dimension. These observations encouraged efforts to rehabilitate early views of the political economy of European integration by recasting them in the language of modern economic theory, and specifically in terms of models of non-ergodic processes (see Section 3 below) By invoking concepts from economics like network externalities, lock-in, and path dependence, this new work sought to formalize and update notions that had been at the heart of early studies of the political economy of European integration.

This, then, was an effort to explain how regionalism in Europe could differ from regionalism elsewhere even if these processes all responded broadly to the same preferences, endowments and constraints. It was an attempt to reintroduce a role for history into the study of European integration.

In this essay, I discuss conceptions of the political economy of European integration in terms of these three generations of academic work. In the conclusion I ask where the subject should go from here.

1. The Uniqueness of European Integration

Early studies of European integration focused on national governments and leaders engaged in negotiations with their foreign counterparts, logically enough insofar as the most visible early manifestations of the European Community were agreements between governments. Quickly, however, there developed an alternative approach focusing on the institutions of European integration themselves. These two approaches acquired the sobriquets "intergovernmentalism" and "institutionalism" as a way of distinguishing them from one another (Keohane and Hoffmann 1991).

Already in discussions of the first integrationist initiative of the 1950s, the European Payments Union (EPU), there had been hints of the tension between these competing views. The

EPU was negotiated to address the payments problems associated with the restoration of current account convertibility following World War II. While the arrangement was intergovernmental, it also had a prominent institutional component, notably a Managing Board comprised of financial experts reporting to the Council of the Organisation of European Economic Cooperation, which oversaw the policies of member states and made recommendations regarding the provision of temporary financial assistance.

The question, then, was how to understand this institutional dimension. One answer was framed in purely instrumental terms. The EPU addressed the coordination problem facing countries seeking to liberalize – the fact that it paid to relax restrictions on imports only if other countries did likewise so that the newly liberalizing country had markets to which to export. In more theoretically-oriented terms, it was a mechanism to facilitate the coordination of liberalization initiatives across countries and to lock in the commitment to avoid backsliding by monitoring the compliance of governments with the terms of their agreement, by sharing information on such compliance, and by providing adjustment assistance. Already, then, analysis of the EPU sounded several themes that would resonate through studies of European integration for the next 50 years, such as the use of regional arrangements to solve coordination problems and the role of institutions in forming credible commitments (see e.g. Keohane 1984).

Yet, there was also a sense that the institutions associated with this initiative had a deeper and wider impact than suggested by this instrumentalist perspective. For one thing, while the EPU was first and foremost an economic initiative directed at problems of trade and payments, it also involved Cold War politics, since seed money was provided by the United States through the Marshall Plan. This observation suggested that neither textbook economic models, which explain policy decisions on the basis of distributional interests, nor political analyses framed exclusively in terms of security concerns sufficed to account for the initiative. Instead, some new, more distinctive analysis blending politics and economics might be required.

The continent's next regional initiative was the European Coal and Steel Community (ECSC). Coal and steel remained consequential industries in the 1950s, but that the creation a European free trade area started with these sectors reflected not so much their economic significance per se as their importance for collective security. Coal and steel had been the backbone of the German army in World War II, leading France to insist on restrictions on the production of these commodities following the conclusion of hostilities. But coal and steel were important as well for the fabrication of capital goods, the traditional comparative advantage of German industry. The ECSC can thus be thought of as a deal in which Germany sacrificed autonomy over its coal and steel industries in return for freedom from restrictions on industrial production (Berger and Ritschl 1995). Germany received economic concessions (the removal of ceilings on permissible levels of industrial production, which was essential for the postwar recovery of its economy) in return for security guarantees (in the form of an agreement to share management of its coal and steel industries with other countries).

Thus, early analyses of the ECSC, like those of the EPU, pointed up issues that came to dominate European integration studies for several decades. Diplomatic historians and European foreign policy specialists developed the argument that security concerns were the ulterior motive for economic integration, applying it subsequently to everything from the Single Market to the single currency. International relations specialists noted the synergy of economic and security concerns and generalized those connections into a theory of "issue linkage" in which European integration became a mechanism for facilitating pareto improving policy trades across issue areas. In the 1990s, for example, they explained Germany's agreement to the creation of a monetary union (and, specifically, the country's willingness to sacrifice the Bundesbank's disproportionate influence over monetary conditions in Europe) as a quid pro quo for acquiescence on the part of its European neighbors to German reunification (Garrett 2001). At an analytical level they explored the conditions under which such mutually-advantageous cross-issue policies trades are possible, such as divergences in the value that different countries place on different issues.

In addition, observers of European integration again noted the institutionalized nature of the ECSC, which entailed a joint High Authority to monitor compliance with the terms of the agreement, a Common Assembly of parliamentarians to hold the High Authority accountable, and a Community Court to adjudicate disputes between the High Authority and member states. They were struck by the fact that from these modest beginnings evolved the European Commission, the European Parliament and the European Court of Justice, institutions that came to play an increasingly prominent role in the continent's integration. These scholars thus sought to further develop their explanation for the institutional dimension of the process.

One rationale for the highly institutionalized nature of European integration was the fact that not all linked policies could be undertaken simultaneously. This made a key challenge for linkage arguments the identification of mechanisms preventing governments from reneging on deferred components of their bargain. While Germany could promise demilitarization as a quid pro quo for reindustrialization at the beginning of the 1950s, for example, what was to prevent the German government from remilitarizing later, once reindustrialization was an accomplished fact? Or, to draw an example from the 1990s, what ensured that Germany would not renege on its commitment to support monetary unification once German reunification was a fait accompli? And, if such guarantees did not exist, what made the bargain viable in the first place? Institutions as mechanisms for making credible commitments came to be seen as a response to this problem (see e.g. Moravcsik 1998).

This early experience encouraged two further themes in the literature on the political economy of European integration. One was the notion of neofunctionalist spillovers associated with Haas (1958). This was the thesis that integration in one functional sphere increased the likelihood of integration in others. An example was how the EPU, by encouraging the reconstruction of intra-European trade, expanded the economic constituency for a common market in goods and services. A subsequent example was the Common Agricultural Policy (CAP), not the proudest but arguably the most consequential achievement of the European Community in the 1960s other than the Common Market itself. The CAP created pressure for monetary coordination, since the exchange rate fluctuations that might otherwise arise threatened to wreak havoc with the compatibility of domestic-currency-denominated support prices in different member countries. Similarly, the Single Market Program of the 1980s, by prompting the removal of capital controls, undermined the viability of pegged but adjustable exchange rates and can be seen as encouraging EU member states to push ahead to monetary union in the 1990s. Because of the interdependence of issues, this logic ran, initiatives in one area encouraged initiatives in others. Consequently, European integration (in the neofunctionalist view) acquired a momentum of its own.

The other theme was the role of elites in pushing forward the integration process.

Observing the influence of prominent individuals like the French technocrat Jean Monnet in the 1950s and the French politician Jacques Delors in the 1990s, analysts highlighted the existence of an epistemic community of European policy entrepreneurs who advanced the integrationist process faster than it would have proceeded otherwise. These individuals, according to an influential strand of writing on the European Community, were able to use an increasingly powerful transnational bureaucracy headquartered in Brussels to set the policy agenda and limit the options available to national governments. (See for example Ross 1994.) They were able to compel national leaders and their constituents to engage in a forced march to deeper integration.

This formulation was appealing because it preserved a role for human agency while at the same time pointing to the institutions of the European Community in answer to the question of why a few obscure technocrats might have such disproportionate sway. Together with theories of neofunctionalist spillover, it seemed to explain how decisions by a few could influence outcomes for the many, and why small, calculated actions could have large, unanticipated consequences. But the more scholars reflected on these analyses, the less satisfied they became. If the logic of neofunctionalist spillovers was so compelling, then surely elected officials and their constituents understood their operation. If neofunctionalist spillovers were so prevalent, why then didn't governments realize that integration in one area might lead irresistibly to integration in others? And if officials like Monnet and Delors could wield such influence, then why didn't national governments rein them in?

Consider for example a popular argument concerning the political economy of monetary unification in the 1990s, to the effect that Delors and his colleagues pushed monetary integration because they saw it as the camel's nose under the tent. Monetary unification might or might not be desirable in itself. The theory of optimal currency areas as applied to Europe was ambiguous; Delors himself apparently was ambivalent on the question. But Delors and his colleagues understood that the creation of the euro and the European Central Bank (ECB) would ratchet up the pressure to develop political mechanisms capable of holding Europe's monetary policy makers accountable. It would create pressure to expand the prerogatives of European Parliament as a way of applying political checks and balances to the independent European Central Bank. In the extreme version of the argument, monetary integration would lead ineluctably to political union, which was the federalists' ultimate goal. That the creation of the ECB was followed rather quickly by a constitutional convention designed to strengthen the accountability of EU institutions is at least superficially consistent with this interpretation of events.

But, in agreeing to monetary unification, did the national leaders and citizens of EU member states really permit themselves to be painted into a federalist corner that they would have preferred to avoid? Chiefs of government and even the man in the street could see the logic running from monetary integration to political integration. After all, reservations about the implications for political integration were part of what informed popular resistance to the single currency in Britain and certain other European countries. But if national leaders and voters understood this logic and anticipated these repercussions, how then was it possible, asked authors like Martin (1993), to sustain the argument that Delors and his colleagues, operating through institutions like the European Commission, were able to produce unintended results?

One can imagine some elements of an answer. It is most difficult for constituents to control the actions of politicians and officials (that is, what theorists refer to "principal-agent slack" is greatest) when those constituents find it difficult to monitor the actions of his agent and anticipate their consequences (in other words, when information is "asymmetric"). It is plausible that principal-agent slack was considerable in the case of policy entrepreneurs like Monnet and Delors and the national governments in whose service they worked. Technical matters like the rationalization of the coal and steel industries, the regulation of intra-European exchange rates, and the design of European-wide policy toward mergers and acquisitions are complex and obscure. National governments lack the resources necessary to painstakingly monitor EU-level initiatives in such areas (Pierson and Leibfried 1995). Voters have difficulty monitoring and understanding the actions taken by their governments to monitor and understand the actions taken by their delegates in Brussels, creating multiple layers of principal-agent slack. In addition, there was the problem of the "democratic deficit," the underdevelopment of mechanisms for holding the EU's technocracy accountable for its actions. The European Parliament could tender a vote of no confidence in the European Commission only on grounds of incompetence and dereliction of duty, not over policy disagreements, giving the latter additional room to act autonomously. Conceivably, this constellation of circumstances allowed technocrats in Brussels to take actions with not widely understood consequences that pushed forward the process of European integration faster than it would have proceeded otherwise.

In early studies of the political economy of European integration, these ideas, while implicit in the analysis, were never fully spelled out. The plausibility of their underlying assumptions about, inter alia, the imperfect nature of the information environment were not systematically addressed. Moreover, with the creation of the Council of Ministers, an intergovernmental grouping of heads of state and ministers, as a competing power center to the European Commission, questions arose about whether a model of principal-agent slack between

Brussels and national capitals was the right framework for analyzing these developments. For all these reasons, the literature on the political economy of European integration seemed ready for a new direction.

2. The Normalization of European Integration Studies

Meanwhile, regional integration of a sort not entirely unlike Europe's began developing in other parts of the world, raising questions about the validity of these one-of-a-kind arguments. Memories of World War II and the special circumstances that had invigorated the early stages of European integration grew less vivid, weakening the presumption that European circumstances were, in some fundamental sense, unique. On the principle that sometimes a cigar is only a cigar, analysts began taking at face value the economic initiatives on which the process focused. The major European states agreed to create a free trade area, or an exchange rate mechanism, or a single market, or a monetary union, this new generation of observers posited, because they saw doing so as in their economic self-interest, pure and simple. The specific terms of their bargain depended on the leverage that governments exercised over negotiations, together with their fallback options or "threat points" (the credibility of their threat to withdraw from negotiations if certain terms were not met) – that is, on the standard determinants of equilibrium solutions to game-theoretic models.

This new work (see e.g. Garrett 1992, Lange 1993, Moravcsik 1993) thus focused on the structural characteristics of economies – their dependence on trade, their sensitivity to exchange rate fluctuations, the share of employment in agricultural production – as determinants of their bargaining positions. To explain why European integration unfolded as it did, it thus sought to explain changes over time in these economic conditions, pointing for example to the rise in capital mobility in the 1980s and 1990s as an explanation for the growing urgency of discussions of monetary cooperation. And in a throwback to the intergovernmental approach, it encouraged analysts to treat member states, which were the parties engaged in these negotiations, as unitary entities.

This did not rule out a role for EU institutions in shaping outcomes, especially as decision-making became increasingly structured and routinized. Authors like Martin (2001) suggested that the design of decision-making processes could independently influence the outcome of negotiations. For example, EU voting rules requiring unanimous consent might increase the leverage of small countries whose size allows them to make only relatively minor contributions to the union's common endeavors but which can still veto collective efforts, allowing them to extract favorable terms. Of course, this just pushed the question back another step, to why the large countries agreed to such voting rules in the first place. One answer is that large countries like Germany and France valued European integration more than some of their smaller counterparts; they were therefore willing to give their smaller neighbors disproportionate leverage in order to get them on board. But if this is the explanation, then the underlying preferences of these countries and the intensity with which those preferences are felt, and not voting rules, ultimately shape the outcome of negotiations. The implication of this view is that institutional arrangements play no independent role.

At the same time, national referenda on Maastricht Treaty, not all of which went smoothly, and persistent complaints about the democratic deficit seemed to suggest that interest groups and individual voters cared deeply about European integration and sought to influence it through conventional political channels. These observations were consistent with the presumption that countries and constituencies, by making their preferences felt, were ultimately driving the integration process. They encouraged attempts to understand European integration not in terms of negotiations between unitary states but as a reflection of interest group politics at the national and international levels.

In a study representative of these efforts, Frieden (2002) sought to analyze national attitudes toward monetary integration in terms of variables suggested by economic models of how different sectors and factors of production are affected. He argued that export-oriented producers perceive themselves as among the principal beneficiaries of measures promising to limit exchange rate volatility; he therefore took exports to Germany, Belgium, Luxembourg and the Netherlands, the countries comprising the so-called “DM bloc” at the core of the European Monetary System, as his principal explanatory variable. In addition he argued that producers experiencing an intensification of import competition (a surge in imports) will be reluctant to forego the option of depreciating the currency and took the change in the trade balance (as a percentage of GDP) as a proxy for this effect. In an econometric analysis covering the early 1970s through the mid-1990s, both variables had their predicted effect on the variability and rate of depreciation of European currencies vis-a-vis the German deutschmark. This was true even after controlling for the standard arguments of the theory of optimum currency areas, the political orientation of the government in power, and the demand for credibility as captured by a country’s inflationary history. Frieden took these results as an indication of the influence of sectoral interests over the process of European integration.

To be sure, these are simple tests of complex hypotheses. The association between exports and exchange-rate stability is open to alternative interpretations. Both variables could reflect the influence of a common omitted factor, say, the depth of financial ties between countries. Or greater exchange rate stability could encourage exports rather than the other way around. In any case, an exchange rate stabilization arrangement like the Snake of the 1970s or the European Monetary System of the 1980s and 1990s is very different than the creation of a common currency, the momentous policy decision to which these results are implicitly applied. They have different institutional corollaries and political consequences, as we have seen. Authors like Rose (2000) suggest that they have different economic effects as well.

One response to these objections was to consider survey data on attitudes toward European integration. Eurobarometer surveys have been used to study attitudes toward everything from the single market to the euro and a common foreign policy. To stick with the preceding example, Gabel (2001) analyzed survey data on attitudes toward monetary union (specifically, answers to a question posed in 1993-4 of whether the currencies of all EU member states should be replaced by a single European currency). To test the sectoral interests hypothesis, he related individual answers to each person's sector of employment (industry, services, government, nationalized industry). To test class- or factor-content based explanations, he related answers to measures of the skilled-unskilled nature of employment and to whether individuals had high or low incomes (the assumption being that high-income individuals tend to own capital that benefits disproportionately from both capital-account liberalization and monetary integration – two phenomena that presumably go together). His findings are broadly consistent with the hypothesis of self-interested attitude formation, suggesting in the main that domestic political agents form opinions and exhibit behaviors consistent with a desire to further their economic goals.

To the extent that the opinions and behaviors of individuals manifest themselves in voting on EU referenda and national elections, this work is a challenge to scholarship emphasizing European elites and institutions. Its limitations include the fact that sharp shifts in economic characteristics like the sectoral distribution of employment or the functional distribution of income are rarely observed over short periods. This makes it hard to understand the repeated sharp bursts of integrationist activity, separated by interludes of stasis, that are seemingly characteristic of the European process. It also makes it hard to understand how Europe could have pushed ahead with initiatives like the single currency when opinion polls consistently show that the majority of European voters are opposed.

Such observations led some scholars to attempt to synthesize these different views. Moravcsik (1998) is representative of this effort. He first explains the preferences of governments in terms of special interest politics (as the outcome of how different interest groups at the national level are affected by policy options). He next analyzes the ability of national governments to translate those preferences into EU policy by treating states as unitary and analyzing their negotiating leverage in terms of threat points and fallback options. Finally he explains the heavily institutionalized aspect of European integration in terms of the need of the negotiators to make credible commitments to the policies on which they agree. On this basis he explains the important landmarks in the process of European integration: the Common Market, the Common Agricultural Policy, the European Monetary System, etc. The institutions of the European Union are thus seen in largely instrumental terms – as a way of allowing governments to strengthen their own bargaining power by enabling them to make credible commitments; other than this, EU institutions play no role. The preferences of governments, in turn, are grounded in the preferences of their constituents. The governments of member states similarly play no autonomous role. In the language of neoclassical economics, there is little principal-agent slack at either level.

3. The Revenge of Neofunctionalism

This synthetic view was not universally accepted. European scholars (see e.g. Majone 1992, Dehousse 1994) continued to insist that focusing on interest-group politics at the national level and on the leverage of chiefs of government over interstate negotiations missed what is distinctive about European integration. EU institutions were seen as having a capacity to impinge on national politics in ways that could not be understood simply in terms of self-interested negotiations among autonomous member states. This reflected more than just the rise of transnational coalitions of like-minded interest groups across EU member states. These European scholars detected something resembling the development of a multi-level, quasi-federalist European state in which decisions taken by EU bureaucracies and leaders had a disproportionate impact on policy outcomes.

Studies responding to these observations (e.g. Krasner 1989, Pierson 1996) can be seen as attempting to rehabilitate older neofunctionalist arguments. The neofunctionists had emphasized cross-issue spillovers and the influence of semi-autonomous EU institutions in shaping European integration. Many of the examples they invoked seemed to be display the positive-feedback loops and cumulative dynamics characteristic of the path dependent processes popularized by economic theorists like Brian Arthur (see Arthur 1988, 1989). More generally, the concept of path dependence appeared to capture the prevalence of unintended consequences and the exceptional influence ascribed to individuals in the process of European integration. It provided a rationale for how transitory events, often resulting from human agency, could have long-lived, even permanent effects.

Path dependence is an elastic concept. There is sometimes a tendency to invoke it as the explanation for everything that is not readily explained by standard models. It is hard to exonerate the defendant by discrediting the witness – by showing that models of interest-group politics and intergovernmental negotiations are not up to the task – since it is always possible to redefine the preferences of interest groups in ways that are consistent with observed outcomes ex post. Thus, to establish the path dependent character of European integration, one must demonstrate that the phenomenon satisfies the necessary and sufficient conditions for such a process. These are lock-in (that once the process starts off on particular trajectory there is no turning back) and positive feedback (that once a branch in the road is taken there is a tendency to proceed ever further along it). Unfortunately, whether a specific process exhibits path dependent characteristics tends to be difficult to verify empirically (as evidenced by the controversy over the classic instance of a supposedly path-dependent process in economics, namely, the development of technology and the now-standard example of the Qwerty typewriter keyboard – see David 1985 and Lebowitz and Margolis 1990).

Not all studies of European integration invoking the concept of path dependence have convincingly established the existence of lock-in and positive feedback. This criticism can be levied at even the best of these studies, e.g. Pierson (1996). Pierson focuses on the role of institutions like the European Commission and the Court of Justice in determining the direction of integrationist initiatives and sustaining their momentum. He analyzes why gaps emerge in member-state control of these institutions, how those gaps allow institutions to shape events in ways that were not anticipated by their founders, and what prevents those gaps from being closed. Pierson attributes growing gaps in member-state control of these institutions to the efficiency advantages of delegating decision-relevant powers as the EU has grown from its founding six members. He points to additional pressure to delegate as the range of competencies assumed by the EU has expanded from economics to social policy, internal security, foreign policy, and other issues, rendering infeasible direct management by the national governments of member states. The result has been to endow EU institutions with growing agenda-setting and process-managing power. Given the ability of the agenda setter and process manager to influence outcomes, a growing gap has opened up between EU institutions and the governments of the member states.

At its root, this perspective is very similar to that informing early neofunctionalist models emphasizing the roles of elites and institutions in the process of European integration. The difference is that underlying assumptions are now made explicit and discussed systematically. Whether they constitute an adequate rationale for the importance assigned to EU institutions in the process of integration can still be challenged. Their adequacy hinges on the existence of a convincing explanation for what prevents gaps in member-state control of EU institutions from being closed. In other words, while the explanation for the development of such gaps may be convincing enough, why don’t the governments of member states force those gaps to be closed and their unintended consequences to be reversed when they diverge significantly from national preferences?

Consider the case of EU foreign policy. The development of a common EU foreign policy entails many complex issues. Steps to preserve European security might have to be taken more quickly than can be agreed in meetings of 25 ministers or heads of state in the Council. These are arguments for delegating some responsibility for these matters to the Commission, which can cut through complexity and react quickly. They can help to explain why gaps open up between the decisions of the Commission and the control of the member states. But imagine that the Commission takes decisions that conflict with the preferences of a majority of governments and attempts to extend its authority over foreign policy still further. What then prevents the Council from taking back control of foreign policy and assigning it to its own delegate? This case is not simply hypothetical: the division of responsibility for foreign policy between the High Representative for Common Foreign and Security Policy, appointed and directly accountable to the Council (constituted and directed controlled by the member states), and the Commissioner for External Relations was a key issue in the constitutional convention of 2002-3. That there already existed a Commissioner for External Relations did not prevent member states from reassigning a significant share of such powers to the President of the Council and therefore, ultimately, to themselves.

The question, then, is what prevents the member states from taking back such powers even when they have been delegated to an EU institution previously. And what allows EU institutions to sustain actions that run counter to the preferences of national governments and to expand their powers still further? In answer to these questions, Pierson cites the short time horizon of national politicians, the high density of the issues that arise in European Union politics, and the sunk costs of participating in the European Union. The short time horizons of national politicians, who rarely look beyond the next election, are invoked to explain why governments do not make expensive investments in institutional reform now in order to prevent EU bureaucrats from running away with the policy agenda later. Closing the gap between principal and agent would presumably yield a stream of benefits over time but require a costly up-front investment, which politicians with high discount rates are reluctant to make. But it not clear that this argument is sufficient to explain path dependence. If their constituents look fare into the future, even politicians with high discount rates will be forced to do the same to avoid being thrown out of office immediately. And, in practice, the members of the Commission and other EU institutions serve limited terms that are not always significantly longer than those of national chiefs of government. It may be that the long time horizon of EU institutions somehow derives from the rules and procedures of those institutions, not from the individuals involved. But this argument remains to be developed and defended.

Similarly, the density, number and complexity of issues provides an efficiency argument for delegation – for why a gap between principal and agent may open up – but not for why the decision to delegate is not reversed if the agent pursues policies that are at variance with the preferences of the principals. The sunk costs of EU membership can explain why the threat of exit is not effective for reining in renegade institutions, but exit is not the only mechanism for addressing such problems. Indeed, when the EU institution takes actions that are inconsistent with the preferences of the majority of member states, exit is not the most obvious or relevant mechanism.

Consider the case of the European Central Bank. The ECB is a relatively autonomous EU institution; among other things, it has an independent source of income, and its statute prohibits the board from taking instructions from national governments. The ECB has very significant influence over economic conditions in the member states. Imagine now that it takes monetary policy decisions that strongly and persistently conflict with the preferences of national governments and that it attempts to expand its competencies still further by acquiring additional influence over, say, the supervision and regulation of financial markets and the formulation of European fiscal policies. What would prevent the member states from overriding and reversing its decisions?

To be sure, amendments to the central bank's state and mandate, which are incorporated into the Treaty of European Union, would have to surmount the high hurdle of unanimous consent (plus, conceivably, ratification at the national level), which is cited by authors like Pollack (1997) as a reason why institutional arrangements may be "sticky." But it is not clear that their high discount rates would prevent politicians from calling the ECB to task in the press, something that has effectively "disciplined" other central banks, or even seeking to modify its statute and procedures to, say, give governments a mandate to set the general orientations of monetary policy (something that has been actively proposed in the literature on inflation targeting). To the contrary, their concern with the present and immediate future might incline political leaders to press for such changes more urgently. To be sure, exiting the monetary union over dissatisfaction with ECB policy, while not inconceivable, would be difficult given the high density of issues in the EU (that exiting the monetary union might cast into doubt a country's other treaty obligations to its partners and even jeopardize its participation in the union itself). In addition, the economy will presumably have adapted to life with the single currency (business cycles will have grown more symmetric with those of the rest of the euro area, trade with other euro area countries will have expanded, etc.), diminishing the benefits of monetary autonomy relative to those of monetary union – even when the common monetary policy is not to a particular country's liking. But if ECB policy consistently conflicted with the preferences of a large majority of member states (the case at hand), governments would have other means short of exit of disciplining the bank, such as public statements that make life difficult for its president and other board members.

Thus, while models of path-dependence suggest an appealing way of formalizing long-standing arguments for the autonomous influence of EU institutions, the case for path dependence remains to be convincingly made.

4. Where We Go From Here

Given the rich and varied nature of this literature, it is tempting to say that we now have the pieces in place for a coherent interpretation. Because the European Union remains a union of sovereign nation states, its progress continues to reflect the interplay of its principals (the citizens of these states) and their agents (national officials and Eurocrats). In an obvious sense, citizens and governments support further integration when they see the benefits as dominating the costs. The pace of integration thus accelerates and slows with changes in the external environment and in the structure of the European economy and polity itself, changes that make themselves felt through self-interested voting and intergovernmental negotiation.

But in a world where information is costly and politicians are not easily monitored, there is scope for principal-agent slack and for individuals to shape outcomes by setting and pursuing personal agendas. This is an avenue through which the values of the elite, which seem to have played an important role in the history of European integration, can enter the process. Similarly, the increasingly prominent institutional dimension of the integration process works to condition the effects of these interest-group politics and intergovernmental negotiations. These observations help to explain why the progress of European integration has taken its particular form, one which has not always been fully anticipated by the member states.

In recent historical-institutionalist accounts, the point has been put more strongly: institutions “as the carriers of history” (in the words of David 1994) are said to be responsible for the path-dependent character of European integration. But, as evaluated in this paper, this effort to rehabilitate early interpretations of the dynamics of European integration as a process characterized by path dependence, spillovers and positive feedbacks has not been entirely successful. The preconditions for the existence of a nonergodic process have not been identified satisfactorily. Testable implications of this view, which can be used to distinguish it from the alternatives, have not been adequately defined.

Much of the literature on the political economy of European integration seeks establish the incompatibility of these views instead of exploring how they fit together. Methodologically, these different strands of work approach the problem in very different ways – some rely on narrative, others on econometrics – which may help to explain the inability of their advocates to appreciate one another’s contributions. More effectively bringing together these different strands of work, analytically and empirically, will help to push this research agenda forward.

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