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Deepening versus Widening the EU: Where to go?[1]

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Abstract: In recent years, the fears of European disintegration have risen. After Brexit, different propositions have been made by the European Commission of how to shape the future of the EU. In brief, the EU could proceed as before, or continue with a more differentiated integration. The following paper aims at scrutinizing the latter possibility and potentials for even further enlargement, focusing on purely economic effects. It will draw on theories of fiscal federalism to identify costs and benefits of differentiated integration.

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1. Introduction

Eurosceptic parties are on the rise in Europe. In the Austrian presidential elections of 2016, the candidate of the eurosceptic party FPÖ received slightly less than 50% of the votes. Additionally, the Front National in France or the AFD in Germany appear to gain popularity as well. The fear of disintegration of the EU has increased, especially since the UK decided to leave the EU, a case which never happened before. Brexit was a sign for the fragility of the European Union. For Great Britain, the EU always was a purely economic project, hence the skepticism and the reservation towards more social and political integration. The Brexit heated up an old discussion, namely the issue of widening versus deepening the EU and a differentiated integration. In March 2017, the European Commission presented a White Paper[3] suggesting different paths to go. One option would be to go on in the spirit of the existing integration mode, and not change anything. Other suggestions are to focus solely on the common market without increasing the number of common policy areas. Yet, the proposal of potential solutions suggested a more differentiated integration strategy: 'those who want more do more'[4].

One speaks of differentiated integration if the legal framework of the EU does not apply to all member-states equally (Schimmelfennig et al., 2017). It can be seen as a process, in which some countries are further integrated than others, while some are allowed to opt out (Chopin et al., 2016). Differentiated integration may solve the problem of deadlock, as situation where member-states fail to find a common solution. On the other hand the costs of differentiated integration is that it results in a complex web of institutions and decision-making. (Chopin et al., 2016; Alesina et al.,2005). This adds to a situation where the EU is not transparent for the voters. Furthermore, it might increase existing gaps between the member-states, as some might not be able to participate in policies relevant to their economies.

The creation of common policies on an EU level has other advantages, such as providing the public goods and services more cost-efficiently. Defense, border protection or intelligence are a few examples where member-states could save on costs because per unit costs decrease with increasing output and furthermore economies of scope could be exploited (Wyplosz, 2015). Additionally, centralization reduces (increases) negative (positive) spillovers, which one jurisdiction imposes on other ones. Thus, from an economic perspective, further integration in different areas would be beneficial, however due to diverse practices, interests and preferences, optimal centralization is difficult to achieve.

[3] http://europa.eu/rapid/press-release_IP-17-385_en.htm
https://europa.eu/european-union/sites/europaeu/files/whitepaper_en.pdf

[4] See the press communication (footnote 1, scenario 3).

In the following, a brief overview over economic theories of federalism will be given, in order to understand what integration means and what is seen as optimal. It will scrutinize the respective concepts of deepening versus widening and the concept of differentiated integration. Hereby the paper will draw on the economic theory of federalism to highlight the basic tradeoffs faced by the EU and its respective members. Eventually comparing the costs and benefits of the respective options should show, what option would be the most viable. Additional obstacles will be discussed subsequently.

2. The Effects of deepening and widening

In economic terms, federalism describes any political system, which guarantees some autonomy to centralized and decentralized levels of governments. From this perspective, public sectors can be seen as federal if they provide different services at different levels, while having some authority[5]. Given that in the EU we have a multilevel structure, with different powers conferred to different levels of governance, we will take recourse on this theory in order to analyze the importance of solidarity within the EU. Alesina et al. (2005) provide a theoretical model, capturing these basic arguments, which will be discussed further below.

A first observation is that the EU should correct market failures, as for example the under-provision of public goods[6], or externalities which one jurisdiction may impose on another one. The guiding principle in correcting these market failures is that the respective policy responsibility should be assigned to the lowest possible level of governance. The formalization of this principle is known as the decentralization theorem by Wallace Oates (1972) and the subsidiarity principle in the EU follows a similar logic.

An international organization like the EU enables its member-states to exploit economies of scale and economies of scope for example. The former means lowering the per unit costs by producing a higher output, what reduces the average fixed costs. The latter means to reduce costs of production by providing several goods by one unit than by providing them by different units. There is a trade-off between economies of scale and heterogeneity costs, which arise due to differing preferences and views over public policies and goods. Not only would centralization lead to a suboptimal provision of the respective policies in case of high heterogeneity but also would heterogeneity increase the political costs of the process of integration, especially with regard to public goods (Spolaore, 2013). In order to cope with the trade-off, decentralization can be implemented by creating different layers of administration, which are differentiated with regard to

[5] See Oates (1999), footnote 3 and Boadway (2009), p. 306.

[6] A public good is a service or good which has the characteristics of non-excludability, i.e. no one can be excluded from the use or consumption of the good, and non-rivalry, i.e. the consumption of the good by one person will not reduce the consumption possibilities another consumer

the provision of public goods, for which the preference are heterogeneous or homogeneous respectively. Potentially, the benefits from economies of scale increase with the number of member-states. This comes then at the cost of losing the ability to exploit economies of scope, if there is fragmentation in the provision of public good and services.

The downside of centralization of provision of public services and goods is that these will be uniformly provided, disregarding the taste and preferences of the different member-states. This is the case in the situation where no differentiation is made between the different member-states. Schimmelfennig (2017) summarizes, differentiated integration is best understood ‘as the institutional response to increasing heterogeneity of member-states preferences (willingness) and capacity (ability) resulting from both the widening and deepening of the EU’[7]. Once the decision about a policy is taken, it applies in a similar manner to all member-states. And here lies the central problem of the decision-making within the EU. Depending on the voting-rule applied for different policies, heterogeneity of preferences will lead to a deadlock situation in which decision-making is basically blocked (Chopin et al., 2016; Schimmelfennig et al., 2014).

Chopin et al. (2016) mention a trade-off in the voting rules to decide on centralization. Thus the unamity rule which is applied in some fields, reflects the fact that centralization can only be applied in cases where all member-states acknowledge the fact that there are benefits from centralization. However, with increasing number of member-states the heterogeneity of preferences increases and thereby the likelihood of not reaching an agreement. With regard to widening the EU, adding another state to the EU leads to a political cost, namely a change in aggregate preferences and coalition patterns and hence an increase in the likelihood of not finding an agreement[8]. Additionally, with regard to the EU budgetary finances, incumbent member-states might lose by accepting the accession of new member states: on the one hand, the net payers might face an increase in costs, or the net-beneficiaries before accession might lose in benefits Schimmelfennig, 2014a). Thus, despite the benefits from efficiency, there are also costs from widening the EU. The next section will introduce some theoretical considerations about this tradeoff.

3. Options for the European Union

Alesina et al. (2005) present a political economy model, which captures these effects. In an international union, which is a group of countries with heterogeneous preferences, members decide together on the centralization of public policies. Centralization is assumed to result in a positive spillover, which only members of the union can profit from. As such, this union can be seen as club, however as opposed to traditional club good theory, there are no cost-effects from accepting additional members. Countries can either provide the public good on their own, or allocate this task to the union, by joining ‘the club’. Countries would only join the union, if there is a surplus

[7] See Schimmelfennig (2017), p. 241.
[8] Kelemem (2014) discusses this argument and finds some counterfactual evidence. See discussion below.

from doing so. Thus if the spillover is large enough and if the preference are similar enough, centralized provision is beneficial. An optimal union is composed of countries with contingent preferences. In order for the union to be stable, there is a given range of preferences of countries which should join the union. As mentioned above, in case of centralization, it is traditionally assumed that central provision is uniform. The efficient outcome depends on the voting rule. If the union can commit ex-ante to centralize only a limited amount policies, the union will be larger with regard to the number of members, however its scope smaller as compared to a situation where such a commitment is not made. In the latter case, the optimal number of members is smaller and the resulting centralization is excessive. In a more flexible union, the union would decide together on the policy and the respective budget and each country decides individually on extra spending. In such a case, Alesina et al. (2005) find that the spending by the union would be the same as in the case of a rigid union and those countries with stronger preferences for the public policies, as these would add to the spending of the union. Hence, countries with lower preferences could benefit from these efforts. Overall, their analysis shows a trade-off between size of the union and the degree of integration. However more flexibility may lead to the social optimum, but only under a specific set of rules. Clearly, this flexibility would come with a more complex set of institutions. This however would reduce transparency of decision making processes and could lower electoral accountability (Alesina et al. 2004). This may result in an additional cost of differentiation.

Similarly to the theoretical finding pointed out above, from an institutionalist perspective Kelemen et al. (2014) argue that the impact of widening and deepening depends on the relation of the preferences of the accession state to the existing member-states. Schimmelfennig et al. (2002) define enlargement, or widening, as 'a process of gradual and formal horizontal institutionalization of organizational rules and norms'[9]. Hereby institutionalization means the process of patterning actions and interactions of social actors. Horizontal institutionalization means that institutions are spread beyond the incumbent actors and that the 'group of actors whose actors whose actions and relations are governed by the organization's norms becomes larger'. Adding new members may lead to a situation of deadlock, in which no decisions are easily made, due to the higher diversity of preferences. Interestingly, these cases tend to increase the power of other institutional players, such a bureaucrats or judges, which might increase centralization. Thus Kelemen et al. (2014) find that enlargement of the EU was accompanied by institutional reform and informal practices in anticipation of potential deadlock due to the enlargement. This fact together with the increased involvement of other institutional actors, might favor deepening of the EU despite or, put otherwise, due to enlargement. Table 2 provides a few examples for differentiated integration within the EU and respective instruments.

Table 2: EU mechanisms of differentiated integration

	Example

[9] See Schimmelfennig (2002), p. 503.

EU mechanism	
Opting Out	Euro, defence, citizenship, asylum, Charter of fundamental rights, etc.
Enhanced cooperation (at least 9 out of 28 countries)	Divorce law, financial transaction tax, EU patent
Permanent structured cooperation	Defence (not yet used)
Constructive abstension (1/3 MS and 1/3 of EU population)	Common Foreign and Security Policy
Inter-governmental agreement finally/ to be integrated in the EU framework	Schengen agreement; Fiscal Compact (to be integrated by 2017)

Source: Bertoncini (2017)

Differentiated integration aims at avoiding deadlock, due to increased heterogeneity of the union. Schimmelfennig et al. (2014b) differentiate between instrumental and constitutional differentiations. The latter means that the obligation to adopt certain rules, law and standards by the accession countries may be postponed. This should allow accession countries to adapt and converge to the level of existing member-states. Additionally, new member-states may be excluded from certain rights and benefits for a given period. (Schimmelfennig et al., 2014a). Constitutional differentiation applies to policy areas centralizing core state powers and are drive by ideological factors. The latter will not be the concern here, as it would go beyond the scope of this paper. Here the focus will lie rather on economic factors and policies. Instrumental differentiation aims at addressing distributional and efficiency concerns as well as concerns regarding economic and budgetary competition (Schimmelfennig et al., 2014b).

3.1 The redistributive effects of EU budgetary policies

With regard to budgetary policies, a well-known exemption with regard to budgetary spending was the rebate granted to the United Kingdom in the framework of the Fontainebleau agreement. The revenue side of the EU budget is based on revenues from VAT taxation, customs and contributions of the member-states[10]. The contributions from EU member-states are a fixed percentage on their Gross National Income. Hence the richer member-states pay more than the poorer once. Another part of the budget is financed by a share of the member-states VAT revenues. Additionally a part of the revenue is generated by customs and agricultural duties only products from outside the EU[11]. With regard to the expenditure, the budget is used to finance the EU's administration, sustainable growth, and among other structural and cohesion policies. The UK was

[10] http://ec.europa.eu/budget/explained/budg_system/financing/fin_en.cfm

[11] For references see footnote 3 and Mattila (2006).

allowed a rebate between the difference of its share of VAT expenditures and its share of Community expenditures. This gap in EU finances had to be filled by the other member states, except for Germany and later Austria, the Netherlands and Sweden, who only had to pay one quarter of the costs of the British rebate (Haug et al., 2011).

The EU budget appears extremely complex and sometimes arbitrary. It it is not always possible to inquire who receives what and what the basis for the contributions is. Haug et al. (2011) mention the example of mobility grants for students: are the students benefiting or the universities which they are enrolled in? It appears both of them are, but then it is the national universities who are benefiting together with non-resident students. Also the allocation of investments for external border protection raise a similar question. The countries with external border are directly benefiting, however all the other member-states have indirect benefits as well. Thus, as Haug et al. mention, when considering the costs and benefits from EU public expenditures, one should not simply take into consideration narrow accounting standards, but take into consideration other economic effects.

One such effect is redistribution between the member-states. Theoretically, federal grants or equalization payments are used in federal countries to increase equality between regions (equity concerns) or, more generally, to improve allocation of resources in case local public policies exhibit spillover effects (Boadway et al., 2009). In that case, a central authority can more efficiently produce the respective service or good. With regards to research and training, jurisdictions have an incentive to free-ride on the investments and efforts of the other jurisdictions. This could lead to underinvestment. However a centralized authority could take these spillovers into account and thereby make higher investments than individual jurisdictions would make. Considering these arguments, centralization appears to be favorable. A standard example for a publicly provided good with spillover effects from the public finance literature, is public infrastructure, like roads (Mueller, 2003). If no tolls are levied, anyone can use these independently of residence and where taxes are paid. If these are financed by local taxes, inhabitants from other regions can ‘free-ride’ on the payments of local inhabitants. This may lead to an underprovision of roads, considering that those not paying gain utility from its use. Put differently, when constructing the roads, the government (or more broadly speaking the political system) of that region does only take into consideration the demand of its own citizens but not the one of the neighboring regions. Thus the number or size of the roads provided might be too small. By providing conditional matching grants, a higher-level government can ensure optimal provision of roads.

Most of the EU’s expenditure is not intended to be redistributive, except for cohesion and structural policies, this is an explicit goal (Mattila, 2006). These funds are redistributive between member-states. Other funds are redistributive between social groups. As Mattila (2006) observes the CAP could be seen as redistribution from taxpayers to agricultural producers. Other funds, even not intentionally, might be redistributive between member-states. They find that the EU budget is redistributive on the revenue and expenditure side, meaning that poorer member-states' contributions are lower and their share of EU expenditures higher than those of richer member-states. An additional finding suggest that smaller member-states are able to use their political power, to appropriate a higher share of the EU budget. They relate this to the fact that smaller member-states are overrepresented in the Council. This provides them with a special bargaining position with regards to log-rolling: in coalition formation, smaller states are often pivotal elements and would make concessions at a cheaper price than larger countries. In exchange they get votes on their preferred proposals, what appears to eventually result in relatively higher net shares than larger countries.

The accession of new member-states in 2004 might increase regional disparities within the EU. One of the tools of the EU to decrease disparities are structural funds, which are intended to decrease these regional disparities. However, given the accession, Beugelsdijk et al. (2005) assume that these funds have to undergo drastic changes. On the one hand Beugelsdijk et al. analyze convergence of EU member-states and on the other hand, they analyse the problem of moral hazard and that subsidies might be used to substitute other national investments or adaptation of national policies in order to ensure allocation of funding. This imposes an additional cost on incumbent member-states and may raise additional concerns.

Central and eastern European countries joining the EU in 2004 have a relatively low GDP per capita. Thus after accession, the GDP per capita of the EU will decrease. Given the goal of enhancement of cohesion within the EU and reduction of disparities, the Treaty of Rome introduced the concept of structural funds, which are likely to be allocated to the eastern countries after accession. This means that ex-ante member-states are likely to occur losses, the beneficiaries as well as the net-payers. With regard to the moral hazard, no evidence was found, however they could show that poorer countries appear to converge towards the level of richer countries. Groot et al. (2013) find that the funding of the EU budget is proportional to the GDP per capita, thus the richer countries pay a relatively higher share than poorer ones. With regard to expenditures, the budget appears roughly redistributive. They also show that smaller member states are able to capture a relatively higher share than large member-states, which they trace back to a voting-effect, i.e. a similar explanation as given above.

Table 1: GDP per capita and average annual net transfers in EU, 1995 - 2002

Country	GDP per capita (EU15=100)	Net transfers (euros/ capita)	'Fair" net transfers (euros/ capita)
Greece	67.2	391	288
Portugal	71.9	258	47
Spain	80.7	177	169
UK	100.4	-31	-3
France	100.9	-19	-8
Finland	101.1	-3	-9

Sweden	101.3	-96	-11
Italy	103.8	-17	-33
Germany	106.5	-105	-57
Ireland	107.7	546	-67
Belgium	109.1	-21	-80
Austria	111.9	-67	-104
Netherlands	112.3	-97	-108
Denmark	119.2	21	-168
Luxembourg	183.9	-165	-736

Source: Mattila (2006)

Thus, the EU financing and expenditure of the EU budget is redistributive. Widening the EU further may thus have undesirable effects for existing member-states. This could potentially also affect convergence of existing member-states. Apart from direct financial effects, accession of additional member-states, there are political effects, as an increase in the number of members potentially also means an increase in differences in interests.

4. Potential effects of deepening and widening

At the very beginning, the EU was a purely economic project, with the goal of increasing market competition and the elimination of distortionary regulation, such as tariffs, customs. This should eventually lead to a situation, where member-states benefit from specialization (References needed here: regarding the market integration benefits): according to the traditional Ricardian model, specialization allows for a production at a lower cost. Open borders facilitate not only specialization, but also efficient allocation of factors of production. Labour can thus be employed where it is the most productive. However, within a decentralized system, further distortions may arise. EU member-states exhibit disparities with regard to economic growth or employment for example. As Wagener et al. (2007) point out it appears that there is a center-periphery pattern. Centers are agglomerations where knowledge and population are concentrated and where structural diversity prevails. From a theoretical perspective in such areas, the effects from market integration would be stronger than in the peripheries. Accordingly the core regions would potentially attract more economic activities than the peripheries. This would come with a disadvantage to the peripheral countries, as innovative industries for example would avoid these areas, such that these could not benefit from growth resulting from increased trade (Wagener et al. (2007). This may lead to a declining demand. However, maintaining demand allows for further growth of the internal market and any economies involved. In light of these effects, regional policies focussing on structural investments, in infrastructure for transportation or communication shall counteract these effects and ‘reduce’ the distances between the respective regions (Wagener et al., 2007). In this way the demand from the peripheries can potentially be increased. These benefits are not taken into account by strictly considering accounting rules.

The European Union is promoting macroeconomic integration, without furthering microeconomic integration at the same pace. On the aftermath of the crisis, the microeconomic dimensions of the crisis got less attention, namely the difficulties in achieving structural reforms with regard to social and fiscal policies. However in order to bring unemployment down to socially acceptable level, such reforms appear to be a necessity. However any interference of the EU with national social models would be perceived as an interference with national identity (Thimann (2015). During the creation of the monetary union, member-states have agreed that the national social models and policies will remain unaffected by the creation of the single currency area (Thimann, 2015; Hall, 2012). As Thimann puts it: “any suggestions about European processes to reform these policies would be seen as a challenge to the national identities of economic models that have always been excluded from the goal of European harmonization”. Fiscal and general economic policies remain under national regulation, similarly to social policies. However, these policies should be integrated in order to provide for macroeconomic stability (Krugman, 2012). More coordinated social and fiscal policies accompanying the monetary integration could have lead to an insurance function of the EU against asymmetric shocks. In case a state suffers a shock, it could receive a transfer from the federal government without increasing its contributions to the respective (Krugman (2012). The budget of the EU remained far too small to provide in order to ensure a stabilization mechanism. A standard argument is that reform is slow because long-term positive effects are less visible and clear than short term costs (Iversen et al., 2015). Furthermore, within the single currency area, countries find it more difficult to make expansionary policies given that monetary policy is determined centrally and that certain rules within the Eurozone restrict fiscal policy options. However such policies are necessary in order to increase economic performance.

In order to increase growth and counteract the impact of shocks, the competitiveness of the EU member-states needs to be assured. This will lead to a decrease in unemployment rates and an increase in economic performance. Competitiveness is mostly determined by the prices of factors of production and the cost structure of a firm[12]. It improves if for a given output level, production costs can be decreased. One key determinant of competitiveness is the setting of wages. Stable, relatively low wages will allow for production at a low cost. In the northern countries, wage setting is the outcome of negotiations between labour unions and patronage which allows for declining labor costs. In the southern economies, competitiveness was secured through devaluation of exchange rates via expansionary fiscal policies and accommodating monetary policy (Iversen et al., 2015). These differences can be explained by differences in economic growth models. Roughly, there are two main growth strategies to be distinguished within developed countries of the OECD (Hall, 2012). One is to fuel growth by domestic demand, another one is to back on exports. The former strategy is applied by southern EU countries, like Italy, Portugal or Spain for example, the latter by northern member-states, i.e. Austria, Germany or the Netherlands. In order to achieve export driven growth, macroeconomic policies should be relatively neutral and domestic companies need to ensure that their products remain competitive in international markets (Hall

[12] See Thimann (2015), p. 144.

(2012). In order to do so, either wages can be kept low, production high value-added goods can be enhance, or labour can be substituted for capital in order to increase the quality of the products. Another strategy to achieve growth is to rely on domestic demand and macroeconomic expansion. As opposed to countries relying on export driven demand, it appears that these countries lack the capacities for sustained wage coordination and incremental innovation. Demand led growth together with strong labor unions can lead to high levels of inflations. So in order to remain competitive, this strategy depends on currency depreciation in order to counter the effects of inflation on exports while increasing the price of imports as to maintain a stable balance of payments (Hall (2012)). So given these two differing growth strategies, there are different interest regarding fiscal and most importantly monetary policies. This explains the differences why the crisis has impacted northern and southern European countries differently (Krugman, 2012); Iversen, 2015) and shows why there should be a deeper integration of microeconomic policies as well. So, at least for the Eurozone countries, additional integration with regard to fiscal policies could be beneficial.

Within the EU there is a huge diversity of social and fiscal models. The need for more coordination is well known, however the European Union is not only an economic union but it remains a political construct (Iversent et al., 2015). Thus there is need to reach political compromises, where economic realities have to be disregarded. Within the European Union is the heterogeneity of the groups forming the EU which are governed by a common authority (Spolaore, 2013). The diversity of the social, economic and institutional models in the EU goes back to differences in preferences. Labour market regulation and social policies are dependent on deep-rooted preferences over redistribution, mobility and flexibility (Thimann, 2015). Such arrangements are not only economic choices, but also reflect democratic choices and path dependency.

As mentioned above, there is a variety of benefits from market integration and its widening. Baldwin et al. (1997) mention different effects, such as perfect competition effects, stemming from price differences, due to increased internal competition prices in high price country will fall over time and thereby overall welfare will increase. With regard to trade prices, the effect depends on the price levels ex-ante to the preferential trade agreements. If it leads to a decrease in cross-border prices, then members of the Preferential Trade Area will gain from increased welfare. The main changes from accession to the new member states will be an elimination of tariffs and quantitative restrictions on trade with existing member states and the access to the single market, including free-movement of persons, services and capital for example. In order to insure the free movement of these, the mutual recognition of health, safety, industrial and environmental standards is needed. Simulating the resulting income effects of accession of Central and Eastern European Countries[13], Baldwin et al. find an increase of real GDP for both, the existing member-states and accession

[13] These estimates were done at the basis for GDP incomes from 1992. The accession countries included:Czech Republic, Hungary, Slovak Republic, Slovenia, Poland, Bulgaria, Romania, Estonia, Latvia and Lithuania.

states. Given the size and power distribution, the gains might be unevenly divided between existing member-states. Thus Germany, France and UK appear to gain the most from accession of new countries. Regarding the budget of the EU, the net benefits and net costs will change as well. According to their estimation, the change in costs reflects the overall income effects, and thus France, Germany and UK face the highest increase in costs. As this discussion shows, there are potential benefits from deepening and widening. In order to exploit these, differentiated integration appears to be necessary

5. Conclusion

The main goal of the EU is peace and stability and 'economic integration is a means not an end'[14]. By this token, the budgetary contribution can be seen as the price to pay for the fulfillment of this goal, but more importantly, the price for the access to the internal market. Thimann (2015) concludes that due the presence and strength of this social fabric of the EU, change can only come from within the nations and that such changes cannot be imposed by some EU institution. The areas where the microeconomic dimension of the Eurozone crisis lie, are mostly under national regulatory power. Given the diversity of cultural norms, identities and values between the member-states, preferences over public policies differ which increases difficulties to reconcile national public policies. These difficulties result in high heterogeneity costs. As Spolaore (2013) points out, policies where heterogeneity costs are low and economies of scale are high will be more successfully integrated. High heterogeneity costs might be one explanation for the lack of a higher degree of fiscal integration. Thus one possible solution to these impasses might be a stronger cooperation of different groups of countries, more specifically the members of the European Monetary Union. This goes in hand with the proposition put forward by Bertoncini (2017), arguing in favor of an 'Euro Area Subcommittee'. Thus differentiation with regard to integration could be a way forward. Some of the arguments above appear rather to support the idea of 'those who want do more'. However this might increase the potential for conflict, as it might lead to a two class Europe. The above discussion shows that from an economic perspective, differentiation could solve the actual problems. This however does not take into account the political, social and also historical factors, which surely play an important role as well. However the discussion of these would go beyond the scope of this paper. For further research, the focus should lie on a structured analysis of differentiated integration, focusing on specific policies and the respective exemptions. Additionally, in order to get a better understanding of the respective effects of differentiation, the different exemptions during accession negotiations will be more closely scrutinized.

[14] See Baldwin et al. (1997), p. 168.

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