European Integration (Theory) in Times of Crisis

Why the euro crisis led to more integration but the migrant crisis did not

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Abstract

The European Union has gone through major crises of its two flagship projects of the 1990s: Economic and Monetary Union and Schengen. Both crises had structurally similar causes and beginnings: exogenous shocks exposed the functional shortcomings of both integration projects and produced sharp distributional conflict among governments as well as an unprecedented politicization of European integration in member state societies. Yet they have resulted in significantly different outcomes. Whereas the euro crisis has brought about a major deepening of integration in the euro zone, the migrant crisis has not. I put forward a neofunctionalist explanation of these different outcomes, which emphasizes variation in transnational interdependence and supranational capacity across the two policy areas.

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Introduction

The European Union (EU) has come to operate in crisis mode permanently. When the Treaty of Lisbon entered into force in December 2009, the EU finally appeared to have achieved institutional consolidation after the failure of the Constitutional Treaty. Around the same time, however, the mounting Greek balance-of-payment problem signaled the start of the euro crisis. As soon as 'Grexit' was averted in dramatic negotiations in July 2015, the migration flow across the Aegean Sea spiraled out of control. Finally, after the number of migrants reaching the shores of the EU had diminished to manageable numbers, the 'Brexit' decision of June 2016 spelled fresh uncertainty about the future of European integration.

The sequence of crises poses major challenges not only for European policy-makers but also for students of European integration. In the 1990s and early 2000s, theories of European integration focused on explaining progress in integration: from the internal market and the currency union via the EU's task expansion to internal and external security policies to enlargement. Theoretical debates in these areas dealt with the conditions and mechanisms of 'more integration' (e.g. Moravcsik 1998; Niemann 2006; Schimmelfennig 2003). It is only recently that regional integration theory has shifted to Euro-skepticism, differentiated integration, stagnation, and even disintegration (e.g. Hooghe and Marks 2009; Leuffen et al. 2013; Webber 2014).

Crises are fundamentally open decision-making situations. In the context of integration, they present a manifest threat and a perceived significant probability of disintegration, i.e. reduction in the level, scope or membership of integration. Yet the may also trigger reform activities leading to more integration. In a crisis-ridden EU, it is important to understand the conditions under which crises bring about one or the other outcome.

To further this understanding, I examine the euro and migrant crises, which are similar cases in many respects. Both crises affected core policies of European integration and flagship projects of the *relance Européenne* of the 1990s: the single currency (EMU) and the abolishment of internal border controls (Schengen). Both regimes came under pressure due to exogenous shocks: the global financial crisis, which originated in the US subprime mortgage market, and the civil wars and political repression in the Middle East and Northern Africa. These shocks exposed major deficiencies of integration: the lack of fiscal integration and effective banking regulation in the Eurozone and the lack of common standards and a burden-sharing arrangement for asylum-seekers in the Schengen area. Finally, both crises produced severe intergovernmental distributional conflict and domestic politicization.

By contrast, the crisis outcomes have been markedly different. In the euro crisis, governments agreed on the creation of a permanent rescue fund for member states threatened by sovereign default (the European Stability Mechanism ESM), a banking union with supranational banking supervision and a European recovery and resolution mechanism, and several new measures to improve the supervision of national budgets and the enforcement of fiscal discipline. In addition, the European Central Bank (ECB) transformed itself into a de facto "lender of last resort". These steps amount to a major leap in supranational integration and mutual financial commitments. By contrast, member states did not agree on substantial integration progress in the migrant crisis. Proposals on a quota system for the relocation of asylum-seekers or a more supranational border management and asylum procedure were rejected. Instead, member states managed the crisis by suspending the Schengen rules (partially) and by externalization: the closing of borders (or reintroduction of border controls) and the negotiation of migration-mitigating agreements with neighboring third countries. The difference in crisis outcomes in spite of similar causes and beginnings is the puzzle this paper addresses.

I argue that variation in the two main factors of institutional path-dependence stipulated by neofunctionalist integration theory – transnational interdependence and supranational capacity - explains the variation in outcomes. Transnational actors and linkages were strong in the Eurozone crisis. Financial market interdependence had increased considerably after the introduction of the Euro; the actions of financial market actors threatened the highly indebted Eurozone countries with sovereign default; and these countries were unable to withstand financial market pressure on their own. Exit costs from the Eurozone were prohibitive for all member states. By contrast, transnational interdependence was weak in the migration crisis. Migrants are powerless transnational actors, and even the most affected and weakest countries on the refugee routes were capable of staving off migration pressure by unilateral means such as reinforcing borders or assisting migrant transit. Exit costs from Schengen pale in comparison with exit costs from the euro. In addition, the currency union benefited from the ECB, a powerful supranational organization, which had both the autonomy and the resources to preserve and expand supranational integration, whereas the European organizations in the asylum regime, Frontex and the European Asylum Support Office (EASO) lacked the capacity to make an independent impact on crisis management.

This paper agrees with several recent studies of the euro crisis, which also use neofunctionalist arguments (Jones et al. 2016; Lefkovridi and Schmitter 2016; Niemann and Ioannou 2015;

Schimmelfennig 2014). Yet its comparative "most-similar systems" design provides additional validity and insights. I further contend that neofunctionalism provides a more convincing explanation than its postfunctionalist and intergovernmentalist alternatives. Domestic politicization and intergovernmental distributional conflict in the two crises were too similar to explain the markedly different outcomes. Rather, institutional and material path-dependencies resulting from earlier integration decisions account for the variation in outcomes. They shaped the transnational interdependence, the supranational capacities and the overriding interest in the preservation and consolidation of integration that distinguished EMU from Schengen.

The next section presents a theoretical framework of integration under conditions of crisis and outlines the theoretical arguments. The empirical part of the paper starts with the similar causes and beginnings of the two crises and then describes their different outcomes. Subsequently, I compare transnational interdependence and supranational capacity in both crises and their effects on the crisis process.

Theory: crisis and integration

Theories of European integration have developed implicit or explicit alternative perspectives on the causes, process, and outcomes of integration crises (Schimmelfennig 2017). Adapting a synthetic model presented in Leuffen et al. (2013: 259-267), I seek to integrate them into a single theoretical framework. It starts from a baseline liberal-intergovernmentalist explanation of integration as the outcome of international interdependence and intergovernmental constellations of preferences and bargaining power. In a crisis triggered by a shock and a failure of the existing integration regime, member state governments revert to intergovernmental conflict, in which the intergovernmental preference and power constellation manifests itself in hard bargaining and determines the integration outcome. By contrast, both neofunctionalism and postfunctionalism assume that the initial integration outcomes are subject to feedback processes that kick in when the regime fails. Whereas neofunctionalism focuses on positive feedback processes of spillover and path-dependence that produce more integration than intergovernmentalism would expect, postfunctionalism emphasizes backlash driven by the mass politicization of integration and resulting in less integration than the baseline. Figure 1 illustrates the theoretical framework.

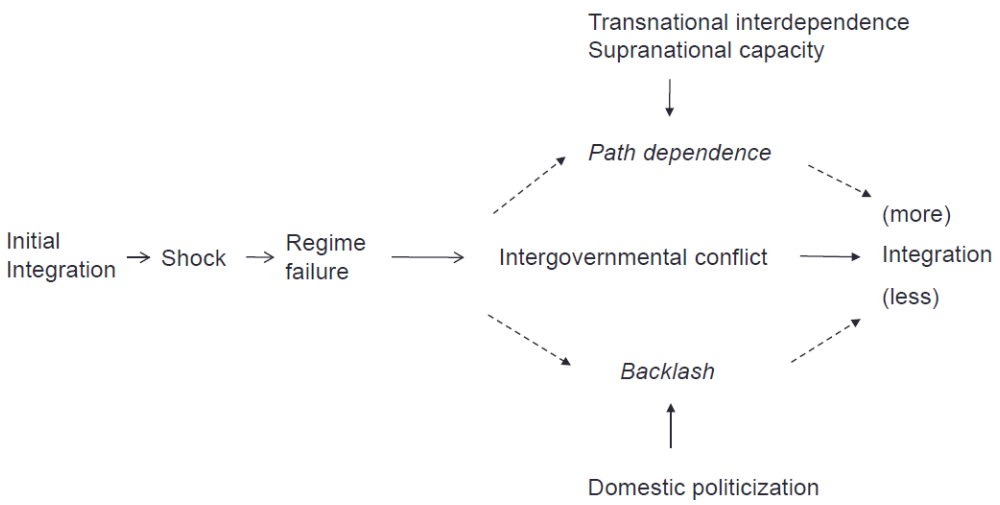

Figure 1: Theoretical framework

Intergovernmentalism: the baseline

Liberal intergovernmentalism (LI) does not have a specific theory of integration crises. In both crisis and 'normal' times, national preferences mirror the (predominantly economic) interests of powerful domestic groups; substantive agreements reflect the relative bargaining power of states in a situation of asymmetrical interdependence; and the design of European institutions reflects the need to establish credible intergovernmental commitments (Moravcsik 1998: 3).

The assumptions and propositions of LI do not offer any expectations regarding the origins and causes of integration crises. LI explanations end with the treaties that establish integrated policy regimes. LI does not have a theory of unintended effects or feedback on national preferences and bargaining power. Yet unintended effects (such as crises) do not necessarily contradict LI. Given its assumption of minimal state rationality (Moravcsik 1993: 481), LI does not claim that governments are able to foresee or prevent crises that may affect, or emanate from, the integrated policy regimes on which they agree.

When a crisis occurs, governments respond rationally. In other words, they negotiate to achieve the integration outcome that maximizes their national interest. The national interest results from domestic conflict. Whose preferences matter and how much discretion governments have in pursuing their own interests, depends on the issue area. Generally, domestic interests most clearly determine state preferences, the 'more intense, certain, and institutionally represented and organized' they are (Moravcsik 1998: 36). Conversely, 'the weaker and more diffuse the domestic constituency behind a policy' (Moravcsik 1999: 171) and the more uncertain and modest its substantive implications, the more discretion governments possess and the more likely ideological preferences will be influential (Moravcsik 1998: 486-9; Moravcsik and Nicolaidis 1999: 61).

Integration crises are situations of heightened interdependence, i.e. pronounced (negative) international policy externalities that create particularly strong demand for policy coordination (Moravcsik 1993: 485). Yet owing to asymmetrical interdependence, demand is often unequal: whereas the crisis externalities affect some states heavily, others are much less vulnerable. In addition, crises commonly have significant distributional implications. Even if governments can agree on a joint response to the crisis that benefits all, the burdens of adjustment are likely to be unequally distributed (Moravcsik 1993: 486f). Asymmetrical interdependence and the unequal international distribution of the costs and benefits of integration give rise to intergovernmental bargaining. Those states that are hardest hit by a crisis and require most support by the other member states and those that stand to gain most from (more) integration or stand to lose most from disintegration, find themselves in a weak bargaining position and most willing to compromise. By contrast, the states that are least affected by the crisis, happiest with the status quo, and have the best credible alternatives to integration are best able to achieve their preferred policy and extract concessions (Moravcsik 1993: 497-507).

Finally, governments pool decision-making and delegate competences to supranational institutions to maximize the benefits of integration. The higher they value their substantive bargains and the more uncertain they are about the future commitment of domestic actors in their home states and in other member states, the more power they are willing to invest in EU institutions to stabilize these bargains and prevent potential losers from revising the policy (Moravcsik 1993: 510; 1998: 9, 486f.). In crises, governments are the more willing to delegate and pool sovereignty, the more the crisis exhibits failure of formerly decentralized institutions and the more delegation and pooling is required to safeguard the gains of integration. In sum, *the difference of integration outcomes of crises is explained by variation in the structure of intergovernmental bargaining*.

Neofunctionalism: path dependence

In spite of their otherwise considerable theoretical diversity, neofunctionalist approaches have preserved a stable theoretical core informed by historical institutionalism (Leuffen et al. 2013: 62-72). Neofunctionalism theorizes a progressive integration dynamic driven by spillovers and path-dependencies of initial integration. Initial integration steps are often deficient, incomplete, and unstable because they tend to reflect the lowest-common denominator of national preferences rather than functional requirements (Moravcsik 1993). However, they produce various types of spillover (Niemann 2006; Tranholm-Mikkelsen 1991), processes of supranational institutionalization (Stone Sweet and Sandholtz 1997), and transnational linkage.

Successive crises are an integral part of the integration dynamic (Schmitter 1970); they are predominantly endogenous, i.e 'produced by the very functioning of the integration process…' (Lefkofridi and Schmitter 2015: 10); and they tend to reproduce and strengthen integration thanks to institutionalization (Stone Sweet and Sandholtz 1997) and path-dependence (Pierson 1996). For path-dependence to work reliably in favour of integration stability and progress, disintegration must become increasingly unattractive – even if integration develops in unintended ways, becomes inefficient because of changing circumstances, or contradicts the preferences of major member states. Several factors contribute to path-dependence in the integration process: high sunk and exit costs, endogenous interdependence, the autonomy of supranational actors, and decision-making hurdles (Pierson 1996).

Sunk costs are the irredeemable investments states and other actors make to adapt their institutions and strategies to an integrated policy; exit costs refer to the relative losses that states incur when leaving the EU or an integrated policy area. Both costs make actors reluctant to embark on a new course. Endogenous interdependence, i.e. the further deepening of interdependence produced by previous integration steps, increases the costs of exit and the resistance of actors that benefit from integration. Supranational organizations such as the Court of Justice or the ECB have a stake in the preservation and expansion of integration. Their autonomy and their institutional as well as material resources strengthen resistance against disintegration. Finally, decision-making procedures such as unanimity make it hard to muster support for disintegration.

Yet path-dependence only works reliably if these factors surpass critical thresholds. Governments seek to stick to their original bargain and to remain in control of the integration process; they are reluctant to give up autonomy and enter into new commitments. Governments only agree to more integration out of necessity – if the costs of stagnation or disintegration appear unbearable. Conversely, integrated policies run a high risk of disintegration in the event of crisis if they are still at low levels of transnational interdependence and supranational capacity (Lefkofridi and Schmitter 2015: 7). In the neofunctionalist perspective, then, *the difference in the integration outcomes of crises is explained by variation in transnational interdependence and supranational capacity*.

Postfunctionalism: politicization

In the postfunctionalist perspective, integration crises are characterized by politicization, i.e. the growing salience of European politics, the broadening of actors and audiences involved, and the polarisation of their attitudes and opinions on European integration (De Wilde 2011). To be sure, an increase in politicization as such does not imply either integration or disintegration effects. Neofunctionalists like Schmitter also hypothesized a politicization effect of progressive integration (Schmitter 1969) but expected it to work in favour of transcending the nation-state and promoting political integration. By contrast, postfunctionalism expects politicization to mobilize Euro-sceptic citizens around national identities, empower Euro-sceptic parties, and undermine support for European integration. Hooghe and Marks 'expect to see downward pressure on the level and scope of integration' (2009: 21), a limitation of governments' room to manoeuvre (2009: 22), and a mismatch of functionally efficient and politically feasible solutions (2009: 23).

Whether and to what extent this happens, depends on the extent of mass politicization. If politicization is weak, the likelihood of more integration is higher, ceteris paribus, because intergovernmental negotiations, transnational pressures, and supranational institutions can operate unimpeded by Euro-sceptic opposition and referendum threats. Conversely, strong politicization constrains the room of manoeuvre for international political and economic elites. In the postfunctionalist perspective, then, *the difference in integration outcomes of crises is explained by variation in domestic mass politicization.*

Similar conditions

The comparison of the euro and migrant crises follows a most-similar systems design, in which a pair of otherwise similar cases differs in the test condition and in the outcome. Logically, the similarities cannot explain the variation in outcomes but serve as controls. By contrast, variation in the test condition suggests a potential cause. A most-similar systems design can be used to test alternative hypotheses if the conditions stipulated by one hypothesis vary significantly across the cases, whereas the conditions stipulated by the alternative hypotheses are equal or similar. In line with the theoretical framework and the most-similar systems design, I first discuss the similarities of the two crises: the shocks to the existing integration regimes, their deficiencies leading to regime failure, the ensuing intergovernmental distributional conflict, and the strong domestic politicization of European integration.

Exogenous shocks

Both crises originated in an exogenous shock to the European integration regimes. The euro crisis can be traced back to the US subprime mortgage crisis, which was caused by the bursting of the US housing and credit bubble in 2007 and triggered a deep financial crisis and economic recession. Due to their participation in and linkages with the US financial market, major European banks became engulfed in the crisis and had to be bailed out by governments. In addition, the economically weaker Eurozone countries that had been able to borrow heavily at low cost after the introduction of the Euro came to feel the credit squeeze ensuing the financial crisis. Together, the bank bailouts and the credit squeeze brought these countries to the verge of sovereign default.

The migrant crisis was caused by turmoil beyond the borders of the EU, too. Armed conflict and political repression in the Middle East were the most important push factors, above all the civil wars in Syria, Iraq, and Afghanistan. Difficult and worsening conditions in the countries of first refuge such as Lebanon or Turkey increased the migration pressure on the EU. Whereas the number of migrants across the Mediterranean had already been increasing for several years, in 2015 migration flows shifted from the Central Mediterranean to the less dangerous Eastern Mediterranean routes, and the number of asylum-seekers in the EU doubled to close to 1.3 million in comparison with the year before.[1]

Endogenous deficiencies

Whereas the shocks were originally exogenous, they exposed home-made weaknesses and deficiencies of the EMU and the Schengen and Dublin regimes for border control and asylum policy. The EMU was based on an intergovernmental compromise about limited macroeconomic integration. It was designed to liberalize capital markets in the EU and to delegate monetary policy to an independent central bank with a primary mandate to ensure price stability. By contrast, national

[1] See Eurostat data at http://ec.europa.eu/eurostat/statistics-explained/index.php/Asylum_statistics.

governments kept fiscal resources and fiscal policy as well as the oversight of banks under national control. The Stability and Growth Pact (SGP) established to commit member states to fiscal discipline in 1997 had already proven malleable and ultimately toothless ahead of the financial crisis. The EMU lacked effective European rules and mechanisms for the rescue or resolution of systemically relevant banks and for the rescue or orderly insolvency of member states in severe balance-of-payment crises. Any intergovernmental or supranational bailout and deficit financing was prohibited under EMU rules.

Consequently, a dynamic sovereign–bank nexus developed when the financial crisis hit: governments undertook bailouts of their domestic banks; these bailouts increased sovereign credit risk, which in turn increased the vulnerability of banks invested in sovereign bonds and the interest governments had to pay for continued access to credits (Acharya et al. 2011). Faced with mounting balance-of-payment problems, Eurozone countries could neither take recourse to currency devaluation nor count on assistance through bailouts or fiscal transfers from the Eurozone. In the absence of adequate policy instruments, there was a high risk that deficit countries would default and abandon the euro. According to the widely shared domino effect scenario, individual exits from the Eurozone would undermine the credibility of the common currency altogether and bring about the end of the common currency.

Neither was the Schengen regime prepared to deal with a massive influx of refugees. The Schengen agreements abolished internal border controls and established a common external border of the Schengen area. Yet the policing of the external borders and the handling of asylum requests remained under the authority of individual member states. The so-called Dublin rules normally allocate the responsibility to the country where the asylum-seeker first applies for asylum, i.e. in most cases where the asylum-seeker first enters the Schengen area. Registered asylum-seekers who try to apply elsewhere can be returned. The regime is based on the principle of mutual recognition. Asylum-seekers can only apply for asylum in a single Schengen country whose decision will be recognized by all other Schengen countries. Yet in spite of several difficult attempts to harmonize asylum rules across the Schengen area, conditions of the reception of asylum-seekers, the asylum procedures and the granting of refugee states still differ vastly across the Schengen area. These unequal standards are not only a problem from a human rights perspective; they also encourage "asylum shopping" and "secondary movement" of refugees away from the countries of first arrival. In both EMU and Schengen, governments were aware that they had to agree on common rules to ensure the working of the integration regime but ultimately sought to keep core state powers – taxation and redistribution in EMU and border and migration policies in Schengen – under national control.

Because of the Dublin rules, the migration flows from Northern Africa and the Middle East affected the Mediterranean member states almost exclusively and at a time when they were already hit hard by the financial crisis of the Eurozone. In the migrant surge of 2015, they – and Greece in particular – were overwhelmed. They were neither capable of blocking unauthorized migration at the external Schengen border nor did they possess the infrastructure to handle such a high number of asylum-seekers and asylum procedures. Yet the Schengen area did not have a system of burden-sharing among member states or supranational organizations that could have effectively supported the border countries. As a result, the Mediterranean border countries stopped registering numerous migrants, failed to conduct their asylum procedures, and turned a blind eye to migrants disappearing into illegality or other Schengen countries (Trauner 2016: 315). Many migrants used this opportunity willingly in order to benefit from the better treatment of asylum-seekers and the better general economic conditions in the North and to join relatives or networks from their home countries or kin groups living there. In turn, the EU's asylum rules fell into disrespect and migrants travelled unregistered and uncontrolled across the internal Schengen borders.

Exogenous shocks and endogenous regime failure are common but theoretically inconsequential characteristics of the euro and the migrant crisis. Neither do they explain the variation in outcomes, nor can they discriminate between the integration theories.

Intergovernmental distributional conflict

As the EMU and Schengen regimes faltered, governments entered into hard intergovernmental bargaining on how the burdens of the crisis and the costs of policy reform would be distributed among them. In the Eurozone crisis, governments held conflicting views on the means of saving and consolidating EMU that were essentially in line with their fundamentally different fiscal and economic positions (Schimmelfennig 2015: 182-183). The "northern" coalition of Germany together with Austria, Finland, and the Netherlands was united by their favourable balance-of-payments and fiscal position and sought to minimize their financial liabilities and assistance. They were initially reluctant to bail out Greece. Rather than mutualizing debt through euro bonds or other instruments, they demanded that crisis countries adjust through austerity policies. They also insisted on stricter fiscal discipline and supervision. In the case of banking regulation, Germany initially opposed the direct recapitalization of banks through the rescue funds and a Europe-wide resolution fund and deposit insurance scheme. By contrast, the "southern" coalition was in a worse economic and fiscal position: less wealthy, more highly indebted, and under pressure from the financial market. Accordingly, it pushed for the mutualisation of sovereign debt and soft adjustment policies but opposed harsh sanctions on deficit countries. Led by France, the southern countries demanded, among others, the establishment and expansion of rescue funds, unlimited bond purchases by the ECB, the direct European recapitalization of banks, a European bank resolution fund and the introduction of Eurobonds – but opposed rigid austerity conditions and automatic sanctions (Schild 2013).

In the migrant crisis, intergovernmental conflict resulted likewise from the different ways in which member states were affected. Member state interests depended mainly on their geographical and partly on their policy positions. We can distinguish frontline, destination, transit, and by-stander states. Because of their geography, frontline states like Greece and Italy were most immediately affected by the migrant flows but did not offer attractive asylum conditions. Destination states like Germany and Sweden were strongly affected by secondary migrant movement owing to attractive conditions as prosperous countries with a comparatively liberal asylum regime. Transit countries such as Hungary and Slovenia were positioned on the migration routes from the frontline to the destination states. By-stander countries were located off-route and therefore not directly affected. As in the euro crisis, each member state engaged in burden-minimizing. Therefore, the heavily affected frontline and destination states pushed for the redistribution of refugees across the EU, whereas transit and by-stander countries opposed relocation.

The intergovernmental distributional conflict that developed in the face of regime failure is in line with LI expectations. Both crises implied 'intense' and 'certain' short-term costs that varied substantially between the member states. Governments calculated the national material consequences of the crisis and the national costs of alternative adjustment options, and they oriented their policy positions towards the least costly option. Member states with a similar structural position formed coalitions, and coalitions with opposite policy positions entered into negotiations characterized by hard intergovernmental bargaining. This commonality of the two crises, however, cannot explain the variation in outcomes. We need to examine further which factors pushed the euro crisis negotiations towards more integration and the migrant crisis negotiations towards integration failure.

Politicization

According to the most common indicators, both the euro and the migrant crises were characterized by high politicization. First, monetary and fiscal policy as well as interior and border policies belong to the areas of 'high politics' (Hoffmann 1966) or 'core state powers' (Genschel and Jachtenfuchs 2014), which tend to produce highly politicized integration politics in general.

Second, both crises exhibited extremely high political salience. At their height, both the euro and the migrant crisis came out on top of the political agenda of the EU and its member states. Eurobarometer data show not only that citizens regarded the economic situation and unemployment as the two most important issues facing their country during the euro crisis. More strikingly, immigration moved to the top of the list in the autumn of 2015 (for the first and only time in Eurobarometer surveys). In both cases, apparently remote EU policies have gained a directly attributable, visible and mostly negatively perceived effect on people's lives. This was true of the austerity measures imposed on citizens in the highly indebted Eurozone countries and of the migrants arriving in high numbers in many European countries.

Third, political contestation was high during both crises. According to Eurobarometer, public support for and trust in the EU plunged toward historic lows at the height of the euro crisis and, after a brief recovery in 2014 and early 2015, again during the peak of the migrant crisis in the second half of 2015. During the crises, the financial issues of the Eurozone and the migration issue became the dominant issues of contestation in domestic politics and national elections – especially in the countries hit hardest by the crises. Polarization ran high – within and between the member states of the EU. Eurosceptic parties thrived on their opposition against bailouts in the North and against austerity in the South during the euro crisis. In the migrant crisis, they mobilized successfully against immigration and Islam.

In both crises, domestic politicization reinforced the intergovernmental distributional conflict between the member states. Under pressure from voters and Eurosceptic parties, governments were reluctant to accommodate their European partners and agree to compromises that would be hard to sell at home. This is in line with postfunctionalist expectations. Yet, the euro crisis resulted in a major leap in integration, whereas the migrant crisis did not.

Divergent outcomes

Integration in the euro crisis

The reforms agreed and implemented during the euro crisis have strengthened both fiscal and financial integration, while keeping monetary integration intact. First, no government exited the Eurozone. Second, the strict no-bailout policy was replaced with institutions and practices providing Eurozone deficit countries with sufficient public credit to keep them afloat. A first ad hoc emergency credit to Greece in April 2010 was followed by the European Financial Stability Facility (EFSF) in May 2010, a private company that issued bonds guaranteed by the highly solvent Euro countries and offered the proceeds to indebted countries under the condition of fiscal and financial consolidation measures. The EFSF was superseded in September 2012 by the European Stability Mechanism (ESM), a permanent international financing institution with a capital stock of 80 billion euro from the Eurozone countries and a lending capacity of 700 billion euro. Even though the ESM is formally an intergovernmental institution, it creates a massive and permanent financial commitment of the

Eurozone countries. In addition to these formal steps, the ECB has adopted several instruments to provide relief to deficit countries and banks. In the course of the crisis, it has bought bonds from highly indebted Eurozone countries, provided banks with long-term cheap credit, kept interest rates low and engaged in quantitative easing. Whereas the mandate of the ECB has not been formally revised, these measures effectively replace the no bail-out provisions of the treaties and have made the ECB more similar to a national central bank.

Third, fiscal regulation and supervision have been strengthened in a series of legislative acts (most notably the 'Six-Pack' and 'Two-Pack' legislation) and in the Treaty on Stability, Coordination and Governance in the EMU (aka the Fiscal Compact) signed in March 2012. Fiscal surveillance now starts with ex-ante control of national budgets. Member states are obliged to establish a national balanced budget rule and procedure in addition to EU-level rules and monitoring. The ESM and the ECB only assist countries financially that have introduced such a procedure.

Finally, the EU has engaged in building a 'banking union' with three pillars. The Single Supervisory Mechanism assigns supervision of systemically significant banks to a new supranational authority at the ECB. The Single Resolution Mechanism applies to the resolution of failing banks supervised by the ECB and can draw on a Single Resolution Fund, which is being built up by the European banking sector over a period of eight years (starting in 2016). Finally, the Commission proposed a European Deposit Insurance System in November 2015, which, however, still meets with resistance, mainly by the German government.

In sum, the Eurozone has been preserved and consolidated through a major leap in integration. Its member states reacted to the crisis by introducing unprecedented collective financial liabilities through the ESM and the ECB programs, reducing state autonomy in budgetary policy, and centralizing financial market regulation and supervision.

No integration in the migrant crisis

As in the euro crisis, the revealed flaws of the European border and asylum regime have triggered a series of policy and institutional reform initiatives. Yet they have failed to consolidate the regime and remedy its deficiencies. A significant shift towards more integration has not materialized. Rather, member states have partially suspended the Schengen regime.

First, starting with Germany in September 2015, several Schengen states (Austria, Denmark, France, Norway, and Sweden) have reintroduced controls at some of their internal Schengen borders. Whereas these measures are covered by the Schengen Borders Code and have been authorized by the EU, they have already been prolonged several times – apparently without a demonstrable threat to public order and security[2] – and thus amount to a major and long-term restriction of the earlier state of integration. By contrast, there have been no temporary exits from the euro – only capital controls were reintroduced in Cyprus (for a short time) and Greece (still in place).

Second, the EU has failed to replace or complement the Dublin rules with a system of shared responsibility or reallocation. It has only agreed to a one-time reallocation of 160'000 refugees in May and September 2015, and even this ad hoc measure has been opposed and legally challenged by several Eastern member states. It has also been poorly implemented: less than 10 percent of the envisaged relocations had taken place by April 2017.[3] A Commission proposal for a permanent quota system for the allocation of asylum seekers was rejected not only by the Eastern member states but

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[2] https://euobserver.com/justice, 13 April 2017.
[3] https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/press-material/docs/state_of_play_-_relocation_en.pdf (last accessed 4 April 2017).

also by Spain and France – all of them countries at the margins of the 2015 migration routes.[4] Instead, the Slovak Council presidency proposed "effective solidarity" in November 2016 – a euphemistically named regime that would keep the Dublin rules intact in normal times and allow member states to choose themselves on how to contribute in the case of massive migrant inflows.[5] In addition, the EU has agreed on the establishment of 11 "hotspots" in Italy and Greece for the registration of migrants with the support of EU agencies and administrative personnel from other member states. However, the total reception capacity amounts to 7450 refugees only.

The two EU agencies active in the border and asylum regime of the EU – the European Asylum Support Organization and Frontex – have seen a major expansion of their budget and personnel but have not acquired supranational competencies. The competences of EASO continue to be limited to supporting and coordinating member state authorities in the implementation of EU asylum rules. It can help to promote but not enforce uniform asylum decisions across Europe. In the case of Frontex, the Commission proposal had contained supranational competences: the right to return rejected migrants and to deploy guards to the borders of EU states without the consent of the government. These proposals did not pass the Council and the Parliament, however.

In sum, the migration crisis has brought about an ongoing (partial) suspension of the Schengen free-travel regime rather than an adaptation of its basic rules. It has also led to a quantitative expansion of the activities of EU agencies but not to a qualitative shift in their competences towards more integration. Instead, the EU has focused on externalization to overcome the migrant crisis. As member states have failed to agree on strengthening the capacity of the EU for the orderly reception of a large number of migrants, they have concentrated their activities on preventing migrants from reaching EU borders in the first place. These measures include the March 2016 agreement with Turkey as well as the migration partnerships and the Khartoum process with African countries. At their core, these agreements promise EU financial and technical assistance in return for partner countries' efforts to restrict migration.[6]

Explaining variation in crisis outcomes

I have now set up the puzzle of this paper: Why has the EU agreed on more integration in the euro crisis but not in the migrant crisis, although both crises have revealed the deficiencies of existing integration regimes in response to exogenous shocks and triggered major intergovernmental and domestic conflict? To solve the puzzle, I propose a neofunctionalist explanation based on differences in transnational interdependence and supranational capacity in the two crises. Whereas high transnational interdependence and supranational capacity produced sufficient path-dependence in the euro crisis to push member states reluctantly towards more integration, weak interdependence and capacity in the issue area of migration enabled states to manage the crisis through unilateral measures and failed to generate positive feedback.

Transnational interdependence

Both EMU and Schengen have increased transnational interdependence – but to highly different degrees. In the euro crisis, governments had to deal with powerful non-state actors: banks and other financial actors. The two-way sovereign-bank interdependence in the EU (Merler and Pisany-Ferry 2012) meant that governments were not only highly indebted to their domestic banks but also

[4] https://www.tagesschau.de/ausland/fluechtlinge-eu-quoten-103.html.
[5] https://euobserver.com/migration/135960.
[6] http://sz.de/1.3314104. «Europas neue Grenzen», Süddeutsche Zeitung, 30.12.2016.

responsible for saving them. Because bank failures would potentially drag down state finances and the entire economy with them, Eurozone governments had little choice but to come to their rescue.

Yet interdependence was not only national. In what counts as endogenous transnational interdependence in a neofunctionalist perspective, the establishment of EMU has significantly reinforced financial market interdependence in the euro area. Monetary union brought together countries pursuing different growth strategies: a supply-side or export-led growth strategy based on wage restraint, productivity and competitiveness in Germany and the 'north' of the EA, and a demand-led growth strategy based on fiscal expansion and wage inflation in the 'south' (Hall 2012: 358–9). Monetary union increased the divergence of these strategies, forcing Germany into even stronger supply-side reform in the early 2000s and allowing the southern countries to borrow at low cost (Scharpf 2011: 13–16). As a result, the financial market shifted large balance-of-payment surpluses generated in the north to the south. The threat of sovereign default in the south thus left northern banks heavily exposed. Put briefly, had states like France and Germany refused to bail out the deficit countries, they would have had to bail out their banks.

In the crisis, financial market actors continuously drove governments to action. In the intergovernmental distributional conflict of the euro crisis, Germany and the other creditor countries had an incentive to avoid bailing out the debtor countries, and the debtor countries were interested in delaying austerity measures, for as long as possible. It was the growing mistrust and disengagement of financial markets, indicated by rising and unsustainable interest rates for government bonds, that forced both sides to cooperate reluctantly and undertake the necessary steps to prevent the Eurozone from disintegrating (Schimmelfennig 2015: 185-187).

Financial markets were able to force the Eurozone countries into more integration because exit costs were prohibitively high. For the highly indebted countries, abandoning the euro would have meant sovereign default, a likely breakdown of the monetary and financial system, hyperinflation and being cut off from external capital. Moreover, contagion effects were widely expected. Whereas the other euro countries may probably have been able to cope with a default and exit of Greece alone, there was reason to fear that financial markets would lose trust in the euro more generally, withdraw from further debt countries and force the EA to back countries (such as Spain and Italy) that were too big to rescue. For Germany and the north, a breakdown of the euro would have resulted in a steep appreciation of its currency, a concurrent slump in exports, and deep and long-lasting recession. In 2011, UBS estimated the immediate costs of exit from the Eurozone at 40-50 percent of GDP in the first year for the economically weaker euro countries and at 20-25 percent for an economically strong country like Germany.[7] Even though costs would decrease in the following years, a Bertelsmann/Prognos study put the cumulative loss of GDP (until 2020) of an exit of the southern European countries (Greece, Italy, Portugal, and Spain) from the Eurozone at 69 percent for Germany and 154 percent for France.[8] In comparison, bailout costs and risks (such as ESM capital contributions and ECB TARGET liabilities) look small.

These common negative externalities of a Eurozone breakdown generated a common interest in preserving the euro and rescuing the Eurozone among all member states. This common interest turned the intergovernmental distributional conflict into a mixed-motive ('chicken') bargaining game (Schimmelfennig 2015). On the one hand, governments have been united in their commitment to the survival and defense of the euro (zone), and this position was underpinned by a strong sense of negative interdependence and prohibitive costs. No 'southern' or 'northern' government indebted

[7] http://faculty.london.edu/mjacobides/assets/documents/Euro_Breakup_UBS_2011.pdf.
[8] https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Presse/imported/downloads/xcms_bst_dms_36656__2.pdf.

country intended to give up the euro. Throughout the crisis, Chancellor Merkel vowed to do everything to defend the euro;[9] French President Hollande and Italian Prime Minister Monti expressed ‘their will to do everything … to defend, preserve, and consolidate the euro zone’.[10] Whereas governments have continuously tried to shift as much of the rescue burden away from themselves, they put the survival of the Eurozone first whenever a member state was threatened by immediate default. Germany and the northern countries agreed to the necessary bailouts, and southern countries consented to the austerity attached to them.

This argument is perfectly compatible with an LI account based on intergovernmental constellations of preferences and power. It is rational for states to cooperate after initial brinkmanship in a mixed-motive chicken-game bargaining structure. Yet whereas LI has to take the overarching interest of Eurozone governments in avoiding cooperation failure as exogenously given, neofunctionalism accounts for how this preference came about as an endogenous result of earlier integration, which gave a boost to financial interdependence, created enormous sunk costs and exit costs, and reduced national crisis management capacities significantly.

In contrast with the euro crisis, governments were confronted with weak transnational actors in the migrant crisis. The only ‘pressure’ refugees could put on EU governments derived from international human rights obligations under the UN Refugee Convention and informal moral commitments. Initially, news and images of refugees drowning in the Mediterranean created such pressure to do more to rescue refugees. When, however, public support waned under the impact of the surge in migrant inflows, governments were able to block or divert the migrant flow by introducing border controls, building fences, or assisting their transit across the country. Whereas states close to default in the euro crisis could not have extricated themselves from the crisis on their own, even small and weak countries on the Balkan migration route were able to help themselves without international cooperation.

National self-help produced a chain reaction of beggar-thy-neighbour policies, which ultimately led to the closing of the Balkan route from Austria to Macedonia and left the biggest burden with Greece whose coastline was impossible to seal off. Yet, whereas a Greek default in the euro crisis was feared in the Eurozone capitals for its risk of contagion, no comparable incentive to support Greece existed in the migrant crisis. This has to do with the vastly different costs of breakdown in the Eurozone and Schengen. Even according to the most pessimistic scenarios of several studies that have appeared during the migrant crisis, the annual “costs of no Schengen” would not have amounted to more than 0.13 (European Commission), 0.18 (Bertelsmann/Prognos), or 0.2 (Stanley Morgan) per cent of GDP.[11] Even in the most optimistic scenario for a euro breakdown, the costs would have been at least a hundred times higher.

In the absence of a strong common interest in cooperation, the bargaining structure of the migrant crisis resembled a ‘Rambo’ (Zürn 1992) or ‘suasion game’ situation (Martin 1992), in which one player has the dominant strategy to defect (play ‘deadlock’), leaving the other player dissatisfied. This was the bargaining position of the by-stander and transit countries who did not have an incentive to alleviate the frontline and destination countries of their burdens and agree to a

[9] http://www.angela-merkel.de/page/103_686.htm.

[10] http://www.lemonde.fr/economie/article/2012/07/31/hollande-et-monti-determines-a-tout-faire-pour-consolider-la-zone-euro_1740722_3234.html, 31 July 2012.

[11] http://ec.europa.eu/news/2016/03/20160304_en.htm; http://www.telegraph.co.uk/business/2016/03/01/schengen-collapse-is-bigger-economic-threat-to-europe-than-brexi/; https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/NW_Departure_from_Schengen.pdf.

European relocation scheme. This situation contrasts strongly with the 'chicken game' constellation of the euro crisis, in which even the least affected countries would have suffered severely from a breakdown of the regime.

In sum, transnational interdependence in EMU created path-dependence in the euro crisis. The combination of powerful transnational actors, endogenous interdependence, and prohibitive exit costs excluded unilateral action, pushed governments to continue on the path of Eurozone integration, and caused them to agree reluctantly on a level of fiscal and financial policy integration they had rejected before the crisis. By contrast, transnational interdependence in the migrant crisis was insufficient to generate path-dependence. Powerless transnational actors and low exit costs made it possible even for weak governments to deal with the migrant issue on their own and to eschew authority transfers.

Supranational capacity

Variation in transnational interdependence, and variation in exit costs in particular, constitutes the main condition for the difference in integration bargaining and outcomes in the two crises. However, variation in supranational capacity played a contributing role. The integrative outcome of the euro crisis benefited from the fact that member states had already engaged in supranational integration before the crisis and created a powerful supranational organization: the ECB.

Supranational monetary integration in the EMU not only created considerable sunk costs, it also made the suspension of integration or the renationalization of Europeanized powers extremely difficult. Monetary union was designed to be permanent – there is no exit or suspension procedure apart from exit from the EU itself.

In addition, the member states had created an independent central bank with exclusive competencies in monetary policy. The ECB not only had a vital self-interest in the preservation and consolidation of the euro, it also had the autonomy and the resources to make and implement its own policies. Consequently, the ECB played a major and probably indispensable role in saving the euro and strengthening the integration of the Eurozone. Rather than the establishment of the ESM, it was the declaration of ECB President Draghi in July 2012 to do 'whatever it takes' that calmed the financial markets durably. Financial market actors generally regarded the ECB as more credible than governments, and took its announcement more seriously (Bølstad and Elhardt 2015). Moreover, the existence of the ECB presumably facilitated the establishment of a supranational supervisory and recovery mechanism in the banking union.

Even though the Schengen regime has been progressively 'Communitarized' since its intergovernmental beginnings in the 1990s, it is a far cry from the depth of monetary integration. Rather than transferring executive powers to EU institutions, it mainly follows the internal market pattern of negative integration (abolishing national restrictions to free travel within the EU) and regulatory policy-making (approximation of national asylum rules), while leaving implementation and operational administrative capacity with the member states. In this context, it was much easier for the member states to restore border controls and revise their asylum rules and procedures than it would have been in the case of supranational centralization along the EMU model. Moreover, the Schengen Border Code offered legal possibilities for a temporary suspension of the Schengen regime. In a 2013 regulation, member states had agreed on a period of up to two years for the reintroduction of border controls in case of serious deficiencies of external border control and serious threats to the public order and security.[12] This exception could be invoked in the migrant crisis without formally violating the Schengen regime.

Finally, Frontex and EASO, the agencies of the Schengen/Dublin regime, had neither the competences nor the resources to compensate the lack of administrative capacity in some member states or to overcome the opposition to the integration regime in others. Nor could they follow the ECB in informally elaborating the existing rules and practices towards more supranational integration.

To conclude, transnational interdependence and supranational capacity differed significantly between the Eurozone and the Schengen regime – and, by extension, between the euro and the migrant crisis. In particular, their dependence on the financial sector and the massive prospective exit costs pushed governments towards cooperation and more integration in the euro crisis; high supranational capacity supported path-dependence additionally. By contrast, weak migrants, low exit costs, and high national capacity were unable to overcome the resistance of governments against burden-sharing and sovereignty transfers in the migrant crisis.

Conclusions

Jean Monnet, a founding father of European integration and an inspiration for neofunctionalist theorizing, claimed in his *Memoirs* that he had "always believed that Europe would be built through crises, and that it would be the sum of their solutions" (Monnet 1978: 417). Monnet attributed the integration effects of crisis to a mix of self-interest, practical constraints, and institutional autonomy. Commenting on the Community's first crisis in the 1960s, he wrote that "intergovernmental discord, human ill-temper, and material confusion" could not stop the momentum of European integration. For one, "self-interest, in moments of crisis, made up for any lack of European team-spirit" (Monnet 1978: 469). Moreover, "people only accept change when they are faced with necessity, and only recognize necessity when a crisis is upon them" (Monnet 1978: 109). In addition, he put faith in "institutions" having "their own strength, which is greater than the will of men" (Monnet 1978: 469). This paper demonstrates the continued relevance of Monnet's thinking about European crises.

Neofunctionalism regards incremental European integration as both prone to crisis and capable of progressing through crisis. Yet neofunctionalism is not unconditionally optimistic about crisis. Whereas integration crises can indeed build the momentum for major leaps in integration, such momentum depends on the effects of prior integration on transnational interdependence and supranational institutional capacity. Path-dependency only obtains if transnational interdependence and supranational capacity cross 'critical' thresholds. The comparative analysis suggests that 'critical' transnational interdependence consists in prohibitive costs of stagnation or disintegration and a lack of nation-state capacity for unilateral action. 'Critical' supranational capacity requires both autonomous decision-making powers of the supranational organizations and the resources to mitigate intergovernmental distributional conflict and transnational pressure.

Neofunctionalism provides a more convincing account of the crisis outcomes than its intergovernmentalist and postfunctionalist alternatives. Both crises featured severe intergovernmental distributional conflict and mass-level domestic politicization – so clearly the alternative theories are relevant. However, because intergovernmental conflict and domestic politicization were similar in both crisis, they cannot explain the variation in outcomes.

[12] Regulation (EU) 1051/2013.

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